

Lecture 10

Ethnic politics

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Recipes for a political economy of development paper

1. Take *homo economicus* in a modern capitalist economy with the state, order, a system of public finance, property rights, and open and more-or-less egalitarian political institutions.
2. Now, in turns or all at once, subtract the state, order, public finance, and open political institutions. How does *homo economicus* behave?
3. Next, relax *homo economicus* and introduce some established ideas in behavioral economics, principally the idea of bounded rationality.
4. Alternatively, introduce *homo economicus* to some possibilities less familiar to mainstream economics, but familiar to other social sciences, such as values, culture, group identity, or emotions.
5. Try to establish some stubborn facts, then revisit theory, then refine the empirical picture.

We are going to look at what political economy has to say about a few questions

1. Social identity

- ▷ What causes greater identification with a group?
- ▷ How does group identity shape economic and political behavior?
- ▷ Can identity be changed or manipulated?

2. Conflict

- ▷ Rationalist causes of war
- ▷ Behavioral theories of violence
- ▷ How armed groups behave and are organized

3. Organized crime

- ▷ Illicit labor markets and industrial organization
- ▷ What is the effect of organized crime on politics?

4. Social mobilization & Protest

- ▷ What drives participation in social movements and protest?

What this (half) class is about

1. Pick 4–5 big topics
2. Give you a big picture background overview of the research and questions
3. Read a handful of innovative recent contributions (many still unpublished)
4. Talk about exciting research frontiers in the topic

Today: Political economy of ethnicity

Ethnicity and ethnic identification as a dependent variable

What is ethnicity?

Psychological & preference-based explanations

Rationalist explanations for ethnic groupings and cooperation

Can ethnic identity be shaped or created by public policy?

Ethnicity as an independent variable

Effects on political distribution and cooperation

Effects on economic behavior and development

Conclusions & research frontiers

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Ethnicity: A cornerstone of organization in many societies

e.g. Francois, Rainer, & Trebbi, *Econometrica* (2015)

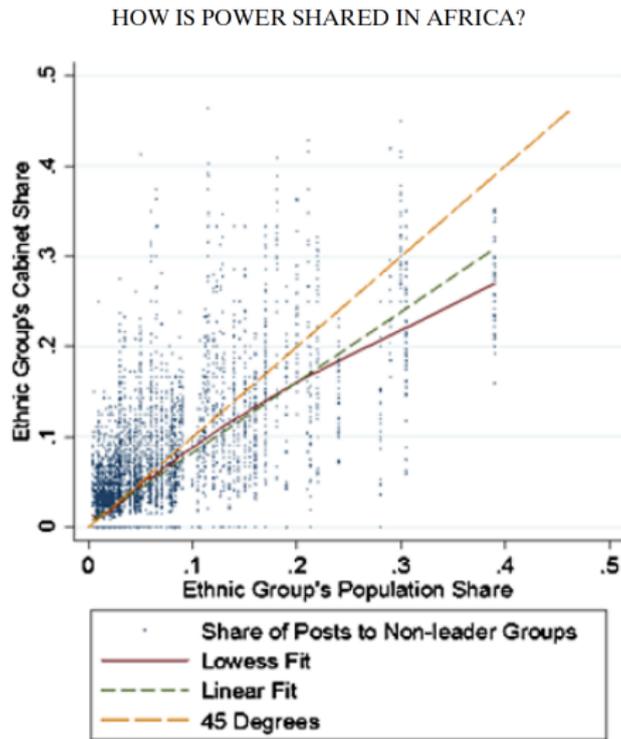


FIGURE 2.—Allocation of cabinet shares and population shares, full sample, 1960–2004.

Why do we think of these classifications or identities as “ethnic”?

- ▶ Black versus White in US
- ▶ Serb versus Croat in former Yugoslavia
- ▶ Hutu and Tutsi in Rwanda

What is ethnicity?

How is it distinct from “culture” or other social categories?

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How is it distinct from “culture” or other social categories?

Fearon & Laitin (2000): Helps to think in terms of *social categories*

- ▶ Social categories are sets of people given a label (or labels) and distinguished by two main features:
 1. *Rules of membership* that decide who is and is not a member of the category
 2. *Content* or sets of characteristics (such as beliefs, desires, moral commitments, and physical attributes) thought to be typical of members of the category, or behaviors expected or obliged of members in certain situations or roles
- ▶ Ethnicity as a social category is defined mainly by
 1. Descent rules of group membership
 2. Cultural content and attributes such as religion, language, customs, and shared historical myths

What other kinds of social categories are relevant?

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Most rigid view: A “primordial”, “ancient hatreds” view of ethnicity is common in journalism and some policy

Ethnicity as parochial group preferences

“It is difficult to explain, but this war is not rational. There is no rationality at all about ethnic conflict. It is gut, it is hatred; it’s not for any common set of values or purposes; it just goes on.” —Lawrence Eagleburger, US Secretary of State (and former Ambassador to Yugoslavia), 1992

“the war in Bosnia-Hercegovina and Croatia is a complex, convoluted conflict that grows out of age-old animosities. The blood of innocents is being spilled over century-old feuds.” —President George Bush, 1992

Ethnographic and historical research has been mostly successful in discrediting primordialist explanations

- ▶ e.g. Prunier 1995 on Rwanda post-genocide
 - ▷ Labels "Tutsi" and "Hutu" in Rwanda had primarily a class rather than an ethnic meaning in precolonial times, and boundary separating them was fluid and porous
 - ▷ In this view, Rwandan ethnic groups are historical fictions manipulated if not invented by racialist Europeans, and taken over by local political entrepreneurs seeking jobs and power
 - ▷ Especially by Tutsi politicians who used the colonial ideology as a means of material and psychological aggrandizement

“Constructivists” versus “primordialists”

e.g. Chandra 2012, Fearon & Laitin 2000

- ▶ Popular awareness of ethnic differences necessary for ethnic violence or favoritism but that doesn't necessarily mean they are primordial
- ▶ What does it mean to say that identities are “socially constructed”?
 - ▷ Implies that social categories, their membership rules, content, and valuation are the products of human action and thought, and that as a result they can and do change over time
- ▶ In contrast, primordialism sees particular social categories are fixed by human nature rather than by social convention and practice

Thus ethnic identification can be endogenous: a product of the economic and political behavior it seeks to explain

Psychologists posit that we have co-ethnic preferences

These social preferences are the focus of next lecture

▶ Parochial altruism

- ▶ Altruistic towards co-ethnics and (possibly) hold antipathy to non co-ethnics
- ▶ Akin to a bequest or other family preference
- ▶ Tabellini (2008) models as an innate preference for cooperating with socially close to you

▶ Direct identity benefits

- ▶ A non-material preference for belonging to a group (social category) as a source of utility or self-esteem
- ▶ Possibly: Social identity, status, and belonging are a kind of club good

Both can be “rational” preferences to the extent they are complete and transitive. They are simply “nonstandard” preferences.

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Economists have avoided preference-based arguments

- ▶ Early rationalist theories viewed ethnic groups as modern, urban, coalitions constructed to extract material benefits (e.g. Bates 1983)
 - ▷ “ethnic unions were most often formed in urban centers and only later exported to the rural areas whose names they often bore”
 - ▷ Argues that one motivation is the perception that “they must organize collective support to advance their position”
- ▶ But why should there be advantages to collective organization?

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 - ▷ “ethnic unions were most often formed in urban centers and only later exported to the rural areas whose names they often bore”
 - ▷ Argues that one motivation is the perception that “they must organize collective support to advance their position”
- ▶ But why should there be advantages to collective organization?
- ▶ Some candidate explanations
 1. Efficient club goods provision
 2. Natural fit for patronage networks
 3. Ethnicity as an informal institution that reduces transactions costs

Potential advantages to ethnic organization

1. Ethnic groups could be a source of club goods
 - ▷ e.g. insurance, water access, schooling, housing
 - ▷ Similar arguments for religious orders (Iannaccone 1992, Berman 2000)
2. Vast qualitative and small formal theory literature model elites as strategically manipulating the beliefs and incentives of co-ethnics
 - ▷ Unlike classes, there can be high variation in incomes of ethnic groups
 - ▷ This allows ethnic elites to use their resources to shape poor co-ethnic's behavior (Ray & Esteban 2008)
 - ▷ Commonly applied to caste politics and violence in India (e.g. Horowitz, Varshney, Wilkinson, Brass)

Quantitative evidence for these claims limited

3. Ethnicity as an informal institution

Consider the formation of prison gangs in California (Skarbek 2011, 2014)

- ▶ Why do coercive prison gangs emerge in larger prison populations?
- ▶ Why are American prison gangs ethnically organized?
- ▶ What market imperfections are prison gangs solving? How does ethnicity help them solve these problems?
- ▶ Why do prison gangs use highly visible tattoos?



Ethnic groups as an informal institution

e.g. Fearon & Laitin 1996; Greif 2006

- ▶ Consider situations of anarchy
 - ▷ Absence of a strong state or other forms of contract enforcement
- ▶ Difficult to cooperate and transact
 1. Transactions costs: In a large population, it is difficult to know who you can trust (reputation) and hard to sanction defectors
 2. Commitment problem: Deals unravel if there are incentives to renege (e.g. receive now, pay later)
- ▶ How can ethnic groups support trust and cooperation among people who interact or transact relatively irregularly?

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- ▶ How can ethnic groups support trust and cooperation among people who interact or transact relatively irregularly?
 - ▷ Reduce transaction costs: Make it possible to identify people who have cheated or exploited in the past to sanction them
 - ▷ The commitment problem can be solved through reputation and grim trigger strategies within long-term repeated relationships

e.g. Maghribi traders

Greif 2006



Ethnic groups as an informal institution

e.g. Fearon & Laitin 1996; Greif 2006

- ▶ Kin and ethnic groups are highly developed social networks that allow for cheap and rapid information about individuals and their past histories, and possibly cheap forms of sanctioning
- ▶ Fearon & Laitin (1996) develop a model with two equilibria:
 - ▷ A *spiral regime* where each group holds all members of the other group liable for the actions of its individual members, or
 - ▷ An *in-group policing regime* where the members of a group can ignore violations of trust by members of the other group, relying instead on the other group to identify and sanction the appropriate individual

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Propaganda!

Blouin & Mukand 2017: Can the government manipulate ethnic trust?

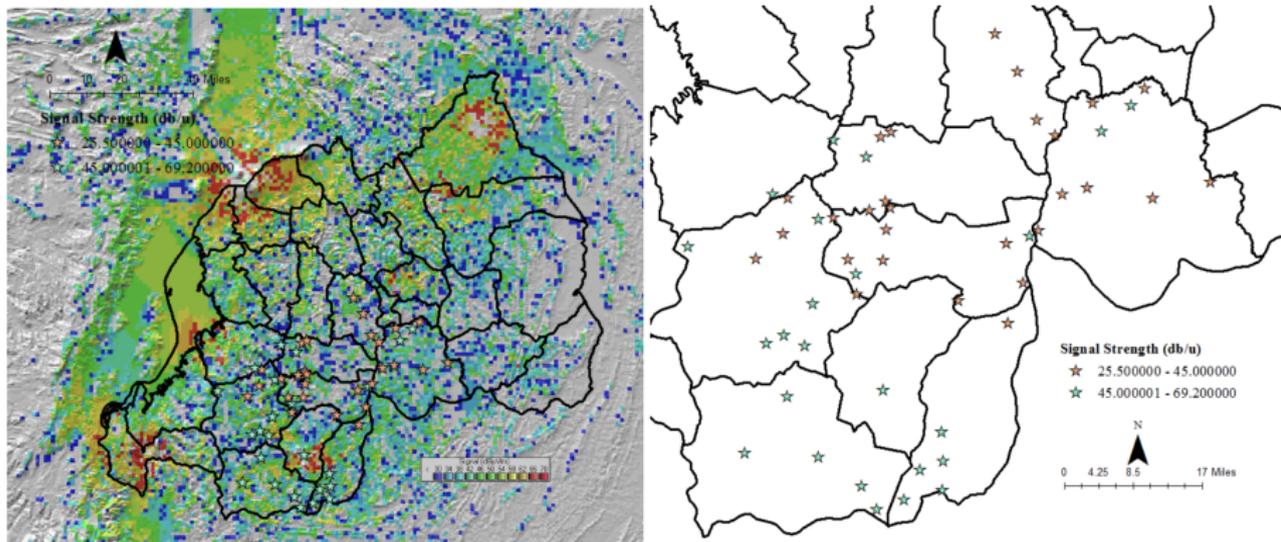


Figure 2: Radio Rwanda signal, district boundaries and subjects' village locations

Figure: Use village-level variation in reception of government-owned-and-operated Radio Rwanda, which broadcasts ethnic trust/unity propaganda post-genocide. Variation the result of the mountainous topography

What are the major contributions of the article?

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- ▶ Empirical strategy important but not the main innovation
 - ▷ Yanagizawa-Drott (2014) QJE used similar empirical strategy to examine impact of radio exposure on 1994 genocide intensity
 - ▷ Paluck & Green (2009) APSR do a small controlled experiment on radio soap opera exposure on inter-group prejudice.
 - ▷ Habyarimana et al (2007) APSR develop lab-in-the-field games to measure ethnic cooperation
- ▶ Finding a scaled-up natural experiment in something understudied (propaganda) is extremely valuable
- ▶ Other main innovation is the application of new (to economics) lab-in-the-field experimental measures to study the natural experiment
 - ▷ Familiar measures: Trust game, survey of inter-ethnic trust
 - ▷ Unfamiliar ones: Co-ethnic bias in group selection, and the SIT (common in psychology literature)
 - ▷ Do not use IAT
- ▶ Altogether illustrates gains from trade between disciplines

Saliency in identity (SIT) with 438 people in 52 villages

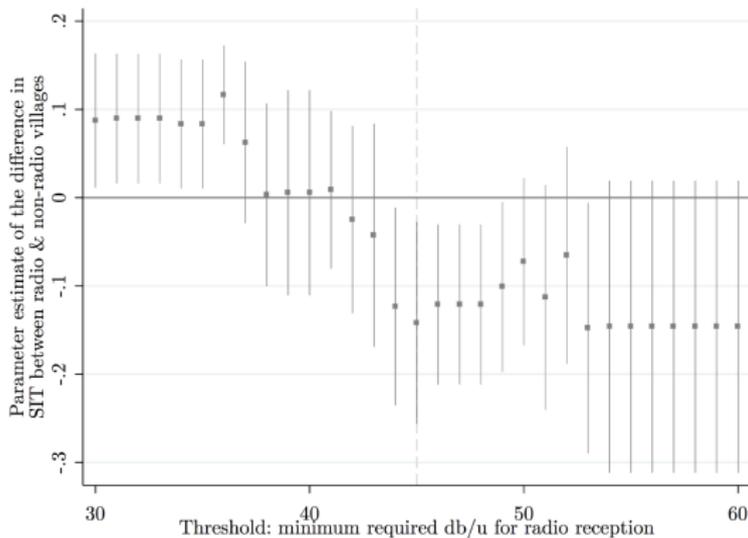


Figure 3: SIT and Radio Rwanda reception

Figure: Develop a "saliency in identity test": For 8 photos, give a neutral description of the subject. Ask subject to recall what photo went with what statement. How many times did they confuse statements within people of same ethnicity? Measure ratio of within-ethnicity errors to total errors.

We will come back to this question on May 9 class on “social engineering”

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Banerjee et al. (2005) describe ethnicity as among most powerful forces in political economy. Why is that?

- ▶ Ethnic cleavages have resulted in *riots, genocide, war* (e.g. Brass 1997, Fearon & Laitin 2000, Horowitz 2000, many others)
 - ▷ Will examine violence next week
- ▶ Ethnic diversity explain why some places high levels of *public goods*—low crime, good schools and health care, etc
 - ▷ Examples: Miguel and Gugerty 2005, Alesina, Baqir, and Easterly 1999; Khwaja 2002, Esteban et al., 2012; Montalvo and Reynal-Querol, 2005
- ▶ Ethnic cleavages may shape peaceful *styles of political competition*, such as the organization of political parties (Chandra 2004)
- ▶ Ethnic favoritism can shape the *distribution of public resources*
 - ▷ Asserted that co-ethnics benefit from patronage and other decisions, receiving a disproportionate share of public resources when co-ethnics control the government
 - ▷ Could be inefficient and lead to sub-optimal growth, or "poison" local political culture and distort decision-making

Hodler and Raschky 2014 on favoritism: What happens in the birthplaces of autocrats?

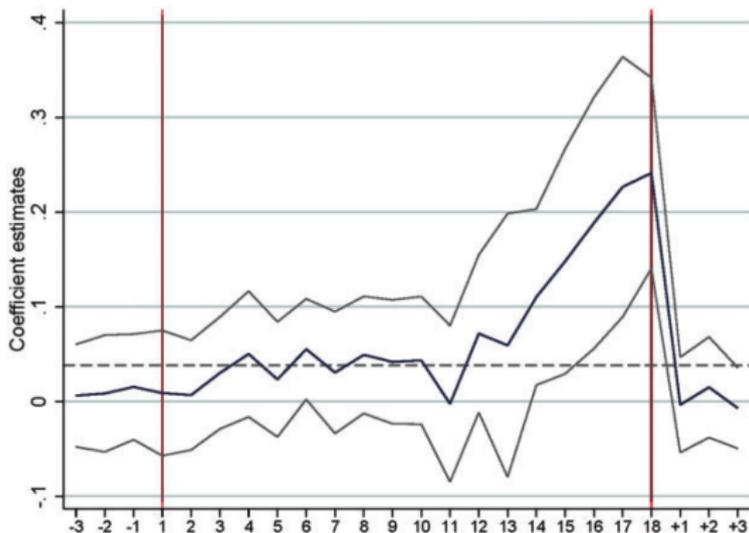


FIGURE III
The Dynamics of Regional Favoritism

Figure: Effect of having a leader from your region in power on nighttime lights, by year of reign

Is this ethnic favoritism?

Is this ethnic favoritism?

- ▶ Many features are often collinear with ethnicity, such as geography, existing social networks
- ▶ Effects of geography concentrated mainly after year 15
 - ▷ Poor institutions + pillaging as the end draws near
- ▶ Effects concentrated in more weakly institutionalized societies, implying political constraints on favoritism

How to identify ethnic favoritism specifically?

Burgess et al. 2015 identify a much larger distortion in the delivery of services: Road building (15% of public spending)

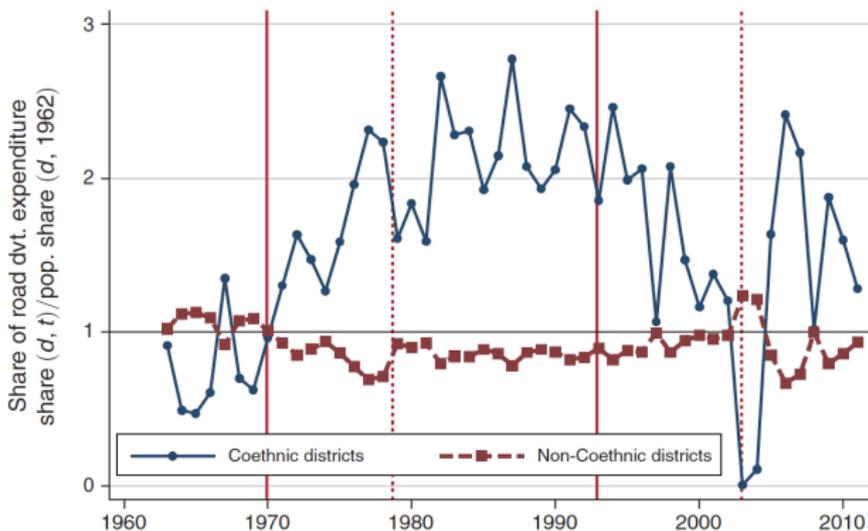
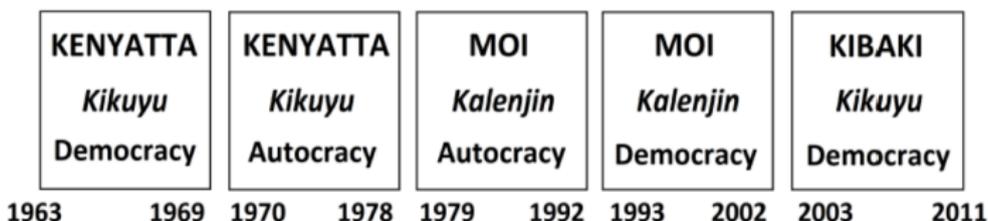


FIGURE 4. ROAD EXPENDITURE IN PRESIDENTIAL COETHNIC AND NON-COETHNIC DISTRICTS, 1963–2011

Figure: Study switches of ethnic group in power and introduction and reversal of democracy with same president in power

An unusual opportunity

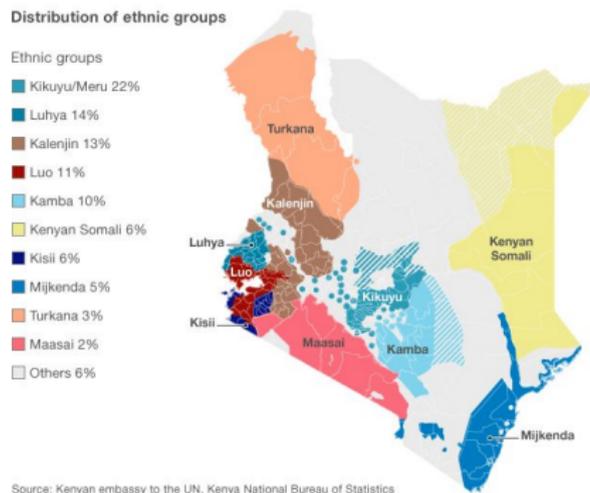
Figure 1: Political and Leadership Transitions in Kenya, 1963-2011



Notes: This timeline illustrates the history of political transitions and leadership transitions in Kenya. Political transitions are as follows: December 1969 is the transition from democracy to autocracy, while December 1992 is the return of democracy. Leadership transitions: from Kenyatta (Kikuyu) to Moi (Kalenjin) in August 1978, and from Moi (Kalenjin) to Kibaki (Kikuyu) in December 2002.

- ▶ Two ethnic changes holding institution constant, and two institutional changes holding ethnicity constant
- ▶ Shift between democracy and autocracy within the rule of particular presidents is an opportunity to estimate to what extent democratic institutions constrain ethnic favoritism

Kenya a common setting, possibly because ethnic structure particularly polarized and politicized



- ▶ Presence of a small number of large geographically-distinct groups may be more prone to ethnic political capture (high polarization)
 - ▷ Contrast to more fractionalized Tanzania or Uganda
- ▶ Moreover, British constructed districts to match ethnic boundaries, and empowered local ethnic despots as chiefs

Why is this an interesting question, one where we don't have an answer?

- ▶ Historically, most human societies have been organized along patrimonial lines
 - ▷ Often along some kind of identity group: ethnicity, class, religion, region, caste, etc.
- ▶ Potentially this "traditional" patrimonial mode of organization is very stable and path dependent, given that elites have an incentive to preserve their privileges
- ▶ If so, are new democracies playing just "rituals" of democracy?
 - ▷ De facto political power — the distribution of wealth, the ability of groups to mobilize themselves – haven't necessarily changed, so why should a formal change to the rules matter in the short term

What is this estimation strategy?

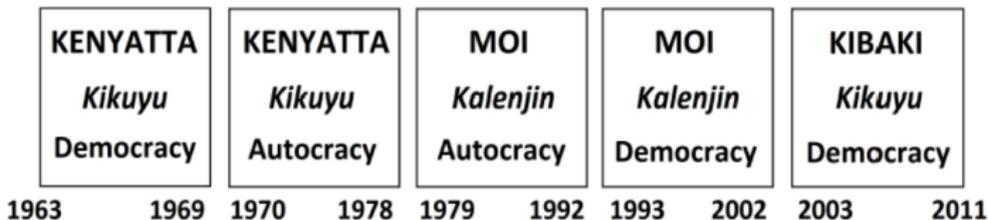
In the regression approach, our main estimating equation takes the following form:

$$\begin{aligned} \text{road}_{dt} = & \gamma_d + \alpha_t + \beta(\text{coethnic district}_{dt}) \\ & + \delta(\text{coethnic district}_{dt} \times \text{democracy}_t) + \theta(X_{d1963} \times [t - 1963]) + u_{dt} \end{aligned}$$

where the dependent variable is the road spending or road construction measure for year t and district d as described above.¹⁷ To capture coethnicity with the president, we use an indicator variable ($\text{coethnic district}_{dt}$) that takes a value of one for districts where at least 50% of the population has the same ethnic affiliation as the serving president. The democracy_t term is an indicator variable which takes a value of one during periods of multiparty democracy (1963-1969 and 2003-2011).¹⁸ X_{d1963} is a vector of baseline demographic, economic and geographic variables all obtained in the early to mid 1960s that might affect road spending and construction. We interact these initial conditions with linear time trends $[t-1963]$ to allow their impact to vary over time. This allows us to control for a wide range of factors that might influence where road spending or road construction takes place. The regression also controls for district fixed effects (γ_d) and year fixed effects (α_t), and standard errors are clustered at the district level.

What are the identifying assumptions here?

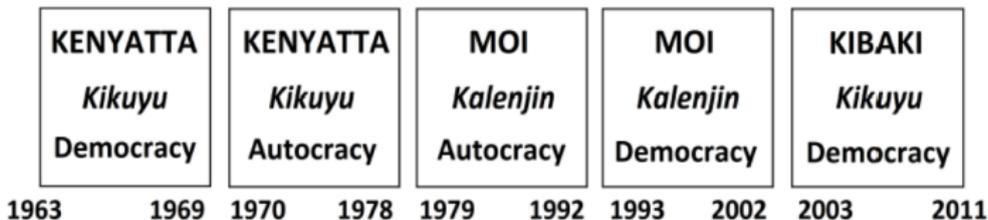
Figure 1: Political and Leadership Transitions in Kenya, 1963-2011



Notes: This timeline illustrates the history of political transitions and leadership transitions in Kenya. Political transitions are as follows: December 1969 is the transition from democracy to autocracy, while December 1992 is the return of democracy. Leadership transitions: from Kenyatta (Kikuyu) to Moi (Kalenjin) in August 1978, and from Moi (Kalenjin) to Kibaki (Kikuyu) in December 2002.

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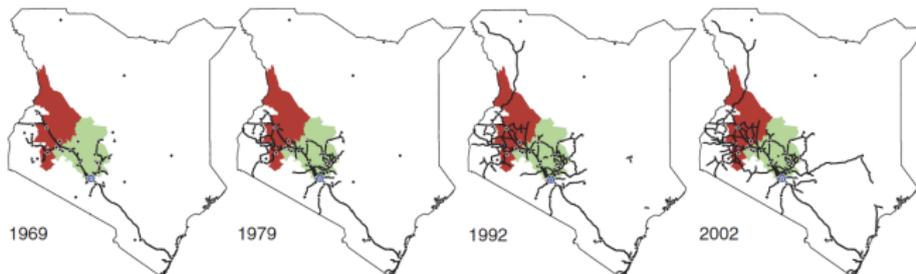


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- ▶ Regression looks like a DD with district time trends
 - ▷ But not a standard DD since we don't have treated and untreated units
- ▶ Rather heterogeneous units are treated with the same "shock"
 - ▷ Perhaps we can think of this as an amalgamation of event studies
- ▶ A lesson in why helpful to be explicit about identifying assumptions

Why focus on counterfactual road networks?

Panel A. Actual network



Panel B. Counterfactual network based on population and distance (market potential)

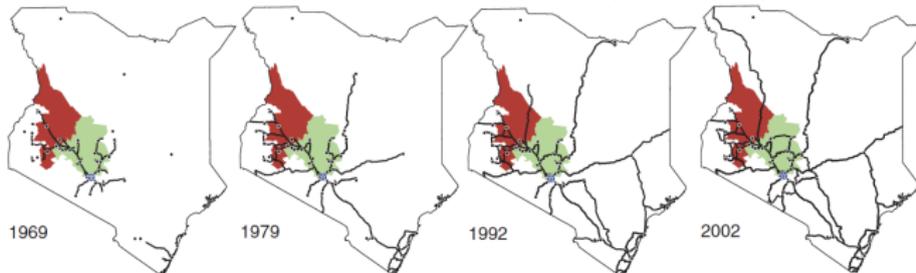


FIGURE 3. EVOLUTION OF KENYA'S PAVED ROAD NETWORK

What do counterfactual networks help us estimate?

$$\begin{aligned} road_{dt} = & \gamma_d + \alpha_t + \beta(coethnic\ district_{dt}) \\ & + \delta(coethnic\ district_{dt} \times democracy_t) + \theta(X_{d1963} \times [t - 1963]) + u_{dt} \end{aligned}$$

- ▶ A concern with endogeneity in co-ethnic district (β)
 - ▷ Are co-ethnic road-building patterns driven by omitted variables, or simply a coincidence (i.e., the areas coethnic with the sitting president just happened to be where roads were most useful?)
- ▶ Multiple ways to assess this:
 - ▷ Robust to a large number of controls or dropping the wealthiest areas
 - ▷ Nicest: Counterfactual simulation: build roads sequentially post-independence in high market potential areas
- ▶ While true that we don't want β to be endogenous, not clear that this is a first-order internal validity concern

My own view...

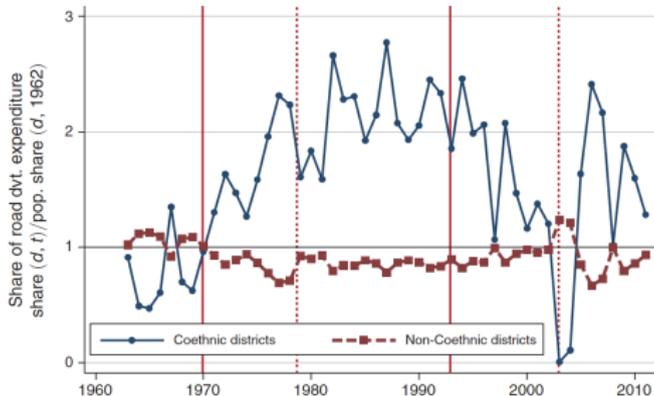


FIGURE 4. ROAD EXPENDITURE IN PRESIDENTIAL COETHNIC AND NON-COETHNIC DISTRICTS, 1963–2011

- ▶ Treatment effects are so large that bias unlikely to explain it
- ▶ Perhaps more important to ask about how to generalize and implications for theory
 - ▷ *What is this a case of?*
- ▶ Ideally we would like to do the same for more countries and reduce dependency on the Kenya case

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Why might ethnicity play a role in *economic* behavior and development?

- ▶ In production (Lang 1986; Lazear 1999; Hjort 2014)
 - ▷ Individuals of different ethnicities may complement each other in production
 - ▷ But it is also possible that workers of the same ethnic background collaborate more effectively
- ▶ Trade, credit, and contracting
 - ▷ Co-ethnics might be favored in terms of credit or trading relationships (Fafchamps 2000; Robinson 2016)
 - ▷ Co-ethnics may have advantages in contract enforcement, especially in weakly institutionalized environments (Sanchez de la Sierra 2018)

Hjort 2014: How does productivity respond to ethnically diverse teams in a Kenyan flower firm?

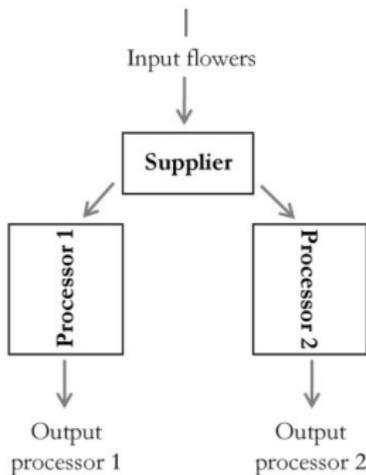


FIGURE I

Organization of Team Production

The supplier does some sorting and cleaning of the cut flowers, and then distributes them to processors

Given supplier, three types of teams: (i) homogeneous (2 coethnic processors), (ii) horizontally mixed (1 coethnic), (iii) vertically mixed (0 coethnics)
(Relevant blocs are Kikuyu and now Luo, not Kalenjin)

Several notable aspects of this paper

- ▶ Detailed individual level worker productivity data
- ▶ Unusually simple team work setting allows for realistic theoretical modeling of incentives (i.e., $N=3$ per team)
- ▶ Most importantly, two natural experiments during the period
 1. Election violence along ethnic lines in late 2007 / early 2008
 2. Move from an individual piece rate to a team based piece rate contract for workers shortly later

N=924 workers observed daily over 2007–8 = 200k obs

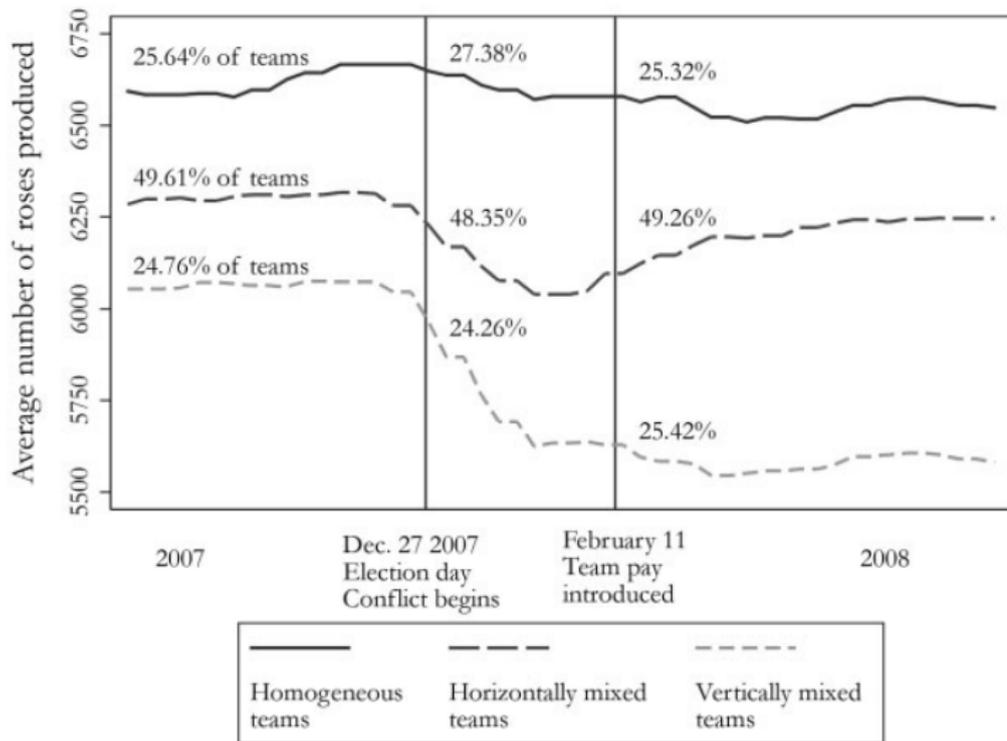


FIGURE II

Output in Homogeneous and Mixed Teams across Time

How to explain this?

- ▶ Rotation system of workers seems quasi-random, and (surprisingly) that supervisors are unaware of the consequences of diverse teams (even after conflict?)
- ▶ No direct evidence of mechanism, but Hjort postulates a model of taste-based discrimination at work
- ▶ Predicts that discriminatory suppliers in mixed teams will lower total output by “misallocating” flowers:
 - ▷ Vertically, by undersupplying downstream workers of the other ethnic group
 - ▷ Horizontally, by shifting flowers from non-coethnic to coethnic downstream workers
- ▶ What kind of evidence would you want to collect to test this hypothesis?
- ▶ What other mechanisms are conceivable?

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Some research frontiers

- ▶ Cross-cutting identities
 - ▷ When do people choose to identify with their ethnic group rather than another social category?
- ▶ Malleability of identity group
 - ▷ What policies are effective, and what does this tell us about human psychology in the realm of economic and political behavior?
- ▶ How is ethnic identity harnessed for costly collective action?
 - ▷ Why do members of ethnic groups follow elites, especially when it involves violence?
- ▶ Generating hard evidence of rationalist versus preference-based ethnic organization
- ▶ Next class: Preferences