

Chapter 13

Ethnic Diversity and Public Good Provision in India: An Implication for Social Discrimination

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ABSTRACT

In political economy literature, it is argued that the personal objectives of politicians differ from the public policies sought by the voters. In order to win elections, politicians sometimes get motivated to do interest group politics, which leads to social discrimination. Therefore, what determines public good provision by a government in a democratic set up? Social heterogeneity encourages governments in interest group politics and targeted transfers. Using panel data on Indian states for different years, the relationship between ethnic diversity and public good provision is tested along three measures of diversity along caste, language, and religion lines. The main conclusion of the empirical analysis of the chapter is that ethnic diversity is negatively associated with public good provision in some cases but the relationships are sometimes negative along all the three dimensions of ethnicity.

1. INTRODUCTION

In political economy literature, it is argued that the personal objectives of politicians differ from the public policies sought by the voters. In order to win elections, politicians sometimes get motivated to do interest group politics. Therefore, the question arises what determines public good provision by a government in a democratic set up? According to the standard public finance literature, government should act as a

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benevolent social planner. Given the nonrival and nonexcludable nature of public goods, the provision of such goods should be made by the government as it should be available to all in a society. But, in a society where population is fragmented along different creeds, caste, religion and language, government does not act as a benevolent social planner. Social heterogeneity encourages governments in interest group politics and targeted transfers.

Alesina et. al. (1999) made an argument in favor of governments' motivation in doing interest group politics along the same line. They argued that in ethnically heterogeneous society, preferences over public goods are polarized and in such societies, government is motivated to do targeted transfers and interest group politics. As politicians require money for political campaign to win in elections, they provide benefits to interest groups and these groups in turn make monetary contributions to politicians which are needed for political campaign to win in elections. In this way broad public interests are compromised for doing interest group politics by politicians and availability of funds for development expenditure becomes less. The theoretical prediction in that paper is based on two assumptions- firstly, different ethnic groups have different preferences for public goods and secondly, each ethnic group's utility level is reduced if other groups also use it. In this situation governments choose to divert more resources to private patronage due to difference in preference patterns over public goods. Hence, public good provision reduces as ethnic diversity increases.

To address the basic argument, the relationship between ethnic diversity and public good provision in the states of India is examined and empirically tested using three measures of ethnic diversity based on caste, language and religion. Apart from ethnic problems, India is also a poverty stricken country with low per capita income. With low level of productivity and unskilled labor force due to lack of education and training, India has not been able to achieve the path of high economic growth. A large section of population lives below poverty line in India. Being a poor and economically backward country, Government in India has a major role to play to come out of low-income trap and vicious cycle of economic underdevelopment. In this context, the extent of benevolent nature of government in the provision of public goods needs to be examined given the fragmented nature of Indian population. The main findings of the empirical analysis of the present paper is that ethnic diversity is negatively associated with public good provision in most cases but the relationships are sometimes positive along all the three dimensions of ethnicity.

The rest of the paper is structured as follows: section 2 provides a brief literature review of the empirical and theoretical determinants of public goods provision. The data used in my study are described in section 3. Section 4 contains the empirical results while in section 5 conclusion and implication are documented.

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