

Modernization, Social Identity, and Ethnic Conflict

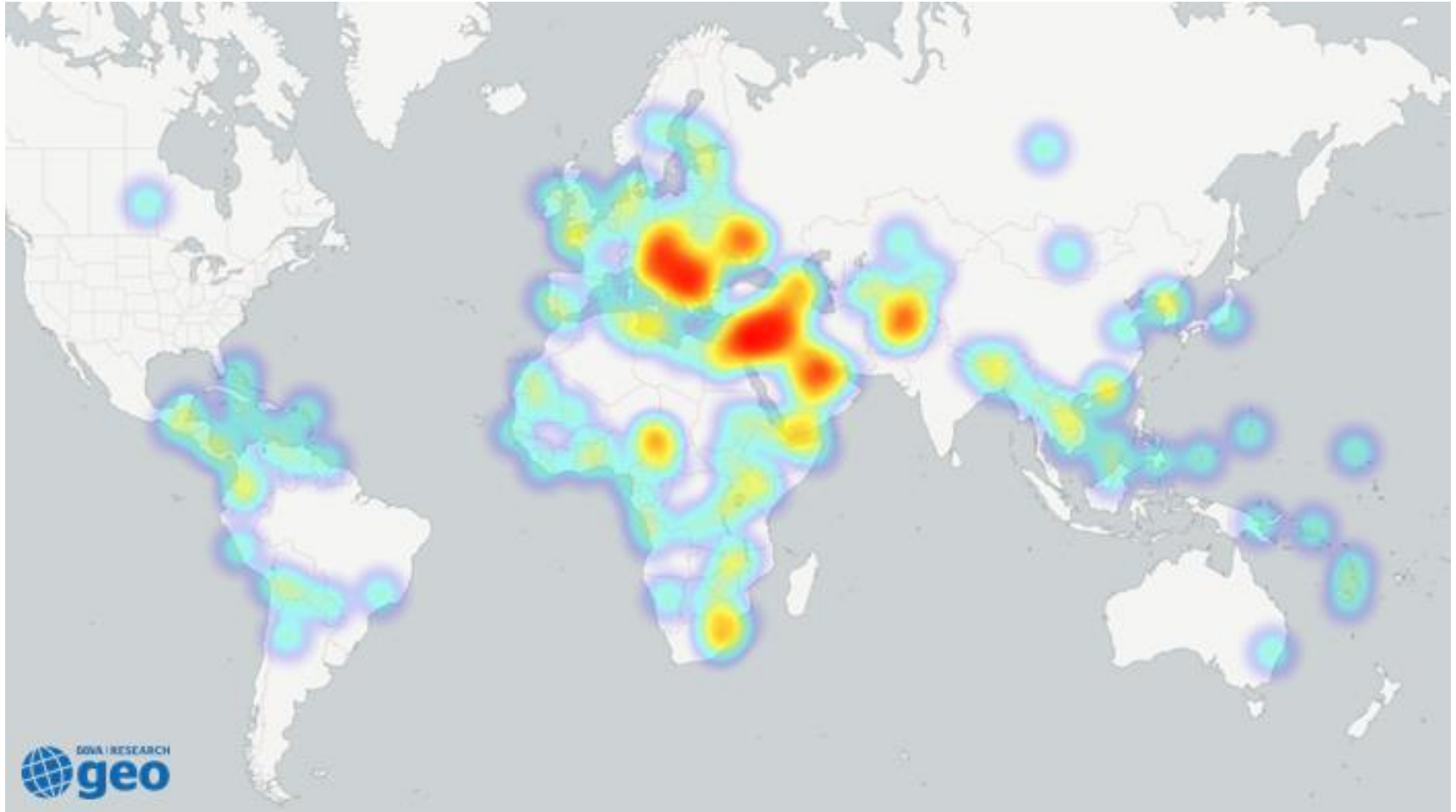
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Conflict heatmap of the world

(monthly changes)



Source: BBVA Research, August 2015.

Motivation

- Empirical evidence suggests that ethnic divisions or diversities in a society dragged down economic development
- Yet, how are conflict and output affected by modernization through identity is not clear
 - Is there a room for nation-building policies to affect the outcome?
 - Or pushing modernization is enough to reach a desirable outcome?

Methodology I

- Author builds a model based on Sambanis and Shayo (2013)
- Individuals choose a sector to work
 - Modern (manufacturing and services) or traditional (agriculture, household production etc.)
- Choose a social identity
 - Ethnic or national
- There are multiple groups consisting of identical individuals
- These groups contest for exogenous resources

Methodology II

- Production function includes only labor
 - There is constant returns to scale in modern sector and decreasing returns to scale in traditional sector



- Using this setting it is possible to increase the output by shifting workers from traditional sector to modern sector

Methodology III

- Ethnic groups contest for exogenous resources that yield group specific club goods (public services and infrastructure)
- The proportion of the resources a particular group acquires equals the proportion of contributions to conflict by members of the group
- Resource allocation is not determined by the rules but consequences of violent conflict or non-violent conflict (rent seeking activities)

Methodology IV

➤ Utility depends :

Wage (+)

Cost of conflict (-)

Benefit from the group specific club goods (+)

Perceived distance from a social group (-)

Status of the social group (+)

➤ Individual can choose a group that brings him higher utility

➤ Individual can change his/her identity in response to exogenous shocks

Methodology IV

- Individuals play a two stage game to maximize their utility
 - First, they decide to which sector to work
 - Second, they simultaneously choose a social group and contribution to conflict which determines the level of conflict, allocation of resources over the groups and individual utilities

Results I

Main result of the model:

- National identity is not only associated with lower level of ethnic conflict, as shown in Sambanis and Shayo (2013), but also higher share of modern sector and higher output
- Yet I am puzzled with the direction of the causality

Results II: Effects of a TFP shock in the modern sector

Main results:

- If national status is at extreme high (low) equilibrium will continue
- When the national status is very high (low) all individuals identify with the nation (their ethnic group), conflict is low
- If the status is relatively high, equilibrium shifts from ‘traditional workers are more likely to identify with their ethnic group then modern workers’ to ‘all workers identify with the nation’ and the level of conflict is low
- There is also possibility of multiple equilibria

Results III: Contested resources

- Given the status, when the amount of resources is large, the society tends to shift from a heterogenous identity equilibrium to the one all individuals identify with their ethnic group after a TFP shock



- Weak political and economic institutions together with abundance of material resources may prevent a country to reach a desirable outcome

Concerns and suggestions

- Model consists of homogenous individuals
 - Yet, there are heterogeneities that may affect outcome significantly
 - There could be a 'friction mechanism' while moving among sectors
- I would like to see the effects of having capital in the production function