

# Insiders and Outsiders: Local Ethnic Politics and Public Good Provision \*

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## Abstract

A large and growing literature has taken the position that ethnic politics plays a major role in both limiting the supply of public goods and distorting their allocation in many developing countries. We examine the role of local ethnic politics in supplying public goods within a framework that incorporates two aspects of ethnic groups: an inclusionary aspect associated with internal cooperation and an exclusionary aspect associated with the disregard for others. The inclusionary aspect of ethnic politics results in the selection of more competent political representatives who exert more effort, resulting in an increased supply of public goods that are non-excludable at the local level. The exclusionary aspect of ethnic politics results in the capture of targetable public resources by insiders; i.e. the representative's own group, at the expense of outsiders. Using newly available Indian data, covering all the major states over three election terms at the most local (ward) level, we provide empirical evidence that is consistent with both aspects of ethnic politics, with positive and negative consequences, respectively, for public good provision. Counterfactual simulations using structural estimates of the model quantify the impact of alternative policies that, based on the theory and the empirical results, would be expected to increase the supply of public goods when ethnic politics is salient.

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