

Ethnic segregation and the quality of government: the importance of regional diversity

Andreas P. Kyriacou

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Abstract It has recently been argued that the regional segregation of ethnic or linguistic groups leads to lower government quality and that this is partly due to the negative effect of segregation on inter-group trust. In this paper I show that the relationship between ethnic segregation, trust and government quality is mediated by another dimension of regional diversity namely, regional income disparities. Accounting for regional disparities reduces the estimated impact of segregation and trust on the quality of government and reduces the statistical robustness of ethnic segregation. The analysis highlights the usefulness of identifying other factors which may be driving regional diversity, beyond ethno-linguistic characteristics.

Keywords Government quality · Ethnic segregation · Trust · Regional disparities · Omitted variable bias

JEL Classification D7 · H11 · H77 · K42

1 Introduction

Government quality rises to the extent that governments do not distort the proper functioning of the private sector (respect property rights, do not over-regulate), are efficient administrators (low corruption, less bureaucracy, high tax compliance), provide public goods and, finally, allow for and protect political freedom (La Porta et al. 1999). Over the years, a range of variables have been identified as important determinants of government quality including, economic factors such as the level of development, inter-personal income inequalities and natural resource abundance, cultural factors linked mostly to religion, and institutional-constitutional variables

A. P. Kyriacou (✉)
Departament d'Economia, Universitat de Girona, Campus de Montilivi, 17071 Girona, Spain
e-mail: andreas.kyriacou@udg.edu