

The Role of Institutional Quality in Enhancing Social Cohesion

Muhammad Nadeem

University of the Punjab, Lahore, Pakistan.

Nabila Asghar

University of the Punjab, Lahore, Pakistan.

Hafeez ur Rehman

University of Management and Technology Lahore, Pakistan.

ABSTRACT

Social cohesion is considered to be important for a society. The role of state institutions is to bring state closer to its population. The effective connection between state and society may be possible only through changing institutions. Present study is an attempt to explore the impact of institutional quality in enhancing social cohesion in a society. For analysis purpose, the study uses five year average panel data from 1990 to 2010 of 68 developing countries. For estimation purpose fixed effect and random effect models as suggested by Hausman test have been used in different specification of the model. The results of the study reveal that better institutional quality enhances social cohesion and income inequality is a threat to social cohesion while diversity is not a harmful to social cohesion. Furthermore, equality and prosperity both enhance social cohesion. The study recommends that on one hand efforts should be made to reduce inequality and on the other hand there is a need to build up social cohesion. These can be achieved through redesigning the institutions ensuring that it is better fit to local needs. The study concludes that social cohesion can be achieved through introducing and re-structuring the policy reforms in developing countries.

Key Words: Social cohesion, Institutional quality, Panel data, Diversity

JEL classification: D71, D02, P37, P48

Introduction

Social cohesion helps in building shared values in societies and promote distribution of wealth which helps the people to come closer to each other. Sometimes, the State's actions may lead to rupture the society particularly in case of discrimination against or for any ethnic, linguistic or religious group. The literature has revealed that the state's action may create social problems like ethnic, religious and linguistic and may provoke civil conflict. For example in Cote d'Ivoire southerners picked to alter the constitution to eliminate northerners' right to identity cards (eliminating their ability to vote and work), which caused civil war. In Rwanda, the 1994 genocide of the Tutsis was in part aided by the

former state-driven discrimination and organized oppression which formed a discordant society (Colletta & Cullen, 2000).

It has been observed that strong institutions help in overcoming the social problems faced by the society. The empirical work in the last two decades has pointed out that institutional weaknesses and ineffective public administration systems are responsible for malaise which has affected the performance of states badly in developing countries. Furthermore, lack of ability of institutions in converting human capital into social capital is also responsible for domestic unrest which eventually may turn into national conflict.

Colletta and Cullen (2000) conducted seminal work in this perspective. Who suggest that if there is high social cohesion in a society it may be helpful in mediating the conflict before it becomes violent. King (2013) puts forward the idea that up to large extent conflict depends upon local factors like inequality, exclusion and sidelining. Social cohesion engrosses the participation of all members of a community in different aspects of their community life. Therefore, many researchers and policy makers consider social inclusion as an instrument for social cohesion.

Improvement in quality of life becomes an inspiration for the social cohesion which may lead to transformation and restructuring of the society which are based on the economic and political changes in the economy (Bartlett, 2013).

Local governance and social cohesion both entail and explore participation and inclusion and highlight the importance of involving the local population so that it can influence the decisions of government. The quality of institutions is also important for economic growth as weak institutions have adverse impact on economic growth particularly when ethnic diversity is high. Ethnically diverse nations must build good institutions for achieving the objective of peace and prosperity (Ritzen *et al.*, 2000). Institutions can develop laws and norms against discrimination that may help in building social cohesion in society. It has been observed that countries governed by effective public institutions have been enjoying higher economic growth and in turn known as more cohesive societies (Easterly, 2006). The willingness of workers to work and involve in business with other religions and ethnic groups is based on the civic ties provided by the formal institutions of the country (Fao, 2013).

In previous years, increase in social capital in the form of social community and social ties had been considered the base of social cohesion (Putnam, 1994; Whiteley, 2000). However, the later studies explain that the diversity among the members of the society is a major factor of social cohesion (Oliver & Wong, 2003, Letki, 2004). Several studies have been conducted to identify the determinants of social cohesion but most of the studies concentrate on the diversity (ethnic, linguistic and religious) and inclusiveness (deprivations and equality) but the role of the institutions (state) have been ignored at large with the exception of Easterly (2001). Who emphasizes that social cohesion in a country is considered to be essential for generating the confidence and patience which is needed to implement reforms helps in increasing trust of citizens on government and making the people

to realize that short term losses due to the introduction of reforms may be lesser than long term gains. However, this is true only for developed countries as these countries have under gone through the transition process. If the economic, social and political maturity level of people is high then they can better think of their national goals and can help in building high quality institutions. Unfortunately in developing countries socio-economic and political behavior of the people is still not mature and it is in the process of transition and as a result people prefer their own goals on national goals.

The role of government in building social capital by enhancing social cohesion is considered to be highly important. In this context the role of legal institutions appears to be relatively important as they ensure economic sovereignty, freedom of press, civil autonomies, independence of judicial system, impartial courts, safeguard of property rights, law and order and rule of law. Furthermore, if legal institutions work efficiently and ensure the above mentioned functions then they can build social cohesion in the society by managing diversity and enhancing inclusiveness.

The present study aims at investigating the role of institutions in enhancing the social cohesion in 68 developing countries. For this purpose the study evaluates the role of institutional quality based on economic freedom, media freedom, civil liberties, independence of judicial system, unbiased courts, and safeguard of property rights, law and order, rule of law in building social cohesion. Furthermore, the study attempts to investigate the role of diversity (ethnic, linguistic and religious) and income inequality in determining social cohesion. The results of the study may help the policy makers in formulating and implementing policies which help in reducing the chances of social conflict through enhancing social cohesion. Table 1 provides the details of descriptive statistics of the variables used in the study.

TABLE 1
Descriptive Statistics

	Income Inequality	Gross fixed Capital formation	Gender equality	LGDP	Institutional Quality Index	Linguistic Diversity	Religious Diversity	Ethnic Diversity
Mean	43.28278	20.63785	0.671978	23.94988	0.503165	0.419385	0.365690	0.499020
Median	42.94059	20.39050	0.681792	23.71994	0.500000	0.410973	0.305593	0.541800
Maximum	68.15550	42.44860	0.935193	28.79069	0.833333	0.922680	0.860260	0.930175
Minimum	20.91659	3.062960	0.211755	19.85758	0.143249	0.012422	0.003463	0.039400
Std. Dev.	7.535479	6.068413	0.090810	1.831016	0.122731	0.304553	0.252968	0.224568
Skewness	0.180058	0.434666	-0.615079	0.192601	0.149710	0.124037	0.397750	-0.225471
Kurtosis	3.231038	4.500756	5.428525	2.343595	3.040997	1.524220	1.835556	2.059522
Jarque-Bera	1.945025	31.96005	78.74210	6.154516	0.970417	23.79432	21.13046	11.55839

The remaining study is divided into six sections. Literature review is presented in section II. Model specification and data sources are given in section III. Description of the variables used in the models is provided in section IV. Section V consists of the interpretation of results, while section VI concludes the study.

Literature review

There is greater possibility that people will cooperate and trust those people who have similar culture, history, language due to the reason that people find it convenient to interact with people having similar characteristics. (McPherson et al., 2001). Quillian (1995) suggests that there is higher probability of hostility among those groups which are heterogeneous. It may be easy to build mutual trust in ethnically and racially homogenous surroundings (Miller, 1995). Civic norms may be stronger in those economies which are ethnically homogenous, egalitarian, educated and have better institutions and high incomes (Knack and Keefer 1997). Fukuyama (1995) explained that trust can be built up by norms, values and civic participation and is considered to be an indication of higher social cohesion in an economy. Negative effects of diversity on social cohesion have been documented for the case of the United States by Alesina and La Ferrara (2000, 2002) and Costa and Kahn (2003), among others.

Park (2012) investigated the role of association with religion and interracial friendship. The author advocates that being Protestant or Jew have negative relation with interracial friendship. For social mix up the association with religion by minorities may be less clear as compared to their ethnic identity in majority of countries in Europe (Foner and Alba, 2008).

Putnam (2007) explains that diversity estranges the people and put them into segregation, this phenomenon is generally known as ‘hunkering down’. The author further advocates that people living in ethnically diverse environment are less friendly and have low inclination for communal life.

Stolle *et al.* (2008) analyzed the data of Canada and USA and found negative relation between diversity and trust. They further explain that, it may be the case where every one may not be influenced by diversity and the people who have social relations in neighborhood may be less prejudice and may offset the adverse influence of diversity.

Leigh (2006) points out that diversity and trust have negative relation at local level and there is no such relation at the national level in the native community, however it may hold for the immigrants.

Anderson and Paskeviciute (2006) conducted research for forty four countries and found that there were different types of effects of diversity on different indicators relating to social behavior.

Zimdars and Tampubolon (2012) find the encouraging role of diversity on general trust. There are some studies that are in contradiction to diversity thesis which argue that the factors relating to socio-economic deprivations are much

more imperative in describing the social cohesion relative to diversity.

Vervoot et al. (2010) oppose the diversity thesis by arguing that ethnic concentration is more important than ethnic diversity in determining the social cohesion. They put forward the idea that ethnic concentration may influence the ethnic minorities and social interactions among people with the same and different groups. Due to such social interactions there may be good intra-group social ties which promote social association. This leads to the consolidation of bonding social capital. Breton et al. (2004) explain that it is not diversity that is harmful to social cohesion instead it is economic inequality which is more dangerous to social cohesion.

Gijsberts et al. (2012) point out that there is only fractional support for diversity hypothesis in Netherland. The results of the study reveal that ethnic diversity has harmful impact on social relations among neighbors because people living in diversity environment may be the victim of economic deprivations.

Kesler and Bloemraad (2010) explain that there exists no organized and established relation between diversity and other variables related to social cohesion. Immigration related diversity can have harmful effect on societal trust. Furthermore, harmful impact of diversity depends upon institutions. If there are well established institutions that safeguard the interests of cultural minorities and ensure equality, such institutions may offset the harmful effects of diversity and help in building social cohesion.

Letki (2008) emphasizes the role of poverty in determining the social cohesion and suggested that as compared to diversity, poverty may have more significant effect. The author explains that social cohesion is damaged by poverty and blame is put on diversity.

Sen (2008) explains that cultural issues, inequality and deprivations are linked with the violent behavior in the society and such behavior cannot entirely be explained by cultural or political tactic rather a mixture of both is required to explain such violence.

Helliwell and Putnam (1995) investigated the effect of GDP and institutions on social capital in Italy. The empirical findings of the study reveal that there exists positive and significant relationship between GDP and social capital due to good quality of institutions.

Whiteley (2000) examined the relationship between economic growth, social institutions and social capital for thirty four countries. The study used annual data for the period 1970 – 1992. Inter personal trust as a measure of social capital has been used for empirical analysis. The results of the study confirm the existence of positive association between economic growth and social capital.

Easterly et al., (2001, 2006) maintain that social cohesion is partly shaped by national leaders and up to some extent it also depends upon historical perspectives. Nations where societies are fragmented in to different ethnic, linguistic, religious diversities and opportunistic politicians may exploit these differences in their own political advantage. The study further suggests that it may not be taken in cynical way that the societies with large class conflicts are condemned to poor institutions

and low growth; however in general absence of social cohesion is used by politicians to emasculate institutions. On the positive side politicians may think of building strong institutions, manage diversity and get rid of the “divide and rule” policy. The societies where institutions are well established, there are no negative effects of diversity.

Oliver and Wong (2003) find the relationship between diversity and social cohesion. The results of the study indicate that there exists helpful and significant impact of diversity on social cohesion. The study argues that trust among different ethno linguistic groups prove very helpful in promoting social cohesion.

Letki (2004) investigated the impact of diversity and socio economic status of neighboring on social cohesion in England. The study used citizenship survey of 2001 data for constructing an index of multiple deprivations to measure economic status of neighboring. The results of the study reveal that there exists negative relationship between diversity on social capital. Further, the author argues that it is the socio-economic status of neighbors which plays an important role in raising social capital.

Stewart *et al.* (2006) discuss that inequality between groups leads to fragmentation of society, low level of social capital and poor social cohesion and also inequality may be a root cause of conflict. The study points out that long lasting inequalities and the weak role of government may lead to violence.

Tolsma *et al.* (2009) investigated the relationship of ethnic heterogeneity, economic deprivations with various dimensions of social cohesion in Netherlands. The results of the study reveal inverse but inconsistent relationship between ethnic heterogeneity and various dimensions of social cohesion. On the other hand, the relationship between economic deprivations and various dimensions of social cohesion appears to be inverse and consistent.

Laurence (2011) finds the relationship between ethnic diversity and social cohesion in English society. The study finds both positives and negative effects of diversity on social cohesion depending on relative measure of diversity. The empirical results of the study bring up an inverse relationship between increasing diversity and social cohesion. On the other hand, study also postulates that bridging ties in diverse environment could play significant and positive role to reduce the negative impact of diversity on social cohesion.

Pervaiz (2013) investigated the impact of social inequality and diversity on social cohesion. The study used three dimensions of diversity named as religious diversity, ethnic diversity and linguistic diversity. Using the cross country data, the results of the study show that social inequality plays a significant role than diversity in raising social cohesion. The study suggests that the problems of diversity can be overcome by reducing the social inequality.

Schaeffer (2013) argues that there is hardly any clear evidence which claims sturdily that diversity is either helpful or harmful for social cohesion. Therefore, any recommendations for encouraging or curtailing diversity should be treated with great care.

Ariley (2014) used the data of 42 European nations to investigate the effect of

ethnic diversity, income inequality and economic growth on social cohesion. The results of the study show insignificant relationship between diversity and social cohesion in three models and in fourth model it appears positive and significant. The results of the study point out that inconclusive relationship between diversity and social cohesion is associated with multiple explanations of diversity. The study concludes that income equality and economic growth both have positive and significant impact on social cohesion.

Asghar *et al.* (2015) find the active role of government in enhancing social cohesion. Using panel data of 99 countries the study finds that not diversity but other macro-economic factors such as income inequality and globalization are threat to social cohesion. The study emphasizes that states with weak institutions are not well prepared to reap the benefits of globalization and are unable to face the social challenges. On the other hand states with strong institutions have the capacity to reap the benefits of globalization and channel these benefits to social policies, including health, education and social security systems which help in enhancing social cohesion.

From the review of the above literature it may be easy to conclude that researchers are not in a position to draw any conclusion regarding the role of factors which affect social cohesion in a society.

Sources of Data and Model Specification

In present study five year average Panel data has been used from 1990 to 2010 (1990, 1995, 2000, 2005, and 2010). Data has been collected for 68 developing economies from: Indices for social development (ISD Data base), world development indicators, and institutional quality data base by Kuncic (2013), Income inequality data base by Solt (2009). The common form of the model can be represented as following

$$Y_{it} = K_{it} \beta + W_i \alpha + \varepsilon_{it}$$

i = country specific dimension, t = time specific dimension

Y_{it} = Social cohesion in i^{th} country in t^{th} time period, dependent variable denoted by inter group cohesion.

$K_{it} \beta$ = Matrix of independent variables (does not have intercept term) including: Institutional Quality, diversity, inclusiveness and some other regresses.

$W_i \alpha$ = country specific effects which may be observable or unobservable. If all these country specific effects are observable and are constant then this will be just like classical linear regression model which can be estimated through ordinary least square. If these effects are unobserved we use dummy variables to capture the effect of these country specific factors and this is represented in country specific intercept term that is why this model is known as Least Square dummy variable or fixed effect model.

When country specific factors are unobserved and have correlation with independent variables then we move towards the random effect model that can be represented as

$$Y_{it} = K_{it} \beta + E[W_i \alpha] + \{ W_i \alpha - E[W_i \alpha] \} + \varepsilon_{it}$$
$$= K_{it} \beta + \alpha + \mu_i + \varepsilon_{it}$$

Random effect model has two error terms $\mu_i + \varepsilon_{it}$, where μ_i is the country specific error term and ε_{it} is the combined i.e country and time specific error. In order to find the appropriate estimation technique (fixed or random effect model), Hausman test is used which is based on the null hypothesis that random effect model is more relevant against the alternative hypothesis fixed effect model is more relevant.

Variable Description and Expected Results

Intergroup Cohesion

Inter group cohesion tells us about the collaboration amongst various groups based on language, ethnicity, religious affiliation, or any other group. It also depicts the capacity of a society to cope with hidden conflict before the conflict turn out into violence. Cohesion between groups is the dependent variable used for overall social cohesion in the society.

Institutional quality (Legal)

The quality of legal institution is judged through an index developed from various facets institutional excellence like: economic freedom, freedom of media, civil autonomies, autonomy and impartiality of judiciary, safeguard of property rights, law and order situation etc. It may be expected that greater levels of institutional excellence are related to higher levels of social cohesion as well established institutions can manage diversity and can address diversity.

Gender Equality

Gender Equality indicates the absence of biased environment against women. Gender equality may be expected to exert supportive role due to the reason that women constitute almost half of the population and if there is any bias against them, it will mean half of the population is discriminated and may have feeling of deprivation which may reduce social cohesion. if there is equality then they will feel confident and may contribute to enhance social cohesion. So, higher value of this index is expected to exert positive influence on social cohesion.

Linguistic Diversity

Linguistic diversity represents the likelihood that if two persons have been selected at random from a given state they will be related to diverse language groups. It may be expected that Linguistic diversity can have either helpful or harmful influence on social cohesion. If people have learnt to live together in harmony, Linguistic diversity may not be a problem in contrast it may reduce social

cohesion. It may reduce societal cohesion due to the reason that generally people have inclination towards their own group and may not like to have social ties with other groups.

Religious diversity

Religious diversity represents the likelihood that if two persons have been selected at random from a given state they will be related to diverse religious groups. It can be expected that this type of diversity can have either helpful or harmful effect on communal cohesion. If in an economy there are large number of diverse religious groups and they are not courteous to each other, it may lead to intra religion as well inters religion conflict which may lead to reduce societal solidity in the society.

Ethnic Diversity

This type of diversity represents the likelihood that two persons selected at random from given state will be part of different ethnic groups. This type of diversity can also have similar implications as previous ones. It may not be a danger to societal solidarity if different ethnic groups are courteous to each other. If different ethnic groups are prejudice in favor of their own group it may create a challenge to social cohesion.

Income Inequality

Income inequality has been represented by standardized Gini coefficient, this coefficient ranges from 0 to 100, where zero represents perfect equivalent distribution of wealth and coefficient value of 100 means perfect unequal distribution of wealth. Unequal distribution of wealth leads to the feeling of hatred against sick and in this situation income inequality may become a threat to social cohesion.

GDP (Gross Domestic Product) is taken at 2005 price level. This variable is used as a proxy for affluence in the country. If there is an increase in affluence, it may lead to increase in societal cohesion. It can be due to the reason that if everybody in the economy have sufficient for enjoyment in life then he may be in the peacetime state and psychologically gratified. If one is contented and facing no fretfulness then we may expect that one will have courteous behavior towards others and courteous behavior can win the hearts of the people. This may lead to an increase in social cohesion.

GFCF (Gross Fixed Capital Formation): Gross fixed capital formation has been used as a proxy for economic activities in the society. If there are a lot of economic activities going on in the society then it can provide them employment opportunities and can bind them together at working place.

Results and Interpretation

The results of Hausman test reveal that fixed effect model is appropriate for the estimation of most of the specifications, *i.e.* specification number (1, 2, 3, 4, 5, 6, 10) and random effect model is more appropriate for the estimation of three specifications, *i.e.* specification number (7, 8, 9) so specifications (1, 2, 3, 4, 5, 6, 10) have been estimated with fixed effect model. Specifications 7, 8, 9 have been estimated with random effect model as suggested by Hausman test. The results of fixed effect and random effect models are presented in Table 2.

TABLE 2
Results of Fixed and Random Effect Models
(Dependent Variable: Inter Group Cohesion)

	1	2	3	4	5	6	7	8	9	11
Institutional Quality	0.00030** * (0.001)	0.00029*** (0.001)	0.00030*** (0.001)				0.00030** ** (0.000)	0.00032*** (0.000)	0.00032*** (0.000)	0.00032*** (0.000)
Institutional Quality * Ethnic Diversity				0.00060*** (0.000)						
Institutional Quality * Linguistic Diversity					0.00059*** (0.000)					
Institutional Quality * Religious Diversity						(0.00084*** (0.000)				
Income Inequality	-0.00048** * (0.000)	-0.00048*** (0.000)	-0.00048*** (0.000)	-0.00047*** (0.000)	-0.00046*** (0.000)	-0.00046*** (0.000)				-0.00057*** (0.000)
Gender equality							0.224*** (0.000)	0.237** (0.000)	0.240** (0.000)	0.306** (0.003)
LGDP	0.030** (0.058)	0.0266* (0.094)	0.0300** (0.058)	0.0285* (0.074)	0.0198 (0.211)	0.0281* (0.077)				
Gross Fixed Capital Formation							0.0034** * (0.000)	0.0034*** (0.000)	0.0034*** (0.000)	0.0057*** (0.000)
Ethnic Diversity	0.459*** (0.083)								0.048 (0.159)	
Linguistic Diversity		0.183** (0.096)						0.029 (0.267)		
Religious Diversity			0.290** (0.083)				0.0281 (0.362)			
Cons	-0.222 (0.55)	-0.0497 (0.890)	-0.257 (0.503)	-0.0736 (0.83)	0.128 (0.721)	-0.086 (0.811)	0.298*** (0.000)	0.286** (0.000)	0.271** (0.000)	0.220** (0.003)
N	242	235	242	242	235	242	279	272	279	236
R-squared	0.549	0.55	0.549	0.55	0.55	0.55	0.258	0.259	0.262	0.637
Hausman Test	chi2 11.61***	10.22** **	11.24** **	9.35** *	13.09** **	10.73*** ***	1.14	2.04	2.12	20.75** **
	Prob > Chi ² (0.05)	(0.0368)	(0.0240)	(0.0249)	(0.0045)	(0.013)	(0.8872)	(0.565)	(0.714)	(0.0004)

*, **, *** represents 10, 5 and 1 percent level of significance respectively; in parentheses () are probabilities.

The results presented in Table 2 reveal that institutional quality has positive and statistically significant effect on social cohesion in all the specifications. This indicates that with the increase in institutional quality there is an increase in social cohesion. The institutions can play effective role in making the society united through appropriate policies. The present study uses legal institutional quality as a proxy for quality of institutions and legal institutional quality is based on economic freedom, press freedom, civil liberties, judicial independence, law and order, role of law, protection of property rights and impartial courts. An increase in these indicators helps in enhancing social cohesion. For example, the existence of press freedom may highlight the issues faced by the society and after being highlighted they may be addressed by the government and society may remain calm. Similarly if people enjoy high civil liberties they may enjoy their rights and may live together in harmony.

If there is independent judiciary and impartial courts working in a country and provide justice across the board to the society, it makes the people satisfied and helps in reducing social unrest which leads to an increase in the social cohesion in the society. Similarly better protected property rights, better law and order conditions and implementation of rule of law may help in enhancing the social cohesion in the society through different channels.

The interactions between institutional quality and different indicators of diversity (ethnic, linguistic, religious) give positive and significant coefficients which mean that diversity can be managed and even it can help in enhancing social cohesion in the presence of high quality institutions. When ethnic, linguistic, religious diversity variables are used separately, the results show that these variables have positive impact on social cohesion. This indicates that diversity is not a threat to social cohesion in these countries.

The results of the study show that income inequality has emerged a potential threat to social cohesion. The income inequality coefficient appears to be negative and statistically significant in all the specifications of the model. It means that income inequality divides the society and is harmful for the social cohesion. It may be due to the reason that it creates the feeling of hatred among deprived people towards the rich. On the other hand rich consider the deprived people disdained which creates the division between the two segments of the society that harms the social cohesion. The results of present study are consistent with Stewart *et al.*, (2006).

In some specifications inequality has been replaced with equality (gender equality has been used as proxy for equality). The results reveal that equality promotes social cohesion. This confirms the fact that inequality or equality matters for social cohesion and diversity is not a big problem to social cohesion.

Log of GDP has been used as a proxy for prosperity in a country. The results of the study show that prosperity has positive and significant impact on social cohesion. It may be due to the reason that if there is prosperity in the society, everyone may be having enough to enjoy life and there are no worries

relating to income so there will be social rest in the society which enhances social cohesion.

Gross fixed capital formation has been used as a proxy for economic activities in some specifications of the model which has positive impact on social cohesion. This indicates that when people are busy in economic activities, they are more cohesive.

Conclusion

Nowadays the researchers and policy makers have realized that social cohesion is highly important for a society. The role of state in this regard is considered to be inevitable because it has to connect itself with the people through introducing changes in institutions which are consistent with the socio-economic and political conditions prevailing in the economy. For this purpose radical changes in the setup of the economy are needed to introduce and also implement social policy reforms. States with multiple identity groups, for example, need to reflect them in governance for making it effective. For reducing horizontal inequalities between groups government should address diversity through accommodating multiple identity groups and recognizing their cultural rights and inclusive education policies.

Present study has been an attempt to explore the influence of institutional quality in enhancing social cohesion in a society. Fixed effect and random effect model as suggested by hausman test have been applied for estimation purpose. The results of the study show that there exists a positive relationship between institutional quality and social cohesion. Diversity is not a big problem for social cohesion. People can live together in harmony even though they belong to different ethnic, religious and linguistic groups.

The results of the study point out that income inequality exerts adverse impact on social cohesion. It has emerged as a potential threat to social cohesion and it needs to be tackled on priority basis. It calls for effective effort for achieving social cohesion through avoiding social unrest and ethnic and external differences in the society. Furthermore, there is a need to take measures to reduce income inequality and this objective can be achieved by introducing and implementing economic policies which are consistent with the socio-economic and political conditions prevailing in the economy. These policies should directly influence the income and living standard of the people.

References

- Alesina, A., & Ferrara, E. L. (2000). *The determinants of trust* (No. w7621). National bureau of economic research.
- Alesina, A., & La Ferrara, E. (2002). Who trusts others? *Journal of Public Economics*, 85(2), 207-234.
- Anderson, C. J., & Paskeviciute, A. (2006). How ethnic and linguistic heterogeneity influence the prospects for civil society: A comparative study of citizenship behavior. *Journal of Politics*, 68(4), 783-802.

- Ariely, G. (2014). Does Diversity Erode Social Cohesion? Conceptual and Methodological Issues. *Political Studies*, 62(3), 573-595.
- Asghar, N., Qureshi, S., & Nadeem, M. (2015). Globalization: A Threat to Intra State Social Cohesion. *Pakistan Vision*, 16(2).
- Bartlett, W., Malekovich, S., & V. Monastiriotis (2013). Decentralization and Local Development in South East Europe. Houndmills, Basingstoke and New York: Palgrave Macmillan.
- Breton, R. (2004). Fragile Social Fabric? Fairness, Trust, and Commitment in Canada. McGill-Queen's Press-MQUP.
- Colletta, N. J., & Cullen, M. L. (2000). *The nexus between violent conflict, social capital and social cohesion: Case studies from Cambodia and Rwanda*. World Bank, Social Development Family, Environmentally and Socially Sustainable Development Network.
- Costa, D. L., & Kahn, M. E. (2003). Civic engagement and community heterogeneity: An economist's perspective. *Perspectives on politics*, 1(01), 103-111.
- Costa, D. L., & Kahn, M. E. (2003). Understanding the American decline in social capital. *Kyklos*, 56, 17-46.
- Easterly, W. (2001). Can institutions resolve ethnic conflict? *Economic Development and Cultural Change*, 49(4): 687-706.
- Easterly, W., Ritzen, J., & Woolcock, M. (2006). Social cohesion, institutions, and growth. *Economics & Politics*, 18(2), 103-120.
- Eric Oliver, J., & Wong, J. (2003). Intergroup prejudice in multiethnic settings. *American Journal of Political Science*, 47(4), 567-582.
- Foa, R. (2013). *Measuring Social Institutions*. Institute for Social Studies, The Hague.
- Foner, N., & Alba, R. (2008). Immigrant religion in the US and Western Europe: Bridge or barrier to inclusion? *International Migration Review*, 42(2), 360-392.
- Fukuyama, F. (1995). *Trust: The social virtues and the creation of prosperity* (No. D10 301 c. 1/c. 2). New York: Free press.
- Gijsberts, M., Van Der Meer, T., & Dagevos, J. (2012). 'Hunkering down' in multi-ethnic neighbourhoods? The effects of ethnic diversity on dimensions of social cohesion. *European Sociological Review*, 28(4), 527-537.
- GIZ (2012). *Social Protection and its Contribution to Social Cohesion and State-Building*. Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH. <http://www.odi.org.uk/sites/odi.org.uk/files/odi-assets/publications-opinion-files/7759.pdf>
- Helliwell, J. F., & Putnam, R. D. (1995). Economic growth and social capital in Italy. *Eastern Economic Journal*, 295-307.
- ISD. *Indices of Social Development*. Available at <http://www.indsocdev.org/> The Hague: International Institute of Social Studies.
- Kesler, C., & Bloemraad, I. (2010). Does immigration erode social capital? The conditional effects of immigration-generated diversity on trust, membership, and participation across 19 countries, 1981–2000. *Canadian Journal of Political Science*, 43(02), 319-347.
- Knack, S., & Keefer, P. (1997). Does social capital have an economic payoff? A cross-country investigation. *The Quarterly Journal of Economics*, 1251-1288.
- Kuncic, A. (2014). Institutional Quality Dataset. *Journal of Institutional Economics*, forthcoming.
- Laurence, J. (2009). The effect of ethnic diversity and community disadvantage on social cohesion: A multi-level analysis of social capital and interethnic relations in UK communities. *European Sociological Review*, jcp057.
- Leigh, A. (2006). Trust, inequality and ethnic heterogeneity. *Economic Record*, 82(258), 268-280.
- Letki, N. (2004). Socialization for participation? Trust, membership, and democratization in East-Central Europe. *Political Research Quarterly*, 57(4), 665-679.

South Asian Studies 31 (2)

- Letki, N. (2008). Does diversity erode social cohesion? Social capital and race in British neighbourhoods. *Political Studies*, 56(1), 99-126.
- McPherson, M., Smith-Lovin, L., & Cook, J. M. (2001). Birds of a feather: Homophily in social networks. *Annual review of sociology*, 415-444.
- Muntaner, C., Lynch, J., & Oates, G. L. (1999). The social class determinants of income inequality and social cohesion. *International Journal of Health Services*, 29(4), 699-732.
- Park, J. J. (2012). When race and religion collide: The effect of religion on interracial friendship during college. *Journal of Diversity in Higher Education*, 5(1), 8.
- Pervaiz, Z., Chaudhary, A. R., & van Staveren, I. P. (2013). *Diversity, Inclusiveness and Social Cohesion* (No. 2013-01). International Institute of Social Studies of Erasmus University Rotterdam (ISS), The Hague.
- Putnam, R. D. (2007). E pluribus unum: Diversity and community in the twenty-first century the 2006 Johan Skytte Prize Lecture. *Scandinavian Political Studies*, 30(2), 137-174.
- Putnam, R. D., Leonardi, R., & Nanetti, R. Y. (1994). *Making Democracy Work: Civic Traditions in Modern Italy*. Princeton University Press.
- Quillian, L. (1995). Prejudice as a response to perceived group threat: Population composition and anti-immigrant and racial prejudice in Europe. *American Sociological Review*, 586-611.
- Ritzen, J. M. M., Easterly, W., & Woolcock, M. J. (2000). *On "Good" Politicians and "Bad" Policies: Social Cohesion, Institutions, and Growth* (Vol. 2448). World Bank Publications.
- Schaeffer, M. (2013). Can competing diversity indices inform us about why ethnic diversity erodes social cohesion? A test of five diversity indices in Germany. *Social Science Research*, 42(3), 755-774.
- Sen, A. (2008). Violence, identity and poverty. *Journal of Peace Research*, 45(1), 5-15.
- Solt, Frederick. (2009). Standardizing the World Income Inequality Database. *Social Science Quarterly*, 90(2): 231-242. SWIID Version 5.0, 2014.
- Stewart, F., Barrón, M., Brown, G., & Hartwell, M. (2006). Social exclusion and conflict: Analysis and policy implications. *CRISE Policy paper*.
- Stolle, D., Soroka, S., & Johnston, R. (2008). When does diversity erode trust? Neighborhood diversity, interpersonal trust and the mediating effect of social interactions. *Political Studies*, 56(1), 57-75.
- van Staveren, I., Pervaiz, Z., & Chaudhary, A. R. (2013). *Diversity, Inclusiveness and Social Cohesion* (No. 2013-1). ISS Working Paper Series/General Series.
- Vervoort, M., Flap, H., & Dagevos, J. (2011). The ethnic composition of the neighbourhood and ethnic minorities' social contacts: Three unresolved issues. *European Sociological Review*, 27(5), 586-605.
- Whiteley, P. F. (2000). Economic growth and social capital. *Political Studies*, 48(3), 443-466.
- World Development Indicators available at <http://www.worldbank.org>
- Zimdars, A., & Tampubolon, G. (2012). Ethnic Diversity and European's Generalised Trust: How Inclusive Immigration Policy Can Aid a Positive Association. *Sociological Research Online*, 17(3), 15.

Appendix

Countries Included in the Study

Albania	Ghana	Panama
Algeria	Guyana	Papua New Guinea
Argentina	Honduras	Paraguay
Bangladesh	India	Peru
Bolivia	Indonesia	Philippines
Botswana	Iran	Romania

Brazil	Iraq	Rwanda
Bulgaria	Jordan	Senegal
Burundi	Kenya	Sierra Leone
Cameroon	Malawi	South Africa
Chile	Malaysia	Sri Lanka
China	Mali	Sudan
Colombia	Mauritania	Thailand
Congo, Dem. Republic	Mauritius	Togo
Costa Rica	Mexico	Tonga
Cote d'Ivoire	Mongolia	Tunisia
Dominican Republic	Morocco	Turkey
Ecuador	Mozambique	Uganda
Egypt, Arab Republic	Namibia	Uruguay
El Salvador	Nepal	Venezuela, RB
Fiji	Nicaragua	Zambia
Gabon	Niger	Zimbabwe
Gambia	Pakistan	

Biographical Note

Muhammad Nadeem is Ph.D scholar at NCBA & E, National College of Business Administration and Economics, Lahore, Pakistan.

Nabila Asghar is Assistant Professor, at the Department of Economics, University of the Punjab, Lahore, Pakistan.

Hafeez ur Rehman is Professor of Economics, School of Business and Economics, University of Management and Technology Lahore, Pakistan.