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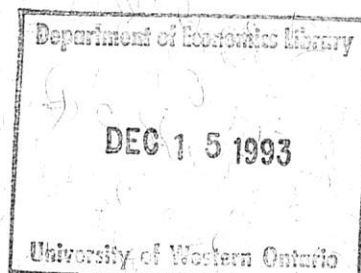
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**“From Expressionism to Kitsch
Ethnic and Intergenerational
Conflict and the Rise of
Dictatorship”**

Ronald Wintrobe



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FROM EXPRESSIONISM TO KITSCH

Ethnic and Intergenerational Conflict and the Rise of Dictatorship*

by

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1. INTRODUCTION

In this paper, I attempt to use simple tools of economic theory to understand ethnicity, ethnic conflict, and nationalism and their role in destabilizing democracy under the Weimar regime. The paper builds on previous work on ethnicity (Wintrobe 1993), and on political inaction in democratic systems (Howitt and Wintrobe 1993a and b). The starting point of the analysis is a set of circumstances in which there are gains from trade, as in standard neo-classical theory, but that property rights are not costlessly enforceable. Once the latter fiction is discarded, the situation is that people still wish to exchange, but they always have to worry about being cheated. There are reputation mechanisms for solving this problem (Klein and Leffler (1981), Shapiro (1983), but they tend to be expensive. Similar problems arise in politics, interpreted as political exchange in the absence of legal enforcement (one cannot sue a politician in court for breaking a campaign promise), and within families (parents cannot sue their children for not supporting them in their old age).

In both public and private life, one particularly cost effective way to provide a foundation for exchange under many circumstances is to invest in ethnic networks or "ethnic capital". The central feature of ethnic capital is the peculiarity of blood as a basis for network "membership". To the extent that this criterion is used, entry and exit from the network (within a generation) are blocked. I suggest (in the next section) that this gives ethnic networks some advantages as a support for exchange, and partly explains the persistence of ethnicity in modern societies. But if ethnic capital cannot move from one group to another, it also follows that competition among ethnic groups does not equalize returns among them. Consequently differences in returns and therefore in incomes will persist. The result is that successful ethnic groups tend to engender fear and jealousy on the part of outsiders, while members of ethnic groups with low returns tend to become

stigmatized. These disparities combined with the zero-sum nature of economic rents implies that there is an inevitable potential for conflict among ethnic groups ("if you can't join them, beat them"), which is not regulated or reduced by market forces.

Section 3 then looks inside the ethnic group, and in particular at the process of formation of ethnic capital, investments which are largely made by parents for their children. I assume for the purpose of analysis that parents are selfish, and invest in their children in the hope of being repaid in later life. I show that a second peculiar feature of ethnic investments, compared to other kinds of investments in children such as general human capital, is that they are *self-enforcing*, in that the children cannot get the benefits of the capital without exposing themselves to "ethnic pressure" to repay their parents for their sacrifices. This self-enforcing feature makes ethnic investments very attractive to the parents, but not necessarily to the children. Consequently, parents will tend to over-invest in their childrens' ethnic capital from the childrens' point of view. I show the circumstances under which this intergenerational conflict can lead to "authoritarian" attitudes in the children, as described in the classic work on the "Authoritarian Personality" syndrome by Adorno, et.al. (1950). Section 4 then discusses a political context in which this syndrome is particularly likely to develop, one in which the political system is plagued by inaction. Section 5 then applies these concepts to the collapse of the Weimar Republic and the rise of Nazism (from Expressionism to Kitsch) in the 1930's.

2. THE VALUE OF ETHNIC CAPITAL

The starting point for our analysis consists of two assumptions, which will be maintained throughout this paper, except in section 4, where, as noted there, assumption 1 is relaxed. They are:

- (1) All individuals are rational, in the standard sense of that term in neoclassical economic theory, i.e., faced with any two alternatives the individual is capable of making a choice between them, and his or her choices are consistent.
- (2) Property rights or contracts are not costlessly enforceable, and sometimes may not even exist.

The second assumption implies that in any exchange, there is the possibility that one of the parties will cheat or renege on his/her commitments. In markets, this problem was considered by Klein and Leffler (1981) and Shapiro (1983), in the context of markets for high-quality goods. They assumed that, prior to purchase, consumers cannot distinguish high quality from low. What prevents the firm from producing low-quality goods and selling them as if they were high quality? Shapiro showed that there are three conditions required for it to be in the firm's interest not to cheat its customers: (1) the prospect of future sales; (2) the firm's past reputation as a seller of high-quality goods; and (3) the firm's receipt of a price premium on high-quality goods, both to compensate it for its past investments in reputation and to serve as a deterrent to cheating. If the present value of the premiums received from future sales is large enough to overcome the one-time gains from cheating ("milking" its reputation), it will not be in the firm's interest to cheat. In essence, the existence of the price premium provides the consumer with a reason to *trust* the firm. As Klein and Leffler put it, the consumer pays the firm "protection money" in the form of a price premium to ensure contractual fulfilment. In this way, markets can solve the trust or contractual enforcement problem even in the absence of legally enforceable property rights.

One problem with this solution from the consumer's point of view is that it is expensive. Consumers are forced to pay a premium, the present discounted value of which is at least as large as the gains to the firm from cheating in order to deter the firm from cheating. Consumers willing

to pay this premium are not cheated, but they do not get good value for their money: They stay in Holiday Inns, buy Bayer Aspirin, IBM computers, and so on. An alternative solution for the consumer is to establish a trust relationship with a local seller -- the local drugstore, computer hack, and so on. The costs of "signalling" or building trust on a one-on-one basis may be reduced considerably when there is genuine interaction between the parties, as opposed to impersonal market signals. In these cases trust can describe a relationship which is, at the limit, completely private; it exists between a seller and only one buyer -- a "network". Trust relationships like these are analyzed by Breton and Wintrobe (1982) and Coleman (1990). Breton and Wintrobe pointed out that trust relationships like these are capital. They yield a stream of future returns which are the profits on the exchanges which trust makes possible and which could not otherwise take place.

Trust relationships are also important -- indeed, probably much more important -- in labour markets. Again, the key is to drop the assumption of costlessly enforceable property rights. One way in which enforceability problems can arise is that employees may try to shirk if monitoring their effort level is not costless to the employer (Shapiro and Stiglitz (1984), Bowles (1985), Bulow and Summers (1986)). The central insight of these models is that if markets clear, a worker who is fired for shirking can always get another job at the same wage as he is currently earning. and punishment is impossible. Consequently, wages will have to be increased above productivity in order to provide a punishment mechanism. Consequently, jobs are rationed, and those who have them earn rents which are precisely analogous to the premiums earned by producers of high-quality goods in the Shapiro model.

In short, perhaps the most important lesson of these models is that once the assumption of costlessly enforceable property rights is dropped, the existence of economic rents becomes a pervasive feature of industrial economies. The absence of enforceability generates a demand for

trust, and *markets do not supply trust except via rents*: the market mechanism deters cheating only if rents are paid which are at least equal to the gains from cheating.

Of course, the same problem of enforceability arises in political markets, in which politicians make promises, especially at election time, and hope to obtain support in exchange for them. What prevents politicians from renegeing on the exchange? And what motivates citizens and interest groups to deliver the support that they have promised? Again, the answer suggested here is that both sides of the market will try and look for devices which engender trust (political loyalty) and these devices imply the distribution of rents. Two institutional mechanisms that engender loyalty in politics are pork-barrel projects and political patronage -- the exact analogue in political markets to price and wage premia in economic markets. Thus, only to the extent that a pork-barrel project is genuinely wasteful, or that a patronage job has gone to someone who is genuinely less-qualified for it than someone else, do these devices distribute rents, and therefore engender loyalty.

To summarize, rents exist to "cement" trust relationships in product and labor markets, within firms, and in political processes. They are a pervasive feature of modern industrial society. A typical individual who wants to buy goods and services at reasonable prices and not be cheated, who wants or wishes to keep a "good" job, and who wishes to get his share of the largesse being distributed by politicians, or even to have his views reflected in public policy, therefore has a very complex pattern of network investments to make. For each good or service or political service that he wishes to purchase, where there is some prospect of being cheated, he may wish to invest in a specific trust relationship. Some goods and services will be bought so infrequently that such investments will not be worth their cost. In many cases, also, the individual has to calculate that investments in these relationships will be lost if the person moves to another jurisdiction. In these situations, the individual is stuck with the market, and market premia. In others, the individual may

try the networking strategy just discussed. It follows that, in general, the optimal investment strategy (distribution of investments in trust among all the different possible relationships involved) is truly complex. What this individual really wants is a mutual fund. These funds exist, in the form of ethnic networks.

The central feature of ethnic networks is that "membership" is determined by blood, and it is very difficult for outsiders to enter, and often for insiders to truly exit (within a generation)--a characteristic that I will refer to as *Blocked Entry and Exit*. This solves one of the problems characteristic of networks -- namely that if the returns turn out to be substantial, others will want to enter, hence lowering the yield on the initial investments of "insiders". Moreover, since membership is to some extent at least not subject to choice, part of the difficulties normally encountered in establishing a trust relationship are resolved. Thus, a German (say) who meets another German and contemplates a transaction with him that requires trust does not have to worry that the other party is only German *temporarily* because the yield on German capital is temporarily high. Of course, the *level* of German-ness exhibited -- the extent to which the other person uses German phrases, pretends to like potatoes with whipped cream, goes to German social events, and so on may be precisely subject to such calculations, but, fundamentally, either he/she is German (or Francophone, or Jewish, or Italian). or not. In part, this is because one's ethnicity is not completely subject to choice, but is also determined by the attitudes of others (as Jews in particular found out under the Nazi regime).

Just as it is difficult if not impossible for an outsider to enter an ethnic group, it may also be difficult if not impossible for insiders to exit. A black man can marry a white woman, live in a white suburb, work for an all-white firm and so on, but he can still find himself greeted by shouts of "Hey, brother!" when he finds himself in the "wrong" neighborhood. And he may also find, to

his surprise, that while other connections come and go, the permanence of the ethnic connection can sometimes come in handy. This is particularly likely to happen if he discovers that just as insiders would never completely let him go, so outsiders never really let him in, and he is passed over for promotion or turned down in romance because he "is" black.

To be sure, any individual is free to foreswear association with other members of his ethnic group; he can tell his friends and family to get lost, move to another city and refuse to give out his address, never phone his mother again (even on her birthday), change his name to Smith, and so on. Even if he did all these things, however, he will still not be in the same position vis-a-vis his ethnic group as an outsider. To be sure, his ethnic networks will depreciate through lack of use, *but they will not depreciate to zero*. This takes a generation or more. And, should he have a change of heart later on in life and decide to re-contact the old network, he will be able to rebuild his capital at less cost than an outsider would incur. It is in this sense that exit from ethnic networks is blocked—an individual is free to reduce his gross investment in this form of capital to zero, but he cannot sell, transfer or dispose of the "sunk" capital which has been accumulated through upbringing, socialization, and ascription by others.

Of course, in reality, it is easier to enter and exit some types of ethnic groups than others. A more general analysis would allow the level of barriers to entry and exit to vary and develop an "industrial organization" of ethnic groups. In this paper, I will simply assume blocked entry and exit in order to bring out the implications of this assumption.

Indeed, several other characteristics of ethnic networks follow from the property of blocked entry and exit. Thus, ethnic networks are *multi-purpose*, and can be used for finding a job or an apartment, a good plumber, a mate, and so on (not necessarily in that order). Ethnic networks also have an *infinite life*—indeed they go on backward as well as forward in time. This means that ethnic

networks solve the "hangman's paradox" often discussed in game theoretic analyses of the cheating problem. Thus if a game is finite, cheating is guaranteed on the last play (since there is no possible sanction after the end of the game); if the second party (who has the last move) is going to cheat the first party on the last move, the first party should obviously cheat the second on the next-to-last move; hence the game unravels and cheating takes place on the first move. Whatever importance this analysis has in real life, and there are many who believe it to have some, the problem raised is solved by ethnic networks, since blood ties may thin out but never disappear. Because of this longevity, there is always the prospect of punishment if one ethnic member cheats another in the same group, and there is always the prospect that members of one ethnic group will punish the descendants of another for some transgression or other. In these and other ways, ethnic networks often have a superior capacity to sanction transgressors, both by "insiders" and "outsiders". Thus, the Serb leader Slobodan Milosevic was able to raise genuine fears of conquest and occupation by reminding the Serbs of what the Ottomans did to them at the Battle of Kosovo in 1389. The tactic was apparently effective in building his power base (Ramet (1992), p. 228).

A fourth property of ethnic networks is *(Relative) Homogeneity of Tastes*. Jews like Chinese food, tend to be in favor of human rights, and feel comfortable in big cities. Germans and Japanese people are more willing to work hard compared to Americans. Of course, these ethnic stereotypes are often invalid, but to the extent that tastes do tend to be relatively more homogeneous within ethnic groups than between randomly chosen individuals, collective decision making within the group is made easier, and the capacity of the group for collective action is enhanced. Finally, the costs of forming trust will be lower if signalling and communication is easier, as it often is between members of the same ethnic group (Landa 1981, Breton and Wintrobe (1982)).

Finally, ethnic capital investments are *Subsidized* through inheritance and upbringing. An

individual whose parents are members of an ethnic group will, by the time he becomes an adult, have already accumulated a substantial amount of ethnic capital. Some of it is "in the genes", some will have been accumulated through education and forced socialization with other members of his/her ethnic group. Of course, at some point the individual is free to choose a different ethnic identity but in that case he will have to accumulate all of the costs at his own expense. A Frenchman who decides that he really wants to be a Korean can of course try to do so, but his parents are probably unlikely to help him, and he will be throwing away all of those French connections.

There are also, of course, disadvantages to ethnic networks. The most important of these also follows from the central assumption of *blocked entry and exit*. In the standard economic theory of markets, two broadly conceived assumptions are necessary to ensure the efficiency or (Pareto) optimality of competition: (i) The absence of externalities, "publicness", or other factors which would lead to the systematic under- or overpricing of economic costs or benefits. (ii) Free entry and exit of capital. As is well known, the second assumption implies that capital will flow out of those industries where its yields are relatively low and into those industries where yields are relatively high. So rents will not persist in long-run equilibrium but will be eliminated as capital flows to those industries where it is most valuable, and the supply of goods and services from those industries expands, driving down their prices and reducing economic rents. This mechanism assures the efficiency of competition in economic markets. As discussed earlier, entry to or exit from ethnic networks is blocked. Consequently, if one ethnic group experiences abnormally high returns (e.g., U.S. Jews) and another group abnormally low returns (e.g., U.S. blacks), there is no mechanism whereby the returns to ethnic capital can be equalized across ethnic groups.

To illustrate this point with a simple model, suppose that there are only two ethnic groups,

the Golds and the Silvers. Assume that all individuals of either type are identical. However, although the individuals are identical, the yield to forming network capital need not be. Suppose that the returns to network capital formation are higher among the Golds than the Silvers. The Golds might have a superior capacity to sanction deviant or non-participating members, or they may be able to communicate better with each other, or they may be more isolated from the rest of society and therefore interact with each other more, and so on. Fourthly, assume that, for either group, there are diminishing returns to aggregate ethnic capital. Let d = the depreciation rate of ethnic capital, and C' = the marginal cost of its formation. The benefits are the increased likelihood of obtaining a rent (p) multiplied by its value (R). The return to ethnic capital is the sum of these rents $\sum_i p_i R_i$ $\sum_i p_i R_i \forall i$ where i denotes all the "uses" of ethnic capital (jobs, apartments, plumbers, mates, investment counsellors, political patronage, etc.). Each member of the Golds will invest in ethnic capital to the point where the marginal return just equals its cost -- i.e.,

$$(1) \quad (\sum_i p_i R_i) (\sum_i p_i R_i)_G = C'_G(\delta_g))_G = C'_G(r+d_G)$$

where G indexes variables for the Golds. The same equation holds for the Silvers. Individuals in either group will invest until the *marginal* yields are equal to their costs (and therefore to each other's costs). However, if infra-marginal yields were high for the Golds and low for the Silvers, the total amount invested would be high for the Golds and low for the Silvers.

In equilibrium the average yield is high for the Golds and low for the Silvers. Golds will get more of the good jobs, good apartments and so on than Silvers do. If mobility were possible between groups, Silvers would enter the Gold network and average yields would fall there and rise among the Silvers. However, blocked entry and exit prevents this mechanism from operating. Returns could be equalized by differential rates of population growth, if the high yield to Gold

ethnic capital resulted in high population growth rates there, and the low yield to Silver ethnic capital resulted in low rates of population growth for that group. However, if anything, this mechanism appears to work in reverse: High income groups appear to have low rates of population growth and low income groups high rates of growth. Consequently, high yields among some ethnic groups will persist, giving rise to fear, envy and possibly hatred among other groups who will never share those yields. Low returns among other groups will result in stigmatization, or statistical discrimination (Arrow (1972)) as individuals within an ethnic group are judged on the basis of the performance of the average for that group.¹

In short, the phenomenon of blocked entry and exit explains why market mechanisms do not eliminate ethnic conflict and why competition among ethnic groups has the potential to breed conflict. To some extent, individualism is devalued as the characteristics of the group become more important as determinants of individual welfare. There is also a natural tendency for ethnicity to be linked to territory, as in the "principle of nationality" that the boundaries of the state should be linked to those of the "nation" or ethnic group (Hobsbawm 1990). The absence of the market regulating mechanism implies its replacement by evolutionary or conflict mechanisms, as groups either prosper or decline as a whole. And there is a natural demand for leadership in the management of ethnic capital. In *extreme* form, all of these characteristics--the importance of the group over the individual, the leader and evolutionary principles, and the stress on struggle and the inevitability of conflict are precisely the characteristics of Fascism, as we discuss further below. However, the extremity or the viciousness of *some* ethnic conflicts, such as that under the Nazi

¹Borjas (1992) presents highly suggestive evidence of the persistence of differential earnings capacity among ethnic groups across generations.

regime, or perhaps the contemporary conflict between the Serbians and Croats, is still, I believe, difficult to account for with a model like this one. To do this, it is necessary to look more deeply inside the ethnic group and to investigate in more detail how ethnic capital is formed.

3. INTRA- AND INTER-GROUP ETHNIC CONFLICT

So far, I have suggested that ethnic investments can yield a positive return, and have assumed in the last section that individuals accumulate the optimal level of this form of capital. Intergenerational harmony was thus assured, despite the fact that much of the investment in ethnic capital is performed by parents for their children. I also assumed that entry and exit from the network are blocked. In this section, I want to elaborate a more complicated model, in which parents make investments in their children in exchange for control over the behaviour of their children in later life, and in which this exchange is "enforced" by the pressure which can be brought upon the children by other members of the ethnic group.

Thus, suppose that parents invest in the ethnic capital of their children by sending them to ethnic schools, inculcating ethnic customs and rituals, language, and other communication techniques, restricting their socialization while young to other members of the ethnic group, etc. Parents expect to be repaid for these sacrifices through the obedience of the children in later life to norms of the ethnic group, which presumably include support and attention to their parents in their old age, but may also encompass other aspects of their children's behavior, e.g., that they will marry within the group and raise children who will continue to participate within it, that they participate in ethnic cultural activities, rites and rituals, respect and/or worship ancestral heroes, take credit as members of the group for the accomplishments of their forefathers, assume the debts of previous generations, and so on. In short, children may repay their parents not only directly with

support, but also indirectly by making decisions based on their parents' wishes or utility function, and by participating in the activities or adhering to the norms of the ethnic group.

But what mechanism can parents count on to enforce the implicit contract between them and their children? The children can't be sued in court if they don't repay. There are obvious reasons for this. One reason is surely that the contract may not be voluntarily entered into by the children, or even if it is, the children may be too young to be deemed capable of "credible" or enforceable commitments. Another is that the preferred form of repayment can take subtle forms, e.g., that the children's career or marriage choices are those that their parents would have liked them to make. With these forms of repayment, it may be difficult for an outsider to ascertain whether repayment has in fact occurred, and to adjudicate disputes between parents and their children over this matter. Yet both parents and children might prefer these forms of repayment to, say, cash repayments.

So how can parents be confident that their children will in fact repay them for the sacrifices they have made on their behalf? Clearly, the problem is a general one, i.e., it applies to all forms of parental investment, e.g., to investments in general human capital such as their children's education or occupational training, and to "gifts" of land, houses, cash, and so on.

I can think of at least five mechanisms which can act as substitutes for legal enforcement: (1) altruism, (2) bequests, (3) trust, (4) guilt, and (5) shame. Becker (1974, 1976), Frank (1988), Hirshleifer (1977) and others have argued that altruism is a powerful force in family life, as indeed, it no doubt is. In the famous "rotten kid" theorem, Becker argued that, under certain conditions one-sided altruism, i.e., the parent loves the child but not *vice versa*, is sufficient to motivate the child's cooperation. However, this argument only holds under certain conditions.² In any case, it relies

²See Hirshleifer (1977), Wintrobe (1981,1983).

on the mechanism of the expectation of further transfers from parent to child, which we rule out here, except for bequests, which are discussed separately below. Altruism *on the part of the child* will no doubt motivate the child to repay his parents. The problem is that altruism within the family is sometimes insufficient. Becker and Murphy (1988) explicitly acknowledge this and suggest that state intervention (compulsory schooling, pension plans, etc.) often mimics the kinds of contracts that the family would have entered into if legally enforceable contracting were possible. But they do not inquire into the private behavior that ensues where love is insufficient, i.e., there is no analysis of alternative bases for exchange within the family. Yet, even where love is plentiful, so long as it is not complete, i.e., the child cares for the parent as much as he does for himself (Becker calls this "full caring"), interaction will sometimes occur between parent and child on the basis of self interest. For all these reasons, it is necessary to look beyond altruism in discussing family interaction.

Bernheim, Shleifer and Summers (1985) suggested that, in addition to caring for their children, parents want attention from them, especially when they get older. Children may not mind visiting their parents at first, but after a while they get tired of it, and further visits bring disutility. Parents never tire of seeing their children (at least, never before their children tire of visiting them), and so, at the margin, parents are willing to trade larger bequests for more visits. Amazingly, data exist on the level of attention children give to their parents, in the form of indices of the number of weekly visits paid by children to their parents. Their analysis of the data showed that the larger the potential bequest, the more frequent the visits. Most sadly, perhaps, visits to parents who were poor and became ill dropped off, while those to parents who were rich and became ill increased. Here, the strategic threat of the withdrawal of the bequest is used by parents to enforce their wishes on their children. Note that the mechanism does not precisely mimic legal enforcement, since with

legal enforcement, it would not always be necessary to give all the bargaining power to the parent. Perhaps it is this problem which explains why in some countries (Germany, France) parents are legally proscribed from depriving a child of his parent's estate beyond a certain point (for example, in a two child German family, each child is entitled to a minimum of one-fourth of the estate).

Both the analysis and the evidence on bequests show that family relations can be illuminated using the model of exchange. However, it still appears that poor parents with no planned bequest have nothing to protect them in their old age. One other possibility is that the parents might simply trust their children to look after them. However, if we rule out the altruistic and economic motives already discussed, and we also assume that the children are rational, then there must be some explanation of why the children would behave in this way. The most obvious motives are shame and guilt. The two are commonly distinguished (e.g., Freud (1929), Kandell and Lazear (1992)) on the basis that shame ("external pressure") requires external observability whereas guilt ("internal pressure") does not. Freud interprets much of the advance of civilization to this economy of guilt as a mechanism in enforcing behavioural codes and norms. I will not attempt a comprehensive analysis of the operation of these two motives here, but I will suggest that ethnic capital is an investment vehicle for which they are particularly suited, and discuss their operation in this context.

In brief, the argument is that parents can partly "bind" their children to the ethnic group by ethnic capital investments in them while young. The children are bound not just because the yield on this form of capital is specific to the ethnic group in question, and cannot be sold or otherwise transferred. The reason is that, in order to obtain the yield on this form of capital, the (grown) children will have to associate with other members of the ethnic group, and other members of the ethnic group can be counted on to pressure or shame them into repaying their debts to the parents and to adhere to the other norms of the group. So the "contract" is "self-enforcing" from the parents'

point of view -- the children can only obtain the benefits from this form of capital to the extent that they repay their parents for the investments made.

To illustrate, imagine a mythical ethnic group, the Harriets. Two Harriets, HI and HR are discussing a business deal over lunch. Because they are both Harriets, it is easy for them to communicate³, and they feel free to ask personal questions. Here are some standard ones (HI is the Interlocutor, HR is the Respondent): "So, HR, your wife is also a Harriet?" " How many little Harriet children do you have?" " Your mother lives with you, or did you put her in a home?" If the answer to questions like these are all negative, the respondent may find the deal coming unstuck, as the interlocutor discovers that he is not maintaining his ethnic capital.

Why does the interlocutor (HI) want to enforce the norms? Even if they are beneficial to the group, why doesn't HI free ride, and leave it to other members of the group to police behaviour? Although I will not give a comprehensive analysis of this problem here⁴, I will suggest three reasons why other members of the ethnic group can often be counted on to apply the required pressure: (1) Ordinary self-interest: If the respondent didn't honor his implicit contract to repay his parents, there is, *ipso facto*, some reason to believe that he is more likely to renege on his current obligations; hence it is worthwhile to get this information. (2) Guilt: by pressuring other members of the group to honor their obligations, a group member in part fulfils his own, and lessens his

³I would argue that two members of an ethnic group do not necessarily like or trust one another, but do find it easier to communicate with one another, thus making it easier to establish whether or not they can trust or like each other.

⁴A more general analysis would derive the level of enforcement from the characteristics of the ethnic group, and from its environment ; I hope to do this in another paper. Here, I will just assume general obedience to the norm, and suggest why this could be the case. On some conditions for the persistence of codes, see Wintrobe (1983).

sense of guilt. (3) Sanctions for not enforcing the group norm: ethnic groups may have a particularly powerful capacity to use sanctions effectively. The reasons are implicit in their value as exchange networks discussed earlier: subsidized early socialization with other members (hence facilitating mutual monitoring), infinite life (therefore implying common ancestry and descent, and therefore a long period over which transgressions can be punished), multi-purposeness, and so on.

To the extent that members of the ethnic group, for these reasons, can be counted on to encourage, pressure, or police each other's obedience to group norms, parents who invest in the ethnic capital of their children can count on them to repay. Hence ethnic investments are self-enforcing.⁵ In this respect, ethnic networks differ from other forms of parental investment (e.g., general human capital), for which parents may have to rely entirely on the affection of their children, or on internal pressure (guilt), to be repaid.

It follows immediately that there will be "over-investment" by parents in the ethnic capital of their children, compared to other types of capital. Since no other form of capital has this self-enforcing aspect⁶, parents are guaranteed a return on ethnic capital investments, while for other forms of investment in their children, they are forced to rely on their children's affection for them, guilt or trustworthiness to be repaid for their sacrifices. Consequently, this biases their investments in the direction of ethnic capital investments: Given two investments of equal yield to their children, parents will strictly prefer the ethnic over the non-ethnic investment. Indeed, they will prefer an

⁵Indeed, the self-enforcing nature of ethnic capital provides a further reason for the persistence of ethnicity.

⁶The statement in the text is obviously too strong; other parental gifts, interpreted here as loans, may be partially self-enforcing, e.g, the gift of a house next door to one's parents keeps the children next door, and therefore encourages attention, so long as the house is illiquid.

ethnic investment of lower yield, and the potential differential will be larger, the more militant and committed are members of the ethnic group (the more that members are willing to act to enforce the repayments of debt)⁷.

Of course, to the extent that the parents love their children, they will take their children's welfare into account in deciding on their investments. Here, we have assumed that the parents are entirely selfish, and decide on the level of investment which is optimal from their point of view alone. It is worth noting, however, that the over-investment theorem will still hold in the case of altruistic parents, though the level of over-investment will presumably be smaller as the degree of altruism (and hence concern for the welfare of the child)⁸ gets larger.

In any case, at some point the child will reach maturity, and at that point will find that he

⁷To demonstrate this point, let p = the level of ethnic pressure which the parents can anticipate can be brought to bear on the next generation, i.e., p = the estimated probability that the children will be forced to repay their debts by pressure from their fellow ethnics, ι = the extent to which parents trust their children to repay out of a sense of moral obligation (guilt) in the absence of pressure, and A_k = the probability that the children will want to repay out of a sense of affection or altruism towards their parents. Suppose the parents invest $\$X$ in their children, which yields $\$X(1+\pi_e)$ in the case of ethnic capital, and $\$X(1+\pi_g)$ in the case of general human capital. Suppose for simplicity that the fraction k of it must be repaid in either case. Then the parent will be indifferent between two investments, one ethnic and one general, where $kX(1+\pi_e)(\iota+A_k+p) = kX(1+\pi_g)(\iota+A_k)$. The required ratio between the yield on general vs. that on

ethnic capital is $\frac{(1+\pi_e)}{(\iota+A_k)} = \frac{(1+\pi_g)}{(\iota+A_k+p)}$ i.e., investments in general human capital will be

"artificially" discounted by the factor $1/1+p$.

⁸Note that for altruism to reduce over-investment, the altruism must take the form of concern for the child's own welfare or utility, and not for the child's consumption pattern, i.e., the parent's utility function must have the form $U_p = U_p(c_p, U_k)$, where p = parent, k = kid, c = a vector of consumption goods, and not $U_p = U_p(c_p, c_k)$. Increased altruism of the latter variety can lead to *more* ethnic investment if the parent believes that ethnic capital is particularly good for the kid.

has involuntarily been made a partner to these contracts with his parents (and perhaps with other relatives). Unless the child's preferences are identical to those of his parents, the mature child will find that he is "out of equilibrium"- his desired level of ethnic capital is different from the stock which has been accumulated for him. From the over-investment theorem, it follows that typically the individual will want to allow some of his or her ethnic capital to depreciate, although those children whose tastes or opportunities lie heavily in the direction of the ethnic group may want to invest more (the over-investment theorem only holds on the average.) Perhaps it is for this reason that many ethnic groups have institutionalized "rites of passage" signalling the onset of maturity: at this point the individual, by participating in the ritual, indicates his acceptance of the responsibility for the debts that have been incurred on his behalf. It is peculiar, and deserves further exploration, that while these rites are common to many ethnic groups, the age at which they take place appears to vary enormously among different groups. Thus, for some Chinese groups, it only takes place just before marriage (hence never at all for those who don't marry), while for Jews, it happens at the age of 13. The strategic aspects are obvious enough: in the Chinese case, the pressure to marry (and perpetuate the group) is increased as the individual who never marries is in effect considered never to have grown up; in the Jewish one, "maturity" (and the onset of responsibility for debt) is deemed to have taken place at an age when the individual is too young to resist.

Note that the over- investment theorem obviously neglects possible external effects due to ethnic capital. Thus, if, as deTocqueville suggested, and as Hechter has recently re-emphasized (1992), ethnic groups impart useful social values to their members, and these contribute to the creation and maintenance of social order, over-investment from the viewpoint of the children invested in might easily be an under-investment from the social point of view. On the other hand,

to the extent that ethnic investments create prejudice and hostility among groups, raising tensions, hostility and leading to wasteful expenses on rent-seeking, the level of over-investment discussed here could easily be an under-estimate of the socially optimal level.

To model the effects of parental investment in ethnic capital, let π = the gross yield to ethnic capital to individual i at his or her maturity (subscripts are suppressed for notational simplicity), r = the rate of interest on the debt which must be repaid to the parents, and K = i 's stock of ethnic capital. Let p = the level of ethnic peer pressure on i to repay his parents for their investments in ethnic capital, so $r = r(p)$. To derive a very simple picture, assume that marginal = average yields and rates of interest, so that π and r are constant (given p). Then the marginal net yield to i 's ethnic capital is $\pi - r$, and total net profits are $(\pi - r)K$.⁹

Since ethnic capital is a sunk investment whose value is specific to ethnic networks, and which cannot be sold or transferred, the gross yield on this capital is a quasi-rent (in the sense of Klein, Crawford and Alchian (1978)). Its main value is to permit trade with other members of the ethnic group. Consequently, the yield on this capital (π) will be high when other mechanisms which can enforce trade (such as legal enforcement) are weak, and vice versa. Space prohibits consideration of all of the possibilities, but one interesting case is that where: (1) K is relatively high, (2) π is low, and (3) p is high, so that $\pi - r < 0$, and with K high (relative to other forms of capital) the individual is incurring substantial losses. However, exit is difficult because p is high. What can the individual do? I suggest that individuals in this position are particularly likely to develop prejudices against members of other ethnic groups, and have the potential to engage in

⁹A more complete model would also specify the action f for non-repayment, so that, at maturity, an individual would have the choice between repayment, and earning $\pi - r$, and non-repayment, yielding expected profits of $(1-p)\pi - p(\pi - f)$.

conflict with them and to encourage anti-democratic forces in order to raise the yield on ethnic capital. To buttress this assertion, I will try to show that the constellation of returns just described is consistent with the peculiar syndrome described in the classic work by Adorno and others, *The Authoritarian Personality* (1950).

The authoritarian personality was a personality structure or constellation of attitudes which was believed to show, as one of the concept's inventors later described it, a *potential* for fascism, a *susceptibility* to anti-Semitic propaganda, and a *readiness* to participate in antidemocratic social movements.¹⁰ The essential technique used in the original work was to discover, on the basis of interviews, attitudes that linked, in a non-obvious way, with general prejudice, anti-Semitism, or fascism, giving rise to the "E" (Ethnocentrism), "A-S" (Anti-Semitism) and "F" (Fascism) scales. As might be expected the scales are highly correlated with one another.

Thus, one item, to which respondents were asked to express agreement or disagreement, was: "He is indeed contemptible who does not feel an undying love, gratitude, and respect for his parents." Agreement with this statement was held, because of the way it is expressed, to mask an underlying or unconscious hostility toward the parents. The overt glorification and unconscious hostility towards one's parents, (other evidence of which became apparent during the interviews), was held to be a distinguishing feature of the highly ethnocentric person.

A second characteristic was an exaggerated, emotional need to submit to authority, again springing, according to theory, from an underlying hostility to ingroup authorities, originally the

¹⁰Sanford (1950), p.142.

parents.¹¹ Other characteristics were superstition (a tendency to shift responsibility from within the individual to forces outside his control), stereotypy (a tendency to think in rigid, oversimplified categories), and a narrow range of consciousness.

Adorno, et.al. found no specific relationship between the scales and socio-economic factors. But they did find that people who scored high on the *E*-scale tended to express similar political and religious preferences to those of their parents. Subsequent work on the correlates of the *F*-scale found a correlation with an emphasis in upbringing on obedience and strict control, and with low education.

The foregoing is a very brief summary of some of the main themes of The Authoritarian Personality and subsequent work in that vein. Its purpose is to illuminate my conjecture above that hostility towards other ethnic groups can be predicted on the basis of a particular constellation of returns to ethnic capital: relatively high *K* and *p* combined with low net yield or $\pi-r$. Thus, consider the likely attitudes of a person in such a position who is rational in every respect save one: he must follow the norm of honoring one's parents. So the person is unlike homo economicus in that he is capable of repressing unpleasant emotions. I assume that the more the parents have invested, the more unpleasant it would be to think negative thoughts about them. Now suppose that the investments are low-yielding, and that *K* and *p* are high. The individual in this position is awash in debt to his parents and other ethnic group members, but the yield on the capital investments they have sacrificed so hard to give to him is low, too low to cover his debts to them. Because he has substantial ethnic capital he venerates his parents and his forefathers, and they cannot be overtly blamed for the pickle he is in. (But unconsciously, he knows they have plied him with excess ethnic

¹¹Sanford (1973), p.144.

capital). He has very little space to exercise his own choices in life since in order to repay debts his behavior is largely dictated by his parents' wishes and the norms of the ethnic group. So his political and religious choices are their choices, and his range of consciousness and capacity for conscious choice is narrow. In a sense he is quite rightly superstitious (his behaviour is largely outside his control, given his adherence to the norm). Thus the Authoritarian Personality can be made sense of as a response to this constellation of returns to ethnic capital.

Why is he prejudiced? To the individual in question, his problem is not that his parents invested too much in his well-being, but that, through no fault of theirs, the yield on this capital is low. Whose fault is that? The Jews, of course, with their tight, high-yielding international network, and their connections with the state and to international markets¹² (the development of which lowers the yield on other ethnic capital) What to do about it? a) Get rid of them, and b) Engage in other collective actions to raise the yield on ethnic capital. The Nazi ideology of blood and ethnic purity as a means of organizing society was certainly an extreme response, but it is one which is precisely along this line. It certainly raised (for a time) the yield on the right kind of ethnic capital. In general, the extremity of some ethnic conflicts, such as the behavior of the Nazis, and perhaps the contemporary conflict between Serbs and Croats can be explained with the approach suggested here, (and is difficult to explain with a strictly rational approach): since the ethnic group which is the object of conscious hatred is not the real enemy, acts of hatred and destruction towards members of it are inherently unsatisfying and result only in frustration, breeding further hatred and

¹²Arendt (1951), Part One: Antisemitism, discusses these factors in the context of antisemitism in the 19th century.

violence.¹³

Finally, I cannot resist pointing out at least one other novel and testable implication: the argument suggests that, *ceteris paribus*, ethnocentrism, ethnic conflict and authoritarianism will be lower in societies with generous pension or social security systems. In those societies, parents will feel it less necessary to invest heavily in their children's ethnicity in order to gain support in their old age; as a result, the children will be less likely to develop and repress hostile emotions towards their parents and to project these on to other ethnic groups if the yield on these investments falls.

5. THE RISE OF DICTATORSHIP

As emphasized earlier, the authoritarian personality syndrome implies only a *potential* for fascism or a *readiness* to participate in anti-democratic social movements. By itself, even if economic conditions are appropriate, it does not imply anything about political stability, for there is also the question of the responsiveness of the political system to consider. For example, if the political leadership were to act on or solve the problem of the declining yield to ethnic capital, it is possible that political instability could be avoided. However, under some conditions, the political system may be unable to act, and this inaction can exacerbate the conflicts described so far in a way which generates pressures on the survival of democracy. Peter Howitt and I have elsewhere (Howitt and Wintrobe (1993 a and b) analyzed this problem. To summarize the implications of that analysis, the model of democratic inaction points to the possibility that important problems may not

¹³In other respects, the implications of the present approach accord with those which might be predicted from completely rational models: ethnic conflict would appear more likely, *ceteris paribus* the greater the difference in wages or other factor returns between groups, the smaller the complementarity between their factors (hence the less they "need" each other) and the more similar they are in terms of tastes or resource utilization (hence the more they are in direct competition with each other for scarce resources.)

be acted upon in a democracy, essentially when there is a divergence of views on what to do about them, when this divergence is large, when the problem is a divisive one, and when the opposing forces are relatively equally powerful. The allure of dictatorship--essentially, the capacity to overtly repress the opposition to a particular course of action--is never greater than under these conditions.

To apply the analysis of the last section to the rise of Nazism, note first that the simple constellation of intergenerational returns sketched earlier, which I claimed can result in an authoritarian personality syndrome, points to a number of historical factors often associated with the 1930's which can be interpreted as lowering and threatening to lower further the yield on German ethnic capital. This collapse in the yield to ethnic capital generated an intergenerational conflict and removed both the power and the authority of the centre as represented by the older generation to resolve it. Firstly, the hyperinflation of the 1920's largely destroyed the savings of the German middle class (Kuhnl, in Larsen (1980)). In terms of our model, this means that middle class German parents lacked the power which strategic bequests confers to enforce repayment of their children's debts. And it also implies a considerable reduction in the level of financial assets ultimately passed on to their children, thus reducing their capacity to repay. In this context, perhaps it is worth digressing to note that in Paldam's (1987) study of the causes of dictatorship in Latin American countries, few regimes survived a hyperinflation.

On the other hand, the youth of the 1930's inherited substantial debts, further magnified by the reduction in their capacity to repay caused by the Great Depression. Along with the humiliation of defeat in the first world war, these included the substantial reparations payments imposed on Germany by the Treaty of Versailles. In addition, the so-called "war guilt" clause of the Treaty required Germany to turn over her war criminals, including the former Emperor, for trial for atrocities, accept responsibility for causing losses and damages, capped the German Army at

100,000 and put an end to the General Staff (Gay, 157). The effect of these provisions was that postwar Germany (the sons) were forced to accept a position of permanent weakness in return for the sins of the fathers in leading Europe into war.

Thirdly, although Germany had surpassed the other European countries in GNP and in population so that by 1913 she had the biggest proportion of world production of any country in Europe, after the war German capital was prevented from investing in African, Asian and Australian colonies.¹⁴ The Treaty deprived Germany of what few colonies she had, and of other territories such as Alsace-Lorraine, which was returned to France, and Upper Silesia, West Prussia and Posen, which were turned over to Poland.¹⁵ By depriving Germany of *Lebensraum*, the ratio of ethnic capital to land was raised, hence lowering the yield to ethnic capital.

Fourth, a constellation of factors threatened, or appeared to threaten further the usefulness of German ethnic capital in the future: "the Jews", international socialism, and international capitalism. Thus, the rapid development of markets, modernization and bureaucratization, and the enormous growth of trusts over this period meant that, on the one hand, impersonal bureaucratic criteria were increasingly replacing ethnic connections and background as criteria by which loans might be granted, promotions decided, and so on. In this sense, the "fascism as modernization" school can be given a rational interpretation within the context of our model. The threat posed by "scientific socialism" can, at least in part, be interpreted similarly. On the other hand, the Jewish "threat" can be interpreted as meaning that underneath the rationalist face in which jobs, privileges and promotions were lost, lurked another ethnic group with powerful connections to both

¹⁴Kuhnl, in Larsen, p.127-8.

¹⁵Gay, p.157.

international capitalism and international socialism, and which was secretly monopolizing all of the rents which good Germans were being deprived of in the name of one or the other of these abstract principles. Hence, as Gay emphasises, the two most prominent points in Nazi propaganda were anti-semitism on the one hand and the demand for abrogation of the "dictated peace" and punishment of the "November criminals" on the other.¹⁶

This interpretation of the rise of Nazism as an intergenerational revolt against paying the debts left them by one's parents can be confronted with evidence on the socio-political characteristics of fascist movements. One common theme in that literature is the notion of fascism as "middle-class radicalism." The thesis is commonly attributed to Lipset (1960), though he himself notes a number of earlier sources.¹⁷ Adorno, et. al. (1950), speculated that the origins of the authoritarian personality lay in middle class parents who had climbed rapidly and felt insecure about their status, and for that reason were disposed to discipline their children in ways that favored the development of authoritarian tendencies (Sanford (1973)). A recent study (1989) of support for another authoritarian regime (Brazil) found that middle-class persons, who are aware, but not too critical, are the most easily indoctrinated, and are the most likely supporters of authoritarian regimes.

However, the thesis is not without its logical difficulties: firstly, there is the equally common theoretical notion that it is the middle class which is necessary for, and provides the backbone of *democracy*. (). Presumably, this refers to a prosperous, contented and therefore politically centrist middle class, vs. the dissatisfied, fed up and hence revolutionary supporters of fascism.

¹⁶Gay, p.157.

¹⁷See Lipset (1960).

Perhaps these two conceptions can be reconciled with the concept of fascism as the middle class in a radical" phase (Linz, e.g., in Larsen et. al. (1980)).

The implications of our own analysis above on this question are also unclear. On the one hand, middle class voters are presumably centrists, and therefore predicted on the inaction model to be the *least likely* supporters of dramatic action, one of the key elements of Nazi doctrine. It is political extremists at either end of the spectrum who are most frustrated by inaction. They would therefore be the most likely, *ceteris paribus*, to be forced into a position of repressing anger against their parents and projecting it on other groups. On the other hand, it was the middle classes whose savings were wiped out by hyper-inflation. If their losses were proportionately larger than those of other groups, this could cause this prediction to be reversed. Finally, perhaps the most serious flaw of Weimar was its unwillingness or inability (in Gay's words, its "suicidal indulgence"¹⁸) to curb political violence, especially on the right, a lesson which apparently remains unlearned in Germany today. It is possible that the costs of inaction on this issue fell disproportionately on the middle class.

In any case, the evidence on this issue is mixed. Lipset's evidence is essentially that the voters who switched to the NSDAP came primarily from centrist or middle parties, but this is hardly decisive: the question, rather, is whether the middle class were substantially greater supporters of the Nazis than other groups were. On this point, the evidence for Germany at least is mixed. As Payne summarizes it, "The most thorough of many studies of Nazi voting support in the major elections of 1930-32 finds little evidence of unusually strong support from the middle classes. Germany was to a large degree a middle-class country by 1930, and the middle classes

¹⁸Gay, p. 165.

provided significant support for a wide variety of movements, including the Socialists. Careful investigation has shown that in the major cities they supported the Nazis only in approximate proportion to the general middle class share of the population."¹⁹ On the other hand, he admits that the Nazi party membership was itself disproportionately middle-class, although it became increasingly proletarian as it expanded into a mass movement.²⁰ Frey (1992) finds no significant (although he does find a negative) relationship between the proportion of workers in a region and the Nazi vote share. While I do not claim to have performed an exhaustive review of the literature on this question, the major studies consulted do seem doubtful about the postulated relationship.

However, the evidence seems quite clear on another issue which is much more central to the model advanced here: the age distribution of Fascist support. Merkl summarizes the evidence comparing Fascist movements in a large number of countries. He concludes: "...the evidence for generational revolt as the one great motivating force all these diverse fascist movements have in common appears to be strong and persuasive indeed."²¹ Thus, for example about one-half of the 1933 Nazis and the vast majority of the stormtroopers were born after 1901. His interpretation is that "The generational conflict, in a nutshell, pitted the war and postwar Nazi youth against the prewar generations dominating the SPD and the "reactionary" conservative and liberal parties."²² Peter Gay's well known book *Weimar Culture* describes the central theme of Expressionist culture

¹⁹Payne (1980), p.58.

²⁰Payne, op.cit.,p. 59

²¹Peter H. Merkl, "Comparing Fascist Movements", in Larsen, et.al.,(1980).

²²Merkl, op.cit., p. 772.

as the son's revolt against the father.²³ And he notes

... from 1918 to 1924.....Expressionism dominated politics as much as painting or the stage....[but] between 1929 and 1933, the years of disastrously rising unemployment, government by decree, decay of middle-class parties and resumption of violence, culture became less the critic than the mirror of events ; the newspaper and film industries ground out right-wing propaganda, the best among architects, novelists or playwrights were subdued or silent, and the country was inundated by the rising tide of *Kitsch*, much of it politically inspired.²⁴

Whence the title of this paper.

²³Gay (1968), p.119.

²⁴Gay (1968), p. 126.

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