On the Xenophobia of
non-discriminated Ethnic Minorities

Guido Ortona*

Department of Public Policy and Public Choice *"Polis"*
University of Eastern Piedmont "Amedeo Avogadro"
Corso Borsalino, 50 - 15100 Alessandria - Italy
Phone: +39.0131.283.745
FAX: +39.0131.263.030
www.polis.unipmn.it

*e-mail: guido.ortona@unito.it

Abstract: Sometimes the leaders of ethnic minority groups behave in a way that may promote xenophobia. A simple two-subject model is used to find out when this behaviour is rational. The conditions are briefly discussed with reference to the Italian case. An appendix illustrates the definition of xenophobia adopted in the paper.

JEL Classification number: D70

1. Introduction: two examples.

In the Autumn 1999 Muslim people marched in protest in Turin. They were asking for women to be allowed to wear the *chador* in the picture on the identity card. The point looked to many preposterous. Italian law allows for that, with the only, and unavoidable, proviso that the subject must be recognisable. Abuses by officials are very limited, and ways to correct them, both formal and informal, are quite effective. It turned out that the march was set up by a relatively extremist Minister, opposing a more moderate one for leadership among the Muslim minority.

At the end of 1997, the Council of the Assembly of Italian Rabbis ruled that "the conversion of minors to Jewish religion will be considered only if their mother applies for conversion too[1]". The President of the Assembly declared that among the main purposes of the statement was to fight "a disturbing increase in mixed marriages[2]".

The two examples share *five* features. First, in both cases ethnic authorities decided to do something that was unmistakably bound to create difficulties to ethnic cooperation. Second, both initiatives imposed a *cost* on ordinary members of the ethnic community involved. Third, in neither case the decision was an answer to an initiative of the authorities of the majority group. Fourth, in both cases the initiative was taken by the leaders of *non discriminated* minorities. Fifth, and possibly more intriguing, in both cases the action was very likely to be ineffective. This set of common, and peculiar, features suggests that the two cases belong to the same family. Actually, I quoted the two examples simply because they were familiar to me, without any particular research. I am confident that it is quite easy to find out other ones, both in the press and in the literature. I label this type of behaviour XG-behaviour, or simply XGB, for *xenophobogenic* - a neologism that means "suitable to produce xenophobia". But why does XGB occur? Both common sense and history suggest that ethnic minorities gain from the absence of xenophobia, and usually try to minimize it. In these cases, however, ethnic leaders (more: *religious* leaders, of religions that preach for peace) adopted hostile behaviours apparently "out of the blue", with no credible reasons for it, and with no serious hope for their objectives to be attained. So, why?

This paper tries to provide a (preliminary) answer. It is organized as follows. The next section will lay down some economic theory bricks. Section 3 contains the model, and section 4 its analysis. Section 5 relates the findings to the real world. The conclusions go back briefly to the theory. As there is no official definition of xenophobia, an appendix presents the one that is (implicitly) adopted here.

---

[1] See *Hakeilah*, December, 1997; translated by the author (here and below).
[2] Interview to *Hakeilah*, February 1998. Note that according to Jewish law a child belongs to the ethnic group of the mother, so there was no room for an analogous requirement concening the fathers.

2. Theory: ethnic capital and xenophobia.

The paper is based on two notions. The first is the theory of xenophobia of Breton and Breton. According to Breton and Breton (1995; see also Breton, 1999, and Breton 1964 for the basic model), xenophobia is instrumental to nationalism. I will summarize the argument very briefly, thus admittedly missing a large portion of the explanatory power of the model. Ethnic leaders try to transfer goods, and especially property rights, to members of their ethnic group. This may be efficient only by chance; if it is not, as in most cases, they must in some way compensate the members of their ethnic group who end up loosing in the deal. These are the poor fellows doing the dirty job, and they will be paid through nationalist omens. The Olympic games of 1936 and the soccer world championship of 1978 were a poor compensation for living in authoritarian states - yet they succeeded to a good point. Now, for the trick to work people must be insulated from information showing that other people may do better. Xenophobia does the job - people in country X fare worse, and if they do better it is only because they are robbers, imperialists, infidels, or whatever. As will become clear, this paper may be considered a case study of this theory. Actually, Breton (1999) writes: "I want to stress that the five building-blocks [that define the theory] constitute a basic model and that it is the same model that is used to analyse all the human, social, and political realities listed above as well as scores of others".

The second pillar is the notion of *ethnic capital*. Several authors use it; I will follow Wintrobe (1995, p.46)[3]: "Trust relationships like these[4] are capital. They yield a stream of future returns which are the profits on the exchanges that trust makes possible and that could not otherwise take place. [...] Trust may be accumulated further if A and B trade with each other, since trade provides opportunities to cheat, and therefore to forego cheating. However, the process is complex, in that the "signals" being given can easily be misinterpreted. Consequently, the process is simplified, and the costs of trust formation are lower, when the two parties share common traits, such as common language, ethnicity, and so on." It follows that (p.48) "in general, the optimal investment strategy [...] is truly complex. What the individuals want is a mutual fund. These funds exist, in the form of ethnic networks.[5]" Ethnic groups work this way because they guarantee that the trust will not be unduly exploited. It follows that the leaders of the ethnic groups are held responsible for the correct use of trust capital: "ethnic leaders ("managers" of ethnic capital) can see themselves as accountable to history as well as to the current membership and their interests (p.52)". I assume, as Wintrobe implicitly does, that the utility of ethnic leaders increases with the quantity of ethnic capital that they control; it follows that they are likely to oppose someone who tries to replace the ethnic capital with other relationships accomplishing the same function. Ethnic capital has some other very interesting features, for instance it is bought by the family and, most important, it is not (easily) transferable; however, these features are not relevant here. Note that the notion of ethnic capital is strongly grounded in empirical research[6], as well as in basic theory[7].

The notion of ethnic capital yields the symmetric notion of *non ethnic capital*. Broadly speaking, ethnic capital is made of trust relationships, and its services are the share of production that may attributed to it. It follows that non ethnic capital, i.e. *trust relationships established across ethnic boundaries,* is capital too. This kind of asset is likely to be more volatile, more expensive and less productive than the ethnic one, yet its nature of capital cannot be denied without rejecting the notion of ethnic capital too. It is crucial for our model.

---

[3] See also Congleton (1995).
[4] Wintrobe refers to trust between buyers and sellers knowing each other.
[5] For the purpose of this paper, *ethnic network* and *ethnic group* are equivalent. The last quotation has been slightly changed for insertion convenience.
[6] See for instance Borjas (1992), who relates the performance of individuals to the quality of the ethnic group they were grown in.
[7] Think for instance of the theory of the enforcement of cooperation-inducing conventions (a classic is Axelrod, 1986).

3. The model.

There are two subjects, a *typical subject,* S, who is a member of an ethnic minority group dwelling amidst a larger majority group, and an *ethnic leader*, L, who is a leader of the minority ethnic group. Here follows the model.

Utility of S:

(1) $U(S) = Y - C = M\Pi[X_i^{d(i)}]K_e^a K_n^b - B° - B$

(2) $c_e K_e + c_n K_n = B$

(3) $\Sigma(c_i X_i) = B°$

S wants to maximize a profit, the difference between the values of production and expenditure. Y is the product (in value units). I assume a quasi - Cobb Douglas production function because its parameters may be given an easy-to-read meaning, and because of a formal property that will prove useful[8]. X_i is a normal production factor, like labour; K_e and K_n are ethnic and non ethnic capital, as defined above. There are two budget constraints: B° refers to usual factors, and B to ethnic and non ethnic capital. The first one needs no explanation. As for the second, S may spend a night in the church, thus accumulating ethnic capital, or at the meeting of the Inter-Ethnic Workers' Union, thus accumulating non ethnic capital; yet he/she cannot be in both at the same time. c figures are obviously costs. Note that a and b, being elasticities, are almost assuredly <1. The price of the product is included in M. A little algebra yields the equilibrium values, that I label with a star:

(4) $K_e* = aB/[c_e(a + b)]$

(5) $K_n* = bB/[c_n(a + b)]$

(6) $Y* = M\Pi[X_i*^{d(i)}]K_e*^a K_n*^b$

The last expression may be summarized into

(6') $Y* = AK_e*^a K_n*^b$ where $A = M\Pi[X_i*^{d(i)}]$

Note that (because of the form of the production function) the equilibrium quantity of a factor is not affected by the price of the other one.

Utility function of L:

(7) $U(L) = rY + tK_e - sK_n$

L receives a tithe, a share of the revenue of S; r both defines this share and transforms it into utility. In addition, L prefers S to avoid using non ethnic capital. t and s are parameters, both > 0. To better understand eq. (7), it is useful to specify what c(.) and K(.) are intended to mean in eq. (2). If K(.) is a production factor, it cannot be measured through its production; hence K(.) corresponds by and large to a *quantity of relationships* - something like the "number of friends", weighted with the soundness of the friendship. It is easier to define c(.), even if actually measuring it could be more troublesome: it is the opportunity cost of acquiring a unit of friendship, something like "the time devoted to public

---

[8] It could be of some interest to assume a CES production function for Y, as it allows to consider the effect of a change in the elasticity of substitution between K_e and K_n. A further version of the paper will be hopefully devoted to this.

relations". Now, the more S uses non-ethnic capital, the more he is likely to follow two paths that may be harmful to L. First, he will oppose the payment of the tithe, as he becomes more secular with respect to the group traditions; second, he will change his production so as to require less ethnic capital. All these features will become appreciable only in subsequent periods; to avoid a cumbersome dynamic model, we may suppose that their present-value expected effect is summarized by s.

Now we are in condition to state the basic assumption of this paper, as follows: *the ethnic leader may adopt XGB, i.e. may promote (a little) xenophobia against the members of his/her own ethnic group. XGB may be useful for L because it makes it more difficult for S to use K_n. In our model, this result appears as an increase in c_n: the same quantity of interethnic trust costs more.*

4. Comparative statics.

From (7), and remembering that in equilibrium the expenditure for a factor is not affected by the expenditure for the other, we obtain the value of K_n (used by S) optimal for L, that will be labelled $K_n°$:

(8) $K_n° = (brAK_e^a/s)^{1/(1-b)}$

The difference

(9) $D = K_n{}^* - K_n° = bB/[c_n(a+b)] - (brAK_e^{*a}/s)^{1/(1-b)}$

i.e.

(9') $D = K_n{}^* - K_n° = bB/[c_n(a+b)] – (brA/s)^{1/(1-b)}\{aB/[ce(a+b)]\}^{a/(1-b)}$

Is the difference between the *real* equilibrium value of K_n, i.e. the one chosen by S, and the value *desired* by L. D needs not be positive - if it is negative, L would prefer *more* non ethnic capital to be employed by S. This case is not of interest here. If it *is* positive, however, L may reduce $K_n{}^*$ through XGB, as an increase of c_n reduces $K_n{}^*$.

I assume that the larger D, the greater the incentive for L to adopt XGB. The next step is to check for the conditions that make D large. A little computing shows that *ceteris paribus* D is large when

a) s is high;

b) A is low;

c) c_n is low;

d) c_e is high;

e) a is low;

f) r is low.

Note that conditions c) and e) imply that *ceteris paribus* $K_n{}^*$ is high.

5. Back to the real world.

The case of interest for us is when D is actually high, To keep the discussion simple, let us suppose that all conditions are satisfied. In the real world, this is the case of an ethnic minority that assigns an important role to ethnic leaders (condition a), is relatively poor (b), and lives in a non-discriminating environment (c). Conditions d) and e) add something interesting: trust relationships *within the ethnic group* are costly, and ethnic capital is poorly productive. This may correspond to a situation where the ethnic network is not dense, possibly due to an ongoing process of integration or to a large influx of new migrants, or to both. Finally, condition f) speaks of a community where the tithe is low - the income of the ethnic leader is weakly linked to that of ordinary subjects. The resulting picture reminds the case of several ethnic groups in Europe, including Italy. For instance, many Islamic minorities are of recent immigration, and flows are very large and erratic (which explain conditions d) and e)); their members live in a (to a point) non discriminating environment (c), they are poor (b), traditional and religious values are very important (a), but the fees for the Church are very limited, at most. By contrast, the Chinese in Italy are numerous, yet they are very mimetic, and never engage in XGB. This may be explained by the fact that they are relatively well off, ethnic networks are dense, and possibly religious values are less important for the ethnic leadership and there is a sort of taxation within the community[9].

A final point deserves some attention. Consider the derivative of the utility of the typical subject with respect to the equilibrium level of K_n:

(9) $dU(S)/d(K_n) = bAK_n^{*b-1}\{aB/[C_e(a+b)]\}^a = R/K_n^{*1-b}$

where R stands for all the fixed-value quantities (remember that b<1).

To put it simply, the absolute value of this derivative is low if K_n^* is high. But if the derivative is small a reduction of K_n is of little harm for S. And we saw that when D is high, i.e. when the incentive for L to reduce K_n is high, K_n is typically high. This implies that under the conditions outlined above S is likely not to oppose too much a reduction of K_n.

6. Conclusion and caveats.

The set of conditions that promotes XGB looks quite specific, even if not too special. Actually, XGB is not that rare, yet not very common. An empirical enquiry to test for the presence of conditions a) to e) in cases of XGB could be of real interest. However, the model has at least two serious limits.

First, the use of a Cobb-Douglas production function simplifies very much the computing, as we saw; and allows for interesting simulations, due to the readability of the parameters. But, as we noticed, it does not allow to consider the elasticity of substitution between the two kinds of capital, while it could be relevant. Second, and more important, the model does not consider the costs of a reduction of K_n, both for L and S. A third limit, albeit more apparent, is less harmful. This is the exclusion of second, and further, round effects of XGB. The consideration of these rounds may be supposed to be included in the parameter s. However, it could be of interest to consider under which conditions the risk of a spiralling xenophobia is relevant. If ethnic leaders are rational, in these conditions XGB should be absent. Finally, two further pieces of theory deserve to be referred to, even if they are not necessary for the development of the model. Iannaccone (1992) noticed that some religious weirdness may accomplish just the same function of XGB, i.e. to make it difficult to entertain normal relations with the infidels. More important, the basis of this model is the usual coupling of a principal-agent

---

[9] The case of the Jews is interesting. Jews in Italy used to be very well integrated. However, in recent years there has been, and there is, a relatively large inflow of migrants from Eastern Europe and the Middle East, mostly to Roma and Milano, the two largest communities. This may explain substantial changes in attitude.

problem with asymmetric information. Now, Landa (1988) claimed that ethnic networks have the dignity of a *third* typical form of organization, in addition to firms and to bureau-like hierarchies. If this is so, the model of this paper, and more generally the family of models derived from Breton, occupy the same niche as the models derived from Williamson with reference to firms, and those derived from Niskanen with reference to bureaux.

APPENDIX - A suggested definition of xenophobia

Let **X** and **Y** be two ethnic groups, $x \in$ **X**, $y, i \in$ **Y** three typical subjects, and **A** a set of actions (or behaviours) that i thinks that may be applied to x and y. $a \in$ **A** is an action (or behaviour) *xenophobic for i towards x if*

(1) $dU_{(.)}|a < 0$

(2) $\partial U_i / \partial U_x |a < 0$

(3) $\partial U_i / \partial U_x |a > e > \partial U_i / \partial U_y |a$

In words, for a to be a xenophobic action for i towards x we need three conditions. First, a must be harmful to x. Second, i must draw some positive utility from the loss of utility of x. Third, the positive utility for i must be significantly greater than in the case that a is applied to y.

The evaluation assigned by i to the increase in her/his utility, $(\partial U_i / \partial U_x |a) dU_x |a$ is the *xenophobia of i towards **X** relative to a; the sum of such evaluations across all a$\hat{I}$A such that conditions (1) to (3) hold* is the xenophobia of i towards **X** relative to **A,** or simply the xenophobia of i towards **X**.

It follows that:

(a) xenophobia has the same nature of *ofelimity* - the perception of the utility of something. As such, it may be measured through a continuous variable, call it X[10]. Most people probably have a *very low, yet positive value of X* for some ethnic groups; some, hopefully few, a high or a very high value. However, the definition suggests to think of the *level* of xenophobia - not of its presence or absence.

(b) for a to be a xenophobic action for i towards x, i is not required to be the subject who implements a.

(c) more important, for a to be a xenophobic action for i towards x it is not necessary that a be accomplished at all. A person who would like members of a given ethnic group to be harassed is xenophobic even if they in fact are not.

(d) If we change some signs, we obtain the definition of the opposite feature - *xenophilia.*

(e) The definition aims to correspond to the common-sense notion - a subject is deemed to be xenophobic if he/she is happy when a black, a Jew, etc. suffers due to a given action. However, with respect to common sense it *inverts the causation*. The utility of a given group being damaged produces xenophobia, while often we tend to think that xenophobia is the prime cause of the harassment of ethnic groups. This point is by no means obvious, as it rules out from the economic approach all kinds of genetic or imprinted xenophobia. To be clear, this cannot exclude the existence of this kind of xenophobia; more simply, it is excluded from an analysis based on the assumption of rational behaviour. In the same way, non-rational behaviours exist, but they are not studied by economics. In my opinion, non rational xenophobia is a rare and not so relevant phenomenon; but this is another story.

---

[10] The continuity of xenophobia is assumed also by Breton and Breton (1998) and by Ortona (1984).

References

- AXELROD, R. (1984), The evolution of cooperation, Basic books, New York.

- BORJAS, G. J. (1992) "Ethnic Capital and Intergenerational Mobility", Quarterly Journal of Economics, 1, 107.

- BRETON, A. (1999), Modelling nationalism, extremism, and other similar realities as rational behaviour, paper presented to the 24th meeting of the International Association for Research in Economic Psychology, Belgirate (Italy), June 29 - July 3.

- BRETON, A. (1964), "The Economics of Nationalism", Journal of Political Economy, 72, 4.

- BRETON, A. e BRETON, M. (1995), Nationalism Revisited, in A. BRETON *et al.* (eds.), Nationalism and Rationality, Cambridge University Press, Cambridge (UK).

- CONGLETON, R. D. (1995), Ethnic clubs, ethnic conflict, and the rise of ethnic nationalism, in A. BRETON *et al.* (eds.), Nationalism and Rationality, Cambridge University Press, Cambridge (UK).

- IANNACCONE, L. R. (1992) "Sacrifice and Stigma: reducing Free-Riding in Cults, Communes and other Collectives", Journal of Political Economy, 100, 2.

- LANDA, J. T. (1988) A Theory of the Ethnically Homogeneous Middleman Group: beyond Markets and Hierarchies, University of Stanford, Hoover Institute Working Papers, E-88-1.

- ORTONA, G. (1984) "Appunti per una teoria generale dell'antisemitismo e dei fenomeni analoghi", Rassegna mensile di Israel, 50, 235-48.

- WINTROBE, R. (1995), Some economics of ethnic capital formation and conflict, in A. BRETON *et al.* (eds.), Nationalism and Rationality, Cambridge University Press, Cambridge (UK).

Working Papers

The full text of the working papers is downloadable at http://polis.unipmn.it/

<center>* Economics Series   **Political Theory Series</center>

2000   n. 16*   Guido Ortona, *On the Xenophobia of non-discriminated Ethnic Minorities*

2000   n. 15*   Marilena Locatelli-Biey and Roberto Zanola, The Market for Sculptures: An Adjacent Year Regression Index

2000   n. 14*   Daniele Bondonio, *Metodi per la valutazione degli aiuti alle imprese con specifico target territoriale*

2000   n. 13*   Roberto Zanola, *Public goods versus publicly provided private goods in a two-class economy*

2000   n. 12**   Gabriella Silvestrini, *Il concetto di <<governo della legge>> nella tradizione repubblicana.*

2000   n. 11**   Silvano Belligni, *Magistrati e politici nella crisi italiana. Democrazia dei guardiani e neopopulismo*

2000   n. 10*   Rosella Levaggi and Roberto Zanola, *The Flypaper Effect: Evidence from the Italian National Health System*

1999   n. 9*   Mario Ferrero, *A model of the political enterprise*

1999   n. 8*   Claudia Canegallo, *Funzionamento del mercato del lavoro in presenza di informazione asimmetrica*

1999   n. 7**   Silvano Belligni, *Corruzione, malcostume amministrativo e strategie etiche. Il ruolo dei codici.*

1999   n. 6*   Carla Marchese and Fabio Privileggi, *Taxpayers Attitudes Towaer Risk and Amnesty Partecipation: Economic Analysis and Evidence for the Italian Case.*

1999   n. 5*   Luigi Montrucchio and Fabio Privileggi, *On Fragility of Bubbles in Equilibrium Asset Pricing Models of Lucas-Type*

1999   n. 4**   Guido Ortona, *A weighted-voting electoral system that performs quite well.*

1999   n. 3*   Mario Poma, *Benefici economici e ambientali dei diritti di inquinamento: il caso della riduzione dell'acido cromico dai reflui industriali.*

1999   n. 2*   Guido Ortona, *Una politica di emergenza contro la disoccupazione semplice, efficace equasi efficiente.*

1998   n. 1*   Fabio Privileggi, Carla Marchese and Alberto Cassone, *Risk Attitudes and the Shift of Liability from the Principal to the Agent*

Department of Public Policy and Public Choice *"Polis"*

The Department develops and encourages research in fields such as:

- theory of individual and collective choice;

- economic approaches to political systems;

- theory of public policy;

- public policy analysis (with reference to environment, health care, work, family, culture, etc.);

- experiments in economics and the social sciences;

- quantitative methods applied to economics and the social sciences;

- game theory;

- studies on social attitudes and preferences;

- political philosophy and political theory;

- history of political thought.

The Department has regular members and off-site collaborators from other private or public organizations.

Instructions to Authors

Please ensure that the final version of your manuscript conforms to the requirements listed below:

The manuscript should be typewritten single-faced and double-spaced with wide margins.

Include an abstract of no more than 100 words.

Classify your article according to the *Journal of Economic Literature* classification system.

Keep footnotes to a minimum and number them consecutively throughout the manuscript with superscript Arabic numerals. Acknowledgements and information on grants received can be given in a first footnote (indicated by an asterisk, not included in the consecutive numbering).

Ensure that references to publications appearing in the text are given as follows:
COASE (1992a; 1992b, ch. 4) has also criticized this bias....
and
"...the market has an even more shadowy role than the firm" (COASE 1988, 7).

List the complete references alphabetically as follows:

Periodicals:

KLEIN, B. (1980), "Transaction Cost Determinants of 'Unfair' Contractual Arrangements," *American Economic Review*, 70(2), 356-362.

KLEIN, B., R. G. CRAWFORD and A. A. ALCHIAN (1978), "Vertical Integration, Appropriable Rents, and the Competitive Contracting Process," *Journal of Law and Economics*, 21(2), 297-326.

Monographs:

NELSON, R. R. and S. G. WINTER (1982)*, An Evolutionary Theory of Economic Change*, 2nd ed., Harvard University Press: Cambridge, MA.

Contributions to collective works:

STIGLITZ, J. E. (1989), "Imperfect Information in the Product Market," pp. 769-847, in R. SCHMALENSEE and R. D. WILLIG (eds.), *Handbook of Industrial Organization,* Vol. I, North Holland: Amsterdam-London-New York-Tokyo.

Working papers:

WILLIAMSON, O. E. (1993), "Redistribution and Efficiency: The Remediableness Standard," Working paper, Center for the Study of Law and Society, University of California, Berkeley.