

Economic Fundamentals and Identity Salience

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Questions

- ▶ What are the economic causes of the rise in right wing populism in the West (and elsewhere)?
 - ▶ Inequality, downsizing of welfare state
- ▶ Why has become **social identity** more salient than **economic identity** so that populism takes the form of right-wing identitarianism & not left-wing solidarity?
- ▶ Are the two connected?

Economic trends


- ▶ If we extract the common denominator from Brexit voters and Donald Trump supporters, the simmering discontent all over the developed world is over the effect of
 - ▶ trade and capital flows,
 - ▶ skill-biased technological change
 - ▶ migration.
- ▶ Significant pockets of deindustrialization and impoverishment in the Western world (see, Milanovic, 2016).

Rising inequality

- ▶ A vast number of people in the West, especially from the lower middle class and the working classes, have faced job losses, stagnating wages, and falling standards of living
- ▶ Share of national income going to the top 1 per cent has increased from 8 per cent in 1980 to nearly 18 per cent in recent years.
- ▶ In contrast, the hourly wages of middle-wage workers have gone up by only 6 per cent since 1979, while those of low-wage workers are actually down by 5 per cent.

Economic Narrative


- ▶ With the rich becoming richer and declining growth rates making upward mobility near impossible for the rest, ordinary Americans feel they are worse off even compared to their parents' generation.
- ▶ As a result, they are in despair about their own economic future and that of their children.

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- ▶ The economic narrative explaining the rise of right-wing populism one has to understand the politically explosive *combination* of **three** potent economic forces
 - ▶ Falling/stagnant standards of living
 - ▶ Lack of prospects of growth and mobility
 - ▶ Increasing inequality

- ▶ Economic hardship and rising inequality may still seem tolerable if there is some prospect of economic growth, the benefits of which are expected to trickle down in the form of a higher standard of living in the future
- ▶ When long-term income stagnation for most of the population, and decline for some go together with high rates of income growth at the very top, you have the appearance of *zero-sum economics*
- ▶ Your loss is someone else's gain - the financial elite, "foreigners", minorities getting "special treatment"

Politics of zero-sum economics - why social & not economic identity?

- ▶ It is not surprising that trade, capital flows and immigration, or from a broader perspective, economic liberalism and globalization will create an anti-establishment wave when the promised trickle-down does not materialize.
- ▶ It is also not surprising that zero sum economics will lead to the politics of division.


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- ▶ The puzzle, though, is this: why has the resulting anger taken the form of right-wing identity politics, tapping into xenophobia and isolationism, rather than a more left-wing agenda favouring greater taxation of the rich, expansion of the welfare state, and a tougher policy on corporations?
 - ▶ Why did it not fuel the success of a political movement that emphasizes solidarity among the economically disadvantaged, cutting across racial and ethnic lines?

An Explanation - The Bus Example

- ▶ Economic dislocation caused by impersonal market forces inevitably results in a search for visible scapegoats.
- ▶ In a crowded bus, you tend to direct your rage at new passengers who keep on boarding, and want the bus to stop at as few stops as possible, but do not ask why there are so few buses.
- ▶ Ethnic identity is visible while changes in the global economic landscape are much less so, and it is always easier to blame an identifiable group such as immigrants than the invisible hands of the market.


The bus example, contd.

- ▶ To develop the crowded bus example further, suppose you are waiting at the bus-stop, along with some people who are visibly different from you.
- ▶ If buses keep on coming, whether you feel positively towards these outsiders or not, you will mind your own business and focus on your journey.

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- ▶ Now consider a scenario where buses come infrequently, and when they do, they are terribly crowded.
 - ▶ The bus stop will get more and more congested and you are going to get more and more frustrated and ready to vent your anger if you found a target.
 - ▶ If everyone around you looks the same, then you are more likely to blame the bus company rather than fight among yourselves.

Implications of Bus Example

- ▶ However, if there is a small but visibly different group of “outsiders,” then as a member of the majority group, you might begin to find their presence highly annoying.
- ▶ If we take the arrival of buses as a metaphor for economic opportunities, so long as the buses keep coming - or as long as there is the prospect of economic mobility -- you do not want to disrupt the system even though you do not necessarily like people who are visibly different from you.

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- ▶ But as growth slows down, you are likely to get angrier at visible scapegoats whose ethnic and cultural differences now seem more salient than their class affinities with you - the immigrants then become symbolic of all that is wrong with the “system”.
 - ▶ Not just that - earlier, you may have tolerated the rich driving in cars while you waited for a bus, thinking one day you or your kids will have cars.

- ▶ When that possibility becomes increasingly remote, other than being upset with the “others” at the bus-stop, you also become angry at those driving cars since you feel the whole system is unfair but don't feel much of a chance
- ▶ However, you do not feel there is a realistic chance of winning the fight against the economic elites directly as opposed to against those who are directly competing with you and are visibly different from you.
- ▶ The purely economic narrative does not work - then Sanders should have won

- ▶ The purely identity-based narrative does not work either - Obama won two terms & no successful Presidential Democratic candidate has won the majority of the White vote since Lyndon Johnson signed the Civil Rights Act
- ▶ It's the swing voters & here the role of social identity becoming more salient than economic identity (“the angry white voters”) cannot be denied

- ▶ We must marry the identity-based narrative with the economic one.
- ▶ Identity and economic fundamentals are not independent - certain identities become more salient depending on the economic fundamentals
- ▶ For political entrepreneurs who want to make capital out of this resentment, it is easier to sell a narrative where there are visible scapegoats than one that has to do with impersonal market forces or technological change

A Game Theoretic Formulation

- ▶ Take a simple game where two players are randomly matched
- ▶ For now, assume they are identical in all respects
- ▶ Can decide to fight or cooperate
- ▶ Fighting is costly but there is a zero-sum aspect so that one can gain at the other player's expense if upper hand is gained

- ▶ Otherwise, conflict is costly and not fighting is jointly the efficient outcome
- ▶ Depending on parameter values, the game can be
 - ▶ Prisoner's Dilemma
 - ▶ The Hawk-Dove or Chicken game
 - ▶ Coordination
 - ▶ Game with Cooperation being the dominant strategy equilibrium.

A Game Theoretic Formulation

Game 1: Homogeneous players

		Player 2	
		Fight	Cooperate
Player 1	Fight	$(\frac{1}{2}B - c, \frac{1}{2}B - c)$	$(B, 0)$
	Cooperate	$(0, B)$	$(\frac{1}{2}B + \theta, \frac{1}{2}B + \theta)$

Game 1

- ▶ Two players decide to fight or cooperate
- ▶ Fighting has cost c but if other player does not fight, get the full surplus
- ▶ If both players cooperate, you share the surplus plus there is an additional gain from cooperation θ
- ▶ Could be
 - ▶ a purely positive psychological payoff from cooperation
 - ▶ an economic payoff that results when individuals interact cooperatively (e.g., exchanging potentially beneficial information, enhancing trust and cooperation in other domains)

Possibilities

- ▶ Depending on parameter values can be one of several possible well-known games
- ▶ The size of the surplus B , the costs of conflict c or benefits from cooperation (θ) could vary depending on economic conditions

Different Possible Games

- ▶ Prisoner's Dilemma (when $\frac{1}{2}B - c > 0$ and $\theta < \frac{B}{2}$)
- ▶ The Hawk-Dove or Chicken game (when $\frac{1}{2}B - c < 0$ and $\theta < \frac{B}{2}$)
- ▶ Coordination (when $\frac{1}{2}B - c > 0$ and $\theta > \frac{B}{2}$).
- ▶ Cooperation being the dominant strategy equilibrium (when $\frac{1}{2}B - c < 0$ and $\theta > \frac{B}{2}$).

Interpreting the parameters

- ▶ $\theta < \frac{B}{2}$ means overall economic conditions are not great
 - ▶ When $\frac{1}{2}B - c > 0$ both players will choose to fight even though both cooperating would have been individually (and jointly) better
 - ▶ When $\frac{1}{2}B - c < 0$ fighting is not a dominant strategy and there is no equilibrium in pure strategies - a mixed strategy equilibrium

- ▶ $\theta > \frac{B}{2}$ means overall economic conditions are good & so conflict is costly
 - ▶ When $\frac{1}{2}B - c > 0$ we have a coordination game with 2 equilibria
 - ▶ When $\frac{1}{2}B - c < 0$ cooperation is a dominant strategy equilibrium

- ▶ The costs of conflict c or benefits from cooperation (θ) would vary depending on economic conditions
- ▶ For example, the direct cost (c) or the opportunity cost (θ) of engaging in conflict is high, then we are more likely to see cooperation

Game 2: Heterogeneous players

Game 2

		Player 2 (b)	
		Fight	Cooperate
Player 1 (a)	Fight	$(\frac{3}{4}B - c, \frac{1}{4}B - c)$	$(B, 0)$
	Cooperate	$(0, B)$	$(\frac{1}{2}B + \theta, \frac{1}{2}B + \theta)$

- ▶ A majority group player now has a greater incentive to choose the strategy “fight” when matched with a player belonging to the minority group than before as
 - ▶ First, he/she has a greater chance of winning.
 - ▶ Second, now the minority player may be better off not fighting when attacked (this would be the case if $\frac{1}{4}B - c < 0$).
- ▶ Also, social identity acts as a signal for cooperation among majority players

- ▶ Now, for the same parameter values that two homogeneous players do not fight (this is the case if $\frac{B}{2} - c < 0$), it is possible that a majority player when matched with a minority player will fight (this is the case $\frac{3}{4}B - c > 0$).
- ▶ The size of the minority group cannot be too large or too small for this argument to apply

- ▶ A fall in θ and/or a rise in c would therefore more likely precipitate conflict in heterogeneous societies by making social identity more salient to the majority players.
- ▶ Helps reduce conflict with the in-group while increasing the share of the pie at the expense of the outgroups
- ▶ Rising inequality and low growth implying dwindling economic prospects for the non-wealthy would imply a fall in θ and/or a rise in c .

Extensions

- ▶ We can introduce a productive activity that either group can engage in, without participating in the conflict or cooperation game
- ▶ We can introduce the possibility of an “economic-identity” based cooperation - for example, putting pressure on government to increase θ or B

Reforming the welfare state

- ▶ Clearly, the most important challenge is to reinvent the welfare state in the era of globalisation so that one can balance the gains that trade, markets and migration bring with the losses that some groups suffer.
- ▶ Otherwise, the growing inequality would lead more and more countries to vote for pulling up the drawbridge - the result may be less inequality, but it will also be less prosperity for all.

- ▶ But more generous welfare will make the immigration issue harder, whichever form it takes
- ▶ Also, how does one deal with a purely economic model of welfare conflicting with identity-based preferences (“Don’t take doles”)
- ▶ Universal basic income?
- ▶ Framing it not as dole allowing not working but as “rent” on collectively owned natural resources might work