Violence against Rich Ethnic Minorities: a Theory of Instrumental Scapegoating

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Abstract: In many parts of the developing world, ethnic minorities play a central economic role. Examples include Chinese throughout Southeast Asia, Indians in East Africa and Lebanese in West Africa. These rich minorities are often subject to popular violence and extortion, and are treated ambiguously by local politicians. We develop a formal framework to analyze the interactions between a rent-seeking political elite, an economically dominant ethnic minority and a poor majority. We find that the local elite can always make use of the presence of the rich ethnic minority to maintain its hold on power. When the threat of violence is too high, the government changes taxes and redistribution levels strategically in order to sacrifice the minority to popular resentment. We analyze the conditions under which such instrumental scapegoating emerges, and the forms it takes. We then introduce some social integration between both elites capturing, for instance, mixed marriages and shared education. Social integration reduces violence but also makes the transition between peace and violence more abrupt. Overall, our results help explain documented patterns of violence and segregation.

Keywords: elites, popular violence, ethnic minority, scapegoat

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I. Introduction

In many developing countries, the economy turns out to be dominated by a specific ethnic minority. For instance, the Chinese have long played a key role throughout Southeast Asia. In the Philippines, they represent 1% of the population but control 60% of the private economy; respective numbers for Indonesia are 3% and 70% (Chua 2004). In East Africa, private economies are often dominated by “Indians”, that is, descendants of Indian families who migrated during the British colonization. In Madagascar, Indians represent less than 1% of the economy but own 50 to 60% of the country’s economy (Ministry of External Affairs 2002); In Tanzania, they represent 0.2% of the population and control 75% of the businesses (International Indian 2013). In many countries of West Africa, the Lebanese diaspora plays a similar role.\(^1\)

Despite their importance for the economies of their countries of adoption, these rich ethnic minorities are often subject to popular violence and extortion. Among many others, well-documented episodes include attacks against Indians during the 1964 Zanzibar revolution, anti-Indian riots in Kenya in 1982, anti-Chinese riots in Indonesia in 1998, protests against Lebanese in Ivory Coast in 2011, violence against Chinese-owned factories in Vietnam in 2014, and Indians’ kidnappings in Madagascar in recent years. Moreover, and as forcefully argued by Amy Chua, violence against “market-dominant” minorities seems to have been fueled by globalization (Chua 2004). As the difference in wealth levels between the rich and the poor increases, popular envy and discontent increase as well. This is further amplified by the actions of populist governments and seems to aggravate the violence exerted against rich ethnic minorities.\(^2\)

\(^1\)For instance in Ivory Coast, the Lebanese represent less than 1% of the population but own 50% of the industrial sector, 99% of malls, 80% of the fish trade and export industry, 60% of the construction sector and 75% of the import and export of wood (Chamber of commerce 2011).

\(^2\)To our knowledge, Piatti (2004) and Bezemer & Jong-A-Pin (2013) offer the only attempts at testing Chua’s thesis empirically. Piatti (2004) rejects the null hypothesis of no relationship between market-dominant minorities and ethnic conflict, but finds that this impact is rather small. Bezemer & Jong-A-Pin (2013) find some support for Chua’s claims in Subsaharan Africa but no evidence of
More generally, local politicians seem to display an ambiguous attitude towards these communities. When times are good, they seem to be warmly welcomed and well-treated. And indeed, they bring many material benefits to the political elite both legally, through increased GDP and tax revenues, and illegally through shady arrangements and bribes. Relationships between local politicians and members of market-dominant minorities seem to often devolve into crony capitalism as illustrated, for instance, by Suharto’s well-documented favoritism towards his Chinese cronies in Indonesia in the 1980’s, the Goldenberg scandal in Kenya in the 1990’s or corruption in the diamonds’ industry in Sierra Leone. In contrast, when popular discontent is brewing these communities provide very convenient scapegoats. Local governments often fail to protect them from popular violence, riots and lootings, or even actively fan the flames of ethnic hatred. \(^3\) Auregan (2012) \(^6\) notes that Lebanese bashing by politicians in West Africa is regularly used when the incumbent government goes through a hard time. Hateful, outrageous declarations by politicians are not uncommon. \(^4\) Governments may also enact explicitly discriminating policies. These range, for instance, from preferential access to University for native students in Malaysia to the expulsion of more than 90,000 Indians from Uganda in 1972 by dictator Idi Amin Dada.

These important phenomena have received surprisingly little attention from economists. \(^5\) In this paper, we develop a formal framework to analyze the interactions between a local political elite, a rich ethnic minority and a poor majority. Our framework and findings help explain the three stylized facts identified above: market-dominant minorities are prevalent throughout the developing world; they often find themselves the victims of popular violence; and, depending on the circumstances, local politicians may side with them or sacrifice them to popular discontent.

Our analysis builds on a growing literature, initiated by Acemoglu & Robinson these effects worldwide.

\(^3\) Glaeser (2005) \(^9\) provides a theoretical analysis of the strategic use of hatred speeches against an out-group by two political parties competing for elections.

\(^4\) For instance, referring to Indians president of Zanzibar Abeid Amani Karume declared in 1970: “Let us get rid of these dogs who only know how to make money at our expense under the pretext of their so-called Tanzanian nationality” (Adam 2009) \(^4\).

\(^5\) We review the scant existing literature below.
which models interactions between an elite and a poor majority under the threat of violence. Most economic studies, so far, view the elite as a homogenous, cohesive group. This is a strong simplifying assumption, inappropriate to analyze the politics of developing countries with a market-dominant ethnic minority. We relax this assumption here and consider separate economic and political elites. Each group seeks to maximize its own payoff and their interests may be misaligned. The political elite chooses how much to tax formal economic activities and how much to redistribute to the people. The poor majority may decide to become violent and to appropriate resources by force. We assume that popular violence can be directed against the political or the economic elite but not against both groups at the same time. This reflects the fact that specific social groups are generally targeted during violent episodes.

We show that the presence of the rich ethnic minority has a first-order impact on outcomes. We find that it always allows the government to avoid being the subject of popular violence. When the economic elite is much wealthier than the political elite, it provides a natural target to popular discontent. In other cases, the government strategically manipulates its public policies to deviate popular violence against the rich ethnic minority. When the wealth levels of both elites are comparable, the government simply reduces its tax rate. This temporarily reduces its wealth and increases the wealth of the economic elite, up to the point where it provides, again, the more attractive target. When the economic elite is poorer than the political elite, deviating violence is more difficult. The government has to fully give up on tax revenues and must, in addition, transfer additional resources to the poor majority. In these two cases, the government applies a strategy of instrumental scapegoating. It deliberately turns the rich minority into a scapegoat and its reasons for doing so have nothing to do with religion or identity. Rather, this is the strategy that maximizes the government’s

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6 We consider a non-democratic society throughout the analysis. In future research, it would be interesting to study the impact of the presence of a rich ethnic minority on democratization and democratic competition.

7 Relatedly, from a practical point of view, attacking government members and government buildings, or rioting and looting the houses and shops of the rich minority involve different kinds of organizations.

8 In the absence of the rich minority, the political elite may be overthrown when the threat of violence is high. See Section 2 below.
monetary payoff.

We also find that scapegoating is a strategy of last resort. When the threat of violence is not too high, the government prefers to tax the economic elite at a high rate and to buy social peace by redistributing parts of its revenues. The transition between peace and violence is discontinuous and leads to non-monotonic variations in optimal transfers. Overall comparative statics both confirm and qualify Amy Chua’s thesis. Violence tends to be aggravated by increases in the payoffs of the economic elite but mitigated by increases in the rents controlled by the political elite.

In a second stage of our analysis, we relax the assumption of separation between both elites. We consider varying degrees of social integration, leading to utility interdependence between the two groups. This could capture, for instance, the impact of mixed marriages and shared education on groups’ incentives. In reality, rich ethnic minorities often tend to retain a strong separate identity, partly based on traditions and religion, and to remain close-knit, endogamous communities. Sociological and anthropological studies reveal some substantial variation in their degrees of integration, however. Part of this variation is clearly explained by exogenous cultural determinants. For instance, recent Chinese migrants in East African countries seem to be already better integrated than descendants of migrants from India.

We find that social integration strongly affects the analysis. It decreases the likelihood that the rich ethnic minority becomes subject to popular violence and may incite the government to buy social peace even without material benefits. We also uncover some subtle effects. In particular, the optimal tax rate may now vary continuously with the threat level and may be increasing or decreasing depending on the difference in wealth between the two communities. The transition between peace and violence is even more abrupt and non-motonous. As long as the government protects the rich minority from popular violence, the optimal tax and transfer rates may both increase with an increase in threat. Then when maintaining peace is too costly, the government gives up on the rich ethnic minority and both rates may drop abruptly.

9Such endogamy could also be a rational answer to the possibility of future violence and expulsion. Endogenizing the level of social integration would be an interesting direction for future research.
Our analysis contributes to the political economy of developing countries. We provide one of the first analysis of interactions between a rent-seeking political elite, an economic elite belonging to a specific ethnic community and a poor majority. Anderson, Johnson & Koyama (2013) (5) study the impact of weather shocks on the persecution of Jews in Middle-Age Europe. They develop a theoretical model to motivate their empirical analysis which shares some features with ours. However, strategic scapegoating, which is key in our approach, is absent from theirs. Their finding that persecution has strong economic determinants is in line with our framework and results. In a different context, Miguel (2005)(10) also finds that scapegoating episodes have underlying economic determinants. Using local rainfall variation, he shows that witch killings in Tanzania are likely caused by drops in incomes rather than irrational beliefs or cultural norms. In a political economy framework, we show that scapegoating can emerge for purely economic reasons and we provide a detailed analysis of its anatomy.

The remainder of the paper is organized as follows. We present our model in Section 2. We analyze the interactions between the three groups under an assumption of separation between both elites in Section 3. We relax this assumption and look at the impact of social integration in Section 4.

II. The model

We consider an economy composed of three groups: a local political elite, a rich ethnic minority and a poor majority. Group sizes are, respectively, \( n_e \), \( n_m \) and \( n_p \) with \( n_e, n_m \ll n_p \). Society is not democratic: The political elite takes all political decisions unless it gets ousted from power. We assume in Sections 2 and 3 that every group seeks
to maximize its material payoff. This means, in particular, that the political elite is purely rent-seeking and does not care about social welfare. In Section 4, we introduce some social integration between the economic and the political elites. We study how the interdependence in payoffs generated by such integration affects outcomes.

There are three sources of incomes in the economy. The political elite obtains some rents $R$ originating, for instance, from natural resources or foreign aid. The formal sector of the economy is run by the ethnic minority and generates a taxable per capita income of $y_m$. People in the poor majority work in the informal sector in activities such as home-scale agriculture and earn a per capita non-taxable income of $y_p$.

Interactions between the local elite, the rich minority and the poor majority take place in three stages. The political elite first chooses a tax rate $\tau \in [0, 1]$ and a level of per capita transfer $t \geq 0$. Formal economic activities are taxed at rate $\tau$. People then decide whether to exert violence against the local elite ($V_e$), the rich minority ($V_m$), or to stay non-violent ($N$). If the political elite is not attacked, transfers are distributed to the poor majority and all individuals consume.

As in Acemoglu & Robinson (2006), we assume that raising taxes is costly. These costs, $C(\tau)$, capture both direct administrative costs and the distortionary effects of taxation on the economy. We assume that $C(0) = 0$, $C' > 0$, $C'' > 0$, $C'(0) = 0$ and $C''(1) > 1$.

When there is no risk of violence, a member of the local elite earns $\pi_e = \frac{1}{n_e} (R - n_p t + (\tau - C(\tau)) y_m n_m)$, a member of the rich minority earns $\pi_m = (1 - \tau) y_m$ and a member of the poor majority earns $\pi_p = y_p + t$. To maximize its payoff, the political elite simply sets $t = 0$ and $\tau = \tau^*$ such that $C'(\tau^*) = 1$. The people do not receive any transfer, and the rich minority is taxed at the level that maximizes tax revenues for the group in power.

The possibility of violence modifies the analysis quite deeply. We make the following assumptions on the effects of violence. First, popular violence is directed against one

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12We consider a political elite which is sufficiently small and cohesive to act as a single actor. In contrast, the poor majority may suffer from problems of collective action. As discussed in Acemoglu & Robinson (2006), these difficulties are captured in the reduced-form parameter $\mu$ below.

13Members of the economic elite are not eligible to receive these transfers.
of the two elites. Second, as in Acemoglu & Robinson (2006), we assume that in case of violence a fraction $\mu$ of the resources are destroyed and that the people share what remains among themselves. Third, faced with imminent violence the political elite can flee the country and obtain a payoff of $\pi_0$ coming, for instance, from money diverted towards offshore accounts in the past.

Formally, if the people revolt against the elite in power payoffs are $\pi_e = \pi_0$, $\pi_m = (1 - \tau)y_m$ and $\pi_p = (1 - \mu)(y_p + \frac{1}{n_p}(R + (\tau - C(\tau))y_m n_m))$. If the people, instead, target the rich minority members of the different groups obtain, respectively, $\pi_e = \frac{1}{n_e}(R - n_p t + (\tau - C(\tau))y_m n_m)$, $\pi_m = 0$ and $\pi_p = (1 - \mu)(y_p + t + \frac{1}{n_p}(1 - \tau)y_m n_m)$.

We solve the game backwards. In the second stage and depending on the levels of tax and transfer, the poor majority decides whether to become violent and against which privileged group. In the first stage and anticipating popular actions, the political elite chooses public policies that maximize its material payoff.

We now analyze the benchmark case without a rich ethnic minority. If people stay non-violent, they obtain $\pi_p = y_p + t$ while members of the elite obtain $\pi_e = \frac{1}{n_e}(R - n_p t)$. If people overthrow the elite, they obtain $\pi_p = (1 - \mu)(y_p + \frac{1}{n_p}R)$ and members of the elite flee the country $\pi_e = \pi_0$. We see three domains emerging. First, the people may not rebel even when the elite captures all rents. This is an equilibrium if $(1 - \mu)(y_p + \frac{1}{n_p}R) < y_p$ which is equivalent to $\mu > \mu_{\text{threat}} = R/(R + y_p n_p)$. If the cost of violence falls below this threshold, however, people do not peacefully accept a situation with no redistribution. The elite may avoid violence by redistributing part of the rents. More precisely, it sets the lowest possible transfer, i.e., the transfer $\hat{t}$ that makes people indifferent between violence and non-violence. Formally, $\hat{t}(\mu) = (1 - \mu)\frac{R}{n_p} - \mu y_p$. In that case, an elite member earns $\frac{1}{n_e}(R - n_p \hat{t}(\mu)) = \frac{1}{n_e}R \mu(R + n_p y_p)$ which is an equilibrium as long as such protective redistribution is not excessively costly for the elite. If $\pi_e < \pi_0$, the elite rationally decides to flee the country. This is equivalent to $\mu < \mu_{\text{exile}} = n_e \pi_0/(R + n_p y_p)$. To sum up:

**Proposition 1** Suppose that there is no rich ethnic minority. If $\mu \geq \mu_{\text{threat}}$, the

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14We also assume that the resources of the group who is not concerned by violence are unaffected by this destruction.
political elite captures all rents and the poor majority does not rebel. If $\mu_{\text{exile}} \leq \mu \leq \mu_{\text{threat}}$, the political elite redistributes positive transfers $\hat{t}(\mu) = (1 - \mu) \frac{R}{n_p} - \mu y_p$ and people remain peaceful. If $\mu \leq \mu_{\text{exile}}$, the people overthrow the political elite.

When the cost of violence takes intermediate values, the political elite buys social peace by transferring resources to the people on the condition that they stay non-violent. Since $\hat{t}(\mu_{\text{threat}}) = 0$, the transition to the regime of positive transfers is continuous. As the cost of violence decreases, this transfer increases until it reaches the point where it leaves the elite too impoverished.

How do changes in parameters affect outcomes? As rents $R$ increase, observe that $\mu_{\text{threat}}$ increases while $\mu_{\text{exile}}$ decreases. On one hand, the elite is richer which makes it more easily subject to popular discontent. On the other hand, the elite it both more able and more motivated to buy social peace since it has more to lose by leaving the country. Overall, the range of parameters over which the poor majority receives a positive transfer expands. In contrast, an increase in $y_p$ or $n_p$ leads to a decrease in both $\mu_{\text{threat}}$ and $\mu_{\text{exile}}$. When the poor majority is richer or more numerous, violence is less attractive which makes buying social peace easier for the political elite.

III. Separate elites

In this section, we characterize the unique subgame perfect equilibrium of the game in the presence of a rich ethnic minority. We find that the existence of this third group enriches the analysis substantially. We first present an informal discussion of the effects at play. We then state our main result formally and discuss its implications in more detail.

A first consequence of the presence of the rich minority is to increase the political elite’s payoff via increased tax revenues. This increase in payoffs is double-edged. While the government has more resources at its disposal - and hence can more easily influence outcomes - it also becomes a more attractive target for popular violence. This negative effect turns out to be dominated by a second, key consequence. The rich
minority represents another group that can be attacked by the poor majority. We find that the political elite can now always avoid being overthrown. The government can deviate popular anger towards the rich ethnic minority.

We study precisely when and how the political elite may sacrifice the rich ethnic minority. We find that the difference in wealth between both elites plays a crucial role. Three domains emerge. First the ethnic minority may be richer, after tax, than the political elite. This happens when $(1 - \tau^*)y_mn_m > R + (\tau^* - C(\tau^*))y_mn_m$. In that case, the government is not threatened by popular violence any longer. The rich minority provides a natural target to popular discontent due to its large wealth. The government then simply sets its preferred policies of high tax and zero transfers and lets violence run its course when $\mu$ is low. Despite its rent-seeking behavior, the government ends up protected from popular anger by the presence of the rich minority.

Second, the ethnic minority may be richer than the political elite before tax but poorer after tax. Formally, $y_mn_m > R$ and $(1 - \tau^*)y_mn_m < R + (\tau^* - C(\tau^*))y_mn_m$. In that case, we find that buying social peace is preferred by the government for intermediate values of the cost of violence while deviating violence against the minority dominates for low costs of violence. To turn the minority into a scapegoat, the government decreases his tax rate. The ethnic minority becomes temporarily richer and hence provides a more attractive target. In addition, the transition between peace and violence is abrupt. The levels of tax and transfer both drop discontinuously following a small decrease in $\mu$.

Third the ethnic minority may be initially poorer than the political elite when $y_mn_m < R$. In that case, reducing the rate at which formal activities are taxed is not enough to deviate popular violence. The government must now both cancel all taxes and make positive transfers to the poor majority. Since people know that they will not receive these transfers if they overthrow the government, it provides them an extra incentive to attack the ethnic minority. In this situation, the political elite has to literally create a scapegoat out of an ethnic minority that would never be targeted by popular violence otherwise.
We next state our result formally. We introduce the following notations, and provide a detailed proof in Appendix. As in Proposition 1, introduce $\mu_{\text{threat}} = \frac{R + (\tau^* - C(\tau^*))y_m n_m}{[R + (\tau^* - C(\tau^*))y_m n_m + y_p n_p]}$ and $\mu_{\text{threat}}^m = \frac{(1 - \tau^*)y_m n_m}{[R + (\tau^* - C(\tau^*))y_m n_m + y_p n_p]}$. These are the values of the cost of violence for which the poor majority is on the edge of attacking the political elite ($\mu_{\text{threat}}$) or the rich minority ($\mu_{\text{threat}}^m$). Let $\hat{t}$ be the transfer that makes people indifferent between violence against the government and non-violence: $\hat{t}(\mu) = (1 - \mu)[R + (\tau^* - C(\tau^*))y_m n_m]/n_p - \mu y_p$.

When the economic elite is richer than the political elite before tax but poorer after tax, define $\bar{\tau}$ as the unique tax rate that satisfies $(1 - \bar{\tau})y_m n_m = R + (\bar{\tau} - C(\bar{\tau}))y_m n_m$ and $\mu_{\text{dev}} = (1 - \bar{\tau})y_m n_m/[R + (\tau^* - C(\tau^*))y_m n_m + y_p n_p]$. We show in Appendix that $\mu_{\text{dev}}$ is precisely the value that makes the government indifferent between buying social peace and deviating violence against the rich ethnic minority. When the economic elite is poorer than the political elite, define $\bar{t} = (R - y_m n_m)/n_p$ and $\mu'_{\text{dev}} = y_m n_m/[R + (\tau^* - C(\tau^*))y_m n_m + y_p n_p]$. That value, again, makes the government indifferent between buying social peace and deviating violence in that domain.

**Proposition 2** Consider a society composed of a local political elite, a rich ethnic minority and a poor majority.

1. If $(1 - \tau^*)y_m n_m > R + (\tau^* - C(\tau^*))y_m n_m$:
   - If $\mu \geq \mu_{\text{threat}}$, then $\tau = \tau^*$, $t = 0$ and there is no violence.
   - If $\mu_{\text{threat}} \geq \mu$, then $\tau = \tau^*$, $t = 0$ and the poor majority attacks the rich minority.

2. If $y_m n_m > R$ and $(1 - \tau^*)y_m n_m < R + (\tau^* - C(\tau^*))y_m n_m$:
   - If $\mu \geq \mu_{\text{threat}}$, then $\tau = \tau^*$, $t = 0$ and there is no violence.
   - If $\mu_{\text{threat}} \geq \mu \geq \mu_{\text{dev}}$, then $\tau = \tau^*$, $t = \hat{t}(\mu)$ and there is no violence.
   - If $\mu_{\text{dev}} \geq \mu$, then $\tau = \bar{\tau}$, $t = 0$ and the poor majority attacks the rich minority.

3. If $y_m n_m < R$:
   - If $\mu \geq \mu_{\text{threat}}$, then $\tau = \tau^*$, $t = 0$ and there is no violence.
If \( \mu_{\text{threat}} \geq \mu \geq \mu'_{\text{dev}} \), then \( \tau = \tau^*, t = \hat{t}(\mu) \) and there is no violence.

If \( \mu'_{\text{dev}} \geq \mu \), then \( \tau = 0, t = \bar{t} \) and the poor majority attacks the rich minority.

Let us highlight four specific implications of Proposition 2. First, as already mentioned the political elite now always avoids popular violence. In particular, it can redirect the threat of violence and stay in power even in situations where it would flee the country in the absence of a rich ethnic minority.

**Corollary 1** *In the presence of a rich ethnic minority, the local political elite can always maintain its hold on power and avoid popular violence.*

In a way, the economic elite acts as a fuse for the political elite. When the risks of an uprising become too strong, the government changes its public policies to become a less attractive target. Remarkably, we show that this happens even without introducing considerations of religion, hate or identity. Scapegoats appear here for purely economic reasons. This also implies that local elites may be particularly motivated, ex-ante, to attract an economically dominant minority in their country. In addition to the monetary benefits expected from such a move, the community may provide a convenient way to contain future popular discontent.

Second, we find that even a purely selfish political elite prefers to buy social peace when the prospects of violence are not too high. Turning the economic elite into a scapegoat is, in a way, a strategy of last resort. Buying social peace is less costly to the government as it can still tax the economic elite at a high rate. Interestingly, this effect arises even in a static framework that does not account for future losses. Deviating violence is costly as it requires the government to lose a significant amount of money because of lower taxes and positive transfers.

**Corollary 2** *When the political elite is richer, after tax, than the economic elite and*

\(^\text{15}\)In reality, these material aspects likely interact with sociological and psychological dimensions of scapegoating.

\(^\text{16}\)This raises the issue of the benefits that these communities may have to settle in countries with risks of future violence. We simply note here that the economic benefits from entering a new market at the time of the original move may dominate the potential costs from future violence.
when the threat of violence is not too high, the government prefers to buy social peace than to sacrifice the rich ethnic minority.

Third, the optimal levels of public policies vary in potentially interesting ways with the cost of violence. Suppose that the economic elite is poorer, after tax, than the political elite. Then the optimal tax rate drops discontinuously at the transition between peace and violence while the optimal transfer varies discontinuously and non-monotonically. Transfers increase with a decrease in $\mu$ under peace but drop when the government decides to sacrifice the minority.\footnote{When $y_m n_m < R$, we show in Appendix that $\tilde{t} < \hat{t}(\mu'_{dev})$.} Since the government is poorer due to the drop in tax from $\tau^*$ to 0, a lower amount of transfers is needed to avoid popular violence.

**Corollary 3** At the transition between peace and violence, the optimal levels of tax and transfer drop discontinuously.

Fourth, let us examine how changes in parameters affect outcomes. We see that increases in rents and in revenues of the economic elite may have opposite effects. When $R$ increases, the political elite is more wealthy and hence a priori provides a more attractive target. Society may switch from regime 1 to regime 2 or from regime 2 to regime 3 in Proposition 2. Within regime 3, we see that $\mu'_{dev}$ is decreasing in $R$. Higher rents make the scapegoating strategy relatively more costly in that domain. In contrast, the economic elite is a more attractive target when $y_m$ or $n_m$ increases, and society may then switch from regime 2 to regime 1 or from regime 3 to regime 2. Within regime 1, $\mu_{threatm}$ increases in $y_m$. Within regime 3, $\mu'_{dev}$ also increases as the government has stronger incentives to sacrifice the economic elite.\footnote{In contrast, the impact of $R$, $y_m$ and $n_m$ on $\mu_{dev}$ in regime 2 are ambiguous because of indirect effects due to changes in $\bar{\tau}$, the optimal tax rate under violence.} Finally, $\mu_{threatm}$, $\mu_{dev}$ and $\mu'_{dev}$ all decrease following an increase in $y_p$ or $n_p$. A richer majority is less likely to become violent. These results both confirm and qualify Amy Chua’s claims (Chua 2004). Indeed, globalization likely led to a much larger increase in the revenues of economic elites than in those of poor majorities. Our results indicate that this tends
to yield more violence. However, our analysis also uncovers a potentially countervailing effect. Increases in the rents controlled by local elites tend to mitigate violence since they facilitate the buying of social peace. These theoretical results could help guide future empirical analysis.

Thus, the presence of a rich ethnic minority strongly affects the interactions between a rent-seeking local elite and a poor majority. One assumption on which our analysis has relied so far is the separation of the political and economic elites in two distinct groups. This assumption is in line with the high level of endogamy and social segregation often documented for economically dominant ethnic minorities. This segregation is not absolute, however. Historical patterns reveal a substantial degree of variation in segregation caused, in part, by cultural factors. In the next section we explore how partial social integration between both elites affects their interactions, public policies and violence.

IV. Partial integration

In this section, we consider some partial level of social integration between the political and the economic elite. Members of these two groups may share the same socialization venues, may send their children to the same school and may interact frequently in the workplace. As a consequence, they may also marry with members of the other group. To fix ideas, we focus in our the interpretation on mixed marriages in what follows; our modelization and results apply to broader forms of integration.

We now assume that all adult individuals in society get married and that spouses care about each other’s payoffs. For simplicity, we assume that both elite communities have the same size: \( n_m = n_e \). Define \( f \) as the proportion of mixed marriages between the rich ethnic minority and the local political elite. We also assume that members of the poor majority never marry members of the elite. Let \( \alpha \) be the marital coefficient of altruism with \( 0 < \alpha < 1 \). The utility \( u_i \) of individual \( i \) with payoff \( \pi_i \) married to individual \( j \) with payoff \( j \) is \( u_i = \pi_i + \alpha \pi_j \). Therefore, social integration generates
interdependence in utilities between the two groups.

As a consequence, mixed marriages introduce some dissension within groups. The utility of a member of the local elite is equal to \((1 + \alpha)\pi_e\) if he married within and \(\pi_e + \alpha\pi_m\) if he married to a member of the rich ethnic minority. Still, we assume that the local elite maintains its ability to act as a single actor. More precisely, the political elite seeks to maximize the average utility in the group, which is now equal to

\[
u_e = (1 + \alpha(1 - f))\pi_e + \alpha f\pi_m
\]

Introduce \(\beta = \alpha f/(1 + \alpha(1 - f))\). Observe that \(u_e\) is proportional to \(\pi_e + \beta\pi_m\) and that \(\beta\) is increasing in \(f\) and in \(\alpha\). Social integration leads the political elite to partially take into account the interests of the economic elite. In contrast, note that the average utility of a non-elite member is equal to \(u_p = (1 + \alpha)\pi_p\) and incentives of the poor majority are unchanged.

We next identify four key changes induced by social integration. A first effect is to change the preferred policies of the political elite in the absence of violence. Indeed, we have:

\[
\pi_e + \beta\pi_m = \frac{1}{n_e}[R - n_p t + (\tau(1 - \beta) - C(\tau) + \beta)y_m n_m]
\]

And the tax rate \(\tau^*_\beta\) that maximizes the political elite’s average utility satisfies \(C'(\tau^*_\beta) = 1 - \beta\) (the transfer is still equal to 0). This tax rate is decreasing in \(f\) and \(\alpha\). As both elites become more integrated, their payoffs become more interdependent and the political elite then reduces its tax levy on the economic elite. Observe that since this reduces the wealth of the political elite, it becomes also less likely to be threatened by popular violence. In a way, social integration reduces the local elite’s rent-seeking behavior and this helps protect it against popular violence. Thus, the transition between the regimes with no transfer and positive transfers takes place for lower values of the cost of violence than under segregation.

Second, social integration changes what happens when the ethnic minority is poorer, after tax, than the political elite. In the domain where the government buys social
peace, the optimal tax now decreases as the cost of violence decreases. (The optimal transfer still increases). Decreasing tax reduces the wealth of the political elite and hence reduces the incentives for the poor majority to attack it. Observe that from a purely monetary point of view, this strategy is wasteful. As shown in Proposition 2 with no integration the optimal strategy is to keep the tax at its highest level and to increase transfer. However, decreasing the tax rate also increases the wealth of the economic elite and this is indirectly beneficial to the political elite under social integration.

Third, social integration also changes the government’s optimal policies when the ethnic minority is richer, after tax, than the political elite. When prospects of violence are high, the political elite now has an incentive to intervene and protect the minority. This incentive dominates for intermediate costs of violence and the government buys social peace even though it is never directly threatened. Interestingly, the optimal tax rate now increases as the cost of violence decreases. (The optimal transfer still increases). Here the government is trying to deviate violence away from the rich minority rather than away from itself. Reducing the wealth level of the minority helps to accomplish this goal. When buying social peace is too costly, however, the government gives up on protection and both the tax rate and the transfer level drop. Thus, both the tax rate and the level of transfer vary discontinuously and non-monotonically at the transition between peace and violence.

Fourth, in all domains violence against the rich minority becomes less likely. In particular, the incentives to turn the rich minority into a scapegoat are lower under social integration and decrease with increases in altruism or in the proportion of mixed marriages. When violence against the economic elite takes place, however, the optimal strategies of the government are the same as in Proposition 2.

Overall, we find that social integration has a first-order impact on outcomes. It decreases the likelihood of violence and strongly affects optimal public policies.
Appendix

Proof of Proposition 1

The objective of the political elite is to \( \max_t \pi_e = \frac{1}{n_e}(R - n_p t) \) under the constraint that the people remain non-violent.

\[ \forall \mu \text{ s.t. } y_p \geq (1 - \mu)(y_p + \frac{1}{n_p} R) \Leftrightarrow \mu \geq R / (R + y_p n_p) = \mu\text{threat}, \text{ the elite chooses } t = 0. \]

When \( \mu \leq \mu\text{threat} \) they choose \( \hat{t} \text{ s.t. } y_p + \hat{t} = (1 - \mu)(y_p + \frac{1}{n_p} R) \Leftrightarrow \hat{t}(\mu) = (1 - \mu) \frac{1}{n_p} R - \mu y_p; \)

until \( \frac{1}{n_e}(R - n_p \hat{t}(\mu)) = \pi_0 \Leftrightarrow \mu = n_e \pi_0 / (R + n_p y_p) = \mu\text{exile} \)

\[ \forall \mu \leq \mu\text{exile} \text{ the people overthrow the political elite.} \]

Proof of Proposition 2

Computation of \( \mu\text{threat}^e \) and \( \mu\text{threat}^m \):

\( \mu\text{threat}^e \) is defined such that \( \pi_p(V_e|\mu\text{threat}^e, \tau^*, 0) = \pi_p(N|\mu\text{threat}^e, \tau^*, 0) \)

\[ \Leftrightarrow (1 - \mu\text{threat}^e)[y_p + \frac{1}{n_p} (R + (\tau^* - C(\tau^*)) y_m n_m)] = y_p \]

\[ \Leftrightarrow \mu\text{threat}^e = \frac{[R + (\tau^* - C(\tau^*)) y_m n_m]}{[R + (\tau^* - C(\tau^*)) y_m n_m + y_p n_p]} \]

\( \mu\text{threat}^m \) is defined such that \( \pi_p(V_m|\mu\text{threat}^m, \tau^*, 0) = \pi_p(N|\mu\text{threat}^m, \tau^*, 0) \)

\[ \Leftrightarrow (1 - \mu\text{threat}^m)[y_p + \frac{1}{n_p} (1 - \tau^*) y_m n_m)] = y_p \]

\[ \Leftrightarrow \mu\text{threat}^m = \frac{(1 - \tau^*) y_m n_m}{[(1 - \tau^*) y_m n_m + y_p n_p]} \]

I. For \( \mu\text{threat}^m > \mu\text{threat}^e \Leftrightarrow (1 - \tau^*) y_m n_m > R + (\tau^* - C(\tau^*)) y_m n_m. \)

In this case, the ethnic minority is rich enough so that the political elite is never threatened by violence when it announces its most preferred redistribution \((\tau^*, 0)\).

When \( \mu \geq \mu\text{threat}^m \), the political elite chooses \( \tau = \tau^* \) and \( t = 0 \) and there is no violence. When \( \mu \leq \mu\text{threat}^m \), the political elite chooses \( \tau = \tau^* \) and \( t = 0 \) and the people attack the rich ethnic minority.
II. For $\mu_{\text{threat}} < \mu_{\text{threat}} \Leftrightarrow (1 - \tau^*)y_m n_m < R + (\tau^* - C(\tau^*))y_m n_m$.

In this case, when $\mu \geq \mu_{\text{threat}}$, the political elite chooses $\tau = \tau^*$ and $t = 0$ and there is no violence. When $\mu \leq \mu_{\text{threat}}$, the political elite has either to buy social peace or to scapegoat in order to avoid popular violence.

**Buying social peace:**

$$\max_{\tau,t} \frac{1}{n_e} (R - tn_p + (\tau - C(\tau))y_m n_m)$$

s.t. $y_p + t \geq (1 - \mu)(y_p + \frac{1}{n_p}(R + (\tau - C(\tau))y_m n_m)$

We associate to the constraint the Lagrange multiplier $\lambda$. The first order conditions of this program yield:

$$\lambda = \frac{n_p}{n_e} > 0$$

$$C'(\tau^*) = 1$$

$$\hat{t}(\mu) = (1 - \mu)[R + (\tau^* - C(\tau^*))y_m n_m]/n_p - \mu y_p$$

**Scapegoating:**

$$\max_{\tau,t} \frac{1}{n_e} (R - tn_p + (\tau - C(\tau))y_m n_m)$$

s.t. $(1 - \mu)(y_p + t + \frac{1}{n_p}(1 - \tau)y_m n_m) \geq (1 - \mu)(y_p + \frac{1}{n_p}(R + (\tau - C(\tau))y_m n_m)$

We associate to the constraint the Lagrange multiplier $\lambda$. We find that the constraint is saturated, since $\lambda = \frac{n_p}{n_e(1 - \mu)} > 0$.

This implies that $t = \frac{1}{n_p}[R + (\tau - C(\tau))y_m n_m - (1 - \tau)y_m n_m]$.

The maximization is solved for:

$$\bar{\tau} = 0 \text{ and } \bar{t} = (R - y_m n_m)/n_p \text{ when } R \geq y_m n_m$$

$$\bar{\tau} > 0 \text{ and } \bar{t} = 0 \text{ when } R \leq y_m n_m$$

with $\bar{\tau}$ such that: $R + (\bar{\tau} - C(\bar{\tau}))y_m n_m = (1 - \bar{\tau})y_m n_m$. 

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Computation of $\mu_{dev}$ and $\mu'_{dev}$:

Buying social peace brings a payoff $\pi_e = \frac{1}{n_e} \mu [R + (\tau^* - C(\tau^*)) y_m n_m + y_p n_p]$ to the elite, while scapegoating brings $\pi_e = \frac{1}{n_e} [R + (\bar{\tau} - C(\bar{\tau})) y_m n_m]$ when $R \leq y_m n_m$ and $\pi_e = \frac{1}{n_e} y_m n_m$ when $R \geq y_m n_m$.

When $R < y_m n_m$, the elite is indifferent between buying social peace and scapegoating for: $\frac{1}{n_e} \mu [R + (\tau^* - C(\tau^*)) y_m n_m + y_p n_p] = \frac{1}{n_e} [R + (\bar{\tau} - C(\bar{\tau})) y_m n_m]$

$\iff \mu_{dev} = (1 - \bar{\tau}) y_m n_m / [R + (\tau^* - C(\tau^*)) y_m n_m + y_p n_p]$, as $(1 - \bar{\tau}) y_m n_m = R + (\bar{\tau} - C(\bar{\tau})) y_m n_m$

When $R > y_m n_m$, the elite is indifferent between buying social peace and scapegoating for: $\frac{1}{n_e} \mu [R + (\tau^* - C(\tau^*)) y_m n_m + y_p n_p] = \frac{1}{n_e} y_m n_m$

$\iff \mu'_{dev} = y_m n_m / [R + (\tau^* - C(\tau^*)) y_m n_m + y_p n_p]$.

The people remain pacific when the political elite buys social peace:

$\pi_p(N|\mu, \tau^*, \hat{\mu}(\mu)) \geq \pi_p(V_m|\mu, \tau^*, \hat{\mu}(\mu))$

$\iff (1 - \mu)[R + (\tau^* - C(\tau^*)) y_m n_m + y_p n_p] / n_p \geq (1 - \mu)[R + (\tau^* - C(\tau^*)) y_m n_m + y_p n_p] + (1 - \tau^*) y_m n_m / n_p$

$\iff \mu \geq (1 - \tau^*) y_m n_m / [(1 - \bar{\tau}) y_m n_m + y_p n_p] = \mu_1$

We have $\mu_1 < \mu_{dev}$ (as $\bar{\tau} < \tau^*$) and $\mu_1 < \mu'_{dev}$.

The people attack the minority when the political elite scapegoats:

When $R < y_m n_m$:

$\pi_p(V_m|\mu, \bar{\tau}, 0) \geq \pi_p(N|\mu, \bar{\tau}, 0)$ $\iff (1 - \mu)[\frac{1}{n_p} (1 - \bar{\tau}) y_m n_m + y_p] \geq y_p$

$\iff \mu \leq (1 - \bar{\tau}) y_m n_m / [(1 - \bar{\tau}) y_m n_m + y_p n_p] = \mu_2$

We have $\mu_{dev} < \mu_2$.

When $R > y_m n_m$:

$\pi_p(V_m|\mu, 0, \tilde{\tau}) \geq \pi_p(N|\mu, 0, \tilde{\tau})$ $\iff (1 - \mu)[y_p + \frac{1}{n_p} R] \geq y_p + (R - y_m n_m) / n_p$
\[\Rightarrow \mu \leq y_m n_m / [R + y_p n_p] = \mu'_2\]

We have \(\mu'_2 > \mu'_\text{dev}\).

**Transfer** \(\bar{t} < \hat{t}(\mu'_\text{dev})\)

\[\bar{t} = \hat{t}(\mu) \Leftrightarrow [R - y_m n_m] / n_p = (1 - \mu)[R + (\tau^* - C(\tau^*))y_m n_m] / n_p - \mu y_p\]

\[\Leftrightarrow \mu = [y_m n_m + (\tau^* - C(\tau^*))y_m n_m] / [R + (\tau^* - C(\tau^*))y_m n_m + y_p n_p] = \mu_3\]

Since we have \(\mu'_\text{dev} < \mu_3\), and \(\hat{t}(\mu)\) decreasing in \(\mu\), then we have \(\bar{t} < \hat{t}(\mu'_\text{dev})\).

**Partial Integration**

**Computation of \(\mu_{\text{threat}}^e\) and \(\mu_{\text{threat}}^m\)**

\(\mu_{\text{threat}}^e\) is defined such that: \(u_p(N|\mu_{\text{threat}}^e, \tau^*_\beta, 0) = u_p(V_e|\mu_{\text{threat}}^e, \tau^*_\beta, 0)\)

\[\Leftrightarrow \mu_{\text{threat}}^e = [(R + (\tau^*_\beta - C(\tau^*_\beta))y_m n_m) / [R + (\tau^*_\beta - C(\tau^*_\beta))y_m n_m + y_p n_p]\]

\(\mu_{\text{threat}}^m\) is defined such that: \(u_p(N|\mu_{\text{threat}}^m, \tau^*_\beta, 0) = u_p(V_m|\mu_{\text{threat}}^m, \tau^*_\beta, 0)\)

\[\Leftrightarrow \mu_{\text{threat}}^m = (1 - \tau^*_\beta)y_m n_m / [(1 - \tau^*_\beta)y_m n_m + y_p n_p]\]

**I. For** \(\mu_{\text{threat}}^m > \mu_{\text{threat}}^e \Leftrightarrow (1 - \tau^*_\beta)y_m n_m > R + (\tau^*_\beta - C(\tau^*_\beta))y_m n_m\).

This implies \(y_m n_m > R\) because \(\tau^*_\beta < \tau^*\).

When \(\mu \geq \mu_{\text{threat}}^m\), the political elite chooses \(\tau = \tau^*_\beta\) and \(t = 0\) and there is no violence. When \(\mu \leq \mu_{\text{threat}}^m\) the elite may either intervene to protect the minority or let the people attack the minority.

**Protection**

\[\max_{\tau, t} \frac{1}{n_e} [R - n_p t + (\tau (1 - \beta) - C(\tau) + \beta)y_m n_m] \]

s.t. \(y_p + t \geq (1 - \mu)\left[\frac{1}{n_p} (1 - \tau)y_m n_m + y_p + t\right]\)

We associate to the constraint the Lagrange multiplier \(\lambda\). The first order conditions
of this program yield:

\[ \lambda = \frac{n_p}{\mu n_e} > 0 \]

\[ C'(\tilde{\tau}) = \frac{1}{\mu} - \beta \]

\[ \tilde{t} = \frac{(1 - \mu)}{\mu} \left( \frac{(1 - \tilde{\tau}) y_m n_m}{n_p} \right) - y_p \]

When it uses this strategy the political elites' average utility is:

\[ u_e = \left[ R + (\tilde{\tau} - C(\tilde{\tau})) y_m n_m + y_p n_p \right] / n_e + (1 + \beta - 1/\mu)(1 - \tilde{\tau}) y_m. \]

No Protection

When \( \mu_{\text{threat}}^m > \mu_{\text{threat}}^c \): the elite chooses \( \tau = \tau^* \) and \( t = 0 \), and it gets

\[ u_e = \left[ R + (\tau^* - C(\tau^*)) y_m n_m \right] / n_e \]

When \( \mu_{\text{threat}}^m < \mu_{\text{threat}}^c \): the elite chooses \( \tilde{\tau} \) and \( t = 0 \), and it gets

\[ u_e = \left[ R + (\tilde{\tau} - C(\tilde{\tau})) y_m n_m \right] / n_e \]

Computation of \( \mu_{\text{protect}} \) and \( \mu'_{\text{protect}} \)

When \( \mu_{\text{threat}}^m > \mu_{\text{threat}}^c \), the elite is indifferent between protection and no protection for:

\[ \left[ R + (\tilde{\tau} - C(\tilde{\tau})) y_m n_m + y_p n_p \right] / n_e + (1 + \beta - 1/\mu_{\text{protect}})(1 - \tilde{\tau}) y_m = \left[ R + (\tau^* - C(\tau^*)) y_m n_m \right] / n_e \]

\[ \iff \mu_{\text{protect}} = \frac{(1 - \tau^*) y_m n_m}{((\tau^* - C(\tau^*)) - (\tilde{\tau} - C(\tilde{\tau}))) y_m n_m + y_p n_p + (1 + \beta)(1 - \tilde{\tau}) y_m n_m} \]

with \( \tilde{\tau}^* \) corresponding to \( \tilde{\tau}(\mu_{\text{protect}}) \).

When \( \mu_{\text{threat}}^m < \mu_{\text{threat}}^c \), the elite is indifferent between protection and no protection for:

\[ \left[ R + (\tilde{\tau} - C(\tilde{\tau})) y_m n_m + y_p n_p \right] / n_e + (1 + \beta - 1/\mu_{\text{protect}})(1 - \tilde{\tau}) y_m = \left[ R + (\tilde{\tau} - C(\tilde{\tau})) y_m n_m \right] / n_e \]

\[ \iff \mu'_{\text{protect}} = \frac{(1 - \tau^*) y_m n_m}{((\tau^* - C(\tau^*)) - (\tilde{\tau} - C(\tilde{\tau}))) y_m n_m + y_p n_p + (1 + \beta)(1 - \tilde{\tau}^*) y_m n_m} \]

with \( \tilde{\tau}^* \) corresponding to \( \tilde{\tau}'(\mu_{\text{protect}}) \).

II. For \( \mu_{\text{threat}}^m < \mu_{\text{threat}}^c \) \( \iff (1 - \tau^*_{\beta}) y_m n_m < R + (\tau^*_{\beta} - C(\tau^*_{\beta})) y_m n_m \):
\( \mu_{\text{threat}}^m < \mu_{\text{threat}}^e \Rightarrow \mu_{\text{threat}}^m < \mu_{\text{threat}}^e \).

When \( \mu \geq \mu_{\text{threat}}^e \), the elite chooses \( \tau = \tau_{\beta}^* \) and \( t = 0 \), and there is no violence.

When \( \mu \leq \mu_{\text{threat}}^e \), the elite may either buy social peace or scapegoat in order to avoid popular violence.

**Buying social peace:**

\[
\max_{\tau,t} \frac{1}{n_e} \left[ R - n_p t + (\tau(1 - \beta) - C(\tau) + \beta) y_m n_m \right]
\]

s.t. \( y_p + t \geq (1 - \mu)(y_p + \frac{1}{n_p}(R + (\tau - C(\tau)) y_m n_m)) \)

We associate to the constraint the Lagrange multiplier \( \lambda \). The first order conditions of this program yield:

\[
\lambda = \frac{n_p}{n_e} > 0
\]

\[
C'(\hat{\tau}) = 1 - \frac{\beta}{\mu}
\]

\[
\hat{t} = (1 - \mu)[R + (\hat{\tau} - C(\hat{\tau})) y_m n_m]/n_p - \mu y_p
\]

When the political elite uses this strategy, its average utility is:

\[
u_e = \mu[R + (\hat{\tau} - C(\hat{\tau})) y_m n_m + y_p n_p]/n_e + \beta(1 - \hat{\tau}) y_m
\]

**Scapegoating**

When violence against the ethnic minority takes place, the optimal strategies of the political elite are the same as in Proposition 2.

When \( y_m n_m > R \), the elite chooses \( \tau = \bar{\tau} \) and \( t = 0 \), with \( \bar{\tau} < \tau_{\beta}^* \), and gets a payoff \( u_e = (1 - \bar{\tau}) y_m \)

When \( y_m n_m < R \), the elite chooses \( \tau = 0 \) and \( t = \bar{t} \), and gets a payoff \( u_e = y_m \).

**Computation of \( \mu_{\text{dev}}^\beta \) and \( \mu'_{\text{dev}}^\beta \):**

When \( R < y_m n_m \), the elite is indifferent between buying social peace and scapegoating.
for: $\mu[R + (\hat{\tau} - C(\hat{\tau}))y_m n_m + y_p n_p]/n_e + \beta(1 - \hat{\tau})y_m = (1 - \bar{\tau})y_m$

$\Leftrightarrow \mu_{dev\beta} = \frac{(1 - \bar{\tau}) - \beta(1 - \hat{\tau}^*)}{R + (\hat{\tau}^* + C(\hat{\tau}^*))y_m n_m + y_p n_p}$.

with $\hat{\tau}^*$ corresponding to $\hat{\tau}(\mu_{dev\beta})$.

Remember we assume in this section $n_e = n_m$.

When $R > y_m n_m$, the elite is indifferent between buying social peace and scapegoating
for: $\mu[R + (\hat{\tau} - C(\hat{\tau}))y_m n_m + y_p n_p]/n_e + \beta(1 - \hat{\tau})y_m = y_m$

$\Leftrightarrow \mu'_{dev\beta} = \frac{y_m n_m - \beta(1 - \hat{\tau}'^*)}{R + (\hat{\tau}'^* - C(\hat{\tau}'^*))y_m n_m + y_p n_p}$.

with $\hat{\tau}'^*$ corresponding to $\hat{\tau}'(\mu'_{dev\beta})$. 


References


