

What's Behind a Rise in Ethnic Nationalism? Maybe the Economy

By Robert J. Shiller

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Global economic weakness and a rise in inequality appear to be causing a disturbing growth in ethnic nationalism.

Leaders today often do not openly declare themselves to be ethnic nationalists — in which identity is defined by perceived genetic, religious or linguistic heritage rather than democratic ideals or principles. But political appeals to such forms of identity are nevertheless widespread.

In the United States, despite his attempts to woo minority voters, Donald J. Trump appears to derive support from such sentiment. In Moscow, Vladimir V. Putin has used Russian nationalist sentiment to inspire many of his countrymen. And we see growing ethnic political parties inspired by national identity in other countries.

It is natural to ask whether something so broad might have a common cause, other than the obvious circumstantial causes like the gradual fading of memories about the horrors of ethnic conflict in World War II or the rise in this century of forms of violent ethnic terrorism. Economics is my specialty, and I think economic factors may explain at least part of the trend.

In the United States, while the unemployment rate is relatively low, the Federal Reserve has so far had to keep interest rates near zero to keep unemployment down. It's the same or worse in many other countries.

Yet economic growth continues, though at a reduced pace, and not just in the United States. According to the [International Monetary Fund](#), real world gross domestic product was 29 percent higher in 2015 than it was just before the recession, in 2007. It has just grown at a lower rate than before, 3.2 percent a year in the eight years after 2007 compared with 4.5 percent a year in the eight years ending in 2007. Perhaps that doesn't sound like a big enough difference to affect political outcomes.

But the modest slowdown could be a big part of the explanation for the apparent rise of ethnic nationalism, if combined with another factor: rising inequality, along with considerable fear about future inequality.

The numbers are stark. According to the United States Bureau of Labor Statistics, earnings have been basically static. In the bureau's language, "median usual weekly earnings — in constant (1982-84) dollars (employed full time)" has hardly grown in a generation. The total increase since this data series began in 1979 has been only 1.2 percent, or 0.03 percent a year. The increase has been less than 1 percent since 2007. Even such paltry economic growth is going to the very top, not to the median wage

earner. That means that roughly half of full-time wage earners are doing less well in real terms than their parents were.

[Benjamin M. Friedman](#) of Harvard University, in his book “The Moral Consequences of Economic Growth” ([Knopf, 2005](#)), said that at a deep level people make judgments about the economic progress that they see in their own lifetimes, and in comparison with the progress made by the previous generation, especially their own parents. Few people study economic growth statistics. But nearly everyone knows what they are being paid. If they realize that they are doing less well than their forebears, they become anxious. And if they can’t see themselves and others in their cohort as progressing over a lifetime, their social interactions often become angry, resentful and even conspiratorial.

Ethnic nationalism creates an ego-preserving excuse for self-perceived personal failure: Other groups are blamed for bad behavior and conspiracies. Often, ethnic, racial or religious conflict follows. Among the horrific examples are the atrocities committed in the name of nationalism during World War II – not coincidentally following the Great Depression. Mr. Friedman provides other such instances from the last two centuries in which ethnic conflict followed slow economic growth.

He does point out many exceptions to these generalizations: Some poor and unequal societies experience very little violence. But it appears that a sense of falling behind economically among a substantial segment of a population does encourage ethnic nationalism and conflict.

The rise in inequality in our time represents a seismic shift in economic power away from the working class. Its cause is many-faceted, including globalization, the decline of labor unions, changes in political alignments and advancing information technology that is replacing jobs.

Even those who have not lost out yet in terms of economic power are fearful that they might. The causes of inequality, particularly advances in information technology, are not going away soon. These perceptions have damaged people’s sense of economic security, even beyond what economic data reveal to be objectively true.

A 2015 study published in [The American Economic Review](#) by [Michael Kumhof](#) of the Bank of England, [Romain Rancière](#) of the International Monetary Fund and [Pablo Winant](#) of the Bank of England found that both the Great Depression of the 1930s and the Great Recession of 2007-9 had their origins, in part, in rising inequality.

Both were accompanied by increases in borrowing by low- to middle-income people, who tried to maintain their standards of living. High-income people, described by the authors as desiring wealth for its own sake, did the lending. The loans attracted investors because high rates of interest compensated them for the risk of default.

This model described purely rational people, who don’t really exist. It could be made more realistic with some reference to psychology: Borrowing produced a sense of

personal shame. A desperate optimism arose from [wishful thinking bias](#), distorting judgment. This led to [profound social consequences and anger after the bubbles burst](#).

Linking these causes to the rise of ethnic nationalism is imprecise; these factors reflect a long-term loss of confidence. Such fears are often vague and ill formed, but their effects are powerful.

There are some remedies, even if they are not popular or easily executed.

Hillary Clinton's proposals to raise taxes on those with the very highest incomes to fund programs for lower-income people, for example, may not generate much enthusiasm from those whose incomes have not grown as expected and who may be doing less well than their parents. That is because many people do not like the sound of a proposed handout even if it might help them; they aspire to prove their own worth by earning a good income, and yet that prospect eludes them.

But something has to be done about the two trends of rising inequality and weak economic growth, for if they continue we may see more unhappiness, discontent and political disruption. Substantial fiscal stimulus might be helpful, but it has been blocked. Making the tax system progressive enough to break the trend toward ever greater income inequality has also been beyond our grasp, yet it may be the best option we have.

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