

Identities in Conflict

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This chapter explores how economic inequality and shocks often incite conflicts demarcated by non-economic identity markers, such as ethnicity or religion, rather than by conventional class-based divisions. Traditional frameworks suggest that economic disparities naturally provoke class-based antagonisms; however, much contemporary conflict emerges along non-economic identity lines among groups occupying similar economic niches. We argue that identity markers –whether invoked by social groups or political leaders– often serve as coordination tools, transforming economic grievances into exclusionary conflicts over resources like jobs, land, and government quotas. By analyzing these “games of exclusion,” we emphasize how economic inequality, rather than fostering direct class conflict, can lead to identity-based divisions that operate as indirect responses to shared economic concerns. This chapter situates identity salience within economic contexts, offering a nuanced perspective on the complex triggers of social conflict in political economy.

Keywords: economic inequality, identity-based conflict, social conflict, ethnicity, exclusionary dynamics, class and identity, scapegoating

1. INTRODUCTION

A large and venerable literature views conflict across economic classes as a natural outcome of high economic inequality or economic shocks.¹ Yet many, if not most of the conflicts we observe today are not delineated by class, but arrayed along ethnic lines. As [Brubaker and Laitin \(1998\)](#) have observed, “[An] aspect of the post-Cold War world to highlight is the eclipse of the left-right ideological axis that has defined the grand lines of much political conflict — and many civil wars — since the French Revolution . . . Today, these incentives to frame conflicts in grand ideological terms have disappeared . . . [T]his has led to a marked ethnicization of violent challenger-incumbent contests.” Similarly, an important theme in

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¹Marx is, of course, lays the bedrock for this point of view, but see also [Coser \(1956\)](#), [Dahrendorf \(1959\)](#), [Deutsch \(1973\)](#), [Gurr \(1970\)](#), [Gurr \(1980\)](#), [Simmel \(1955\)](#), or [Tilly \(1978\)](#) for other iconic work along these lines.

Horowitz's monumental book (1985) is that warring groups are — more often than not — “horizontally” differentiated by ethnic or religious markers, unlike the “vertical” wealth or income markers inherent in class antagonisms. We use the term “ethnicity” or “identity” very broadly here to include categories demarcated by religion, kinship, or citizenship status.

To us, the ethnicity-based reaction to high economic inequalities is one of the great questions of political economy, and indeed of our times. In many countries around the world, and at various levels of economic development, we see that high and growing economic inequality or polarization is often met with antagonisms across individuals or groups in largely similar economic niches or occupations, but separated along some non-economic “identity” marker.² We see rising xenophobia, racism and religious violence all around us. At first sight, this comes across as paradoxical — after all, one would expect the reaction to increased economic inequity to point unerringly at the roots of such inequity. That is, we would expect a conflictual reaction to economic inequality to be based on class divisions.

Certainly, we have seen several instances of social conflict that can be suitably described as class-based, so it isn't that the standard view is entirely irrelevant. This view is a product of the deep influence that Karl Marx exerts on us. How can economic differences *not* directly result in a reaction to those differences along economic lines? And yet, if we look at those economic situations with fresh eyes, the lack of a class-based reaction may be not that surprising after all. Class warfare is no easy matter. It takes immense resources and discipline, both physical and mental, to effectively coordinate a group, especially when that group is pitted against another group of far greater economic means.

Additionally, under class-based conflict, the policies that would distribute the spoils of such warfare (if successful) are indirect and high-level — land reform, progressive taxation, inheritance laws and the like — and require an institutional control that's often far from readily available. Therefore, even though economic differences might lie at the root cause of social tensions, it is economic similarity across groups that may more directly trigger those tensions. The operative force is often *exclusion* rather than *redistribution*. Conflicts frequently arise over contested resources such as land, jobs, business opportunities, and government quotas, and so often erupt across groups in similar economic positions.

This “game of exclusion” generates a pragmatic difficulty. The absence of clear economic distinctions creates a coordination challenge. If we are workers in the same industry or

²For a review of the literature on polarization measures and their applications to both economic differences and identity-based groupings, see the chapter by Esteban and Mayoral in this volume.

both business owners in the same sector, are we rivals or allies? Anarchic exclusion is possible but inefficient. We view non-economic identities as devices that step in to solve the coordination problem. These identities — whether invoked spontaneously by group members or deliberately by opportunistic political leaders — serve as markers that unite an in-group while excluding an out-group. Not surprisingly, these markers often align with historical fault lines where past conflicts have occurred.

For these reasons and others that form the subject matter of this review, the backlash to economic inequality may therefore be oddly orthogonal in nature. Because the warring groups often have the same economic characteristics, someone studying those conflicts from the traditional perspective may well be tempted to label them as primordial battles that are devoid of any economic rationale. But such conflicts may well be economic in at least one of two senses: they may have been provoked by extreme economic inequality, and the conflict itself could well be exclusionary, thereby serving an economic end. While recognizing that the traditional viewpoint may well be applicable in several circumstances, the goal of this review is to emphasize how economic circumstances can make non-economic identities salient in conflict.

2. FROM ECONOMICS TO IDENTITY: CONCEPTUAL ISSUES

2.1. Some General Remarks. As already mentioned, our review will emphasize the transmission from economic processes (inequality, shocks) to social conflict delineated across non-economic markers that depict “social identity” or “ethnicity”. However, while the boundaries of our review are deliberately drawn to emphasize identity formation that transcends economic descriptors, there is clearly a broader taxonomy in the background. We briefly discuss it here to place our review in that more general context.

A set of individuals constitute a society. Each person has a *type* that comes in two dimensions. The first dimension is economic: it could be as fine-grained as one’s income or wealth, or more coarsely categorical such as blue/white collar or worker/capitalist. The other dimension is non-economic, standing for gender, nationality, religion, occupation, and so on. Often, we shall refer to this dimension as an ethnic or identity type.

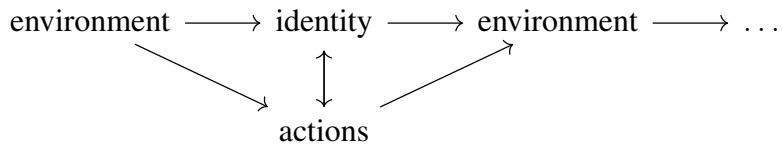
At one level, “society” is a mere aggregation of individual types and behaviors. But more than that, it is an environment that influences each individual’s behavior and sense of self. Of interest to us is the influence of the social environment on an individual’s deliberate or instinctive notion of her *identity*. By that, we refer to an individual choice of her dominant

type dimension — is it economic, and therefore shaped by income and wealth, or is it non-economic, and therefore a declaration of religious, ethnic or gender membership over and above the economic dimension? Moreover, might such identity divisions trigger an orthogonal form of conflict, seemingly unrelated to economic matters but in fact provoked by economic conditions?

This framing is elementary to the point of being simplistic. It is certainly possible — and it is often the case — that different identities are salient for the same person in different spheres of life. For instance, her economic type could be salient in her employment sphere, her gender in the social sphere, and her caste in the political sphere. But excessive generality can be both empty and confusing, and we shall suppose that in any particular situation under consideration, a single dimension comes to the forefront for each individual. While a variety of conflicts may well be in progress at any one point of time, we would like to think about these conflicts separately, and about what made the lines of that conflict salient.

Our interest, then, lies in mapping environments to markers that are salient at the individual and social level, and that might be implicated in triggering social conflict. Environments include economic factors, such as per-capita income, or the distribution of that income or wealth, the extent of measured poverty, rates of economic growth, and so on. They also include political and cultural factors, such as immigration policy, laws governing abortion, religious regulations and freedoms, the extent of affirmative action by race, gender or caste, and so on. Many of these, such as climate regulations, bear directly on the economic environment as well, so a clean separation into economic and non-economic aspects is neither easy nor particularly desirable.

Of course, there is also a reverse mapping from the expression of individual identities to the ambient environment, so that salient identity choices and the environment evolve together. A crude summary of all these interactions can be depicted thus:



A complete analysis of this mapping represents an entire research program that we cannot hope to adequately capture in this review, partly for reasons of selectivity and space, but mainly because in the existing literature, such a program is far from complete. At the same time, while our main focus is on the schematic arrows that run from environment to

identity and behavior, it is useful to keep the broader program in mind. For instance, one might ask if the overall mapping is “self-reinforcing” or if it “self-corrects”. Examples of self-reinforcement have to do initial conflict around some identity, perhaps largely as a result of historical accident, which then creates a backlash along those same lines, leading to a hardening of the identity in question. Examples of self-correction would include a renewed focus on economic considerations; say, via the electoral process, because existing policy has gone too far in emphasizing identity over economics. Either could happen: the distribution of salient identities around a conflict or policy could further harden those cleavages, or it could spark off a preoccupation with other latent battle-lines.

This description is a high-level summary of the overall approach. As already mentioned, our emphasis is on the initial arrows in our schematic diagram. In particular, we start with some aspect of the economic or cultural environment, such as heightened economic inequality or an outbreak of racial violence. Individuals will react to that drift. In part, the reaction is psychological and spontaneous. In part the reaction could be made possible by a political actor or party, or by group-formation. (These are different aspects that we attempt to flag below.) Certain dimensions of individual identity could then become salient. Such “choices” of identity are subsequently accompanied by individual actions, such as voting, or by collective action, such as a group-based demand or social conflict.

2.2. From Environments to the Salience of Identities. Which environments spark which identity divisions? One view emphasizes the direct connections between environment and identity. In the words of [Bonomi, Gennaioli, and Tabellini \(2021\)](#), “When class conflict is stronger, voters identify with their class. When cultural conflict is stronger, they identify with their cultural group.” Under this view, the more disequalizing or inequitable the economic stage, the sharper will be the emphasis on class conflict. On the other hand, if there is a cultural shock — say, a large influx of refugees or immigrants, the reaction to that will be suitably cultural as well. While straightforward, this direct approach of linking the nature of the shock to the corresponding nature of the response has much to commend it.

On the other hand, *economic* shocks or persistently high economic inequalities might precipitate *non-economic* identity groupings.³ For instance, an adverse or unequal economic environment might translate into low rates of individual investment, with those efforts diverted to more sinister pursuits, such as violence against immigrants or some ethnic group.

³This is not to assert that identity-based conflict stems exclusively from economic changes. It is obviously a broader phenomenon that transcends the traditional boundaries that separate the social sciences into economics, sociology, anthropology and so on, while obviously retaining intersections with all these fields.

This latter focus on a “cross-effect”, one that runs from economics to identity-based conflict, is one that recurs in our own writings and in those of many others.⁴

In the rest of this Section, we describe some theoretical frameworks that address such questions. Sections 2.3 and 2.4 explore behavioral theories on the salience of identities and the dimensions of conflict. Section 2.3 suggests that economic shocks can heighten the salience of economic class, while cultural shocks, such as a surge in migration, make identity conflict more likely. The focus here is on stereotyping by class or identity and on echo effects that magnify the initial impetus towards particular identities. Section 2.4 emphasizes cross effects from economics to identity. It discusses how failed aspirations in the economic sphere can redirect frustration into a renewed focus on identity and cultural aspirations. Section 2.5 highlights the challenges of class conflict for the have-nots, who face high opportunity costs for their conflict resources. In contrast, ethnic alliances often exhibit high *within-group* economic inequality, leading to a perverse synergy. Section 2.6 discusses horizontal inequality across groups. Finally, Section 2.7 reviews some other aspects of the class-identity salience problem, such as the persistence and visibility of ethnicity relative to class.

Opening the door to psychological effects can be tricky, and we attempt as far as possible to stay close to conventional frameworks of reasoning in economics. We appreciate that to understand situations of potential or actual conflict, it is undeniable that cultural or economic triggers, or considerations of relative income and aspirations must take center stage in the formation of preferences. It would be absurd to assume away such first-order effects, but our goal is to introduce them as minimally as possible, and with a certain degree of methodological discipline. Likewise, individual beliefs about social groupings or social positions must be brought in, but again our aim is to hew as closely to mainstream reasoning as possible. In particular, individuals will be presumed to possess well-defined payoffs over the situations of interest, and will act so as to further these payoffs.

⁴That said, we must accept the existence of some original source of latent antagonism between the identities in question, perhaps the product of historical conflict. One could certainly go all the way and advance the argument that such antagonism must be “primordial.” Primordialism is a theory that suggests that people’s identities, including their cultural and ethnic identities, are deeply rooted in their biology or primordial characteristics, such as their ancestry or physical traits. This theory assumes that these identities are innate and unchanging, and people are naturally inclined to form communities and associate with those who share similar primordial characteristics. It is easy enough to take this argument a step further and claim that such identity-formation is closely connected to fear, hatred, and resentment towards other groups (Huntington 1993, 1996, Lewis 2002). According to this theory, ethnic identities are deeply ingrained and enduring, and ethnic conflicts are therefore inevitable (Horowitz 2001, Smith 1991). We stop short of endorsing this perspective. In contrast, we view such identities as being triggered, often (though not always) by *economic* forces.

2.3. Cultural Salience and Stereotyping. We begin with a view that suggests that the social environment serves as a “direct” psychological trigger for the expression of certain identities. That is, as [Bonomi, Gennaioli, and Tabellini \(2021\)](#) emphasize, there are direct effects of the environment on psychology: economic shocks, such as a recession, heighten economic salience, while cultural shocks, such as a sudden influx of refugees, heighten cultural salience. Scholars like [Akerlof and Kranton \(2000\)](#), [Alesina and La Ferrara \(2005\)](#), [Shayo \(2009\)](#), and [Bénabou and Tirole \(2011\)](#), among others, incorporate identity directly into the utility function. These preference frameworks can then be attached to generate theories in which cultural or economic identities are activated by environmental factors, making one identity more prominent than another. These direct pathways are important, and the theories we review can include a multiplier effect that amplifies the initial trigger.

Endogenous Identity. According to social identity theory ([Tajfel and Turner, 1979](#)), group formation and cohesion occur through a process of categorization, identification, and comparison. Individuals evaluate the characteristics, values, and beliefs of various groups, align themselves with the group they feel most connected to, and then compare their chosen group’s attributes with those of others. Recent work in economics on endogenous identities ([Shayo, 2009](#); [Sambanis and Shayo, 2013](#); [Bonomi, Gennaioli, and Tabellini, 2021](#)) has sought to model these ideas.

Focusing on specific dimensions of identity such as class in [Shayo \(2009\)](#) or ethnic groups in [Sambanis and Shayo \(2013\)](#), Shayo explores when individuals adopt a narrow identity (e.g., class or ethnic group) as opposed to identifying with broader collectives like the nation. Individuals identifying with a group care about two main factors: (a) the status of their group, especially how in-group members’ payoffs compare to out-group members, and (b) their own similarity to other group members. Shayo argues that identity choice involves a trade-off between the benefits derived from group status and the costs associated with distance from the group ([Shayo, 2009](#); [Sambanis and Shayo, 2013](#); [Shayo, 2020](#)).

In a social identity equilibrium [Shayo \(2009\)](#); [Sambanis and Shayo \(2013\)](#); [Shayo \(2020\)](#), individual actions are optimal given their identity, identities are optimal given the social environment, and the social environment is shaped by individuals’ actions. Narrow identity alignment such as class in [Shayo \(2009\)](#) or ethnic groups in [Sambanis and Shayo \(2013\)](#) intensifies conflict along that dimension, whereas national identification tends to mitigate these pressures. As a result, conflict amplifies subgroup differences and affects the status associated with particular identities, further exacerbating tensions.

Similarly, [Dasgupta and Goyal \(2019\)](#) and [Carvalho \(2021\)](#) consider the trade-offs individuals face when choosing between a narrow or wide identities. The authors argue that the benefits of identifying with a smaller group, such as stronger social ties, protection, and higher social status within that group, may outweigh the benefits of identifying with larger collectives. This process is influenced by factors such as economic inequality, competition for resources, and social conflict. As group cohesion strengthens within narrow identities, this can increase social divisions, reduce cooperation between groups, and exacerbate conflict.

Stereotyping and Amplification. Research shows that there are substantial and systematic misperceptions regarding members of other groups ([Yang and Bursztyn, 2022](#)). These misconceptions often arise from stereotypes, misinformation, or limited exposure to diverse perspectives, leading to distrust or the dehumanization of ethnic groups. Such misperceptions are known to fuel tensions and violence ([Blattman, 2022](#)). Moreover, past conflict only worsens the polarization of ethnic identities. For example, in South Asia, studies have demonstrated that early childhood exposure to religious riots in a district increases the likelihood of religious discrimination by bank managers in loan provision ([Fisman et al., 2020](#)), by judges in bail decisions ([Bharti and Roy, 2022](#)), and reinforces ethnic identities while altering the consumption of taboo foods like beef and pork ([Atkin, Colson-Sihra, and Shayo, 2021](#)).

[Bordalo et al. \(2016\)](#) build a model of stereotyping in which the defining or distinguishing trait of another group is the one with the highest relative frequency compared to one's own group. Although this trait may not be the most common within the other group, it is perceived as the characteristic that most differentiates the other group from one's own. Stereotypes, therefore, are selective exaggerations based on reality but remain context-dependent and relative. In a parallel way [Bonomi, Gennaioli, and Tabellini \(2021\)](#) argue that individuals identifying *with* a group tend to overestimate those traits within their group that have the highest relative prevalence compared to those in out-group members. As [Bonomi, Gennaioli, and Tabellini \(2021\)](#) explain:

“[I]dentity causes voters to slant their beliefs toward the stereotypical views of their group... It occurs because voters overweight the distinctive opinions of group members or those of group-linked experts and media.”

These biased beliefs consequently deepen divisions along identity lines, intensifying disagreements between groups. Amplified political conflict then further polarizes individual

perceptions of in-group and out-group members. These echo effects must be resolved through a fixed-point property of the resulting direct and indirect impacts, as individual polarization sharpens cultural battle lines, reinforcing the initial stereotyping.

Amplification is also a feature in the work of [Carvalho and Sacks \(2024\)](#). In their dynamic model, identity-based organizations can sometimes strengthen identification with a particular identity group over time through biased cultural transmission (within the group) and endogenous discrimination (across groups). Identity-based organizations, such as those formed around religion or race, can amplify group identity via cultural transmission, serving both as a mechanism to mobilize individuals and, in certain circumstances, to foster extremist ideologies. “Prestige-biased cultural transmission” emphasizes the spread of extreme ideas within a group due to the influence of its most active participants. The identity-based organization can radicalize the identity group by screening out low-attachment types and using the active high-attachment participants in the club to raise identification among all group members over time. In addition, inducing “blanket discrimination” against group members, the identity-based organizations can shield itself from competition from outside alternatives. Blanket discrimination ([Bisin et al., 2011](#)) is directed toward all group members regardless of their activity level and lower the payoff to outside activity by members of the identity group. This “niche construction” captures how identity-based organizations may inadvertently create discrimination and marginalization of the group, thus prompting members to seek identity affirmation through extreme activities. This “niche” solidifies group ideology commitment and promotes more radical activities.

Economics or Identity? [Bonomi, Gennaioli, and Tabellini \(2021\)](#) bring together the concepts of stereotyping and endogenous identity. In their model, individuals choose the dimension of their identity, with voters potentially aligning with either their economic or cultural group, depending on which dimension maximizes group conflict. Cultural identity becomes dominant when the relevance of cultural policy increases relative to economic policy. For example, a significant influx of immigrants or instances of minority discrimination raise the salience of cultural issues:

“Cultural identity is more likely to dominate when the importance of cultural policy relative to taxes increases... triggered, for instance, by a large inflow of immigrants or by episodes of minority discrimination.”

Similarly,

“Cultural identity is more likely to dominate when differences among cultural groups are large relative to those among economic groups.”

Shocks in one dimension tend to redirect focus onto that dimension. Initial identity divisions caused by such shocks are reinforced by stereotyping mechanisms, creating a psychological multiplier. As cultural battle lines are drawn, they are further entrenched by distorted perceptions of the issues, alongside increased payoffs for adopting cultural positions. As previously mentioned, heightened salience of one identity dimension polarizes stereotypes and beliefs along that line, intensifying disagreement among group members while reducing polarization along less salient identities.

The key implication of this psychological multiplier is that once cultural salience dominates, and the focus on class diminishes, the corresponding echo effects of class conflict also fade. This amplifies the shifts: not only does the cultural conflict become sharper, but the intensity of class-based conflicts decreases. To be sure, even the first-order effect without any amplification means that attention and energy is drawn away to cultural divisions, which by itself should mean that the intensity of the class conflict should lessen.

In this framework, the shocks from the socio-economic environment are directly tied to the identity divisions they provoke. Cultural shocks lead to cultural salience, while economic shocks lead to economic salience, although the authors consider potential cross-effects, such as the possibility that an economic shock, like China’s rise, might trigger cultural salience.

Note that there is no collective action or actual conflict in this story, at least not explicitly. An explicit model of conflict (as opposed to a purely psychological reaction expressible at little or no cost in the ballot booth) would need to incorporate the costs of waging that conflict; see Section 2.5. An economic shock that generates extreme inequality might also increase the costs of waging a class conflict, pushing individuals toward identity divisions as a secondary source of self-esteem — a consolation prize, so to speak.

2.4. Cultural Salience and Aspirations. In contrast to the previous section, but also as a complement to it, the psychological salience of non-economic identities can emerge as a result of failed aspirations that stem from an economic crisis or persistently high economic inequality. When aspirations are socially determined by the ambient level and distribution of income or wealth, relative comparisons of economic standing invariably enter the picture. Moreover, the effects are not “direct” in the sense of the previous section. In particular, they run from economics to identity, as we shall now discuss.

There is an active debate in the political economy literature regarding whether the primary cause of conflict is driven by some absolute notion of “greed” (resource-grabbing, as discussed in Section 2.5) or a relative notion of “grievance” (Blattman and Miguel, 2010). The grievance theory draws on the idea of *relative deprivation*, first articulated by Gurr (1970). Gurr emphasizes that discontent arises not from absolute conditions, but from individuals’ standing relative to others or their expectations of that standing. Relative deprivation fosters a sense of grievance and injustice, which heightens frustration and can lead to violent conflict. The grievance concept is in line with the *frustration-aggression hypothesis* proposed by (Dollard et al., 1939), which offers a psychological explanation for aggressive behavior, suggesting it stems from the frustration of unmet goals. This hypothesis has been widely applied to studies of scapegoating and hate crimes within social psychology and philosophical anthropology (Girard, 1986; Allport, 1954; Glick, 2005).

The model presented in this section falls within the grievance-based explanations of conflict.

Failed Aspirations. The theory of aspirations (see Ray 2006, Genicot and Ray 2017, Dalton, Ghosal, and Mani 2016, and Bogliacino and Ortoleva 2014) posits that individuals have aspirations or milestones for their own economic advancement, or for the economic well-being of their descendants. It is presumed that such aspirations are at least in part determined by average societal wealth and the relevant distribution of that wealth in some window around the individual’s economic position. Importantly, to a large extent, these influences are *outside the control of the individual*. The resulting aspirations influence economic behavior and intertemporal decision-making, shaping how individuals prioritize their efforts and set aside resources to make future economic improvements. This description is drawn directly from Ray (2006) and Genicot and Ray (2017, 2020).

Figure 1(a) illustrates aspirations-based preferences. If we measure relevant economic achievement by the variable z , it provides two sources of payoff. The first is a “classical” increasing and concave payoff $w_0(z)$. Additionally, the crossing of an aspirational threshold, depicted by a , is celebrated by a separate payoff w_1 , defined on the excess of achievement over the aspirational threshold; i.e., on $\max\{z - a, 0\}$. The combined payoff $w_0(z) + w_1(\max\{z - a, 0\})$ is depicted in the diagram. For any cost function of attaining z (to be given more structure below), the optimal solution involves a payoff comparison of at most two possibilities that satisfy the first order necessary condition for an optimum: the alternatives that yield z_0 and z_1 in Figure 1(a).⁵

⁵The assumption that aspirational payoffs are given by an extra concave indicator w_1 tagged on to the baseline concave payoff w_0 lies behind this easy characterization, but it can be generalized.

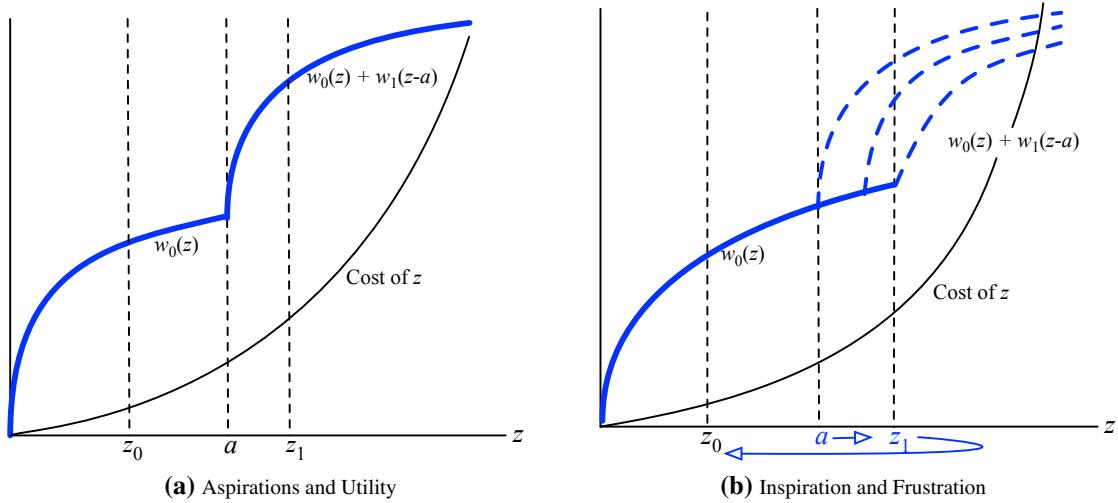


Figure 1. Aspirations, Inspiration and Frustration. Figure adapted with permission from the *Annual Review of Economics*, Volume 12 ©2020 Annual Reviews.

We follow [Genicot and Ray \(2020\)](#) to extend this core setting to accommodate two kinds of “investments.” One is economic, as just described. The other concerns a desire for identity-based achievement. This could be as basic as a need for social status and recognition, or participation in cultural, religious, or community activities. These could stem from the relatively benign goal of achieving dignity and fair treatment for one’s own group. However, in a world in which the advancement of one’s own identity might come at the expense of denigrating another identity, these goals might impose negative externalities on other groups. That includes the more sinister activity of exerting dominance over another group, perhaps with the connivance of the State. Efforts expended in the securing of these desires can be depicted as an interactive game, just as in any theory of conflict, and we do so here.

As in standard models of conflict (see, e.g., [Haavelmo 1954](#), [Hirshleifer 1995](#), [Skaperdas 1996](#), [Esteban and Ray 1999](#) or [Jia, Skaperdas, and Vaidya 2013](#)) we view identity-based achievement as a Tullock contest, with an “identity public prize” π . To achieve this prize, resources are expended on both sides, and the resulting expected payoff is given by

$$\frac{R}{R + \bar{R}}\pi,$$

where R is the own-group expenditure of resources, and \bar{R} the resources expended by the opponent group.⁶ Our individual chooses a division of economic investments i that generates an economic outcome $z(i)$ as an increasing, concave function, and resources r ploughed into the identity prize, so as to maximize

$$(1) \quad \underbrace{w_0(z(i)) + w_1(\max\{z(i) - a, 0\})}_{\text{economic payoff}} + \underbrace{\frac{R_- + r}{R_- + r + \bar{R}}\pi}_{\text{identity payoff}}$$

subject to $i + r = b$. The idea is that she has a budget b which she splits among two activities: economic investment and “cultural investment.” In the second expression, the rest of the own-community invests R_- and the individual invests r , so that $R = R_- + r$. (Of course, there may be more activities, including current consumption, which can be easily incorporated via the use of an opportunity cost function defined on (i, r) and subtracted from the expression in (1), instead of the starker budget b . No results change.)

Orthogonal Responses. This kind of setup is particularly well-suited to study cross-effects running from economics to culture, and vice versa. We mention two channels here, but natural extensions of this theory lead to other avenues. First, we study the connections between high inequality and identity investments, via the channel of failed aspirations. Second, we interact these connections with the intrinsic difficulties of waging a successful identity conflict. Figure 1(b) will be useful in what follows. Interpret the function labeled “cost of z ” in that figure as the foregone payoff from cultural investments when investing i to achieve z . More generally, if there are other activities such as current consumption, the “cost of z ” can be viewed as the indirect cost function of achieving outcome z after optimizing out for all other activities, including r .

Consider, first, an increase in economic inequality. For all individuals at the lower end of the income scale, aspirations climb, driven by the perception of wealths in the social distribution that exceed theirs.⁷ A basic feature of the models in [Ray \(2006\)](#) and [Genicot](#)

⁶This expected value could be viewed as a deterministic share of the overall prize, or as a probabilistic payoff of the entire prize. Relevant group sizes are suitably small so that the free-rider problem does not kick in, or that there is within-group altruism. These and other options are discussed in [Esteban and Ray \(2011b\)](#).

⁷This could happen in two ways. First, even if aspirations are unchanged or growing at the rate of average income growth, rising economic inequality will cause many incomes to underperform that average. Second, if aspirations for an individual are calculated from the incomes of those richer than the individual in question, and if economic inequality goes up, then aspirations for that individual will rise relative to her income. Observe that for individuals at the very top, matters could go the other way, depending on the precise manner in which aspirations are formed; see [Genicot and Ray \(2017\)](#) for more discussion. But concentrate here on the relatively poor who are on the receiving end of rising inequality.

and Ray (2017) is that rising aspirations can serve both to inspire and to frustrate. Consider an initial situation in which an individual is *satisfied*; that is, her investment results in an economic achievement that surpasses her socially determined aspirations. Then the increase in aspirations described in the previous paragraph will exert an upward pull on that investment, as it takes more to reach and surpass the aspirational threshold. The individual in question may not be too happy about the greater demands on her resources (formally, her utility levels slip down), but aspirations are “inspirational” in this zone in the sense that they stimulate greater investment, quite possibly to the benefit of that individual’s descendants. The first of the two arrows in Figure 1(b) illustrates this effect.

But the second curved arrow in Figure 1(b) depicts a different outcome. If aspirations rise to levels that cannot be met or become too costly to achieve, an outcome such as z_1 in Figure 1(a) must give way to the lower outcome z_0 , causing a shift from inspiration to frustration. Typically, that transition will happen “discontinuously,” leading to a sharp drop in economic investment. That sudden cutback in i must lead to an outpouring of effort and resources r into the identity dimension. According to this view, then, the heightened focus on identity advancement is an outcome of aspirations failure along the economic dimension.⁸

For our second exercise, we hold aspirations fixed, and ask how the slipover into identity conflict is affected by group demographics. We limit ourselves to a partial-equilibrium exercise in which we hold own-group contributions R fixed, and vary \bar{R} , the resource contributions made by the other group. We take it that this variation corresponds to a comparative-statics exercise in which group sizes are altered. (A fuller analysis with the same results would have to then account for the endogenous reaction of individual contributions, but we do not do that here for expositional ease.) It should be obvious that the tendency to slip over into identity conflict will vary directly with the marginal product of r . That latter term is easily seen to be given by

$$\text{Marginal product of } r = \frac{\bar{R}}{(R + \bar{R})^2} \pi.$$

Note that the effect of \bar{R} on this marginal product is given by the cross-partial derivative

$$\frac{\partial \text{Marginal product of } r}{\partial \bar{R}} = \frac{R - \bar{R}}{(R + \bar{R})^3} \pi.$$

⁸The result is unchanged even if we have other activities such as current consumption. Summarize these in the form of an opportunity cost $c(i + r)$ and subtract it from the payoff in (1). Then the sudden drop in i and z must still lead to a jump up in r , even as it leads to an overall reduction in $i + r$.

That is, the marginal product of r is boosted by \bar{R} as long as $\bar{R} < R$, and then declines as \bar{R} progressively exceeds R . This implies that frustrated demographic groups most likely to switch over from economic investments to identity-boosting activities must be significantly-sized relative to their targets: such situations display a relatively high value for the marginal product of r .⁹ As already noted, a fuller analysis must involve both economic position and group demographics, as well as endogenous effort expenditures, but the main message can be shown to remain unchanged: the identity reaction will be stronger for significantly sized, poorer, frustrated groups that also have opponents of significant size.

To obtain a more fine-grained description of this reaction, consider a majority group that confronts a steadily growing minority. The equilibrium value of \bar{R} , while smaller than R , will also be increasing relative to R . Even members of the majority group with satisfied aspirations will then redirect resources at the margin to greater collective action. But this is a smooth “marginal” increase. If a rise in economic inequality tips sizable segments over from satisfaction to frustration, the resulting upsurge in identity-based collective action represents a discontinuous surge of a different magnitude altogether.

Reversing the analysis, we see that these arguments not only speak to the orthogonal shift from economic hardship to identity politics, they also suggest why small minorities are unlikely to give up the economic route, and would invest even in an unequal society. The marginal product of collective action on the identity front is very small for small minorities. Therefore, even if their aspirations are just as biased by economic inequality as they are for their majority counterparts (controlling for income), the poor minority are less likely to give up on their economic goals. This prediction is certainly consistent with the economic success of minority “outsiders” in many communities, such as homosexuals in the US ([Black, Sanders, and Taylor, 2007](#)), women and lower castes in India ([Luke and Munshi, 2011](#); [Munshi and Rosenzweig, 2006](#)), or Indians in East Africa ([Adam, 2009](#)). For the so-called “model minority,” economic success is often the only way out.

Identity-based collective action could encompass a variety of activities. It may therefore not be coincidental that racism and nationalism rise alongside increasing inequality. As inequality and frustration grow, individuals may seek alternative sources of dominance, such as group-based esteem, recognition, or even dominance on cultural or religious grounds. Clever politicians can exploit this need for dominance (consider this as raising the value

⁹For reasons of space, we avoid a discussion of the link between group size and overall resources expended on conflict, but this is positive, as is only to be expected.

of π); see [Glaeser \(2005\)](#), [Dal Bó et al. \(2023a\)](#), [Fetzer \(2019\)](#), [Guriev and Papaioannou \(2022\)](#), [Carvalho \(2021\)](#), and [Carvalho and Sacks \(2024\)](#).

2.5. Ethnic Salience and Resource-Grabbing. While the arguments in the previous Section are compatible with both primordial and instrumentalist views of conflict, this section takes the view that “prize-grabbing” — whether economic, political, cultural, or religious — lies at the heart of conflict, whether it is class-based or identity-driven.¹⁰ It also writes down an explicit model of conflict, unlike the literature reviewed in the previous sections. This perspective allows us to “follow the money” — both benefits and costs — and predict the incentives for conflict, with the arguments applying to elites and masses alike. Importantly, there is no assumption that the masses simply follow the elite’s lead; rather, their actions are grounded in individual interests.

The reason this last point is important is that there is a rich descriptive literature that connects economic shocks or inequality to “orthogonal conflicts” that appear to be more identity-driven; see for instance, [Deng \(1995\)](#), [Gagnon \(1995\)](#), [Prunier \(1995\)](#), [Tambiah \(1986\)](#), [Tambiah \(1997\)](#), or [Horowitz \(1985\)](#). There is also a literature in political science that clearly describes how elites might manipulate ethnic markers for their own gain; see [Brubaker and Laitin \(1998\)](#) and [Fearon and Laitin \(2000\)](#) for an overview of different approaches. Yet, as [Fearon and Laitin \(2000\)](#) ask, “[a] major puzzle in this story is why ethnic publics follow leaders down paths that seem to serve elite power interests most of all.” An explicit specification of conflict incentives helps address this puzzle.

2.5.1. Identity Conflict as a Consolation Prize. Think of a conflict as the organized grabbing of resources. For instance, public policies in health, education, infrastructure and foreign trade may be slanted to benefit one class over another. Or they could differentially benefit ethnic identities, as in the funding of religious festivals, in the design of educational curricula, or in the allocation of jobs via ethnic quotas. They could even include such factors as the intrinsic enjoyment of religious or cultural dominance. Conflict would involve the attempted takeover of such public resources, to influence the composition of their expenditure.

Conflict could also involve the seizure of *private* resources, such as land, livelihoods and or transferable assets of the victim. That seizure could proceed via direct appropriation (as in the case of land) or via systematic exclusion (as in the case of occupations).

¹⁰See, e.g., [Straus \(2005\)](#), [André and Plateau \(1998\)](#) and [Fearon and Laitin \(2000\)](#).

In either kind of conflict the “elites” and the “masses” within any identity group have distinct roles to play. To engage in effective collective action requires both bodies — physical, corporeal resources devoted to the act of violence — *and* finance, to enable organization, information provision, the use of weapons, and to fund what is often a literal war of attrition. In a sentence, the rich among the group can supply the finance, while the poor supply the bodies. In this sense, high *within-group* economic inequality can lead to a perverse synergy, which is an aspect of identity-based conflicts that — almost by construction — is not present in class-based alliances. It makes identity conflicts easier to conduct. Under the viewpoint presented here, the masses participate because the seizure of economic and cultural resources from another group — even if they are equally poor — is a consolation prize, an attempt at restoring self-esteem in a world where they have been crippled by economic inequality.

That the poor in an identity group are unwilling — or rather unable — to fruitfully address the real sources of their deprivation is a deeply frustrating but entirely understandable phenomenon. A conflictual engagement with the extremely powerful economic elite is (almost always correctly) perceived to be a no-win situation, so that a sense of self-esteem is only preserved by antagonism against another relatively powerless community. Meanwhile, the elites as happy to participate in — or even instigate — the use of ethnic markers for conflict, for this way they can entertain and encourage a distraction from deeper economic inequalities. They can strategically harness the perverse synergy described above; for instance, elites could “propose” an ethnic alliance to prevent class conflict initiated by the poor. The result could be either no conflict — if the poor are unable to mount a class-based challenge — or “orthogonal conflicts demarcated by ethnicity,” which offer nontrivial albeit modest gains to ethnic majoritarian poor groups.

2.5.2. Class and Identity. To illustrate these points [Esteban and Ray \(2008\)](#) suppose that there are two class identities: p (poor) and r (rich), as well as two ethnic or religious identities, h and m . Then there are effectively four types in society: $\{(p, h), (p, m), (r, h), (r, m)\}$. Let n_t be the population proportion of type t , write $n_j \equiv n_{pj} + n_{rj}$ for each religious identity $j = h, m$, and suppose that $n_h > n_m$, so that group h is the ethnic majority.

For expository ease, suppose that all poor individuals have the same income y_p , and that the same is true of all rich incomes y_r , with $y_r > y_p$. We presume that ethnic identity is orthogonal to class identity; that is, the share of the poor in each identity is identical ($n_{ph}/n_h = n_{pm}/n_m$), so that groups h and m have the same per-capita incomes.

We will presume that conflict occurs over a variety of State policies that are broadly in the nature of group-specific *public* goods.¹¹ Some policies have differential impacts over economic class, others over non-economic identity. Examples of the former include public health, education, or transportation, tax policy, or trade and tariff regimes. Examples of the latter include funding for religious festivals or for places of worship, the promotion of economic sectors dominated by a particular ethnic group, or affirmative action in government jobs. Denote by C the budget allocated to class-based policies, and by E the corresponding budget for ethnic policies. We presume that all these goods are public in nature (controlling for class and ethnicity).

Groups can remain at peace or enter into “conflict”. In the absence of conflict all parties get *peace payoffs* under some status quo, in which class i gets a share s_i of the class budget C , and ethnicity j similarly gets a share s_j of the ethnic budget E . So, remembering that the two budgets deliver public goods, an individual in group ij with i a class index and j an ethnic index obtains a peacetime payoff of

$$(2) \quad u(y_i) + s_i C + s_j E.$$

We assume that conflict can come in two flavors. A *class conflict* merges ethnic groups within economic classes, but retains the distinction between poor and rich. The conflict is over the full capture of the class budget C . Similarly, an *ethnic conflict* merges class interests but maintains a distinction across the two groups h and m . The conflict is then over the full capture of the ethnic budget E . In either situation, assume that all conflict is carried out by “militants” or “activists” and victory or defeat is probabilistically given by a Tullock-style contest success function. For instance, if A_i is the number of activists contributed by each class i under a class conflict, then class i wins that budget with probability

$$\frac{A_i}{A_p + A_r},$$

or equivalently (under risk-neutrality), this could be viewed as their effective share of the class budget under conflict. In either case, it is presumed that under a class conflict, the status-quo disposition of the ethnic budget is unaffected. Similarly, conflict across ethnic alliances generates a share of the ethnic budget that is proportional to the activists A_j contributed by each side $j = h, m$, while the shares of the class budget remain unaffected.

¹¹For an analysis of the distinction between public and private goods in this context, see [Esteban and Ray \(2001, 2011b\)](#); [Mayoral and Ray \(2022\)](#) and the contribution by Esteban and Mayoral in this Handbook.

At the heart of the Esteban-Ray formulation is the idea that activists are typically drawn from the poor in society, even for the rich in conflict against the poor, for money can always buy labor. But under class conflict, the cost of poor activism must be borne by the poor themselves, and the loss in utility units can be very high indeed. That is, a poor person of either ethnicity who effectively contributes individual finances f_p to her side of a class alliance will get

$$(3) \quad u(y_p - f_p) + \frac{A_p}{A_p + A_r} C + s_j E,$$

where A_p (times y_p) must equal the monetary equivalent of conflict resources contributed at the group level.¹² This can be an extremely tough ask relative to an individual's peacetime payoff under (2). Formally, that difficulty is captured by the degree of concavity of the utility function. Nonetheless, we presume that *conditional* on entering into a conflict with class alliances, there is a single leader on each side who exacts contributions from each member to maximize the per-capita payoff to the alliance as a whole, expressed by (3).

Now consider a conflict under ethnic alliances. We presume that for each ethnic alliance j and class subgrouping i within that alliance, a leader of that subgrouping ij makes contributions in its own interest. That is, given the number of activists chosen by the opposing alliance, *and* given the choice of activists $A_{(-i)j}$ made by the other subgroup in the alliance, group ij chooses A_{ij} to maximize

$$(4) \quad u \left(y_i - \frac{y_p A_{ij}}{n_{ij}} \right) + \frac{A_{ij} + A_{(-i)j}}{A_h + A_m} E + s_i C.$$

In both situations we view a *conflict equilibrium* as a Nash equilibrium of the resulting class or ethnic alliance games, as described above.

2.5.3. Peace or Conflict? Both class and ethnic conflict are costly and therefore avoidable relative to peace payoffs. So there are broader questions at stake: whether the society is conflict-prone to begin with, and if so, what sort of conflict might result. A good conceptual framework would describe various stages of the process:

1. *Salience.* Alliances form (or not), either along class or along ethnic lines. If such alliances form, move to Stage 2. Otherwise everyone receives peace payoffs as in (2).

¹²For the rich, the corresponding expression would be $u(y_r - f_r) + \frac{A_r}{A_p + A_r} C + s_j E$, and if mercenary activists can be hired, which is presumed here, then $f_r = A_r y_p$.

2. *Hostility*. Each side adopts “hostile” or “peaceful” stances. If *either* side is hostile, move to Stage 3. Otherwise all receive peace payoffs as in Stage 1.

3. *Conflict*. Each alliance contributes militants as already described. They enter into conflict, and each side receives “conflict payoffs” as described in (3) or (4).

This sort of exercise need not be restricted to situations of violent conflict. For instance, [Huber \(2017\)](#) draws on a similar scheme in a voting context, where coalitions form along class or identity lines to secure electoral victory. The “conflict protocol” above would then be replaced by a “voting protocol”, along with coalitional bargaining to distribute the spoils. One can ask similar questions about the salience of class or ethnic identity in that setting, and in the context of high inequality or poverty, as [Huber \(2017\)](#) does.

2.5.4. *Analysis*. For a fuller version of the exercise see [Esteban and Ray \(2008, 2011b\)](#), but we summarize some of the main points here. A neutral benchmark is obtained by specifying *symmetry*, in which (i) the class and ethnic budgets are the same: $C \simeq E$; (ii) all peace shares are the same: $s_h = s_m = s_r = s_p = 1/2$, and (iii) the two dominant majority groups are of similar size: $n_h \simeq n_p$. Esteban and Ray establish:

Proposition 1. *Under symmetry, the poor ethnic majority invariably prefer ethnic conflict to class conflict.*

They then go on to show how far the symmetry assumption can be relaxed and yet retain the conclusion of Proposition 1. We summarize their observations:

[A] *Population Shares*. Under the assumption, adopted here, that mercenaries are always available at wage y_p , it can be shown that all ethnic conflict is financed by the rich ([Esteban and Ray 2008](#) allow for other possibilities). Then in Proposition 1, the symmetry assumption $n_h \simeq n_p$ can be weakened to $n_h \geq n_p^2$. For instance, if 70% of the population are below the mean income of society, then $n_p^2 < 1/2$, which means that a simple ethnic majority ($n_h \geq 1/2$) will suffice for the result of the Proposition.

[B] *Relative Importance of the Ethnic Budget*. The Proposition presumes that class and ethnic budgets are equally important. But this symmetry assumption can be significantly weakened, as Esteban and Ray argue. The extent of this preference is best illustrated here with some numbers. If we set $n_p = n_h = 0.8$ and use again the finding that the rich contribute all financial resources to ethnic conflict, then ethnic conflict is preferred to class conflict by the poor majoritarian group as long as E is at least 47% of C . If n_p were now

to drop, the effect is heightened further. Indeed, at n_p around 70%, the threshold for the ratio of E to C drops to 0: the poor do not win anything at all from class conflict — it is too expensive for them to fund violence — but continue to gain from ethnic conflict.

[C] *Peacetime Shares Across Poor and Rich.* Return to the symmetry condition $C \simeq E$, but examine poor ethnic majoritarian bias under the assumption of different peacetime shares for public goods. As always, the mismatch between the expected gain under conflict and the peacetime shares is a key incentive to fight. Relying on a numerical example once again, we see that if $n_p = 0.7$ and $n_h = 0.85$, while the ethnic majority have half the access to E ($s_h = 1/2$), the poor majority would focus on ethnic conflict even if their access to the class good C fell to 15% of the total!

To summarize: the poor ethnic majority prefer ethnic to class conflict in the case of symmetry (Proposition 1). The discussion following that Proposition shows that the bias survives even when symmetry is dropped to a significant degree. This is, of course, only a partial description of the forces at play. The payoffs to all alliances have to be examined in order to come to a final assessment of behavior and coalition formation. Esteban and Ray build the pieces to lead up to the full exercise of salient alliance formation. For instance, they state:

Proposition 2. *Under symmetry, the rich ethnic majority prefer ethnic conflict to class conflict whenever the poor ethnic majority prefer class conflict to peace. Indeed, if the ethnic majority is large enough (see conditions in their paper), no symmetry assumption is needed.*

Observations such as these can be knit together to provide final predictions using an alliance formation game. Very briefly, the authors assume, as noted already, that there are four separate groups, and the default payoff structure for these four groups is given by the peace payoff vector as in (2). Alliances form as follows. At each stage a group is “given the floor”, according to some protocol. Every group has some uniformly positive probability of seizing the floor. A group can either make a proposal — more below on what this means — or simply relinquish its opportunity to “speak”, at which point the floor is seized by another group. If all groups relinquish the opportunity to speak, peace payoffs are received.

Specifically, a proposal consists of an invitation made to a “compatriot group”, either of the same ethnicity or the same class, and it invites that compatriot to form an (ethnic or class) alliance. It is understood that under that alliance, a corresponding subgame of conflict will be precipitated along the lines already described above. If the compatriot group agrees, the

corresponding alliance forms, and society enters into conflict, and each group then receives the expected payoff corresponding to ethnic or class conflict as illustrated above. Under this semantic interpretation of what a proposal means, the act of making no proposal at all is tantamount to a declaration of peace. If all groups do that, peacetime payoffs are received.

Proposition 3. *Suppose that all preferences over final outcomes are strict, and that the conditions for their observations such as Propositions 1 and 2 hold.*

Then it is possible to have ethnic conflict, or peace, but never class conflict, as an equilibrium outcome of the alliance formation game.

This is their fundamental salience result: that economic inequality biases conflict in favor of *ethnic* rather than *class* conflict. The main forces are (a) that class conflict is too expensive for the poor relative to ethnic violence, and (b) while it may be too expensive relative to peace as well, in those very cases in which class conflict is preferred to peace, the rich ethnic majority would rather divert attention to ethnic violence by funding that violence. The theory presents a complete accounting of all forces, albeit under a simplified structure. In particular, it does not simply assume that the poor masses will blindly succumb to the lead of their elite leaders. These behaviors are derived and not directly presumed.

In summary, it may be true that there is more to fight *for* under class conflict, but there is less to fight *with*. Esteban and Ray conclude:

“Our exercise yields insights on the connections between polarization and conflict. In existing literature, polarization is higher the greater the degree of “within-group” homogeneity and the greater are differences across groups. This intuition, while strong for individuals that differ along a single dimension, may be problematic for the multidimensional case. Indeed, in our study of salience, multidimensionality is indeed what is at stake: economic attributes may interact with other markers, such as religion, to produce a complex set of outcomes. Our model reflects this complexity. In contrast to the unidimensional view, in which greater homogeneity within a group makes for greater coherence and therefore a sharper conflict *across* groups, a multidimensional scenario may well generate more conflict from within-group heterogeneity . . . Notice, though, that the heterogeneity is over a different attribute (income, in this case) than the one that determines the conflictual battle lines (ethnicity, in this case). It will be important to take account of this view in future research . . .”

2.6. Group-Based Inequalities and Horizontal Inequality. A particularly important point in the grievance literature is the possible salience of group-based reference points in judging success or failure. One way of framing this idea — though presumably not the only one — is via the language of aspirations. As we saw in Section 2.4, an individual can form those aspirations by combining and comparing her own economic position in society with the incomes of others. But who, precisely, are the “others”? Ethnicity, religion, nationalities and even narrower markers such as occupational groups can all enter into the formation of reference points. A lack of concordance between one’s own economic status and the achievements of own-group members may be cause for inspiration, complacency and frustration, and as already discussed, could cause spillovers into cross-group violence. But quite separately, collective action and violence could also be triggered by a change in the *relative* economic circumstances of a rival group. This economic disparity across groups, rather than within-group inequality or inequality in society as a whole, has been termed *horizontal inequality*; see especially [Stewart \(2000, 2008b\)](#). A large literature on horizontal inequality and conflict is reviewed in [Hillesund et al. \(2018\)](#).

It is, of course, unclear *a priori* just which groups are relevant to an individual in the formation of her aspirations. This is especially the case when there are cross-cutting identities. The relative visibility of different identities, including socio-economic class, surely plays a role, as does the identity that the individual in question regards as focal. While not downplaying the importance of such questions, we acknowledge that the details of each empirical context must be necessary in answering them. Rather, we focus here on some implications of group-based reference points. Following [Genicot and Ray \(2020\)](#), suppose that there are just two groups; call them h and m . For any person with income y in group h , write

$$a_h(y) = \Psi_h(y, \mu_h, \mu_m)$$

for the aspirations of that person, where μ_h and μ_m are the mean incomes in the two groups. A similar story will apply to the m -group. (A richer description might go beyond mean incomes to entire income distributions.) The own-group effect is just that of μ_h on a_h . Presumably the relationship is positive: a larger own-group mean income should raise aspirations all around for individual members of that group. In contrast, μ_m picks up cross-group rivalry and it is reasonable to presume that its effect on a_h is also positive. Notice that the cross-group needs to be richer on average than the own group, or than the individual in question. A member of group h might want to be, say, 80% richer than an average member

of group m , so that when the rival average changes, an individual could react to it even if that average is significantly lower than the income of the individual in question.

We can retain two dimensions of “investment” just as in Section 2.4, one an economic investment in one’s own future, the other a collective investment into inter-group rivalry. One effect of such collective action is that it can reduce per-capita group incomes for the rival group, via a systematic policy of exclusion for instance. In so doing it could make the returns to economic investment more worthwhile for own-group members, or it could simply confer primordial satisfaction on the own-group. Observe that there is absolutely no presumption that the poorer of the two groups must initiate such conflict. It *could*, and in that case identity conflict would be positively related to horizontal inequality. But conflict initiation is not always connected to the poorer group. Group demographics count as well, because that determines the ease of winning a conflict. If group population size is important in collective action, one might predict that the larger group is typically the initiator in conflict. If that larger group is also richer, then this kind of theory leads to the opposite conclusion: that identity conflict is *negatively* related to horizontal economic inequality.

This approach to horizontal inequality establishes a strong instrumental basis for identity-based violence, one grounded in economic circumstances. In Section 3.3 we study an empirical expression of this phenomenon.

2.7. More on the Salience of Identity-Based Conflicts. Much of the analysis in the previous subsections has focused on how external events might shape preferences, either via stereotyping or via psychological thresholds such as aspirations, but also coupling those preferences with the opportunity cost of conflict along various dimensions. For instance, we noted that the use of a class marker works well in shaping resentments under high economic inequality, but also makes it prohibitively hard for the poor to wage a conflict. We argued that it is therefore possible that ethnic conflict could become salient, because such markers permit the synergistic combination of money and labor power: the poor in a group can supply their labor, and the rich can supply their finances. That creates a bias towards conflict along ethnic lines.

But there are other factors that can be layered on to study ethnic salience, and we briefly address some of them here.

The Immediacy of Gains. Class conflict is a sophisticated phenomenon. Redistribution is often indirect and via the fiscal system; say, via greater progressivity in taxes or via

land reform. In part, this need for indirectness or sophistication comes from the fact that individuals on opposed platforms of the class divide often belong to different professions: skilled manager versus worker, shareholder versus employee, landowner versus small farmer or casual laborer. It is not always the case that the one occupational segment can costlessly take over the occupations in another segment; hence the need for redistributive policy.

But ethnic conflict hides a much simpler form of economic redistribution. It is the distribution of *directly* contested resources: land, jobs, business resources, government quotas, and so on. It is often the case that similar occupations are involved on either side of the ethnic divide. So the resources, such as employment, can be grabbed directly via a process of raw exclusion. The directness of this act — its transparency — can often drive the dominance of identity markers (Esteban-Ray-Mayoral 2012a, b).

Persistence and Visibility. [Fearon and Laitin \(2003\)](#) and [Blattman and Miguel \(2010\)](#), among others, argue that the prominence of ethnic conflict compared to class conflict often derives from the mobilizing power of identity markers. Ethnic divisions, being more deeply rooted and symbolically charged, frequently provide a stronger basis for collective action. This perspective aligns with research emphasizing the persistence and visibility of ethnicity relative to class as key factors explaining the prevalence of ethnic conflict.

[Horowitz \(1985\)](#) makes the critical observation that ethnic identity is often primordial and rigid, whereas class identity is more flexible, subject to change through ongoing mobility or shifts in economic status. In contrast, ethnic identity tends to persist across generations and is often linked to deep-rooted cultural, linguistic, or religious characteristics, making it more salient and potent as a tool for political and social mobilization. [Fearon and Laitin \(2000\)](#) similarly argue that while class identities can shift, especially in response to economic changes, ethnic identities are typically fixed.

Quite apart from the fact that a persistent characteristic is an easier anchor to build an identity on, it is also the case that shifting economic characteristics could attenuate the support for redistributive policy. [Robinson \(2001\)](#); [Bhattacharya, Deb, and Kundu \(2015\)](#) observe that the prospect of upward mobility (POUM) can reduce the incentive to initiate class conflict. This is, of course, an expression of the so-called “POUM hypothesis” that [Bénabou and Ok \(2001\)](#) invoke to provide a rationale for why low- or middle-income individuals oppose redistributive policies, even though they could benefit from them in the short term.

A related but distinct observation is that social class is generally less immediately visible than ethnicity. While class distinctions can be inferred from behavior, lifestyle, or economic

status (Bourdieu, 1984), they often require a deeper understanding of social or economic contexts to be identified. Unlike ethnic markers, which are frequently signaled through physical appearance, clothing, language, or cultural practices, class indicators are subtler. This makes ethnic identity more immediately recognizable and can intensify ethnic tensions and conflict. Visible ethnic markers, such as distinct clothing or language, can make individuals or groups easier to identify, often increasing their susceptibility to discrimination or violence.

According to Caselli and II (2013), ethnic markers play a crucial role in enforcing group membership. Once a group gains control of a nation's resources, it must ensure that non-members are excluded. In more homogeneous societies, individuals from the losing group can more easily disguise themselves as part of the dominant group, reducing the likelihood of conflict in equilibrium. However, when groups are defined along ethnic lines, ethnic identity serves as a clear marker to identify potential infiltrators. By lowering the cost of enforcing group membership, ethnic diversity decreases the risk of ex-post infiltration by members of the losing group. Thus, for a group expecting to win a conflict, a bid for control over a country's resources is more appealing if pursued along ethnic lines rather than non-ethnic ones, which tend to be more porous.

The visibility of ethnic markers can be used in even more subtle ways. The English-language magazine of the Islamic State, *Dabiq* (Issue 7), refers to the penumbra of Muslim/non-Muslim coexistence as the grayzone, and outlines a strategy to destroy that grayzone and thereby drive polarized Muslim support for their own cause:

“The grayzone is critically endangered, rather on the brink of extinction... Muslims in the crusader countries will find themselves driven to abandon their homes for a place to live in the *Khilafah*, as the crusaders increase persecution against Muslims living in Western lands ...”

Multiple Threats to Peace. One basic difficulty in preventing conflict arises from the possibility that there may be several potentially conflictual divisions of society, each based on a different marker, such as class, geography, religion, or ethnicity. The idea that multiple threats exist to peace — along class lines, and along various identity lines — is at the heart of this review article, and in much of the literature discussed here. One might think about this setting as a coalitional game, as in Ray 2007, 2010. Society is the “grand coalition” of all actors. There is, in addition, a class of sub-coalitions demarcated by class of identity. These coalitions can challenge the system. The grand coalition seeks to find an arrangement

that is satisfactory to all, in the sense that no coalition wants to mount a challenge to that arrangement.

Which coalitions serve as potential threats, and how do they challenge the system? One can formulate that problem in different contexts. In a voting context, for instance, coalitions of individuals come together and share the targeted spoils of electoral victory (Chandra 2004, Wilkinson 2004, Huber 2017). The coalition must be large enough to secure victory in the “election game” and well-defined enough so they can be the credible recipients of government rewards. As Huber (2017) observes in this context, “credibility” means among other things that the markers that delineate a coalition must be conducive to accurate targeting. Identifiability of the group is key, as is the related notion of excludability of non-group members. That limits the class of coalitions that can conceivably form. Not just any subset of the population will suffice.

A parallel formulation applies to conflict. In this setting, coalitions of individuals come together and challenge the rest of society to a violent conflict. Votes are replaced by violence.¹³ Now the spoils of victory are secured not just through government edicts — though policies such as redistributive taxation or land reform may indeed be involved in the sequel — but via strongarm tactics that involve social unrest and conflict. Once again, identifiability and excludability could be central, both to restrict gains to the victors and to identify potential victims of violence.

In our specific context of social conflict, return to the grand coalition, our society taken as a whole. Because conflict is inefficient, society can arrange — for every potential conflict — a set of transfers that Pareto-dominate the expected payoffs *under that conflict*. But it may be unable to find an arrangement that simultaneously prevents *all* such threats to peace (Ray 2010, Mayoral and Ray 2022). For instance, it may be that society can set up institutions that can adequately deal with the question of class conflict, only to be confronted by threats from a religious or geographical subgroup. This sort of argument is at its strongest when the different markers generate “orthogonal” divisions of society. Then a system of transfers set up to deal with one sort of division may be entirely useless when confronted with another.

Consider a dynamic variant of this argument, in which one sort of transfer institution is already in place. That institution was perhaps designed to ward off a pre-existing threat of conflict. If that institution is a colonial transplant from a European or Anglo-Saxon colonizer to a developing country, then it is likely that that preexisting threat was class conflict. Then

¹³A significant contribution that considers both alternatives in the context of India is Wilkinson 2004.

the colonized society will have imported institutions — progressive taxation, land reform, the public provision of education or health care — that attempt to address redistributive pressures from a class perspective. Yet that very institution, designed to accommodate class issues, may then spur the formation of a marker that's orthogonal to the class marker, as members of that group realize that from the point of view of this new classification, there may be something to be gained from conflict along non-class splits. Religious divisions or other identity markers might acquire salience against this background. In the longer term, the institutions themselves will need to further adapt. This dynamic of sluggish institutional adaptation to marker salience may be at the heart of many conflictual societies, and it will be worth studying in future research.

3. FROM ECONOMICS TO IDENTITY: EMPIRICAL STUDIES

We now turn to a review of the empirical literature. As emphasized earlier, our review will focus on the ways in which economic forces, specifically economic inequality and external shocks, can act as catalysts for social conflict, and how these conflicts can transcend purely economic lines, becoming delineated by markers of social identity or ethnicity.¹⁴

Beginning with Marx's writings on the subject, economic inequality has often been viewed as the main driver of social conflict. In the words of [Sen \(1973\)](#), “the relationship between inequality and rebellion is indeed a close one.” And yet, intuitive as it might seem, there is no systematic monotonic relationship between inequality and conflict in the data.

[Lichbach \(1989\)](#), [Cramer \(2003\)](#) and [Bahgat et al. \(2017\)](#) survey a range of earlier studies that attempt to link income inequality with social conflict, concluding that the evidence is, at best, mixed. [Midlarsky \(1988\)](#) captures the essence of these findings, noting the “fairly typical result of a weak, barely significant relationship between inequality and political violence.”¹⁵ And indeed, a key implication emerging from the frameworks discussed in

¹⁴There is a separate literature, also of great importance, which describes how *political* competition can give rise to the conflictual salience of identity. For instance, [Wilkinson \(2004\)](#) and [Chandra \(2006\)](#) both detail how ethnic identity can be mobilized politically to win elections or gain economic advantages, particularly when there are significant public resources at stake.

¹⁵These findings echo similar conclusions from the literature on economic inequality and demands for redistribution through democratic processes (e.g., [Alesina and Rodrik 1994](#) and [Stantcheva 2021](#)). As documented by [Persson and Tabellini \(1996\)](#), [Persson and Tabellini \(2002\)](#), and Benabou [Bénabou \(1996, 2000\)](#), this relationship also fails to hold consistently in empirical data. [Bénabou \(2000\)](#) attempts to reconcile these observations with the standard voting-based theory, building a model in which voter turnout rates are positively correlated with income levels.

Section 2 is the inherent complexity in the relationship between open conflict and economic inequality.

First, as discussed in Section 2.4, growing inequality can lead to “orthogonal tensions” along ethnic or religious lines. Rising inequality may initially result in increased economic investments as individuals struggle to keep up with society. However, when these aspirations are unmet, disillusionment can manifest in identity-based conflict, intensifying tensions along ethnic or cultural lines. These tensions could in turn be amplified by factors such as those discussed in Section 2.3.

In terms of observed conflict and depending on how conflict is actually measured, the outcomes can be quite complicated. For instance, the Peace Research Institute of Oslo’s leading indicators of conflict concern violence across two parties, at least one is the State, with various battle death thresholds to demarcate different sub-categories. But everyday conflicts between two communities may not concern the State to begin with.¹⁶

Second, as highlighted in Section 2.5, the economically disadvantaged may face high opportunity costs when it comes to initiating conflict. While they may have the motive, they often lack the means. Conversely, the wealthy, who have lower opportunity costs, typically lack the incentive to engage in redistributive conflict, favoring instead subtler methods to preserve the status quo. These two effects are epitomized in Warren Buffett’s remark during a 2011 CNN interview, “There’s been class warfare going on for the last 20 years, and my class has won.” This dynamic may explain the absence of a clear monotonic relationship between inequality and *open* conflict, though pervasive resentment may be another matter altogether.

Third, as also outlined in Section 2.5, a wealthy ethnic majority may prefer to escalate ethnic conflict rather than face class conflict, particularly when the economically disadvantaged majority advocates for redistribution (Proposition 1). This is a version of a well-known “diversionary tactics” argument. Finally, Section 2.6 suggested that a distinction between vertical (individual) and horizontal (group-based) inequality is essential when examining the inequality-conflict nexus. While vertical inequality refers to disparities between individuals or households, horizontal inequality highlights economic differences between social groups. Both forms of inequality have the potential to fuel conflict, but their mechanisms and

¹⁶For a survey of literature that connects such outcomes to socioeconomic characteristics such as polarization and fractionalization, see the chapter by Esteban and Mayoral in this volume.

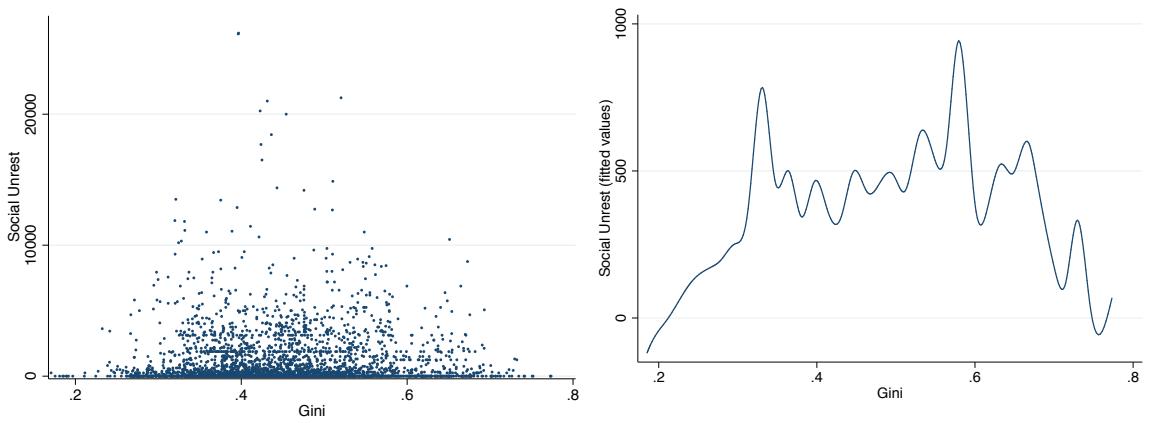


Figure 2. The Banks measure of social unrest and economic inequality. Sources: Cross-National Time Series Dataset and the Standardized World Income Inequality Database.

implications may differ significantly. For instance, it is entirely possible that a *narrowing* of the economic gap between two social groups can ignite conflict.

These are the issues that we expand on below. Section 3.1 revisits the cross country evidence on the relationship between inequality and conflict and shows a non-monotonic relationship between inequality and conflict. Section 3.2 then discusses specific evidence in the literature of direct or orthogonal responses to shocks. Finally, Section 3.3 reviews the evidence on horizontal inequality and conflict.

3.1. A Nonlinear Relationship Between Inequality and Open Conflict. The different arguments outlined in Section 2 suggest that the relationship between inequality and social conflict is likely to be non-monotonic, with various triggers and feedback loops shaping outcomes. One can study this broad point using secondary data on conflict; for instance, the indicators constructed from the dataset maintained by the Peace Research Institute of Oslo (PRIO). We've chosen to do so here using the Banks *et al* Cross National Time Series dataset (Banks and Wilson 2024), because it uses a range of measures of social unrest, not just instances of violent conflict.¹⁷ They report outcomes such as assassinations, strikes, guerrilla warfare, government crises, purges, riots, revolutions, and anti-government demonstrations, and also a weighted measure of these more basic variables. As examples of the variables they use, consider:

¹⁷We are deeply grateful to Laura Mayoral for allowing us to use Figures 2 and 3, as well as Table 1, which she has contributed from her unpublished joint work with Joan Esteban and Debraj Ray.

Guerrilla Warfare. Armed activity, sabotage, bombings by independent bands of citizens or irregular forces, aimed at regime overthrow.

Riots. Any violent demonstration or clash of more than 100 citizens involving the use of physical force.

Revolutions. Any illegal or forced change in the top government elite, any attempt at such a change, or any successful or unsuccessful armed rebellion whose aim is independence from the central government.

Anti-Government Demonstrations. Any peaceful public gathering of at least 100 people for the primary purpose of displaying or voicing their opposition to government.

Social Unrest. An umbrella variable that combines these and other outcomes.

This last combined measure of social unrest shows no linear correlation with economic inequality at all, as is evident from the simple scatter plot and an associated non-parametric regression reported in Figure 2. If anything, conflict appears to rise with economic inequality and then register a fall, as far as these measures go. A quadratic regression of social unrest on economic inequality strongly supports the scatter observation that unrest seems to first rise and fall with increasing inequality; see Table 1. This Table regresses the Banks measure of social unrest on the Gini and the square of the Gini, with both time and country fixed effects. It then does the same with the four components of social unrest that we've described above. In every case, the Gini coefficient on its own does have a positive association with conflict, but only when controlling for the squared value of the former. That squared value enters with a negative sign, bolstering our earlier non-parametric observations. As in the second panel of Figure 2, Figure 3 shows plots for each of the four components against economic inequality, relying on a non-parametric specification.

The relevant coefficients from the parametric regression in Table 1 are sizable as well. A climb from the 1st to the 25th percentile of the Gini is associated with an uptick in social unrest of the order of 34%. However, a further climb from 75th to the 99th percentile is associated with a *fall* in social unrest of the order of 72%.

3.2. The Dimensions of Conflict. The previous section demonstrates that inequality does not always generate open conflict in the conventional sense. However, conflict can arise in various dimensions, particularly between class and identity. Given our review of different

Social Unrest and its Components, 1960–2005					
	[1] Social Unrest	[2] Guerrilla	[3] Riots	[4] Revolutions	[5] Demos
GINI	***10363 (0.005)	**2.992 (0.022)	**8.602 (0.014)	1.456 (0.141)	*7.336 (0.093)
GINI ²	***-12181 (0.003)	**-3.759 (0.010)	**-8.234 (0.013)	*-1.822 (0.097)	*-7.971 (0.062)
GDP	65.731 (0.701)	-0.036 (0.543)	-0.012 (0.951)	-0.006 (0.904)	0.239 (0.292)
POP	556.606 (0.134)	-0.129 (0.360)	0.610 (0.125)	0.087 (0.387)	***1.114 (0.001)
DEMOC [POLITY2]	-10.019 (0.312)	-0.004 (0.384)	-0.006 (0.515)	-0.002 (0.447)	***-0.043 (0.002)
Lag	✓	✓	✓	✓	✓
C	-8024 (0.399)	1.618 (0.279)	-6.942 (0.384)	-1.275 (0.041)	**-9.647
Country FE	✓	✓	✓	✓	✓
Year FE	✓	✓	✓	✓	
R ²	0.443	0.296	0.405	0.341	0.365
Obs	3357	3360	3360	3358	3274

Table 1. Economic inequality, social unrest and four components of unrest. Sources: Cross-National Time Series Dataset, the Standardized World Income Inequality Database, Penn World Tables, Polity IV.

theoretical perspectives and especially the line of argument that stresses the complex connections between economic inequality and “orthogonal” conflict, this should not come as a surprise. An economic shock or an upsurge in economic inequality may either exacerbate conflict within that same dimension (i.e., class conflict) or lead to conflicts in different, sometimes seemingly unrelated areas. Our review deliberately highlights this no-less-important tendency for conflict to traverse dimensions, from economics to identity. That said, the direct effects matter as well. We include some examples of these in the section that follows.

3.2.1. Direct Effects. Marxist theories on inequality and class conflict posit that increasing disparity between the bourgeoisie and the working class can precipitate widespread societal struggles. Marx argued that as conditions for the working class and the poor deteriorate, a collective awareness of inequality would emerge, potentially leading to revolt along class lines. This is the leading example of a “direct effect” that runs from economic shocks to class conflict. [Deutsch \(1973\)](#) summarizes the Marxian viewpoint well:

“As the struggle proceeds, the whole society breaks up more and more into two hostile camps, two great, directly antagonistic classes: bourgeoisie and proletariat.”

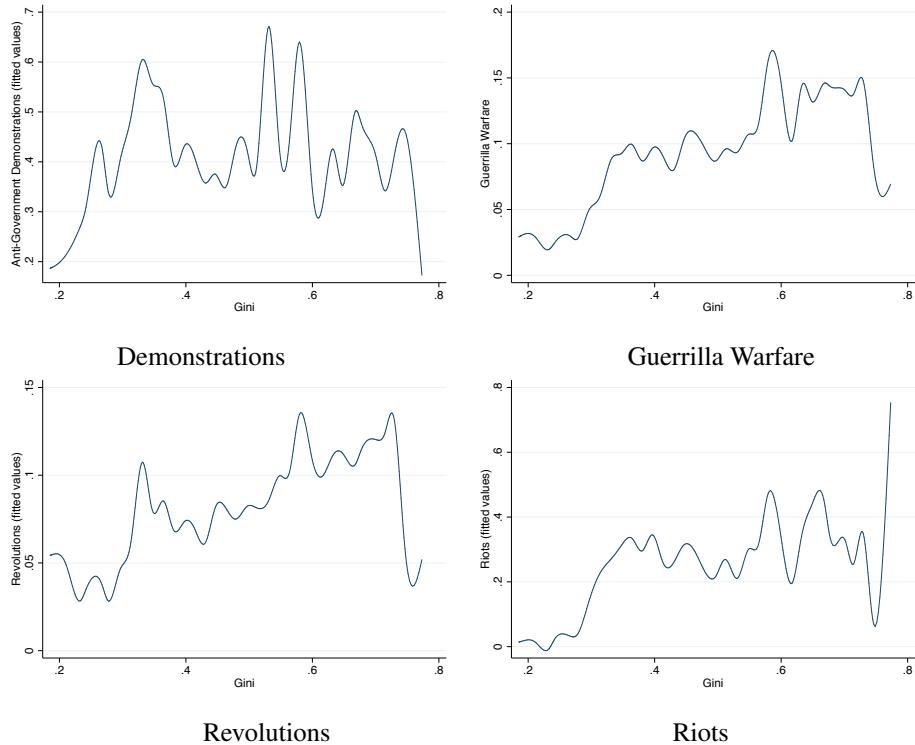


Figure 3. Economic inequality and four components of unrest. Sources: Cross-National Time Series Dataset and the Standardized World Income Inequality Database

The struggle is summarized in a popular battle cry from the French Revolution, often attributed to Rousseau: “when the poor have nothing more to eat, they will eat the rich!”

This conventional argument runs as follows. Economic shocks or increased economic inequality can significantly impact class unrest by intensifying the grievances felt by certain groups and reducing the opportunity costs of initiating and joining violent conflicts (Lichbach, 1989). These groups might find the potential benefits of engaging in conflict, such as redressing perceived wrongs or altering the status quo, more attractive compared to the limited opportunities available within the existing system. Consequently, inequality not only fuels dissatisfaction but also lowers the barriers to collective violence, making conflict a more viable option for those who feel marginalized.

As already noted, if the above were a universally valid argument, class conflict should be everywhere. Over the past four decades, income inequality has generally increased across both advanced and major emerging economies, with notable rises in countries like the United States, China, India, and Russia.¹⁸ And yet, as already seen, the relationship between

¹⁸See <https://www.brookings.edu/articles/rising-inequality-a-major-issue-of-our-time/>.

inequality and open conflict is far from straightforward. We've qualified such arguments already by observing — among other things — that for the have-nots, the cost of conflict could be prohibitively high. The poor may have the motive, but not the means.

Certainly, economic shocks and rising inequality *could* at times result in social conflict. For example, negative economic shocks have been linked to a higher likelihood of coup attempts [Kim \(2016\)](#), and inequality has been linked to revolutions [Besançon \(2005\)](#). As an example, [Nepal, Bohara, and Gawande \(2011\)](#) investigates the link between inequality and violence during the Maoist insurgency in Nepal from 1996 to 2003. The authors focus on the number of killings by Maoist rebels across 3,857 villages in Nepal. The study finds that greater inequality, not poverty, led to more violent conflict.

Contributions such as those by [Piketty \(2014\)](#), [Shayo \(2009\)](#), and [Bonomi, Gennaioli, and Tabellini \(2021\)](#) explore how rising economic inequality can exacerbate class-based conflicts, especially when the less affluent see their opportunities stagnate while the wealthy continue to prosper disproportionately. The growing concern over inequality in the US has been highlighted by movements such as Occupy Wall Street, which uncovered rising perceptions of conflict between the rich and the poor [\(Morin, 2012\)](#). Research by [James and Smith \(2017\)](#) indicates that the fracking boom, which increased income inequality, was associated with a rise in property crime, reflecting socio-economic shifts and potential class tensions. Additionally, [Barr, Hochleitner, and Sonderegger \(2024\)](#) conduct lab experiments revealing that heightened inequality—especially when experienced suddenly or in absolute terms by the disadvantaged—can lead to social instability initiated by those adversely affected.

In their influential study, [Hicks and Hicks \(2014\)](#) examine the link between conspicuous consumption, inequality, and crime, offering insights into the conflictual salience of identity. Conspicuous consumption refers to the public display of wealth via luxury goods. Hicks and Hicks argue that such visible spending exacerbates feelings of relative deprivation and social exclusion, particularly among those who cannot afford similar indulgences. This heightened sense of inequality, they suggest, can drive an increase in violent crime. Using data from the Consumer Expenditure Survey (1986-2001) and crime statistics from the Uniform Crime Reports, the authors find a positive correlation between conspicuous consumption and violent crime rates, even after accounting for income, education, and race. They attribute this to the psychological impact of relative deprivation, which fosters resentment and frustration, potentially leading to criminal behavior among the economically disadvantaged.

The examples above emphasize the leading form of a direct effect; namely, situations in which economic shocks increase the likelihood of class conflict. Correspondingly, there are many instances of identity shocks leading to identity/ethnic conflict. [Tabellini \(2020\)](#) explore the economic and political effects of immigration in the U.S. during the early 20th century, specifically from 1910 to 1930. By analyzing data from World War I and subsequent legislation surrounding immigration, the study reveals that immigration prompted a notable political backlash, including the rise of more conservative leaders and greater support for anti-immigration policies. While immigration generated significant economic benefits—such as increased employment and industrial growth for native workers—the resistance to immigrants stemmed largely from cultural differences rather than economic detriment.

In similar vein, [Cikara, Fouka, and Tabellini \(2022\)](#) study hate crime data from US counties during 1990 to 2010, as well as attitudes in the US and UK over the past two decades and find that both actual discrimination and prejudicial attitudes towards a minority group increase with the size rank of other minority groups in a locality. Interestingly, these effects were driven more by the perceived size ranks of minorities rather than their actual ranks, and were more potent at smaller regional levels, hinting at the importance of local experiences in shaping these attitudes. [Fouka, Mazumder, and Tabellini \(2021\)](#) shows that discrimination also responds to the relative “cultural distance” between groups. The authors study the influence of the First Great Migration (1915-1930), when 1.5 million African Americans migrated from the U.S. South to Northern urban centers, on the assimilation of pre-existing European immigrants. [Fouka, Mazumder, and Tabellini \(2021\)](#) propose that the inflow of Black Americans altered perceptions of outgroup distance among native-born whites, thereby easing the integration of European immigrants.

3.2.2. Cross Effects: From Economics to Identity . In contrast to these direct responses to shocks, a rich body of descriptive literature highlights how economic shocks can lead to “orthogonal conflicts” with their attendant identity-based reactions; see, e.g., [Engineer \(1984\)](#), [Horowitz \(1985\)](#), [Rajgopal \(1987\)](#), [Deng \(1995\)](#), [Gagnon \(1995\)](#), [Gagnon \(1995\)](#), [Prunier \(1995\)](#), [Tambiah \(1986\)](#), [Tambiah \(1997\)](#), or [Wilkinson \(2004\)](#), among many others. The theories surrounding conflict as a result of frustrated aspirations (Section 2.4) offer an explanation for such orthogonal conflicts stemming from grievances. As sources of frustration accumulate, particularly during economic crises, aggrieved groups may redirect their aggression towards accessible social targets, often minority communities.

This phenomenon also relates closely to theories of scapegoating and hate crimes explored in social psychology and philosophical anthropology [Girard \(1986\)](#), [Allport \(1954\)](#), [Glick \(2005\)](#). Scapegoating involves projecting one's own failures or shortcomings onto another group, serving as a means to deflect responsibility and alleviate frustration.¹⁹ Scapegoat theory posits that our prejudices shape whom we blame in moments of anger, and that negative emotions can intensify these biases.

A number of influential papers in economics link economic shocks to episodes of scapegoating. In Tanzania, [Miguel \(2005\)](#) shows that extreme rainfall (drought or flood) leads to a large increase in the murder of “witches,” typically elderly women killed by relatives, but not other murders. Similarly, [Oster \(2004\)](#) links colder temperatures and resulting food shortages to witchcraft trials in Europe from the mid-sixteenth century to the end of the eighteenth century. The victims were primarily women, mostly poor and disproportionately widows. [Anderson, Johnson, and Koyama \(2017\)](#) focus on the persecution of Jews in Europe during the same period. They find that a one standard deviation decrease in average growing season temperature (about one-third of a degree Celsius) raised the probability that a community would persecute Jews from a baseline of about 2% to between 3% and 3.5% in the subsequent five-year period.

[Jedwab, Johnson, and Koyama \(2019\)](#) studies the wave of anti-Jewish violence following the outbreak of the Black Death in Western Europe and demonstrates a protective effect of being needed: towns where Jews provided moneylending and trading services to the majority were mostly spared. In contrast, in the 19th and early 20th century in the Pale of Settlement, [Grosfeld, Sakalli, and Zhuravskaya \(2020\)](#) finds that severe crop failures were more likely to trigger pogroms, in times of political turmoil, in places where most of the moneylenders were Jewish. These scapegoating events tend to repeat themselves: pogroms during the Black Death are a strong and robust predictor of violence against Jews in the 1920s and of votes for the Nazi Party ([Voigtlander and Voth, 2012](#)). In the American South, economic downturns were associated with a higher frequency of lynchings prior to the Great Depression ([Hovland and Sears, 1940](#); [Hepworth and West, 1988](#); [Green, Glaser, and Rich, 1998](#)).

Inequality seems often to spark nationalistic sentiments rather than drawing attention to the inequality itself. This model aligns with evidence that individuals are more likely to support group-dominance causes as their incomes decline. For instance, [Dal Bó et al. \(2023b\)](#)

¹⁹The first known use of the term “scapegoat” was in 1530 to describe the ritual animals that the Jewish community placed their sins onto in preparation for Yom Kippur (Merriam-Webster).

argues that worsening relative economic standing contributed to the rise of the radical right in Sweden. [Fetzer \(2019\)](#) also finds that “economic losers” were more likely to vote for Brexit. Poorer individuals may expend time and effort on such pursuits, while wealthier individuals with satisfied economic aspirations can meet secondary goals from satisfaction, not frustration.

In many of these examples, there is a real benefit that can accrue to the subject from punishing the “scapegoat.” That is, there can be individual or collective gains for the perpetrator. So the urge to scapegoat may be inextricably intertwined with the financial or political gains from perpetrating such an act. For instance, [Bramoullé and Morault \(2021\)](#) studies the financial incentives of the majority to at times expropriate rich minorities in order to maintain power. In contrast, and in an attempt to focus on scapegoating *per se*, [Bauer et al. \(2020\)](#) investigate the scapegoating of minorities as a mechanism through which conflict and violence spread in society. Specifically, they measure anti-minority bias in punishment preferences. In a field laboratory experiment in Slovakia, the authors use a “joy of destruction” game to examine scapegoating behavior. Prior to the main experiment, a preliminary activity was conducted where a group of subjects received equal earnings for completing a monotonous task. A randomly chosen subgroup, labeled as Wrongdoers, then had the opportunity to anonymously reduce the earnings of another group, the Victims, without any personal gain. This fact that subjects worked for their earnings establishes a strong sense of entitlement among the subjects regarding their earnings, making the decision to harm the Victims’ earnings particularly anti-social.

In the main experiment, the destructive actions of the Wrongdoers are observed by a separate group of experimental subjects, referred to as Punishers. The Punishers are informed that the Victims belong to their own ethnic group. The focus is on the Punishers’ reactions rather than the direct experiences of the Victims. Although the Punishers cannot directly penalize the Wrongdoers, they have the option to punish an unrelated “bystander” (a scapegoat) who has no connection to the original wrongdoing. [Bauer et al. \(2020\)](#) show that subjects from the majority ethnic group in Slovakia are more likely to destroy the endowment of innocent bystanders when they witness members of their own ethnic group being victims of wrongdoing. Such scapegoating behavior doubled when an individual could shift punishment to a member of a minority group (Roma) compared to a member of their own group. According to the authors, this indicates that latent discriminatory preferences, which remain dormant during peacetime, are activated when harm is done to a victim, leading to increased scapegoating of minority individuals.

Both trade and technology shocks have been identified as factors contributing to job losses and the growing support for populism and anti-immigration sentiments in Europe (Colantone and Stanig, 2018; Anelli, Colantone, and Stanig, 2019). Many studies support the notion that economic conditions significantly shape attitudes toward immigration, contributing to hostility during times of economic insecurity (Scheve and Slaughter, 2001; Scheepers, Gijsberts, and Coenders, 2002; Hainmueller and Hopkins, 2014; Colantone and Stanig, 2018; Gidron and Hall, 2020). Moreover, cultural conservatism and backing for populist parties have been found to correlate strongly with economic insecurity (Guiso et al., 2017; Gidron and Hall, 2017). Similarly, regions in the U.S. that have faced heightened import competition have experienced significant job losses in manufacturing, alongside a shift towards greater political polarization and conservatism. Autor et al. (2020) provide compelling evidence that congressional districts affected by larger increases in import penetration were more likely to oust moderate representatives during the 2000s. Specifically, trade-exposed districts with a predominantly white population or those historically held by Republicans increasingly elected conservative Republicans. Conversely, districts with majority-minority populations or those previously aligned with Democrats also tended to elect more liberal Democrats. In presidential elections, counties experiencing greater trade exposure leaned more towards Republican candidates.

When hate crime or anti-minority behavior can stem from both prejudice and financial or other incentives, Bursztyn et al. (2022) point out that anti-minority behavior can surge during economic crises due to a multiplier effect. Crises provide a “plausible rationale” for intolerant views, effectively shifting social inference about anti-minority behavior and lowering the cost of scapegoating, thereby making it more acceptable and common. In their study, a sample of 1,952 heterogeneous American respondents were presented with a scenario of a blue-collar worker who lost their job during a financial crisis. Respondents were then randomly informed that the individual joined an anti-immigrant organization either before or after the crisis, thus randomizing the availability of a “plausible rationale” for joining. Through text analysis of open-ended survey responses, the study found that respondents were more likely to excuse the worker’s behavior due to labor market concerns when the joining occurred after the crisis (80.2%) compared to before (73.8%). Conversely, respondents were more likely to use xenophobic terms to describe the worker when the plausible rationale was not available (9.9% in the Before group vs. 4.9% in the After group). This research highlights how economic hardships can shift social attitudes, making scapegoating more socially acceptable.

Naturally, these divergent responses are often accompanied by the rise of extreme right-wing parties. [Colantone and Stanig \(2019\)](#) argue that the failure to adequately address the distributional consequences of economic shocks is a key driver behind the rise of nationalist and radical-right movements.

[Funke, Schularick, and Trebesch \(2016\)](#) examine the political aftermath of financial crises in 20 advanced economies from 1870 to 2014, confirming earlier findings by [de Bromhead, Eichengreen, and O'Rourke \(2013\)](#). Their research shows that, on average, far-right votes increase by about a third in the five years following a systemic banking crisis. This phenomenon is especially pronounced during major crises such as those of the 1920s/1930s and after 2008.

[Doerr et al. \(2019\)](#) offer further evidence by analyzing the impact of the German banking crisis on the electoral success of the Nazi party. That crisis not only deepened Germany's economic downturn, leading to more radical voting driven by declining incomes, but it also directly bolstered Nazi popularity. The collapse of Danatbank, led by Jewish banker Jakob Goldschmidt, fueled antisemitic narratives that the Nazis leveraged to their advantage.

3.3. Horizontal Inequality and Resource Grabbing. Horizontal inequality refers to disparities between groups in a society, typically defined along ethnic, religious, regional, or other identity-based lines. This contrasts with vertical inequality, which focuses on individual-level disparities [in terms of income or wealth](#). When groups perceive themselves as systematically disadvantaged in terms of income, political representation, or social opportunities, the likelihood of mobilization and conflict to challenge the status quo increases. Such inequality, especially coupled with a strong sense of group identity, could well reinforce group cohesion and make collective action more feasible.

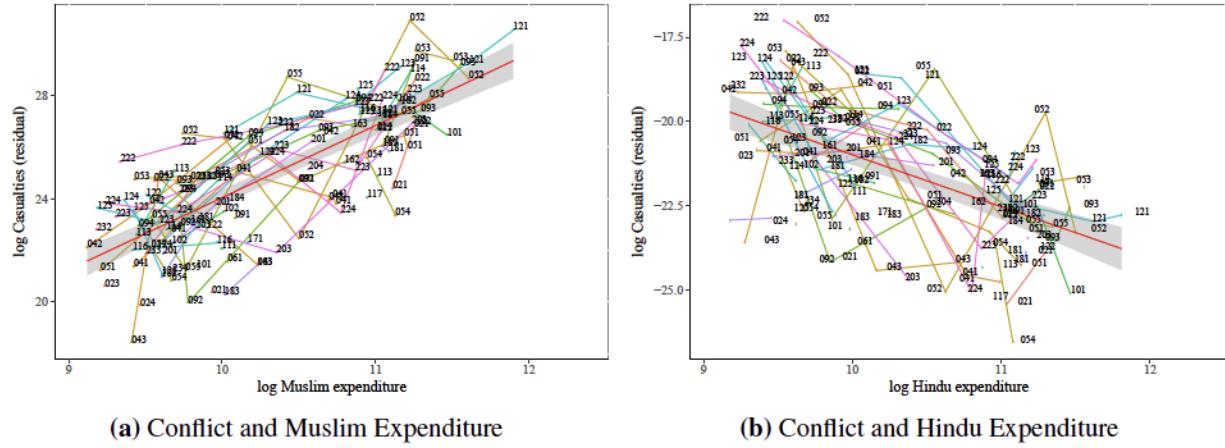
A different viewpoint is advanced by [Esteban and Ray \(2011a\)](#), who argue that the relationship between horizontal inequalities and conflict is not straightforward. They observe that it is important to make the distinction between motive and means. Each of these factors, when combined with pre-existing structures of group dominance, could have complex effects on conflict. For instance, in Section 2.6, we argued that the motive to engage in conflict could grow as cross-group gaps narrow. This could occur because the dominant group feels threatened by the rise of the poorer group. Or the means to engage in effective conflict could grow as a poorer group gets richer. Economically disadvantaged but resentful groups that lacked the resources now have them, which raises the likelihood of conflict. So, even if we

allow for the standard arguments based on grievances, these could express themselves in complex ways as cross-group inequality changes.

Several researchers have empirically explored the argument that the larger the income gap between groups in society, the greater the likelihood of conflict initiation (e.g., [Wintrobe 1995](#), [Acemoglu and Robinson 2005](#), [Stewart 2008a](#), [Østby 2008](#), [Cederman, Weidmann, and Gleditsch 2011](#), [Hillesund et al. 2018](#), [Huber and Mayoral 2019](#)). There is some support for this claim. For instance, [Østby \(2008\)](#) and [Cederman, Weidmann, and Gleditsch \(2011\)](#) find that groups experiencing significant economic disparities relative to others are more prone to engage in conflict. Similarly, [Cederman, Gleditsch, and Buhaug \(2013\)](#), Chapters 4 and 5, show that inequality between ethnic groups is strongly correlated with civil conflict, with politically excluded or economically disadvantaged groups more likely to rebel.

On the other hand, [Huber and Mayoral \(2019\)](#) find “essentially no evidence that the two variables [cross-group inequality, and conflict] are related,” arguing that some of the results in the previously cited studies appear not to be robust. Rather, they emphasize a different aspect of group inequality; namely, the power of *within-group* economic inequality. We have already discussed the viewpoint, due to [Esteban and Ray \(2008, 2011a\)](#), that within-group inequality leads to a perverse synergy in conflict: the poor can supply physical labor in conflict, while the rich can fund that conflict, including any compensation for the labor supplied by the poor. [Huber and Mayoral \(2019\)](#) are in line with this perspective. They conclude that economic inequality can indeed play a central role in conflict, but not one connected to the usual argument based on grievances. Rather, they argue, “unequal groups are associated with a higher capacity to fight and therefore with more severe civil conflicts.”

An example of how group-related income gaps can map into conflict can be found in the work of [Mitra and Ray \(2014, 2019\)](#). They provide evidence from Muslim-Hindu conflicts in India, showing that as the income gap between these communities decreases, the intensity of conflict tends to rise, not fall. They make the same distinction between motive and means that we have examined at several points in this review. Specifically, they distinguish between a “grabbing effect” and an “opportunity cost effect,” as do [Dube and Vargas \(2013\)](#) and [Dal Bó and Dal Bó \(2011\)](#) in related conflict-based contexts. The former pertains to any change that arouses resentment and a desire to seize the resources of a potential victim, and the latter to any change that raises the costs of conflict for a potential aggressor. The *same* change could feed both the grabbing motive and the opportunity cost effect. Chief among these is a change in group level income, which can simultaneously generate resentment by a rival group, but at the same time dampen the incentives of the group itself to enter into



(a) Conflict and Muslim Expenditure

(b) Conflict and Hindu Expenditure

Figure 4. CONFLICT AND PER-CAPITA EXPENDITURE. Panel (a) plots the residual of casualties against (log) Muslim expenditures after region, time and (log) Hindu expenditure effects have been removed, in the following 5-year period. Each line segment connects five data points for a region. Panel (b) plots the analogous graph for (log) Hindu expenditures. Source: Mitra and Ray (2019, Figure 1); see also Mitra and Ray (2014) for an earlier version of these figures.

violence (via the opportunity cost of higher income). If we have no information about which group instigated any particular observation of violence, these two effects could work to partially or wholly nullify each other in the aggregate.

The very fact of a connection between changes in group relative incomes and subsequent conflict is of interest, as it suggests a clear instrumental basis for conflict. But the results in [Mitra and Ray \(2014\)](#) go beyond that. The rise in Hindu income appears to have a dominant opportunity cost effect, and serves to reduce Hindu-Muslim violence. The rise in Muslim incomes, on the other hand, appears to aggravate the desire to loot, or seek to retribution against an upstart community. Mitra and Ray connect these effects to the question of which group is more likely to instigate Hindu-Muslim violence in India.

Thus, in the case of Hindu-Muslim violence in India, a clear pattern emerges: conflict appears to react significantly and positively to an increase in Muslim per-capita income, while the opposite reaction occurs to an increase in Hindu per-capita income: conflict declines. See Figure 4. In particular, given that Muslims are on average the poorer group in India, this has the implication that a narrowing inter-group gap could spur greater social unrest between those groups.

In related work, [Adhvaryu et al. \(2021\)](#) emphasize the conflicting effects of horizontal inequality in resource-driven conflict. The authors study a dataset of pairwise grid points in sub-Saharan Africa containing information on resource endowments, joint conflict, and nighttime illumination (a proxy for local development). The authors argue that offensive and defensive capabilities of each group rise in tandem with resource endowments, leading to a more complex interplay between wealth and conflict. The presence of resources raises the likelihood of conflict across ethnic borders, as one region has the resources to attack its neighbor, and the other wishes to expropriate its neighbor's resources. They predict the likelihood of conflict to be the lowest when both groups involved are poor (indicating low horizontal inequality). This probability increases when there is a disparity, with one group being relatively wealthy and the other poor. Interestingly, conflict probability peaks when both groups are rich, despite horizontal inequality again being low.

The previous reference emphasizes resource-based conflicts. Horizontal inequalities are obviously exacerbated when there are strong group identities involved (ethnic, religious, or regional). In turn, the strength and salience of those identities may be driven by the magnitude of economic resources at stake, particularly when these are natural resources located in certain ethnic homelands. [Berman, Couttenier, and Girard \(2023\)](#) analyze the relationship between natural resource extraction and ethnic identity salience in Africa. Using individual-level data on ethnic identity strength, alongside geographically detailed information on ethnic homelands and mineral resource exploitation, they find that resource extraction increases the prominence of narrow, ethnic identities over broader, national ones. This heightened salience contributes to conflict and political instability.

The study, covering 25 African countries (2005-2015) and 296 ethnic groups, measures ethnic identity strength through surveys assessing individuals' affiliations with their ethnic group versus the nation. Their findings reveal that intensified mineral resource extraction significantly strengthens ethnic identity among groups near extraction sites, especially those with histories of marginalization or discrimination. This effect is attributed to relative deprivation, where perceived inequality amplifies the salience of ethnic identities.

Empirical evidence confirms a significant rise in ethnic identification relative to national identification in areas affected by mineral extraction. This effect is stronger among historically marginalized groups, and it tends to persist, even intensifying during election periods. Resource exploitation, thus, may have long-term effects on ethnic identification and conflict. This theme of natural resources and its important cross-cutting effects with

horizontal inequality is explored in depth in Chapter 8 of this Volume, by Morelli and Rohner.

Overall, these studies are indicative of an instrumentalist view of conflict (Brubaker and Laitin 1998). It shows, moreover, that economic *similarity* can breed tensions. A rise in group incomes can, after all, serve to reduce horizontal inequality, while at the same time it can inspire resentment and violence. Second, the resolution of such tensions involves the use of existing ethnic divisions or categories to create a sense of Us and Them, thereby accentuating the salience in those divisions. As already noted, such an instrumentalist view cannot survive entirely on its own: there must be some exploitable historical animosity embedded in those ethnic divisions. Nevertheless, a conflict across economically similar groups that differ in caste, ethnicity or geography can be a profoundly economic conflict.

More generally, with uneven growth or globalization, some social or economic groups will benefit more than others, possibly on account of their fortuitous positioning.²⁰ This is certainly true of income groups, because higher incomes or wealth may permit individuals to incur the threshold costs that are needed for training and entry into a new occupation, or to incur the setup costs for entering a new business. But it is also true of ethnic groups whenever such groups exhibit some degree of geographical or sectoral specificity. Returning to the Hindu-Muslim example: it is certainly the case that the Gulf boom led to differential Hindu-Muslim gains in nearby India. Rising oil prices resulted in a sizable increase in the demand for labor in the Gulf countries. Indian Muslims were more likely to emigrate there than Indian Hindus. In turn, this flow resulted in remittances back to India from the Gulf, affecting Muslim incomes and expenditures in India, often generating highly visible real estate improvements, and presumably improving the ability to enter new business sectors.

4. CONCLUDING REMARKS

In this chapter, our task has been to study the salience of identity-based conflict. Throughout, we have stressed the fact that such conflict poses a puzzle, especially in developing countries with enormously high and often growing *economic* inequality. We have been taught to accept that logic that economic crises or inequalities would naturally trigger the resentments of the have-nots against the haves, leading to an upsurge of class-based social unrest. However, while it would be misleading to assert that such reactions *never* occur, economic hardship

²⁰This is in line with the argument of Bates (1983), who emphasizes the impact of uneven growth facilitating the emergence of an economic and cultural elite. They provide the leadership and the means for the escalation.

and inequality appears also to lead to waves of resentment by the relatively poor against other similarly deprived groups. The enormous groundswell of anti-immigrant sentiment in developed countries has brought this phenomenon to the forefront in a particularly stark manner. But developing countries are no strangers to such orthogonal displays of violence. In the words of [Horowitz \(1985\)](#):

“In much of Asia and Africa, it is only modest hyperbole to assert that the Marxian prophecy has had an ethnic fulfillment.”

We have argued that such “cross-reactions” are only to be expected. The argument can be conducted on a number of fronts, but one multi-faceted line of the reasoning stands out in particular. Its starting point is simple: while the economically dispossessed have every motivation to rise up against the relatively few who control an enormous share of national wealth, they generally lack the means to do so. Exclusion of other groups from similar jobs or businesses is second-best outcome, a consolation prize with relatively low rewards, but those rewards are within reach in a way that no class-based struggle can hope to achieve.

Two ancillary arguments go with this core line of reasoning. The first stems from the fact that exclusion is fundamentally problematic activity. Individuals must exclude others in the same economic activity — the same sectors of employment or entrepreneurship or access to government quotas — that is to say, they must exclude *others like them*. In the absence of any markers to separate one such individual from another, the situation is fundamentally anarchic and not particularly conducive to group cohesion. However, with easy access to ethnic, religious or nationalistic labels (and perhaps with politicians who are ready to make those labels salient), anarchism can quickly turn into cohesive, identity-based violence.

The second ancillary argument is that inter-group conflict does not suffer from the problem of limited means. Those perpetrating the violence often have both the rich and the poor on the same side. The rich have very little to directly gain from the conflict — exclusion from jobs, or access to tiny parcels of land, or the feelings of superiority that might come from dominance — none of this is of central concern to them. But it is a way of keeping the relatively deprived members of their group suitably distracted.

In this chapter, we have discussed how these forces can give rise to a world in which identity-based conflicts can come to dominate, despite the economic roots of those conflicts.

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