

The Economic Determinants of Ethnic Assimilation

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Abstract

Expanding on the concept of ethnic human capital, the paper distinguishes between cultural assimilation compatible with persistent ethnic groups and assimilation through intermarriage and other mechanisms that blur distinctions and lead to the disappearance of ethnic identities. Economic determinants of “successful” and “disadvantaged” group outcomes are shown to be sensitive to the relationship between ethnic and general human capital, especially with regard to externalities in the processes by which they are formed. The role of income transfer regimes tied to ethnic group membership is also considered.

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I. Introduction

As second- and third-generation immigrants increasingly identify themselves with the host country, the immigrant group is either completely assimilated or it develops structures which endure as a stable sub-culture of the larger society.¹ Ethnic history is by definition the story of those subcultures that endure. Although the term is used differently in different contexts, an “ethnic” group will be understood here as a subgroup of the larger society for which membership is defined by one or more non-economic characteristics.²

This paper develops an economic model of ethnicity that can be used to analyze the assimilation or persistence of such groups. Each individual member of society is

¹ An analogous historical process occurs in non-migrant groups, as when indigenous peoples are faced with substantial immigration from other cultures, when national boundaries are redrawn to combine people of different ethnicities, or when social change divides a previously homogeneous society. In each case the members of one group can assimilate into the other, in which case homogeneity again emerges, or they can develop distinctive characteristics that enable them to endure as a group.

² That is, by characteristics not directly related to labor productivity. In some usage, an ethnic group is defined residually after controlling for such characteristics as race, religion, or place of origin. This study uses the term broadly to include groups defined by these characteristics as well. For simplicity, these characteristics are assumed to be unambiguous and well known, so that every member of the population knows the ethnicity of every other member.

assumed to belong unambiguously to an ethnic group, either by birth or migration.³ It is also assumed that individuals face at some point the possibility of switching groups, whether by marriage, by formal conversion or by *de facto* assimilation. This potential for between-group mobility is necessary (but not sufficient) for assimilation to occur, allowing one ethnic group to expand at the expense of another and thus ultimately for ethnic distinctions to effectively disappear.

The analysis below considers two different types of economic incentives underlying the assimilation of multiple ethnic groups into a common culture. The first approach relies heavily on the concept of ethnicity-specific human capital, developed in Part II and applied to the tradeoffs faced by individuals between maintaining ethnic identity and adapting to the larger society. Also included in this section is a consideration of different definitions of assimilation and the role of between-group intermarriage in the assimilation process. Part III looks at how an ethnic group's incentives to engage in rent-seeking activities affect this process, typically skewing the incentives faced by individuals in ways that retard the assimilation process. Part IV concludes with a summary of the analysis and its implications for social policy.

³ In principle, it is possible to opt out of membership entirely by distancing oneself from all particularism. Should this choice become common, however, people who share it will typically develop their own social structures and thus create the equivalent of a more or less new ethnicity.

II. Ethnic Human Capital and Assimilation

Even before the skill-formation associated with labor force activities, human capital formation begins early with childhood experiences and pre-school training by family members. Ethnic groups typically provide a social context for many of the intimacies of family life: childrearing practices, extended family relationships, observance of life-cycle milestones, cuisine, music, and virtually all other aspects of folk culture. Although later training may be of a more general nature (e.g., for an occupation or cultural role shared by people of a different ethnicity), early childhood memories are often group-specific. And family experiences are themselves a form of training for adult marriage and parenting roles.

Language is an important type of human capital that is acquired early in life and is heavily influenced by ethnicity. In the typical situation there is a general language common to everyone, as well as minority languages spoken by specific ethnic groups. Any ethnic group in which a second language is spoken effectively requires at least some of its members to be bilingual, thereby raising the human capital intensity of ethnic good production. Moreover language fluency can be complementary with other forms of human capital. Among Jews, for example, the emphasis on Hebrew (language, literacy and literature) as part of the standard religious training facilitates corresponding investments in other written languages and generally raises rates of return to investment in secular schooling. As another example of complementarity, high levels of education tend to raise rates of return to investments in health, and *vice versa*.

Complementarities between the different forms of human capital can amplify between-group differences in a few characteristics so as to generate substantial

differences in the overall structure of investments in people. Moreover these can become fundamental group differences with significant implications for differences in marriage and fertility patterns. For example, groups that make greater investments in their children's human capital typically have smaller families as budget-constrained parents tend to marry later and to trade off between child "quality" and "quantity." [Becker, 1981 #406;Chiswick, 1988 #85] Similarly, ethnic differences in the allocation of parental investment between sons and daughters, whether in the amounts or types of human capital, have far-reaching implications for ethnic differences in adult gender roles. Affecting the intimate aspects of family life, such differences can drive a wedge between the lifestyles of different ethnic groups and provide the underpinning for each group to prefer its own as "superior." This leads naturally to a segmentation of marriage markets along ethnic lines and hence enables the long run persistence of ethnic group distinctions.

A. An Economic Model of Ethnic Identity

Following [Chiswick, 2006 #747], membership in an ethnic group is understood to be a "good" in the sense that it is desirable but not costless. That is, identification with the group provides benefits both tangible and intangible, but requires diversion of scarce resources from other uses. Although ethnicity can not be purchased directly, it is best thought of as a z-good produced by combining ethnic goods and services (e.g., ethnic clothing, food, entertainment, charities, club memberships) and time expenditures on group-specific activities.⁴

⁴ For a discussion of ethnic goods see [Chiswick, 2005 #759]

Consider a country in which there are multiple ethnic groups, each of which is part of the larger society and each of which has a group-specific ethnic z-good, referred to here as ethnicity. Utility-maximizing consumers allocate their time between ethnic and general activities. The problem can be expressed as:

$$(1) \quad \text{Max } U(E, Y) \quad \text{subject to} \quad L_E + L_Y + L_S = L^*$$

where E = Ethnicity

Y = All other (shared) goods and services

L_E = Time spent in ethnic-specific activities

L_Y = Time spent in general activities

L_S = Total time spent in human capital formation

and L^* is the total time available for all purposes.

Human capital may or may not be work-related, referring rather more generally to the skills and experiences relevant for producing the consumption goods, E and Y . It is useful to distinguish between ethnic human capital, the skills and experiences specific to E production thus useful only for members of that ethnic group, and shared human capital, the skills and experiences that raise productivity for Y production and are thus useful to members of all groups. For example, ethnic human capital, H_E , might include a group-specific ethnic language, religion, or customs affecting family relationships, while human capital shared by all ethnic groups, H_Y , would include the common language and culture shared by all groups. Ignoring for simplicity the role of purchased goods and services, let the two consumption goods, Y and E , be home-produced with human capital specific to each activity:

$$(2) \quad E = g(h_E L_E)$$

$$(3) \quad Y = f(h_Y L_Y)$$

where h_E = level (quality) of ethnic human capital

and h_Y = level (quality) of general human capital.

In this specification the total amount of human capital, $H_E \equiv h_E L_E$ or $H_Y \equiv h_Y L_Y$ respectively, is the sole input for producing the corresponding consumption good. Each ethnic group may thus be characterized by (perhaps even defined by) its own group-specific human capital.

In the present analysis, the term “ethnic education” refers to any investment in ethnic-specific human capital, a skill-formation process that enhances the productivity of resources deployed within the group (i.e., for making the ethnic z-good) but not productivity in the general labor market or in general consumption activities. Ethnic education in this sense begins early in childhood with ethnic-specific parenting styles and family customs, later expanding to include socialization within the ethnic community and more or less formal training in group-specific skills. The rate of return to ethnic education depends not only on individual preferences (a lifestyle choice) but also on the production function for ethnic experience.⁵

Each type of human capital is the output of an educational process with its own production function, the main input to which is the student’s time. These can be written inversely as cost functions, expressing the time cost of education as a function of the level of skill to be acquired.

$$(4) \quad L_S = L_{YS} + L_{ES}$$

$$(5) \quad L_{YS} = \varphi(h_Y), \quad \varphi', \varphi'' > 0$$

⁵ The collective aspects of this process make ethnicity a quasi-public good in the sense that the consumption activities of many individuals are mutually interdependent. In this respect it is much like religion, and indeed many ethnic groups are characterized by a group-specific religious life. The present analysis ignores this characteristic for the sake of simplicity without affecting the conclusions.

$$(6) \quad L_{ES} = \gamma(h_E) + \omega h_Y h_E, \quad \gamma', \gamma'' > 0$$

where L_{YS} = Time spent in general (shared) learning activities
 L_{ES} = Time spent in ethnic-specific learning activities

and the constant coefficient ω indicates the degree to which the acquisition of general human capital imposes an external effect on ethnicity-specific education. For example, if $\omega > 0$ a greater level of general human capital (h_Y) would make it more costly to acquire any given level of ethnic education (h_E), while if $\omega < 0$ the opposite would be true.

This problem is solved by maximizing the Lagrangian function:

$$(7) \quad \mathcal{L} = U(g(h_E L_E), f(h_Y L_Y)) - \lambda[L_E + L_Y + \gamma(h_E) + \varphi(h_Y) + \omega h_Y h_E - L^*].$$

where equations (4)-(6) have been substituted into the time constraint to eliminate the schooling time variables. The first-order conditions can be solved to yield

$$(8) \quad U_g g' h_E = U_f f' h_Y$$

$$(9) \quad L_E / h_E = [\gamma' + \omega h_Y]$$

$$(10) \quad L_Y / h_Y = [\varphi' + \omega h_E]$$

$$(11) \quad L^* = L_E + L_Y + \gamma(h_E) + \varphi(h_Y) + \omega h_Y h_E$$

Equation (8) equates the marginal rate of substitution in consumption between ethnic-specific and common (shared) uses of time to -1 , the slope of the time budget line, requiring that the marginal value of time be the same in both consumption activities.

Equations (9) and (10) equate the slopes of the human capital quantity-quality isoquants, L_E/h_E and L_Y/h_Y respectively, to the marginal cost of the corresponding type of education.

These conditions allocate time to each type of education up to the point where its marginal value in human capital formation is the same as the opportunity cost of that time

in consumption activities. Equation (11) restates the overall time constraint for all activities.

Solving (9) and (10) for L_E and L_Y , substituting the result into (11) and rearranging terms permits the overall time constraint to be expressed solely as a function of skill levels, h_E and h_Y , and the externality parameter ω :

$$(12) \quad L^* = h_E \gamma' + h_Y \varphi' + \gamma + \varphi + 3\omega h_E h_Y$$

This describes the time-constrained opportunity for attainable combinations of human capital, and it generally has a negative slope.⁶ Solving the same two equations for h_E and h_Y , substituting the result into equations (8) and rearranging terms yields:

$$(13) \quad \frac{U_g g' L_E}{U_f f' L_Y} = \left[\frac{\gamma' + \omega h_Y}{\varphi' + \omega h_E} \right]$$

The expression on the left-hand side of equation (13) is the marginal rate of substitution in consumption between h_E and h_Y , the slope of an indifference curve between levels of the two types of education. The right-hand side is the slope of a production possibility frontier (PPF) that holds constant L_S , the total resources devoted to general and ethnic training combined. Optimization thus requires tangency between an indifference curve and a human capital PPF determined by the allocation of time between consumption and education. By varying the amount of time devoted to education, equation (13) implies an expansion path with a positive slope as long as both h_Y and h_E are normal (in the sense that more resources devoted to education raises the demand for each type). The overall solution to the consumer's problem occurs where the time constraint in (12) crosses the

⁶ A sufficient (but not necessary) condition for this is $\omega \geq 0$, meaning that the external effects of general education on ethnic education (and *vice versa*) are non-positive.

expansion path either at a unique combination of h_E and h_Y or at one of its corners.

Figure 1 illustrates the consumer's decision and its sensitivity to the group-specific parameter ω . The indifference map between ethnic-specific skills (on the horizontal axis) and shared skills (on the horizontal axis) has been drawn to represent an individual with a strong preference for the ethnic good. Three possible production possibility frontiers have been drawn, all using the same total resources and thus with endpoints at A and B. The PPF corresponding to a group where ethnic education and general education are mutually independent (i.e., where $\omega = 0$) has been emphasized with a dark curve. In this case the optimal combination of human capital would be at point C, and the expansion path is indicated by a similarly dark line.⁷ The PPF corresponding to positive externalities in the education process is tangent to the indifference map at point D, on a higher indifference curve than C and characterized by greater investments in both types of human capital but with relatively more h_Y . In contrast, the optimal investment if there are negative externalities between the two educational processes is at point E, on a lower indifference curve and with greater specialization in ethnic human capital. Although not shown on this graph, the expansion path passing through E is to the right and less steep than the path through C, while the one passing through D is to its left and more steeper.

The key parameter in the model developed here is ω , an indicator of cultural tension between the ethnic group and the shared environment. When ω is negative the two kinds of human capital are acquired by means of complementary learning processes: the greater the level of h_E embodied in a person the more efficiently he can learn general

skills, and the greater the level of shared human capital, the more efficiently he can acquire ethnic-specific skills. The opposite is true when ω is positive, indicating that high levels of ethnic human capital (hence attachment to the ethnic community) make it more difficult to acquire general skills and *vice versa*. The parameter ω will thus differ across ethnic groups to a degree that depends on the relationship between each group's culture relative to the shared culture of the larger society.

Figure 2a illustrates the case where ω is negative, indicating that the two learning processes are mutually complementary so that the PPF will be bowed outward (i.e., its convexity will be high), and Figure 2b illustrates the case of negative externalities where ω is positive and large in magnitude. In both graphs the dotted-line expansion path corresponds to the indifference map of a person with strong preference for the ethnic good, shown in Figure 1 as having a tangency to a PPF at points D (for Figure 2a) or E (for Figure 2b). The solid-line expansion path corresponds to the indifference map of people with weak preferences for the ethnic good or strong preferences for the consumption basket shared by all groups. A shaded oval area around each expansion paths is a stylized representation of the scatter of outcomes characterizing group members with similar (but not identical) preferences.

B. Ethnic Human Capital and Inter-marriage

One of the paths toward assimilation between two or more ethnic groups is by blurring the boundaries between them so that they become porous and easily crossed. This requires that the benefits to an individual of switching groups outweigh the cost.

⁷ The expansion path connects the tangencies between the indifference map and a family of PPF curves for which $\omega = 0$, only one of which is shown in Figure 1.

Ethnic human capital tends to discourage switching since it has little between-group transferability. That is, changing groups reduces the value of ethnic-specific skills and experiences acquired previously (especially in childhood) and entails additional investments specific to the new group.⁸ A very high level of group-specific human capital associated with religion, language, and other aspects of ethnicity may thus serve as a *de facto* barrier to entry even if the other group is positively disposed to newcomers.

Ethnic specificity of human capital investments within the family, or at least within a community structure that is intimately related with family life, is a critical variable for predicting the long-run group survival necessary for the persistence of multiple groups in a single national setting. In general, the greater the ethnic specificity of family-related human capital, the greater the incentive to choose a marriage partner from within the group. [Chiswick, 1991 #427;Lehrer, 1993 #473] If ethnic differences have little bearing on childrearing skills and family experiences, intermarriage and hence between-group assimilation is more likely. Ethnic group boundaries are further blurred when marital partners from different groups raise children with ambiguous affiliations, whether they belong to both groups or to neither. Intermarriage is thus both a symptom and a cause of assimilation.

Marital compatibility is generally greatest for people with similar levels of human capital, including ethnicity-specific human capital [Lehrer, 1993 #473;Lehrer, 1996 #551;Lehrer, 1998 #547]. For simplicity, suppose there is a threshold level of ethnic

⁸ In this respect the decision to switch ethnicity, whether through marriage or some other conversion mechanism, is formally analogous to migration: the lower the between-group transferability of ethnic skills, the greater the gain required to compensate for the cost of changing groups.

human capital, h_E^* , above which people seek marital partners within the ethnic group, and below which exit is not sufficiently costly to make ethnicity an important criterion for the marital sort. The implications for ethnic intermarriage are illustrated in Figures 3a and 3b, in which axes and the shaded ovals duplicate those in Figures 2a and 2b, respectively. Individuals in the portion of the shaded ovals to the right of the vertical line at h_E^* would have a high propensity to marry within the group, while those to the left of this line would be more likely to intermarry.

Figure 3 suggests some straightforward hypotheses relating between-group differences in intermarriage patterns to differences in ω , the ethnic-education externality parameter. Figure 3a illustrates the case where ethnic and general educations are mutually complementary, providing incentives to invest in both kinds of human capital. In this case people with large investments in human capital would tend to have relatively high levels of ethnic as well as shared human capital and thus be less likely to seek partners outside the group. Intermarriage is more likely to occur among the less educated, who are also more likely to include persons with weak preferences for the ethnic good. At all levels of education, however, members with different preferences (and thus in different shaded ovals) can have similar combinations of h_E and h_Y and thus form stable marriages with each other.

Differences in preferences are extremely important as a determinant of outcomes in Figure 3b, where it is much less likely that people in different ovals would match themselves with each other. When ethnic and general educations are anti-complementary (i.e., when each generates negative externalities for the other) people face reduced incentives to invest in human capital and tend toward specialization in one or the other

type. In Figure 3b, the only people with a strong incentive to seek partners within the group are those with strong preferences for the ethnic good and heavy investments in ethnic human capital. In contrast, persons with weak preference for the ethnic good (or a strong preference for the shared good) are in an oval to the left of h_E^* and thus highly unlikely to seek a marital partner in the other oval. Those with low levels of h_E may marry with each other, but they are also likely to match themselves with a partner of another ethnicity but similarly low levels of its ethnic human capital.

Low levels of ethnic human capital or high between-group transferability of human capital would facilitate movement by individuals across ethnic boundaries, whether purposeful (by conversion or intermarriage) or inadvertently as a byproduct of other consumption decisions. To the extent that such switching inevitably result in blended families, they lead *ipso facto* to a blurring of the social boundaries by which ethnic groups are distinguished from each other. Vague boundaries in turn facilitate further blending of ethnic identities, with two groups perhaps merging into a new ethnicity or with one group being drawn into the orbit of another. In contrast, high levels of ethnic human capital with low transferability would reinforce clear group boundaries, both directly and indirectly by encouraging within-group marriage.⁹

This analysis suggests an important relationship between religion and ethnicity that tends to link the two aspects of group identity. The formation of religious human capital during childhood and youth is an important function of the family and community. Since this type of human capital is transferable across ethnic groups that share the same

⁹ The process described in this paragraph is analogous to the one obtained by Kelley by ranking religious groups along a spectrum from exclusivism to ecumenism. [Kelley, 1972 #469]

religion, it is more permissive of switching between them than of switching to groups practicing another religion. Thus there would be a tendency to blur ethnic distinctions within religions and reinforce distinctions between religions, with long run tendencies for ethnicity and religion to become identified with each other.

C. Ethnic Identity and Assimilation

Even when there is no intermarriage, groups may be said to assimilate with respect to each other when they share values, goals, and activities, giving their members an incentive to invest in a common set of human capital attributes. That is, the greater the level of shared human capital embodied in a person, h_Y , the more he or she has in common with members of other ethnic groups and hence, by definition, the greater the degree of assimilation.¹⁰ For simplicity, it will be assumed here that there is some threshold level of shared human capital, h_Y^* , beyond which an individual may be characterized as assimilated. By the same token, a group may be characterized as assimilated into the shared culture of a society if a large proportion of its members are assimilated because they embody at least h_Y^* amount of shared human capital.

Figures 3a and 3b illustrate this threshold with a horizontal line at h_Y^* . The portion of the shaded ovals above this line represent people who are assimilated in this sense, sharing the values, attitudes, experiences and knowledge common to all ethnic groups in the larger society. The portion below this line represent the unassimilated, people who do not share much human capital with the mainstream society and are thus perceived as outsiders. By this definition assimilation need not mean homogeneity.

¹⁰ For simplicity, this analysis assumes that each individual belongs to one and only one ethnic group. It applies symmetrically to all groups, including those described as “dominant” because of their large size or cultural influence.

While the amount of ethnic-specific human capital, h_E , is critical for assessing the propensity to intermarry or cross group boundaries by some other means, only the amount of shared human capital, h_Y , is relevant when assimilation is defined as participation in a shared culture.

The relationship between ethnic identity and assimilation is best seen by considering both definitions simultaneously, as illustrated in Figure 3 by the division into four quadrants. Quadrants III and IV represent people who embody less than h_E^* amount of ethnic human capital and thus are prone to assimilation through intermarriage. Quadrants I and IV represent people who embody more than h_Y^* ; people who are assimilated in the sense that they share the same values, attitudes, experiences and knowledge as the members of other ethnic groups in the larger society.

People in quadrant IV are assimilated, and those in quadrant II are unassimilated, by both criteria. These are the quadrants that characterize groups for which ethnic education is most anti-complementary with respect to general education, inducing people to specialize in either ethnic or shared human capital, as illustrated in Figure 3b. Those who choose the ethnic-specific investment path have low levels of h_Y and thus tend to be socially – and perhaps also geographically – isolated from the mainstream, giving them strong incentives to marry within the group while making them less attractive as partners for people of other ethnicities. Members of this ethnicity who choose the shared-human-capital investment path tend to fall in quadrant IV. Their low levels of ethnic human capital reduce the priority of finding a marriage partner of the same ethnicity, while their high levels of shared human capital make them attractive to someone of another ethnicity who places a similarly low priority on this criterion.

Figure 3a illustrates the propensity to assimilate for groups in which ethnic-specific and general educations are mutually complementary. The less-educated members of such a group are likely to be found in quadrant III where low levels of ethnic human capital make intermarriage (hence assimilation) more likely but low levels of shared human capital make it difficult for them to participate fully in the mainstream. High levels of education characteristic of such groups suggest that more members will be in quadrant I. These people would be productive and culturally assimilated members of the larger society, but they would also have a strong ethnic identity, participate in the ethnic community, and choose a marital partner of the same ethnicity. There is a fully assimilated “successful” ethnic group if the shared society is multicultural and/or tolerant of diversity. If the shared society places great importance on ethnic homogeneity, however, their presence may be viewed as a problem and generate ethnic conflict.

III. Economic Rent and Ethnic Relations

Ordinary market forces often provide strong incentives to invest in shared human capital and thus tend to foster harmonious inter-group relations. Sometimes, however, the same market forces are used to justify (and thus support) intense ethnic conflict. With respect to the model developed above, market forces foster assimilation by providing incentives for members of all groups to invest in productive skills, an important component of h_Y . Groups with large negative value of ω (i.e., positive externalities between ethnic and general education processes) will be especially responsive to these incentives, resulting in a “successful” ethnic group with members that are both assimilated and strongly attached to their ethnic communities. In contrast, groups for which the parameter ω has a large positive value (i.e., negative externalities between

learning ethnic skills and shared skills) tend to become fragmented, with a large ethnic subgroup that has low levels of h_Y . The consequence is a “disadvantaged” ethnic group whose members are culturally isolated from, and dissatisfied with, the larger society.¹¹ The economics of inter-group relations differs importantly between these two cases.

When ω is negative, members of an ethnic group tend to have high levels of both h_Y and h_E and be successful participants in productive activities. Since there are many different productive skills encompassed in the concept of h_Y , members of a particular ethnic group may tend to cluster in occupations for which their ethnic human capital is especially complementary. Members of a particular ethnic group rarely account for the entire supply of labor to a particular occupation, but the advantage in skill-acquisition that attracts them implies a scarcity rent that tends to be higher than that of their colleagues with different ethnicities. In contrast when ω is positive, strongly-attached members of an ethnic group tend to be low-earning, isolated both socially and geographically from other ethnic groups with whom they share little human capital. The combination of isolation and disadvantage can foster a sense of grievance, but more importantly it raises the return to rent-seeking behavior relative to production activities.

A. Production vs. Transfer Society

The importance of ethnic differences in scarcity rents is that they provide economic incentives for a “transfer society,” where laws or other arrangements are

¹¹ While low earnings can be partially offset by the formation of ethnic enclaves, this tends to reinforce the isolation of a disadvantaged group from the larger society. Whether the is viewed as “good” or “bad” depends on the values of the group itself and also on the importance placed on assimilation by the larger society.

designed to benefit one ethnic group at the expense of others [Anderson, 1989 #541].¹² The incentives to support such a society are positively related to ethnic-group differences in the levels of economic rent and inversely related to the cost of enforcing the transfer. Ethnic groups differ in their attitudes toward rent seeking as an acceptable alternative to production as well as in their power to enforce such exchanges, and they vary accordingly in their supportiveness of these strategies. Where transfer strategies are viable, however, they constitute a clear incentive for groups to resist assimilation into the shared mainstream.

B. Rent-Seeking Skills

As with any other economic activity, the efficiency of rent seeking can be positively affected by an increase in the relevant skills. When considering the effects of ethnic human capital on the formation of shared skills, group differences may arise in the relative supply conditions of transfer relative to production skills, and groups with relatively high transfer skills would have a strong incentive to resist assimilation. Rent-seeking skills would be especially valuable in countries where transfers have been relatively more important than production as a source of income, whether because production is low (as in some LDCs) or because transfers are especially large (as in the former Soviet Union) or both. Thus it may be no coincidence that some of the most

¹² Economic agents have two basic strategies for expanding their opportunities for consumption, by raising productivity or by seeking to capture for themselves (whether by taxation, fiat, theft or extortion) the rents earned by other agents. In a "production" society free markets would maximize aggregate consumption and cause the income distribution to be Pareto optimal. In a "transfer" society this is not the case, for even when transfers are limited to scarcity rents (in which case they would not change the level or allocation of existing resources) they represent a reduction in capital formation and hence a deadweight loss in aggregate production.

virulent ethnic violence of our time occurs in countries with low levels of modern human capital or a history of inefficiency in production. Although economically induced ethnic violence may be self-limiting (if only because it dissipates the very rents that serve as its reward), it can be very destructive and have immiserating long-run effects on the economy as a whole.¹³

Ethnic conflict in general, and rent seeking conflict in particular, is probably as old as history itself. Yet the modern era has added a new dimension to the transfer society and hence a new economic impetus for ethnic conflict: if high productivity raises the stakes by increasing aggregate income, public-sector provision of services presents an institutional structure facilitating extensive income transfers. Thus control of a national government is a prize worthy of considerable sacrifice, and many ethnic groups have chosen to divert resources to that end. This suggests that it is no coincidence that economic development in the nineteenth and twentieth century has been accompanied by the emergence of particularly powerful nationalist movements on the part of many ethnic groups for whom sovereignty was not previously an issue.

IV. Conclusion and Policy Implications

The focus of this paper has been on understanding economic forces that support the assimilation of ethnic groups into a larger society. A microeconomic model of ethnic group membership was used to analyze the incentives for individuals to attach themselves to the group, and hence the economic conditions under which assimilation would be the likely outcome. Ethnic human capital was shown to be a key variable in this model, with

¹³ The image of a “cash cow” – yielding a steady flow of income with no diminution of capital – meets the fable of the “goose that lays a golden egg” – a source of easy income

important implications not only for group survival but also for a number of ethnic-group differences in labor supply and demographic behavior. Between-group differences in the nature of ethnic human capital can also result in differences in shared skills and hence in the importance of scarcity rents earned by group members. When these differences are large they provide an incentive for low-rent groups to extract income transfers from high-rent groups, a process that necessarily involves some degree of conflict in a Pareto-optimal economy and thus retards assimilation.

The model developed in this paper suggests several different approaches to achieving assimilationist goals. First, and perhaps most importantly, it suggests that ethnic identity *per se* is neither undesirable nor a barrier to the assimilation of individuals into the larger society. The goal of assimilation need not be to erode all ethnic distinctions, but rather to increase the common culture and economic opportunities shared by all groups. Adaptations of the shared culture that increase its compatibility with a particular ethnic group would also have the effect of reducing that group's negative externalities parameter, ω , and thus encourage its members to invest in the shared human capital that constitutes assimilation. Policies that welcome ethnic diversity within the larger society would have this effect.¹⁴

Within an ethnic group, any adaptations that reduce negative externalities between ethnic-specific and general education, ω , would have the effect of increasing assimilation. If the production possibility frontier (PPF) for the acquisition of these two

only as long as it remains intact.

¹⁴ A policy of multiculturalism would fit this description as long as it is genuinely inclusive. Multicultural policies that effectively elevate some groups (e.g., “disadvantaged” relative to “advantaged”) would not have the desired effect.

types of skill is convex to the origin, this will bow it out even further and thus have the effect of strengthening ethnic identity as well. If ω is positive and sufficiently large that the PPF is concave, adaptations that make ethnic skills more compatible with the larger society encourage more members to assimilate but also reduce the likelihood that assimilated members will leave the group. For such groups the challenge is to find adaptations that reduce negative externalities without sacrificing the ethnic identity that gives the group its special character.

Apart from these educational changes, economic policies that encourage inter-ethnic rent-seeking rivalries should be avoided since they retard assimilation. Any transfer society based on group differences would *ipso facto* generate such rivalries. Even if income transfers are voluntary, however, as they might be for subsidies to low-income families, a “disadvantaged” ethnic group with a large proportion of transfer recipients may develop institutions that implicitly support low levels of assimilation. The challenge is to design transfers that are neutral with respect to group membership to avoid erecting barriers to assimilation as an unintended consequence.

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Figure 1:
Strong Preference for Ethnic Goods

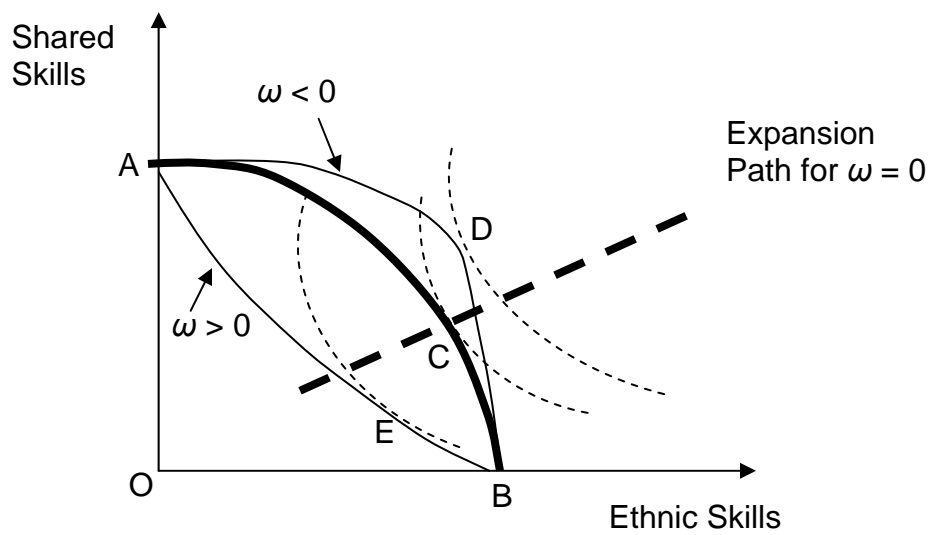


Figure 2a
Demand for Ethnic Goods: $\omega < 0$

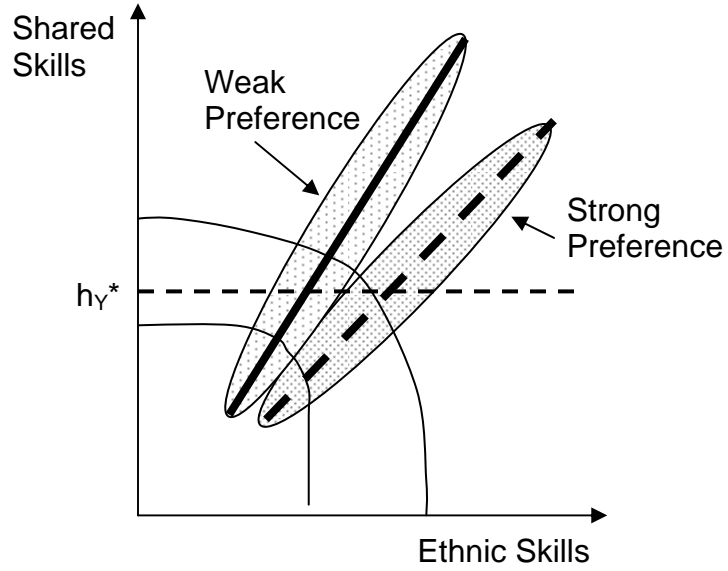


Figure 2b
Demand for Ethnic Goods: $\omega > 0$

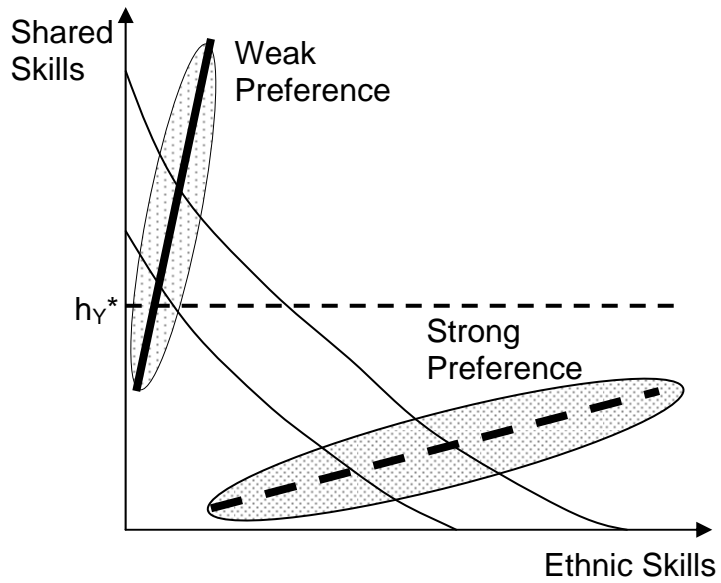


Figure 3a
Propensity to Assimilate: $\omega < 0$

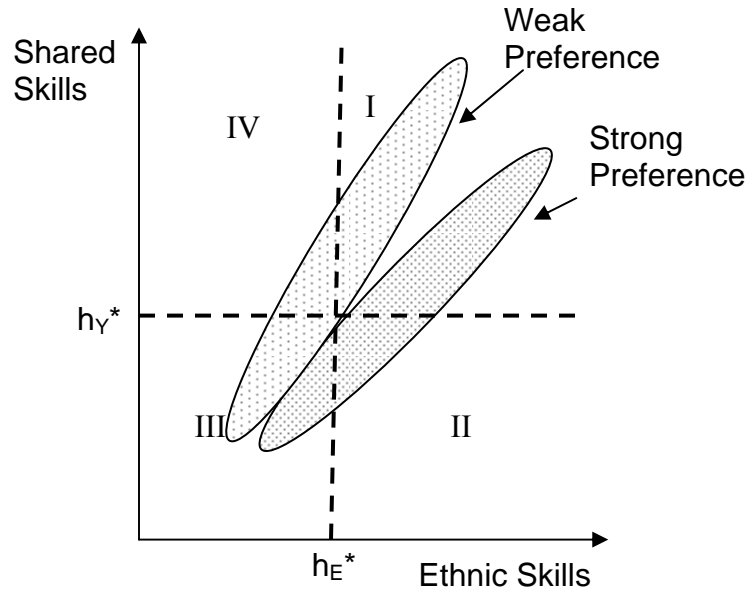


Figure 3b
Propensity to Assimilate: $\omega > 0$

