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### The Perception of Financial Inferiority Nurtures Negative Attitudes Towards Foreigners

When people feel that their own economic status is inferior to the economic status of a relevant peer group, it becomes more likely that they develop negative attitudes towards foreigners. This link was found in a new study of the Halle Institute for Economic Research (IWH) – Member of the Leibniz Association. The effect is particularly strong with respect to foreigners from low-wage countries.

Handling immigration is one of the big challenges in Europe today. Researchers from the Halle Institute for Economic Research (IWH) – Member of the Leibniz Association and the University of Applied Science Coburg investigated causes for different views on foreigners and the role of “social comparisons” in determining these views. The concept of social comparisons assumes that emotions like happiness or satisfaction depend on a person’s income. But it is not only the absolute amount of money which is crucial for positive or negative feelings but the amount of money *compared to* family, friends and acquaintances (*peer group*). If a person compares his or her salary with friends and it turns out that compared to them, the salary is low (even if the said person belongs to the group of higher-income earners), this has a negative impact on the person’s level of overall life satisfaction. The research group headed by Lutz Schneider and Walter Hyll then explored the question whether the distress from social comparisons also affects the views on foreigners. Their results show that people who worried about their economic status compared to their better-off West German peer group are more likely against rights for foreigners, politically more oriented to the right wing and have stronger antipathies against foreigners – in particular against those from low-wage countries.

To identify this effect, the research group took advantage of the idea that immediately after the fall of the Berlin Wall (an exogenous shock), the wealth difference between East and West became obvious. Hence, the researchers compared East Germans to their respective peer group in the West.

In accordance to the empirical literature, one could imagine several channels how foreigners might affect a native’s relative economic standing. If some native individuals and foreigners compete on local labour markets, those native individuals might face downward pressure on wages or increasing unemployment whereas other members of the same social group do not. In turn, the economic

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situation of some natives compared to the economic situation of others worsens. Therefore, natives with similar skills than immigrants should oppose immigration. Moreover, the competition for public goods or social transfers between natives and immigrants might also affect the relative economic status of natives compared to the relevant reference group. Another important channel that could be at work does not concern immigration but trade. Foreigners might produce goods and services less costly in their home economy than natives do. If, as a consequence, production in some industries of the native economy shrinks, the relative economic position of natives working in those industries might be affected. For that reasons, an individual's attitude toward foreigners could be determined by the effect foreigners exert on the individual's income position within his or her social group. Then, individuals show negative sentiments towards foreigners due to a depressed economic position compared to their reference group. Note that such sentiments do not require an actual deterioration in one's income ranking. Negative sentiments should already arise if foreigners are perceived as a potential threat towards natives' relative economic standing.

The data of the study is based on a representative survey conducted on the territory of the former GDR by the Central Institute for youth research Leipzig (Zentralinstitut für Jugendforschung) in September 1990. At this particular time, the monetary union had already been finalised while the political unification had not yet been accomplished. The people were asked about their political attitude in general, their opinions towards foreigners as well as their perceived discrepancies between East and West Germany. The survey contains records on 1 307 individuals aged between 15 and 86 years.

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The [IWH List of Experts](#) gives an overview of the IWH research themes. The institute's [press office](#) will be pleased to establish contact to the respective experts.

The Halle Institute for Economic Research (IWH) – Member of the Leibniz Association was founded in 1992. With its three research departments – Macroeconomics, Financial Markets, and Structural Change –, the IWH conducts economic research and provides economic policy recommendations, which are founded on evidence-based research. With the IWH's guiding theme "From Transition to European Integration", the institute's research concentrates on the determinants of economic growth processes with a focus on efficient capital allocation in a national and European context. Particular

areas of interest for the institute are macroeconomic dynamics and stability, microeconomic innovation processes, productivity and labour markets, the dynamics of structural adjustment processes, financial stability and growth and the role of financial markets for the real economy.

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