Inequality, Redistribution and Conflict

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Recent trends in inequality

• Inequality ‘back in from the cold’ (Atkinson 1997)
  • USA: top 1% owns around 20 percent of total national income (15 percent in the UK) and over 30% of the country’s wealth (just under 30 percent in the UK) (Piketty 2014)
  • Globally: about 9 percent of the world population receives one-half of global income; the bottom-half receives 7 percent of global income (Milanovic 2011)

• Rise in inequality since 1980s:
  • Employment shifted out of factories and manufacturing into services and more differentiated jobs; weakened trades unions
  • Globalisation brought more wage competition to labour through shifts in location of industrial production and increased migration to industrialised countries
  • Collapse of international communism after 1990
  • Fiscal pressures on welfare state arrangements from increased longevity and unemployment among the young
  • Large scale out-sourcing of public service provision undermines public employment capacity
The share of top percentile in total income rose since the 1970s in all Anglo-saxon countries, but with different magnitudes. Sources and series: see piketty.pse.ens.fr/capital21c.
The rise of the top decile income share since the 1970s is mostly due to the top percentile.

Sources and series: see piketty.pse.ens.fr/capital21c.
The top decile owns 80-90% of total wealth in 1810-1910, and 70% today.

Sources and series: see piketty.pse.ens.fr/capital21c.
The top 10% wealth holders own about 80% of total wealth in 1910, and 75% today.

Sources and series: see piketty.pse.ens.fr/capital21c.
What we know about inequality

• The determinants of inequality
  • Ricardo, Marx: share of capital and labour
  • Economic development and personal distribution of incomes: Kuznets

• Inequality of what?
  • Outcomes: income, also health, education, political participation; multidimensional inequality (Atkinson, Bourguignon); vertical vs horizontal inequality (Sen, Tilly, Stewart)
  • Opportunities (Roemer)

• Which measure?
  • Indices of vertical and horizontal inequality
  • Overall distributional vs functional and group distributions

• Data
  • Household surveys (earnings and expenditures); administrative data (census and national accounts); have some limitations
  • New datasets on top income

• What about the consequences?
Why should we care about rising inequality?

• Intrinsic social justice values, as well as harmful consequences:

• Inequality increases exclusion and poverty
  • Limited evidence of trickle-down of economic growth when income inequality is high
  • Inequality causes poverty traps when social mobility is low (esp. women, the young, and ethnic, cultural and religious minorities)
  • Income inequality hinders democracy and participation

• Inequality lowers economic growth and market efficiency
  • Restricts demand capacity of middle and lower classes (thereby reducing size of internal markets)
  • Inequality associated with lower accumulation of human capital (ill-health and reduced education outcomes)

• Inequality associated with socio-political instability: from protests to wars
Does inequality lead to political violence?

- Incomes and assets such as land (LA)
- Class divides (peasant rebellions) and access to power decisions
- Horizontal inequality across ethnic, religious and other cultural characteristics (Stewart)
- Relative deprivation (Gurr)
- Levels of polarization (Esteban and Ray)
- Ethnic fragmentation (Easterly and Levine)
- Uneven access to political power (Cederman et al.)
But...

• Inconclusive debate that inequality *causes* political violence

• Inequality exists in most societies; but only a handful of countries have experienced serious political violence

• Structures to translate grievances into wars:
  • collective mobilisation not sufficient without human, material and financial support
  • soldiers and arms cost money
  • convincing people to become soldiers is not an easy task

• Inequality unlikely to be sufficient to trigger war, but may be instrumental to the organisation of violence

• Even when the rebel leaders are motivated by predation, the social groups they have mobilised may have sense of identity-based grievances
Is it really about absolute inequality?

• Argument that inequality causes political violence depends on whether high (lower) levels of inequality automatically result in higher (lower) demand for redistribution

• Not the case when individual preferences for redistribution do not change
  - In societies with high levels of tolerance for inequality
  - When perceptions about inequality and absolute inequality values do not match
  - Levels of perceptions about social fairness and social justice
Protests and redistributive beliefs in Latin America

Dependent variable: individual participation in protests
Independent variable: agree whether government should implement strong policies to reduce inequality between rich and poor

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Data from LA Public Opinion Project and Socio-Economic Database for LA and the Caribbean (WB); 18 countries: 2010, 2012 and 2014 (average 30,000 individuals per survey).
What is the role redistribution?

• Because inequality may lead to violence, many have proposed redistribution as form of preventing large scale conflict in society:

• Bismarck: saw the *Sozialstaat* as a means to win the new German proletariat’s loyalties and keep class struggle under control; origin of the European welfare state

• Acemoglu and Robinson (2000): most Western societies extended voting rights during the 19th century (which led to a large expansion in redistributive programs) as “strategic decisions by the political elite to prevent widespread social unrest and revolution”.

• Acemoglu and Robinson (2006) : the threat of social unrest leads to more redistribution by elites and democratic regimes
Can government redistributive transfers be used to reduce riots? The case of India

Impact of 1% change of variable on riot incidence
More on transfers vs policing in India

• No. riots decreases by 0.4% for each extra rupee spent on transfers per capita in year t

• No. riots decreases by 12.1% for each extra rupee that was spent on transfers per capita in year t-1
  • Need Rs100 per person per year to have one less riot

• Need to hire 20 more policemen in order to have one less riot per year (entry salary Rs 8000 per month)
  • Need Rs1920 per person per year to have one less riot
Government welfare transfers and violent conflict in Latin America

Political conflicts and social spending in Latin America 1982 - 2009

Source: Authors’ calculations based on UCDP/PRIO, CEPALSTAT and SPEED database.
Note: The red vertical lines indicate the timing of major peace agreements.
## Regression results

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Mechanisms

• Reductions in absolute inequality

• More positive perceptions of inequality

• Better perceptions about government institutions and trust in state institutions

• Increased levels of social trust between citizens
Potential advantages of government welfare programmes

• Address persistent vulnerabilities and reinforce forms of resilience

• Break cycles of poverty and violence (by providing alternative safety nets to armed groups and extra-legal activities)

• May help re-establish the social contract between state and citizens

• Limited rigorous evidence on the role of safety nets or income transfers in contexts of conflict and violence – particularly in contexts of weak state capacity
  • Examples so far are from settings where state institutions are fairly strong: India and LA

• But it could well be that redistribution may support the seeds of democracy in conflict-affected areas. Speculative at the moment...