

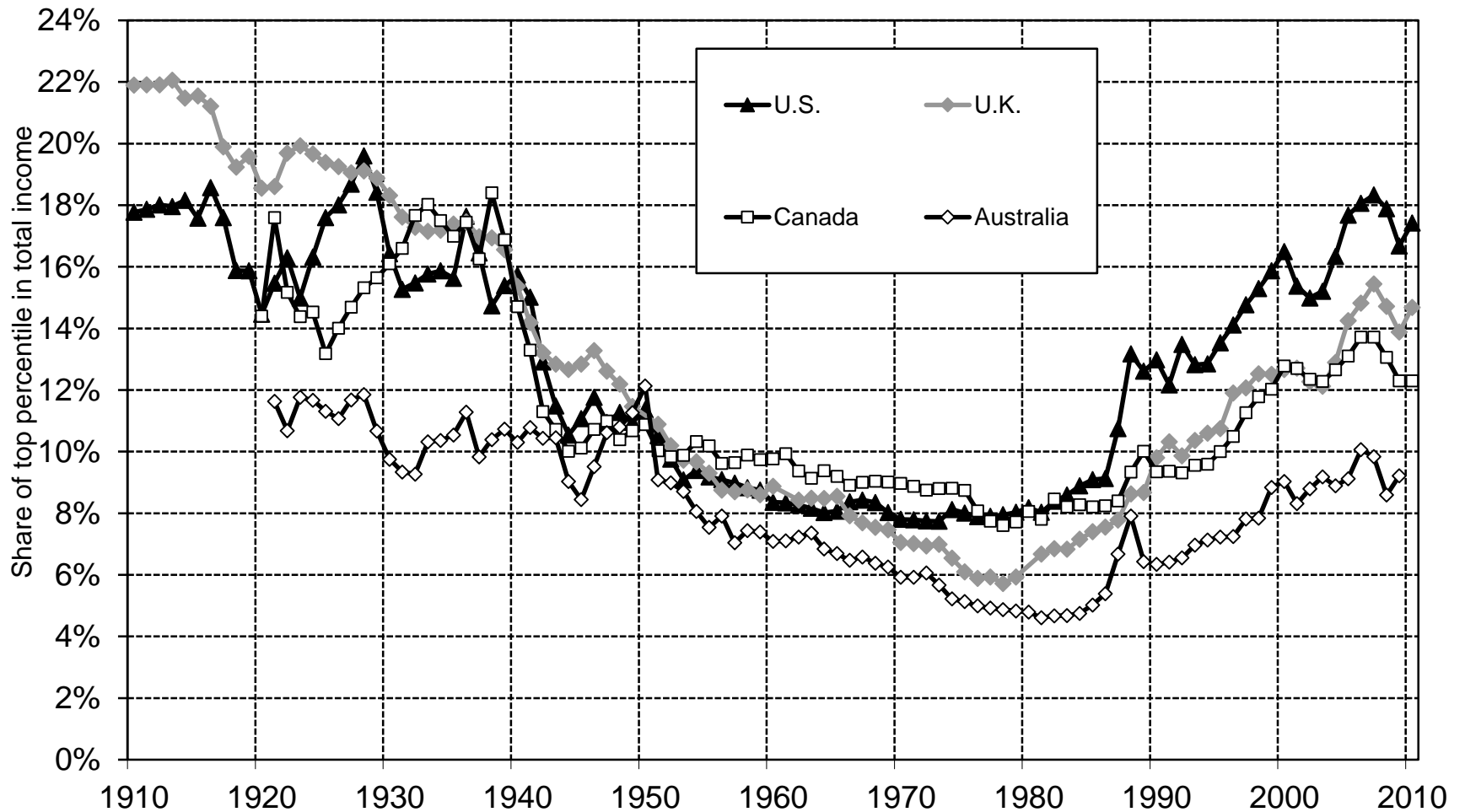
# Inequality, Redistribution and Conflict

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# Recent trends in inequality

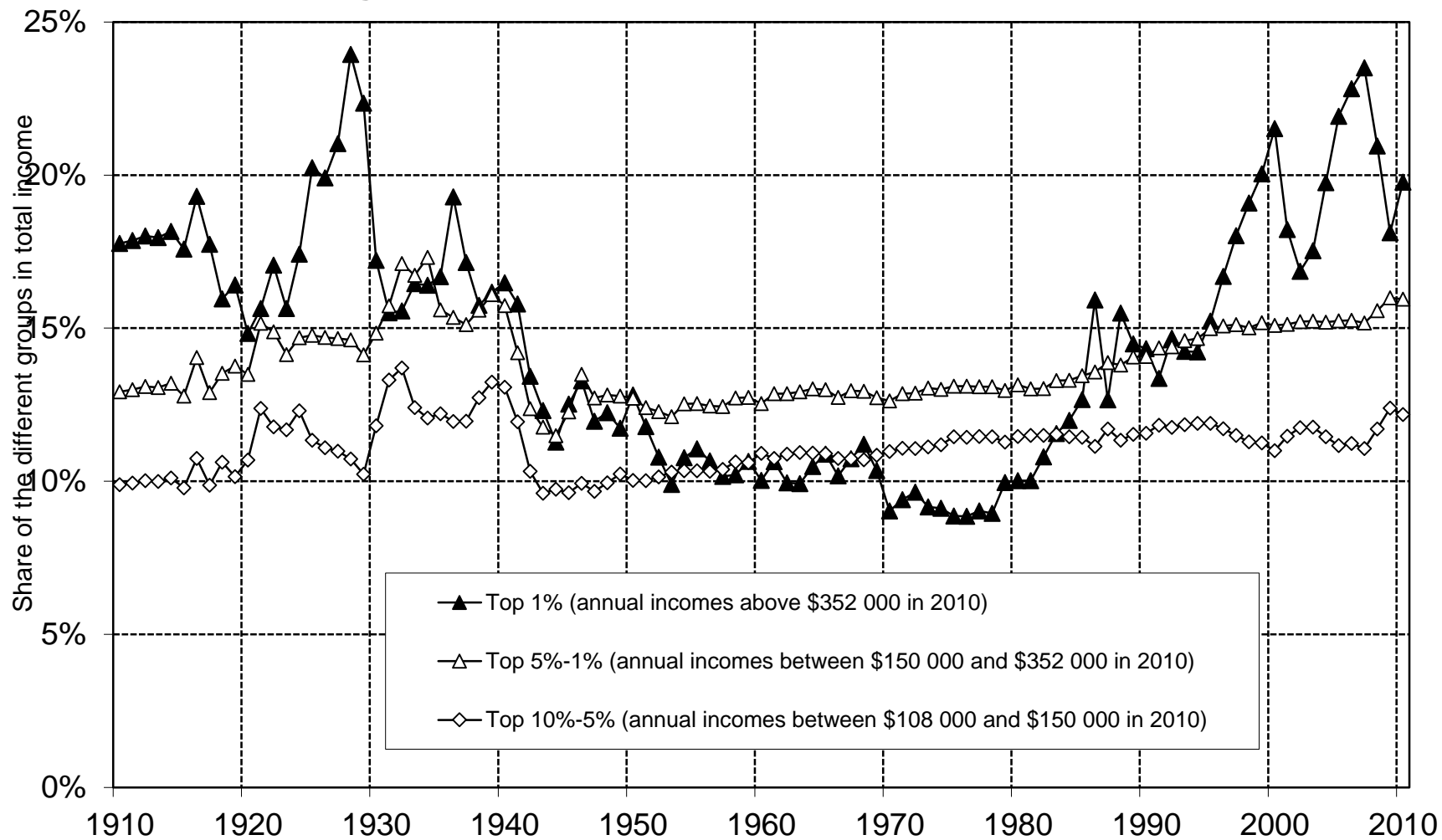
- Inequality 'back in from the cold' (Atkinson 1997)
  - USA: top 1% owns around 20 percent of total national income (15 percent in the UK) and over 30% of the country's wealth (just under 30 percent in the UK) (Piketty 2014)
  - Globally: about 9 percent of the world population receives one-half of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

**Figure 9.2. Income inequality in Anglo-saxon countries, 1910-2010**



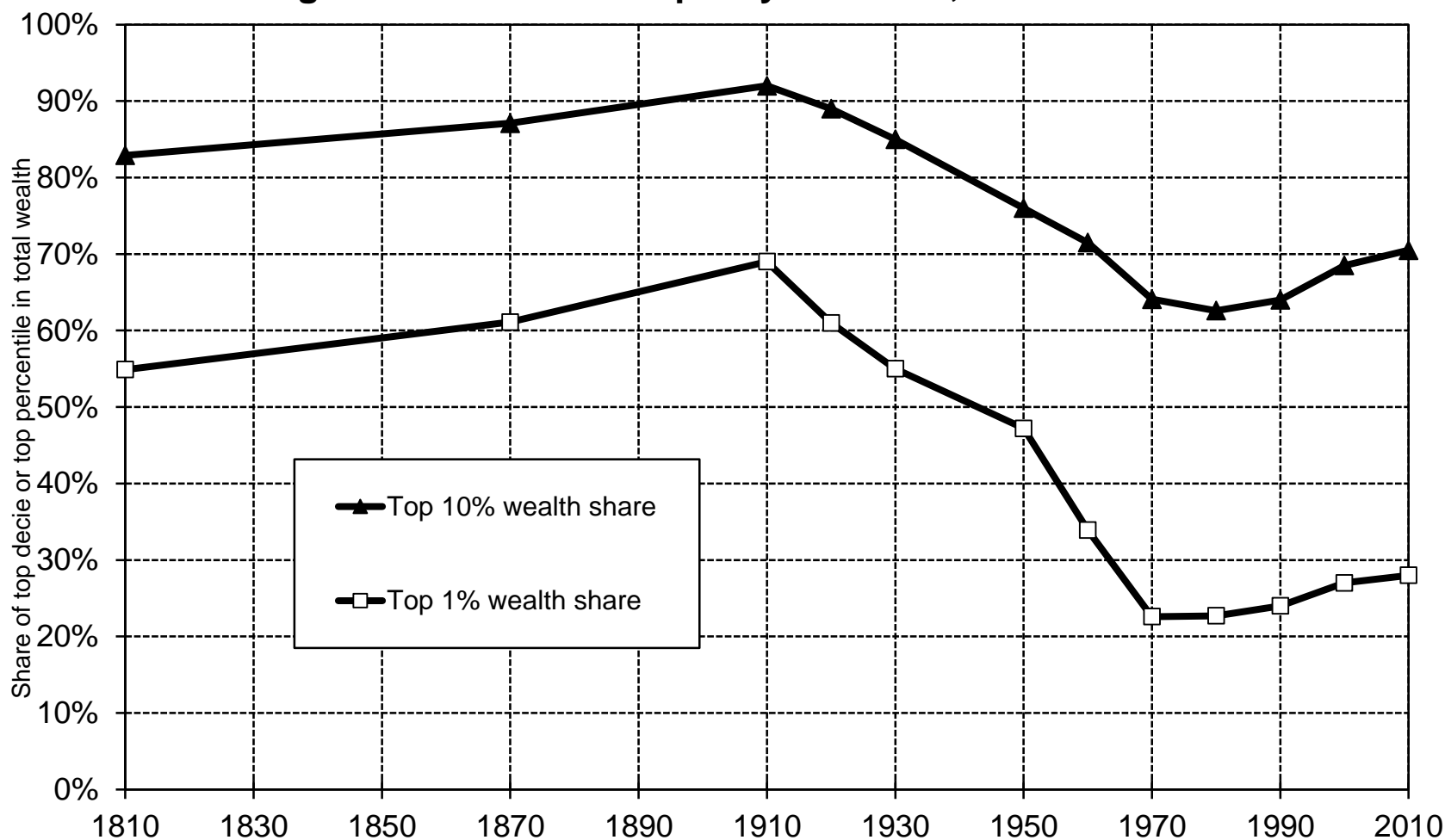
The share of top percentile in total income rose since the 1970s in all Anglo-saxon countries, but with different magnitudes. Sources and series: see [piketty.pse.ens.fr/capital21c](http://piketty.pse.ens.fr/capital21c).

**Figure 8.6. Decomposition of the top decile, U.S. 1910-2010**



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](http://piketty.pse.ens.fr/capital21c).

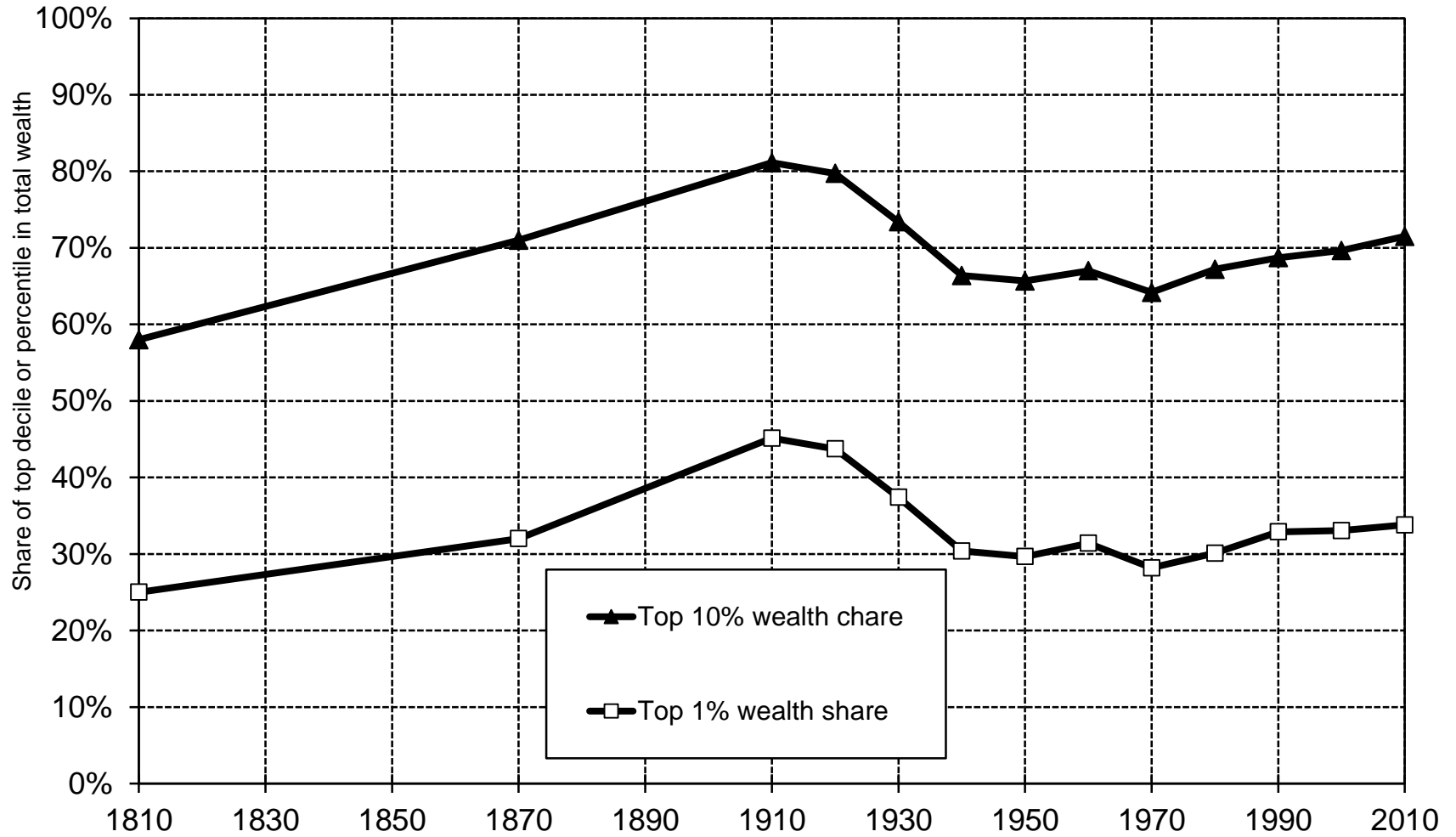
**Figure 10.3. Wealth inequality in Britain, 1810-2010**



The top decile owns 80-90% of total wealth in 1810-1910, and 70% today.

Sources and series: see [piketty.pse.ens.fr/capital21c](http://piketty.pse.ens.fr/capital21c).

**Figure 10.5. Wealth inequality in the U.S., 1810-2010**



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](http://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**

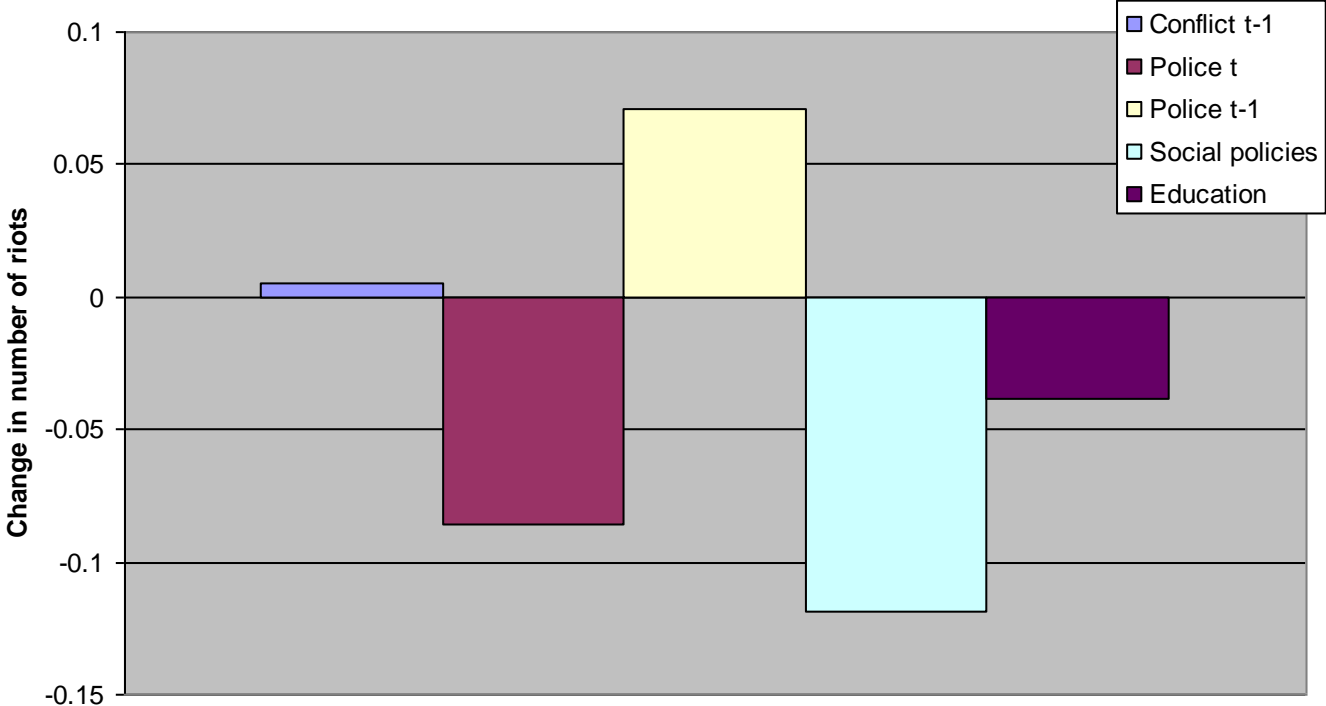
	<b>Baseline</b>	<b>Full model</b>	<b>Gini</b>	<b>Gini plus beliefs</b>
<b>Distributive beliefs</b>	1.194***	1.166***		1.164***
<b>Gini</b>			0.975	0.975
<b>Controls</b>	NO	YES	YES	YES
<b>Country FE</b>	NO	YES	YES	YES
<b>Year FE</b>	NO	YES	YES	YES
<b>Observations</b>	88,892	88,549	68,088	68,088

# 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 19<sup>th</sup> 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

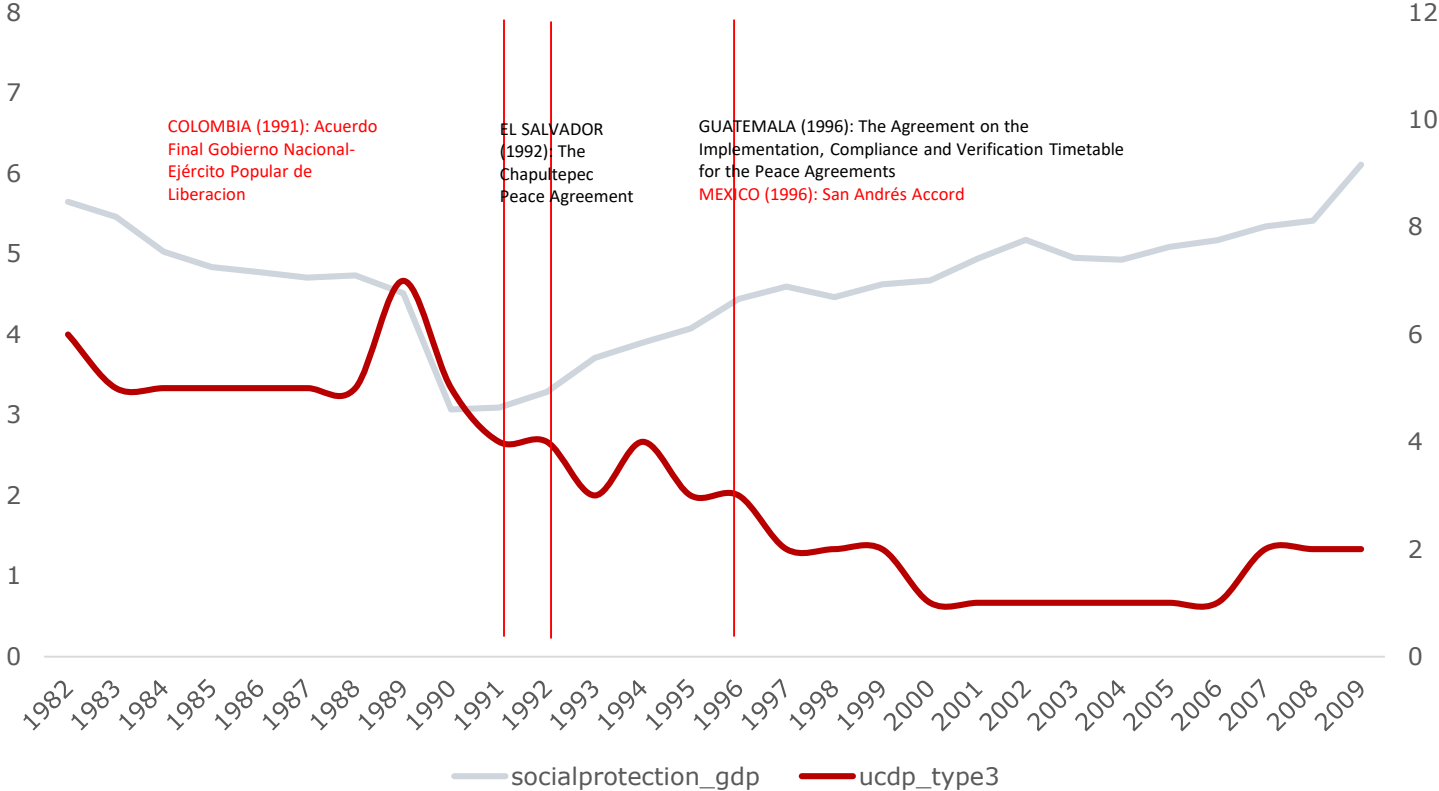


# More on transfers vs policing in India

- 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

	<b>OLS</b>	<b>IV</b>	<b>3SLS</b>	<b>GMM</b>
<b>Government welfare spending</b>	-0.021***	-0.079**	-0.088***	-0.022***
<b>Controls</b>	YES	YES	YES	YES
<b>Country FE</b>	YES	YES	YES	YES
<b>Observations</b>	385	384	384	385
<b>R-sq</b>	0.649	0.584	0.556	

# 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...