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In Search for More: The Importance of Income Inequality in Conflict Formation and Its Policy Implications¹

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Summary

The paper analyzes the global rise in with-in countries inequality, with special emphasis on the sharp increase in inequality beginning in the 1980s, as a result of the neoliberal policy reforms that were designed to prevent economic stagnation and decline by reiterating the importance of financial deregulation and trade liberalisation. Following this worldwide trend, the paper employs different theoretical frameworks in order to explain how a further increase in income inequality could lead to the formation of violent conflict. By using frustration, identity and opportunity factors, the authors attempt to illustrate how the “search for more” is transformed into violence, followed by material and human casualties. Finally, the paper analyzes different instruments and policies that could reduce inequality, e.g. tax and transfer systems (the impact on income distribution), labour market policies (the trade-off between high minimal wage and employment reduction) and institutions and education policies (through strengthening public education, in particular). An adequate policy response to rising inequality, according to the authors, should include all of these complementary measures.

Keywords: Economic Inequality, Conflict, Violence, Relative Deprivation, Resources Mobilisation, Horizontal Inequalities

Why Inequality Matters

Socio-economic factors have not always been a focus of the research on causes of violent conflicts. More often, especially during the 1960s and 1970s, they attracted

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interest as factors which can exacerbate, but not induce incompatibility formation. Contrary to this, in the last decade a lot of research (both qualitative and quantitative) has been done investigating the correlation between: economic inequality, violent conflicts and the onset of civil wars (refer to Thorbecke and Charumilind, 2002 and Buhaug et al., 2011). The reasons for this are twofold.

First and foremost, economic inequality has today reached its historic maximum. This is not only the case at the national level but at the international level as well. Recent findings have shown that the with-in country inequality has risen in most parts of the world since WWII, with sharp and constant increases since the beginning of the 1980s. This is the case not only in countries of the Global South (former Third World countries) where inequality is very persistent (due to their colonial past, bad governance, ill imposed international aid/policies, etc.), but also in the most developed regions of the Global North (such as North America and Western Europe) where this trend has not been previously present.

Findings (Cornia, 2003) show that during the last three decades inequality has increased up to 30% in the UK (followed by a similar trend in France, Italy and Holland), 50% in Japan, while in the former Soviet republics (such as Russian Federation, Kazakhstan and Kyrgyzstan) it increased more than twofold. A similar trend is present in the US, where income inequality rose from 35 to 47 Gini points in the same period (for details see Stiglitz, 2012). The most drastic case is the People's Republic of China, where inequality tripled since the beginning of the 1980s when this country started to implement market led reforms. Parallels can be made for other regions (sub-Saharan Africa, the Southern Cone, central Asia), with the exception of Latin America since the 2000s, where inequality rates have dropped in most countries of the continent due to the rise of the New Left governments and the importance given to the reduction of inequalities in their socio-economic policies (Cornia, 2010).

A similar situation may also be observed at the inter-country level where the gap between the richest and the poorest is even more pronounced. An additional problem is associated with the "geography of inequality", with one side consisting of the wealthiest countries, being almost exclusively from Europe, North America and Australia, and the other comprised of countries from the Global South (Milanovic, 2007). At the same time, middle-income countries (mostly from Latin America and Eastern Europe) have over time dropped to the lower-income group, making the differentiation even more pronounced. Additionally, global inequality (between individuals at the world level) by 2005 reached 70 Gini points, which is significantly higher than previously calculated (Milanovic, 2012).

Secondly, the negative trend is explained by policy reforms implemented worldwide since the 1980s, with the emphasis on the importance of deregulation and liberalization (including labour market reforms, elimination of trade barriers and the

free flow of financial capital) for preventing economic stagnation and decline (see Stewart and Berry, 1999). With regard to less developed states (LDC) where inequality is the highest, change was additionally exacerbated by structural adjustment programmes implemented by Bretton Woods institutions as a response to economic imbalances, high deficits and external debt in this period. These policies implied reductions in state expenditure (employment cuts, currency devaluation, discontinuation of subsidies, decreases in income tax, pay-as-you-go social services, etc.), i.e. in secondary incomes, which affected the middle class and the poor. Drawing from these facts, Auvinen (1996) reaches the conclusion that: the longer the history of structural adjustment programmes and IMF involvement in the economic reforms of a country, the greater the likelihood that political conflicts will occur.

The transfer of economic control to the private sector brought higher per-capita growth (although not consistently), but at the same time caused an increase in inequality, since the new (neoliberal) model implied dramatic reduction of redistribution mechanisms, which were pivotal for the economic policies in the decades before that (such as the welfare state in Europe, the ISI model in Latin America, command economy of former socialist countries, development state in East Asia, etc). As a result, the rise of with-in country and inter-country inequality reached a new maximum by the 2000s, but has been additionally exacerbated since 2008, with the imposition of austerity measures worldwide (Muller, 2013).

Hence, the events occurring in the last couple of years in Europe, the US, the Middle East and Latin America are the main indicator that the change of economic model has not only welfare-related, but social costs as well.

The most drastic is the example of Tunisia where internal conflict has resulted in a political transformation of the country. However, despite the importance of the democratisation processes, what is more significant is the fact that the violence started due to pronounced economic disparities, and only later did it acquire a political character. A similar situation is evident in other countries in Northern Africa and the Middle East. The protests in Europe and in the United States did not have such drastic consequences, but they nonetheless remain a clear indicator that significant increase in inequality in these parts of the world cannot prevail with existing economic policies. Mobilisation is especially visible in the US, Greece and Spain where discontent is increasingly transformed into frustration and directed towards state institutions, which are proving incapable of resolving these problems (Džuverović, 2013: 133).

Similar problems are present in countries like Iceland (2009), Israel (2011), Bulgaria, China and Brazil (2013) where economic hardship has brought social unrest that could lead to more pronounced violence if the causes for these protests are not properly and immediately addressed.

The result of all this is that economic inequality is becoming more important for peace and conflict research. For that reason, it is imperative to address the possibility that the economic factors may now be the leading, if not the sole causes of conflict formation. Moreover, if this proves to be true, the formulation of strategies for reducing income inequality will become increasingly significant. This is why this paper analyses the possibility of changing existing policies, and introducing new instruments for inequality reduction. If these efforts prove successful, innovations might also be used in formulating conflict prevention strategies.

But, before suggesting what could be done, it is necessary to present more theoretical insights on how the relation between inequality and conflict is formed, and why a search for more can sometimes also entail the resort to violence.

In Search for a Theoretical Explanation

Many of the most prominent works examining the relationship between inequality and conflict have emphasised the importance of psychological factors. This was based on the early work of Dollard et al. (1939), who noted that frustration appears when an individual is deprived from achieving a certain goal, which is followed by psychological tension that can be released only by aggression directed towards the cause of frustration or some other, alternative target. Subsequent work by Berkowitz (1972) made a distinction between aggression and readiness for aggression and detailed the conditions under which aggression may appear, which was essential for further development of the hypothesis.

Davies's (1962) work on revolution, Gurr's (1970) on political violence and Runciman's (1966) on social inequality in twentieth-century England clearly showed that the resort to violence is often a psychological response to deprivation caused by political and economic factors (and state institutions) which prevent individuals from fulfilling expectations by using their present capabilities. Accordingly, violence may be the result of negative deprivation (a decrease in capabilities), but can also be an emotional response to positive trends if the individual in question is left out (an increase in expectation without enhanced capabilities). It is important to note that in both models, frustration (and subsequent conflict) could result as a direct consequence of an individual's unequal status (compared to others), especially during prolonged intervals of economic downturn (for example the financial crisis in South Asia in 1997 or in North America and Europe in 2008).²

² In Galtung's view (1964) deprivation is not always clear-cut. Individuals can be, for example, economically deprived but at the same time have considerable political influence, or vice versa. Still, according to him, aggression caused by deprivation is most plausible if socio-economic factors are in the state of disequilibrium that he describes as the discrepancy between how individuals see themselves and how they are perceived by the system.

These assumptions were confirmed by the empirical research of Alesina and Perotti (1996) who examined the correlation between economic inequalities and political instability i.e. economic investments, and Auvinen and Nafziger's (1999) study on complex humanitarian emergencies which demonstrated a robust correlation between economic inequality and man made crisis (involving human suffering, physical violence and displacement, followed by diseases and hunger), with the prospect of negative influence of other economic factors such as economic regress, the failure of external economic adjustment, low GDP growth, high inflation or increased military expenditures.³ Similar results were found in recent research involving group deprivation (refer to Walker and Smith, 2001).

Contrary to this, the resource mobilisation hypothesis stresses the importance of organisational factors in conflict formation. In this context, the resort to violence is dependent primarily upon the interest of disenfranchised individuals, and not of their psychological characteristics (the so-called rational-choice model). This is closely related to the ability of individuals to take action as a coherent group and to act upon opportunities most favourable to them at a given moment. If this is fulfilled, it could lead to collective action and, if the group's demands are not satisfied, cause rebellion followed by large-scale violence.

This model is, according to Tilly (1978), especially applicable to revolutionary outcomes in which an unsatisfied group(s) mobilises in order to oust the government responsible for the given situation. If the group's interest is clearly present, resources well accessible and opportunities favourable to the group (see Gurr's [2000] work on internal and external opportunities), it could lead to action resulting in the government's overthrow.⁴ It should be taken into account that regime repressiveness can be only limitedly responsible for violence (Muller, 1985), while inequality is decisive for group mobilisation (Muller, 1985; Muller and Seligson, 1987).

Recently, in their study on "greed and grievance" Collier and Hoeffler (2004) have emphasised the significance of greed in conflict formation. In their view, grievances, which may derive from political exclusion or inter-ethnic and religious hatred, can only be partly accountable for violence, while greed generates most of the incompatibilities between the parties involved. As in the case of the mobilisation hypothesis, organised (and lucrative) activity cannot be neglected because it constitutes a starting point for parties' behaviour. According to the authors, the best evidence for this is given by the "new wars" (Kaldor, 1999) across Africa, financed

³ In subsequent study Nafziger and Auvinen (2003) made a distinction between class and communal (regional, ethnic and religious) economic inequalities with a notion that potential overlap could exacerbate grievances and potential strife.

⁴ Moore (1966) predicts the possibility of different revolutionary outcomes, out of which one entails divided authority between revolutionary and contra-revolutionary (government) forces.

by illicit activities (the war economy), prolonged by high intensity mobilisation (by media, religion and fear) and organised with foreign (regional) support, with the main purpose of acquiring economic benefits for the warring fractions.

Lastly, more research was done on cross-cutting inequalities with the assertion on the role of group membership, which contrasts relative deprivation and the mobilisation hypotheses that place individuals in the centre of the discussion.

In this perspective, group identity is essential for explaining horizontal inequalities with the notion that membership is not always just a preference of individuals (self-perception), but also of those who are outside the group (Stewart, 2008). Hence, mobility between groups is not exclusively a matter of choice (or a possibility), but rather an imposed option, which is why in societies with distinct inter-group boundaries horizontal inequalities are increasingly important.⁵

It is obvious that not all horizontal inequalities are equally important. Some have more bearing since they influence group (and its members') behaviour and its position in the society more than others (for example political exclusion compared to limited access to health services). What is important is that unequal access to economic resources by different groups can reduce welfare of the individuals in the losing groups above what their individual position would merit, because their self-esteem is bound up with the progress of the group (Stewart, 2002: 3). In other words, absolute deprivation of the group translates into relative deprivation of group members. If that is the case than societies with prominent economic inequalities are more vulnerable to the probability of violence outbursts. This is why Østby (2008) concludes that countries with strong democratic tradition and politically inclusive systems, if economically unequal, can be subject to domestic clashes.

In the situation where developed countries (DC) experience an increase in inter-group economic differentiation, understanding horizontal inequalities becomes increasingly important for conflict prevention. The same could be said for LDCs where benefits from increased economic growth are not evenly distributed or where the trickle-down effect is missing.

A plethora of different theoretical assumptions suggests that this issue raised a lot of concerns in the past, but more recently as well, especially with the extensive works on horizontal inequalities by Stewart and others and Nafziger's and Auvinen's study of complex humanitarian emergencies. Also, theoretical considerations can be viewed as a reaction to events taking place worldwide; some of them are briefly mentioned in this paper. This is why practical implication must be consid-

⁵ According to Stewart (2008) individuals possess multiple memberships, some of them being completely detached from one another (for example ethnicity and religion in Nigeria); others intertwined (caste and ethnicity in India) or possibly overlapped (race and ethnicity in Central America).

ered, and, if possible, new socio-economic policies formulated in order to prevent theoretical predictions regarding inequality-induced resort to violence.

Is There a Solution?

If a solution is to be effective, it does not necessarily have to eliminate inequalities, which is not achievable or necessarily desirable, but to decrease them to socially acceptable and long-term sustainable levels without entailing civil unrest. It would also suggest that local socio-economic policies and global paradigm shifts must be integrated and implemented simultaneously for this to be achieved.

Accordingly, the “great transformation” (Polanyi, 2001) should entail a replacement of the present credo based on the permanent increase of effectiveness with the new one – solidarity. This is especially important in the moment of profound economic hardship when all countries are affected and economic policies equally harmful for everybody, and not just for LDCs as it was in the past (Chang, 2007). Potential transformation should not be only state-based, but should also include international organisations, development and aid agencies, social movements, NGOs and others capable of correcting the misdoings which have led to the present situation.

So far, the change is visible mostly in Latin America where the rise of the New Left since 2001 has brought a new impetus in the solidarity and egalitarian agenda. Drastic change, as in cases of Bolivia and Venezuela with their indigenous and socialist projects, is not a precondition for successful transformation, since other models, more moderate, may prove to be equally (or more) successful.⁶

As mentioned, the global shift must necessarily be accompanied by a change at the local level. Firstly, austerity measures need to be reduced to a minimum. By looking at Greece, Spain and Portugal, it is evident these measures negatively influence the economic growth and increase the inequality by affecting exclusively middle and lower-income groups (via cuts in education investments, decrease of funds allocated for social services or increase in healthcare costs) (Stiglitz, 2012). Instead of austerity which proved to be very ineffective and unfair (Muller, 2013) governments should invest more in services for groups from the lower part of the income scale, with the purpose of increasing human capital and securing their long-term economic independency. By doing this, redistribution would be achieved along with the growth (Cornia, 2010), and not subsequently, which was (not) the case in the past.

⁶ This relates to the question of how economic progress is achieved and sustained. Present economic empowerment of Asian and Latin American countries can be seen as an indicator that, after a long period of time, the economic development of the Global South is now continuous and, more importantly, non-interfered. If this proves to be a long-term trend, solidarity agenda could also be more welcomed in the Global North whose countries are experiencing systemic social and economic crisis, without prospects for positive change.

As Stewart and Berry (1999: 151) note, the traditional tax system's major purpose is to correct inequalities (by direct taxation and increased state expenditure), while in the case of the neoliberal model it is to promote incentives and economic efficiency (reduced taxation and expenditures). Progressive fiscal policies are very important for fighting inequality because regressive tax systems make the poorest face a substantial tax burden while the richest are (de facto) exposed to moderate tax rates. This is why it is crucial for LDCs to transform their tax system according to the notion that progressive income taxation (income depreciation for the well-off and improved returns for labour-only individuals) and the ability to collect revenues regularly could present an effective instrument for tackling income inequalities (refer to Nafziger and Auvinen, 2003: 179-80). Also, revenue allocation must be distributed evenly across different groups in order to avoid the formation of persistent horizontal inequalities. Finally, fiscal policies such as establishing wage ratio in the public sector (by determining maximum vs. minimum or via income groups) or guaranteed minimum wage should also be potentially discussed, both in DCs and LDCs.⁷ There are numerous interesting (and unorthodox) proposals and initiatives tackling these issues.⁸ It is very important to emphasise the existence of possible trade-offs between establishing a minimum wage and employment reduction. This policy in particular could have an impact on employment dynamics because administrative decisions establishing too high levels of wage earnings may possibly decrease competitive performances of companies and reduce employment. Also, strengthening the role of trade unions through specific institutional arrangements can reduce inequality by providing a more equal distribution of labour income.⁹

Unequal land distribution is one of the most important factors influencing inequality in LDCs because it contributes to low income for the majority of population (Muller and Seligson, 1987). This is why land reform can be a very effective instrument for reducing rural inequality. In this context, parcels redistribution must be followed by other measures such as financial and technical support for new owners, available infrastructure or mediation for resolving claim disputes. The example of Taiwan in the 1950s shows that if the political opposition is overcome, land dis-

⁷ Article 7 of Brazil's Constitution guarantees 'a minimum wage nationwide, established by law, capable of satisfying their basic living needs and those of their families with housing, food, education, health, leisure, clothing, hygiene, transportation, and social security, with periodical adjustments to maintain its purchasing power, it being forbidden to bind it for any purpose'.

⁸ The popular initiative in Switzerland, i.e. initiative 1:12, which aims to limit monthly CEOs salaries to twelve times the lowest salary in the company, or the proposal from Irish Congress of Trade Unions (ICTU) about narrowing the trade gap by suggesting wages that go beyond the established ratio could not be deductible for income tax purposes, are just some of the examples.

⁹ The fall and rise of inequality in USA corresponds with the decline and increase of union membership.

tribution can have a strong positive impact on inequality. Otherwise, even the best land distribution strategies can prove to be ill-equipped and ineffective as shown in Iran (mid 1960s to mid 1970s) and Zimbabwe (in the 1990s).

More importantly, governments must spend increasingly on improving human capital. Only by doing this, other measures would reach their full effect. This implies more investments in education with a purpose of attaining, if possible, free and universal schooling, from pre-school to the university level. By making educational services accessible to the majority, the state can increase knowledge and skills of overall population which can be beneficial in the labour market, and have a positive (income) effect. This especially refers to LDCs and developing countries whose investments in education are much lower compared to DCs (for details see OECD, 2012).¹⁰ In the second case (developed countries), the problem associated with the restricted access to academic institutions due to large family income disparities and very high tuitions should also be addressed immediately since it is an important factor in bolstering intergeneration inequality.¹¹

Related to this is also the question of accessible health services to lower-income groups. Accessible primary care should be one of the priorities for every government interested in the wellbeing of its citizens, especially because of the fact that longer and healthier life increases income for both the individuals (by higher earnings) and the state (increased tax returns), and has a positive impact on income inequality. This is especially important for LDCs where birth rates are very high and the majority of the population is deprived of any kind of medical assistance. Most recent efforts aimed at expanding medical services to the poor in Venezuela and Brazil have shown positive effects, and should be taken into consideration for future references. This is also related to the first point (solidarity), since some of these programmes are run with foreign support (in these cases most notably Cuba). Unfortunately, the example of the United States proves that expanding health services is still far from being accepted as a practical and socially adequate solution for the inequality dilemma.

Likewise, most recent findings suggest that conditional cash transfer (CCT) programmes could be a useful tool for alleviating poverty. These programmes assume that money is transferred to households to help support them, providing they conform to certain expectations about school attendance and health-care check-ups of their youngest members. In other words, families get financial support for sending

¹⁰ Inequalities in education are even more important if they cross cut with other inequalities (ethnic, religious, income, etc.), which often is the case in LDCs (for example Roma people in Eastern Europe or indigenous population in Central and South America).

¹¹ The United States is the only developed country in which members of the age group 25-34 are less educated than those in the age group 55-64 (CFR, 2013: 2).

children to school (instead of working, often in dangerous environments), and taking care of their wellbeing. This is why Handa and Davis (2006) emphasise dual objective of the programmes, based on human-capital development (long term) and the establishment of social nets i.e. poverty alleviation (short term). An additional effect of CCTs is that they constitute a very small share of GDP (up to 0.8%) and have a strong positive impact on inequality reduction with very good target group coverage.¹²

CCTs can be considered an indigenous initiative, since they were initially designed without the help of development banks (Handa and Davis, 2006). They have originated in Latin America in mid 90s, and so far have expanded throughout the continent with the most prominent being in Brazil (Bolsa Familia) and Mexico (Progresa). Positive effects of these programmes (in poverty alleviation and inequality reduction) have been noticed in other regions as well, most notably in West Africa and South East Asia, and some European countries (FYR Macedonia). Also, CCTs have been recognised by regional and international developing institutions that promote them as good practices for human-capacity development.

Finally, other instruments, traditional (such as nationalisation) or innovative (positive discrimination in education or equal access to the private job market) are also possible, and potentially as effective depending on local factors that may vary considerably. This is why there is no one-fit-all solution, and various responses should be implemented as long as they show positive effects on economic inequality reduction.

Conclusion

The growing importance of economic factors (including inequality) brings a new impetus in conflict research. It cannot be neglected anymore that these factors are becoming more significant, and with prolonged economic crisis possibly decisive for future incompatibility formations. As former ISA president, Craig Murphy, describes:

Forty years ago most observers expected the world's income distribution to shift from what was considered a socially unstable bimodal form to the unimodal distribution that characterises most domestic societies. The incomes of the poor of South Asia, China, and Africa would grow to blend into those of the growing incomes of the world's industrialising nations in Latin America, Southern Europe, and the Middle East. In turn, they would grow to blend with the incomes of Western Europe and Japan, which would have joined the United States. Instead... the

¹² The most prominent is the case of Brazil where 21% of inequality decreases is achieved because of Bolsa Familia, and where up to 75% of beneficiaries fulfill all programme requirements (Soares et al., 2006; 2010).

bulk of the world's economic growth was accumulated by individuals within the wealthy OECD states, places where domestic income inequality has grown sharply as well. The bimodal distribution of world income has remained. (2001: 350)

The protractedness that Murphy depicts is a clear sign that inequalities (including the economic ones) are rooted in the structure (Galtung, 1996), making them even more perilous (as part of structural violence) and difficult to resolve without a systemic change that so far has not been in the global agenda. Recent events, discussed in this paper, are an indicator that this phenomenon is generating social consequences, which is why it must be addressed without any further delay.

In this paper we have tried to analyse the main reasons that lead to the increased importance of economic factors, but also to provide some possible explanation on why a search for more can lead to violence, and how it can be prevented. The implementation of suggested policies depends on national efforts, but on the global context as well. It seems that negative economic prospects present an opportunity for wide-ranging changes finally to be introduced. If it happens, results achieved in this way could prove to be significant for the design and implementation of development policies in the years to come. If not, it will increase the importance of economic inequalities with very negative prospects.

Having in mind both potential outcomes, it appears that the time has come for the (in)equality to become a central issue in the world development debate, because ultimately, using the words of Gandhi, our planet has enough for everyone's need, but not for everyone's greed.

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