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POVERTY, INEQUALITY AND CONFLICT

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Poverty, Inequality and Conflict

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Abstract

While there is a general view that poverty and inequality can lead to conflict and are therefore in this sense security issues, the precise nature of the links is less well appreciated. Focusing on conflicts *within* states, this paper draws out the links based on the recent economics literature, and discusses their implications for policy. It is argued that while inequality is a natural concomitant of economic processes, particularly those driven by the market, its implications for security emerge when unequal outcomes align with socio-political cleavages. Such an alignment can turn a benign outcome, in which increasing inequality might even help economic efficiency, into one in which conflict worsens the climate for investment even before, in the extreme, a collapse of the social order. A careful assessment of the intersection between economic outcomes and social divisions is necessary in designing policies and interventions for growth and poverty reduction.

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1. Introduction

The focus of this paper is on conflicts *within* states. These range from the full scale armed conflict of a civil war (between two "states within states"), through relatively isolated and contained low intensity insurrection against the state, to regular bouts of communal violence in a "well functioning" state. I wish to ask how poverty and inequality causally interact with these phenomena. The causality from conflict to poverty is not much in doubt and stands to reason--conflict destroys or impairs incentives for productive economic investment and innovation at all levels. However, the precise nature of the causality in the other direction, from poverty and inequality to conflict, is more nuanced and subject to greater debate. It is this causal chain that I will focus on. But in order to do this we in turn need a nuanced characterization and discussion of inequality and poverty concepts and trends. Certain types of inequality, in particular, will be seen to be particularly fertile ground for conflict; other types may be more benign. And if the attempts to reduce poverty through economic growth lead to initial increases in the "wrong" type of inequality, the conflicts this engenders may dissipate beneficial effects of poverty reduction on conflict. However, each scenario will have essentially specific features related to structural and historical factors that differ from country to country. The general principles will thus have to be applied carefully in designing country specific policies and interventions.

Section 2 of the paper introduces some basic concepts of poverty and inequality and reviews their strengths and limitations in helping us understand the origins of conflict. Section 3 turns to the theory and evidence on the causal links between poverty, inequality and conflict. Based on this analysis, Section 4 discusses policy to reduce the likelihood of conflict. Section 5 concludes.

2. Poverty and Inequality: Concepts and Trends

The standard measurement of poverty and inequality in economics starts with a definition of *individual* level well being, which in turn is specified in terms of monetary based measures such as income or consumption.[1] The empirical implementation relies on nationally representative sample surveys of household income and expenditure, in which information is collected on these items at the household level from a household respondent, as well as a range of socio-demographic information such as age and gender of individuals in the household, ethnicity, religion, etc. The monetary measures of income or expenditure at the household level are then corrected for price variations, and then, usually, divided by household size to arrive at a per capita number for the household.[2] Each individual in the household is then allocated this number as a measure of his or her well being.[3] Using these numbers a distribution of income for the whole sample is

[1] While standard, it is increasingly supplemented by non-income dimensions of human development such as education, health, and "empowerment." See World Bank (2000), UNDP (2000).
[2] Correction for differing needs depending on age and gender is sometimes done, although not in most official statistics.
[3] This method effectively ignores any inequality within a household between genders or between age groups, and will in general lead to an understatement of true poverty and inequality. See Haddad and Kanbur (1990).

constructed, and from this, making due adjustment for the sampling design, the national distribution of income is inferred.[4]

Three key features of the national distribution so produced are central to policy debates—the mean (or average) of the distribution, the spread of the distribution, and the "lower tail" of the distribution. The rate of change of the first is simply the rate of growth; the second is captured by various measures of inequality such as the Gini coefficient; the third tries to get at "poverty". To measure poverty we need to specify a cut off which defines the lower tail—those who are poor. This is done through the specification of the "poverty line", an exercise fraught with conceptual problems and technical problems at a country specific level and especially at the global level. The famous "dollar a day" and "two dollars a day" global lines, are the basis on which global poverty figures are calculated from national household surveys, and used by the UN and international agencies.[5]

The mechanics of growth, inequality and poverty as defined above are straightforward. Holding inequality constant, when growth happens, poverty falls. Holding the mean of the distribution constant, when inequality increases, poverty increases. In this sense, therefore, growth is good for poverty reduction and increasing inequality is bad for poverty reduction. If one could get growth without the inequality increase, or inequality reduction without a reduction in growth, or both growth and inequality reduction, then poverty would go down. The real question is how to get these combinations of outcomes to happen in practice.

In the economics literature, inequality is often "decomposed" into a "between-group" and a "within-group" component.[6] These concepts turn out to be important for relating inequality to conflict. The basic idea is as follows. Think of society as being divided into mutually exclusive groups defined by ethnicity, religion, region, etc. Each of these groups will have its own income distribution, with its own mean, inequality and poverty. If the sample survey from which the national distribution is calculated allows such identification of households (most surveys do), then these sub-group distributions can be calculated if the sample size is large enough. Overall inequality in the country can now be thought of as having two components—the inequality which arises firstly because within each group there are differences of income relative to the mean of that group, and secondly because there are differences between the means across groups. If conflict can be related to perceived and actual differences between groups, then it is the between group component of inequality that is the key phenomenon to focus on.

Poverty measures can also be decomposed into their sub-group components. For the most commonly used class of poverty indices, overall poverty is a weighted sum of

[4] For some countries, like India, the mean of the sample survey is not used. Rather, a measure of national income from the national accounts is used. The biases to which this can give rise are discussed, for example, in Deaton and Kozel (2005).
[5] A standard reference is Ravallion (1992). For a critique of current methods, see Reddy and Pogge (2005).
[6] For a detailed discussion see Kanbur (2006).

poverty in each group, the weights being the fraction of total population in that group.[7] The simplest case for illustration is that of the incidence of poverty—the fraction below the poverty line. Then the sum of poverty incidence in each group, weighted by the population share of that group in total population, is indeed the national poverty incidence. It can happen, therefore, that a decline in national poverty incidence can hide a complex pattern of poverty changes—with some groups reducing their poverty and other groups increasing their poverty. This makes clear that a decline in national poverty can indeed be accompanied by growing group tensions as some groups do better than others in poverty reduction.

With this background on the conceptualization and measurement of inequality and poverty, what have been the trends in the last two decades? Imagine first of all the whole world as being one nation, and each country being a group. There is inequality within each country, and inequality between the average incomes of different nations, and these two components go together to make up global inequality. In the last two decades, two features of national income growth stand out. First, some developing countries, like China and India, have grown much faster than the developed countries. This is a force for reducing between country inequality. Second, some other developing countries, particularly those in Africa, have grown slower than either the developed countries or China and India. This is a force for increasing inequality between countries. The net effect on between group inequality depends on the balance of these forces. Turning now to inequality <u>within</u> countries, this has by and large increased. This is certainly true of the big countries like India, China, Russia, the U.S., but it is also true of smaller countries in Africa like Ghana or South Africa. There are thus different forces pulling on any measure of global inequality, and different analysts come up with different final answers—for some there has been a decline in global inequality despite the increasing within country inequality, while for others global inequality has increased overall in the last two decades.[8]

On poverty, the World Bank's assessment is that the global incidence of poverty has fallen, although once again this is composed of opposing trends. African poverty has increased, but this has been overshadowed at the global level by sharp reductions in poverty in India and China, which dominate the global aggregate because of their population size.[9]

If global measures of poverty and inequality were causally associated with global measures of conflict, then we would expect to see a reduction in the latter because poverty has gone down and because inequality has also gone down (on some estimates). A moment's thought makes clear, however, that the global trend is at too high a level of aggregation to be useful in explaining the incidence of conflict. We need to move to the country level and to even lower levels of aggregation. Here, the finding that inequality within countries is on the rise is a sobering finding. The evidence is further that this

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[7] This is true for the so-called FGT family of poverty indices, introduced by Foster, Greer and Thorbecke (1984)

[8] A useful summary of the vigorous debate among a range of protagonists is given in World Bank (2006).

[9] The World Bank's data is summarized in Chen and Ravallion (2004), which brings out these trends.

increase in inequality has very particular patterns. It is not just that the rich are getting richer faster than the poor, but that rich groups are getting richer faster than the poor. A key type of grouping where this pattern is seen is across regions within countries. In China, India, Ghana, South Africa, Russia and many other countries, some regions are pulling away from others in terms of their performance. In many of these countries, the regions align with religious, ethnic, racial and language divides, raising the prospect of group tensions. This does not bode well for social harmony, and we turn now to the implications of rising inequality for conflict.[10]

3. Poverty, Inequality and Conflict

As noted earlier, conflict can range from low intensity simmering resentment expressed in words and speeches, through mob violence of one communal group against another, to full fledged civil war with organized armed combatants which sometimes leads to genocide. Our task is to explore the causal impact of poverty and inequality on conflicts at these different levels.

It seems to be generally accepted that poverty and inequality breed conflict. However, while in a general sense it seems plausible that poverty can create the desperation that fuels conflict, or inequality can foster resentment that stokes conflict, the precise nature of the causal linkages are not quite so evident. On poverty, there are poor societies that are remarkably peaceful, and richer societies that are mired in violence. The counter examples of Northern Ireland or the Balkans are a useful antidote to the view that high incomes are necessarily a deterrent to conflict. Moreover, within countries it does not seem that the wealthier areas are any less immune from low intensity communal violence.[11] Finally, there is evidence that those who direct extreme forms of violence are not themselves particularly impoverished.[12] Thus, although it is by and large and on the average true, in a statistical sense, that violent conflict is a feature of poorer rather than richer societies, wealth can provide the means to conflict as much as take away the reason for it, and the balance of forces is delicate and country specific.[13]

The links between inequality and conflict are subtle as well. The relationship between standard measures of interpersonal inequality and conflict is weak and not well established as an independent causal phenomenon. However, theory and evidence support the view that it is the between-group dimension of inequality that is crucial.[14] Given structural cleavages such as caste, religion, ethnicity, race and region, if income disparities align with these splits they exacerbate tension and conflict. Even quite small

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[10] An overview of a comprehensive assessment of spatial inequality trends which reaches this conclusion is to be found in Kanbur and Venables (2005).
[11] For example, see Varshney (2002) for India.
[12] See Krueger and Maleckova (2003).
[13] A World Bank study on Civil Wars found that poverty was a significant statistical determinant of civil war on average, but there was sufficient variation around this average to warrant careful country specific analysis. See Collier et. al. (2003).
[14] The argument is developed, for example, in Stewart (2001), and in the work of the Centre for Research on Inequality, Human Security and Ethnicity (CRISE): http://www.crise.ox.ac.uk/

shifts in the distribution of income between groups—the difference in group average incomes, for example—can lay the foundations for group conflict.[15] Polarization of society into a small number of groups with distinctive identity is an incubator of conflict on its own. Add to this the dimension of average income differences between the groups, and a combustible mix is created.[16]

If poverty is seen as a key determinant of conflict, rapid economic growth out of poverty naturally follows as a key policy recommendation. However, if the processes of economic growth create group inequalities, leaving identified groups behind relative to the advance of other groups, this can engender conflict sufficient to negatively affect the growth process itself. Indian development has left behind the tribal populations of poor states, fuelling a Maoist insurgency in an arc running from the Nepalese border through the states of Bihar, Chhatisgarh, Jharkhand, Orissa and Andhra Pradesh. When Mexican growth left behind the poor South, the Chiapas rebellion was the result. As the Western parts of China have been left behind in the spectacular growth spurt of the last quarter century, mass protests in these regions have increased. The start of the communal violence and eventual civil war in Sri Lanka can be traced to the economic and civic grievances of the minority Tamil community against the majority Sinhala community, who themselves felt they had the right to reverse the favorable treatment of the Tamils during the colonial period.

I do not have a complete theory of why and how low levels of tensions escalate to group violence and, in the extreme, to civil war. Obvious triggers like economic crises can sometimes be identified. And once a civil war itself gets going, it has a dynamic of its own, and creates economic forces that sustain it, like illegal trafficking.[17] But what seems to be important are two factors—a background of group inequality, and sharp increases in group inequality, in directions that play into other socio-economic factors. If these changes in the structure of group inequality occur during a period of economic policy reform, the distributional changes brought about by the reform, which by themselves may be unexceptionable, become dangerous when they constitute group specific changes because of the particular economic and social structure of the country.

Consider the following example. It is generally accepted by most economists that encouraging the expansion of the export sector will be beneficial from the point of view of long run growth. The way to encourage such expansion is to make exporting more profitable, and thus increase the return and incomes of those engaged in the export sector. Correspondingly, there will be, for a while at any rate, a relative reduction in the incomes of those engaged in the so called "non-tradeables" sector—those who produce goods for the domestic rather than the international market.[18] These income changes have an inexorable economic logic and are needed in order to effect the economic change needed

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[15] A theory of group based conflict is developed in Dasgupta and Kanbur (2005).
[16] Polarization as a cause of civil war is examined in Collier et. al. (2003).
[17] Collier et. al. (2003); Berdal and Malone (2000).
[18] The impact of trade openness on distribution and poverty has long been recognized. For an early piece of theory see Kanbur (1987). More recent work on globalization and distribution is summarized in Harrison (2006).

in a market economy. The distributional tensions they cause are inevitable. These may be difficult, but they could possibly be weathered in the best of circumstances where the society was relatively homogeneous in is social make up. But if economic occupational groups align with race, ethnicity. religion, caste or region, then it should be clear that the tensions will be of a different order. There are reasons in theory and evidence to believe that members who identify with a group identify with the average income of that group, and this can be the basis for group organization and group conflict. The Malaysian race riots of the late 1960's, the ongoing Hindu-Muslim conflagrations in India, the indigenous peoples' revolts in Latin America, many of the conflicts in Africa including the Nigerian civil war, are some of the examples of conflicts generated by a sense of group economic grievance.

But let us look for a moment at the opposite of group conflict and violence. Let us look at situations of relative peace and harmony even where there are strong structural cleavages. What explains, even within a country, say, the fact that some areas have less conflict and violence even though they have similar ethnic or group make up as other areas that have much higher levels of conflict? The answer turns out to be other features of these areas that bridge the gaps between communities. Varshney (2002), in his analysis of ethnic conflict between Hindus and Muslims in India, introduces the concept of "*associational* forms of engagement" between the two communities, meaning by this "ties that are formed in organizational settings." He develops the argument as follows:

"Organized civic networks, when intercommunal, not only withstand the exogenous communal shocks—partitions, civil wars., desecration of holy places—but they also constrain local politicians in their strategic behavior…When organizations such as trade unions, associations of businessmen, traders, teachers, lawyers…are communally integrated, countervailing forces are created…Unlike violent cities where rumors and skirmishes, often strategically planted and spread, are quickly transformed into riots, such relationships of synergy in peaceful cities nip rumors, small clashes and tensions in the bud. In the end, polarizing politicians either don't succeed or eventually stop trying to divide communities by provoking and fomenting communal violence."

Varshney's argument has appeal beyond the specific Indian case for which it was developed. Group linkages through economic, social, cultural or organizational activities provide a disincentive against expropriating the other group, which is a natural enough response in the face of widening group inequalities, and sooner or later a political entrepreneur will see this opportunity.[19] If the ebb and flow of economic policy, designed with macroeconomic targets in mind, creates distributional tensions across groups, then this thesis would claim that those societies that had a dense enough set of cross-group linkages could traverse the short run difficulties while awaiting (hopefully) the long rum positive effects of the policy on growth and poverty to work its way through. On the other hand, if such cross-communal relationships do not exist, and the economic distributional changes align with group divisions, then the reforms will simply not succeed in delivering the economic growth they promised, certainly not in the long run.

[19] See Dasgupta and Kanbur (2005).

The causal links between poverty, inequality and conflict that have been developed in this section suggest strongly, then, that policy will have to chart a course between the Scylla of poverty as a cause of conflict, and the Charybdis of group inequalities and tensions that may arise as a policy for economic growth is implemented. The next section considers how best policy can be steered in these circumstances.

4. Distributional Policies to Avoid Conflict

If the line of argument developed in the previous two sections has some validity, it has significant implications for policy. While poverty in general has been adduced as an explanation for conflict, ranging from communal violence to civil war, and ethnic polarization has equally been studied as a likely cause of civil war, economic inequality per se has not been as heavily emphasized as the cause of conflict. As noted earlier, once conflict begins, and especially once it descends into civil war, it acquires a dynamic of its own. In such circumstances the policy options include a range of actions such as cutting off the economic resources of combatants, external military intervention, and peacekeeping forces once a peace has been negotiated. These issues are discussed in other writings and will not be the focus of this paper. Rather, I will focus here on what sorts of policies can prevent conflict starting or deteriorating rapidly in the first place.

From the perspective of group based inequality, and taking the structural divisions in society as given over the near term, three intermediate policy aims stand out. First, to attempt to systematically reduce inter group inequality between salient groups so that the initial conditions are not favorable to conflict. Second, to attempt to build a thick set of associational links between groups, so that the inevitable sparks that arise in the course of social and economic life do not ignite a conflagration. Third, to carefully design economic policy packages that do not sharply increase inequality across salient groups.

These three policy maxims are just that. They do not, in particular, provide a one size fits all blueprint for action precisely because of the subtle and nuanced differences across countries in the historical and social conditions that underlay the potential for conflict. Specifically, what constitutes a salient group difference will differ from country to country, and how these differences intersect with economic structure will also vary greatly. The same economic policy in two countries can, for example, have very different consequences for conflict because it leads to very different distributional tensions across the groups that are salient in each of the two countries. With these caveats in mind, let us develop each of the three policy maxims further.

When salient structural cleavages along racial, ethnic or other lines align with group income inequality, there is potential for conflict. A thrust of policy should therefore always be to reduce these inequalities. After the race riots in Malaysia in the late 1960s the government adopted a pro-active policy of bringing up the Malays as a group through a series of measures in education and in the economic sphere. The latter included attempts to build up a Malay entrepreneurial and middle class to match that among the Chinese and Indian communities. These policies of positive discrimination were criticized by some at the time as being divisive in their own right, and not meritocratic in their orientation and therefore inefficient. However, it can be argued that these policies brought a generation of peaceful community relations which laid the foundations for investment and growth. A negative example is provided by Sri Lanka, where the discrimination felt by the minority Tamil community in the 1970s led to simmering tensions which exploded in the 1980s into violent incidents and eventual civil war. The balance between addressing direct discrimination against a group and positive discrimination in favor of a group previously discriminated against is a delicate one to strike and easy to get wrong, but it is a key to success in avoiding conflict.

The associational life of a society is not necessarily always amenable to policy influence. If anything it arises spontaneously from the myriad and repeated interactions of individuals. However, a basic feature of organized social interactions of this type is the "free rider" problem. It is not in the interests of any single individual to contribute to the build up of these institutions, rather to simply benefit from them when they exist. Basic economic analysis suggests that such entities will therefore display under-investment. Policy can contribute by pro-actively encouraging, and helping to support financially, *cross-communal* associations. Funds to meet the set up costs, and some of the running costs, of such forms of social life (as opposed to *intra-group*, or *within-community* associational life) is an excellent investment in social peace when there are strong structural cleavages in a society. Sometimes, however, the policy should be to simply avoid policy that harms such cross-communal associational life.[20] An example of this is policy that undermines labor unions in the name of efficiency of labor markets. In many countries, labor unions are the bastions of cross-communal engagement. They replace communal tensions with class solidarity among workers in an industry or a locality. Legal protection for unions strengthens the role they can play in reducing the group tensions that lead to conflict and violence. Removing these protections dissolves solidarity across community boundaries through this channel. In fact, reducing the power of trade unions is an example of a policy that is often put forward in the name of increasing efficiency, but could have the long run result of increasing group tensions across structural divides. We turn now to more policies of this type.

All economic policies have distributional consequences. These consequences are the result of the particular economic structure of that country. The usual way economic policy analysis proceeds, at different levels of detail, is to follow through the consequences of each policy change on the incomes of households and individuals in that society. Thus, in the example given in the previous section, a policy to encourage exports through exchange rate depreciation will benefit those who derive their income from exports and hurt those who derive their income from goods produced for the domestic market. The efficiency and equality implications of this policy can be calculated by (i) the net income gain for the economy as a whole, and (ii) the consequence of the distributional change for an index of inequality like the Gini coefficient, which measures income disparity between individuals. An implication of the perspective taken in this paper is that policy analysis simply *must* also calculate the implication of such a proposed policy change for the *between-group* component of inequality since this captures the

[20] The positive and negative dimensions of policy impact on what he calls associational life are evidenced and discussed by Varshney (2002).

impact on group tensions. And if the predicted effect is to increase between-group inequality across salient groups, then counteracting policies must be put in place. This can lead to a difficult trade off, where a less efficient policy, with lower short term growth and hence perhaps lower short term poverty reduction, is the one that produces a more balanced outcome in terms of group inequality. But if the objective is to maintain group harmony, lest the tensions spill over into violence and hence impede further economic growth, such tradeoffs will have to be faced and policy designed appropriately.

As noted earlier, the focus of this paper is on avoiding conflict in the first place. From the perspective taken here, it is not possible to be sanguine about future trends in conflict if the current patterns of globalization continue without countervailing policy of particular types. Two key features of globalization drive this scenario. First, the increasing inequality within countries. Second, the increasingly volatile international economic and financial climate. While there is no reason in general why increasing inequality should be that across groups, this has factually been the case over the last two decades. Structural cleavages have sharpened; the tinder has become drier. At the same time, the world is more prone to financial crises. Such economic downturns are the spark that can light the ever drier tinder of increasing inequality. Hence, a do nothing scenario presents bleak prospects for conflict, ranging from inter-communal violence to outbreak of civil war. The alternative scenario is one where policy is purposively targeted towards reducing the potential for conflict through the broad measures discussed above. An additional set of policies, international this time, are those to avoid financial crises that result in sharp downturns in economic activity.

What can the UN and international agencies do to prevent conflict, as opposed do cleaning up the mess once conflict erupts? The answer has to be to advocate for the policies advanced in this section—addressing structural cleavages by attacking discrimination and supporting positive discrimination; supporting cross-communal associational life financially and politically; and advocating for policy packages that balance conventional economic efficiency with the need to maintain a balance in cross-group income differences. In addition, a set of global interventions that reduce the risk of financial crises, and measures to mitigate the economic consequences of crises, would be part of a UN agenda based on the objective of preventing conflict.

5. Conclusion

Focusing on conflicts within states, this paper has further concentrated on the problem of avoiding conflict. While there is a general view that poverty and inequality can lead to conflict and are therefore in this sense security issues, the precise nature of the links is less well appreciated. This paper draws out the links based on the recent economics literature, and discuss their implications for policy. It is argued that while inequality is a natural concomitant of economic processes, particularly those driven by the market, its implications for security emerge when unequal outcomes align with socio-political cleavages. Such an alignment can turn a benign outcome, in which increasing inequality might even help economic efficiency, into one in which conflict worsens the climate for investment even before, in the extreme, a collapse of the social order. A careful assessment of the intersection between economic outcomes and social divisions is therefore necessary in designing policies and interventions for growth and poverty reduction.

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