

# Poverty and Conflict: The Inequality Link

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**Cover Photo:** Women and children stand on a riverbank near a chemical plant in Mumbai, India. ©Rob Lettieri/Corbis.

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## Foreword

Terje Rød-Larsen

*President, International Peace Academy*

The International Peace Academy (IPA) is pleased to introduce a new series of Working Papers within the program *Coping with Crisis, Conflict, and Change: The United Nations and Evolving Capacities for Managing Global Crises*, a four-year research and policy-facilitation program designed to generate fresh thinking about global crises and capacities for effective prevention and response.

In this series of Working Papers, IPA has asked leading experts to undertake a mapping exercise, presenting an assessment of critical challenges to human and international security. A first group of papers provides a horizontal perspective, examining the intersection of multiple challenges in specific regions of the world. A second group takes a vertical approach, providing in-depth analysis of global challenges relating to organized violence, poverty, population trends, public health, and climate change, among other topics. The Working Papers have three main objectives: to advance the understanding of these critical challenges and their interlinkages; to assess capacities to cope with these challenges and to draw scenarios for plausible future developments; and to offer a baseline for longer-term research and policy development.

Out of these initial Working Papers, a grave picture already emerges. The Papers make clear that common challenges take different forms in different regions of the world. At the same time, they show that complexity and interconnectedness will be a crucial attribute of crises in the foreseeable future.

First, new challenges are emerging, such as climate change and demographic trends. At least two billion additional inhabitants, and perhaps closer to three billion, will be added to the world over the next five decades, virtually all in the less developed regions, especially among the poorest countries in Africa and Asia. As a result of climate change, the magnitude and frequency of floods may increase in many regions; floods in coastal Bangladesh and India, for example, are expected to affect several million people. The demand for natural resources—notably water—will increase as a result of population growth and economic development; but some areas may have diminished access to clean water.

Second, some challenges are evolving in more dangerous global configurations such as transnational organized crime and terrorism. Illicit and violent organizations are gaining increasing control over territory, markets, and populations around the world. Non-state armed groups complicate peacemaking efforts due to their continued access to global commodity and arms markets. Many countries, even if they are not directly affected, can suffer from the economic impact of a major terrorist attack. States with ineffective and corrupted institutions may prove to be weak links in global arrangements to deal with threats ranging from the avian flu to transnational terrorism.

Finally, as these complex challenges emerge and evolve, “old” problems still persist. While the number of violent conflicts waged around the world has recently declined, inequality—particularly between groups within the same country—is on the rise. When this intergroup inequality aligns with religious, ethnic, racial and language divides, the prospect of tension rises. Meanwhile, at the state level, the number of actual and aspirant nuclear-armed countries is growing, as is their ability to acquire weapons through illicit global trade.

As the international institutions created in the aftermath of World War II enter their seventh decade, their capacity to cope with this complex, rapidly evolving and interconnected security landscape is being sharply tested. The United Nations has made important progress in some of its core functions—“keeping the peace,” providing humanitarian relief, and helping advance human development and security. However, there are

reasons to question whether the broad UN crisis management system for prevention and response is up to the test.

Not only the UN, but also regional and state mechanisms are challenged by this complex landscape and the nature and scale of crises. In the Middle East, for example, interlinked conflicts are complicated by demographic and socioeconomic trends and regional institutions capable of coping with crisis are lacking. In both Latin America and Africa, “old” problems of domestic insecurity arising from weak institutions and incomplete democratization intersect with “new” transnational challenges such as organized crime. Overall, there is reason for concern about net global capacities to cope with these challenges, generating a growing sense of global crisis.

Reading these Working Papers, the first step in a four-year research program, one is left with a sense of urgency about the need for action and change: action where policies and mechanisms have already been identified; change where institutions are deemed inadequate and require innovation. The diversity of challenges suggests that solutions cannot rest in one actor or mechanism alone. For example, greater multilateral engagement can produce a regulatory framework to combat small arms proliferation and misuse, while private actors, including both industry and local communities, will need to play indispensable roles in forging global solutions to public health provision and food security. At the same time, the complexity and intertwined nature of the challenges require solutions at multiple levels. For example, governments will need to confront the realities that demographic change will impose on them in coming years, while international organizations such as the UN have a key role to play in technical assistance and norm-setting in areas as diverse as education, urban planning and environmental control.

That the world is changing is hardly news. What is new is a faster rate of change than ever before and an unprecedented interconnectedness between different domains of human activity—and the crises they can precipitate. This series of Working Papers aims to contribute to understanding these complexities and the responses that are needed from institutions and decision-makers to cope with these crises, challenges and change.



Terje Rød-Larsen

## 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 causality in the other direction, from poverty and inequality to conflict, is more ambiguous and subject to greater debate. It is this causal chain that is the focus of this working paper; but in order to do this we in turn need a more 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. The second section 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 three turns to the theory and evidence of the causal links between poverty, inequality, and conflict. Based on this analysis, section four discusses policies to reduce the likelihood of conflict, while the fifth section offers a conclusion.

## Poverty and Inequality: Concepts and Trends

The standard measurement of poverty and inequality in economics starts with a definition of individual well being, which in turn is specified in terms of monetary based measures such as income or consumption.<sup>1</sup> 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.<sup>2</sup> This number is then used as a measure of the well being of each individual in the household.<sup>3</sup> Using these numbers a distribution of income for the whole sample is constructed, and from this, making due adjustment for the sampling design, the national distribution of income is inferred.<sup>4</sup>

Three key features of the national distribution factored in this way 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 delineate “poverty.” To measure poverty we need to specify a cutoff which defines the lower tail—those who are poor. This is done through the specification of the “poverty line,” an exercise fraught with conceptual 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.<sup>5</sup>

<sup>1</sup> While standard, it is increasingly supplemented by non-income dimensions of human development such as education, health, and “empowerment.” See World Bank, *World Development Report 2001: Poverty* (New York: Oxford University Press, 2000), and UNDP, *Human Development Report* (New York: Oxford University Press, 2000).

<sup>2</sup> Correction for differing needs depending on age and gender is sometimes done, although not in most official statistics.

<sup>3</sup> 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 L. Haddad and R. Kanbur, “How Serious is the Neglect of Intra-Household Inequality?” *Economic Journal* 100 (1990): 866–881.

<sup>4</sup> 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 Angus Deaton and Valerie Kozel, eds., *The Great Indian Poverty Debate* (New Delhi: MacMillan, 2005).

<sup>5</sup> A standard reference is Martin Ravallion, “Poverty Comparisons: A Guide to Concepts and Methods,” *Living Standards Measurement Study Working Paper* 88, The World Bank, 1992. For a critique of current methods, see Sanjay G. Reddy and Thomas W. Pogge, “How Not to Count the Poor,” in Sudhir Anand and Joseph Stiglitz, eds., *Measuring Global Poverty* (Oxford: Oxford University Press, 2007).

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.<sup>6</sup> 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—and 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 divided into their sub-group components. For the most commonly used class of poverty indices, overall poverty is a weighted sum of poverty in each group, the weights being the fraction of total population in that group.<sup>7</sup> The simplest case for illustration is that of the incidence of poverty—the proportion 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.

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 within countries, this has by and large increased. This is certainly true of the big countries like India, China, Russia, and the US, 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 increase of within country inequality, while for others global inequality has increased overall in the last two decades.<sup>8</sup>

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.<sup>9</sup>

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

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<sup>6</sup> For a detailed discussion see Ravi Kanbur, “The Policy Significance of Inequality Decompositions,” *Journal of Economic Inequality*, 4 (2006): 367–374.

<sup>7</sup> This is true for the so-called FGT family of poverty indices, introduced by James E. Foster, Joel Greer, and Erik Thorbecke, “A Class of Decomposable Poverty Indices,” *Econometrica* 52 (1984): 761–766.

<sup>8</sup> A useful summary of the vigorous debate among a range of protagonists is given in the World Bank’s *World Development Report 2006* (New York: Oxford University Press, 2005).

<sup>9</sup> The World Bank’s data is summarized in Shaoua Chen and Martin Ravallion, “How have the World’s Poorest Fared Since the early 1980s?” World Bank, 2004, available at: [www.worldbank.org/research/povmonitor/MartinPapers/How\\_have\\_the\\_poorest\\_fared\\_since\\_the\\_early\\_1980s.pdf](http://www.worldbank.org/research/povmonitor/MartinPapers/How_have_the_poorest_fared_since_the_early_1980s.pdf).

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 sobering. Further, the evidence suggests that this increase in inequality has very particular patterns. It is not just that rich *individuals* 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.<sup>10</sup>

## 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. 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.<sup>11</sup> Finally, there is evidence that those who direct extreme forms of violence are not themselves particularly impoverished.<sup>12</sup> 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.<sup>13</sup>

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.<sup>14</sup> 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 shifts in the distribution of income between groups—the difference in group average incomes, for example—can lay the foundations for group conflict.<sup>15</sup> Polarization of society into a small number of groups with distinct identities is an incubator of conflict on its own. But add to this the dimension of average income differences between the groups, and a combustible mix is created.<sup>16</sup>

If poverty is seen as a key determinant of conflict, rapid economic growth 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 actually 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

<sup>10</sup> An overview of a comprehensive assessment of spatial inequality trends which reaches this conclusion is to be found in Ravi Kanbur and Anthony J. Venables, "Spatial Inequality and Development: Overview of the UNU-WIDER Project," WIDER Project on Spatial Disparities in Human Development, Columbia University, 2005, available at: [www.arts.cornell.edu/poverty/kanbur/WIDERProjectOverview.pdf](http://www.arts.cornell.edu/poverty/kanbur/WIDERProjectOverview.pdf).

<sup>11</sup> For example, see Ashutosh Varshney, *Ethnic Conflict and Civic Life: Hindus and Muslims in India* (New Haven: Yale University Press, 2002).

<sup>12</sup> See Alan Krueger and Jitka Maleckova, "Education, Poverty and Terrorism: Is there a Causal Connection?" *Journal of Economic Perspectives* 17, no. 4 (2003): 119-144.

<sup>13</sup> 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 Paul Collier, V.L. Elliott, Havard Hegre, Anke Hoeffler, Marta Reynal-Qerol and Nicholas Sambanis, "Breaking the Conflict Trap: Civil War and Development Policy," Policy Research Report, Washington DC, The World Bank, 2003.

<sup>14</sup> The argument is developed, for example, in Frances Stewart, *War and Underdevelopment 1: The Economic and Social Causes of Conflict* (Oxford: Oxford University Press, 2001), and in the work of the Centre for Research on Inequality, Human Security and Ethnicity (CRISE): [www.crise.ox.ac.uk](http://www.crise.ox.ac.uk).

<sup>15</sup> A theory of group based conflict is developed in Indraneel Dasgupta and Ravi Kanbur "Bridging Communal Divides: Separation, Patronage, Integration," in Christopher Barrett, ed., *The Social Economics of Poverty* (London: Routledge, 2005).

<sup>16</sup> Polarization as a cause of civil war is examined in Collier et al., *Breaking the Conflict Trap*, 2003.



states of Bihar, Chhattisgarh, Jharkhand, Orissa, and Andhra Pradesh. When Mexican growth left behind the poor south, the Chiapas rebellion was in part 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.<sup>17</sup> 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 socioeconomic 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.<sup>18</sup> These income changes have an inexorable economic logic and are needed in order to effect the economic change needed in a market economy. The inevitable distributional tensions they cause may be difficult, but in the best of circumstances, in relatively

homogeneous societies, they can be weathered. 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 1960s, 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. Ashutosh Varshney, 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 inter-communal, 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.<sup>19</sup>*

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<sup>17</sup> Collier et al., *Breaking the Conflict Trap*; Mats Berdal and David M. Malone, eds., *Greed and Grievance: Economic Agendas in Civil Wars* (Boulder, CO: Lynne Rienner Publishers, 2005). See also James Cockayne, “Transnational Organized Crime: Multilateral Responses to a Rising Threat,” *Coping with Crisis Working Paper Series*, International Peace Academy, New York, April 2007.

<sup>18</sup> The impact of trade openness on distribution and poverty has long been recognized. For an early theoretical piece see Ravi Kanbur, “Structural Adjustment, Macroeconomic Adjustment and Poverty: A Methodology for Analysis,” *World Development* 15 (1987): 1515-1526. More recent work on globalization and distribution is summarized in Ann Harrison, ed., *Globalization and Poverty* (Chicago: University of Chicago Press, 2006).

<sup>19</sup> Ashutosh Varshney, *Ethnic Conflict and Civic Life: Hindus and Muslims in India*. (New Haven: Yale University Press, 2002).

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.<sup>20</sup> 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 run 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.

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 economic growth policies are implemented. The next section considers how best policy can be steered in these circumstances.

## Distributional Policies to Avoid Conflict

If the line of argument developed in the previous two sections has any validity, it has significant implications for policy. While poverty in general has been offered 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 a 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, including other working papers within this

series, and will not be focused upon here. Rather, I will concentrate on the sorts of policies that can prevent conflict from 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; and 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 nuanced historical and social differences between countries that can underlay the potential for conflicts to develop. 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 may lead 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 proactive policy of improving the condition of the Malays as a group through a series of measures in education and the economic sphere; the latter included attempts to build up a Malay entrepreneurial and middle class to match that of 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

<sup>20</sup> See Dasgupta and Kanbur, "Bridging Communal Divides."

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 proactively 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.<sup>21</sup> An example of this is policy that undermines labor unions in the name of labor market efficiency. 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 protections for unions strengthen the role they can play in reducing the group tensions that lead to conflict and violence. Removing these protections can dissolve the cross-community solidarity labor provides. 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.

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 the consequences of each policy change on the incomes of households and individuals in the society under examination.

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 (1) the net income gain for the economy as a whole, and (2) the consequence of the distributional change for an index of inequality like the Gini coefficient, which measures income disparity between individuals. Based upon the above, we can add that policy analysis must also calculate the implication of such a proposed policy change for the between-group component of inequality, since this captures the 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, there is the increasing inequality within countries and second, the increasingly volatile international economic and financial climate. While there is no reason, in general, why the inequality across groups should be the one increasing, 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 the outbreak of civil war. The alternative scenario is one where policy is deliberately targeted towards reducing the potential for conflict through the broad measures discussed above. An additional set of policies, this time interna-

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<sup>21</sup> The positive and negative dimensions of policy impact on what he calls associational life are evidenced and discussed by Varshney in *Ethnic Conflict*.

tional, are those to avoid financial crises that result in sharp downturns in economic activity.

What can the UN and international agencies do, from this perspective, to prevent conflict, as opposed to cleaning up the mess once conflict erupts? The answer has to lie in advocacy 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.

## **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 are less well appreciated. 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 sociopolitical 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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Deaton, Angus and Valerie Kozel, eds. *The Great Indian Poverty Debate*. New Delhi: MacMillan, 2005.

*A detailed empirical assessment of the evolution of poverty in India during the period after economic liberalization. Useful for cautionary tales on data problems that dog analysis of income distribution, even in a country with a relatively well developed statistical system.*

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*An iconoclastic piece that argues there is no necessary link between poverty and terrorism, based on a range of evidence including attitudinal surveys from the Middle East. Also useful for a discussion of the definition of terrorism.*

Varshney, Ashutosh. *Ethnic Conflict and Civic Life: Hindus and Muslims in India*. New Haven: Yale University Press, 2002.

*A thorough analysis of ethnic strife in India, arguing that it is cross-community forms of associational organizations that are the key to explaining why some cities in India are prone to communal violence while others are not.*

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