

# The Security Risks of Rising Inequality

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The French economist Thomas Piketty declared that persistent socioeconomic inequality has contributed to the rise of the Islamic State, aka ISIS, in the aftermath of November 2015 terrorist attacks in Paris. His declaration created a storm of controversy. Piketty is not a stranger to controversy. In 2014, Piketty had been credited with bringing the subject of inequality into popular consciousness with his much-acclaimed book *Capital in the Twenty-First Century*.<sup>1</sup> The book had many critics as

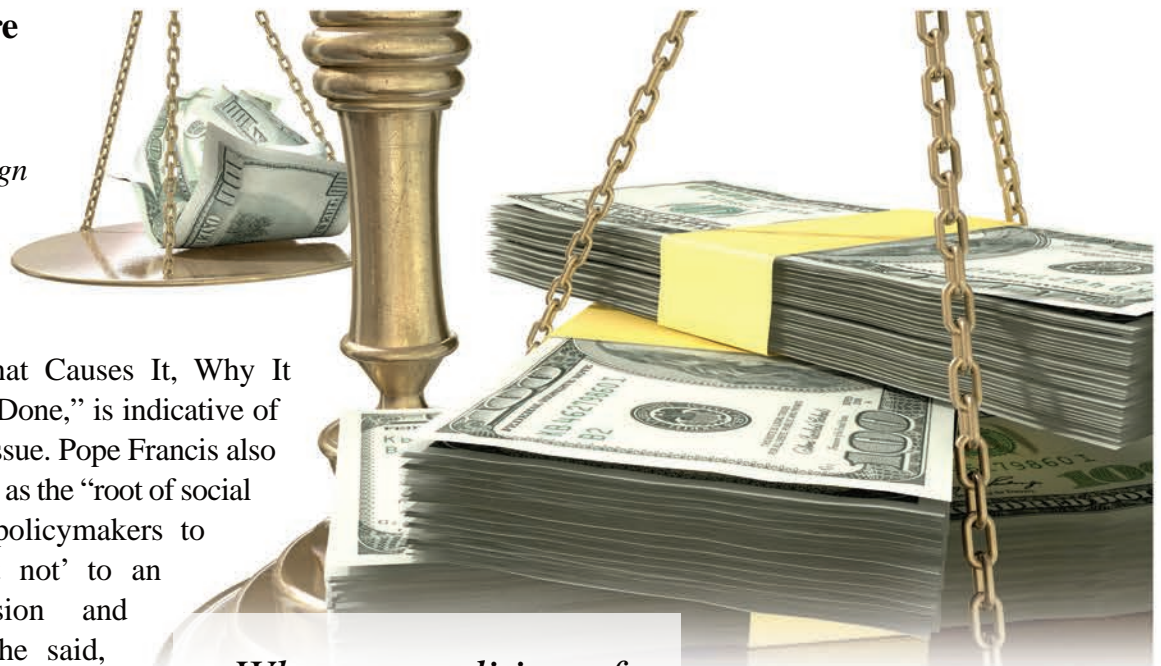
well as fans, but all of them agreed that his work created a level of interest in this topic that has not been seen since Keynes' *General Theory*.

Other modern-day economic titans such as Robert Shiller, Paul Krugman, Joseph Stiglitz, and Robert Reich have been beating the drum about the rising inequality phenomenon since the recent global financial crisis, but they have not been able to capture the public's attention as Piketty did. His findings are transforming the debate on wealth and inequality, providing objective data to counter "the long-dominant side of the inequality debate, which says that inequality is not a problem for public policy attention." John Cassidy, a notable journalist with the *New Yorker*, said in his review of *Capital in the Twenty-First Century*, "Piketty has written a book that nobody interested in a defining issue of our era can afford to ignore." Furthermore, it is setting the agenda for the next generation of thought regarding capitalism.

## Why should we care about rising inequality?

The fact that *Foreign Affairs* magazine's January/February 2016 issue is devoted entirely to the topic, "Inequality: What Causes It, Why It Matters, What Can Be Done," is indicative of the importance of this issue. Pope Francis also dubbed rising inequality as the "root of social evil" and called for policymakers to declare " 'thou shalt not' to an economy of exclusion and inequality," because, he said, "such an economy kills." Rising inequality is a concern and risk because it creates economic, social, and political vulnerabilities within communities, societies, and countries.

According to the 2015 Organization for Economic Cooperation and Development (OECD) Report, a persistent increase in income inequality not only engenders social and political concerns, but also hinders economic growth and progress. A recent OECD study has shown that the GDP growth has a "negative and statistically significant" correlation with income inequality. Specifically, a 1% increase in Gini Index<sup>2</sup> lowers GDP by 0.6% to 1.1%. This makes sense if you consider the rationale behind why inequality could slow down economic vibrancy. Economic growth occurs when a broad range of the population spends money. A small number of people at the top of the wealth pyramid cannot consume and spend at the rate of the broader population. Therefore, when the majority of wealth is accumulated in the hands of a few, economic activities decrease which in turn leads to slower growth.



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The World Bank's Lead Economist, Branko Milanovic, warned that "social stability and the social fabric of a society are torn apart if there are very large income differences." His warning has been empirically supported by the recent finding by two British epidemiologists that as inequality increases, social capital deteriorates. Social capital is defined as the level of social cohesion and trust in a society, with

decreased social capital making the society vulnerable to unrest and conflict. As such, a World Bank (WB) study conducted by Colleta and Cullen was able to establish a negative relationship between social capital and violent conflict.

When a condition of disparity, inequality, and exclusion is perceived as being the result of persistent unfairness and injustice, it can invoke a powerful tide of human basic instinct. Behavioral and evolutionary biology researchers at Central Washington University found that the human instinct for fairness is deeply rooted in our DNA and therefore is more than a "purely ideological issue." This



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fairness instinct is “much more potent, profound, and pervasive” than researchers had previously thought, and it appears to underpin human emotions and behaviors. Therefore, it is especially concerning if inequality is perceived by the have-nots as a lack of fair access to opportunities and resources.

Pew Research Center’s Global Attitudes Project 2013 survey revealed that more than 70% of the respondents perceived their country’s economic system to favor the wealthy. This growing sense of unfairness and injustice, combined with the actual evidence and data of rising inequality, should be alarming to policymakers and security professionals.

Researchers from Harvard and Columbia universities conducted a study measuring income inequality and socio-

political instability in 70 countries during the period 1960-1985. They too found that, as income inequality increases, socio-political instability escalates. This finding further supports the earlier findings by Ted Gurr of linkages between relative deprivation, frustration, and aggression. Gurr discovered that relative deprivation — not absolute poverty — leads to grievances and frustration. And the empirical support behind the “frustration-aggression” theory has shown that all humans are biologically coded to respond aggressively towards the culprit when frustrated.

Therefore, it is almost foreseeable that movements like Al Qaeda and ISIS were able to tap into this primal need within Muslim communities around the globe by exploiting the perception of marginalization and inequality within societies. Likewise, many separatist movements,

insurgencies, armed conflicts, terrorist groups, and violent clashes around the globe have been fueled by similar patterns of recruiting and mobilizing followers.

### Additional side-effects of inequality

While people generally have an innate understanding of the correlation between socioeconomic inequality, social unrest, and political instability, most are unaware of the relationship between socioeconomic inequality and public health. Subramanian and Kawachi in their 2004 meta-analysis of epidemiological studies, which encompassed about 60 million people around the world, found a linkage between inequality and poor health. In 2009, Wilkinson and Pickett found evidence suggesting that inequality is associated with rates of obesity, teenage birth, mental illness, drug overdose, and mortality.

Putting these findings aside, we can use common sense to imagine the impact of persistent unemployment on psychological stress and depression based on our own experiences and observations. And now, the science has unequivocally shown us the negative effect of stress and depression on mental and physical health. Wilkinson and Pickett also found that high inequality correlates with higher rates of

hostility, homicide, racism, and imprisonment, while corresponding with lowered levels of trust, social capital, educational performance, and social mobility.

### Rising inequality in Asia

While Piketty was writing his book at the Paris School of Economics based on historical data on income and wealth distribution gathered from 20 countries over three centuries, on the other side of the world the World Bank and the Asian Development Bank (ADB) were sounding an alarm about increased inequality in the Asia-Pacific region as well. The region’s rapid economic growth in the past 20 years has pulled many people out of abject poverty, but it has also generated a widening gap between rich and poor, with the rate of wealth accumulation for the rich increasing much faster than for the poor.

As capitalism spreads across Asia since the end of World War II, market-based economic models have created winners and losers.

This phenomenon, combined with rampant corruption within governmental structures, has given rise to patrimonial capitalism, crony capitalism,<sup>3</sup> and monopolies, which create a sense of injustice in those who shared less of the

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growth and progress. This sense of unfairness was captured by the Pew Research Center's Global Attitudes Project 2013, in which more than 60% of Asian respondents said their country's economic system favors the wealthy.

As inequality increases, the legitimacy of the political system declines among the "have-nots," as evidenced by Red-Shirts<sup>4</sup> vs Yellow-Shirts<sup>5</sup> clashes in Thailand. When inequality is amplified along the lines of racial, ethnic, and religious divides, resentment and discontent can cause political instability ranging from peaceful protests to criminal activities, social unrest, political violence, military coups, armed conflicts, and even revolutions. We have witnessed such cases throughout the Asia and the globe. Neil Smelser argues in his book, *Faces of Terrorism: Social and Psychological Dimensions*, that awareness of socioeconomic disparity serves to exacerbate other exclusion, marginalization, and grievances more visible and aggravating. We can see this dimension, for example, in the long-running ethnic conflict in Myanmar and Muslim uprisings in both the Southern Philippines and Thailand.

It seems that not just the ADB and WB were concerned about the alarming trend of increasing inequality in Asia. In 2013, the World Economic Forum surveyed 1,000 experts from industry, government, academia, and civil society to evaluate a landscape of 50 risks and asked them to rank

these risks by their likelihood and impact in the next decade. "Severe income disparity" was ranked as the number one risk. Oxfam International recently published a report showing that the richest 1% have seen their share of global wealth increase from 44% in 2009 to 48% in 2014. At this rate according to the report, the majority of global wealth will be in the hands of the 1% by the end of 2016. As of March 2015, the 62 richest people on the Forbes's billionaires list own as much wealth as the poorest half (3.6 billion) of the world's population (7.4 billion).

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### **Rising inequality in the U.S.**

The U.S. is not immune from the problem of inequality either. The data from the U.S. Federal Reserves showed that the richest 1% owns 38.6% of the wealth and the bottom 90% owns only 22.8% of the wealth in the U.S. as of September 2017. Joseph Stiglitz, argues that increasing inequality in a weaker economy can create a negative self-reinforcing loop. According to Stiglitz, "The problem of inequality is not so much a matter of technical economics. It's really a problem of practical politics."

In other words, economic inequality is inevitably linked to the political inequality.

Indeed, some cautioned that "any economic model that does not properly address inequality will eventually face a crisis of legitimacy." Legitimacy underpins democratic governments' ability to instill trust in institutions and leaders and to enforce the rule of law. Uslaner has found that "Economic inequality provides a fertile breeding ground for corruption—and, in turn, it leads to further inequalities and inequality and corruption are the key factors leading to lower social solidarity and governmental legitimacy."

In this age of widespread advancement in communication and transportation, the images and awareness of inequality between rich and poor are seeping into the people's consciousness as evidenced by the Pew 2013 survey results and Occupy Wall Street movement<sup>6</sup> for those who are at the bottom of the wealth pyramid. As the aspirations and expectations of those at the bottom increase, they are no longer satisfied with small, incremental improvements in their lives when they know those at the top are gaining much more. Piketty's data analysis provided a quantitative support for this sentiment.

It is therefore not surprising to see an increase in both political protests and divisions throughout the U.S. in the past few years as its Gini coefficient rises from 0.346 in 1979 to 0.481 in 2016. Additionally, the epidemic level of opioid addictions and obesity, decline of life expectancy, and rising mass shootings and gun violence in the U.S. appear to associate with the epidemiologists' research findings of highly unequal societies.

### **Security Risks of Rising Inequality**

Policymakers and security professionals should be cognizant of persistently rising socioeconomic inequalities throughout the world today. The World Economic Forum's Global Risks 2012 reported that

"...on an unprecedented scale around the world, there is a sense of receding hope for future prospects. Gallup polling data reveal that, globally, people perceived their living standards to be falling, and they express diminishing

confidence in the ability of their government to reverse this trend. This discontent is exacerbated by the starkness of income disparities."

The International Monetary Fund (IMF) Managing Director, Christine LaGarde, in her remarks at the Conference on Inclusive Capitalism warned, "Disparity also brings division. History also teaches us that democracy begins to fray at the edges once political battles separate the haves against the have-nots." Such sentiment can be easily amplified and exploited by extremists such as Al Qaeda and ISIS with charismatic appeal and entrepreneurial use of modern communication technology.

This brings us back to the plausibility of Piketty's November 2015 pronouncement in *La Monde* attributing the rise of ISIS to persistently increasing socioeconomic inequality. Based on a review of literature and studies across various disciplines showing that relative deprivation and socioeconomic inequality have a significant correlation with social unrest, political instability, and violent conflict, Piketty's argument appears to be well-founded. Relative deprivation and inequality can indeed promote radicalization by reinforcing other sources of grievances, creating fractured societies and the loss of legitimacy for existing systems, which in turn offers greater opportunity for social unrest and violent political expression. Therefore, Piketty is right on the mark in recommending that the strategy to address the ISIS problem must include approaches to improve overall economic conditions and narrow the socioeconomic gaps within and between countries.

Although not all unequal societies may experience social instability and conflict, most societies that have experienced such events seem to have significant socioeconomic disparities. Therefore, it is essential for security professionals to pay close attention to rising inequality in their own and others' societies, because they may very well be called upon to deal with the negative consequences created by this phenomenon.

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## Footnotes

- <sup>1</sup> The French version of this book was published in 2013.
- <sup>2</sup> The Gini Index is a summary measure of income inequality. (<https://www.census.gov/topics/income-poverty/income-inequality/about/metrics/gini-index.html>)
- <sup>3</sup> "Booty capitalism," is a term coined by Paul Hutchcroft to explain the emergence of a relationship between a patrimonial state and a predatory
- <sup>4</sup> "The red-shirts began as supporters of deposed former Prime Minister Thaksin Shinawatra, who was ousted by a military coup in September 2006. This support has transferred to Thailand's ruling Pheu Thai party led by his sister, Yingluck Shinawatra. Members are mainly rural workers from outside Bangkok. But the red-shirt ranks also include students, left-wing activists and some business people who see attempts by the urban and military elite to control Thai politics as a threat to democracy." (BBC Profile: Thailand's reds and yellows, 13 July 2012, <http://www.bbc.com/news/world-asia-pacific-13294268>)
- <sup>5</sup> "The yellow-shirts are a loose grouping of royalists, ultra-nationalists and the urban middle class also known as the People's Alliance for Democracy (PAD). They utterly opposed Mr Thaksin." (BBC Profile: Thailand's reds and yellows, 13 July 2012, <http://www.bbc.com/news/world-asia-pacific-13294268>)
- <sup>6</sup> "The Occupy Wall Street movement is a left-wing version of the Tea Party in the U.S.: an inchoate and self-generated movement, which emerged from outside of, and in opposition to, the ossified political system." (<https://www.newyorker.com/news/john-cassidy/wall-street-protests-who-are-the-99-and-what-do-they-want>)