

Income Inequality and Political Instability

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Introduction

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- However, given inequality is a fundamentally political issue, it may also have political consequences in the form of rising social discontent and political instability (Parvin, 1973).
- Although global inequalities between countries have decreased throughout the past two decades, income inequality has increased within most countries (Chancel et al., 2022).

- The most prominent topics investigated so far revolve around the relationship of income inequality with economic growth (Kuznets, 1955; Barro, 2000), unemployment (Dumont, 2012), inflation (Beetsma & Van Der Ploeg, 1996) and financial instability (Bordo & Meissner, 2012).

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- Existing research investigating the relationship between income inequality and political stability is surprisingly scarce.

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- Although these studies are arguably the earliest ones which offer an insight into the income inequality and political instability relationship, they have not contributed much to an understanding of the transmission channels between the two.
- This research attempts to address this void by proposing civil society participation as a bridge which connects income inequality and political instability, and institutional quality as a pillar of this bridge, such that it serves as a moderating factor in this relationship.

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- The second strand of literature supports the view that income inequality increases civic participation, either by leading to more youth civic engagement (Godfrey & Cherng, 2016) or by mobilizing lower classes (Kim et al., 2021).

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- One important topic absent from prior literature is the moderating role of institutional quality in the relationship between civil society participation and political stability.
- Institutions such as rule of law, protection of property rights, and judiciary independence can be viewed as building blocks of trust in state-society relations.
- If the quality of institutions remains low causing a deterioration of trust in government, high levels of civic participation—contrary to the predictions—may fuel social discontent and yield political instability.

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- First, we argue that there is a relationship between income inequality and civil society participation.
- Second, we conjecture that changes in civil society participation will trigger changes in political stability.
- Third, we contend that it is the quality of institutions which moderates the relationship in both cases.

- The general form of our baseline panel data model looks as follows:

$$Pol_{st_{it}} = \beta_0 + \beta_1 Gini_{it} + \beta_2 Inst_{qual_{it}} + \beta_3 Gini_{it} \times Inst_{qual_{it}} + \delta Controls_{it} + \varepsilon_{it} \quad (1)$$

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- The control variables of our model include GDP per capita growth, degree of political competition, share of population using the internet, inflation rate, and the rate of youth unemployment.

- We also investigate civil society participation as the possible mediator between income inequality and political stability:

$$\begin{aligned} Civic_part_{it} = & \alpha_0 + \alpha_1 Gini_{it} + \alpha_2 Inst_qual_{it} + \alpha_3 Gini_{it} \\ & \times Inst_qual_{it} + \theta Controls_{it} + \epsilon_{it} \end{aligned} \quad (2)$$

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- We estimate our models using the one-way and two-way fixed effects (within) estimator to account for unobserved country-specific heterogeneity and secular changes.

Data sources:

- *Political stability*: Political Stability and Absence of Violence from the WGI (World Bank);
- *Gini*: Standardized Gini index from the UNU-WIDER WIID;
- *Institutional quality*: Normalized average of the WGI's 5 governance indicators – Voice and Accountability, Government Effectiveness, Regulatory Quality, Rule of Law, and Control of Corruption;
- *Civic participation*: Popular Involvement in Civil Society Organizations from the University of Gothenburg's V-Dem Dataset (v12).
- Controls:
 - Political Competition and Polity Score from the Polity5 Project;
 - Percentage of Population Using the Internet from the ITU's World Telecommunication/ICT Indicators Database;
 - Annual Inflation Rate (based on CPI) from the IMF;
 - Youth Unemployment Rate (% of TLF ages 15-24) from the ILO.

Table 1: Descriptive statistics of variables used

	Obs.	Mean	SD	Min.	Max.
Political stability	3,907	-0.0579	0.974	-3.181	1.760
Gini index	1,375	40.53	9.678	15.16	73.96
Civic participation	3,550	0.922	1.147	-2.902	3.148
Institutional quality	3,881	0.487	0.225	0	1
GDP p.c. growth	3,792	2.335	5.298	-62.38	121.8
Political competition	3,236	6.749	3.191	0	10
Polity score	3,190	3.845	6.280	-10	10
Internet users	3,588	30.13	29.60	0	99.70
Inflation	3,563	7.704	71.66	-18.11	4,145
Youth unemployment	3,651	16.62	11.99	0.370	65.44

Table 2: Fixed effects regressions: the conditional effect of the Gini index on political stability

	(1)	(2)	(3)	(4)	(5)	(6)
Gini index	-0.0283*** (0.00861)	-0.0327*** (0.00867)	-0.0293*** (0.00861)	-0.0334*** (0.00866)	-0.0371*** (0.00987)	-0.0361*** (0.00982)
Inst. quality	1.640** (0.778)	1.679** (0.772)	1.639** (0.778)	1.696** (0.770)	1.595* (0.885)	1.428 (0.879)
Gini × Inst. quality	0.0517*** (0.0177)	0.0512*** (0.0176)	0.0523*** (0.0177)	0.0509*** (0.0175)	0.0580*** (0.0199)	0.0588*** (0.0198)
GDP p.c. growth			0.00432* (0.00226)	0.00684*** (0.00254)	-0.000305 (0.00253)	0.00301 (0.00285)
Polit. competition					0.0201** (0.00933)	0.0239** (0.00954)
Internet users					-0.00283*** (0.000491)	-0.00225** (0.00107)
Inflation					-0.00227** (0.000999)	-0.00311*** (0.00103)
Youth unemployment					-0.00575*** (0.00192)	-0.00539*** (0.00199)
Constant term	-0.820** (0.398)	-0.511 (0.402)	-0.805** (0.399)	-0.508 (0.403)	-0.545 (0.462)	-0.462 (0.462)
Year FE	No	Yes	No	Yes	No	Yes
Observations	1,361	1,361	1,327	1,327	1,145	1,145
Within R-squared	0.168	0.205	0.173	0.216	0.217	0.256
Number of countries	180	180	177	177	152	152

Table 3: Fixed effects regressions: the conditional effect of the Gini index on civic participation

	(1)	(2)	(3)	(4)
Gini index	0.0208*** (0.00761)	0.0265*** (0.00762)	0.0348*** (0.00812)	0.0338*** (0.00814)
Inst. quality	2.682*** (0.689)	2.760*** (0.679)	2.930*** (0.728)	3.102*** (0.730)
Gini \times Inst. quality	-0.0341** (0.0157)	-0.0356** (0.0155)	-0.0582*** (0.0163)	-0.0560*** (0.0163)
GDP p.c. growth			-0.000881 (0.00221)	-0.00154 (0.00255)
Polity score			0.0523*** (0.00432)	0.0460*** (0.00448)
Internet users			0.000960** (0.000400)	-0.00191** (0.000891)
Inflation			-0.000383 (0.000822)	0.000542 (0.000857)
Youth unemployment			0.00753*** (0.00157)	0.00699*** (0.00164)
Constant term	-0.430 (0.353)	-0.882** (0.355)	-1.091*** (0.379)	-1.261*** (0.383)
Year FE	No	Yes	No	Yes
Observations	1,317	1,317	1,139	1,139
Within R-squared	0.035	0.091	0.198	0.222
Number of countries	165	165	150	150

Table 4: Fixed effects regressions: the conditional effect of civic participation on political stability

	(1)	(2)	(3)	(4)
Civic participation	-0.284*** (0.0257)	-0.274*** (0.0258)	-0.255*** (0.0382)	-0.260*** (0.0385)
Inst. quality	4.245*** (0.151)	4.217*** (0.151)	3.796*** (0.199)	3.640*** (0.202)
Civic part. × Inst. quality	0.355*** (0.0667)	0.360*** (0.0667)	0.389*** (0.0917)	0.426*** (0.0925)
GDP p.c. growth			0.00215 (0.00141)	0.00354** (0.00148)
Polit. competition			0.0215*** (0.00515)	0.0234*** (0.00524)
Internet users			-0.00216*** (0.000305)	-0.00165*** (0.000580)
Inflation			-0.000320*** (0.000073)	-0.000350*** (0.000074)
Youth unemployment			-0.00579*** (0.00140)	-0.00633*** (0.00142)
Constant term	-2.125*** (0.0690)	-2.064*** (0.0733)	-1.984*** (0.0919)	-1.857*** (0.0965)
Year FE	No	Yes	No	Yes
Observations	3,545	3,545	2,835	2,835
Within R-squared	0.233	0.239	0.229	0.239
Number of countries	170	170	157	157

Conclusion

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- First, it studies the impact of income inequality on civil society participation.
- Second, it examines the extent to which civil society participation affects political stability.
- Third, it uses civic participation as a mediating variable between income inequality and political instability, and institutional quality as a moderating variable between (a) income inequality and civic participation, and (b) civic participation and political instability.

Conclusion

- Our regression results obtained from panel data for an unbalanced sample of 180 countries over the period 1996–2019 suggest that the relationship between Gini index and political stability is conditioned by institutional quality.

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- We also find that, absent necessary institutional environment, higher income inequality leads to higher civic participation, which in turn leads to more political instability.

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- Our regression results obtained from panel data for an unbalanced sample of 180 countries over the period 1996–2019 suggest that the relationship between Gini index and political stability is conditioned by institutional quality.
- We also find that, absent necessary institutional environment, higher income inequality leads to higher civic participation, which in turn leads to more political instability.
- When a country has sufficiently high quality of institutions, however, greater income inequality neither increases civic participation, nor worsens political stability.

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