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## **Inequality, polarization and violent conflict: the Maoist insurgency in Nepal**

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Is inequality associated with conflict? There is little doubt about the importance of this question and the implications it has for governance and government. Conflict is costly for society. In its cheapest form it alters the social and productive fabric of society that has been built over generations, and in its more expensive form it can destroy them beyond repair. If ameliorating inequality can forestall conflict, the role of government as an agency that can capably redistribute wealth and income is critical. To be sure, inequality need not be the only source of conflict. Weak rule of law, biased or ineffective enforcement of property rights and dearth of social capital are examples of poor or missing institutions that may aggravate conflict. Their absence can trigger conflict independently of inequality. When interacted with weak institutions, it is a trigger.

We empirically examine this association between inequality and conflict. The setting is the Maoist rebellion in Nepal that has claimed thousands of lives since it began in 1996. The regional variations across villages in Nepal afford a rich experiment, without having to use cross-country data, for exploring the nature of association between conflict and inequality. When using cross-country data, the heterogeneity in cross-cultural norms, institutions, and unique historical settings can produce different reference points or anchors, and a lack of common anchor within the sample can bias the perception of the threat and hence the measurement of such variables. Cultural and historical differences may influence the perception of acceptable levels of violence in cross-country settings. Our micro level sub-national data avoids such cross-cultural heterogeneity and differential perceptions.

This research departs from previous empirical studies in three respects. First, the empirical specification is motivated by rational choice theory. The theory clearly brings out the logic for why, when society becomes unequal, agents may resort to forcible redistribution by unlawful means. In the absence of effective institutions these means can and do turn violent. The theory is used to produce testable hypotheses about the relationship between inequality and conflict. The issue variables in our

model thus have a strong link with underlying theory. Second, our data are sub-national, at the village level, within Nepal. Thus, they suffer less from heterogeneity problem than do cross-country data or even the district level data that have been used frequently in the literature. Empirically, we model killings by Maoists using a hierarchical (count-data) model in order to account for the remaining heterogeneity in the data. Third and perhaps most important, we go beyond the popular Gini index to measure inequality. We employ measures of economic polarization as ethnic polarization does not seem to be a good predictor of Maoist's Peoples War in Nepal.

Using negative binomial count data models with test and correction for endogeneity, results from multi-level analysis are robust and highly significant irrespective of the measure of inequality (*GINI* or *POLARIZATION*) used for the analysis, indicating that distributional outcomes do matter significantly when it comes to violent conflict. However, inequality or polarization is not the only source of violent conflict. As discussed in this paper, poor institutions such as weak rule of law, weak enforcement of property rights, and dearth of social capital can help to propagate the conflict. Our empirical results find support to the hypothesis that social capital generates valuable spillover effects in the form of shared value, norms, self-governance and understandings among the villagers that encourages the community members to cooperate among themselves that helps deterring the violent conflict.

Another important finding of our research is that transfer of resources from the central to the local governments can play vital role in lowering the violence as it may provide a sense of hope, connectedness and opportunity to the local people. In the backdrop of widespread poverty in the villages of Nepal, we also find a significant positive association between level of poverty and the intensity of violence. The policy implications of these findings are that government policies towards balancing the unintended inequality combined with grants and targeted transfers for reducing poverty can potentially solve much of the problems for which the Maoists are blamed. Such policies can deliver expected outcomes provided that the transferred funds find their way to the intended beneficiaries. International agencies, local institutions, Non-Governmental Organizations (NGOs), and civil society can play meaningful roles by developing a productive partnership to achieve such objectives in the light of widespread perceptions that corruption is rampant in the government offices and such corruption also engenders poverty. Motivating such partnership towards promoting social networks in the local communities

would provide an added bonus for creating lasting peace as we find that social capital helps to inhibit the violence by promoting understandings among the community members.