COMPULSORY INCOME REDISTRIBUTION AND SOCIAL CONFLICT

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ABSTRACT

The social-order argument for compulsory income redistribution claims that redistribution is necessary in order to mitigate social conflict generated by excessive income disparity. This argument may have some validity in underdeveloped nations, but its accuracy is dubious for modern, market-based democracies with a rule of law. Indeed, strong reasoning and evidence is developed in this paper to show that, by the most appropriate measure, income redistribution in late 20th century America generated more, not less, social conflict and disorder.

Keywords: *Income redistribution, social conflict, market processes.*

1. INTRODUCTION

One of the important rationales among intellectual supporters of compulsory government income redistribution may be termed the social order argument. The premise of this argument is that the market-determined variance of income distribution is likely to be so large as to generate widespread resentment and social conflict, as poverty stricken masses strike back in various ways against those they perceive to be the privileged elite. Different advocates of this argument stress different forms of social conflict, from crime to protests to riots, and even organized rebellion. Marxism itself may be seen as simply an extreme form of this social order argument, claiming that the property relations defining capitalist society necessarily give rise to systematic exploitation of labor by capital owners, and hence to communist revolution.

In its more moderate social democratic forms, the policy conclusion reached from the premise of the social order argument is that social conflict can, and indeed must, be reduced or prevented by government programs of compulsory income redistribution (Skidmore 2002, pp. 13-14, Snower 1998, Alesina and Perotti 1996, Benhabib and Rustici 1996). Yet despite this conventional wisdom, the present paper provides theoretical and empirical evidence for precisely the opposite conclusion, namely that, at least in genuine market economies under the rule of law, policies of income redistribution increase, rather than reduce, social conflict and disorder.
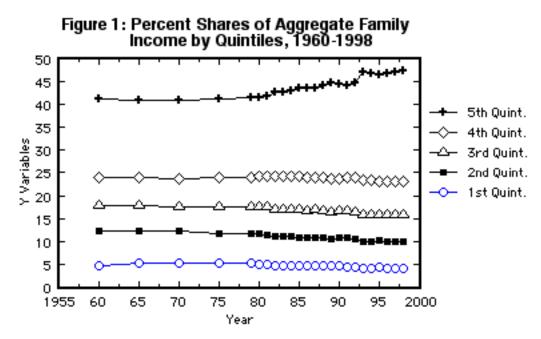
2. MERCANTILISM, MARKETS, AND SOCIAL CONFLICT

In its most general form, the social order argument that measures of social conflict and disorder should be directly related to variation of income, measured perhaps by Gini coefficients or population income quintile shares, might find some corroborative evidence from less developed nations, which are often characterized by quasi-medieval political structures and mercantilist economies. In such nations income disparities are often very wide, economies are stagnant, and opportunities for vertical economic mobility are limited. Basic reallocations such as land reform - particularly privatization - and the elimination of mercantilist privileges might be justifiable, and even necessary. But all this is expressive and characteristic of the emergence of modern, market based societies.

I sincerely doubt the validity of the social order argument as it applies to genuine market economies with limited governments subject to meaningful rule of law, for several reasons. For one, free societies are typically middle class, with less income disparity than normally characterizes underdeveloped nations. For another, the mutually voluntary, positive-sum nature of economic interactions between persons in free nations should tend at least marginally to mitigate social conflicts, as also should the greater opportunities for vertical economic mobility such nations provide.[1]

In addition (or extension), such free societies, by encouraging entrepreneurial activities, tend naturally to experience economic growth, with rising gross and per capita output and incomes. This should tend to at least partially offset social dissatisfaction motivated by existing income disparities. When the size of the economic pie is visibly increasing over time, people might worry less about how it is cut. In principle, this should be a testable proposition. Note, of course, that this argument simply adds another explanatory variable, and does not show that social conflict would not be directly related to the variance of income on a *ceteris paribus* basis.

Casual empiricism for the U.S. in the late 20th century also raises doubts about the validity of the social order argument, however. The income distribution in the U.S. began to noticeably widen in the late 1970s. The share of family personal income accruing to the top quintile of families began to increase while the shares of the other quintiles declined, as shown in figure 1. Yet major expressions of social disorder, such as protests and urban riots, were of far greater magnitude in the 1960s and early 1970s than they have been *since* the income distribution began widening. Even the crime rate, that many social analysts have claimed is a function of income disparity and associated lower class distress, rose most rapidly *before* the income distribution began widening, then leveled out and began falling during the period of widening income distribution (See figure 2 below, and compare with figure 1). Of course all of this might be the result of other variables offsetting the effect of the widening distribution of income, but that in itself would seem to imply that income variation *per se* is *not* a very powerful determinant of social disorder.

Figure 1: Percent Shares of Aggregate Family Income by Quintiles, 1960-1998

One should also note that the policy prescription of the social order argument is rendered dubious by a lack of necessary connection between the magnitude of governmental income redistribution and the variance of the income distribution itself. For one thing, much income is redistributed *sideways* in the form of middle class income transfers. Indeed, this seems to have been politically necessary in order to build broad public support for income redistribution. And it is not just the middle class that gets in on the game. No small amount of income is actually redistributed *upwards,* from people with lower to people with greater incomes and wealth. Agricultural and other business subsidies are good examples of this.

As I have argued elsewhere (Edwards 2007), even programs such as welfare, which specifically aim at redistributing income downward, benefiting the poor, have such high administrative and other overhead costs that they actually end up mostly redistributing income from middle class taxpayers to middle and upper class bureaucrats and resource suppliers to the bureaucracy.[2]   For all these reasons, even if narrowing the income distribution really would reduce social conflict, which is doubtful, it appears difficult to obtain that outcome to any significant degree through actual democratic political processes in the United States.

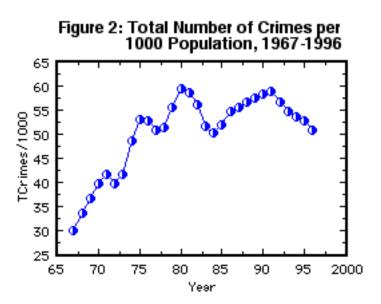### 3. THEORY: Conflict as an Outcome of Redistribution
It is possible to cast light on, and provide evidence pertinent to the social order argument by turning it on its head. It has long seemed to this author that, in the U.S. at least, it has been the advocacy and practice of income redistribution that tended to generate social conflict and disorder, more than the lack of such practices. There

are various reasons for this. For one, government antipoverty programs are known to add to the breakdown of the family structure, subjecting those affected to numerous social pathologies such as illegitimacy, child and drug abuse, and juvenile delinquency (Smith and Jarjoura 1988). Such pathologies generate anger, frustration, and resentment. These feelings are given focus because the ideology of income redistribution is often a victim ideology, which asserts that capitalism is characterized by zero sum economic relationships, such that if some have less it is *because* others have more. This is most overt in its Marxist variant, a central element of which is the exploitation theory.
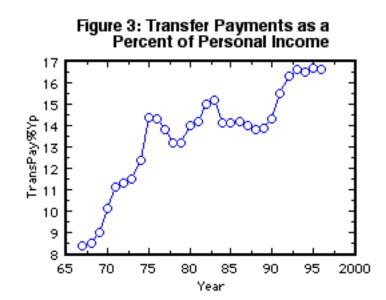
All versions of the ideology, however, assert that the causes of poverty, whether exploitation, random misfortune, or an uncaring society, lie outside those experiencing it, and are beyond their control. The propagation of such doctrines generates enormous resentment against the non-poor. In addition, both the political advocacy and governmental practice of compulsory income redistribution teach recipients another very simple lesson: *that gunpoint redistribution is morally justified.* It would be small wonder, then, if many people, in response, did not apply this principle on the streets, cutting out the governmental middleman, or otherwise engage in criminal acts aimed at the non-poor they have been taught to resent.

Many people who are not poor may also be motivated by compulsory income redistribution to engage in criminality. Higher income persons, who worked hard to succeed yet find themselves taxed at high rates to finance income transfers to people who earn little, may resent what amounts to their partial enslavement, and strike back with tax evasion or efforts to obtain untaxed income. Others who work hard every day, yet live not far above the poverty line, observing that many of the poor receiving welfare live better then they do, may be motivated to engage in criminal acts in response to this perceived injustice. Middle and upper class subsidies and income transfers probably generate similar resentments and responses. Criminal activity may be increased across the income spectrum as official, gunpoint income redistribution severs the link between productive action and reward, benefiting some and harming others almost randomly.
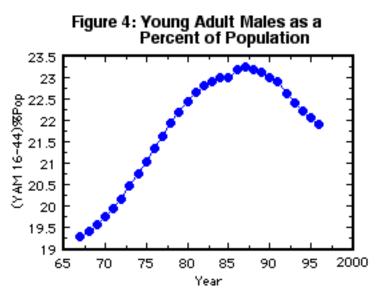
To test this perspective, I use total crime rates, taken from various issues of the *Statistical Abstract of the United States,* as the measure of social disorder to be explained. Other measures could be used, but data on crime rates are readily available, and likely to be more accurate than data on most other measures of social disorder. In addition, the key components of most other measures of social disorder, such as the property destruction, thefts and murders occurring in urban riots, will be reported and reflected in crime rates.[3]

Figure 2: Total Number of Crimes per 1000 Population, 1967-1996

Total crimes per 1000 population are shown in figure 2 for the classic period of the American War on Poverty, from 1967 through 1996, when welfare as an entitlement was ended by the Welfare Reform Act. To test my main hypothesis, I employ, as a simple measure of income redistribution, aggregate income transfers as a percent of total personal income, for each year in that period, computed from data in the *Economic Report of the President* for 1999. That variable is shown in figure 3, and comparison with figure 2 immediately reveals some striking similarities in pattern. The two patterns do diverge, however, after about 1991, indicating the effect of some other independent variable or variables in operation.

**Figure 3: Transfer Payments as a
Percent of Personal Income**

Since all researchers are by now aware that crime in Post-War America has been, to a significant extent, demographically driven, it is necessary to account for the effect of the baby boom generation. Accordingly, I employ, as a second explanatory variable, young adult males age 16-44 as a fraction of total U.S. population. This is shown in figure 4, and one can tell by comparison with figure 2 that the proportion of young men, which reached its peak in 1987 and began declining thereafter, will powerfully explain the general pattern of the total crime rate over the period, and likely account for the decline in crimes after 1991, offsetting contrary effects of other variables. One can also tell by visual inspection, however, that the smooth rise and fall of the young adult male fraction of the population will miss much of the detail of the crime rate pattern that the income transfer variable will pick up.

**Figure 4: Young Adult Males as a
Percent of Population**

To test the proposition that growth in the economic pie tends to reduce social conflict, I employ, as a third independent variable, real disposable income per capita (in 1992 dollars). Since crime rates were rising for most of the period 1967-1996, and real income per person has risen steadily with the exception of recession years, the simple correlation between these two variables is bound to be positive. I hypothesize, however, that in the presence of the major variables influencing the crime rate, the effect of per capita real disposable income on social disorder measured by total crime rates should be *inverse*. As people have more real disposable income, they should be *less* interested in stealing from, or otherwise striking out against, others whom they perceive as being relatively privileged.

4. EMPIRICAL EVIDENCE
An OLS multiple linear regression model employing the three independent variables described above to explain the crime rate seems to perform extremely well, as shown in the regression table.
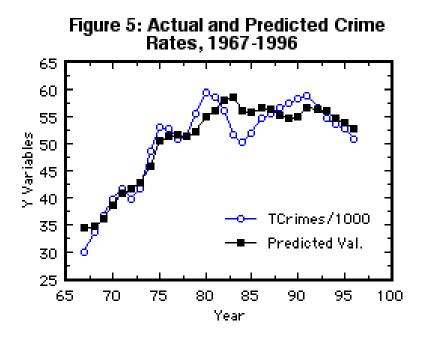
The raw joint correlation is .937, which is very high, and between them, the three variables therefore explain just over 86 percent of the variations in the crime rate over the period. Just how well the model explains the historical experience in this period can be seen visually from figure 5, which plots the crime rate values predicted by the model against the actual observations. Note that the forecast errors show no serial correlation.

The demographic variable is the most powerful of the three. It has the predicted sign, a very high t-value, and a very low p-value. In addition, the coefficient of this variable is very large. *Ceteris paribus,* each percentage point increase in the young adult male fraction of the population adds 4.6 crimes per thousand population. The income redistribution variable also performs very well, however, with a positive coefficient as theoretically predicted, a t-value of 3.566 and a p-value of only .0014. Though its coefficient is smaller than that of the demographic variable, it is not trivial at all. Each percentage point increase in income transfers as a percent of aggregate personal income adds 1.74 crimes per thousand persons, yielding 1,740 additional crimes per million, or more than a half-million more total crimes for the current United States population, *ceteris paribus.*

Regression Table: Results for Crime Rate Determinants

Variable or Statistic	Coefficient or Constant Value	Std. Err.	t-value	p-value
Intercept	-57.924			
YAM 16-44	4.602	.799	5.763	.0001
TransPay%Yp	1.741	.488	3.566	.0014
RYd PerCap	-.001	.001	1.93	.0646
R	.937			
R2	.878			
Adjusted R2	.863			

This lends a great deal of support to the theoretical intuition that compulsory income redistribution *generates,* rather than reduces, social conflict and discord.[4] Of course it would be possible to make some reverse causation argument, to the effect that higher crime rates result in an increase in relative income transfers, perhaps precisely as a result of increased propagation of the social order argument. As long as the relationship between the income transfer variable and the crime rate is positive, however, it still leaves in tatters the policy claim of the social order argument, that income transfers prevent or reduce social disorder.

Figure 5: Actual and Predicted Crime Rates, 1967-1996

The least satisfactory of the three independent variables is the measure of real disposable income per capita. Its t-value is only 1.93 and its p-value is not below .05 as desired, though it is not that much above. The good

news, however, is that *the real income variable has the predicted negative sign in the presence of the other variables,* though its slope coefficient is very small. Yet the variable adds marginally to the explanatory power of the model. Thus it does appear that rising real income in a growing economy may have some marginal effect in *reducing* social stresses and disorder, though this cannot be claimed with great confidence based on the present evidence.

For sensitivity analysis, several variations of the model have been attempted. In one, property crimes per 1000 population were employed as the dependent variable. In this version the model also worked well, but just slightly less well than in explaining the total crime rate. In another version, the unemployment rate was added as an explanatory variable on the widely accepted theory that unemployment is a major source of distress and crime. Addition of this variable seemed initially to help the model. It raised the t-values and lowered the p-values of all the other variables, and raised the raw joint correlation to nearly .96. The sign on the coefficient of the unemployment rate was *negative,* however, which seems counterintuitive, and somehow, its interaction with the other explanatory variables caused the predictions of the model to all lie above the observed crime rates.

In an important version of the model the share of aggregate personal family income obtained by the top quintile of families was added to the three variables reported above in an attempt to directly test the social order hypothesis. Its slope coefficient turned out to be -2.39, with a t-value of 2.19 and a p-value of .0397. Both the negative sign of the coefficient and its statistical significance tended to falsify the hypothesis. Addition of this variable reduced the statistical significance of the demographic and real per capita income variables somewhat, making the sign of the slope coefficient on the latter positive. The slope and statistical significance of the income redistribution variable were little affected, however. The stability and reliability of this variable across alternate versions of the model was surprising.

5. CONCLUSIONS

The most important result of this research is found in the measured effects of the income redistribution variable. The logic of the social discord argument appears to fall short when put to the test. In all versions of the model tried, the income transfer fraction of total personal income had a positive slope coefficient of significant magnitude, a standard error that was not excessive, and high statistical significance. The burgeoning literature employing abstract indexes of social disorder and Gini-coefficient measures of the income distribution misses a huge fraction of income redistribution as it actually occurs in modern Western nations, precisely because so much redistribution is sideways or even upwards.

Future research of the straightforward form developed in this paper should certainly add other variables, such as measures of the expected cost of committing crimes (derived from arrest and conviction rates, etc.) that other authors have employed, to see if the explanatory power of the income redistribution variable used here holds up. If the present study now looks like just another crime rate study using an odd set of independent variables, however, it must be remembered that the point here is to test the social order argument for income redistribution. The very least that can be said from the evidence found for America in the late 20th century is that if the intent of social policy in modern, market-oriented democratic nations is to reduce social conflict, compulsory government income redistribution may well be exactly the *wrong* prescription.

NOTES

1. The magnitude of such mobility, in both directions but particularly upward, is startling (Diaz-Gimenez, Rios-Rull, and Glover 2011, Cox and Alm 1995, Office of Tax Analysis, U. S. Department of the Treasury 1992).

2. Using U.S. government reports, Robert L Woodson has calculated that, on average, 70 cents of each dollar budgeted for government assistance goes not to the poor, but to government bureaucrats and others serving the poor (Tanner 1996, p. 136 n. 18).

3. Authors such as Alesina and Perotti (1996) favoring the social order argument have constructed indexes of social disorder including, along with crime rates, urban riots, and military rebellion, measures of protest and political demonstration. Not only is the construction, weighting and interpretation of such indexes unclear and subject to manipulation, but I have elsewhere shown (Edwards 2001) that the magnitude of protests and political agitation bears no demonstrable positive relationship to public discontent.

4. I am not, apparently, the first to suspect that poverty subsidies might stimulate crime. Hill and O'Neill (1993) found that a 50 percent increase in the monthly value of AFDC payments plus food stamps increased the crime rate among young black men by 117 percent.

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