Conflicts, Security and Development: Capturing the potential complementarities from econometric and case study approaches

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The three papers in this session focus down from an initial broad overview of conflict and poverty alleviation through an examination of the link between ethnic diversity, the perceived risk of civil strife and developmental expenditure to, lastly, the particular effects of drug-generated rent on governance and conflict. This discussion paper attempts to make a case for closer links between econometric and case study analyses in the field of inter-country comparison. Its thesis is that case study work generates insights that sharpen the focus of econometric analysis so that the choice of data set, always a proxy variable, can be refined and explored in a broader context, rather like an optician clicking a clearer distance lens into the eye-test frame.

What Successful Cases Tell Us About the Causes of Growth Collapses

The first paper (Murshed 2005) appropriately provides a wide-ranging but characteristically pithy review of some of the literature regarding poverty reduction and the prevention of, and recovery from, associated civil conflict. It identifies institutions as the key transmission mechanism via which different constellations of natural resource linkages, geographies (climate and relative location), cultural legacies and policies can nurture or repress the deployment of produced and human capital to optimise the allocation of scarce resources in order to maximise social welfare. Part 2 of the paper argues that neither institutions, nor the forces that mould them, are destiny so that economic analysis can determine ways to accelerate growth, and thereby speed poverty alleviation. Economic analysis also yields an appreciation of the motives of combatants, which is an essential pre-requisite for finding ways to limit violent conflict (Part 3 of the paper).

There is a risk of making institutions the latest in Easterly's long line of silver bullets for 'solving' the development conundrum. The role of instiutions may currently be over-rated. It should be noted that the present era of globalisation began around 1950 and that during the first two decades most developing countries grew faster than the rich countries, so institutions were not yet problematic. Although the per capita income gap widened due to high population growth because many developing countries were still in the high-growth stage of the demographic cycle. Unfortunately during that initial period, many countries espoused selective trade policy closure, sometimes justifying it as offsetting Dutch disease effects. Trade closure triggered the cumulative distortion of their *political* economies. The consequences proved lethal in many instances and developing country economic growth rates diverged sharply. This critical change is not picked up in Part 2 because the global poverty data are presented in such a way as to focus the subsequent analysis on the growth failures rather than the successes. This is because the mean global income statistic is weighted by country rather than by size of population to reach a pessimistic assessment that filters out important factors affecting growth performance, notably historical time and relative location.

More specifically, analysis of global income trends by country weights the results towards the performance of small countries many of which are in sub-Saharan Africa and to a lesser extent Latin America and the Caribbean, and points to a still widening global income gap. If the income statistics are compiled in terms of developing country population, however, the income gap seems to have begun to narrow over the last decade or so (Fischer 2003). That step change after almost two centuries of inexorable widening coincides with an intensification of market-driven policies in response to the economic growth collapses and associated corruption of 1974-85. In particular, the new policies tended to work better in (i) large economies than small ones; (ii) resource-poor economies compared with resource-rich ones; (iii) countries near to a dynamic de-industrialising advanced economy rather than countries in remote regions or close to large moribund economies (Arora and Vamvakidis 2005) and finally (iv) where market reform has been incremental and endogenous, rather than rapid and externally imposed. Institutions may not have a bearing, after being systematically undermined as a result of policy failure.

One consequence for recent economic research of a focus on the less successful countries may have been to over-emphasise the impact of socio-economic linkages on institutions at the expense of the four factors cited in the previous paragraph. For example, it is widely assumed that point source linkages are associated with mines (true) and plantations (questionable) and tend to adversely affect development. In contrast, the diffuse linkages associated with peasant farming are believed to be beneficial because they spread resources, and the decisions about their use, across many economic agents. If this difference in socio-economic linkages was critical, then sub-Saharan African countries would be expected to outperform Asian rivals such as Malaysia. Yet in much of sub-Saharan Africa it proved all too easy to convert the potentially beneficial diffuse linkages into less beneficial point source linkages by establishing crop marketing boards to channel rent (along with substantial chunks of the returns to capital and labour) to the government. The institutional legacy of colonialism may be less important for growth since the 1940s than changes in economic policy.

The conversion of diffuse linkages to point linkages appeared to be sanctioned by interventionist strategies, notably import substitution, which became fashionable during the 1950s and 1960s. But the well-meaning advocates of such strategies over-estimated the integrity of most developing country governments. Drawing on the four factors associated with success, the cumulative distortion of the political economy and subsequent growth collapses that resulted from heightened intervention was most evident in the resource-rich developing countries (whose high rent relative to GDP confers freedom to sustain distortions for longer periods), especially the smaller ones (for whom the stabilising benefits of economic diversification are inherently more difficult to acquire) and/or those countries remote from large maturing economies. Moreover, because all forms of capital are seriously degraded by *cumulative* economic distortion (including social capital, which has been neglected because it is problematic to measure), recovery is likely to take a generation or more. This implies that there is a strong risk of economic recovery programmes succumbing to reform fatigue. To some this might suggest a strong case for establishing UN Protectorates to oversee the long-term recovery of collapsed economies if that will enhance the chances of sustaining rapid economic growth. Rapid growth not only rebuilds all forms of capital swiftly, but it also proliferates competitive markets (in contrast to state-led growth), which proliferation appears to strengthen three critical sanctions against anti-social governance, namely: political accountability for public expenditure, rule of law and property rights and civic voice to achieve an endogenous democratization, which is incremental (Auty 2004).

The third part of the introductory paper addresses incentives for conflict. Natural resources appear to be an important catalyst for civil strife, either because they are inequitably distributed (fostering grievance) or because their forceful seizure appears to offer immediate improvement in material welfare (nurturing greed). Here again, the differences in post-war development trajectories offer useful clues that may strengthen explanations. Many developing countries experienced rapid GDP growth during the so-called Second Golden Age of Economic Growth from 1950-73, although by the late-1960s some economies had become so badly distorted that they were already faltering, including Chile, Ghana, India, Mauritius, Mexico and the Philippines. The subsequent erratic flow of petrodollars triggered three waves of growth collapses, commencing with the fragile economies of sub-Saharan Africa after the 1973 oil shock, followed in the early-1980s by the Latin American countries that had borrowed recycled petrodollars, ostensibly to restructure their economies in response to high energy prices, and finally by the oil-exporters as energy conservation and global recession softened oil prices in the mid-1980s. The growth collapses that resulted from the cumulative distortion of the economy may not be the ‘trigger’ for civil strife but they provide the conditions in which such triggers can all too easily emerge.

This interpretation is consistent with Collier (2000), who suggests that civil strife is strongly positively linked not only to primary exports, but also to economic decline (i.e. a growth collapse). The result is a relatively large young male population (which outcome is also linked to a growth collapse because it retards passage through the demographic cycle), with little education for whom conflict offers immediate financial gain. Le Billon (2001) extends the explanation further: some resource revenues are more lootable than others. The high value/weight ratios of alluvial diamonds and narcotics render them especially attractive because of their mobility, while remoteness from the seat of government and proximity to porous borders are additional accommodating factors.

Within this broader context, the net effect of civil strife is likely to be to exacerbate the deterioration of all forms of capital that is the legacy of a growth collapse and inject a desire for revenge as an added complication in seeking post-war reconstruction.

Factoring in the Relationship Between Civil Strife and Scale of Rent

Gates and Lektzian (2005) narrow the focus down to examine the association between drugs-riddled economies and civil conflict. The data produce a sample of eleven drug-producing countries with six in the Americas (Colombia, Peru, Bolivia, Guatemala, Mexico and Jamaica), three in East Asia (Thailand, Indonesia and Myanmar) and two in South Asia or thereabouts (Pakistan and Iran, with Afghanistan omitted), although Colombia seems to be the dominant source of insight in discussing specific aspects of the drug-corruption-governance relationship. So we are now actually approaching the case study level!

Based upon the literature, a positive relationship is expected between civil conflict and participation in drug cultivation and manufacture (both variants of the drug economy are merged in the analysed population, due to the size constraint), with the quality of governance becoming a mediating factor. The critical objective of the paper is to tease out the causal relationships. One possible explanation from the literature for the link between drugs and conflict is that the expansion of an illicit trade such as drugs automatically withdraws a significant fraction of domestic economic activity out of the formal economy and thereby diminishes government revenue while at the same time demanding increased public expenditure on security so that government legitimacy is undermined. Most drug profits are generated, as with many other commodities, at the downstream end of the supply chain, where in this case illicit border crossing and street marketing significantly increase the risk of apprehension. Only a modest fraction of such revenue is likely to be repatriated to the producer country. A second explanation is that the exceptionally high rents associated with drugs provides a rich fuel with which to expand both criminal and ideological enterprises alike, even in states with economic performances that are moderately good (Colombia) or exceptionally good (Thailand), let alone in countries with moribund economies (Jamaica). This process might feed a vicious circle as aggrieved and/or greedy individuals switch from the formal economy into the shadow economy. In fact, the two processes are not mutually exclusive.

The results of the analysis suggest that both the share of taxes in GDP and the share of income taxes within total taxes are lower in high-drug economies. Moreover, using paved roads as a proxy for public expenditure, a smaller fraction of roads are paved in high-drug economies than in other economies (although it would be worth checking whether a population density bias is not a more critical factor at work here). Corruption is indeed higher in drug-producing countries. Finally, drug cultivation and/or production prove to be significant and positive factors in incidences of civil conflict (as is oil-exporting, whereas democracy is negatively related). The link is indirect, however, with both reduced government expenditure and perceived government corruption feeding civil strife, although the evidence presented suggests that perceived corruption may be the more influential variable of the two, reflecting government loss of moral authority.

Underlying the initial theoretical discussion lies the presumption of a spectrum of governments that range from virtuous democracies, which legitimise government activity and promote inclusion, to repressive autocracies. Both the extremes may limit corruption and violence more successfully than do the more diffuse forms of government in between, but autocracies are less successful here than are democracies. This seems to be the case even allowing for the fact that democracies are associated more strongly with high PCGDP than autocracies are. One might like to know more, however, about the history of drug-producing countries to feel more confident in teasing out explanations: did civil strife come first in Colombia, only to be inflamed by rocketing drugs demand during the 1960s as rich western countries espoused hyper-liberal values? And does geographical isolation play a more important role, such as prevails in the low elevation tropical forests of Colombia, the Chiapas in southern Mexico and even the forested western swamplands in densely settled Jamaica?

This review is suggesting that an integrated analysis of econometrics and case studies can provide a deeper appreciation of the forces at work in promoting conflict, but the interface seems to have been neglected due perhaps to disciplinary fashion, or else the time consuming nature of data collection or the risk that information overload leads to inconclusive results. One option in the case of the paper on drugs is to conceptualise the problem of drug-fuelled civil strife as a variant upon the theme of the capture and distribution of rent, whether the rent is natural resource rent, geopolitical rent (foreign aid) or contrived rent such as any government might levy by adjusting relative prices. The rent on crude oil at current prices accounts for 60-95% of the export revenue, spanning from high-cost to low-cost producers, while that on diamonds in southern Africa appears to be around 60% and on gold 20-50%. The rent on drugs is likely to be at the higher end of this range and a great deal of income can be generated by skilful distribution from a very small space. World Bank data suggest that natural resource rent alone comprises 10-20% of GDP in most developing countries, while geopolitical rent can reach similar magnitudes, and contrived rent leapt even higher in subs-Saharan Africa during the 1960s-1970s, according to Krueger et al (1991).

With so much fungible revenue ('funny money' seems a reasonable description) on tap there is little wonder that many developing country governments were corrupted when they were invited to override markets and to extract and allocate revenues as suited the politicians and their associates. By analysing the issue as one of rent capture and deployment, we might envisage a continuum with diamonds and drugs accentuating the fundamental destabilising impact of rents on governments, then oil not far behind and thereafter falling away to resource-poor countries at the other extreme like Mauritius and the East Asian gang of four. By the early-1950s the East Asian countries already had exceptionally low endowments of cropland per capita and few minerals so their governments had little choice but to create wealth and to ensure that whatever personal enrichment they siphoned away, it wasn't sufficient to kill the competitive markets that laid the golden egg. Endogenous democratisation provided an extra bonus.

A comparison between Angola and Mozambique suggests that the deployment of sizeable natural resource rents in Angola, as opposed to the geopolitical rent channelled by donors in Mozambique, risks postponing sustainable recovery and re-igniting conflict. Patterns of rent flows reveal a lot about development. Judged from this perspective, the policy remedy lies in finding political strategies that recognise contemporary geopolitical constraints (with an emerging post September 11th push towards global intervention) for re-channelling rent away from capture and redistribution, which at extremes so easily spirals into violence, and into broad-based wealth creation.

Ethnicity, Civil Strife and Public Expenditure: More Nuanced Classifications

De Soysa and Neumayer (2005) ask two questions: first, does the observed link between increased factionalism and lower risk of civil war arise because government perceptions of the potential risk trigger increased military expenditure? and second, is the hypothesised increased military spending part of the explanation for the lower expenditure on other public goods observed in factionalised societies? They test their hypotheses through a tightly focused analysis of the relationship between heterogeneity (measured in terms of ethnic, linguistic and religious factionalism) and three indices of militarization (share of military expenditure in GDP, ratio of military personnel to total workforce and share of arms imports in total imports). Data constraints limit coverage to 1988-2002, which usefully approximates the post-Cold War period when richer countries cut their military spending significantly more than poorer countries and when ethnic and religious differences are widely believed to have begun to emerge as the main drivers of conflict.

The introduction to the paper links the core questions to a range of current research themes. The researchers also explore whether the relationship between the variables is linear or not, and whether cultural polarisation is a more significant cause of increased militarization than ethnic heterogeneity. The research casts light on a further issue: whether ethnic heterogeneity so complicates political negotiation over public spending as to not only limit its scale but also to encourage rent-seeking as different groups vie with each other for advantage. The researchers also note that the literature suggests that the impact of heterogeneity wanes at higher income levels but that the cause seems to lie more in the presence of superior institutions rather than in any inherent merits of democracy. Numerous control variables are checked including per capita income, GDP growth, country size, regime type, total government share of GDP, internal and external strife and regional influences.

Like the research problem posed, the findings are also clear-cut: ethnic heterogeneity is indeed negatively related to the share of public expenditure in GDP and the relationship is linear. But neither ethnic nor religious heterogeneity is associated with higher military expenditure. Ethnic heterogeneity, like per capita income and democracy, is inversely associated with military expenditure. Larger government and external/internal strife boost military expenditure. Taking the share of military personnel in the total workforce as the dependent variable shows a similar set of relationships except in the case of external/internal conflict, where it appears to exert no influence one way or the other. In the case of arms imports, the results are consistent with the findings from the other proxies for military effort except that internal/external strife does appear to raise the share of arms imports in total imports. Interestingly, oil-rich countries appear more likely than others to exhibit 'capital-intensive' military expenditure, such as arms imports. Contrary to a sub-theme in the literature, societal polarization does not appear to differentiate levels of militarization.

The overall conclusion refutes what the researchers expected to observe from the theoretical arguments; militarization does not increase with factionalism and so cannot be a reason for the observed lower public spending in such countries. The researchers note that the use of additional indices of security expenditure might clarify matters, notably data on internal security. However, the results seem fairly robust and would suggest that heterogeneity, like democracy, appears to help to lower military expenditure. The findings also imply that secession is unlikely to enhance security because secession diminishes heterogeneity in both the breakaway state and the rump state. However, this may not be good for long-term growth: the researchers speculate that sweeteners may be a critical part of the process by which ethnic groups resolve tensions in heterogeneous societies at the expense of public expenditure. Consequently, since corruption retards efficient wealth creation and with it the strengthening of sanctions against anti-social governance, then heterogeneity may imply a substantial loss of welfare through the long-term.

It may be possible to say more about ethnic heterogeneity by deploying more nuanced classifications of the developing countries' economies and polities, which are closely inter-related. With regard to developing economies, as previously noted, in recent years the performance of the resource-rich countries has diverged from that of the resource-poor countries. The scale of the rent relative to GDP appears to lie at the root of this divergence: high rents confer incentives for governments to redistribute wealth at the expense of wealth creation and therefore of economic growth. High rents also launch a development trajectory that has proved more difficult for governments to manage than that of the low-rent (resource-poor) countries, which embarks relatively early on competitive industrialisation. To explore the impact of different types of political state in more depth we need to go beyond the crude distinction between democracies and autocracies, because a dual classification masks substantial differences. For example, the political economy of consensual democracies like Chile, Mauritius and South Korea on the one hand is different from that of polarised democracies such as those of Bangladesh, Jamaica and Venezuela on the other. In addition, as the paper notes, benevolent autocracies react very differently from predatory ones. Finally, it is useful to distinguish an intermediate form of governance between autocracy and democracy, e.g. an oligarchy, which after Olson (2000) may be cohesive as with a plantocracy, or diffusing (and ultimately self-liquidating), as in the case of nineteenth century Britain when economic restructuring re-balanced political interests. We can also usefully re-classify the developing economies on the basis of their natural resource endowment, rather than by continent or income level.

The experience of the FSU countries raises an additional issue regarding what happens if a power vacuum is created, like the collapse of the USSR or the exodus of colonial powers from sub-Saharan Africa and Asia. The established bonding social capital, which acts as a form of local insurance in low-income societies with dysfunctional governments, may be abruptly transferred from the local level to the national level. In the FSU, an ethnic classification would not pick this up, yet it appears to be the transfer of bonded local (geographical) social capital to the national level that has resulted in policy capture for the benefit of the folks back home. This has adverse implications for both economic growth and political security.

More subtle classifications change the prescription of the lens through which the data are analysed and may generate fresh insights. The ‘new‘ lenses suggested in the previous paragraphs are derived from observation of what happens in particular countries, i.e. from case studies, but the case studies have been explored within the context of evolving classifications and theories of economic change that are tested against econometric evidence (Auty and Kiiski 2001).

In summary: it may be fruitful to distil common elements from case studies, noting the broader historical context and also the central role played by rent extraction and distribution. This can help to guide econometric testing towards the use of data that yield sharper proxy measurements for what is being studied. It should help while flying at 40,000 feet to have a greater input from ground control.

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