The Impact of Conflict on Poverty

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Cause or Effect? – You Decide

Based on your own knowledge, things you’ve read, or research you have done for your news reports, pick which of these two statements is “most true” – remember you can only pick one!

- Does poverty cause conflict?
- Or does conflict cause poverty?
Which is a better story?

- Poverty causes conflict.
- Conflict causes poverty.
Testing hypotheses:

• poverty as a **cause** of conflict and instability
  – poverty engenders new forms of social inequity, which in turn fuel conflict

• poverty as a **consequence** of conflict and instability
  – conflict reallocates public resources away from productive activities and basic services, and leads to the loss of public entitlements, markets, and livelihoods, which increases poverty
Does Poverty cause Conflict?

- Poverty motivates fierce competition for scarce resources in order to sustain life and meet basic needs – “people will do anything to feed their children”.

- Poverty in a context of income inequality – large or growing gaps between rich and poor – motivates resentment which can fuel support for armed movements which promise a “more equitable” division of resources and access to services.
What fuels conflict –
While ideology and ‘cause’ are important factors in the rhetoric of civil war, data show a much stronger case for economic factors fueling civil conflicts. Civil war is heavily concentrated in poor countries, and poverty increases the likelihood of civil war.

- The key root cause of conflict is the failure of economic development.
- Countries with low, stagnant, and unequally distributed per capita incomes that have remained dependent on primary commodities for their exports face dangerously high risks of prolonged conflict.
- In the absence of economic development, neither good political institutions, nor ethnic and religious homogeneity, nor high military spending, provide significant defenses against large-scale violence.
• Three economic characteristics appear to make a country more prone to conflict –
  – low per capita income
  – overall economic decline
  – dependence on primary commodities

• Marginalized countries – those who are economically stagnant and not benefiting from the trend of global economic development – demonstrate a greater incidence of conflict and a greater tendency to lapse back into conflict even after a peace agreement.
Development in Reverse

- For countries directly involved in conflict, for people living in those countries, civil war is “development in reverse”. What are the mechanisms through which this “un-development” takes place?
  - Conflict imposes direct costs on society and communities
    - Economic costs
    - Social costs
Economic costs
resources diverted from productive activities to destruction – a double loss:

- **value of lost production** – instead of repairing roads and installing new irrigation systems to support expanded agricultural production, government recruits more soldiers and buys weapons and ammunition

- **costs of repairing destruction** – roads that were damaged by tanks, and irrigation ponds that were destroyed by bombs, must be rebuilt or patched before they can work again
value of lost productive use

- diverting resources to military (up on average from 2.8% of GDP to 5%) usually causes a decrease on other public expenditures like infrastructure and health

- that additional 2.2% of GDP now spent on military, sustained over the seven years that is the length of the typical civil conflict, would lead to a permanent loss of around 2 percent of GDP
  - and this doesn’t include the losses associated with the rebel side’s similar diversion of resources away from production into violence
value of repairing the damage done

- physical infrastructure destroyed (public goods)
- household assets destroyed, looted
- wealth shifted out-of-country (capital flight, movement of herds across borders)
- time horizons for economic transactions are shortened, efficiency suffers
- family and community links are severed, social capital damaged – loosens the constraints on opportunistic and criminal behavior, weakens the support networks for small businesses
Counting the “costs of war”

• Modeling: econometrics uses large sets of statistical data to analyze relationships between different factor by setting up equations, or “models”, and testing their statistical validity
  – during civil wars, economies grow around 2.2% more slowly than during peace
  – after a typical seven-year civil war, incomes would be around 15% lower than if the war had not happened, and
  – because of the effects of inflation and lost investment opportunities, the incidence of absolute poverty will have increased by 30%

• Case studies: using survey data from 18 countries affected by civil war, average annual growth rate was negative (-3.3%); also a wide range of indicators worsened during conflict:
  – in 15 countries per capita income fell
  – in 13 countries food production dropped
  – in all 18 economies external debt increased as a % of GDP
  – in 12 countries export growth declined
Social costs
Social costs

- **fatalities**: at the beginning of the 20th century 90% of victims were soldiers, but by the 1990s nearly 90% of casualties from armed conflict were civilian

- **population displacements**: forced migration, people fleeing to avoid violence or recruitment or looting of family assets
  - lost economic investments and earnings, reduced access to education and health care, increased risk of predatory and contagious diseases in refugee habitations and camps
The costs of war don’t stop when the fighting stops

- Economic and political “legacy costs”
- Social legacy costs
economic & political legacy costs

• persistent heightened military expenditures: during civil war, military expenditure rises as a % of GDP from 2.2 to 5.0 percent; but upon cessation of hostilities, military expenditure does not return to former level; rather, during the first decade after conflict the average country spends 4.5% GDP on the military.

• capital flight: during war, capital flight increases from 9% of private wealth to 20%; by the end of the first decade of post-conflict peace, capital flight has risen further to 26.1%, a sort of “war overhang effect” which is the opposite of a peace dividend. A similar but larger phenomenon is observed with human flight, where emigrants who leave during conflict provide a post-conflict channel for accelerated post-conflict emigration.

• loss of social capital: civil war can switch behavior from an equilibrium in which there is an expectation of honesty and cooperation to one where there is an expectation of corruption – and then incentives for honest behavior are severely weakened and corrupt behavior can be disturbingly persistent post-war.

• insignificant post-war progress in policy: in four key areas which might have been expected to improve after war ended, data shows either stagnation or continued deterioration – macro economies less stable, structural policies on trade and investment less conducive to growth, social policies less inclusive, and public sector less well managed.
social legacy costs

- **increased mortality rates**: civil wars kill far more civilians, even after the conflict is “over”, than they kill combatants during the conflict
  - Much of this happens through infectious disease in refugee and IDP camps, but also through a break-down of primary health care services.
  - Increased mortality is caused by both *technical regress*, or changes in living conditions that make staying healthy more difficult, and by *government spending less money on public health* because of continuing re-prioritization of public expenditures towards security.

- **psychological damage**: much harder to measure than mortality and morbidity from physical damage of war, but evidence shows psychiatric morbidity associated with mass violence in civilian and refugee populations is elevated when compared to non-traumatized communities
  - specific evidence of increased suicides amongst traumatized women of childbearing ages

- **landmines**: affect both economic activity and physical health, acting in essence as a “negative capital stock” that the society accumulates during conflict but “pays for” afterwards
Neighborhood Effects

- Economic spillovers
- Social spillovers
economic spillovers

• hosting refugees: neighboring countries must accommodate large numbers of refugees, and this imposes costs on the host communities and districts

• military budget: increased expenditures by neighbors as well as country at war – regional arms race, or “financing each others’ rebels”, where supplies of weapons and fighters move across borders. A simulation model using a regional increase of 10% in the risk of civil war predicts that regional military expenditures would rise by 1% of GDP after the ‘arms race effects” show up.
  – For each additional 1.0 % of GDP that neighbors spend on the military, the growth rate is reduced by 0.1 percentage point.
  – Having a neighbor at war reduces your annual growth rate by 0.5 percentage points.

• costs of transport: conflict disrupts trade, increases costs of transporting goods as well as people, because of physical damage to infrastructure, roadblocks that are set up by conflict parties to monitor movement or gain revenue, and increased risk aversion by owners of trucks and other key capital assets

• reputation of the region with investors: the entire region surrounding a civil war will usually be regarded by investors as more risky, with little differentiation between sub-regions.
social spillovers

• **refugee effects**: spread of infectious disease, reduced access to clean water and food in hosting communities – this is most significant in malaria (where the routes taken by refugees place them at greater risk of exposure, and their housing in camps provides only minimal treatment if any) and HIV/AIDs (where both children and young- and middle-aged adults of both genders are at risk).

• **substitution effects**: monies spent by either host country or international agencies on basic curative services to refugee populations are not available for basic preventative care for either refugees or host communities.
Global Effects

- **civil war and drug production and trafficking:** a common effect of conflict is to reduce the effective influence that governments have over their territories, allowing a ‘criminalization’ of the economy. One by-product of civil wars is that large areas of rural territory cease to be controlled by government; distribution and storage channels also rely upon lawlessness generated by civil war or political uncertainty.

- **civil war and international terrorism:** civil wars create territory that serves as a safe haven for terrorists, and the illegal products of conflict, notably diamonds, are used both as a source of revenue and as a store of value.
Capturing these concepts for a general audience:

- Value of lost production because government invests in military –  
  - *More guns means less butter.*
- Costs of repairing destruction –  
  - *Cleaning up spilled milk to make new butter.*
- Civilian fatalities far outnumber combatants –  
  - *Bullets don’t care if victims wear uniforms or nursing aprons.*
- Persistent heightened military expenditures –  
  - *It’s easier to expand an army than to ‘down-size’ one.*
- Capital and human flight –  
  - *It’s easier for money and brains to leave than to return.*
- Loss of social capital –  
  - *Once social behaviors degrade to “warring status”, it’s very hard to rebuild them.*
- Insignificant post-war progress in key policy actions –  
  - *Peace doesn’t guarantee progress and prosperity.*