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“ON THE ECONOMIC ORIGINS OF CONTEMPORARY CIVIL WARS”

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SUMMARY: All societies are characterised by some degree of conflict over political and civil rights. These conflicts may be based on social class, ethnicity, religion, region or some combination of these factors. Since economic growth and development is impossible without a large measure of social stability, investment in institutions for non-violent conflict resolution is as important to development as investment in physical or human capital. Development economists have traditionally discussed the design of policy independently of conflict and its occurrence, these being seen as issues for political scientists. But the implications for social conflict of economic decisions cannot be ignored in this way. Similarly, the potential for conflict and civil war in retarding growth and development are equally important. Many of today's conflicts have their origin in economic factors such as the contest over resource rents, and the relative deprivation of clearly identifiable social groups resulting in the ethnic dimension to most civil wars. Ultimately, violent internal conflict implies the degeneration or breakdown of the social contract.

INTRODUCTION

Traditionally war has been viewed as an irrational act, brought about by misunderstanding and coordination failure. It has also been seen as something that occurs between nations. Today most armed conflicts occur between groups within the same nation state. So once the interests of belligerents are taken into account, conflict may be the product of rational decisions, even if it is of a bounded or myopic rational choice variety. Furthermore, the desire to control natural resource rents, socio-economic fragmentation, poverty, inequality, and institutional breakdown all play a role in contemporary civil wars. Economic analysis, particularly the areas of economics dealing with endogenous public choice, has much to say about these areas. All societies are characterised by some degree of conflict over political and civil rights, employment opportunities, and access to social and economic services. These conflicts may be based on social class, ethnicity, religion, region or some combination of these factors. Since economic growth and development is impossible without a

large measure of social stability, investment in institutions for non-violent conflict resolution is as important to development as investment in physical or human capital. Fundamentally, violent internal conflict implies the degeneration or breakdown of the implicit or explicit social contract.

The measurement of contemporary conflict is not simple, see Wallensteen and Sollenberg (2000) for one conflict database. The Carnegie Commission on Preventing Deadly Conflict (1997: 12) lists the following 39 countries as having had conflicts which led to at least 1000 deaths in any one year in the 1990s: Afghanistan, Algeria, Angola, Azerbaijan, Bosnia and Herzegovina, Burundi, Cambodia, Chad, Republic of Congo, Democratic Republic of Congo (Zaire), Colombia, Croatia, East Timor, El Salvador, Eritrea (secession from Ethiopia), Georgia, Ghana, Guatemala, Haiti, Iraq, Kashmir (India v Pakistan), Lebanon, Liberia, Moldova, Nigeria, Persian Gulf War, Pakistan (Sindh), Peru, Russia (Chechnya), Rwanda, Sierra Leone, Somalia, South Africa, Southeast Turkey (Kurdistan), Sri Lanka (Tamil uprising), Sudan, Tajikistan, Uganda, Yemen. To this list we could add: Burma, Irian Jaya (Indonesia), Kosovo, and the 1998-2000 Eritrea-Ethiopia war to produce a total of 43 conflicts. There are several others that we could include, the emerging crisis in Nepal, for example. Note that the vast majority of these civil wars and conflicts are in low-income developing countries, where war may be viewed as part and parcel of development failure. Furthermore, any definition of conflict based upon a fixed number of battle deaths is somewhat arbitrary.

Development economists have traditionally discussed the design of policy independently of conflict and its occurrence, these being seen as issues for political scientists. But the implications for social conflict of economic decisions cannot be ignored in this way. Similarly, the potential for conflict and civil war in retarding growth and development are equally important. The potential for disaster in getting economic policy wrong is high in fragile low-income societies that need economic growth, especially in those that have an above-average vulnerability to conflict. A variety of methodologies exist to study conflict, including historical approaches, but economics can make a significant contribution to the study of conflict and its prevention in the context of underdevelopment.

Rational choice theory, characteristic of economics and some fields of political science, is not simply about pecuniary gain. It is about optimising an objective utility function where a variety of altruistic motivations, historical grievances, as well as mutual suspicions can also be entered. Costs of actions also enter into the reckoning of rational choice. The rest of the paper briefly discusses several points that relate the causes of contemporary civil wars to economics, political economy and public choice.

1 Violence as an Alternative Livelihood

It is important to understand that violence is an alternative to peaceful production as a form of economic activity. The work of Francis Edgeworth (1881) distinguishes

between consent—and its absence—in human economic interaction. The former implies contract, and the latter conflict, even war. This is highlighted by the following quote:

The first principle of Economics is that every agent is actuated only by self-interest. The workings of this principle may be viewed under two aspects, according as the agent acts *without*, or *with*, the consent of others affected by his actions. In wide senses, the first species of action may be called *war*; the second, contract. [Edgeworth, 1881, pp 16-17].

In securing an income, therefore, humanity has a choice between production and predation, the relative returns being in part determined by the cost of 'swords' relative to 'ploughshares'. The institutional environment, the quality of law, and contract enforcement also determine this choice. Criminal activity, whether taking the form of extortion or theft, is only one aspect of the economics of violence. War, especially civil war, also has a rational choice dimension.

2 Ethnicity and Conflict

Most contemporary civil wars in developing countries have an ethnic dimension, in the sense of well-defined and ethnically distinct groups fighting one another. One reason is that it resolves the collective action problem of mobilising groups to fight one another. Ethnicity, whether based on religion, language or some other form, is a powerful organising force, far superior to social class. It overcomes the collective action problem, whereby groups are unable to organise due to mutual suspicions. That is why the majority of present-day civil wars have an ethnic dimension, where the protagonists are drawn up along ethnic lines. Well-defined grievances, however, are required for ethnically based conflict, and these must be seen and believed to be the case (verifiable). Some may be historical, but many others are a product of discrimination and policy failures as outlined below. Of course, collective action based on ethnicity requires conflict entrepreneurs or warlords to do the organising.

3 Inequality and Horizontal Inequality

Inequality of income and opportunity should form the basis of a grievance that causes violence and ultimately civil war. But we do not necessarily observe civil wars in societies that are *vertically* or homogeneously unequal *per se*, although other forms of violence and protest may be in evidence.¹ For civil war to break out, collective action on the part of the oppressed is needed (if grievance is indeed the cause of war). That is why there must be a clear perception of inequality between groups or *horizontal* inequality for civil war based on ethnic inequality to emerge. In points 4 to 6 below, I highlight facets of horizontal inequality.

4 Asset Inequality

Agrarian societies with high income inequality—for example El Salvador, Guatemala, the Philippines, and Zimbabwe—have high asset inequality, and are very prone to conflict. Land inequality, the dispossession of peasant communities, and the limited poverty reduction associated with economic growth in highly unequal societies provide fertile ground for insurrection—the Chiapas rebellion in Mexico is one example. These grievances are exacerbated when they have an ethnic dimension.

5 Inequalities in Taxation, Public Spending

Discrimination in the allocation of public employment is particularly resented in societies in which it represents the principal avenue for personal advance, Burundi and Rwanda for example. In addition, the over taxation of smallholders encourages insurrection, and indigenous peoples often face discrimination in access to schooling, health care, and public-sector jobs, Guatemala's civil war, for example, see Addison and Murshed (2001b). Where there are inter-group fiscal transfers, which may take the form of spending on education and health for disadvantaged groups, or including them in government employment, commitment to the transfer by those in power may be imperfect. This lack of credibility of the implicit or explicit transfer can eventually lead to civil war. Grossman (1991) develops a theoretical model of insurrection against the state by the peasantry reacting to over taxation, where the state is a tax-farmer interested in maximising the income of the rentier class.

6 Economic Mismanagement

Economic mismanagement is often associated with an uneven and unfair distribution of the burdens of subsequent adjustment; public spending benefiting the elite is protected (this often favours particular ethnic groups), with the burden of adjustment placed on expenditures of value to the poor and disadvantaged groups. Rodrik (1998) demonstrates that many of the largest falls in output following shocks occur in divided societies (as measured by variables such as income inequality and ethnic fragmentation) with weak institutions of conflict management, including the rule of law and democracy. These societies are unable to equitably share the burdens of adjustment (or protect the poor), and social conflict magnifies the economic impact of the shock, leading to growth collapses.

7 Environmental Conflict

This may take the form of inter-group rivalry over land, water and other productive resources, but this is perhaps less important as a cause of contemporary civil war, although it may produce violence. Hirshliefer (1995) models anarchic inter-group

¹ Revolutionary civil war might be the consequence of a violent reaction to high inequality in an ethnically homogenous society. Its empirical irregularity suggests the presence of collective action failure.

warfare using non-cooperative game theory, in a setting reminiscent of the primitive conflict over resources between neighbouring communities.

8 Greed versus Grievance

In a number of cases civil war is closely associated with natural resource exploitation. Collier and Hoeffler (1999) find empirical evidence showing that a relatively high dependence on primary commodity exports is strongly correlated with the occurrence of war. This has led to the now familiar greed disguised as grievance hypothesis in the conflict literature concerned with developing countries, particularly Africa (conflict diamonds are the prime example).

This view, however, needs to be nuanced. Greed might drive civil war, but poverty and grievances also play a part. Addison, Le Billon, and Murshed (2000) construct a game-theoretic model of contemporary conflict involving the competition for resources. But in this model, it is not only resource rents that cause conflict, grievances also play their part in fuelling conflict, as does *poverty*. Poverty makes soldiering less unattractive. Additionally, they distinguish between two main types of resource exploitation: *point resources*, which mostly involve the *extraction* of non-renewable resources (minerals), require little labour input and are geographically concentrated; and *diffuse resources*, such as those which mostly involve the *production* of renewable resources (crops), require large amounts of labour, and are spread geographically. The former category of resource rents are more capturable, and can produce contests, leading to civil war. Angola's two mineral resources (offshore oil and alluvial diamonds in the interior) have enabled both sides (the MPLA government, and the UNITA rebels) to engage in protracted warfare. In contrast, the peace in Mozambique may be lasting due to the absence of contestable mineral resources. A related concept is "warlord competition" (see Skaperdas, 2002). Essentially warlords compete with one another over economic surplus or the right to tax the public, akin to gangster wars.

9 Conflict as the Breakdown of Social Contract

Inter-ethnic conflict can also be explained in terms of state failure (Azam, 2001; Addison and Murshed, 2002). The failure of the state to meet its obligations regarding public goods provision and security forces citizens to fall back on more reliable ethnic ties or ethnic capital akin to social capital. This reliance, in turn, can encourage rebellion and outright warfare against the state, or conflict between different ethnic groups over economic resources including revenues from criminal activities. Such an explanation of civil conflict is not only valid in Africa, but also in the successor states to the Soviet Union where the state has repudiated an earlier social contract, or in Latin America where revolutionary groups and drug-barons are sometimes superior providers of public services.

A related issue concerns the role of democracy in internal conflict prevention. Hegre, Ellingsen, Gates and Gleditsch (2001) have demonstrated a U-shaped relation

between democratic institutions and the incidence of civil war over time. The probability of civil conflict is lowest both in established, well functioning democracies, and perfect autocracies. It is at some intermediate stage between autocracy and democracy that the risk of internal conflict is greatest. This suggests that state failure is more likely in between autocracy and well-functioning democracy.

10 Failed Peace Agreements

In countries that are at war, getting the opposing parties to the peace table, and then to successfully negotiate peace, is a daunting task—especially when either one or both parties has previously reneged on the peace process. It has to be remembered that many of today's civil wars contain a dimension of external intervention by neighbours and great powers in the past or present, which helped to fuel the conflict. This may be said to be true of the wars in Angola, DRC, Sri Lanka and in many of the conflicts in the Caucasus. The problem of credible commitment to peace agreements, when they do arise, is particularly acute post-conflict situations (Addison and Murshed, 2001a). There is often considerable uncertainty following the end of civil war. One aspect of the commitment problem that has not been given sufficient attention is the very high discount rates of the parties involved (Addison and Murshed, 2001a analyse this problem). In situations of poverty and high uncertainty, agents strongly prefer a dollar today to a dollar tomorrow. Although the absolute value of future peace may be much higher than that of continued warfare, the present value may be much lower when the discount rate is very high. The same argument can be applied to reputation, a factor that is key to the credibility of peacemaking. Breaking an agreement destroys *future* reputation, but with a high enough discount rate it might pay to renege. Each failure of the peace process raises the discount rates of the belligerents, thereby increasing the difficulty of making peace. Given the tarnished reputations of belligerents it is even harder to establish credible peace.

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