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Preventing Civil Strife: An Important Role for Economic Policy

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Abstract

Civil wars have become the dominant form of armed conflict in recent decades. This paper describes how some of the factors fueling these conflicts have changed over time and how economic policies are increasingly important in preventing them. The importance of economic policy, for example in ameliorating socio-economic disparities among different groups, has grown as a result of some recent developments, including the end of the Cold War (reducing the number of external interventions for geo-political reasons in wars); a trend towards democratization (allowing discord to rise into the open); economic reforms that have led to large distributional shifts (while leaving these equity issues to be solved by the political process); and the globalization of the world economy (increasing vulnerability and creating the potential for large distributional effects on an economy). With these developments, it has become more important that socio-economic factors do not become a reason for different groups—whether associated by region, religion, race, or roots—to revolt and that Governments continually address the impact of economic policies and economic developments on different groups.

Key words: civil war, conflict prevention, distribution, inequity

JEL classification code: D74, H56

Introduction

The pictures are all too familiar. Hundreds of thousands killed, or greater numbers of people dead from hunger and disease and similar amounts fleeing as a result of civil wars. The stories keep reappearing: Biafra in the late 1960s, Cambodia in the second half of the 1970s, Ethiopia in the mid-1980s, the Sudan since 1983, Somalia in 1992, Rwanda in 1994 and the former Yugoslavia throughout the 1990s. This list can be extended with numerous other conflicts—of mostly smaller proportions—in countries such as Afghanistan, Colombia, the Democratic Republic of the Congo (formerly Zaire), Iraq, Liberia, Nicaragua, Peru, Sierra Leone, Sri Lanka and Uganda. Which country is next? The number and the intensity of civil conflicts have increased drastically over recent decades. Many of these wars are referred to as “ethnic wars”, implying that they are caused by ancient tribal hatred and that nothing can be done about them. This “has been the formula easiest to accept, since it lends a patina of logic to indifference.” (*The New York Times*, 2 January 2000). Yet, one wonders whether this is a valid assumption and whether anything can be done. In particular, as an economist I wonder: “Can economic policy do anything to prevent it?”

This paper argues that too little attention has been paid to the socio-economic causes of many of these conflicts as the political events and supposedly ethnic factors that trigger civil strife often get the immediate blame (see, e.g., Nafziger, 1996). Socio-economic factors have always played a role in causing wars, but the relative importance of economic policy has increased as a result of recent developments, such as democratization, economic reforms and globalization (see Figure 1).¹ Moreover, the end of the Cold War has fundamentally changed the environment in which civil wars are fought: Governments and rebels have faced a sharp decline in financial support from Cold-War superpowers; with the demise of communism, rebels have one viable alternative less to fight for and Governments one less to defend; and with a trend

towards democratization, which was accelerated by the end of the Cold War, rebels are left with fewer dictators to be repressed by and rebel against. Furthermore, opinions among economists on what kind of economic reforms are generally required for stabilization and adjustment have broadly converged, generally emphasizing a reduction in the role of the Government in the economy. But disagreement over economic equity issues still exists and inequalities have in fact increased in many countries while the more open societies have given room for dissent. Finally, globalization has increased the vulnerability of several countries and certain groups within nations. With these developments, it has become more important that socio-economic factors do not become a reason for different groups to organize themselves by region, religion, race, or roots and to revolt and that Governments continually address the impact of economic policies and developments on various groups.

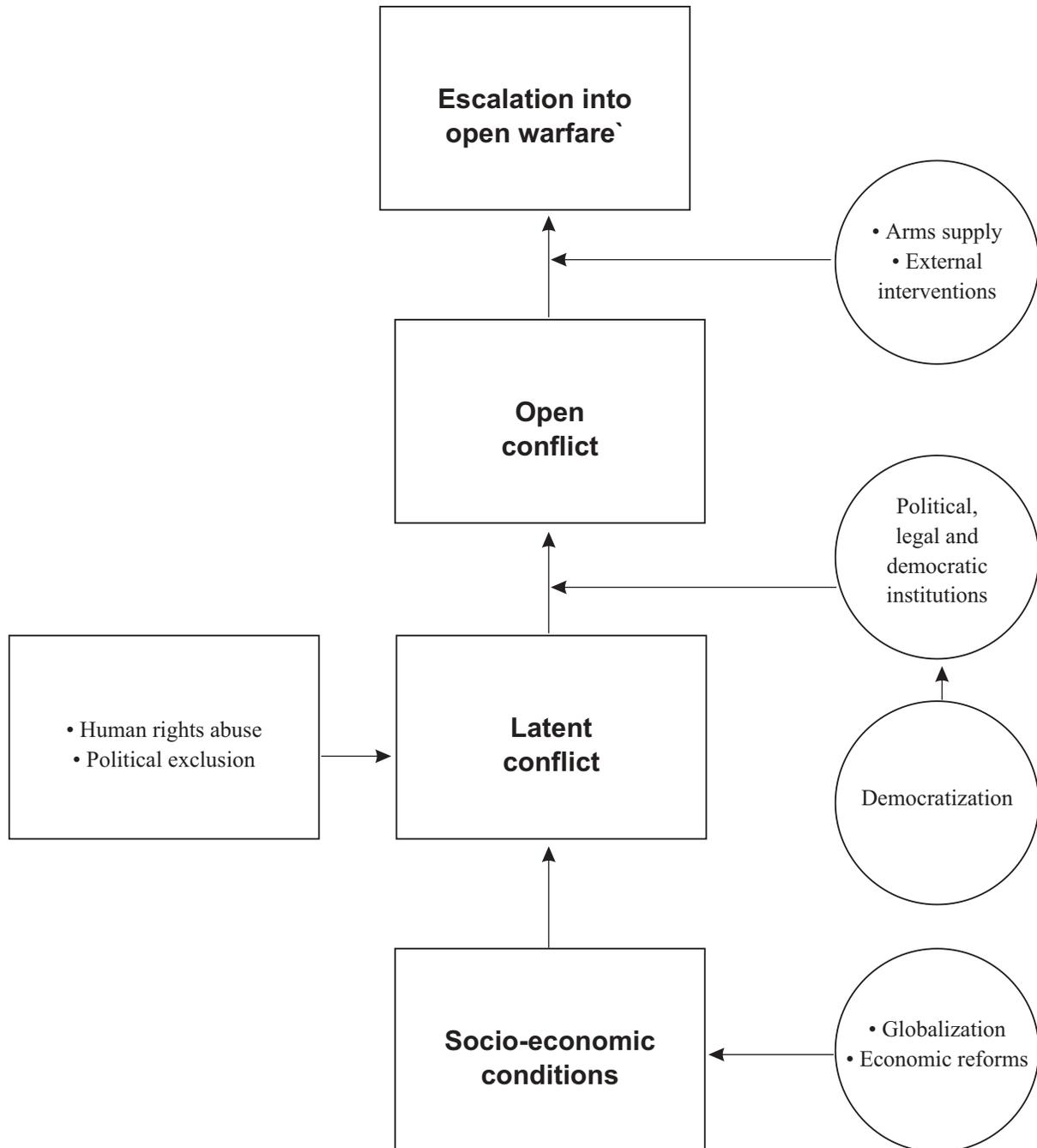
Of course, paying more attention to socio-economic factors is no panacea and should be supplemented by measures within the political field, such as power-sharing, protection of human and minority rights, participation and decentralization (Carnegie Commission on Preventing Deadly Conflict, 1997; Gurr, 2000; UNDP, 1993; United Nations, 1998; Young, 1994). The creation of political and legal institutions that provide for the possibility to express grievances and mediate and mitigate conflict are particularly important. If these institutions are present they could prevent the escalation of a latent conflict into open violence (World Bank, 2000, pp. 126-8).

This paper focuses in particular on the socio-economic factors that cause (or trigger) civil strife and the socio-economic policies that can prevent it. It pays less attention to the socio-economic factors that perpetuate violent conflicts and the policies that can stop them (see, e.g., Keen, 1998).

The paper is organized as follows. Section 2 will describe how the nature of wars has changed over

1 The United Nations has long recognized—through its Charter (article 55) and several resolutions (e.g. regarding the Development Decades and the New International Economic Order)—the role of international economic inequalities in international conflicts and the importance of reducing these disparities for the promotion of peace through the development of the developing countries.

Figure 1: The dynamics of civil war



the last decades. The paper will discuss the factors behind wars during the Cold War in section 3. In the next sections the changes that in some cases started before the end of the Cold War but accelerated subsequently, that is, fewer external interventions (section 4), democratization (section 5), shifts in distributions as a result of economic reforms (section 6) and globalization (section 7). The last three changes have increased the likelihood of conflict. Section 8 describes how several socio-economic factors have contributed to warfare. The final section argues that economic policies can play a part in preventing civil strife.

Civil wars have become more frequent and their impact on civilians larger

In wars during the eighteenth, nineteenth and the first half of twentieth century civilians accounted for about half of the total war-related deaths. Since the 1960s, however, the toll taken by civilians has been rising. Civilians accounted for 52 per cent of the total dead in the 1960s, for 73 per cent in the 1970s and for 74 per cent in the 1980s (Leger Sivard, 1987, p. 28 and 1991, p. 20). For the period 1945-1992 this percentage is 63 (see Table 1). The share has increased even further after 1992 with major civil conflicts in Burundi, Liberia, Rwanda, Sierra Leone, Somalia, the former Yugoslavia and the former U.S.S.R. and might be as high as 90 per cent (Leger Sivard, 1996, p. 17).

Table 1 gives an overview of the wars in the world during the post-World-War-II period. Almost all armed conflicts (including civil strife) with more than 1000 deaths that took place in the world between 1945 and 1992 were located in the developing world. So were virtually all the victims. Wars in sub-Saharan Africa and Asia accounted for 70 per cent of the number of wars and for 95 per cent of the fatalities in the world during the period 1945-92. These percentages are especially the result of some very intense wars, such as the Korean War (1950-53), the Viet Nam War (1965-75) and the civil conflicts in Cambodia (1975-78), China (1946-51) and Nigeria (1967-70).

Of course, the developing world also accounts for a large share of the world's population. A large, sparsely populated region with only a few countries is less likely to be the stage of wars than a small, densely populated area with many countries. Indeed, land has often been a factor behind civil and interstate conflicts. The number of countries, area and population are in table 1 compared to the number of wars and fatalities for the different regions.²

Changing characteristics of wars over the last decades have increased their effects on humans.³ Firstly, the share of civil wars as a percentage of the total number of armed conflicts has risen. According to one study, the percentage of intrastate wars increased from 44 per cent in the 1930s to 90 per cent in the first half of the 1990s (Whelon Wayman *et al.*, 1996). The effects of civil wars on civilians are much larger than of interstate wars. Civil wars can last decades because they are often waged at a low level of

2 In fact, 84 per cent of the variation in the number of wars (W) can be "explained" by these three variables. The regressed equation looks as follows (t-statistics are in parentheses).

$$W = 8.09 + 0.88 * N - 10.73 * A - 0.01 * (P / A) + 0.02 * P$$

(1.02) (3.33) (1.74) (1.31) (2.40)

adjusted R² = 0.841

F-statistic = 5.30

where

N = number of countries

A = Area in billions of hectare

P / A = population per hectare (in thousands)

P = population in millions

The number of countries is significant at the 5 per cent level and the population at the 10 per cent level.

3 In many ways the Gulf War against Iraq in 1991 was an exception to several of the trends described. It was an interstate conflict with one clear military goal—the negation of the Iraqi invasion of Kuwait—and the mismatch of military technology and resources contributed greatly to the short duration (see, for example, Leger Sivard, 1991, p. 21). It was in many ways a classic conflict, fought with modern weaponry. The war in Kosovo in 1999 fits these trends better. It was a civil war with a large proportion of civilian casualties where NATO intervened with advanced military technology, directed at military as well as civilian targets, such as power plants, television stations and infrastructure.

Table 1:
Wars and war-related deaths, 1945-1992

	Number of wars	Number of deaths (thousands)			Number of countries in 1990	Area (billion hectares)	Population in 1990 (millions)
		Civilian	Military	Total			
Africa	45	4 663	1 562	6 708	52	3.0	642
Sub-Saharan	38	4 556	1 543	6 582	45	2.2	466
Other Africa	7	107	19	126	7	0.8	176
America	24	471	234	714	35	4.0	724
North America	0	0	0	0	2	1.9	276
Latin America	24	471	234	714	33	2.1	448
Asia	67	9 360	5 745	15 353	38	2.8	3 113
Middle East	18	443	638	1 250	14	0.8	132
South Asia	13	2 358	1 049	3 412	9	0.5	1 201
Far East	36	6 559	4 058	10 691	15	1.4	1 780
Europe	13	11	11	367	31	2.7	787
Oceania	0	0	0	0	11	0.9	26
Total	149	14 505	7 552	23 142	167	13.4	5 292

Source: Leger Sivard (1993), FAO (1991) and United Nations (1989).

Notes: Wars are defined as armed conflicts with more than 1000 deaths. Breakdown of civilian and military deaths is incomplete. U.S.S.R. is included in Europe.

technological sophistication, involving guerrillas, militia, death squads, insurgents and separatists, fighting each other or the Government. In civil wars, the distinction between armed opponents and civilians is often (perceived as being) blurry and the objectives are usually wider than a simple military defeat, including the destruction of the social and economic structure of the opponents and the displacement of people. Attacks have often been directed at the ability of civilians to produce or acquire food, at infrastructure, at health and education facilities and at transport and communication systems (Leger Sivard, 1989; ECA, 1989; United Nations, 1993b, ch. VI; Macrae and Zwi, 1992; Ressler *et al.*, 1993). Some have even argued that certain groups benefit economically from war and are therefore interested in keeping a war going (Keen, 1998). Moreover, in countries such as Afghanistan, Bosnia and Herzegovina, Liberia, Rwanda, Somalia and Zaire the State virtually disappeared at one point during the fighting, making a solution to a conflict even harder.

Secondly and related, but not confined to civil wars, is the rise of the proportion of ill-defined area tar-

gets located in rural areas, as opposed to clearly defined military targets. To destroy ill-defined targets, more ammunition has to be fired. The share of ill-defined targets attacked by the United States increased from 31 per cent during World War II (largely urban areas), to 74 per cent during the Korean War (usually rural areas), to 85 per cent during the war in Indochina (almost exclusively rural) and ammunition expenditures by the United States per enemy soldier killed in these three wars were in the ratio of 1:6:18 (SIPRI, 1980, pp. 4-5).⁴

Thirdly, the incidental or deliberate destructive impact of conflicts has increased due to motorized war equipment, larger firing range and heavier firing power. In particular, the use of automatic weapons, mines and chemicals has enabled the destruction of substantial amounts of crops and/or the killing of large numbers of people and livestock—in the case of mines even after the conflict (SIPRI, 1980). As De Waal (1993, p. 181) wrote “[T]he capacity for destruction of modern firearms has no historical parallel, and future historians may well compare the impact of the AK 47 with that of the diesel

4 To a certain extent this trend might reflect the urbanization of the countries at war as the urban population of Europe, the Republic of Korea and Viet Nam amounted to about 56 per cent, 21 per cent and 18 per cent respectively during these wars (United Nations, 1993d).

engine.” It has been estimated that 70 million copies of the AK 47 alone have been produced between its introduction in 1947 and 1997 (*The New York Times*, 13 March 1997) and in some countries an automatic weapon can be purchased for just a few US dollars. Landmines are a particular scourge. They can kill even after the war is officially over for decades. An estimated 110 million landmines in more than 70 countries were waiting in the ground in 1996 to explode (United Nations, 1996). In some countries like Angola, there are as many landmines as there are citizens. Landmines cost as little as \$2 to make but as much as \$1000 to locate and remove. In this regard, the Secretary-General of the United Nations has called for a complete ban on the use, production and stockpiling of mines and a grassroots movement, the International Campaign to Ban Landmines, was instrumental in the Mine Ban Treaty that became binding international law on 1 March 1999 and earned it the Nobel Peace Prize in 1997.

Civil war, in particular when coinciding with drought, has been an important factor behind recent famines and consequently increased the number of casualties dramatically. Either directly or indirectly, and whether through commission or omission, civil wars have affected production, distribution and relief and have caused famines in several countries. Among the direct effects of civil strife are: looting, planting of mines, or the destruction of crops, rural infrastructure, food stocks and farming inputs; raiding or killing of livestock, leaving farmers without the possibility of plowing their land; and uprooting, killing and recruiting of people, including children. Directly or indirectly, civil wars have disrupted trade, distribution, movement of people and grazing patterns, which increased the vulnerability to drought and affected the capacity of people to implement their coping strategies when struck by drought. Indirectly, but devastatingly, Governments neglected agriculture during wars and failed to take timely and adequate action to prevent famine, and all parties have interfered with delivery of relief, especially when members of the drought-affected group were armed opponents or thought to be sympathetic to them. In fact, Drèze and Sen (1989)

have argued that an open and pluralist society with a free press is an important condition for early response to the threat of famine. This condition is not fulfilled in most countries at war.

The effect of wars on the capability to produce or acquire food depends on the strategies used and the intensity, the geographical coverage and the duration of the conflict. Since the end of World War II, there have been a few famines almost exclusively induced by war. The famines in Somalia in 1992 and the Sudan in 1998 are the most recent cases (United Nations, 1993b, pp. 173-179). Another example is the famine in Nigeria in 1967-69, which resulted from a blockade of food shipments to the secessionist region of Biafra. The exact weight of wars, natural disaster and inadequacy of prevention and relief efforts in generating a famine is often difficult to determine. This is particularly intricate in cases such as Ethiopia and the Sudan, where wars (have) lasted for a long time and coincided with long periods of below average rainfall and periodic droughts. Some have argued, for example, that the famine in northern Ethiopia in 1984-85 was mainly due to the civil war while others give additional importance to drought and inadequate and/or delayed international and government response. All agree that wars have exacerbated the famine (De Waal, 1991; Kumar, 1990). Over the last 20 years, countries affected by a combination of civil war and drought include Angola, Chad, Ethiopia, Mozambique, Somalia, the Sudan and Uganda (United Nations, 1993b, ch. VI).

Factors behind conflicts during the Cold War

After World War II, many wars were fought to gain independence from the colonial powers, in particular in Africa. Independence was only granted after wars or riots in many countries, e.g. Algeria, Angola, Cameroon, Guinea-Bissau, Indonesia, Kenya, Madagascar, Morocco, Mozambique, Namibia, Tunisia, Viet Nam and Zimbabwe.⁵ The frequently arbitrary partition of states by colonial powers induced secession wars, e.g. in Nigeria (Biafra), by East Pakistan (Bangladesh), in Ethiopia

5 In Latin America the independence wars were fought in the early nineteenth century.

(Eritrea), in India and Pakistan (Jammu and Kashmir), by the Kurds, in Zaire (Shaba/Katanga) and in southern Sudan; irredentist wars, e.g. over the Ogaden and Western Sahara; and border conflicts, e.g. between Cameroon and Nigeria and between Eritrea and Ethiopia. In some countries wars erupted or continued after independence, because of dissatisfaction with the terms of settlement or policies pursued by the Government, i.e. in Angola, Mozambique, Somalia, the Sudan and Zaire.

In many countries—not only after independence—civil wars have been caused by disagreement over the political-economic system put in place and the under-representation of certain groups (based on ethnicity, religion, clan, or regional origin) to participate fully in the economy or Government. A form of governance that was based on personal loyalties, nepotism, patron-client networks and coercion and involved extensive human rights violations often accompanied one-party states or dictatorships. This has incited popular uprisings and insurrections. The association of military rule with the occurrence of war, political violence and repression has been especially strong (Leger Sivard, 1983, p. 19; 1991, pp. 18-19; 1993, pp. 22-23).

Ideology was a fertile ground for wars. Numerous wars, especially those that focused on the political-economic system, have been fuelled by the Cold War. The United States and the U.S.S.R. gave military aid, sent arms and intervened by military force for geo-political reasons, or simply to prevent the change of an ideologically akin Government or to foster one. In some cases, this strategy might have temporarily meant fewer open conflicts. In other cases it hasn't. The list of conflicts influenced by the Cold War strategy of the two superpowers is long and includes Afghanistan, Angola, Cambodia, Chile, El Salvador, Ethiopia, Korea, Mozambique, Nicaragua, Somalia and Viet Nam. Similar reasons also prompted the intervention by former colonial rulers, who in many instances have had defence agreements with the independent states. In southern Africa, another ideology caused havoc. Overt and covert operations by South Africa, in an effort to defend

apartheid, destabilized the region and thereby fuelled civil strife, particularly in Angola and Mozambique.

One study finds that of the 138 intrastate conflicts since 1944, 89 attracted external interventions by at least one third party (P. Regan quoted in Elbadawi, 1999). These 89 interventions consisted actually of 190 individual interventions, of which 76 were accounted for by the United States (35), U.S.S.R./Russia (16), France (10), the United Kingdom (9) and China (6). Moreover, only 57 interventions (out of 190) led to a stoppage of the fighting. On average conflicts that ended lasted 9 years when there were external interventions but only 1.5 years when there was no external intervention.

A changing arena

Recent developments give rise to the hope that some of these factors are subsiding. The end of the Cold War meant a diminished role of the United States and Russia in several conflicts and directly or indirectly contributed to the movement towards peace in Afghanistan (although only temporary), Angola (again only temporarily), Cambodia, El Salvador, Mozambique, Nicaragua, in the Middle East and to a certain extent in South Africa.⁶ The United States and Russia have cut military assistance to several Governments or insurgents, depending on which side they supported (but both reduced their development assistance too). Cuba has ended its military presence in Angola and Ethiopia. And with the end of apartheid and the establishment of a freely elected Government in South Africa, the period of destabilization policies in Southern Africa came to an end as well.

In the 1990s, probably not unrelated to the end of the Cold War, the rights of minorities became more widely recognized and actively protected (Gurr, 2000). This allowed for the peaceful settlement of a number of civil wars and probably prevented a number of other violent conflicts.

6 Mr. De Klerk has stated that he released Mr. Mandela and legalized the African National Congress, the South African Communist Party and the Pan Africanist Congress partly because the demise of communism in Eastern Europe and the U.S.S.R. and the breakup of the U.S.S.R. eliminated the fear for a communist revolution in South Africa. See, for example, *The New York Times*, 15 May 1994 and 24 April 1994; *The Financial Times*, 4/5 December 1993; and Levy (1999).

There are also indications that military interventions by former colonial rulers, France in particular, are declining. For instance, after the insurgence of Chad by rebels in 1990, the Foreign Minister Roland Dumas of France said that: “The times have passed when France would pick Governments or would change Governments and would maintain others when it so wished” (*The New York Times*, 3 December 1990). France sent (additional) troops to Chad, Gabon and Rwanda in recent years to protect or evacuate its citizens but refused to intervene. The dividing line between protection and intervention, however, might not always have been clear.

Several rebel groups, who were inspired by political ideologies during the Cold War, have lost their political inspiration subsequently. Moreover, they have faced the end of superpower support and had to find domestic means to finance their revolt. This has often involved the shift from a political to an economic agenda (Keen, 1998, pp. 33-35). Rebel groups have increased efforts to gain access to domestic economic resources, especially minerals, to fund military efforts, or simply for personal gain. UNITA in Angola, for example, has been able to buy weapons through the exploitation of diamonds after it lost its external support.

On the other hand, the international community has also been criticized for not intervening for humanitarian reasons, or for doing so too late. For example, in the wars in Rwanda and the former Yugoslavia, such criticisms were expressed particularly by non-governmental organizations (NGOs) and the Secretary-General of the United Nations (see, e.g., *The New York Times* of 23 and 26 May 1994 and his speech to the General Assembly in September 1999). When France finally did intervene for humanitarian reasons in Rwanda, troops were flown to Central African Republic in Russian planes as another telling indication that the Cold War was really over (*The New York Times*, 25 June 1994).

The experience in Somalia in particular, where 18 U.S. elite soldiers died in a single day in October 1993, has led to a new sentiment regarding intervention for humanitarian reasons. After a sequence going from neglect to frustration to alleged incapability, countries became very reluctant to commit troops

(see also Mandelbaum, 1994). For instance, the President of the United States signed a directive in May 1994 limiting United States involvement in United Nations peacekeeping operations: Military intervention for humanitarian reasons might be needed in certain cases but should be restricted to these goals and nation building should be left to the citizens themselves (*The New York Times*, 6 May 1994). The fear of a repeat of Somalia contributed to the reluctance to commit ground troops in Kosovo in 1999 to end the ethnic cleansing. Yet the argument that early intervention in the other conflicts in the former Yugoslavia earlier in the 1990s might have made a difference prompted an air bombing campaign by NATO that ultimately (to the surprise of many) led to an end of the armed conflict in Kosovo.

The demise of central planning in Eastern Europe and the U.S.S.R. has also shifted the balance of other factors behind civil conflicts as it expedited the convergence regarding economic reform measures that occurred during the 1980s (see section 6). Accordingly, broad agreements on economic policy emerged in recent years and the number of groups advocating a radical transformation of the economic system has dropped. Governments in countries such as Angola and Mozambique, which once called themselves socialist, have now—as far as circumstances allow—implemented policies not much different from others. Even countries that are ruled by communist Governments, i.e. China and Viet Nam, are enhancing the role of markets in their economies. In South Africa, the difference between the African National Congress (ANC) and the National Party regarding economic policy has become marginal. The ANC once talked of nationalization but now talks of privatization and their Reconstruction and Development Programme states that “neither a commandist central planning system nor an unfettered free market system can provide adequate solutions to the problems confronting us. Reconstruction and development will be achieved through the leading and enabling role of the state, a thriving private sector and the active involvement by all sectors of civil society.” (paragraph 4.2.1). The Programme is now widely endorsed and the late Joe Slovo, who was chairman of the South African Communist Party and a government minister, “now preaches markets, not revolution” (*The Economist*, 23 April 1994) while President Mandela has

addressed the Johannesburg Stock Exchange and regarded it as an important contributor to development instead of a casino (*The Financial Times*, 23/24 April 1994).

(Half-hearted) democratization often means instability

The political revolutions in Eastern Europe in the late 1980s had a demonstration effect in many countries (Healey and Robinson, 1992, ch. 8; Rasheed, 1995). As Cold War considerations faded, new ones came to the fore and donor countries and international institutions started to press for democratization and good governance. President Mobutu Sese Seko of Zaire was suddenly not needed anymore to support UNITA in Angola. For instance, donors suspended aid to Equatorial Guinea, Kenya, Malawi and Zaire in the early 1990s to foster political and economic reform and resumed aid to Kenya and Malawi at the end of 1993 after multi-party elections were organized and economic reforms implemented (United Nations, 1994a).

Since 1989—the year the Berlin Wall fell—several African countries in particular have moved towards multi-party democracies, often after domestic and/or external pressure. In several countries, the economic decline of the 1980s, the social impact of adjustment programmes and patronage systems provoked popular discontent with one-party Governments and dictatorships. Democracy has been taking root as well in Asia (Bangladesh, Cambodia, Nepal and the Philippines) and in Latin America, where the number of military regimes has declined sharply since the 1980s. Yet, the high hopes of the early 1990s were premature as the transitions to democracy have lasted longer and have been rather rocky and not without reversals.

In Africa in particular, the post-independence period was characterized by a concentration of economic and political power in the hands of a small elite, sometimes even in the hands of one man. One-party states were often deemed necessary to cut through ethnic divisions. Many African Governments, whether socialist or

capitalist, intervened, controlled and planned important sections of the economy. With the absence of countervailing power from interest groups that cut across ethnicities or regions—either of peasants, businessmen, or of the working class—regimes often took recourse in patrimonial mechanisms. A form of governance developed that was based on patronage, personal loyalties and patron-client networks, often along ethnic lines (Dag Hammarskjöld Foundation, 1992; Healey and Robinson, 1992; Sandbrook, 1993). In general, the smaller the group of beneficiaries, the more repressive the patrimonial regime had to be to stay in power (Azam and Morrison, 1999).

Certain groups, under-represented in the economy or the Government in the past, have sought to gain, and others to retain, political power. In some cases this has led to armed conflicts. Frequently, political parties have been organized along ethnic, religious, or regional lines and revealed little differences regarding economic policy, inciting social divisions instead of integration (see, for example, Adekanye, 1995). In some countries, incumbents who did not gain power by democratic means have manipulated and won elections, for example by using the state-controlled media and treasury, which has prompted protests and prolonging political instability (Baker, 1998). In other countries, the deposed or marginalized ruler and/or the army have tried to revert the reform process (in Burundi in October 1993, in Chad and Congo in early 1992, in Haiti between 1991 and 1994, in Myanmar in 1988, in Nigeria in 1993, in Rwanda in 1994, in Suriname in 1990, in Togo since 1991 and in Zaire between 1990 and 1997).

The transition to a more democratic society has entailed an inherent degree of instability and uncertainty. Military interventions, the presence of foreign troops and (military) aid enabled several rulers to stay in power and assured perhaps a form of stability in the past in certain cases.⁷ Fewer interventions, less aid and internal or external pressure for political reform are causing unstable transition periods or plain chaos, as in Zaire. A society has to learn the new rules of the politi-

7 O'Kane (1993) showed for example that the presence of foreign troops had a negative effect on the success and the likelihood of a coup d'état in Africa.

cal game, sometimes by trial and error. Political reform is a slow and fragile process. It involves not only the organization of multi-party elections but also reconciliation, formation of a transitional Government, rewriting of the constitution, strengthening of civil society, fostering an independent media and judiciary, consolidation of democratic institutions and, in those cases where hostilities took place, resettlement of displaced persons and demobilized soldiers, disarmament and reconstruction (see, for example, Healey and Robinson, 1992, p. 133 and Sandbrook, 1993, p. 91). This process might also involve finding forms of democracy that better suit the historical and cultural circumstances of the countries concerned. Uganda, for example, has organized elections at different levels of Government, but President Museveni has banned political parties because, he argues, they aggravate ethnic and religious tensions. Moreover, winner-takes-all elections, which are prevalent in developed democracies, might be less viable in new democracies where the proper checks and balances have not yet been developed. In such an environment, the winner of a multi-party election has the opportunity to take the concept of the winner takes all too literally, doing what one-party states had been doing all along. If democratization means that the long-oppressed opposition wins the election, they might try to use the government apparatus to wield economic and political power to their advantage. And indeed there are illustrations of this (see, for example, Schleifer and Vishny, 1994, p. 171).

Democratization is thus likely to involve instability and possibly violent conflict. But this should be only of a relatively short duration unless a society fails to establish a well-working democracy. It appears that semi-democracies are indeed the most prone to civil strife (Hegre *et al.*, 1999). At both extremes, autocracies and democracies, civil wars are rare—and rarer under a democracy than under an autocracy. But under a semi-democracy, as Hegre *et al.* (1999) argue, the combination of grievances and the opportunity to rebel is at its peak. In a democracy grievances are generally rare and more moderate while there are plenty of possibilities to express these grievances through other channels than through vio-

lence. In an autocracy, on the other hand, grievances are large and frequent but repression prevents them from being openly expressed. In a semi-democracy, both grievances and opportunities exist for violent conflict.

Simultaneous implementation of political and economic reforms is intricate. Movements towards democracy have been accompanied by more openness and have in some cases prompted protests against economic reforms, whose immediate effects often have eroded living standards while the improvement of economic performance has been slow in coming about in many countries, particularly in Africa. This has increased the uncertainty and complicated the implementation of reforms. Political instability has prompted policy reversals and hampered economic reform and performance. Uncertainty with regard to who is going to govern and what kind of policies will be implemented, has in particular negatively affected investment in several countries during the transition (United Nations, 1993b, pp. 43-44; Van de Walle, 1994). In some countries, Governments have been enticed to increase spending or reduce taxes to increase the chance of re-election, at the cost of higher budget deficits and inflation. This might, for example, have happened in the first half of the 1990s in Congo, Ghana, Kenya, Malawi and Zambia. Yet, measures that, for example, enhance government capacity, strengthen civil society and increase the participation of NGOs in decision making can smoothen the transition period during which economic and political reforms are implemented (Gordon, 1996).

Some would argue that democracy is associated with growth and more equality and, hence, that the trend toward democracy would be stabilizing. The theory and the evidence, however, are weak. The link between political regimes and economic performance is multi-faceted and not easily represented in a simple relationship. Przeworski and Limongi (1993, p. 64) surveyed the theory and empirical evidence and concluded, “we do not know whether democracy fosters or hinders economic growth” (see also Alesina *et al.*, 1992; Hirschman, 1994; and Healey and Robinson, 1992). Moreover, if it is true that democracy is not likely to be associated with growth, let alone more equitable growth,⁸ the process of

8 There is indeed some evidence that democracies are not associated with lower income inequality (Healey and Robinson, 1992, p. 109).

political reform is even more cumbersome, in particular when several countries are also implementing concurrently economic reforms with distributional consequences. Obviously, this is not an argument against democratization; it is only to illustrate the precarious nature of the process.

Thus, democratization is likely to be accompanied by instability and possibly violence, even if it is true that democracies are less likely to fight wars (with other states or with their own citizens).⁹ Democratization without a broadening of the participation in the economic and political arena is meaningless. Consequently, the role of different interest groups and civil society has to increase. Institutions and procedures need to be developed to channel claims, respond to them and to prevent any group from dominating others, either politically or economically (Bates, 1999; Healey and Robinson, 1992, p. 142; Van de Walle, 1994). For example, painstaking efforts were made in South Africa in the negotiations to prevent predatory behaviour by the new Government. An agreement was reached in 1993 to form a Government of National Unity after the elections in 1994. Moreover, the interim constitution protects the pensions and jobs of the mostly white civil servants and several other provisions were made to protect the rights of minorities.

Economic reforms have led to shifts in distributions

At the end of the 1970s and the beginning of the 1980s, economic performance of many developing countries started to deteriorate. Moreover, the debt crisis erupted in 1982. These two events were triggered by sharply increased interest rates in the early 1980s, the rise in oil prices of 1979-80, the decline in the terms of trade and the recession in many developed countries. Many developing countries were in dire straits and desperately needed to

obtain external finance and change policies in order to adjust (at a time when lending by commercial banks decreased). In the meantime, old development strategies had fallen out of favour. These developments prepared the way for increased lending from the Bretton Woods Institutions conditioned on neo-liberal policy prescriptions (Brinkman, 1996; Mosley *et al.*, 1991).

During the 1980s, a consensus at a rather general level evolved between the Washington-based International Monetary Fund and the World Bank (and others) about what kind of policy conditions should be attached to their loans. This became known as the “Washington Consensus”, which broadly meant initially more markets and less Government.¹⁰ This was modified into more markets and better Government in the early 1990s, when the end of the Cold War allowed concerns about governance to be raised. At the end of the 1990s, another revision seemed to be underway. One that puts more emphasis on social and environmental objectives and on the role of Governments in enhancing the functioning of markets and providing health care and education (Stiglitz, 1998). This revision received a new impetus with the financial crises that hit the world economy in the second half of the 1990s, particularly the Asian crises, which resulted in large increases in unemployment and poverty. Many have argued that policies recommended by the International Monetary Fund, such as steep interest rate increases and cuts in government expenditures, partly worsened the impact of the crises.

The convergence of opinions on economic reform policies, however, was never complete. Disagreements have continued over, *inter alia*, the proper speed, scope and sequencing of reform measures and the role of the State in development.¹¹ It still leaves “a series of major economic issues, most notably the tradeoff between efficiency and equity, to be determined by the outcome of the political process” (Williamson, 1993, p. 1329; see

9 For the evidence on the thesis that established democracies are less likely to fight wars with other states, see e.g. Evans (1994, p. 12); Gleditsch (1995); Leger Sivard (1991, pp. 18-19; 1993, pp. 22-23); and Mansfield and Snyder (1995).

10 To be more precise, policy reform supported by the Bretton Woods Institutions focused on: balancing the fiscal budget; getting the prices right (reflecting market conditions); liberalizing trade and foreign investment; privatizing state enterprises; and deregulating markets (United Nations, 1992).

11 There is a small group of economists who base their work on Keynes, Kalecki and Kaldor, among others, and argue that the main causalities in a capitalist economy are different than those assumed by neo-classical economists and they arrive therefore at different policy recommendations. One of the main dissenters is Lance Taylor (Taylor, 1991).

also United Nations, 1992; and United Nations, 1993c).

Regarding this trade-off, the balance has perhaps slightly shifted away from pure efficiency considerations. Since the end of the 1980s, the social costs and the political dimensions of adjustment have gained in prominence. UNICEF was one of the first to point out that during the period of adjustment more vulnerable segments in society have suffered the most (Cornia *et al.*, 1987). On the other hand, Sahn (1994) contended that reforms have not worsened preexisting levels of poverty, although they have also failed to alleviate it. Much has been written on this. Whether adjustment policies as supported by the Bretton Woods Institutions have actually worsened poverty conditions remains a matter of dispute, largely because measurement is complicated and the counterfactual is hard to establish.

More agreement exists about the fact that adjustment policies usually involve significant redistributions of incomes. Most authors agree that several of the typical adjustment policies that have been recommended have significant redistributive effects because they affect various groups differently (Killick, 1995). Some authors have argued that reforms in Africa have increased social polarization and that income differentials have widened as a small group has benefited from reforms and divisions within and between each social group have increased (workers, farmers, informal sector participants, business class) (Bangura, 1994). Adekanye (1995) added that “differential economic development acts either as a catalyst for, or an important exacerbator of, conflicts between ethnic or regional groups within a given state” (p. 366).

Economic reforms that enhance the role of markets and reduce the role of Governments also generally lead to higher income disparities. Liberalized and globalized markets (see next section) create enor-

mous opportunities. Some are able to grab these opportunities, others are not. Without implying a zero-sum game, some will gain, others will lose, at least relatively to each other. The winners are increasingly those who are educated, skilled and know how to use new technologies (*The Economist*, 1 October and 5 November 1994; Krugman, 1994). Markets, however, are merciless and will not compensate the losers. There might be a right to equal opportunity and reward for contribution but not to income nor to income equality (Okun, 1975). Market-based economic systems generate by their very nature more inequality than non-market-based systems because they offer large opportunities and reward differences in productivity whether based on assets, effort, skills, or natural abilities.¹²

Certain industries have suffered from trade liberalization but it has become increasingly difficult—for financial, legal or political reasons—for Governments to protect national industries against international competition, or to compensate for terms-of-trade losses and to maintain wages for that matter (Cornia, 1999; Ghai and Hewitt de Alcantara, 1994, pp. 5, 14, 25). The increasing importance of technology, reliance on market forces and international competition has contributed to inequality within and between countries.¹³ Several studies have, for example, pointed out that Africa—the poorest region in the world—is likely to lose and advanced countries likely to gain most from the completion of the Uruguay Round negotiations of international trade liberalization (Goldin, *et al.*, 1993; UNCTAD/UNDP/WIDER, 1990). In fact, there is evidence that income inequality has risen over the last two decades within and between countries (Atkinson, 1999; Cornia, 1999; Milanovic, 1999). Yet, while there might not be a right to compensation, there might be a right to survival, making extra-market (i.e. government) involvement in creating safety nets inevitable.

12 See, for example, Birdsall (1999).

13 Neo-classical economic theory suggests that knowledge and technology would be freely, publicly available (“manna from heaven”), that capital would flow from developed to developing countries because they would have higher returns and that labour would move from developing to developed countries because they would earn more. Production factors would flow until marginal productivities are equalized. This would contribute to convergence of productivity growth and eventually GDP per capita levels. One might argue that globalization of markets in the real world would facilitate this process. However, non-conventional theoretical and empirical research has pointed out that the convergence process is not automatic. Countries at the lowest end of the GDP-per-capita scale are generally at a disadvantage and have so far not been able to benefit. The capacity of the poorest countries to benefit from the opportunities to catch up, created by the globalization of markets and the relative backwardness of developing countries, are determined by a number of factors, such as the quality of infrastructure, educational attainment, skills level and technological capacity. This argument also pertains to inequality within countries.

The distributional effects of economic reforms are also fundamental for creating support for and credibility of government policies and this is easier in countries that have more equal distributions to start with (Rodrik, 1996). Yet, there is *ex ante* uncertainty about the magnitude of the costs and benefits of economic reforms and who the winners and losers are. This uncertainty can lead to a “war of attrition” and a postponement of policy implementation, as no agreement can be reached on the design of the policies. This is particularly the case when the losers have also more political power (e.g., the urban middle class). Hence, it is crucial to take into account the political feasibility and sustainability of the reforms during the design phase.

Even if it is increasingly acknowledged that socio-economic and political dimensions should be an integral part of adjustment programmes, the conditions attached to the loans from the international financial institutions have remained largely unchanged, as the rhetoric runs ahead of the reality.

With the end of the Cold War, the decline of disagreements over the basics of economic policy and an often unstable transition towards democracy, socio-political considerations of economic reforms have become more important because distributional conflicts over economic policy are much more likely to arise into the open. Superpowers are no longer fighting for geo-political influence and there are only a few dictators to suppress these kind of conflicts (Netherlands, 1993, pp. 32-33). Moreover, the consolidation of a democracy will depend on the manner the costs or benefits of economic reforms that are implemented concurrently with political reforms are distributed across different groups. These developments can be taken one step further: If certain economic policies cause or exacerbate conflicts, changing the policies might prevent them. This is probably worth every effort.

Globalization has increased vulnerability

One other trend, which started decades ago but has accelerated recently, is the globalization of the world economy. Markets of goods, services, capital, technology

and, to a lesser extent, of labour are increasingly integrated at a global level. Liberalization of foreign trade, of foreign investment policies and of financial markets—as recommended by the Bretton Woods Institutions—and technological developments have been the major driving forces behind this process. Telecommunication has allowed for instantaneous transfer of information, ideology, images and money and increased transportation capabilities move more goods and people quicker. The main actors using and exploiting this technology have been in the private sector, which is operating under market pressures.

An important consequence of globalization is the erosion of the nation state and its sovereignty and the increasing importance of non-state actors, such as transnational corporations and private financial institutions. This parallels the ideological shift toward a larger role of markets. With more open economies, the multitude of actors and the large sums of money they command, government policies are effectively constrained. International financial markets carefully watch the actions of Governments. Information is available instantaneously and money responds in seconds. The loss of confidence by financial market participants can quickly generate disastrous effects. This is even more pertinent when one recognizes that financial markets are subject to herd behaviour where each participant is less concerned about the merits of certain policies than about how other participants assess these policies. Psychological factors and self-fulfilling prophecies can easily generate a crisis (Eatwell, 1997). Indeed, in East Asia, the punishment was disproportionate to the crime. Some economic problems that required economic interventions had emerged but the depth and the severity of the crises that engulfed East Asia cannot be explained by economic fundamentals alone. Additional factors, such as a financial panic, are needed to account for the events of 1997 and 1998. In a way, these events show that globalization has increased the importance of government policies, not in the least in the regulation and supervision of financial markets, while its room for manoeuvring has declined. In East Asia, for example, liberalization of the capital account led to large capital inflows, but these flows were poorly monitored, supervised and regulated.

Globalization has increased economic uncertainty, instability, vulnerability and volatility in a number of economic variables. Prices, exchange rates, stock markets and portfolio investments react—and overreact—immediately to events (or non-events). These movements can have important effects on an economy in general and on poverty levels and the distribution of income and assets in particular (United Nations, 1999; World Bank, 1999). Globalization, increased competition, technological change and the increasing use of market forces have also transformed production processes. Production needs to respond quickly to consumer demands, requiring more flexibility, which has led to non-standard employment arrangements, such as outsourcing and part-time, temporary and home-based work. This also has made workers more vulnerable as employment and earnings fluctuate more and these forms of work are often associated with lower levels of social security coverage, worse job security and poorer working conditions (CDP, 1999).

While an economic crisis can be triggered by political events, in its turn, an economic crisis can lead to social unrest and political instability.¹⁴ The financial crises in the second half of the 1990s have driven this point home. The Mexican crisis that erupted at the end of 1994 can serve as an illustration. Two major assassinations, the uncertainty surrounding the election and the Chiapas uprising in early 1994, caused a slow down in capital inflows (which were mainly short term) during 1994. These inflows financed a large and widening trade deficit. Mexico was quickly losing reserves, and when a 13 per cent devaluation was finally announced in December 1994 to correct the imbalance, investors realized that reserves were insufficient to cover short-term obligations and quickly started pulling out money, causing further pressure on the peso and depletion of reserves. The peso was floated and lost 40 per cent of its value and the Mexican Government had to take severe austerity measures and raise interest rates dramatically.

In the end, the devaluation triggered high inflation, cutting into real wages and causing high unemployment. On the other hand, the end of the Suharto regime in Indonesia in May 1998 and a military coup in Ecuador in January 2000 were prompted by economic crises.

While globalization is taking place, there is a related trend towards localization. As economies and cultures become more global and homogeneous (a McDonald's on every major square in every major city in the world and Hollywood movies in every theatre), an urge for belonging and roots emerges. This is a basic psychological phenomenon that is similar to Freud's observation that the smaller the difference between two people the larger it was bound to loom in their imaginations, which he called the narcissism of minor differences. Or in the metaphors of Thomas Friedman's book *The Lexus and the Olive Tree*, as countries try to build better and faster products (such as Lexus cars) to join the global economy, people also try to cling tighter to their roots (the olive tree). But because there is an inherent conflict between these tendencies, the sense of belonging that comes with a national or regional cultural identity might not come automatically. This can give rise to nationalism and an emphasis of ethnicity, with the potential for violent conflicts when there is the impression that the identity is threatened. The more vulnerable and uncertain people feel as a result of economic changes, the more likely they are to search for the olive tree and voice discontent. Hobbes argued that no emotion is more likely to generate ethnic and religious hatred than fear (Ignatieff, 1993). Friedman, as well as economists such as Dani Rodrik, has therefore argued that globalization can only succeed if it is accompanied by safety nets. Or as Rodrik wrote: "it is not *whether* you globalise that matters, it is *how* you globalise. The world market is a source of disruption and upheaval as much as it is an opportunity for profit and economic growth. Without the complementarity institutions at home—in the areas of governance, judiciary, civil and political liberties, social insurance and of course education—one gets too much of the former and too little of the latter." (Rodrik, 1998, p. 156; his emphasis).

14 O'Kane (1993) argued and found some evidence in support of the conjecture that coups d'état in Africa were more likely in poorer countries with higher instability in their export revenues. Yet, Klugman (1999, p. 16) found that external economic shocks were not associated with complex humanitarian emergencies.

Economic factors behind civil strife

Socio-economic factors have frequently been important causes to violent conflicts in developing countries, despite the fact that they are often labelled ethnic wars. Many of these conflicts are caused by the unequal distribution of economic opportunities. This can be the result of outright discrimination such as under apartheid in South Africa. Other forms of socio-economic inequities are less explicit but also result from the unequal distribution of public jobs, licenses, contracts, taxation, subsidies, investments and services across different groups within a country. These inequities have caused many violent conflicts (see, e.g., Azam and Morrison, 1999). Bardhan (1997) argued that the most frequent case of separatism is from backward groups in backward regions. This is because the elite in these groups has most to gain through jobs and contracts from a newly independent Government. Bangladesh's fight for secession from Pakistan in 1971, for example, was incited by the unequal distribution of development expenditures by the Government between the eastern and the western parts while the eastern part earned most of the foreign exchange. Governments, of course, are not always the cause of socio-economic inequities, although they are often part of the solution. Many conflicts are in fact turf battles between different producers or traders, whether we talk about the cocaine wars in New York City in the late 1980s or the taxi wars in South Africa. These conflicts are more likely to become violent when inequities coincide with ethnicity (Bardhan, 1997). The ostensibly ethnic conflict in Rwanda was to a large extent about socio-economic inequities. In fact, ethnicity in Rwanda has been based on socio-economic criteria since the late nineteenth century. This was reinforced by Belgium—which administered Rwanda under League of Nations and United Nations mandates. Belgium favoured one ethnicity over the other, for example with regard to education and jobs, and started issuing identity cards in 1926, basing the ethnicity on the number of head of cattle owned.

Some have argued that natural resources are particularly likely to breed conflict for a number of reasons (Buckles, 1999). Firstly, natural resources are em-

bedded in ecosystems where actions by one group of people can have remote repercussions. Secondly, natural resources are associated with social and political power—while the causality can run in either direction (power can lead to access to natural resources or access to natural resources can enhance power). Thus, if those who have access to natural resources (mis)use the associated power to advance their goals (in political or economic terms), it can easily create resentment and violence. This is particularly the case if the natural resources are unequally distributed. Large landowners, for example, have had considerable influence over government policies, biasing subsidies, taxes, interventions in land, output, input and labour markets and the public provision of services, such as transportation, extension and research, against smallholders (Binswanger *et al.*, 1996). Thirdly, natural resources often define the identity of the people who use them for their livelihood. The identity of farmers, fishermen and loggers, for example, is determined by the use of natural resources. This is exacerbated if it coincides with ethnicity, as in Rwanda where Tutsis mostly hold cattle and Hutus till the land. Fourthly, most natural resources are nonreproduceable and therefore finite. If the demand for natural resources increases (e.g., as populations grow), they become scarcer and conflicts over them might increase. Yet, in several places it is less the scarcity and more the fight over access to the benefits of the still abundant natural resources that fuels violent conflicts. This is the case in, for example, Angola and Sierra Leone. Finally, because natural resources are immobile assets, they are an easy target for predation (as mobile assets would simply relocate) (Collier and Hoeffler, 2000, p. 4).

Conflicts over natural resources have caused wars for centuries and our times are no different. Several irredentist wars and demands for secession and several civil conflicts have been over natural resources and the unequal distribution of the benefits of these resources. SIPRI (1980, Table 8.2) listed a number of major civil conflicts in the twentieth century that concerned natural resources. Secession wars in Congo (1960-64) and Nigeria (1967-70) involved regions rich in natural resources while one of the reasons why France was reluctant to grant independence to Algeria

was its oil deposits. Similar concerns affected the attitude of the Netherlands towards the independence of Indonesia—Indonesia was regarded as the cork on which the Dutch economy floated.

Recent eruptions of civil strife in, for example, Ghana, Kenya, Nigeria and, as has been argued, in Rwanda, have involved agricultural land. The civil war in Angola is partly about the control of natural resources. Each side has access to some of the natural resources (oil and diamonds, respectively) and the revenues allow arms imports and the perpetuation of the conflict. At the same time, the area that produces most of Angola's oil—Cabinda—is staging a secession campaign, as are the mining areas of the Democratic Republic of the Congo. The eruption of the civil war in Yemen in May 1994 was also partly about newly discovered oil reserves (*The Economist*, 14 May 1994). In Ethiopia, Somalia and the Sudan livestock raids among different groups, often associated with scarce resources, such as pastures and water in time of drought, have been a fact of life for a long time and have been incorporated in their way of life (Turton, 1991).

Another example is a conflict in Nigeria. The Ogoni and Ijaw people live in a major oil-producing region but have seen few benefits from it. Implementation of laws regarding the allocation of fiscal revenues to the states has been rather erratic and prone to political pressure. Between 1982 and 1989, Ogoni state received its exact statutory allocation only in 1982 and 1983 and on average obtained 88 per cent of its entitlement (Ekpo, 1994). Roads, schools, health care facilities and infrastructure to deliver clean water and electricity are absent or in poor repair and the oil industry has polluted the environment. The Movement for the Survival of the Ogoni People (Mosop) has demanded that oil companies pay royalties and rent directly to the Ogonis. Protests have become increasingly violent over the last few years. The Shell oil company—the largest participant in the joint venture with the Government—reported 86 attacks on their oil installations in 1992 and 168 in 1993. And at one point in 1998, attacks forced oil production in the Niger

Delta—which accounts for nearly a third of the total—to be shut down. In 1992, the Government set up the Oil and Minerals Producing Areas Development Commission (Ompadec) to provide education, jobs and infrastructure and improve environmental standards. The results, however, have been disappointing. Partly as a consequence, oil companies have started to build schools and infrastructure and provide agricultural extension services.¹⁵ The interim Government announced in 1998 that Ompadec would be restructured to make it more responsive to the needs of the communities in the oil-producing areas.

The strictly economic analysis of wars argues that a country or group would start a war if the benefits were larger than the costs. Thus, if land, natural resources, or cattle can be seized with limited costs it is likely that it will occur (Hirshleifer, 1987). Looting by juvenile bands armed with AK 47s in countries like Liberia and Sierra Leone can be explained partly by the fact that these youths have little to lose and much to gain from rampaging as productive employment is nearly non-existent (Keen, 1998, p. 48). There are a number of factors that affects the costs and benefits. Higher levels of development may increase the spoils from war but certainly raise the costs in terms of material damage caused by war. Therefore, in developing countries, where the costs of war are usually lower than in developed countries, the likelihood of war is greater.

One can, for example, argue that economic development and the interdependence that accompanied it have contributed to the peace that has existed in nearly all of Western Europe since 1945. Complex interdependence, where actors on several levels—ranging from Governments, banks and multinational corporations to NGOs and sports clubs—have contacts across borders, have increased the costs of war tremendously, besides increasing the understanding between different peoples (see, e.g., Keohane and Nye, 1977). War will disrupt these layers of interaction. As a result of interdependence, conflicts (e.g. about economic issues) are less likely to be settled by military means (Mansfield and Pevehouse, 2000).

15 See Bangura (1994, pp. 803-804); the Nigeria Survey in *The Economist* of 21 August 1993; *The New York Times*, 9 September 1993 and 28 March 1994; *The Financial Times*, 26 January 1994, 7 June 1994 and 14 July 1994.

Even if the ultimate cause of a war is economic, there always is a political component because the decision to rebel usually involves groups. A mix of several factors plays a role. What determines group formation? How easy is it to organize a rebellion and to create and maintain cohesion and motivation? What is the probability of victory? What resources to fight can be mobilized? What are the resources of the defender? Is there foreign support that can be harnessed?

Paul Collier and associates have tried to model the likelihood of civil wars, incorporating economic and political factors. They argued that the gains from victory are related to the taxable capacity of the economy, proxied by the share of primary exports in GDP (but it is also related to GDP per capita). The tax revenues also determine the capacity of the Government to defend itself. Thus, the share of primary exports in GDP increases the gains from a rebellious victory, but also reduces the likelihood of winning a rebellion, making the net effect ambiguous. The costs of a rebellion are related to the opportunity costs of rebel labour and the economic damage caused by war. It is likely that these costs are positively correlated with GDP per capita.¹⁶ Geographical inequalities, giving rebels grounds to demand secession, are proxied by the total size of the population. Finally, the costs of coordination and mobilizing rebels are proxied by a variable called ethno-linguistic fractionalization, which ranges from zero (complete homogeneity) to 100 (maximum diversity). This variable is supposed to have a non-monotonic effect on the probability of war, as identity politics is hardest in a homogeneous population and in a society that is extremely diverse.¹⁷ The costs of coordination are also assumed to be related to the population size, as larger groups are harder to mobilize. Collier and Hoeffler (1998) estimated a probit model. The results are reproduced in Table 2. They show that GDP per capita and population are significant and have the expected sign. The ethnic diversity variables also have the expected signs but are not

significant (although they are in a tobit model of the duration of war). Moreover, the share of primary exports in GDP shows a non-monotonic shape. This indicates that an increase in the taxable base increases the risk of war (the gains of war apparently outweighs the capacity of the Government to fight the rebels), but that at higher levels the risk of war declines reflecting the increased capacity of the State to fight the insurrection.

In later work, Collier *et al.* (Collier, 1999c; Collier and Hoeffler, 1999b and 2000) attempted to determine whether wars are caused by greed or grievances, which they seem to equate with economic versus political factors. Collier and Hoeffler (2000) distinguished three objective grievances: inter-group hatred, political exclusion and vengeance. They measured these three grievances by ethno-linguistic fractionalization; democracy, ethnic dominance, income inequality and land inequality; and the period since the previous conflict, respectively. They concluded that “most of the proxies for objective grievance are insignificant [ethno-linguistic fractionalization, ethnic dominance, income inequality and land inequality] and the best-performing grievance model has very low explanatory power. By contrast, the simple greed model performs well.”¹⁸

This kind of research is in its infancy, with all its childhood diseases accompanying it. First of all, despite its intuitive appeal, a model like the one developed by Collier and Hoeffler (1998) is rather simplistic and plays down the complexities of conflict and the various factors that cause, trigger, perpetuate and stop conflict. In fact, the model accurately predicts only about half of the civil wars that actually occurred (14 out of 27; see Table 2). One could argue that the model in Collier and Hoeffler (2000) is somewhat more sophisticated as they analyse some interactions and feedback mechanisms between different kinds of factors.¹⁹ Yet, in their conclusion they over-simplify by stating that “opportunities for primary commodity predation

16 Collier and Hoeffler (2000) also use the gross male secondary school enrolment ratio as a measure of opportunity costs.

17 Yet, even a small (ethnic) group (in a highly fractionalized society) can create havoc, as the Maoist rebellion in Nepal attests. Collier and Hoeffler (2000, p. 11) seemed to acknowledge this fact as they “recall that rebellions seldom have more than 5,000 participants”. Even a relatively small, highly fractionalized society can easily yield dozens of rebel groups with 5,000 members.

18 Collier and Hoeffler (2000), however, compare erroneously the R^2 of two equations that have different dependent variables.

19 For example, they distinguish different factors that affect the start and the duration of a war (p. 15).

Table 2:
The probability of civil war

		Probit of occurrence	
		Coefficient	t-statistic
GDP per capita in 1960 (at PPPs)		-0.001	2.70
Share of primary exports in GDP in 1965		16.16	2.56
(Share of primary exports in GDP in 1965) ²		-29.47	2.28
Ethno-linguistic fractionalization in 1960		0.0329	1.35
(Ethno-linguistic fractionalization in 1960) ²		-0.0004	1.60
Population		0.0003	2.39
		Predicted	
		0	1
Actual	0	65	6
Actual	1	13	14

Source: Collier and Hoeffler (1998).

cause conflict, and that the grievances which this generates induce diasporas to finance further conflict.”

Secondly, concepts and causalities are rather vague, changing and sometimes contradictory, even among publications by the same author(s). For example, ethno-linguistic fractionalization should have a non-linear effect on wars according to Collier and Hoeffler (1998) but a linear effect in Collier and Hoeffler (2000), where it is used to distinguish between two competing explanations of war.²⁰ Moreover, the conceptual distinction between grievance and greed is rather muddled. How should, for example, a rebellion that aims at getting a larger share of the benefits from natural resources be considered? This distinction becomes even more problematic when one attempts to measure greed and griev-

ances. Why are, for example, average GDP per capita, GDP per capita growth and primary commodity exports as a ratio of GDP only proxies in the greed model and not in the grievance model? Low GDP per capita (despite natural resource richness) can be an important reason for a grievance rebellion. Why is income and land inequality used as a measure for political exclusion and not as a measure of economic grievance, or for greed for that matter? Indeed, tests showed that it is not possible to choose between the two models, “grievance adds explanatory power to the greed model and vice versa.” (p. 22). Moreover, why only take GDP per capita in 1960 and not at the time of the outbreak of war?

Finally, it is unfortunate that Collier *et al.* did not elaborate more on the effect of inequalities in their models and regressions. Collier and Hoeffler (1998), for example, excluded it, perhaps because in other (but later) papers income inequality was included and they did not find a significant effect (see, e.g., Collier and Hoeffler, 1999b; 2000). This is rather curious as political scientists have for a long time—in fact, going back to Aristotle—emphasized the importance of inequalities in causing political violence, for example in theories of relative deprivation and of distributive justice. Many have also tested the relevance of several measures of inequalities and often found them to be empirically significant (see, e.g., Gurr, 1968 and Midlarsky, 1988). The importance of inequalities was also confirmed by studies of complex humanitarian emergencies (Klugman, 1999; Nafziger *et al.*, 2000) and in several case studies of violence (see, e.g. Azam and Morrison, 1999; Goudie and Neyapti, 1999; Klugman *et al.*, 1999; and Nafziger *et al.*, 2000). In particular, horizontal political, economic or social inequality between groups, whether defined by region, ethnicity, class or religion, has been identified as one of the most important root causes of violent conflict

20 Collier and Hoeffler (2000, p. 8) argued that rebel armies that are induced by greed need to be ethnic homogeneous to build cohesion and that in more fractionalized societies the size of the recruitment pool is smaller. Why this effect only operates in rebels that are motivated by greed is not clear. Even grievance-induced rebellions need to maintain cohesion. On the other hand, on p. 12 they argued that grievance rebellions could be instigated by inter-ethnic or inter-religious hatred. They maintained that inter-group hatred could be monotonic or quadratic in social fractionalization, although they don’t investigate the possibility of a quadratic relation. Moreover, they conjectured that grievance rebellions are aborted protests. They argued that protests are able to change policies when they cascade as larger participation leads to a lower risk of punishment, fuelling higher participation. Yet, participation cascading is limited by fractionalization. Thus, fractionalization is an impetus to protests but an impediment to successful political change because it limits the number of participants. Based on the empirical results, they concluded on p. 26 “Strikingly, ethnic and religious fractionalization makes a society safer, as predicted by greed model, rather than more dangerous as predicted by the grievance model.”

(Nafziger *et al.*, 2000). We have argued here that disparities in income, assets, resources or access to public services or employment are important causes of civil strife, in particular when they coincide with perceived group identities and when mediating democratic institutions are not functioning well. The insignificance of income inequality²¹ in the studies of Collier *et al.* is probably a result of the fact that the proxies they use do not adequately reflect the interaction of inequities, ethnicity and democracy. In fact, common indicators of income inequality, such as the Gini coefficient, measure horizontal inequality (between groups) and not vertical inequality (between persons), and the two concepts sharply differ (Nafziger *et al.*, 2000), pp. 15-18).

Despite all their shortcomings, the efforts of Collier and associates should be commended for bringing socio-economic factors behind civil wars to the attention of economists and policy makers. (At the time of writing, Collier was at the World Bank.)

Prevention is better than cure

With the rise in the proportion of civil wars, it has become more important that economic policies are devised in such a way that a claim to, for example, ethnicity to fight certain economic reforms, conditions, or disparities, is pre-empted. “Ethnic entrepreneurs” should not be offered an opportunity to instigate ethnic rivalries and trigger war. Prevention not only saves lives, but is also less disruptive, cheaper and easier than curing. Once it has erupted, it is extremely difficult and costly to end a civil war by either military or political means. The difficulty of making peace in Somalia and Bosnia and Herzegovina and the cost of interventions and peacekeeping operations in these countries underlines this point.²² In fact, one study estimated that the seven major interventions of the 1990s, in Bosnia and Herzegovina, Cambodia, El Salvador, Haiti, the Persian Gulf, Somalia

and Rwanda (excluding Kosovo and East Timor), cost \$200 billion and a preventive approach could have saved \$130 billion (Carnegie Commission, 1997).

Once conflicts are open it creates path dependencies. Certain measures, which might have been possible otherwise, become impossible to implement in an unstable belligerent situation. Conflicts are likely to foster the development of specific alliances that call for revenge and enmity, which make dialogue, cooperation and compromise—often a necessity for political and economic reform—harder to reach. Violent conflicts not only lead to the destruction of physical capital and the killing of humans and their human capital, but also destroy social capital, i.e. the trust and social norms and values that allows people to cooperate with each other. While physical capital can be rebuilt, the re-formation of social capital is much harder (although the human capital of the dead can never be revived). Social capital that exists in a society across ethnic, income or regional lines can easily be destroyed by violent conflicts, but is very hard to rebuild. The identification with ethnicity, for example, is often created for the purpose of mobilizing a group and inciting a conflict (Bienen, 1990; Fearon and Laitin, 2000).²³ Objective attributes of ethnicity are seldom if ever sources of conflict. Frequently, it is only when objective, perceived or imagined attributes or privileges are attached to ethnicity that it becomes a trigger for conflict. “The ideology of identity politics is, of course, socially constructed, as historical memories are adapted and traditions are often ‘invented’” (Bardhan, 1997, p. 1388). Or as Ignatieff (1993) wrote “it is not how the past dictates to the present, but how the present manipulates the past which seems decisive in the Balkans.” As a result, ethnic tensions are usually a result of civil war rather than a cause.

Economic policy can play an important role in creating the conditions that will minimize the likeli-

21 Collier (1999c) and Collier and Hoeffler (1999b) do not mention what indicator they use for income inequality. Collier and Hoeffler (2000) used the gini coefficient or the ratio of the top quintile’s share of income to the bottom quintile’s share.

22 Each peacekeeping operation cost approximately \$1 billion per year at their height. It should, however, be noted that the cost of peacekeeping operations (which reached a high in 1994 at about \$3.3 billion) are negligible compared to global military expenditures. The United States alone spent 70 times as much in 1994. Global military expenditures were estimated at \$567 billion (1987 \$) in 1994 (Sivard Leger, 1996). See also Evans (1994) who made the same point.

23 On the theory of collective action, see Olson (1965) and Tilly (1978).

hood that identity politics will manipulate the past and that violent conflicts erupt. Yet, once conflicts are violent, the role of economic policy declines (although does not disappear) and measures in the political—or even military—realm come to the fore. In his *Agenda for Development*, the Secretary-General of the United Nations argued in favour of a global watch system and the establishment of the capability to avert crises through preventive development, as a complement to preventive diplomacy, which played a central role in his *Agenda for Peace* (Boutros-Ghali, 1995).

In countries, such as Algeria, Argentina, Brazil, Egypt, Mexico, Nigeria, Russia, South Africa and Venezuela, high levels of unemployment and other socio-economic disparities are posing a threat to the social fabric, are fuelling political instability and have been or are potentially explosive. Frequently, religion or ethnicity becomes a rallying ground while the root of the problem is socio-economic. Under these circumstances, job creation and the provision of social services is not only desirable for economic and social reasons, but is also imperative from a political point of view. An active role of the Government in these areas and in the reduction of disparities is needed and the distributional effects of economic reforms should play a major role in the design of reform programmes.

In Egypt, for example, Islamic organizations are providing a number of services, such as medical services and education, normally provided by, or with the assistance of, Governments. During the earthquake that hit Cairo in October 1992 there were disturbances due to discontent over the lack of assistance received from the Government while Islamic organizations were quicker in delivering aid to victims. The Government is keenly aware of this problem and the danger of increasing support for violent Islamic fundamentalists. Accordingly, it was quicker to provide assistance to the victims of the flood and fire of a fuel depot in November 1994, and is increasing its network of social services.²⁴

Other countries have also been successful along these lines. With the implementation of the New Economic Policy, Malaysia has reduced inequality of

wealth and income between ethnic groups (LSE, 1993; Samarasinghe and Coughlan, 1991; UNDP, 1994, pp. 44, 100). In South Africa, the freely elected Government embarked on a wide-ranging programme in 1994 to rectify the apartheid legacy and improve the living standards of the disadvantaged communities. The success of this programme is an important condition for political stability and a sustained reduction of violence. The major challenge is finding a balance between correcting the apartheid legacy and maintaining macroeconomic balances.

Simultaneous implementation of economic and political reforms requires a careful sequencing and distribution of costs and benefits to establish and maintain popular support for the reform measures, consolidate democracy and prevent open conflict.

In the case of privatization, preparing enterprises for this change or for their restructuring after their sale frequently has negative effects on employment, often exacerbating a poor employment situation. This can fuel social unrest and political instability. State-owned enterprises were set up or nationalized partly for ethnic, regional or equity reasons. Reluctance on part of the Government to privatize is, therefore, understandable. Moreover, affected groups, whether they feared loss of employment, income or control, have used their influence and power to oppose privatization. On the other hand, privatization has also aroused the opposition of the general public because of non-transparent procedures or because assets were sold at prices perceived as too low, creating resentment and the impression of favouritism or a sell-out to well-connected individuals. Consequently, many countries delayed privatization, took time to prepare it, started with small and easier to privatize firms to gain experience and proceeded slowly to spread the negative effects over time. Before implementation, safety nets and other programmes to assist victims of the retrenchment are required. They are especially needed in countries where urban living standards have fallen drastically, for example, as a result of inflation and the reduction in subsidies on consumption goods. Because formal unemployment compensation schemes hardly exist in the developing world, severance pay and public works have been used instead.

24 See, for example, *The New York Times*, 29 November 1994; *The Economist*, 12 November 1994; and Mary Anne Weaver, “The Novelist and the Sheikh” *The New Yorker*, 30 January 1995. A similar phenomenon is noted in Turkey (*The New York Times*, 30 November 1994).

This is not an argument against economic reform. On the contrary, active economic policy is needed to prevent socio-economic situations from turning violent. Any economic policy should carefully take account of its distributional effects. This is particularly the case when affected groups can be organized along ethnic, regional, or religious lines, because these common denominators are often exploited to stage an uprising, and when democratic political institutions that can channel these grievances are not functioning properly. Government expenditures, subsidies and taxation should be neutral and not favour one group over another. This can be monitored by assuring that, for example, school enrolment rates and the number of people per hospital or physician are similar across the country (Azam and Morrison, 1999, pp. 16, 178). This might be especially important for large countries where the possibilities for regional disparities – and secessionist movements – are large. Indeed, special attention needs to be given to regions where conflicts are latent, for example, by creating public employment schemes and training facilities.

Economists like to quantify, preferably in money terms. Objectives that cannot be quantified are sometimes quickly ignored. The loss of human lives cannot be put in money terms, despite several attempts; neither can the uncertainty of war or political instability—as Frank Knight showed long ago. Attaching a money value to deaths, displacement, discord, destruction and disruption defies all quantitative methods. This does not mean they are immaterial. Yet, as the Secretary-General indicates “[t]he costs of prevention have to be paid in the present, while its benefits lie in the distant future. In addition, the benefits are often not tangible: when prevention succeeds, little happens that is visible.” (United Nations, 2001, pp. 35-36). But because the potential benefits are huge, especially compared to the costs, the Secretary-General has “pledged to move the United Nations from a culture of reaction to a culture of prevention”, as highlighted in his report to the Security Council and the General Assembly (United Nations, 2001, p. 6). The report recommends that “[t]he primary focus of preventive action should be in addressing the deep-rooted socio-economic, cultural, environmental,

institutional, political and other structural causes that often underlie the immediate symptoms of conflicts” and that “preventive action should be initiated at the earliest possible stage of a conflict cycle in order to be most effective” (United Nations, 2001, p. 36). This surely implies that economic policy has an important role in preventing violent conflicts, even if the benefits are uncertain and can only be reaped far into the future.

This paper has not made a general, comprehensive attempt to formulate the kind of economic policies that can prevent civil war. This might not be possible. Tensions have different origins in different countries and the social, economic, political and institutional settings vary. Recommendations therefore have to be country-specific and are beyond the scope of this paper. The urgency to look at economic policies and programmes through a conflict prevention lens and conduct impact assessments, however, is hopefully established.²⁵

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