



## The Cost of Conflict and the Economics of Peace

Tuesday, July 13, 2010

### Speakers

**Gary Milante**

Research Economist, World Bank

**Raymond Gilpin**

Associate Vice President, Sustainable Economies Centers of Innovation, US Institute of Peace

### Moderator

**Zoë Coopridier**

US Project Manager, Institute for Economics & Peace

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### Forum Summary:

WASHINGTON, DC - The July **Conflict Prevention and Resolution Forum** (CPRF) was held at the Johns Hopkins University SAIS on July 13th, 2010. The event was attended by individuals from government agencies, think-tanks, non-profits and local universities. The CPRF is organized by the non-profit organization **Search for Common Ground**, and is co-sponsored by the **Alliance for Peacebuilding**, **American University**, **3D Security**, **Council on Foreign Relations**, **George Mason University**, **Johns Hopkins University**, **Partners for Democratic Change**, **United States Institute of Peace** and **Woodrow Wilson International Center for Scholars**.

### Gary Milante

*"What is the price of peace?"*

Gary Milante began his presentation by reminding forum participants about the discrepancies between statements in academia and the application of action in conflict environments. He then discussed direct and hidden costs to conflict and the particular importance of noting the hidden costs. Direct costs of conflict include interrupted economic production, human and physical capital flight, destruction from conflict and lost opportunities for growth.

The hidden costs of conflict incorporate the movement from formal to informal economies and the disaggregation of the productive activities from the protective and coercive activities. Informal markets, ranging from simple bartering and subsistence trade to the movement of illicit materials, are much larger in conflicted states and can constitute the bulk of the total economy. Informal economies are incredibly difficult to measure, which accounts for part of the range in the actual cost of conflict. During conflict,

protective and coercive activities like military expenditure are all part of the GDP and between four and eight times as much money is used in protective and coercive activities than productive activities.

Dr. Milante explained that these costs account for many of the countries that are lagging in the UNDP's Millennium Development Goals. He said that the issue is more than just the "Africa problem." "Lagging countries are fragile and conflict effected states." Constant political instability, civil wars and violence contribute to compounded costs of conflict and therefore, negative development.

Dr. Milante also cited three World Bank perspectives describing different types of conflict and the economics of violence: criminal violence, interpersonal violence, and civil war violence. These are all kinds of violence that have an effect on development and, inversely, whose cessation can positively affect conflicted countries' economies.

However, there are many challenges involved in turning costs into motivations for peace. There is a huge survivor bias in all these measures of conflict and we are limited to what is measurable. Furthermore, costs are not borne by people who make decisions in a conflicted state, compounding the difficulty in preventing policy makers from prosecuting war. High volatility and economic ranges create difficulties in measure of how much peace is worth in a specific area as well.

### **Raymond Gilpin**

*"Costs are bewildering"*

Mr. Gilpin discussed the classifications of cost accounting – accounting, modeling and contingent. Simple accounting finds the actual cost, both direct and indirect, of prosecuting a war, including the cost of destroyed infrastructure and reconstruction. Modeling calculates the costs of conflict by comparing what an economy would likely have realized sans conflict and the economic results of the actual conflicted situation, with the resulting difference between the two as the cost of conflict. The contingency theory asks what people are willing to pay for peace. In calculation, contingency delves deeply into the causes, channels and linkages, winners and losers of a conflict.

Within the winner-loser issue, we look at people who control business during war, including opportunistic businesses, rent-seeking actors and new elites. Those benefiting from conflict compare the benefits of short term risk versus long term stability as well as private gain versus public good in a society. Typically, they make decisions benefitting themselves, not the public good. Furthermore, those who prosecute the war are not the worst victims and are often beneficiaries and therefore do not have motivation for peacebuilding. There are challenges in peace mediation and reconstruction, while "political

accommodations make it difficult for positive actors in an economy to become more involved in economic activity as opposed to the militia or political elite”.

Dr. Gilpin explained the importance of non-state actors in global violence. These groups or individuals “subvert official channels, which may or may not have been corrupted pre-war.” As a result, they become the de facto economy. Unfortunately, these actors are making economic decisions based on the fact that they have a monopoly of force rather than market incentives. The fragmentation of the economy and creation of violent or monopolistic structures adds to the cost of conflict, but it can also create entrenched structures which makes it more difficult to return to normalcy post-conflict. For example, in the Democratic Republic of Congo, the challenge is how to motivate new players and dismantle unproductive structures, rather than measuring how much money is needed to inject into the economy. The local economy needs to become “more sensitive to price incentives rather than coercion and violence”

For the future, Gilpin suggests more research to understand the dynamics of conflict-affected countries, particularly in terms of the motivations of the actors involved and our ability to gather hard or at least more accurate data. Conflict affected countries are likely to relapse at worst and suffer lagging economic growth at best, and we need to find more constructive approaches to address these issues. In post-conflict societies, there is a tendency to maintain some linkage with the conflict economy, for example militia who have transformed themselves into “politicians” during the peace process are a common problem that can hold back economic growth or cause violent relapses. Gaps in estimation techniques, shaky data on actual costs, poor information flows and inadequate explanations of acquired data all contribute to the immediate need for further research and understanding to help in ameliorating conflict and post-conflict economies.

### **Zoë Coopriider**

Ms. Coopriider summarized the panelists’ comments and clarified the importance of linkages and calculating costs of violence and relating it to development challenges. She also specified the challenges in calculating costs in relation to the survivor bias. Ms. Coopriider identified the importance of understanding the dynamics of a conflict economy, as well as the challenges of transposing data from one context to another.

Coopriider concluded the forum with a question and answer session, where panelists and attendees discussed a variety of concepts including economic incentives of conflict, control of resources, formal versus informal economies and multinational business investment. Mr. Gilpin described a 1:1 ratio between strategic natural resources and intractable conflicts, inferring the violent competition for the

control of resources and the proceeds of their sale. Furthermore, more than two discernable markets could identify a transition phase, an indicator that something is wrong. These economic incentives for conflict create more challenges in preventative strategy.

In looking toward the future, the panelists identified some positive strategies to continue implementing, including emphasis on human rights abuses, like rape, rather than raw statistical monetary and human costs. Understanding the significantly lower cost of assisting countries in a moment of crisis compared to rebuilding post-conflict is valuable promoting preventative measures. Mr. Gilpin also identified the importance of strong institutions to address problems. Mr. Milante pointed out the similarity in conflict costs in both developing and developed countries, proving the cost of conflict is a global and relatable problem.