Economics and Peacebuilding: A Crucial Connection

Spring 2015 Insights Newsletter

Economics and Peacebuilding programs and interventions represent a growing part of the United States' stability operations and foreign aid policy. Half of all U.S. Agency for International Development funds flow to fragile and conflict-affected states.[1] With the growing number of conflict and humanitarian situations in the world and the shift away from "boots-on-the-ground" interventions, nonkinetic interventions such as economic programs will play an even larger role in U.S. foreign policy.

Yet the effects of economic interventions on violence and stability outcomes are largely unknown. The 2011 World Development Report, for example, states that the link between unemployment and violence is unclear and concludes that further research is needed. Broadly, how do economic interventions affect violence and stability? What mechanisms are involved? How does context matter? Which interventions are most cost-effective? Under what conditions might economic activity increase violence in a region? When should certain interventions be avoided altogether?

Grasping the Field

As a growing field of theory and practice Economics and Peacebuilding explores the relationship between development, stabilization and violent conflict, and the application of that knowledge to government policy. It draws from the fields of political science, economics, sociology, international development, and criminology, to name a few, making it a sometimes unwieldy issue area to examine as a whole. It is much easier to grasp what Economics and Peacebuilding is by looking at the programs and interventions that it informs.

In their Evidence for Peacebuilding evidence gap map (EGM), 3ie identifies five intervention types dealing with Economic Foundations: (1) employment training, (2) jobs and cash transfers, (3) land reform, (4) resource management, and (5) combatant reintegration.[2] 3ie then systematically identifies evaluations of how these interventions affect fourteen different outcomes, related to peacebuilding. The economic interventions have been evaluated on eleven of the outcomes, including individual economic outcomes but also individual beliefs, public confidence, and intergroup conflict.

Community-driven development and reconstruction (CDD/R) is an intervention type that the EGM classifies under Revenue and Social Services. In CDD/R, resources are given to a community to decide independently what development project to put the resources towards.

The EGM identifies evaluations examining how CDD/R programs affect twelve of the fourteen outcomes.

Due to its wide breadth, Economics and Peacebuilding has developed as a collection of subfields based on questions. These question focus either on identifying the outcomes of a certain intervention—What are the effects of a CDD/R project?—or on identifying the interventions that affect a certain outcome—What economic interventions decrease support for armed violence? This division of the field is necessary to create manageable questions. The division also acknowledges that every peacebuilding situation is different and will have different outcomes that need to be addressed.

To move this field forward, we must continue building our body of knowledge. As the EGM shows, there are many areas where there are zero evaluations and many more where there are not enough evaluations to have confidence in intervention effectiveness. Even when we do have a large collection of evaluations, there is the additional challenge of determining what mechanism is at play.

In this article we describe the conflicting mechanisms that connect economic interventions to the outcomes that USIP is mandated to fulfill in the field of peace and security. We then examine foreign aid and its effects in light of these mechanisms and discuss recent research on the way foreign aid can harm in certain contexts. We conclude by highlighting the growing community-of-practice around economics and peacebuilding; some of its key members have graciously contributed to make this a dynamic and crosscutting edition of Insights!

Economic Mechanisms of Peace

The 2011 World Development Report counts a billion and a half people living in countries affected by fragility, conflict, or violence. In such countries, economic development is impeded by the destruction of human and physical capital and by the reticence of investors to put their money at risk. As Douglass North and his colleagues have put it, by limiting economic activity, “the shadow of violence” threatens human welfare in many parts of the world.[3]It is no coincidence that the world’s poorest countries are often among those that suffer from recurring civil conflicts.

Indeed, poverty and conflict can, in the words of development economist Paul Collier, create a “trap” from which countries struggle to escape. Poverty feeds conflict, and conflict feeds poverty. Understanding and attacking the roots of violence in a given country, which may have become deeply embedded over time, is a complex exercise that even those with deep local knowledge can find intimidating if not overwhelming.

Foreign powers that intervene in local conflicts often seek, in the first instance, to end the fighting and restore “stability.” That usually translates into supporting the government in its campaign against rebels or insurgents. Since both the government and insurgents compete to win the allegiance of the local population, or what is commonly known as an effort to “win hearts and minds,” the population finds itself in a position to bargain with or play off the two sides. Berman, Shapiro, and Felter explore these dynamics with a model where civilians choose whether or not to provide intelligence regarding insurgent activity to a government which provides them goods and services.[4] If civilians play this information game, the government is better able to pursue and defeat the rebels. That decision, of course, rests on how the population views the insurgent and government forces: Under which one are they better off?

This simple model clarifies how economic instruments have come to loom large in such counterinsurgency campaigns as those waged in Afghanistan and Iraq, and earlier in Vietnam. While these economic interventions may be inspired by deeply felt humanitarian concerns, they also serve a counterinsurgency function for government forces that seek information from local populations. As we will see in the following, economic instruments can be used to buy off rebels or those who might be tempted to join an insurgency given the promise of monetary gain. Yet the crucial question remains: To what extent and under what conditions do economic instruments serve to reduce violence and assist in the process of conflict mitigation and postconflict reconstruction?

At least two different mechanisms could predict a negative correlation between economic activity and rebel violence, while two others could predict a positive correlation. First, the "opportunity cost" mechanism posits that providing actual or potential rebels with better economic alternatives (i.e., steady employment) increases their cost of participation in an insurgency, and in so doing reduces violence.[5] Second, the "gratitude" mechanism suggests that civilians will be grateful to the government for increased local investment in goods and services and thus withdraw support for the insurgency as a reward.[6]

Conversely, one can also sketch economic measures that lead to more violence. First, the "predation" model posits that investment and big development projects present extortion opportunities for insurgents which induce violent exploitation.[7]Second, the "tax capture" mechanism implies that a government will increase its use of coercive force in order to collect taxes as investment rises.[8] In short, as economic activity in a region increases, governments become more motivated to seize control over the contested space.

This theory seems consistent with much of the economic history of nationbuilding. As territories became more valuable to states, governments have deployed greater force to win control over them. It should be emphasized that over the short run a country may experience greater violence, while over the long run more robust economic growth, as the government exercises its monopoly control over violence in particular regions (of course, governments could also adopt growth-killing policies, and in fact many have done so over the centuries, as North et al. emphasize).[9]

These conflicting mechanisms point to the overarching importance of a political economy of conflict, of the need for a deep understanding of the forces that are driving both government and insurgent policies. Where governments are viewed as mere rent seekers with little interest in the delivery of public goods, then economic projects are unlikely to provide the basis for sustainable growth. Analyzing the actions of investors in conflict zones might provide insights into how they judge local power struggles and the possibilities for long-run stability.

The Role of Foreign Aid

What are the implications of this line of analysis for foreign aid donors? Clearly, policymakers in donor countries have tended to view foreign aid as supportive of stabilization missions in conflict-affected regions. Aid funds can support military operations directly by funding security forces, or indirectly by relaxing government budget constraints, enabling greater spending on defense and police activities. Aid funds can also be used to increase social welfare through the building of schools, hospitals, infrastructure, and other public goods. However, foreign aid can also target the members of an insurgency, again either directly or indirectly. As already noted, jobs programs, for example, can increase the "opportunity cost" of participating in a rebellion, making it more difficult to recruit insurgents. The provision of public goods may also make a population more willing to divulge information about local insurgency operations, again as suggested in the BSF model.

But despite this potential to contribute to conflict mitigation, some recent economics papers suggest that foreign aid might also lead to an increase in violence. For example, Nathan Nunn of Harvard and Nancy Qian of Yale find that the provision of U.S. food aid increases both the likelihood and the duration of civil conflict.[10]Along these lines, earlier studies argued that foreign aid to Biafra during its war with Nigeria prolonged that struggle, causing many thousands of additional deaths.[11] Turning to the Philippines, Benjamin Crost, Joseph Felter, and Patrick Johnston, in their paper *Aid Under Fire: Development Projects and Civil Conflict*, find that a World Bank-funded aid program in that country increased the number of casualties where it was delivered, owing to rebel efforts to extract rents from such projects.[12] These findings raise troubling questions for policymakers in donor nations. While foreign aid undoubtedly has the capacity to do some good in conflict-affected regions, it may also increase violence in such places. Much greater thought needs to be given to the design and delivery of aid programs. For example, BSF argue that smaller projects are much less likely to be targets for predation then, say, big infrastructure programs. In conflict zones, small may be beautiful when it comes to foreign aid.

The Role of USIP

Clausewitz famously said that "war is politics by other means." He might have added that "war is economics by other means" as well. As Jack Hirshleifer argued many years ago, a fundamental choice that economic agents must make is whether to engage in productive or predatory activity.[13] Sadly, many of the wars and conflicts scattered around the developing world are about who gets to predate on whom. Because these conflicts have the potential to create widespread suffering and dislocation at home and abroad, the international community often feels compelled to intervene in some capacity either with or without "boots on the ground." But which interventions are most likely to reduce conflict, and under what conditions?

These are key questions for which our evidence-base remains weak. It is this evidentiary and policy void which preoccupies USIP's Center for Applied Research on Conflict (ARC) broadly. ARC is especially focused on economic interventions through its Economics and Peacebuilding Program (EPP). By promoting cutting-edge, policy-relevant research on the role of development assistance among other "nonkinetic" instruments, EPP/ARC hopes to contribute to evidence-based policymaking, particularly at a time when these instruments are likely to become more prominent as the appetite for direct military intervention wanes. The

EPP also works with the growing academic consortia, such as the Empirical Studies of Conflict Project and international development organizations such as Mercy Corps, to sponsor and promote relevant research to policymakers and practitioners.

All of these efforts depend on agencies of the U.S. and other governments to gather and make available high quality data on various policy interventions in fragile and conflict-affected regions, along with better data on patterns of violent activity. Only in this way can the research community contribute to more effective policymaking. With billions of dollars at stake, and with the lives of so many soldiers and civilians at risk, the need for evidence-based policymaking is greater than ever.

The rest of this issue looks closer at a variety of economic and peacebuilding programs. Laura Ralston looks at the World Bank's job creation programs and reviews the evidence that connects those programs to stability outcomes. In our Peace Arena, Benjamin Crost and Robert Wrobel debate the impact of community driven development programs and highlight the challenges of research and evaluation. Beza Tesfaye and William Byrd give their views from the field adopting two very different vantage points. Tesfaye starts with the micro-level costs of Nigeria's conflict and how they add up at the macro level, whereas Byrd starts at the macro-level with international funding for Afghanistan reconstruction and how it shapes micro-level activity.

1. Data at: www.usaid.gov/results-and-data/ budget-spending; accessed August 11, 2014.
2. Drew Cameron et al., "Evidence for Peacebuilding, An Evidence Gap Map." April 2015. Accessed May 8, 2015, www.3ieimpact. org/en/publications/3ie-evidence-gap-map-report-series/3ie-evidence-gap-map-report-1/.
3. Douglass North et al., *In the Shadow of Violence: Politics, Economics, and the Problems of Development* (New York: Cambridge University Press, 2013).
4. Eli Berman, Jacob N. Shapiro, and Joseph H. Felter, "Can Hearts and Minds Be Bought? The Economics of Counterinsurgency in Iraq," *Journal of Political Economy* 119, no. 4 (August 2011): 766–819.
5. Radha Iyengar, Jonathan Monten, and Matthew Hanson, "Building Peace: The Impact of Aid on the Labor Market for Insurgents," NBER Working Paper no. 17297, August 2011.
6. David Kilcullen, *Counterinsurgency* (New York: Oxford University Press, 2010).
7. Herschel Grossman, "Rival Kleptocrats: The Mafia vs. the State." Brown University Working Paper, 1993.
8. James Fearon, "Why Do Some Civil Wars Last So Much Longer Than Others?," *Journal of Peace Research* 41, no. 3 (May 2004): 275–301.
9. North et. al., *Shadow of Violence*.
10. Nathan Nunn and Nancy Qian, "U.S. Food Aid and Civil Conflict," *American Economic Review* 104, no. 6 (June 2014):1630–66.
11. Phillip Gourevitch, "Alms Dealers," *The New Yorker*, October 11, 2010.
12. Benjamin Crost, Joseph Felter, and Patrick Johnston, "Aid Under Fire: Development Projects and Civil Conflict," *American Economic Review* 104, no. 6 (June 2014): 1833–56.

13. Jack Hirshleifer, *The Dark Side of the Force: Economic Foundations of Conflict Theory* (New York: Cambridge University Press, 2001).