

Conflict and Development

Introduction

The EDI research program produced a number of path findings papers, reviewing the existing literature linking institutions and development in particular domains, to identify evidence gaps and to frame policy relevant research questions to be studied during the remaining period of EDI program.

The paper “Conflict and Development”, by Debraj Ray and Joan Esteban, focuses on the links between economic development and social conflict. Social conflict should be here understood as unrest internal to a country, ranging from peaceful protestation to open violence.

What today’s violence shows is that perceived inequalities are an obstacle to peace and civility. The authors consider that high on the list of perceived inequities are economic considerations. While acknowledging that such economic determinism perhaps is too narrow, they argue that through the economic analysis, and more precisely by asking who benefits from the situation, we can get very useful insight into the origins of conflict being economic or not. Following this approach, the paper critically examines three common perceptions: (i) that conflict declines with ongoing economic growth; (ii) that conflict is principally organized along economic differences rather than similarities; and (iii) that conflict, especially in developing countries, is driven by ethnic motives.

This policy brief first provides a general overview of the Ray and Esteban’s discussion of each of the perceptions above and highlights the potential policy relevance of the type of themes they address. Furthermore, the authors present this paper in [this](#) video.

Economic Development and Institutions

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Institutions matter for growth and inclusive development, but there is little evidence on how positive institutional change can be achieved.

The Economic Development and Institutions (EDI) research programme will fill this knowledge gap, and take an innovative approach to ensuring world-class research is translated into positive policy change.

One unique aspect of this programme is its focus on policy engagement.

The research team will seek to reflect policy ‘demand’ when defining research questions and engage key decision-makers throughout the course of the programme. This will involve listening to the challenges encountered by in-country policymakers and looking out for opportunities to engage with and support ongoing reform processes.

Three key questions

1. “Does economic growth dampen violence, or provoke it?”

The perception that conflict declines with *per capita* income appears and reappears in the literature¹. However, if one accepts the correlation between income and conflict, its interpretation nevertheless remains fraught with difficulties. Two considerations should be taken into account: *Opportunity cost*² and *Weak institutions*.³

- *Opportunity cost*: when a society is poor, the opportunity cost of engaging in conflict is lower, as productive work, the alternative to conflict-related activity, is less rewarding. Although this argument could seem reasonable at first sight, it is not adequate to explain the correlation between income and conflict. In a poorer society not only are the opportunity costs of conflict lower, but so are the potential gains from conflict: there is less to seize. One must therefore consider the opportunity costs of conflict *in relation to* the potential gains. Movements in the level of *per capita* income do not affect this relative magnitude, it is therefore not a relevant measure to study the link between conflict and growth.
- *Weak institutions*: States in poor societies succumb more easily to open conflict as they are ill-equipped to handle demands and pressures of conflicting groups. The effect of a weak State on the likelihood of conflict must balance two forces acting in opposite directions: while it is easier to confront weaker States, there is less to earn from the confrontation. In this regard, state capacity (the ability of a government to effectively administer its territory) certainly matters to the occurrence of conflict.

The authors focus in particular on the opportunity cost argument applied to societies that experience uneven growth. Based on their model, growth gives rise to two kinds of change: one that creates a larger pot to fight over and therefore heightens conflict; and one that raises the opportunity cost of conflict and therefore lowers conflict. In this context the authors consider that an uneven growth across sectors or groups will be positively correlated with conflict, while a more balanced growth tends to be negatively related to social tensions.

2. “Is the main form of economic violence between the haves and the have-nots?”

Class-conflicts is the main focus of traditional literature on crisis and revolution. Recently movements such as *Occupy* have re-highlighted awareness of economic differences and their connections with social unrest. The traditional view of conflict is that it is driven by large inequalities in income and wealth.

Ray and Esteban explain however that empirical support for this assertion is mixed⁴ and while the relationship between inequalities and social tension can be easily observed, its specific structure is still unclear.

They also underline that conflict can emerge between similar people, when limited resources are shared unequally. The immigrant-native schism, or land-grab for instance, can be factors of division

¹ Examples mentioned are, among others, Collier and Hoeffler (1998, 2004), Fearon and Laitin (2003a).

² See Collier and Hoeffler (1998, 2004), Becker (1968), Ehrlich (1973, Skaperdas (1992), Hirshleifer (1995), Grossman and Kim (1995), Dal Bo and Dal Bo (2011), and Miguel, Satyanath and Sergenti (2004).

³ See notably Fearon and Laitin (2003a).

⁴ See for instance Lichback (1989) who mentions forty-three papers on the subject and concludes that the overall evidence obtained is very mixed.

between people with similar economic characteristics fighting for the same resources. Ray and Esteban consider this to be a first-order consideration in developing countries. The Rwandan conflict is a leading example in this respect, with ethnic violence breaking out on a background of economic desperation. Another example they refer to concerns the different waves of Hindu-Muslim violence studied by Mitra and Ray (2014), who demonstrate a clear pattern: conflict significantly increases with Muslim per capita income, and decreases with Hindu income. Non-class conflict is then the outcome, and ethnicity a convenient marker for categorizing individuals. From this point of view, **change in relative income between two similar groups is more relevant to explain conflict than overall inequality**. In this sense, conflict might also be an outcome of improvement, not impoverishment.

3. “Is ethnic division potential driver of conflict?”

According to the literature, conflict appears to be largely ethnic, geographical and religious in nature. However, if we look hard enough, overlying all these categories, we can find a battle for resources or economic gains: oil, land, business opportunities, or political power (and political power is, in the end, a question of control over economic resources).

The authors underline in this respect the importance of understanding why an ethnic division often acquires salience over an economic division. They also highlight a number of non-class markers in conflict, as well as the interaction between economic and ethnic characteristics.

- First, economic demarcation across classes is a two-edged sword: poverty breeds resentment, but it also denies the have-nots the means to successful insurrection. Effective confrontation requires organization and financing, which requires a commitment to class struggle by a socially-aware sub-segment of the wealthy, which is rare.
- Second, in conflicts across groups not demarcated by pure economic considerations, each group will be split into rich members, who supply the resources for the conflict, and poor members who provide conflict labour. Authors note that since effective activism requires both labour and finance, individuals will prefer to form alliances based on ethnicity rather than class. This implies that ethnic groups with a high degree of within group inequality will be more effective in conflict.
- Third, the possibility of conflict across ethnic lines presumes that there is reason for the existence of conflict across groups to begin with. There are two broad views on the ethnicity-conflict nexus: (i) ancestral and irreconcilable ethnic differences; and (ii) “instrumental” ethnicity as a strategic basis for coalitions that seek a larger share of economic or political power.
- Fourth, it is worth taking note that political institutions in developing countries may not be adequate to solve competing claims between their main social groups. Developing countries were born from a process of decolonization, leaving newly-born governments vulnerable to a host of competing claims. Post-colonial societies inherited certain institutions – progressive taxation, land reform, public provision of education or health care – that were designed to temper class conflict but which were certainly less equipped to make transfers across ethnic groups. And as the divisions in newly-born countries are often ethnic, and as class-sensitive arrangements are not adapted to this ethnical context, these countries are more prone to conflictual challenges on ethnic lines. Hence the need for economic policy in developing countries to adapt to the local realities of ethnicity, religion, or caste.

Elements of policy relevance

This paper mainly observe that the direction of the correlation between conflict and growth depends on the *nature* of growth and its repartition across groups, that limited resources and uneven distribution of wealth can create conflict between similar people, that conflict usually stems from competition over economic resources, rather than from other cultural, ethnical or religious considerations (e.g. pure ethnic differences per se have little to do with ethnic conflict), and finally that countries with weak state capacity due to civil war are less able to administrate their territory and confront social unrest, hence less able to generate growth.

While these observations have some policy implications, concrete policy actions are context dependent and must be carefully implemented on the ground not to generate additional sources of social unrest. Policy makers should be aware that conflict might be an outcome of improvement and not necessarily of impoverishment, because what matters is the change in relative income status of two similar groups. Economic policy in developing countries need to adapt to the realities of non-economic markers such as ethnicity, religion or caste, rather than being focussed on class per se. Given that income inequality is closely attached to ethnic identity and given the general difficulty of observing individual incomes, individual income often is an inadequate basis for policy. Policy should take into account how transfers are made across ethnic groups so as to avoid increasing inequalities. In sum, policy should enable State institutions to administer its territory so as to effectively confront future uprisings, and generate growth.

It is interesting to note that this kind of questioning meets the actual concerns of policy makers, as illustrated for instance by a 2010 DFID paper *"Building Peaceful States and Societies"*, which calls for attention to inclusive political settlements, considering that exclusionary settlements tend to lead to instability. For settlements to be inclusive it is necessary to identify which actors to empower, when and how. The UK Approach to Stabilisation (2014) also stresses the importance of inclusive political settlements to strengthen state legitimacy and ensure durability of the agreement. It underlines that political settlements should be flexible, capable of adapting to public expectations.

Key policy relevant messages

- Conflict could be an outcome of improvement and not necessarily of impoverishment, because what matters is the change in relative income status of two similar groups. Beyond per capita growth, policies should take into account the nature of the growth and how it is distributed across groups.
- Battle for resources and economic gain usually is the underlying origin of a conflict. Dealing with apparent ethnic or religious conflicts might be a matter of dealing with the economic inequalities at stake, rather than trying to address the ethnicity markers.
- Individual income often is an inadequate basis for policy design. Policy should take into account how transfers are made across ethnic groups so as to avoid increasing groups' inequalities and hence potential sources of conflict.
- State institutions' capacity needs to be increased to effectively confront (future) uprisings, in order to generate growth.

References and further readings

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