

NATIONAL DEFENSE AND SECURITY ECONOMICS

The Economics of Armed Conflicts

Economics Of Armdded Conflicts

Content of Topics

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THE ECONOMICS OF ARMED CONFLICTS

INTRODUCTION

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Introduction

- **Main Objective of these lecture** is point out and explain economic impact of armed conflict with accent on its cost side.
- **As partial aims of this lecture**, we can see:
 - Demarcation of separate categories of armed conflict with accent on its expenses effects;
 - Characterisation of economic and methodological Framework of different forms of armed conflicts research;
 - On general level ,realization of cost-benefit analysis armed conflict and
 - Familiarizing with common algorithm of potential impact armed conflict calculation process.

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Introduction

- **Armed conflicts are costly. Estimating the costs of armed conflicts** is one of the contributions which economists can make to the overall assessment of any country involvement in a military conflict.
- The final decision will reflect complex military and political judgements and will be further influenced by legal and ethical issues. Nonetheless, there are no 'free lunches.'
- **War involves the use of scarce resources** which have **alternative uses**, especially for social welfare programmes (eg. schools; hospitals; care for the elderly).
- The scale of any country involvement in armed conflict will **reflect its ability and willingness to pay the price of such a conflict.**

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DEFINITION AND TYPOLOGY OF ARMED CONFLICT



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Definition and Typology of Armed Conflict

An **armed conflict** is a **contested incompatibility** which concerns **government** and/or **territory** where the use of **armed force** between two **parties**, of which at least one is the government of a state, results in at least 25 battle-related deaths.

The separate elements of the definition are operationalized as follows:

Use of armed force

Number of deaths

Party

State

Incompatibility concerning government and/or territory

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Definition and Typology of Armed Conflict

For **classification of armed conflict** we can use following criteria:

☐ **Area**

- Local conflict
- Regional conflict
- Global conflict

☐ **Time**

- Short conflict
- Lengthy conflict

☐ **Intensity**

- Limited conflict
- Total conflict

☐ **Methods**

- Regular conflict
- Irregular conflict

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Definition and Typology of Armed Conflict

For **classification of armed conflict** we can use following criterions:

☐ **Extent of loss**

- Small armed conflict (25 losses during year and 1000 casualties on the whole)
- Medium armed conflict (from 25 to 1000 casualties per year and 1000 casualties on the whole)
- War (more than 1000 casualties in every year of conflicts)

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BASIC PROBLEM CONNECTED WITH ECONOMIC ASPECTS OF ARMED CONFLICT

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Basic Problems Connected With Economic Aspects Of Armed Conflict

- Wars and conflict are **unpredictable**
- Wars and armed conflict are **expensive**
- Wars and conflicts are **uncomfortable**

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Basic Problems Connected With Economic Aspects Of Armed Conflict

Wars and conflict are unpredictable

The causes of their outbreaks are often hidden for common man. But in fact, only **two main reasons** exist.

Two main reasons exist:

- **Firstly**, it is a desire of the profit.
- **Secondly**, it is a desire of the domination and hegemony.

In first time this reasons were described by Arthur Cecil Pigou in the beginning last century.

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Basic Problems Connected With Economic Aspects Of Armed Conflict

Wars and armed conflict are expensive

The costs of wars and armed conflicts are tremendous. We can show the following evidence.

- **The WWII** cost about 2896,3 billion in today's dollars.
- **The Korean war** cost about 335,9 billion in today's dollars.
- **The Vietnam war** cost between 1.5% and 2% of GDP each year during the eight years of major American commitment, or about \$600 billion in today's dollars.
- **The liberation of Kuwait** in 1991 cost the equivalent, of 1% of the GDP of the time, or about \$80 billion in today's dollars.
- **The Iraq conflict** has cost till now about \$707 billion dollars.
- **The Afghanistan** conflict has cost till now about \$233 billion dollars.

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Basic Problems Connected With Economic Aspects Of Armed Conflict

Wars and Conflicts are Uncomfortable

Evidence exists:

- **Firstly**, there is a consumption of scarce resources.
- **Secondly**, the final costs of conflicts are unknown and any estimates are too inaccurate.
- **Thirdly**, conflict costs finding is process of estimates.

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AN ECONOMIC FRAMEWORK FOR EVALUATING CONFLICT



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An Economic Framework for Evaluating Conflict

Economists assess conflict in terms of its likely costs and benefits to the adversaries. On this basis and from the any state's perspective, there will be **direct military costs as well as costs imposed on the civilian economy and such costs might be short and long-term**. Much depends on the scenarios assumed, all of which will be characterised by uncertainty. Whichever conflict with any country will incur military costs over its duration followed in the longer-run by possible extra costs to the defence budget as the state government adjusts its defence policy and faces a possible increased threat from potential danger.

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An Economic Framework for Evaluating Conflict

Table 1 Cost-Benefit Framework

Country	Military Costs	Civilian Costs	Benefits
UK			
USA			
Other Allies			
Iraq			

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CLASSIFICATION OF CONFLICT COSTS

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Classification Of Conflict Costs

Direct Costs

- deployment,
- extra pay/allowances,
- fuel,
- ammunition,
- costs of replacing equipment,
- value of human life / human losses

Indirect Costs

- higher oil prices,
- possible recession effects
- budgeted reallocation
- increasing public deficit and public debt – crowding out effect,
- social problems
- health problems (mental and physical disorders).

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Classification Of Conflict Costs

Table 2 Abstract framework for assessment of potential solution of problematic regional or international-political relationships

Problem	Alternatives	Cost-benefits framework
Political-economic crisis	Diplomatic talks	<i>Benefits</i> <i>Costs</i>
	Bribery	<i>Benefits</i> <i>Costs</i>
	Isolation	<i>Benefits</i> <i>Costs</i>
	Sanction	<i>Benefits</i> <i>Costs</i>
	Intimidation	<i>Benefits</i> <i>Costs</i>
	Military power usage (Armed conflict)	<i>Benefits</i> <i>Costs</i>

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ESTIMATING COSTS PROBLEMS

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Estimating Costs Problems

For the participants, estimates of military costs involve the following:

- The additional costs of the conflict
- The need to include the costs of replacing equipment
- The need to value the human capital losses (ie. based on the discounted value of future earnings)
- Recognition that estimates will differ from out-turns
- Possible long-term costs such as the need for peace-keeping forces and a greater threat from terrorism
- Possible financial contributions from nations not participating in the conflict.

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COUNTING COST OF ARMED CONFLICTS



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Counting Cost Of Armed Conflicts

Possible procedure of counting total economic costs of armed conflict (By Keit Hartley and Linda Bilmes):

- Step 1** – Total relevant appropriations/expenditure to date for military operations;
- Step 2** – Add „operational expenditures“ and savings hidden elsewhere in the defense budget;
- Step 3** – Correct for inflation and the „time value“ of the money;
- Step 4** – Add future expenditures (both direct expenditures and those hidden elsewhere in the budget);
- Step 5** – Add future (and current) costs of disability and health care for returning veterans.

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Counting Cost Of Armed Conflicts

Possible procedure of counting total economic costs of armed conflict (By Keit Hartley and Linda Bilmes):

Step 6 – Add future costs of restoring the military to its prewar strength, replenish spent armaments, repairing equipment whose maintenance has been deferred;

Step 7 – Add budgetary costs to other parts of government

Step 8 – Add interest;

Step 9 – Estimate the cost to the economy;

Step 10 – Estimate the macroeconomic impact.

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CONCLUSION

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Conclusion

The function of the economic analysis of the armed conflict should be provision of ability to recognize and evaluate not only at the first sight evident costs but also hidden costs of armed conflict. Very delicate topic is even question of probable benefits from armed conflict involvement. In the foreseeable future we can await the quest to find the unifying terminological framework, detailed study of armed conflict with the most exact delimitation conflict costs. Difficulties that will have to be overcome are connected with:

- limited accessibility of data about armed conflicts,
- accuracy of estimates and calculation of armed conflicts costs and benefits,
- ability and possibility of evaluating and following relevance of gained costs value and benefits of armed conflicts.

The economic analysis of the armed conflict can contribute to **the higher knowledge about all its aspects, with accent on its cost side** and that even decrease level of uncertainty of final decision within selection process of the potential solutions of the given problem.

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STUDY RESOURCES

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THANK YOU FOR YOUR ATTENTION !!!

IN CASE OF QUESTIONS, CONTACT ME ON

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