



Oil and Civil Conflict: Can Public Spending Have a Mitigation Effect?

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Summary. — This paper explores the conditions under which public spending could minimize violent conflict related to oil wealth. Previous work on the resource curse suggests that oil can lead to violent conflict because it increases the value of the state as a prize or because it undermines the state’s bureaucratic penetration. On the other hand, the rentier state literature has long argued that oil might provide states with resources to deliver public and private goods, and stabilize political regimes. The empirical evidence to settle these conflicting predictions is limited. This paper argues that the effect of oil on civil conflict is conditional on the size of government expenditure and the allocation of government spending for welfare or the military. To test these hypotheses, logit models of conflict onset are used and a global sample of 148 countries from 1960 to 2009 is examined. Higher levels of military spending are found to be associated with lower risks of both minor and major conflict onset in countries rich in oil and gas. By contrast, in countries with little oil or gas resources, increases in military spending are associated with a higher risk of conflict. Welfare expenditure is associated with a lower risk of small-scale conflict, irrespective of the level of oil revenue. However, general government spending does not appear to have any robust mitigating effects. Consistent with the focus in the more recent literature to disentangle the average effect of natural resources, these results nuance the conditions under which there may be a resource curse. The results point to what governments can do with resource revenues to mitigate conflict risk.

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1. INTRODUCTION

The last decade has seen significant oil and gas discoveries. Ross (2012), for instance, reports that during the period 1998–2006 19 new countries, mostly low and middle-income, have become oil and gas exporters. At the same time, many of these states have experienced political violence, in particular ravaging civil wars. This link between natural resources and conflict outbreak has been identified by numerous studies (Collier & Hoeffler, 2004a, 2004b; Fearon, 2005; Fearon & Laitin, 2003; Humphreys, 2005; Lujala, 2010; Lujala, Gleditsch, & Gilmore, 2005; Ross, 2006a, 2006b). Ross (2012) warns that the inflow of oil revenue into mainly poor nations is likely to spread further the oil curse in the form of lack of democracy and civil conflict. While other causal mechanisms have been suggested (Humphreys, 2005; Ross, 2006a, 2006b), such negative outcomes can also be linked to features of oil revenue—non-tax based, unstable, and secretive—that limit the ability and incentive of governments to spend such revenue in a productive manner (Ross, 2006a, 2006b).

In this paper, we study the conditions under which the patterns of public spending may mitigate the risk of violent domestic conflict arising from the resource curse. Some recent research suggests that more government spending either in general or specifically for welfare and the military may reduce the risk of civil conflict onset (Basedau & Lay, 2009; Fjelde & de Soysa, 2009; Hegre & Sambanis, 2006; Taydes & Peksen, 2012). While oil wealth has begun to be considered in the study of civil conflict as an important source of revenue for governments, there has not been a systematic analysis of whether oil-rich countries can increase public spending or alter the particular allocation of such spending to social sectors or the military as a way to mitigate the risk of conflict. This paper links the literature on public spending and conflict, on the one hand, and that connecting natural resources and conflict, on the other.

We use time-series cross-section data (148 countries, 1960–2009) to test the hypothesis that the effect of oil on civil conflict is conditional on the size of government expenditure and the allocation of government spending. Our dependent variable is the onset of minor and major armed conflict (Gleditsch *et al.*, 2002). The empirical estimations show that in oil and gas rich countries both minor and major conflicts are less likely when military spending is high. In contrast, in countries with little natural resources, increases in military spending are associated with a higher risk of conflict. Increased spending on education, health, or social security is associated with a lower risk of small-scale conflict, irrespective of the level of oil revenue. On the other hand, higher levels of general government expenditure do not appear to have any robust mitigating effects.

The paper proceeds as follows: the next section reviews work on natural resources and conflict; Section 3 discusses the literature on public spending and conflict; Section 4 derives testable hypotheses; Section 5 presents the data and our empirical strategy; Section 6 describes the results; and the final section concludes.

2. NATURAL RESOURCES AND CONFLICT

A significant amount of research examines the reasons why some countries experience violent civil conflict. Previous work

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points to rebel motivation coming from grievance and injustice (Cederman, Weidmann, & Gleditsch, 2011; Gurr, 1970; Wimmer, Cederman, & Min, 2009) or economic opportunity and greed (Collier and Hoeffler, 1998, 2004a, 2004b). Other parts of the literature emphasize the characteristics of the state and the different facets of state capacity (Buhang & Rød, 2006; Fearon & Laitin, 2003; Hendrix, 2010; Thies, 2010).

The literature on the resource curse is very prominent and natural resources have been argued to influence conflict through similar channels (de Soysa, 2002, 2007; Dixon, 2009; Fearon & Laitin, 2003; Lujala, 2010; Ross, 2004a, 2012).¹ Two groundbreaking papers, Collier and Hoeffler (2004a) and Fearon and Laitin (2003), both show that wealth in natural resources increases the probability of civil war onset. Collier and Hoeffler (2004a) suggest that natural resources finance rebel groups and thus lower opportunity costs for rebellion. On the other hand, Fearon and Laitin (2003) emphasize the fact that oil producers tend to have weaker state apparatuses, which makes it difficult for governments to sustain efficient conflict prevention, a conclusion supported by Humphreys (2005). In addition, Fearon and Laitin (2003), Englebret and Ron (2004), Fearon (2005), and Besley and Persson (2009) argue that natural resources swell the state's coffers and thus increase the value of the state, which is then more likely to induce conflicts over the state as a "prize".

The negative effect identified by the resource curse literature, however, may be related in particular to oil and not to natural resources in general. Fearon and Laitin (2003) and Fearon (2005) find no robust support for the role of primary commodities in civil conflict onset. This view is supported by de Soysa and Neumayer (2008) who show that even when looking at a wider range of natural resources, only hydrocarbons affect civil war onset. Finally, Ross (2004a) reviews 14 quantitative studies of the resource–conflict link. He concludes that primary commodities as a whole cannot be robustly linked to either civil war onset or duration. Only oil-exporting countries seem to be particularly prone to civil war onset. This finding is supported by another meta-analysis conducted by Dixon (2009).

On the other hand, research has long suggested that oil might provide states with resources to deliver public or private goods and stabilize political regimes, be they democracies or dictatorships. Considerable work suggests that natural resource rents can, in fact, bring stability to the state–society relationship (Basedau & Lay, 2009; Beblawi & Luciani, 1987; Fjelde, 2009; Mahdavy, 1970; Morrison, 2009; Ross, 2012; Smith, 2004). Bueno de Mesquita, Smith, Siverson, and Morrow (2003) point out that government spending decisions are strategic responses aimed at maintaining power. Regimes can offset oil-related or other conflict risks by generous and large-scale distributional policies, and as a result grievances are less likely to emerge. A large security sector, financed by oil money, also helps to render rebellion more difficult.

More specifically, Ross (2001) argues that oil wealth has two mechanisms through which governments provide goods that reduce social pressures against the government. First, natural resource wealth allows governments to buy off citizens using low tax rates and patronage (a "rentier effect"). The second is a "repression effect": natural resources allow governments to strengthen the military and security forces to maintain social order.² Along the same lines, Smith (2004) and Morrison (2009) both show that natural resources or non-tax revenues tend to increase political stability by prolonging regime durability. Ulfelder (2007) and, more recently, Wright, Franz, and Geddes (2014) also find that autocracy

and individual autocratic leaders are more durable in natural resource rich countries.

For instance, proceeds from oil allowed Yemen elites to buy peace for a while. Oil rents in Yemen are argued to have been used to buy tribal, military and bureaucratic allegiances through state jobs, contracts or subsidized fuel, assuring political stability (World Bank, in press). Spending on defense was also widely seen as key sources of patronage. Senior military officers would allegedly use the salaries of "ghost" soldiers and the sale of military equipment and fuel to bolster their incomes. This system which characterized Yemeni politics for the 30 years before 2011 collapsed partly as a result of the decline in oil production, resulting in a substantial reduction in the resources available for sharing since the early 2000s. Competition increased among Yemen's elites over a shrinking pool of resources, breeding instability.

The "rentier state" and the resource curse arguments thus offer conflicting predictions, and the literature has examined possible background factors that may condition the effect of oil on conflict. For instance, Humphreys (2005) finds that the presence of oil production significantly increases the likelihood of civil war in weak states and may lower conflict risk in strong states. Fjelde (2009) finds that oil wealth tends to mitigate civil war risk if political corruption is high enough to help buy off oppositions and placate restive groups by providing patronage in exchange for political loyalty.

In a paper most closely related to ours, Basedau and Lay (2009) find that oil wealth (when controlling for oil dependence) reduces the risk of conflict onset. Their work on a small sample of countries with high average dependence on oil revenues shows that, comparatively, the countries rich in oil can maintain peace because they engage in larger scale distribution and spend more on the military. The analysis is based, however, on a simple comparison of country values to sample medians for 27 oil dependent countries (after 1990) and may overlook important differences among countries. A more rigorous approach taking into account the possible non-linearities mentioned by Basedau and Lay (2009) and the endogeneity issues that plague many of the existing studies would be needed to understand better the possible mitigation effect of public spending on the risk of conflict onset related to oil.

3. PUBLIC SPENDING AND CONFLICT

Until recently the empirical research has paid surprising little attention to the relationship between the nature of public spending and civil conflict. Azam (1995) uses a game theoretical model that explicitly links redistributive policy adopted by states with domestic peace, pointing out the importance of governments' spending decisions in preventing violent conflict. However, following work by Collier and Hoeffler (1998, 2004a, 2004b) and Fearon and Laitin (2003), theory and empirical work have mainly centered on whether rebel motivation and state weakness, rather than government spending decisions, contribute to explaining the onset of violent conflict.³

The interest in government spending and its connection to civil conflict has resurfaced, however. Several recent studies explore directly the impact of public spending on civil war onset. This work emphasizes specific types of spending including (1) general government spending, (2) social spending such as education, health and social security, or (3) military spending. For general government spending, Fjelde and de Soysa (2009) provide evidence indicating that higher government expenditure enables governments to effectively buy off

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