



# Income and Livelihoods in the War in Afghanistan

VINCENZO BOVE

*University of Essex, United Kingdom*

*University of Genoa, Italy*

and

EVELINA GAVRILOVA\*

*Norwegian School of Economics, Norway*

**Summary.** — We explore the impact of the insurgency and military deployment on the livelihoods of local communities in Afghanistan. We use monthly wages and commodity prices at the provincial level over the period 2003–09 and look for their response to conflict events and ISAF deployment. Overall we find that prices are more sensitive to deployment than to attacks. Commodity prices are not significantly affected by insurgent violence, which is consistent with coping strategies already in place. On the opposite, military deployment is associated with an increase in the levels of wages and commodity prices, as ISAF is a new source of uncertainty.

© 2014 Elsevier Ltd. All rights reserved.

*Keywords* — Afghanistan, consequences of conflict, coping strategies, military deployment

## 1. INTRODUCTION

The coverage of the war in Afghanistan in the media and in academic discussions has been primarily driven by the huge number of NATO and civilian casualties and the deterioration of the level of security in most part of the country. Reports and analyses have mainly focused on the factors affecting the rise in Taliban's activities across the countries and ISAF's (International Security Assistance Force) approaches to counter-insurgency. However, quantitative analyses have never explicitly dealt with the impact that both the insurgency and the international military deployment could have on the economic conditions of the local communities. We assume that as a result of physical insecurity and the interruption of local markets, Afghans may decide to employ different income-generating strategies to cope with the conflict shock. We further assume that this will be reflected in local market prices of commodities and, thus, we want to investigate whether prices respond differently to different types of conflict events.

The literature on coping strategies in a state of war suggests that assets play an important role in reducing the variability of consumption in environments characterized by income risks (Bundervoet, 2010). Prices of goods directly affect asset values, capital gains, and decisions on holding and selling inventories.<sup>1</sup> Prices are also a critical determinant of the overall level of revenues across the provinces. This means that changes in the level of prices can have adverse consequences for rural poverty. With this in mind, we put together a dataset on monthly market prices of wheat, sheep, diesel, and the wage of one day of unskilled labor as they can capture the returns from engaging in their respective activities and thus proxy the different choices of livelihoods of people. Almost a half of all Afghan households depends on income from agriculture where wheat is the main crop. One in every four of the population depends on livestock thus the price of one-year-old female sheep is used as an indicator of the purchasing capacity of those households that are mainly reliant on income from livestock (pastoralism). One third of the population depends

on nonfarm labor thus the wage of one day of unskilled labor proxies for the purchasing capacity of households relying on casual labor as main income. Finally, diesel is a main commodity and it is held as an asset, together with wheat and meat stocks.

One of the coping strategies adopted in Afghanistan entails having members of the family involved in different types of trades, as a matter of diversifying income (Goodhand, 2005). This highlights the use of social networks as a way of coping with adverse shocks. We argue that given that Afghanistan has been in a conflict for almost four decades, there must be coping strategies in place and therefore little or no response to attacks and violence between insurgent factions. By using wages and commodity prices, we can differentiate the effects of conflict on existing markets between employment and exchange i.e., the buying and selling of commodities (see e.g., Justino, 2009). Moreover, by distinguishing between violence and ISAF casualties we find a way to circumvent the coping strategies argument. ISAF deployment is a relative new phenomenon in this conflict and its strategies change continually; this allows us to disentangle the response of old coping strategies to a new type of event.

We interpret the type of conflict events in terms of perceptions they create. Jones (2011) outlines that one of the main reasons for insurgents to consider reintegration is the perception on who is winning the war. Perceptions can drive the prices of commodities due to the haggling processes inherent

\* We are grateful to Anna D'Souza, Krishna Chaitanya Vadlamannati, and two anonymous referees for thorough comments. We also thank HiCN's Workshop participants at the Universidad de los Andes, seminar participants at the Institute of Development Studies, conference participants at the Global Economic Costs of Conflict Conference, CSAE Conference, CESifo Venice Summer Institute, 12th Jan Tinbergen Conference, and the ENCORE at the University of Amsterdam for their comments. The usual disclaimer applies. Final revision accepted: March 14, 2014.

to Afghan society. We consider the effects of levels of attacks and an indicator of their occurrence. The latter helps us identify the uncertainty effect due to a simple change from peace to violence and the former the effect of each additional attack. We also explore the effect of military deployment on market prices. We use hostile and nonhostile casualties. Increases in hostile casualties would carry the perception of increasing violence and that ISAF is losing the war, which entails uncertainty about the rule of law. Nonhostile casualties indicate the deployment of NATO troops without necessarily indicating the occurrence of fighting. In fact, we expect that local procurement of goods and services will contribute to an increase of both commodity prices and wages.

While a number of factors influence domestic food prices, e.g., the seasonality of production within a year and adverse weather conditions, we expect insecurity to play a big role in determining price levels. This is important given that high food prices have a negative impact on the livelihood of people. Significant and frequent changes in the direction and magnitude of food prices make both smallholder farmers and poor consumers increasingly vulnerable to poverty. While price fluctuations can put at risk decisions made by farmers about what and how much to produce, soaring prices reduce the purchasing capacity of the most vulnerable groups. Because food represents a large share of farmer income and the budget of poor consumers, small price increases have large effects on real incomes. In addition, smallholder farmers are less likely to invest in measures to raise productivity when price changes are unpredictable (e.g., [FAO, 2011](#)). Thus, even short episodes of high prices for consumers or low prices for farmers may lead to poverty traps.

Conflict has always been part of the everyday life of Afghans, yet studies on the economic impact of violence in the country are sparse. [Giustozzi \(2008\)](#) and [Giustozzi \(2009\)](#) provide excellent background material on the Afghan polity and society in times of war, including issues of warlordism and nation-building. These books also give further references to a large qualitative literature on Afghanistan, only a small proportion of which has been cited in this paper. Two quantitative studies are most closely related to ours. [D'Souza and Jolliffe \(2012a\)](#) explore how differences in the level of conflict across provinces influence food security and show a negative correlation between conflict and food security. More interestingly, they find that food price increases have a large impact on food security in provinces with lower levels of conflict.<sup>2</sup> We observe that peace disruptions are associated with higher volatility of prices, which directly affects food security. Yet, we find a relatively small association between conflict and prices. [Ciarli, Parto, and Savona \(2010\)](#) examine the relationship between conflict and entrepreneurial activity. They show small direct negative effects of conflict on the likelihood of a household to engage in small businesses. This insight suggests that entrepreneurs adapt to a permanent state of violence and continue to operate regardless, implying the adoption of coping strategies. Most of the above studies use data on households on a yearly basis. We employ higher frequency monthly information on commodity and labor prices and conflict events on the provincial level. There are two main advantages of using monthly data: first, the use of higher frequency indicators allows us to identify the immediate effects of conflict events. Second, by using monthly variations, we can control for seasonality given that temperatures vary dramatically across seasons ([D'Souza and Jolliffe, 2012b](#)).

We investigate whether changes in prices respond to security incidents and to what extent they are affected by the presence

of ISAF forces. We find that prices are not particularly responsive to insurgency-driven violence but are positively associated with the number of ISAF casualties.

## 2. LITERATURE REVIEW

War devastates life, health, and living standards; it also disrupts physical infrastructure and human capital, and may alter social and political institutions ([Blattman & Miguel, 2010](#)). Turmoil leads to decreased and uncertain supplies of necessities and affects consumption patterns ([Hess, 2003](#)). Recently, [Gates, Hegre, Nygard, and Strand \(2012\)](#) find that war has also negative effects on the progress in meeting the UN Millennium Development Goals. The centrality of the costs of conflict to development is also duly covered by [Brück and De Groot \(2012\)](#) and [Smith \(2013\)](#).

Despite a growing number of quantitative studies on war-torn countries, it is not clear how exactly violent conflict affects production and well-being and how individuals cope with conflict. This is due to the inherent difficulty in gathering data and analyzing the effects of armed conflicts on households and the ways in which households in turn respond to conflicts. [Brück and Schindler \(2009\)](#) investigate how conflicts damage households' core functions and their choice of coping strategies. [Justino \(2009\)](#) and [Justino \(2012\)](#) explore the economic channels through which war may affect the responses and adaptation mechanisms of individuals. She distinguishes between direct and indirect effects, and shows that the indirect effects are channeled through markets, political institutions, and social networks.

In the present study we mostly consider the first channel i.e., markets and we ask what the effect of violence on commodity prices is. Given the inherent sensitivity of market prices to uncertainty, they become a potential source of information about the extent of an effect of conflict on the economy. Empirical evidence on price effects of armed conflict is scarce though some evidence has reported an increase in prices of staple food ([Verpoorten, 2005](#)). Moreover, the destruction of infrastructure should increase transaction costs for households involved in market exchanges who may decide to return to subsistence activities ([Bozzoli & Brück, 2009](#); [Justino, 2009](#)). Prices can also be kept artificially high during conflicts if farmers choose to hide crops so they do not get raided ([Azam, Collier, & Cravinho, 1994](#)). However, price increases may be more than offset by decreases in prices of commodities produced due to assets sold by the household e.g., livestock ([Verpoorten, 2009](#)), as well as the decrease in access to exchange markets. The channels and intensity of the impact and people vulnerability to conflict vary in terms of their asset endowments, the characteristics of the production, and their location ([Brück & Schindler, 2009](#)).<sup>3</sup> Thus, the effect of conflict on prices might not be generalizable and the sign depends on the coping strategies adopted at the local level.

Studies on how labor markets are shaped by violent conflicts are also sparse. [Serneels and Verpoorten \(2012\)](#) find that areas that experienced genocide in Rwanda have higher returns to labor compared to other areas. While, as the authors suggest, we may expect the mass killings to increase returns to labor, if surplus labor was substantial, these returns may remain low in absolute terms. Case studies also suggest that conflict entails losses of human capital, resulting from household investment trade-offs between education and economic survival ([Justino, Leone, & Salardi, 2011](#)). Moreover robust effects of mass violent conflict are found on fertility ([Schindler & Brück, 2011](#))

Download English Version:

<https://daneshyari.com/en/article/991654>

Download Persian Version:

<https://daneshyari.com/article/991654>

[Daneshyari.com](https://daneshyari.com)