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The Economic Costs of War

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The enormous human suffering that wars (international conflicts and civil wars) entail for the civilians affected is barely measurable. By contrast, there are approaches to measure the economic consequences of war.. A better understanding of the economic effects of wars can help relieve suffering and help in using scarce resources more effectively to end or avoid wars.

Without wars, the world would be more prosperous

Economic costs usually arise in countries directly affected by war and neighbouring countries, in countries involved in humanitarian or military intervention, in those that receive refugees, as well as for trading partners and the world economy as a whole.

Overall, wars significantly reduce global gross domestic product. Economic calculations show that each year up to 17% more value added could be produced globally if there were no wars (de Groot et al 2015).

Negative effects strongest in countries directly affected by war

The economic losses in countries directly affected by war (i.e. in which direct hostilities take place) arise primarily through the following factors:

- Decline in production as a result of destroyed production capital, supply infrastructure or security-related restrictions on mobility.
- Destruction of human capital including substantial disturbances in social coherence, demographic structure and education level.
- Decrease in tourism and export revenue due to production decline and/or backlash from foreign customers.
- Higher budget deficits (through falling tax revenues and increased spending in the security sector, repairs to damaged infrastructure), with corresponding inflationary effects.

These negative consequences are also accompanied by partial but positive economic effects, such as growth in the security and defence industries. However, these effects decline quickly or benefit just a few individuals or companies.

States affected directly by war bear the highest burden (for example Syria or Afghanistan) during the hostilities. In particular, countries experiencing civil war grow significantly more slowly than peaceful states. Collier (1999) has estimated this growth gap to be approximately 2.2% points per year of civil war, thus a 15-year conflict would lead to a reduction in GDP by an average of roughly 33%.

War often leads to more war: A vicious circle

The reconstruction and restoration of order in war-affected countries can take many years, if not decades. It often depends on the context whether such countries return to their old growth path in the post-war period (or even surpass their old growth potential), or whether they remain permanently poorer. Many developing countries are not able to escape the vicious circle of underdevelopment and war. The likelihood that a country will slip into war again in the first five years after a ceasefire is 44% (Collier, 2003).

Additional economic pressure for countries not directly affected by war

Countries involved only indirectly in conflicts carry significant costs too: the United States, for example, has a high fiscal burden from its military operations in Afghanistan and Iraq (Stiglitz & Bilmes et al 2008). But companies in the United States and its trading partners also benefit to some degree from the Keynesian stimulation, which goes hand in hand with warfare abroad. German involvement in Afghanistan has cost many billions of euros too; this is money that was therefore not available to the German State for other spending (or to cut taxes or service debt) (Brück, de Groot & Schneider, 2011).

Directly neighbouring countries bear high costs as well due to economic spillover effects, but also due to their acceptance of refugees, military spending and reputational losses for the economic region among international investors.
Wars also often affect exchange rates and global market prices, such as oil and gold (redistributive effects between exporting and importing countries), or affect world trade and unsettle the global financial and capital markets, with a corresponding impact on the world economy and the countries dependent on it.

Prevention pays off economically, but is often politically difficult to achieve

Although all wars cause enormous humanitarian and economic costs, they have very different effects on the economy depending on the context. New wars and wars that do not last very long are associated with high monetary costs in particular. From an economic point of view, therefore, it would be advisable to pay special attention to preventing these conflicts. However, conflict prevention does not come free either. The benefits of peace are also distributed much more diversely than the benefits of war. This makes it much more difficult to address them and to implement and coordinate peace-building measures.■