

»» Violent conflicts: The key role of social capital is often underestimated

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When it comes to the long-term effects of damage due to violent conflicts, the first thing that comes to mind is usually the number of victims and destruction of physical infrastructure (buildings, roads, power plants, etc.). However, findings from recent research on conflicts and the economics of behaviour show that the destruction of social capital may even cause more serious damage.

Social capital generally refers to the texture of social cohesion within a given society. Important drivers of social capital are trust, solidarity, tolerance as well as common standards and values. As damage of social capital is not always obvious (and also difficult to measure), this perspective has been underresearched in conflict analysis for a long time. In fact, damage to social capital appears to be one of the highest obstacles to development through different impact chains: It not only fundamentally reduces societies' performance capacities but also leads to long-term behavioural changes, which can be very detrimental to economic development opportunities.

Long-term disruption of institutional capacity and effectiveness

The quality of social bonds has a major influence on institutions' stability and effectiveness. For example, the acceptance of public spending policies and redistribution systems (e.g., fair taxation, social protection, regional funding) strongly depends on the principle of solidarity. Decentralisation requires confidence in the performance capacity of local institutions. Decentralised administrative structures can only work effectively if they are perceived as legitimate representatives of the interests of local communities and respect their

values and norms. The protection of minorities is particularly dependent on the value of tolerance.

If social cohesion is weakened, this affects not only the efficiency of existing institutions but usually also has a direct negative effect on the relationship between the state and civil society. In violent conflicts, the population can be particularly divided due to the deterioration of interpersonal trust, solidarity and cooperation. Values and norms that form the basis of collective action are destroyed. This is true not only for formal state institutions but also for communities of mutual support such as savings groups, informal insurance and networks as well as collective resource management (e.g., fisheries, forestry or agricultural communities). As a general rule, multi-ethnic societies with a low level of exchange within civil society have a significantly higher risk of conflict.

While the overall social capital of societies is certainly diminished by conflicts, there can even be an opposite effect within individual groups: the experience of conflict and a common "enemy" can bring people together.

Conflict-induced changes in economic behaviour hamper growth

Physiological studies clearly demonstrate that crises and conflicts can have a strong influence on individual behavioural patterns. Recent research results show the following changes in economic behaviour in the context of conflicts, which are important for the development process: General uncertainty rises in crises. Many households and companies respond to this with risk prevention and security measures (capital flight by

investing in tangible assets, transfers of capital abroad, etc.). However, risk tolerance may also increase in the short term (e.g. more cash crops with a short-term profitability are grown instead of investing in long-term and more sustainable cultivation strategies). The reason behind this is an increased present bias with higher preference for current solutions that usually entail consumption increases, but at the same time also negatively affect the savings rate. People in the context of conflicts act within shorter time frames. This, in turn, means less capital stock is built (lack of investment) and long-term sustainability issues lose relevance. As a consequence, the country remains well below its long-term growth potential.

Reductions in social capital increase cycles of conflict

Destroyed social capital places a heavy burden on sustainable development processes. Social capital can only be restored much more slowly than physical infrastructure. The scenario can become particularly delicate as destroyed social capital can even increase the risk of conflict and thus countries can be pulled into veritable downward spirals of conflict ("protracted crises"). Conflict prevention remains the best solution for preserving social capital. In post-conflict situations, quickly restoring social capital becomes extremely important with a view toward rapid political and economic stability (basic public services, (re-)implementing local economic cycles, quickly setting up employment and income opportunities, institution strengthening, conflict resolution). ■