

Modeling Conflict in the Empirical Macroeconomic Framework: a Sensitivity Analysis

by

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ABSTRACT: “Empirical macroeconomic literature is ambiguous on the effect of intra- and interstate conflict on the economy. This paper investigates the impact of international and civil wars as well as low-intensity conflict on the income level. We employ World Development Indicators (2008) data published by the World Bank, as well as the Correlates of War data on civil and international wars and militarized interstate disputes (MIDs). The sample consists of 90 countries for the period of 1970 to 2005. We also check the sensitivity of results to the use of least squares vs. fixed effects estimation. The findings are further examined for country groups based on the criteria of wealth, polity, and region. We find civil wars to be most detrimental to poor nations’ economies. War casualties provide a stronger measure of the negative effects of conflict on GDP per capita than conflict incidence. The effect of full-fledged war is to decrease income per capita by as much as 2 percent, while low-intensity conflict may raise the income level by .26 percent.”