

# Understanding the Implications of Neo-Liberal Approach: A study of Post Conflict Economy

Author's

RISHABH TIWARI<sup>1</sup> & DR. VAISHALI RAGHUVANSHI<sup>2</sup>

## Abstract

*The paper attempts at understanding essential conditions and background for applying neo liberal approach to post conflict society. Further it explains the nuances of Neo Liberal approach and how it has been found unsuitable for recovery of post conflict political economy. Neo-liberal economic principles rely heavily on invisible hands of market. While the free-market forces tend to work well in established systems with robust institutional support, they may not be suitable in fragile post-colonial economies which are vulnerable to market risks, unfair competition and rising inflation. This paper examines the case of countries like El Salvador, Sierra Leone and Haiti to further analyses the worsening impact of Neo Liberal approach in post conflict society. As way forward, it provides certain measures and possible solutions as an alternative to Neo Liberal policies in post conflict states.*

## Introduction-

Since the end of World War II intra state armed conflict has replaced inter-state wars at most instances. These civil wars have rapidly turned into a deadly form of political violence. According to International Peace Research Institute (PRIO), 42 armed interstate conflicts occurred between 1946 and 2003. On the other hand, 165 intra –state armed conflict or civil wars occurred and 22 of these were marked by intervention from other country. Civil wars have killed approximately 4.8 million militants in battle field innumerable civilians. It has caused severe harm to those who were stranded in the war. Increase in number of civil wars and frequent deadlocks have made the study of post conflict economy crucial. This is crucial especially when government and international actors are searching model or methods by which they can provide aid to the victim of violence in order to rebuild their lives and to smoothen the process of construction of post conflict economy. It is a common perception that status of economy plays a crucial role in reconstruction of society. A buzzing economy can efficiently deal with the challenges imposed by post conflict society and revamp the crucial sectors for human sustenance such as education, employment and skill development, health financing, agricultural, infrastructural and industrial development, environment and natural resources. It has become crucial for state to opt for formal economy which can bolster the process of reconstruction in post conflict economy.

<sup>1</sup> Rishabh Tiwari is a Post Graduate in Economics from Indira Gandhi National Open University, New Delhi.

<sup>2</sup> Dr. Vaishali Raghuvanshi is an Assistant Professor at MMV, Department of Political Science, Banaras Hindu University, Varanasi.

Collier and his co- authors (2003) “proposed that countries experiencing civil conflict can easily fall into a “poverty conflict trap”, in which losses from a first civil conflict increase the likelihood of future conflict unless a strong post conflict economic performance breaks the vicious cycle.”

Kong & Meernik (2005) “Identify two challenges faced by economic policy makers at the end of a civil conflict. First, policy makers must engineer a rapid economic recovery in the immediate post conflict period. Second, they must transform this short term recovery into stable long-term economic growth.”

The process of post conflict reconstruction can be phased in two stages: Recovery and Consolidation. Recovery implies, years after the end of conflicts, leaders must reconstruct political institution and formulate policies for rejuvenation of the economy. And in Second phase i.e. Consolidation; a state must modify initial recovery so that it translates into long term economic performance. (Flores & Nooruddin, 2006)

### **Understanding Neoliberal Economic Thought-**

State building refers to the process of ‘constructing or reconstructing institutions of governance capable of providing citizens with physical and economic security’ (Chandler 2006) since last few decades it has been generally recognized that post conflict state building calls for necessary international intervention. The post conflict states with international intervention generally apply neoliberal approach for economic recovery. Neoliberal approach emphasize upon the construction of free market framed to stimulate growth which is empowered by private sector. It provides establishment of a state which is focused towards regulating and supporting markets, while creating a secondary welfare field for its people in shadow of growth generated by the private sector. This approach has been illustrated in the ‘Washington Consensus’ recommended by International Financial Institutions (IFI’s) such as IMF and world bank (Hayami 2003)

Neo liberalism focuses on the benefit of free market and growth backed by private sector as a pedestal for robust development. To bolster private sector investment, it provides an economic policy prescription, which focuses on disinvestment, unregulated markets and fiscal stimulus. The motive behind this is to build efficient capitalist markets which will help the private sector to grow efficiently. By giving priority to market over states, neo liberal approach propagate an important but umbrella role for state in supporting development. This role focused around providing frameworks which are necessary for the efficient working of markets. While neo liberal approach concedes that the state has “an important role to play in the economic and social developments as a partner, catalysts & facilitator.” (World Bank 1997), they remain wary in their conviction towards state as an economic actor. (Barbara, 2008)

Neo liberal economic policies have been propagated by international financial institutions in the developing countries from 1980’s, when they brought in policy of conditionality on their loans and tied these conditionality with execution of Structural Adjustment Programs (SAP). SAP has most directly affected the trend of advancing neo liberal ideas in developing countries. Structural Adjustment program include; Currency Devaluation planned to make export more competitive, decreased public spending to control inflation & service debt repayment, disinvestment to bolster productive investment & further cut public spending, deregulation and removal of protectionism to advance FDI (Foreign Direct Investment), reducing public subsidies on food & other goods in order to permit market to set the right price, wage controls and higher interest rates to decrease inflation. (Paris 2004) Structural Adjustment program’s focus was at building macroeconomic consolidation, while laying down the base of market economy. The flowery picture painted by the theory is less likely to pay dividends in practical post conflict situations.

Following the debt crisis & renunciation of Keynesianism in late 1970s, SAP was aimed to be a short, sharp, shock treatment (Mohan et al 2000) for developing economies to correct macroeconomic flaws and to build concrete walls of successful market economy. It was thought that SAPs which were in line with neo liberal thought would admit substantial adversities for people who are most weak in society, especially those who rely upon welfare spending of state. It has been claimed by neoliberal economists that this would be only a short term social cost which will result into long term economic gain. But, structural adjustment has failed to add economic prosperity. Also, the social cost was so high in context of poverty and inequality that it has deteriorated the situation more sharply in developing countries. (Ahearne 2009)

### **Implications of Neo-Liberal Economic Approach to Post Conflict Societies-**

Economic growth can not only provide an impetus to rebuilding of post conflict societies but on a broad level it is also associated with peace. However, Neo liberal economic policy which has been considered the ideal model for post conflict economies has not been able to produce sanguine results in many countries.

Neo liberal reforms have proved to be challenge for a government in order to meet socio-economic terms of peace treaty finalized under the aegis of UN because government of post conflict society are bound by IMF conditional ties which provides less scope to spend on public needs & calls for more privatization . This can be illustrated by e.g. Of El Salvador & Cambodia. This neo liberal economic approach is thought to be highly dangerous to the peace-building process, because it lacks the capacity to deal with underlying causes of conflict that is why it fails to bring positive peace in society. Also, in a post conflict society it is not only growth but the right type of growth that can bring stability. Inequitable economic growth is likely to increase inter group conflict. Such societies can flourish only when growth is inclusive and evenly distributed. Inequality is most likely to result from the application of neo liberal approach. This can increase or worsen the inter-group tensions & may escalate the violent conflict. Nepal is good e.g. of this situation and manifests the escalation of conflict through inequality. Number of scholars have explained the impact of structural adjustment program & connected it to eruption of a number of recent intra state conflict, for e.g. Sierra Leon and Rwanda. Still many of the neoliberal economic policies are being applied in post conflict society as component of international peace building attempts. Neo liberal approach completely focuses on pure economic growth and thus ignores an important factor for conflict causation – socio economic disparities. In a post conflict society poverty is rampant. People normally look forward to some dividend from the peace in the form of socio economic development and increased governmental spending on welfare causes. Such tangible improvements would normally make peace permanent. However, the Neo Liberal economic policies normally result in fiscal austerity and initial economic dip. The inability of the government to spend for the betterment of socio economic conditions gives rise to endemic poverty and inequality and poses a challenge for long lasting peace. Such instances have been witnessed in Mozambique and Cambodia. Even if we do not take into consideration the negatives of neo-liberal reforms on socio economic differences, there are number of reasons which prove that post conflict societies are prone to instability effects of neo liberal reforms. Paris (2004) provides certain reasons for this; first, countries that evolve from significantly deep societal dispute due to which they are more prone to recurrence of war have less capability to address economic controversy unleashed by free market policy. Second, post conflict societies do not have strong conflict dampers; peaceful conflict resolution is less likely to exist for a long period and the differential construction of society may work opposite to peaceful resolution of conflicts. Finally, post conflict society does not have institutional capacity in general to efficiently manage free market reforms. Adding to this it undermines hopes for future economic development and also makes it hard to mediate against corruption and ethnic privatization of firms which can spread socio economic partition. For this purpose Bosnia is an eminent example in front of us. It has been established that neo liberal economic policies have proved to be failure for reconstruction of post conflict society. It brings tough socio economic cost in the short term programmes in order to provide commitments for possible long term economic growth. Over and above this, promise and false conscience has provided bad records of poverty eradication and disastrous trends to which result in massive income inequality. This has been dangerous blend for post conflict societies and has brought instability. (Ahearne 2009)

We can analyze the failure of Neo Liberal policies in the cases of El Salvador, Sierra Leone and Afghanistan.

### **Case of El Salvador**

The turbulent history of El Salvador has been marked by the wide inequalities between wealthy land lords and poor peasant class. The civil war erupted in El Salvador in 1980 and lasted for 12 years. The conflict ended in December 1991. The World Bank, IMF and Inter-American development took lead in the post conflict peace building process on the economic front. These banks focused entirely on building market oriented reforms which would result in a free market economy. With such steps, the peace related programmes went on backburner and little or no financial investment was made for socio economic development. This kind of Neo Liberal approach had dilapidating effects on the rural and urban poor. This led to increased inequality in the post conflict society. Economic deprivation, unemployment and inequality brought former combatants together and the crime and violence in early and mid 1990s increased manifold. The Neo Liberal approach could do very little to restore peace in El Salvador. The underlying causes of conflict including socio economic disparities could not be addressed by the reforms and the peace process had to suffer huge setbacks. (Ahearne 2009)

### **Case of Sierra Leone**

In the decade of 1980s Sierra Leone came under heavy internal debt and resorted to IFIs. A series of SAPs were started in the country. The economic repercussions of these Neo Liberal steps were fatal for the country. Devaluation and deregulation lead to heavy inflation and unemployment. The Neo Liberal developed sectarianism in the society and forced the division of society. Sidelining of the country's youth and the escalation of the country into conflict can be directly linked with the Neo Liberal reforms induced by the IFIs. In the current era the IFIs and governments are trying their best to offset the socio economic negatives inflicted upon the country but the results are not very positive. Even now, the focus seems to be on macroeconomic stability rather than socio economic development. As in the case of El Salvador post conflict Neo Liberal economic policies have failed to bring any improvements in Sierra Leone also. (Ahearne 2009)

### **Case of Afghanistan-**

Afghanistan descended into conflict as a result of its invasion by former Soviet Union in the 1980's. Afghanistan had then become the theater for cold war between USSR and US. As the United states deployed the policy of proxy war by raising the elements such as Osama Bin Laden and Al-Qaeda to counter Soviet influence in Afghanistan, the country slowly descended into civil war. It had to witness nearly four decades of continued conflict, fall of USSR and deployment of several NATO forces to reach where it is today. The reconstruction of Afghanistan has to be done on several fronts, of which the economic front is the most important. The agenda of economic development of Afghanistan will have to steer clear of the Neo-liberal- free market economy approach. It should rather focus on a curated and regulated approach to economic reconstruction with pro-poor policies at its heart. Rather than relying on the top-bottom trickle down approach, the idea should be bottom up where economic capacity building should be done at the local level.

### **Conclusion-**

In a post conflict society, the mechanism of free market can create umpteen numbers of problems. Such rapid liberalization of economic systems may not be suitable. These steps are also at times aimed at serving the lone interest of the developed intervening economies. In a post conflict society the focus should be on reducing the socio economic disparities and welfare of poor. Social protectionism and pro-poor policy should be the top priority so as to produce positive dividends from peace. Investment should be made in social and infrastructure sectors, schemes related to poverty eradication and health should be implemented. Sudden introduction of free market policy bring immediate problems of inflation, unemployment and inequality. A strong government regulator should carefully oversee the process of liberalization and beginnings may be made from regional free trade zones so that the new economy does not have to face intention competition from highly industrialized nations. A critical theory perspective can also be added. The role of civil society and emancipation manifesting itself through bottom top approach can be crucial in post conflict economic recovery. The governmental support the development of self-sufficient units can also work to reduce socio economic disparities.

### **REFERENCES**

- Barbara, Julien (2008) *"Rethinking Neo-liberal State Building: Building Post Conflict Development States"*, Development in Practice, Oxfam GB, 18(3):307-318
- Nooruddin, Irfan & Flores E.Thomas (2006) *"Democracy under the Gun: Understanding Post Conflict Economic Recovery"*
- Chandler, David (2009) *"What Do We When We Critique Liberalism?: The Uncritical Critique of 'Liberal Peace'"*, Millenium Conference : After Liberalism, University of Westminster.
- Collier, Paul (2006) *"Post Conflict Economic Recovery"*, Oxford, Oxford University Press
- Ballertine, Karen& Nitzschke, Heiko (2005) *"The Political Economy of Civil War & Conflict Transformation"* <http://www.berghof-handbook.net>
- Ahearne, James (2009) *"Neoliberal Economic Policies & Post Conflict Peace Building: A Help or Hindrance to Durable Peace?"* POLIS Journal vol.2, winter, University of Leeds.
- Kartas, Moncef (2007) *"Post Conflict Peace Building- Is The Hegemony Of 'The Good Governance 'Discourse Depoliticizing the Local?"* Geneva
- Pugh, Michael (2005) *" The Political Economy Of Peace building: A Critical Theory Perspective"*, International Journal Of Peace Studies,10(2)
- Collier, Paul et al (2003) *" Breaking the Conflict Trap: Civil War & Development Policy"*, Washington DC: The World Bank &Oxford University Press
- Kang, Seonjou &Meernik, James (2005) *"Civil War Destruction & The Prospects For Economic Growth"*, Journal Of Politics, 67(1):88-109
- Chandler, David (2006) *"Empire in Denial: The Politics of State Building"*, London: Pluto Press
- Hayami, Yujiro (2003) *"From the Washington Consensus to the Post Washington Consensus: Retrospect&Prospects"*, Asian Development Review 20(2):40-65

World Bank (1997) World Development Report- '*The State in a Changing World*', Washington DC: World Bank

Paris, R. (2004) '*At War's End: Building Peace after Civil Conflict*', Cambridge University Press

Mohan A.B. et al (2000), '*Structural Adjustment: Theory, Practice and Impacts*', Rutledge

