

# THE ECONOMICS OF PEACE: MILITARY VS CIVILIAN RECONSTRUCTION – COULD SIMILAR RULES APPLY?

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## I. INTRODUCTION

The U.S. military, operating under the evolving “expeditionary economics doctrine,” has become an important component of economic reconstruction in conflict-affected countries. Based on rules or guidelines developed for effective civilian reconstruction, this paper will discuss best practices that should be adopted and pitfalls that should be avoided by the military in order to maximize the positive impact of this doctrine going forward.

Since the end of the cold war, a large and diverse group of countries at low levels of development have emerged from civil conflict, tyranny, or other form of chaos. They have managed to achieve a fragile peace following either a negotiated peace agreement (El Salvador, Mozambique, Guatemala), or foreign military intervention with the purpose of protecting civilian populations (Bosnia, Rwanda, Kosovo, and East Timor), or simply for regime change (Afghanistan and Iraq). Despite the peculiarities of each particular case, as wars or chaos receded, countries embarked in a multi-pronged transition to peace.

All aspects of this transition have proved to be closely interrelated and reinforce each other: crime and violence must surrender and the institutions for public security must be established or modernized (security transition); repressive governments must give way to the rule of law and participatory government, both at the national and local level (political transition); ethnic, religious, or class confrontation must give in to national reconciliation so that former enemies can return to the same villages and live with each other in peace (social transition); and war-ravaged, and largely illegal economies must reconstruct and become viable economies that enable former combatants, other groups affected by the conflict, and ordinary people to earn a decent and licit living in a sustainable way (economic transition).

Because the economic transition—also referred to as the economics of peace or economic reconstruction—takes place amid this multi-pronged transition to peace, it is fundamentally different from “development as usual.”<sup>2</sup> Although this is now widely accepted,<sup>3</sup> its conflation during the last twenty years has put the economics of peace off-track and led to a dismal record: roughly half the countries coming out of war have relapsed into conflict and/or have become highly aid dependent. For the international community and the respective countries, the investment in putting the economics of peace back on track is worth taking since it can have a high rate of return. Conversely, not attempting it, or failing to achieve peace, would bear a high risk.

The economics of peace is thus a necessary intermediate phase in between the economics of war—in which dilapidated infrastructure and services, illegal economic activities, and large macroeconomic disequilibria predominate—and normal development which can only take place

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<sup>2</sup> The “economics of peace” may be a better term than “economic reconstruction,” since the latter is often used solely for rehabilitation of infrastructure and services (as at the time of the Marshall Plan), and in the post-cold war context the terms is much broader as defined below. Also, “economic reconstruction” often gives the wrong idea that the purpose is to rebuild what you had in the past, which is not at all the case.

<sup>3</sup> For an analysis of how the views on economic reconstruction have changed over the last two decades, see del Castillo (2011, 2010, 2008).

under conditions of peace. During this intermediate phase, the reactivation of production has to take place and is constrained by the need to consolidate peace in the process. Transforming the economics of war into the economics of peace has proved particularly difficult in the post-cold war context of internal conflicts and low levels of development.<sup>4</sup>

### **ECONOMICS OF WAR → ECONOMICS OF PEACE → NORMAL DEVELOPMENT (or economic reconstruction)**

The economics of peace entails getting rid of the underground economy that thrives during wars, finding economic activities for former combatants so as to integrate them into the productive economy, dealing with spoilers who will be reluctant to give up their profitable illegal activities, rehabilitating infrastructure and services ravaged during the war, and demining fields and roads so that productive activities can start. All these peace-related activities—that are fundamentally different from development ones—take place simultaneously with programs to address humanitarian and development needs. Given the important economic and financial implications of peace-related programs, budgetary allocations need to be decided at the political level to ensure that the fragile peace is not endangered.

The reactivation of licit investment and sustainable and equitable growth requires the establishment of an adequate legal and regulatory framework, a functioning financial sector and a functioning public sector. These aspects, together with policies to alleviate poverty and support human development, are necessary to create an adequate business climate in which new and dynamic firms can thrive. This is particularly challenging in the midst of the political, social, and institutional uncertainties that are the legacy of conflict.

The economics of peace—in which the peace or political objectives should prevail over the economic or development ones at all times—is critical to address the root causes of conflict and to ensure that the country does not revert to war. Unless countries engage productively in the economics of peace to reactivate the economy and engage in national reconciliation, long-term development will not have a chance.

Although countries share some common features during economic reconstruction, each one is distinct, owing to the specific interplay of the many factors that influence the multi-pronged transition. These factors include the circumstances in which conflict or chaos began—for example, ethnic rivalries or other internal strife, regional conflict, or control of natural resources—and whether they reached peace through negotiation involving the different parties to the conflict or whether they reached it through military intervention. The geopolitical factor, that is, the country's strategic or regional importance vis-à-vis donors and troop-contributors, is key to this transition since it will determine the extent of international financial and technical

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<sup>4</sup> The “economics of peace” is a key, but indeed much neglected, component of what the State Department refers to as “post-conflict stabilization and reconstruction,” the UN refers to as “peace-building,” UNDP as “early recovery,” and the press calls “nation-building.” To avoid repetition, the terms “development as usual,” “long-term development,” and “normal development” are used interchangeably. The terms “economic reconstruction and “reconstruction,” are also used interchangeably and so are the terms “war-to-peace transitions,” “peace transitions,” “transitions to peace,” or simply “transitions.”

assistance that the country can expect to get. Transitions are also affected by the duration and intensity of the conflict, which vary widely across countries.

The challenge of economic reconstruction following UN-led peace negotiations and NATO or US-led military interventions has been widely analyzed in the literature by those who have been closely involved in them. Such analyses have allowed us to identify a number of rules or guidelines that are associated with effective reconstruction in post-conflict situations. Failing to follow such rules has often driven the country back to conflict.<sup>5</sup>

At the same time, failing to establish the economics of peace in countries, such as Iraq and Afghanistan after several years in the transition, resulted in security rapidly deteriorating, particularly in some areas of the countries. As the U.S. military carried out counterinsurgency operations in these two countries, it became clear to them that “military operations alone will not achieve stabilization objectives.” Thus, in areas in which the U.S. military is already present in large numbers, and the environment is too dangerous for civilian U.S. government agencies, “the military should assume the prominent role in stabilizing the economy until the security environment improves enough to transition responsibility to civilian aid and development experts.” (Peterson & Crow, p. 1)

The purpose of this paper is two fold: First, to briefly analyze the rules or guidelines for civilian engagements in the economics of peace in countries where a fragile peace prevails and which have embarked in the complex multi-pronged transition to peace. Thus, after a cursory description in Section II of this transition and the role the U.S. military may be called to play in it, Section III will briefly establish such rules under civilian reconstruction, which have been analyzed in detail elsewhere (del Castillo, 2011, 2008a).

Second, to set up expeditionary economics as a subset of the economics of peace in countries where the U.S. military presence is large and security conditions are poor, and to discuss how the basic rules for civilian engagement apply to expeditionary economics in such context. This matter is analyzed in Section IV, focusing specifically on how the U.S. military could apply those rules to improve their contribution to the transition to peace in these insecure, conflict-affected areas, and to ensure that their actions are sustainable, once security stabilizes and those areas transition to civilian support. Concluding remarks follow in Section V.

## **II. THE MULTI-PRONGED TRANSITION TO PEACE**

The key challenge of the transition to peace and stability is to prevent the recurrence of hostilities, that is, to make the transition irreversible. This entails the complex political task of addressing the root causes of the conflict or crisis. It also entails improving the wellbeing of different groups that need to feel part of the peace process and have a stake in it. If the

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<sup>5</sup> See, for example, case studies in Woodward (2011, 2010, 2002), del Castillo (2011, 2008a), Addison and Bruck (2009), Surhke (2009, 2007), Boyce and O’Donnell (2007), Fukuyama (2006), Junne and Verkoren (2005), Dobbins (2005, 2003), Addison (2003), Stanley & Holiday (2002), Stedman *et al.* (2002), Hurtić *et al.* (2000), Doyle *et al.* (1997), and de Soto & del Castillo (1994).

population at large does not perceive a peace dividend in terms of improved job opportunities and living conditions, the transition will not be sustainable.

Failure in the security, political, social, or economic transitions will put the other goals at risk. The planning, management, coordination, and financing aspects of this multi-pronged transition are highly burdensome. Given the poor state of countries coming out of protracted conflicts, the international community has had to provide financial aid, technical assistance, and capacity building at every stage of the transition. Inadequate mandates, insufficient expertise, misguided policies, and misplaced priorities on the part of the donor community, as well as poor governance and lack of policy ownership and government legitimacy at the national level, have plagued to different degrees all recent experiences in post-conflict reconstruction.

### *The security transition*<sup>6</sup>

As the High-Level Panel (UN, 2004a, p. 70) notes, “Unlike inter-states war, making peace in civil war requires overcoming daunting security dilemmas. Spoilers, factions who see [peace] as inimical to their interest, power, or ideology, use violence to undermine or overthrow settlements.”

The transition from war and violence to public security is a necessary condition for embarking in the economics of peace. Rubin *et al.* (2003, p. 1) recommend putting security first, since all recovery will prove futile in a chronically insecure environment. In their view, resources will be squandered at best; at worst, they will be hijacked by violent power-seekers. Addison and McGillivray (2004, p. 363) posit that efforts of donors and national actors (governments, the private sector, and communities) will not succeed in the absence of security since insecurity lowers the return on donors’ projects and distorts domestic actors’ incentives. In the last decade there has been plenty of evidence that U.S. investments, particularly large ones, have gone to waste as a result of lack of security (SIGAR, SIGIR, several years).

This does not mean, however, that the reactivation of economic activity can wait until security is established throughout the country. There is always some kind of economic activity that can prosper, even in unstable situations. People need to eat and trade and hence some of these activities will have to take place even in insecure areas. In Afghanistan and in Iraq, inefficiencies and lack of progress with respect to economic reconstruction and national reconciliation were critical in the deterioration of security conditions in 2006.

In developing the doctrine of expeditionary economics, the U.S. military should keep in mind that some employment creating, services providing, infrastructure rehabilitating, or other welfare-improving reconstruction projects have succeeded in conflictive areas, and in fact have been security enhancing. At the same time, the same activities could be conflict-creating if they are opposed by the local community, favor particular groups over other, or impose western beliefs or customs.

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<sup>6</sup> For a detailed analysis of the security transition, see, for example, Salomons (2005), Bryden *et al.* (2005), Feil (2004) and Call & Stanley (2002).

## *The political transition*

The political transition involves the passage from dictatorship and oppression towards a more inclusive system based on the rule of law and respect for human and property rights. Whatever political solution is reached, new governments need to provide effective security, justice, human rights protection, and basic services to the population. As Nobel Laureate Roger Myerson (2011)<sup>7</sup> has emphasized, plans for political and economic stabilization missions “should take account of the political nature of the state that is being built. A state is a political system that puts some people into positions of power and induces the rest of the nation to accept their authority.” He argues further that the feasibility and cost of a stabilization mission can depend critically on the way that the state distributes power. “In particular, when foreign forces help to defend the authority of a state, its national leaders have more incentive to centralize political power narrowly around themselves. But such centralization can alienate key local leaders and so can substantially increase the need for costly foreign efforts to maintain the state.”

Myerson argues that a centralized system, as in the Coalition Provisional Authority (CPA)-occupied Iraq and in Afghanistan since 2004, often seems initially more convenient to foreign forces. But, by alienating local leaders who are not aligned with the faction that holds power in the capital, and without their local political support, the centralized regime may become more dependent on foreign support. Insurgencies often take root in communities where responsible local leadership is lacking.

Following Myerson, a key aspect of the expeditionary economics doctrine for the U.S. military should be to devolve substantial de facto political and economic power to locally elected authorities, possibly through the Community Development Councils (CDC) created under the National Solidarity Program (NSP).<sup>8</sup> The CDCs could then make decisions and allocate the reconstruction funds, which the U.S. military would provide, according to the communities’ needs and priorities. This decentralized approach could create a broad class of local leaders that can spend funds responsibly at the community level, who have a positive expected stake in defending the new political system. In Myerson’s view, decentralization could broaden support for the regime and reduce its dependence on foreign forces.

Drawing on the experiences of Afghanistan and the Democratic Republic of Congo (DRC), Jean-Marie Guéhenno argues that the issue is not so much about decentralization versus centralization, as it is about how to connect the various levels of government in a cost-effective,

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<sup>7</sup> An earlier version of this paper was presented at the Columbia University Conference on Peace Through Reconstruction in October 2009. See video recording of his presentation in Panel 3 at: <http://capitalism.columbia.edu/special-conference-peace-through-reconstruction-co-sponsored-earth-institute-columbia-university-0>.

<sup>8</sup> The Ministry of Rural Rehabilitation and Development created the NSP to develop the ability of the Afghan Communities to improve local governance and managing their own lives and livelihoods by identifying, planning, managing, and monitoring their own projects. The Ministry provides block grants to the NSP and the communities elect their leaders and representative to form voluntary CDCs through a transparent and democratic process. The impact has been small until now since it has disbursed only \$800 million since 2003 (or roughly \$30 per person).

transparent, and accountable way.<sup>9</sup> By supporting CDCs financially and technically, the U.S. military could contribute to improving governance at the local level and also to increase the impact of the NSP in improving lives and livelihoods at the local level. To be effective, this needs to be done with the approval of the appropriate ministries, as discussed below.

### *The social transition*

The social transition involves a process of national reconciliation in countries divided by ethnic, religious, sectarian, political, ideological, and/or economic cleavages. After committing atrocious acts against each other, former adversaries may have to live together in the same communities. To succeed, they must overcome the sharp polarization and confrontation that often fueled the conflict and are the legacy of war. Only through the establishment of adequate mechanisms to create trust and respect for human rights, to facilitate the resolution of disputes, and to foster national reconciliation will they be able to address their grievances through peaceful means in the future. Programs to reintegrate into the communities former combatants and other insurgent groups, as well as returnees and internally displaced groups are key to reconciliation—at the national and local levels.

In developing the doctrine for expeditionary economics, the U.S. military should remember that any action they take with regard to the economy is likely to enhance or go against the need for reconciliation. Thus, every step should be considered carefully since reconciliation between former enemies has proved key to preserving peace and stability. At the same time, reconciliation programs have economic and financial consequences that might seem like a distraction from the need to create economic opportunities. This is not at all the case. The rebuilding of a mosque might contribute to stability more as a confidence building measure for the community than a productive investment may, if that is where the community has set its priority. This, of course, does not eliminate the need for productive investments.

### *The economic transition*

The economics of peace entails a process of effective economic reconstruction with the objectives of: creating short-term productive opportunities so people can have a peace dividend in terms of better living conditions; consolidating peace and minimizing the chances of relapse; and putting the country in a path of long-term development so that the country can avoid aid dependency.

Reconstruction at the time of the Marshall Plan took place in industrial countries with solid economic and political institutions and educated labor forces, which were coming out of an interstate war. Although often with regional implications, reconstruction in the context of today's conflicts takes place in countries coming out of civil war or other internal chaos—requiring special efforts at national reconciliation so that the warring groups can live together in peace.

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<sup>9</sup> Guéhenno also warns that foreigners need to be aware that their promotion of decentralization in countries that are fragile can be misinterpreted as attempts to further weaken, or even dismember the country (personal correspondence).

Under such conditions, economic reconstruction requires a broader definition to include not only rehabilitation of physical infrastructure and services, but also the modernization or creation of a basic macro and microeconomic institutional and policy framework. The latter is necessary for effective economic policymaking and for the productive utilization of large volumes of aid. Without such framework it will be difficult to create a market economy and reactivate investment and broad-based economic growth.

As defined, reconstruction activities at the national level involve the design of policies and institutions, often with the support of the IMF, World Bank, USAID or other. At the community level, the U.S. military could support and/or finance reconstruction through a number of activities ranging from the provision of improved seeds and fertilizer to boost yields for small farmers, to the provision of seed capital, technology and infrastructure for the promotion of new enterprises. Building up human resources in health and education is key to reactivating the economy. The healthier the community and the more skills its members have, the easier it will be to reactivate production. In doing this, it should be kept in mind that building schools and clinics will be wasted unless teachers, health workers, and equipment are available at the sites to provide services for the communities. As security allows it, the U.S. military should search support from civilian experts, including from the U.S. government, the UN and other agencies, as well as from NGOs.

**TABLE 1: MULTI-PRONGED TRANSITION FROM WAR TO PEACE**

<i>Transition:</i>	<i>From:</i>	<i>To:</i>
Security	Violence and insecurity	<ul style="list-style-type: none"> <li>•Improving public security</li> <li>•Creating institutions (civilian police + army)</li> </ul>
Political	Lawlessness and political exclusion	<ul style="list-style-type: none"> <li>•Developing a participatory government</li> <li>•Promoting respect for the rule of law and for human and property rights</li> </ul>
Social	Sectarian/ethnic, religious, ideological or class confrontation	<ul style="list-style-type: none"> <li>•Promoting national reconciliation (DDR/RDD programs)<sup>10</sup> after internal conflicts (civil wars and other)</li> <li>•Developing an institutional framework to address differences through peaceful ways</li> </ul>

<sup>10</sup> The problems with disarmament, demobilization, and reintegration programs (DDR) in Afghanistan in the years following the Bonn Agreement have been extensively analyzed (for a review see del Castillo, 2011). Goodson (2006) argues in favor of a RDD process where reintegration precedes and paves the way for their eventual demobilization and disarmament. This is something that should be seriously considered in new plans for national reconciliation.

### III. THE ECONOMICS OF PEACE: RULES FOR EFFECTIVE ECONOMIC RECONSTRUCTION

Each country will end up with a different strategy for economic reconstruction at the national and local level, depending on factors that are peculiar to their economies, on the level of international support that the country can manage to attract based on geopolitical factors, and on the specific timeframe.<sup>11</sup> Despite the specificity of each particular case, both good and bad lessons from the experience of the last two decades have allowed us to identify the special needs and policy constraints of war-affected countries, and to propose a number of rules or guidelines as key to effective reconstruction. Some of these rules are related but have different policy implications. Others may depend on the specific stage in which they find themselves in the transition from war to peace. But ignoring these rules has often led to misguided policies and misplaced priorities which have been directly associated with setbacks, and even to the collapse of the peace process in many countries.

This, of course, does not mean that all rules should apply to all situations at all times. Common sense is of utmost importance in applying these rules. The more informed and the better the different stakeholders understand the country, its people, its culture, its politics, and its idiosyncrasies, the better they will be able to support effective reconstruction.<sup>12</sup>

#### *Rule 1: Economic reconstruction is not development as usual*

During the multi-pronged transition, the overarching goal of the economics of peace is to create stability and avoid a return to conflict. In addition to the normal challenge of socio-economic development, countries in this transition must accommodate the extra burden of economic rehabilitation of dilapidated infrastructure and services, and of national reconciliation. Critical activities in this regard include the delivery of emergency aid to former conflict zones (many of which may not yet be under government control); the disarmament, demobilization, and reintegration (DDR) of former combatants; the return of refugees and internally displaced groups; the reform of the armed forces and the creation of a national civilian police. It may also include the rebuilding of houses and other economic assets destroyed during the conflict, and the clearance of mines. The effective reintegration of former combatants into society is a condition *sine qua non* for a successful transition to peace.

Because these peace-related activities have important financial consequences and should be given priority in budget allocations, the peace (political) and development (economic) objectives often clash during the transition to peace. The first and most important rule for effective economic reconstruction is that, in countries emerging from war, the peace objective should prevail at all times. It should be clear to all that, should the country revert to war—which happens roughly 50 percent of the time—there will hardly be any chance of development. Recognizing the political constraint to economic policymaking often means accepting that

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<sup>11</sup> What countries can and cannot do in the immediate transition from war may be different from the options they have later on in the transition.

<sup>12</sup> These rules also apply to economic reconstruction in disaster-affected countries. For details, see del Castillo (2011). See also del Castillo (2008a) for specific examples where failure to comply with these guidelines had specific impacts on the peace process.

optimal and best-practice economic policies are not attainable—or, indeed, even desirable during this transition.

*Rule 2: Policymaking following crises is distinctly different from normal development and it should be tailored to such differences*

Economic policymaking in countries coming out of crises—wars, natural disasters, and even financial chaos—is fundamentally different from policymaking under normal development for four main reasons. The differences arise with respect to the horizon over which economic policies can be planned (short-term vs. medium- and long-term); the amount of aid (sharp spikes vs. low and stable flows); the treatment of different groups (preferences vs. equal treatment for all); and the involvement of the international community in national affairs (intense and intrusive vs. non-interference in national affairs). The differences are summarized in the table below.

<b>TABLE 2: POLICYMAKING UNDER NORMAL DEVELOPMENT VS IN CRISES SITUATIONS</b>	
<i>Policymaking under normal development</i>	<i>Policymaking in crises situations</i>
Medium and long-term framework	Requires (distortionary) emergency programs
Application of the “development principle”	Application of the “reconstruction principle”
Low and stable foreign assistance	Sharp spikes in foreign assistance
Government establishes rule of law	Foreign troops and police support rule of law
Political involvement of international community considered interference	Intensive and often intrusive political involvement

Because the overriding objective of post-crisis situations is to avoid reverting to war or aggravating social conflicts, the second rule for effective reconstruction is that economic policymaking should be geared towards:

*Adopting emergency policies without delay*

While under normal development, economic policies and programs aimed at addressing economic stagnation, backwardness, weak institutions, poor human resources, poverty, and other pathologies of underdevelopment are planned with a medium and long-term horizon in mind, no such luxury exists following crises.

As countries come out of crisis, emergency policies adopted decisively and without delay are needed to deal with homeless populations, hunger and diseases, demobilizing fighters, returnees, and displaced populations, as well as all other immediate needs created by the crisis. These policies often serve a short-term humanitarian, political, or security purpose but often distort and have other unintended consequences on medium- and long-term development.<sup>13</sup> Emergency policies may even conflict with some of the other rules for effective reconstruction discussed below, as for example, the need to channel funding through the government budget, since this may significantly delay the process to the point that disaster may not be prevented. Delays in approving disbursement of funds in the immediate transition to peace and misguided priorities—reflecting the development as usual approach of multilateral and bilateral development organizations—have often impeded effective reconstruction.

### *Giving priority to crisis-affected groups*

In post-crisis situations, policymakers often need to put aside the guiding development (or equity) principle (that is, the principle of treating equally all groups with the same needs) in favor of the reconstruction (or political) principle, which justifies giving special treatment to groups most affected by the crisis—even in the presence of others with similar needs.

For peace to be long lasting in countries coming out of conflict, reconstruction policies should be targeted toward decreasing the grievances of those groups most affected by the conflict. Because women, children, and youth groups have been involved as combatants, have played many other roles, and have been victims of specific violence against them during the conflict, reintegration programs that include them, together with male combatants, are particularly important to address and redress some of these problems.<sup>14</sup>

The experience of the last two decades shows that most reintegration programs have provided some kind of temporary employment for disarming and demobilizing groups as well as for disaster-affected ones, including short-term public employment for rehabilitating services or infrastructure, which are not fiscally sustainable. Others rely on jobs provided by NGOs, UN agencies and bilateral donor communities, which are short-term and unsustainable, and deprive the national governments of their scarce human resources.

The international community has failed miserably, however, in supporting these countries to create sustainable jobs in the private sector through the promotion of local entrepreneurship and new start-ups. Active policies to promote such opportunities through credit, training, and

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<sup>13</sup> In the case study of Kosovo, for example, short-term programs to winterize destroyed houses in anticipation of a harsh winter were a waste in terms of the future housing development of the province (del Castillo, 2008, Chapter 8 on Kosovo). However, these programs were essential to save lives during the harsh winter. Perlez (2006) also discusses how houses built by *Save the Children* after the tsunami were so quickly and badly built that they only served a short-run purpose.

<sup>14</sup> As discussed earlier (footnote 9), these programs were a major failure in Afghanistan in 2002-04, which played a role in reinvigorating the insurgency. Reconstruction focused on misplaced long-term development objectives such as poverty alleviation and the Millennium Development Goals (MDGs), rather than actively pursuing programs to reintegrate the Taliban, warlords, and other non-state armed groups into society and productive activities, after the military intervention to remove the Taliban from power and the signature of the Bonn Agreement.

technical support are imperative. The provision of subsidies directly to firms for the hiring of crises-affected groups has yet to be considered but could be promising.

### *Maximizing the impact of aid and avoiding corruption*

Foreign aid exhibits sharp spikes right after crises as media attention focuses on the plight of raped women, starving children, homeless populations, physical destruction, and other such tragedies. World Bank data shows that official development assistance (ODA) following serious crises can reach as high as 50 to 100 percent of gross national income (GNI).<sup>15</sup>

By contrast, aid during normal development fluctuates much less and remains at much lower levels (of between 3 and 5 percent of GNI). Media frenzies following crises are ephemeral, and so aid flows soon return to the low and stable levels that characterize normal development.<sup>16</sup>

The large and short-lived spikes in aid, the improvised way in which they are channeled, the low absorptive capacity and the weak institutions of the countries put special pressure on both governments and donors to utilize aid more effectively and to avoid corruption at the time of the transition to peace.

### *Reining in the international community and ensuring national policy ownership*

Due to the large volumes of aid, technical assistance, and foreign troops in crisis-affected countries, it is inevitable that the political involvement of the international community in the internal affairs of these countries is intense and intrusive. This level of involvement would be considered interference in national affairs and would be unacceptable under normal development.

Because of this, national ownership, which is key to the successful implementation and sustainability of reconstruction policies, is difficult to achieve. Policies should not be imposed from abroad or even by unrepresentative elites within the government. It is up to national leaders to design policies, set up priorities, and build up broad support for them at the national and local levels. National ownership, national capacity and ingenuity, and national consensus building are essential elements to sustain the peace.

To summarize, economic policymaking in countries coming out of deep crises has less degrees of freedom, a sense of urgency and forgiveness for distortions, and a need to disregard the equity principle applied under normal development in order to favor groups that have been most affected by the crisis. At the same time, these countries face the challenge of utilizing large and

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<sup>15</sup> In Mozambique ODA increased to 80% of GNI in 1992 and in Rwanda it increased to 95% in 1994. In extreme cases such as Liberia, ODA increased from slightly less than 60% of GNI in 2004 to over 185% in 2008. Guinea-Bissau is another country that has received large ODA in relation to its GNI. In Afghanistan, ODA remained at about slightly below 50% in 2008.

<sup>16</sup> ODA to the group of low-income countries in 1995-2000 averaged from 2.5-3% of GNI. There are always exceptions. One is Malawi, a country that has avoided conflict but has had severe food shortages in the past and has received ODA flows amounting to 20% a year on average during the last decade for which there is data (1999-2008).

quickly reversible volumes of aid and, as a result, to deal with the large political and military involvement of the international community. The key challenge in this regard is to ensure that policies are conflict-sensitive, that is, tailored to do minimal harm to the fragile peace and to rein in spoilers.

*Rule 3: Keep it simple, keep it flexible, and keep it possible*

Despite their scarce human resources, technical capabilities, and infrastructure, countries in the transition from war must establish as soon as possible a framework for macroeconomic policymaking, as well as the microeconomic foundations to create an appropriate environment for investment, production, and trade. In such circumstances, it is unrealistic and certainly counterproductive to create a framework that is too complex for the country and requires resources that it does not have and that may not exist for a long-time. At the same time, countries should avoid policies that may be optimal for countries during normal development, such as the independence of the central bank and other restrictive monetary or fiscal policies, that may limit options to implement and finance key peace-related programs.<sup>17</sup>

Since the establishment of clear and stable property rights is a precondition for investment, policymakers need to address this issue head-on. The experience of several conflict-affected countries has illustrated how property rights issues can be very different across different countries, and how important it is to follow this rule in establishing the right framework.

In the case of El Salvador and Guatemala, where combatants and their supporters occupied lands during many years of conflict, the issue was backward looking. It involved establishing whether land titles existed in the past and, if so, who held them. However, once a sovereign government made a decision, property rights were likely to remain fixed into the future. Indeed, the issue was never a serious impediment to investment in these countries. Nevertheless, property rights problems were difficult to resolve, since decisions involved numerous parcels of land that often had a long history of occupation, and land registries had to be modernized and updated. In such cases, policymakers need to be as flexible and realistic about what is possible, and look for technical and financial assistance to improve the registry so that they can resolve title claims as soon as possible.

Forward-looking property rights issues are normally paramount where a legitimate government is absent—as it was the case in Kosovo during UN-led administration and Iraq during the Coalition Provisional Authority—since investors do not know what will happen when legitimate authorities assume power. Despite being a strong disincentive to current and future investment, these issues are more difficult to resolve, and may have to wait until a legitimate government takes over.<sup>18</sup>

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<sup>17</sup> This principle was applied to the design of the customs office and commercial policy in Kosovo in 1999, with very good results. By contrast, in the case of Afghanistan, the macroeconomic framework in general was much too complex for the available human resources. More worrisome, the central bank law was not only too sophisticated but also extremely restrictive, more so that in many higher-income and even industrial countries, eliminating any flexibility for domestic financing of peace-related programs. See del Castillo (2008, 2010).

<sup>18</sup> Because investors are usually not attracted to assets for which property rights might change once a legitimate government takes over, they often require an exorbitant discount in the price of the assets to take the risk. This has

In fact, the legitimacy of the government or other policymaking body will determine what is possible in economic policymaking. A weak interim national government, or a United Nations or or foreign occupying administration, should not attempt to implement policies such as privatizing natural resources, creating property rights, or any other major legal, institutional or regulatory changes, when doing so may incite political resistance, even in peacetime.<sup>19</sup>

Failure to comply with Rule 3 in establishing the policy, institutional, and legal framework has led to a number of setbacks in reconstruction efforts across the world. The simpler and more flexible the framework for economic policymaking is, the more successful reconstruction will be. The more the international community understands the local conditions, the easier will be to avoid policies and projects that are unnecessarily controversial or that require financial resources or expertise that the country cannot have in the short term. This may delay reconstruction or make it too dependent on foreign support. It is often better to start with less ambitious goals and with more implementable projects and then to expand as the situation takes hold.

*Rule 4: Create an appropriate yardstick to measure success*

Given that the political objective should always prevail over that of development, and that optimal economic policies are not always attainable or desirable, a different yardstick should be used to measure success. Success should not be measured in terms of the number of jobs created, the percentage of people taken out of poverty, or by indicators of economic growth and inflation, as it is under normal development. A new yardstick is necessary to measure success. Policies and projects must be judged by whether they contribute to peace and reconciliation, rather than on purely economic grounds. In this regard, the yardstick should be more qualitative than quantitative, although the number of violations to ceasefire agreements and other such security incidents could also be included.<sup>20</sup>

An additional problem in measuring success in conflict-affected countries relates to the scarcity of and distortions in the data, which makes empirical research difficult and of scarce value. In

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happened in the DRC, for example, where investments in diamond mines and others were made at very advantageous terms for the investors who took the risk.

<sup>19</sup> Examples of this include the failure of efforts by the US Agency for International Development (USAID) in Iraq to privatize the country's oil industry and by the UN to privatize the Trepca mines in Kosovo. USAID's decision to present a bidding contract for international consulting firms to advise and carry out economic governance projects, including the privatization of Iraq's oil assets as well as of other state-owned property, was one of the factors directly related to increased violence in the country. Although USAID eventually abandoned its effort to privatize the oil industry, it continued to push for privatization of other assets, despite the uncertainty regarding property rights and its own lack of legitimacy. See del Castillo (2008).

<sup>20</sup> For example, if judged with conventional yardsticks (e.g., production per acre, debt repayment, etc.), the arms-for-land program in El Salvador, which was part of the peace agreements, will not get high marks. But the yardstick should be whether the program contributed to maintenance of the cease-fire and national reconciliation, and whether it allowed beneficiaries to find productive employment that would permit them to make a decent living without resorting to arms. Using the "reconstruction yardstick," this program was a resounding success. On the other hand, efforts to privatize the Trepca mines in Kosovo were unsuccessful from an economic point of view, and they also affected negatively prospects for national reconciliation, which could have taken place had both Kosovar Albanian and Serbs be kept working together in the mines. Thus, both the design and subsequent evaluation of alternative economic policies and peace-related projects should use the reconstruction yardstick rather than conventional ones.

some countries such as Iraq, for example, there was no data from international organizations because of UN sanctions. In Kosovo, data on output and other variables were lacking because it was treated as a province and data were compiled at the national level. In both cases comparisons of economic performance before and after the conflict was difficult. The same is true at the local level.

Large movements of people and capital also hinder such comparisons. For example, the food situation and other indicators may worsen in some areas during reconstruction if there are large numbers of returnees, who were refugees in neighboring countries or internally displaced during the conflict. Moreover, the behavior of certain variables can become highly anomalous, further complicating economic analysis.<sup>21</sup>

*Rule 5: Aid should be channeled through the government to support a national integrated reconstruction strategy*

In countries coming out of war or chaos, aid has proved to be ineffective and expensive. By channeling a large part of their aid through their own projects, based on their own agendas and priorities, and utilizing their own contractors and inputs, donors have clearly led to a fragmented strategy—rather than promoting an integrated one under the government’s leadership. It has also facilitated corruption.<sup>22</sup>

This is as much of a problem in Afghanistan as it is in Haiti, and in many countries in Africa. Such fragmentation and lack of ownership has led to unsustainable projects and facilitated corruption. The ineffectiveness of aid delivery and the lack of accountability of aid providers—both at the national and international levels—is well documented.

As Rule 5 indicates, for reconstruction aid to be effective and cost-efficient, it has to be largely channeled through the government budget. Only this would allow for a well-integrated strategy, based on national priorities. Although this should be the general rule, there are emergency situations where there might be no time to go through the normal process. In such cases, funding could be disbursed at the local level, possibly through the Community Development Councils (CDC) created under the National Solidarity Program (NSP). If that were the case, it would be particularly important to do it in agreement and with the consent of the Ministry of Rural Rehabilitation and Development (MRRD). This would connect the various levels of government

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<sup>21</sup> For example, Somalia, a country that had no government, no monetary authority, and a failed economy in the early 1990s, saw its domestic currency appreciate. This puzzled many observers at the UN, who failed to realize that it reflected the inability to print domestic currency amid plentiful inflows of international aid. Despite the collapse in government, Somalis had a preference for their national currency, which resulted in significant appreciation. See del Castillo (2008).

<sup>22</sup> As the U.S. Government Accountability Office (GAO), and the special inspector generals for Afghanistan and Iraq have well documented, corruption, waste and other inefficiencies are not by any means restricted to local officials or institutions. By contrast, money channeled through the trust funds through which donors finance the government’s core operating budget are administered under best international transparency and accountability practices: The Afghanistan Reconstruction Trust Fund (ARTF), used for economic reconstruction purposes, is administered by the World Bank, and the Law and Order Trust Fund for Afghanistan (LOTFA), administered by the UNDP, is used for grants for security and rule of law purposes.

in a cost-effective, transparent, and accountable fashion, as proposed by Guéhenno's. Such an arrangement would also support Herman Schaper's argument that, "The best way to build capacity is not to deal with dozens of different programs devised by individual donors, but to have donors fund programs that are well-coordinated on the basis of Afghan priorities and with an Afghan lead".<sup>23</sup>

Parallel aid systems that lead to separate strategies are not only ineffective but also expensive, and need to be eliminated as soon as feasible. As Alastair McKechnie has emphasized, experience in Afghanistan demonstrates that channeling aid through government is more cost-effective.<sup>24</sup>

Funding continues to be channeled outside the government accounts and only a tiny portion is allocated to the Afghanistan Reconstruction Trust Fund (ARTF), which funds the NSP. First, of total foreign aid amounting to about \$6.5 billion (or 50 percent of GDP) in 2009/10, less than \$2 billion was channeled through the government budget. This represents only about 30 percent of total foreign aid, although it shows a large increase over the previous two years in which it averaged only 18 percent. Of the \$2 billion, \$250 million are channeled through the ARTF.<sup>25</sup> Second, the U.S. government only channeled \$150 million, or 3 percent of its economic reconstruction aid through the ARTF, and is planning to do the same this year.<sup>26</sup>

*Rule 6: Humanitarian and reconstruction assistance should not be conflated: Disbursement of reconstruction aid should not be delayed*

Humanitarian (or charity) aid for the provision of food, shelter, potable water, medical care and for returnees' resettlement helps to support life and to provide minimum levels of consumption for subsistence in the short run. Delivering such aid through the UN agencies and NGOs has proved relatively easy and financing has been generally available, although not always in the amounts requested. However, by affecting relative prices and discouraging labor supply, domestic production, and the building up of domestic capabilities, continuation of this type of aid over extended periods creates all kinds of price and wage distortions, threatens self-sustainability

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<sup>23</sup> Schaper is Ambassador from the Netherlands to the UN and previously to NATO. The Netherlands was among the few donors in Afghanistan that rightly advocated channeling support through national Afghan programs. See video recording of his presentation at the Columbia University Conference on Peace Through Reconstruction, Panel 2 *op. cit.* See also his paper at: <http://capitalism.columbia.edu/files/ccs/Schaper%20Working%20Paper%2046.pdf>.

<sup>24</sup> McKechnie was Director of the Fragile & Conflict-Affected Countries at the World Bank. See his presentation at the same conference in Panel 2, *op. cit.* He gave the example that a basic package of health services contracted outside government channels in Afghanistan can be 50 percent more expensive than the package contracted by the government on a competitive basis. As he points out, the credibility of the government would increase if it demonstrates its ability to oversee services and become accountable for results to its people and parliament.

<sup>25</sup> For estimated data for 2009/10, see IMF (2010).

<sup>26</sup> Despite all the talk about the National Solidarity Program, World Bank data shows that NSP only disbursed about \$700 million directly to the communities from 2003 to mid-2010. With a population of roughly 30 million, this amounts to only a \$25 percent per capita grant during the period. A recent Congressional Research Service (CRS) report by Kartzman (2011) shows that in FY 2010, only \$200 million of the \$6.5 billion allocated to non-security purposes will be channeled through the Afghanistan Reconstruction Trust Fund (ARTF), including for the NSP. Total assistance for that year (including Supplemental) amounted to \$15.7 billion, but \$9.2 was allocated to the Afghan Security Forces Funding (ASFF).

and creates aid dependencies. As a result, it makes effective reconstruction and an eventual move towards normal development more difficult.

Although food aid and other safety nets can save lives, they will increase food dependency, a serious problem in countries in the transition from war or other chaos. This is why humanitarian relief should be phased out as soon as possible. Phasing out food aid, however, has not proved easy for donors since their farmers and other suppliers support it, seeing their production and prices for their products rise as a result of the aid. It has not proved easy for national leaders either to give up such aid.<sup>27</sup> Likewise, the provision of health and education should also be put on a sustainable basis as soon as possible.

Since reactivating production and job opportunities is an urgent challenge in countries in the transition from war or chaos, the question then is, what kind of assistance will be most effective in creating productive capacity and local capabilities? Only reconstruction (or economic) aid targeting investment opportunities that use local capabilities, land, and natural resources can increase productive capacity. Its economic impact, however, will depend on how productively the aid is invested, whether the investment is sustainable, and the impact it has on the labor market, on the exchange rate, on reactivating production and trade, and on protecting the environment.<sup>28</sup>

Rule 6 for effective reconstruction is that disbursement of reconstruction aid should not be delayed—as it is often the existing practice—waiting for the country to have the right conditions in terms of political leadership, governance, institutions, and human capacity. In the meantime, humanitarian assistance continues to be disbursed. A serious problem with aid in Afghanistan and Haiti has been the exorbitant and disproportionate humanitarian aid that has led to strong aid dependencies. At the same time, reconstruction aid should not be allocated to projects that are not likely to survive or be sustainable, as it happened with large infrastructure projects in Iraq.

Reconstruction aid, however, cannot follow a piecemeal approach of having a donor build a school here, another one a road there, and still a third one a dam elsewhere, which is what is happening in Afghanistan and Haiti. Schools and clinics without teachers, health providers, and equipment will not help the country. Reconstruction cannot follow either the policy of spending as much as possible in many projects, hoping that some will stick.<sup>29</sup> To be effective,

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<sup>27</sup> It was both courageous and visionary of President Cristiani of El Salvador, for example, to eventually give up benefits under US Government PL480 soon after the signature of the peace agreements, at the time that his government decided that the long-term benefit of basic grain production was more important for the country than the short-term grant assistance in the form of grains provided under this program.

<sup>28</sup> Many development institutions, including the UNDP, other UN agencies, the World Bank, the regional development banks, and the bilateral development agencies such as USAID can play a critical role as catalysts and coordinators of reconstruction aid. The World Bank and the UNDP also organize donors' meetings, including consultative group meetings and round tables, where donors pledge funds for reconstruction. Even at these donors' meetings, funding for humanitarian and reconstruction purposes are often conflated.

<sup>29</sup> As Jeff Petersen said at the USIP Event on "A Fresh Look at Post-Conflict Economics: Theory, Experience, and Reality," *op. cit.*, this is what the U.S. military has done in Iraq. He attributes it to the lack of a doctrine or theory on how to do it. I would attribute it to the lack of comparative advantage of the military in economic reconstruction, where their main objective is security rather than political. Although I have doubts on whether there can be a doctrine when situations are so radically different, there are lessons and best practices from experiences that have

reconstruction aid needs to be provided in an integrated manner and taking account of local conditions and local needs and priorities. It involves activities ranging from promoting rural development, to improving health and education, to facilitating seed money, technology and infrastructure for business development.

The differential impact between humanitarian and reconstruction aid has become blurred in the present context—with the same agencies, NGOs or military forces often providing both and with the two often under the same command in UN and US-led operations. Describing the division of functions in the UN mission in Iraq, Samantha Power (2008) mentions “There was so much work to be done that the labor could be divided naturally between humanitarian and reconstructions tasks, which Lopes da Silva managed, and political tasks, which Vieira de Mello oversaw.”<sup>30</sup> By conflating humanitarian and reconstruction tasks, such UN structure violates Rule 6, and it also ignores Rule 1, according to which reconstruction is a political process, which requires political leadership to ensure that the political objective always prevail over the economic ones.

**Table 3: The Economics of Peace  
Rules or Guidelines for Effective Reconstruction**

<b>Rule 1</b>	Economic reconstruction is not development as usual	<ul style="list-style-type: none"> <li>• The peace (political) objective should prevail over the development (economic) one at all times</li> <li>• Because the political objective should prevail over the economic one, optimal (first-best) economic policies are not attainable nor desirable</li> </ul>
<b>Rule 2</b>	Policymaking following crisis should be tailored to four major differences with policymaking under normal development	<ul style="list-style-type: none"> <li>• Adopting emergency policies without delay</li> <li>• Giving priority to crisis-affected groups</li> <li>• Maximizing the impact of aid and avoiding corruption</li> <li>• Reigning on the international community and ensuring national policy ownership amid large international</li> </ul>
<b>Rule 3</b>	Keep it simple, keep it flexible, and keep it possible	<ul style="list-style-type: none"> <li>• Because of lack of human resources, technical capabilities, and physical infrastructure, the simpler the framework the less room for inefficiency and corruption</li> <li>• Lack of legitimacy often rules out controversial policies</li> </ul>
<b>Rule 4</b>	Create an appropriate yardstick to measure success	<ul style="list-style-type: none"> <li>• The “reconstruction yardstick” should be whether the policy/project contributes to stabilization and peace, thereby allowing the country eventually to move into normal development.</li> </ul>
<b>Rule 5</b>	Aid should be channeled through the government budget	<ul style="list-style-type: none"> <li>• This is necessary to support a national integrated reconstruction strategy and to ensure government policy ownership without which, policies will not be sustainable</li> </ul>
<b>Rule 6</b>	Humanitarian and reconstruction assistance should not be conflated	<ul style="list-style-type: none"> <li>• Reconstruction aid should be disbursed promptly and invested wisely to avoid aid dependency</li> </ul>

worked and those that have not under a large number of different circumstances. Also, there is a broad literature, dating from the early 1990s, which has been often ignored in more recent experiences.

<sup>30</sup> The difference between the two was actively debated at the time of the Marshall Plan. In his book, Dulles (1993) argued that it would be a waste of money merely to provide humanitarian aid to feed the Europeans for a year or two. Reconstruction aid was necessary to give them the tools without which they would have little chance of righting their own (post-war) economies. He stressed that policies adopted in the first year of the Plan would be decisive in determining how effectively reconstruction proceeded. The same is still true in the present context.

Countries coming out of war or major disasters have found it very difficult to create productive economies. The resulting unemployment—particularly of the young and uneducated—has been one of the most serious obstacles to peace and security. Failure at reconstruction has required large amounts of non-productive resources for foreign military and peacekeeping operations, as well as large volumes of aid—large parts of which are also used for non-productive purposes and geared toward developing national security forces. Effective reconstruction is key to avoiding aid dependencies.

#### **IV: EXPEDITIONARY ECONOMICS: COULD SIMILAR RULES APPLY?**

Schramm’s article has called attention to three important facts. First, the strategy for peace through military counterinsurgency operations has failed to achieve the expected results in Afghanistan, as it did earlier in Iraq. The U.S. military has found it easier to clear and hold insecure areas, than to build and transfer them to local authorities. Second, failure is highly associated with the inability of U.S. foreign policy in these countries to create sustainable economic growth, when “economic growth is critical to establishing social stability, which is the ultimate objective of these counterinsurgency campaigns and disaster-relief efforts.” Third, expeditionary economics should differ from previous efforts at reactivating economies coming out of conflict in that it should be based on the “entrepreneurial model practiced in the United States and elsewhere,” which relies on the dynamism of new firms, which constantly introduce innovations into the economy (Schramm, p. 89).

The article also raises a number of interesting and practical questions if a doctrine for expeditionary economics is developed, and it is first applied to Afghanistan:

- Should there be differences between civilian-led and military-led economic reconstruction? Should the basic rules for the economics of peace apply to expeditionary economics?
- How should expeditionary economics be integrated into the national strategy for economic reconstruction, supposedly led by the national authorities, and into local programs such as the National Solidarity Program?
- Will the entrepreneurial model thrive in a country such as Afghanistan where life expectancy at birth is slightly above 40 years, adult literacy is below 30 percent, and literacy in women older than 15 is only 12 percent, and where conditions are significantly worse in rural areas due to a large urban/rural gap? Or should building up human resources be a critical part of an integrated strategy to reactivate production and productivity through business development?
- What other kind of activities should complement this model or even be a prerequisite for it at the local level?
- How should the U.S. military reinvent themselves in the eyes of many Afghans from military actors, often causing unintended civilian damage, to agents for economic opportunities and peace?
- How can the U.S. military ensure that what they do to create economic opportunities does not create new sources of conflict by destabilizing existing forces in the communities?

- How can the U.S. military ensure that expeditionary economics does not delegitimize the government, at the national and local level?
- How should the transition from military-led to civilian-led reconstruction take place?
- How can the U.S. military ensure that what they do in terms of reactivating the economy is sustainable after they leave?

### *Could Similar Rules Apply?*

As a doctrine for expeditionary economics is developed to support stabilization and peace in insecure areas, it is relevant to ask whether the rules for the economics of peace conducted by civilians in post-conflict situations are also applicable to U.S. military operations. Most rules identified as necessary to move from the economics of war to the economics of peace would seem to be relevant in developing a doctrine for expeditionary economics.

As pointed out by Guéhenno, in applying these rules the military should make every possible effort to understand the country to which they want to help. This may be difficult for the U.S. military who rotates every year. That is why having the right civilian expertise to support their activities is so crucial. Lack of knowledge of the political dynamics, at all levels, could lead to major blunders. The corollary of this is that the military should be aware of their impact and do no harm.

Guéhenno also notes that a foreign presence, whether it is a U.S. deployment or a UN peacekeeping operation, is an enormous shock, with political, social, and economic repercussions. The sudden influx of power and money transforms the magnetic field of conflict. It raises the stakes of political competition, because being on top can mean access to much great potential wealth than before. It can therefore exacerbate conflict.<sup>31</sup>

Self-awareness of these factors will be key for the U.S. military in supporting economic reconstruction, since the military may often have to choose between conflicting goals as they carry out the different aspects of counterinsurgency operations. In such cases, political considerations should always take precedent over the economic ones, since development will not take root without peace. This renders optimal and best-practice economic policies unattainable and often undesirable during the reconstruction phase (Rule 1). Thus, the military will have to pay attention to the critical implementation of peace-related programs, such as the reintegration into the communities of insurgents who are willing to give up arms, as well as returnees, both former refugees and internally displaced populations. They will also have to support other confidence-building projects, which may be of importance to the community, and to provide critical support for local political bodies. These activities should take priority, including in U.S. military budget allocations.

Because effective policymaking during the reconstruction phase requires adopting emergency policies and providing preferences to groups most affected by the war (Rule 2), the U.S. military should be prepared to adopt emergency economic policies in the immediate post-clearing period that may not be optimal from an economics point of view and may even create distortions in

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<sup>31</sup> Personal correspondence with Guéhenno.

terms of prices, work incentives, etc. In this sense, they will have to adopt policies, which, although obviously inefficient from an economic development prospective, may be necessary to avoid collapse in the short-run and to ensure that the well being of the population improves as the U.S. military moves into the communities.

On the other hand, the U.S. military will not be as affected by the spikes in aid or by the coordination hassles that affect civilian support for economic reconstruction in most countries. With regard to aid spikes, Afghanistan is an exception, since the country continues to get ODA flows amounting to roughly half its GNI, even 10 years after the beginning of the military intervention in 2001. Also, the U.S. military will bring Department of Defense financing which is rather stable. Because expeditionary economics will take place in areas where civilian organizations supporting reconstruction will not be present in hordes, as they are elsewhere, the issue of coordination will not be as important to a doctrine of expeditionary economics in the early phase of reconstruction. It will become important, however, as the U.S. military plans to transfer their role to the civilian bodies.

Because countries coming out of war lack basic managerial and technical capabilities, simple, flexible, and reasonable policies are key to facilitating reconstruction and avoiding inefficiencies and corruption. At the same time, policymakers and the international community supporting them often lack legitimacy in the eyes of the population, which limits their policymaking choices (Rule 3). This is particularly true of the U.S. military, which will have to earn that legitimacy through its good performance. In this regard, the military should refrain from supporting any policy that should be resisted by the community because of cultural, social, political, or economic grounds. The simpler and more flexible policies are, the better they will adapt to local conditions, the easier it will be to transfer them, and the more sustainable they will be as the U.S. military leaves the area. Policies also need to be reasonable to be implementable and to avoid unrealistic expectations.

Because of the political and policymaking constraints, as well as the data limitations of post-conflict situations, a different yardstick is necessary to measure success (Rule 4). In insecure areas, the doctrine for expeditionary economics should clearly specify the yardstick for both the overall U.S. military strategy and its component programs. This yardstick should be based on a qualitative assessment on whether the strategy supports peace and stabilization in the communities and on whether it is likely to be sustainable once the military leave, rather than on common economic and financial indicators.

Because aid should support a national integrated strategy to ensure government policy ownership and policy sustainability, it should be channeled through the government budget (Rule 5). Because of the need for rapid disbursement, the U.S. military should support an integrated strategy at the local level by financing projects of CDCs, with the agreement of the NRRD, which allocated government funds to the CDCs through the NSP. This would ensure a de facto allocation of financing through the government finances. It would also ensure that the community has ownership of the policies, would help strengthen local governance, and would ensure that projects are sustainable whenever the U.S. military leaves.

**Table 3: Application of Rules for Effective Reconstruction  
with Civilian vs U.S. Military Support**

<b>Rule</b>	<b><i>The Economics of peace: Civilian Support - Post-Conflict Areas</i></b>	<b><i>Expeditionary Economics: Military Support - Insecure Areas</i></b>
<b>Rule 1:</b> Peace should prevail over development	Should be the motto of all activities of the government (Gov) and the international community (IC) during economic reconstruction	Should be the motto of all activities of the U.S. military
<b>Rule 2:</b> Effective policymaking involves:  <ul style="list-style-type: none"> <li>• adopting emergency policies</li> <li>• providing preferences</li> <li>• dealing with aid spikes</li> <li>• coordinating stakeholders</li> </ul>	Policymaking decisions made by sovereign Gov with support from IC:  <ul style="list-style-type: none"> <li>• yes, even if distortionary</li> <li>• yes, even if others in same conditions</li> <li>• yes – Afghanistan (Afg) is exception</li> <li>• yes – essential but difficult</li> </ul>	Policymaking decisions made by local governments with support for U.S. Military (USM) <ul style="list-style-type: none"> <li>• yes, even if distortionary</li> <li>• yes but carefully</li> <li>• not a problem</li> <li>• not a problem</li> </ul>
<b>Rule 3:</b> Keep it simple, keep it flexible, and keep it positive	<ul style="list-style-type: none"> <li>• Lack of human resources and technical capabilities calls for simple policies and frameworks which leave less room for inefficiency and corruption</li> <li>• Lack of legitimacy rules out controversial policies</li> </ul>	At the local level, USM should earn their legitimacy and refrain from policies that could lead to political resistance and a backlash. Policies should be simple, flexible, and easily transferable
<b>Rule 4:</b> Create an appropriate yardstick to measure success	The “reconstruction yardstick” should be whether the policy/project contributes to stabilization and peace, thereby allowing the country eventually to move into normal development.	Expeditionary economics should use the same yardstick
<b>Rule 5:</b> Aid should be channeled through the government budget	This is essential for the government to be able to design an integrated strategy in which the government has ownership and therefore can be sustainable	USM should channel financing for reconstruction through the NSP or other local community budget to allow for a well-integrated strategy with local ownership
<b>Rule 6:</b> Reconstruction aid should be disbursed promptly	Delaying disbursement of reconstruction aid for investment has prolonged humanitarian aid and created serious distortions	Humanitarian assistance and reconstruction aid should start together as USM clear areas. Reconstruction aid is critical to support local entrepreneurship

Because the conflation between humanitarian and reconstruction aid has led to aid dependencies, reconstruction aid should be disbursed promptly and invested wisely to allow countries to stand on their own feet (Rule 6). This also applies to the U.S. military. As they clear an area from the insurgency, they will need to consolidate their position in the community by providing both humanitarian aid—to ensure minimum levels of subsistence for the population—and reconstruction aid—to support rehabilitation of services and infrastructure and to promote the entrepreneurial abilities of the local population.

### *Motto for the U.S. military*

President's Truman assessment that no aid can bring recovery unless countries take charge of their production and trade effectively remains valid today, both at the national and at the community levels. Thus, in carrying out the different activities relating to the multi-pronged transition to peace—which go well beyond economic reconstruction—the U.S. military should keep in mind five dicta:

First, let local leaders and the communities determine what needs to be done and what the priorities are. Unless they are empowered and they take ownership for whatever is done, the U.S. military will be blamed, its actions will not be sustainable and they will go to waste.

Second, always apply T.E. Lawrence (Lawrence of Arabia) 1917 dictum, “Better the Arabs do it tolerably than that you do it perfectly. It is their war, and you are to help them, not to win it for them.”<sup>32</sup> Mistakes will inevitably be made in these complex situations. But the prevalent practice of the U.S. military and other stakeholders of carrying out various tasks on their own, is just as unacceptable as that of waiting for an improved framework to be in place before local activities are supported. In the first case, local capacity will not be built and there will be no local ownership, making reconstruction unsustainable. In the second, it may take a long time and will threaten prospects for peace and stability.

Third, in promoting activities, always finance them through budgetary support<sup>33</sup> to the government or other local authority in a transparent and accountable way. This will give the government an opportunity to acquire legitimacy through their support for services, infrastructure and economic activity.

Fourth, do as little harm as possible. Evaluate your actions to see whether they will be peace and stability enhancing or, by contrast, could ignite new conflict. This, however, should not be an excuse for inaction.

Fifth, limit the use of U.S. military to activities in which their direct involvement is strictly necessary, such as training local security forces or rebuilding specific infrastructure. Otherwise, support local workers to do it.

### *An Integrated Strategy under Local Ownership*

In the immediate transition, after the U.S. military clears the area from the insurgency and provides humanitarian assistance, communities' investment needs are likely to fall within five broad areas. The doctrine for expeditionary economics should focus on how the U.S. military could promote an integrated strategy to address the specific reconstruction needs of the communities in these areas, creating synergies among them in the process:

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<sup>32</sup> See T.E. Lawrence, “Twenty-Seven Articles,” *Arab Bulletin*, August 20, 1917.

<sup>33</sup> “Budgetary support” refers to donors' general financing of the government budget, without earmarking funds for special purposes or projects, as “project financing” does.

First, communities require local infrastructure. Such infrastructure may be imperative to reactivate irrigation for agriculture and for developing other private sector investments. Afghan entrepreneurs should be encouraged to participate in such projects, alone or working together with the U.S. military.

Second, communities will need to have operating schools and clinics. In this regard, it is important that the U.S. military support them from the very beginning. The military could do this by facilitating direct cash transfers so that people can afford to send their children to school and to take care of their health. The poor have proved to use the money efficiently and make better decisions for themselves than donors.<sup>34</sup> The U.S. military could also sponsor technical educational courses for people willing to engage in entrepreneurship in the agricultural, manufacturing, or services sectors. Better trained and healthier individuals will be more productive.

Third, communities need to create micro- and small-sized enterprises. The U.S. military could facilitate it through the provision of credit, together with technical and marketing support, and through local procurement. Creating entrepreneurship will not be easy under conditions of high instability and low human development. It will require thinking outside the box. In Afghanistan, for example, the U.S. military could facilitate the provision of subsidies and price support schemes to lure farmers away from poppy into food production. The U.S. military could search the advice of successful NGOs, such as the Global Partnership for Afghanistan (rural development), the Organization for the Advancement of Afghan Women (women's health, education and nutrition), Arzu Studio Hope (production, marketing of carpets), and other such NGOs involved in training and promoting entrepreneurship among local men and women to create partnerships with them in more insecure areas under their leadership, security, and financial support.

Fourth, communities will have to reintegrate groups that were marginalized or were displaced from the area during the conflict and start returning after security conditions improve. In this regard, the U.S. military could provide subsidies to local enterprises, large and small, to hire and train targeted groups, and produce for the domestic market, and to local construction companies for building houses, commercial buildings and government infrastructure. This would facilitate reintegration efforts and would ensure that trained people acquire skills for which there is demand in the local market.<sup>35</sup>

By supporting such a general strategy—or any similar one to produce and add value to fruits, vegetables, minerals, stones, metals or anything else that Afghans can produce or services they need—the U.S. military could help the country to stand on its own feet. By creating dynamism (rather than mere growth)<sup>36</sup> and economic and social inclusion, this strategy would create a

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<sup>34</sup> For a review of the successful experience of many countries with this type of transfer, including Brazil, Mexico, and South Africa, see Hanlon, Barrientos and Hulme (2010). See also, Tavernise (2009).

<sup>35</sup> The experience of training programs relating to DDR of war-affected groups conducted by UNDP and other institutions have been largely a failure. Trained people usually cannot find jobs one they go into the market. That is why on-the-job training often works better

<sup>36</sup> Afghanistan has experienced large growth without reactivating critical factors. From very low levels, the economy has grown at 12 percent a year on average since 2002. Growth has been fueled to a large extent by the large amount

functioning and licit economy. It would also be a way of establishing the legitimacy of the Afghan government and decreasing the large levels of corruption that make good governance so difficult in the present context.

## V. CONCLUDING REMARKS

In countries such as Afghanistan, where the U.S. military has a large presence and is involved in counterinsurgency operations, the military is, and will continue to be, involved in different aspects of the multi-pronged transition to peace. On the security front, they are involved in gaining territory from the insurgency and in creating and training a civilian police and a modernized army.

On the political front, they have, or may have in the future, to create a secure environment for carrying out elections at the national and local level. Their actions at the local level could influence the balance of power among local leaders. By financing their activities, the U.S. military could devolve substantial de facto political and economic power to locally elected provincial or municipal governments and encourage them to spend reconstruction funds responsibly in their communities. They could also strengthen governance by providing support in anticorruption and drug eradication activities.

On the social front, they can support national reconciliation by facilitating the reintegration into society and productive activities of former insurgents and other conflict-affected groups, such as displaced populations and returnees. However, it is particularly important that the U.S. military avoid creating social tensions in the communities by providing support to certain groups to the exclusion of others, or simply by going against local customs or inflicting collateral pain on civilians. To do no harm, the military needs to know as much as possible about the country and the situation at the local level.

On the economic front, there is a lot that the U.S. military could do in Afghanistan. Creating opportunities for employment in the short-run is critical, as this will facilitate the long, complex, and expensive process of reintegrating insurgents who give up arms, returnees, and displaced persons into the communities and into productive activities.<sup>37</sup> This could be done through the rehabilitation of services and infrastructure, through the reactivation of rural development for food security, and through the provision of subsidies for people to start some kind of production or to ensure that their kids receive better health and education.

An important tenet of the doctrine for expeditionary economics should be that, whatever the U.S. military decides to do, it has to be decided in conjunction with local leaders and communities

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of aid and the unruly presence of the international community, although some sectors such as construction have been growing fast.

<sup>37</sup> While employment creation should have a short-term focus in post-conflict reconstruction, development objectives such as sustainable growth, poverty alleviation, and environmental protection are long-term objectives, particularly in countries like Afghanistan that start from very low levels of development. In addition to good policies, such objectives require time and significant resources. It would be naïve to think that these objectives could be fully realized—as many analysts of war-to-peace transitions seem to expect—during economic reconstruction. Effective reconstruction, however, should set the stage for an eventual move towards normal development.

and utilizing local people as much as possible. At the same time, expeditionary economics efforts should be targeted at promoting the entrepreneurial spirit and ingenuity of local people in the rural, manufacturing, and service sectors. It may be a cliché to say that peace will not last unless shovels, sowing machines, trucks, computers, and other tools replace guns and grenades in the hands of former combatants. But the difficulty of doing so and the time it would take cannot be underestimated.

Schramm (2009) has argued that the U.S. military doctrine of expeditionary economics should be designed to spur growth as rapidly and effectively as possible in areas in which they are carrying out counterinsurgency operations or disaster-relief efforts. While in theory this makes sense, in practice the U.S. military will have to deal with many of the constraints imposed by national policies and priorities, and by the need to carry out economic reconstruction within the multi-pronged transition and not independently of it. Ignoring political realities or the need for reconciliation among warring groups will make expeditionary economics unsustainable as the U.S. military leaves the area. It may even aggravate the conflict by turning people against the occupying forces.

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