



## The Economic Impact of Violence on the World Economy

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### Abstract

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This paper discusses the cost implication of violence on the global economy – the amount of financial and human resources the world loses annually to violence. According to 2015 Global Peace Index (GPI) released by the Institute for Economics & Peace (IEP), the economic impact of violence on the global economy was US\$14.3trillion in 2014, which represents 13.4 per cent of world total GDP. This is equivalent to the combined economies of Brazil, Canada, France, Germany, Spain and the United Kingdom. Due to the decrease in global peace, the economic impact of violence to the world economy increased by US\$12.4 trillion to US\$14.3 trillion according to the release. If the global violence was to decrease by 10 per cent uniformly, additional US\$14.3 trillion would effectively be incorporated into the world economy each year. The implication of this impact is that instead of developing the global economy by US\$14.4 trillion (13.4 per cent), the economy instead loses this amount annually. This means the world economy is being underdeveloped by this amount annually. For the global economy to grow there must be certain parameters - the pillars of peace without which violence would flourish. Such pillars of peace are discussed herein which include but not limited to the following: sound business environment, high levels of human capital, low levels of corruption, free flow information, good relations with neighbours, acceptance of the rights of others, well functioning government and equitable distribution of resources.

**Keywords:** *Economic Impact, Violence, World Economy.*

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Int'l Jour Adv Stu Eco & Pub Sec Mngt, Vol. 4, no. 2, pp 79-85, May 2016

### **Background to the Study**

Violence means aggression, fighting, hostility, brutality, cruelty, sadism or bloodshed. According to Oxford Advanced Learner's Dictionary, violence is ...behaviour intended to hurt or kill somebody. When writing on "Youth Restiveness in Nigeria's Fourth Republic: The Boomerang Effects of Violence on National Security" Adebisi (2014) quoted Krug (2002) as seeing violence "as the intentional use of physical force or power, threatened or actual, against oneself, another person or against a group or community, which either results in or has a high likelihood of resulting in injury, death, psychological harm, mal-development or deprivation". Adebisi also quoted Corsini (1991) who sees violence "as the expression of hostility and rage through physical force directed against persons or property". Within the context of this paper, violence is taken to mean absence of peace. This paper examines the economic impact of violence on the global economy – human, financial and material resources that are lost to violence annually on a global scale which would have been available for other productive uses in the world economy. The 2015 GPI published by IEP puts the global economic cost of violence at US\$14.3 trillion in 2014, representing 13.4 per cent of the world GDP. This amount is equivalent to the combined economies of Brazil, Canada, France, Germany, Spain and the United Kingdom. Due to the decrease in global peace, the economic impact of violence to the world economy increased from US\$12.4 trillion to US\$14.3 trillion in eight years trend between 2008 and 2015. If the global violence was to decrease uniformly, additional US\$14.3 trillion would be injected into the world economy each year. This figure expended on violence is more than six times the total value of Greece's bailout and loans according GPI published by IEP for 2015 year. This means that instead of developing the global economy by US\$14.4 trillion (13.4 per cent), the economy rather loses this amount annually.

The paper also discusses the ingredient of peace – the pillars of peace such as sound business environment, high levels of human capital, low levels of corruption, free flow information, good relations with neighbours, acceptance of the rights of others, well functioning government and equitable distribution of resources, without these pillars violence would thrive thereby impacting negatively on the global economy. The paper concludes by drawing the attention of world leaders that for any meaning economic growth and development there must be world peace.

### **The Economic Impact of Violence on the World Economy**

The economic impact of violence on the global economy was US\$14.3 trillion in 2014, which represents 13.4 per cent of the world GDP. If global violence were to decrease by ten per cent uniformly, an additional US\$14.3 trillion would effectively be added to the world economy each year. This amount is more than six times the total value of Greece's bailout and loans from the International Monetary Fund (IMF), European Central Bank (ECB) and other Euro zone countries combined. Since 2008, the total economic impact of violence has increased by 15.3 per cent, from US\$12.4 trillion to US\$14.3 trillion. Large increases in costs have occurred due to deaths from internal conflicts, IDPs and refugee support, UN peacekeeping and GDP losses from conflicts. This is a reflection of deterioration in global peace.

Half of the increase in violence containment costs since 2008 is due to deteriorations in the conflict. The violence containment that deteriorated the most terms was deaths from internal conflicts which increased by 378 per cent. In absolute terms, GDP losses from conflict increased to US\$360 billion globally. IEP's comprehensive calculation of military expenditure accounts for over US\$3 trillion globally, which is twice as much as the four largest companies in the United States (Apple, ExxonMobil, Google and Microsoft). Total internal security expenditure, encompassing police, private security guards and national security agencies, now accounts for 18 per cent of violence containment expenditure.

The only category of violence containment to improve was deaths from external conflict, reflecting the trend away from external conflicts between states to internal conflicts within states. The number of refugees and IDPs has increased substantially to over 50 million, according to the Internal Displacement Monitoring Centre (IDMC), the highest number since the end of World War II. Related costs increased by 267 per cent to US\$93 billion dollars since 2008. While UN peacekeeping costs have more than doubled since 2008.

Indirect costs associated with violence and conflicts include the lost productivity that would have otherwise occurred if the violence and conflict did not occur. This includes lost earnings and the psychological effects that affect productivity as a result of crime. The increased risk of being a victim of crime alters individuals' behavioral patterns, often decreasing consumption. While all violence has an indirect cost, the ones mentioned here are those associated with homicides, terrorism, serious assaults and sexual crimes. Assessing the economic costs of violence also provides an ability to measure the potential direct and indirect savings and gains that would result from decreases in violence. Direct benefits relate to the costs saved as a result of decreased violence, for example, reduced expenditure on the criminal justice system due to lower crime has a positive effect on government spending. Indirect benefits represent the increased level of economic activity that may flow from productivity gains. For example, lower prison populations due to decreased levels of crime would mean those currently serving sentences could otherwise be contributing productively to the national economy.

From the GPI released, IEP implements a one-to-one multiplier to both direct and indirect costs to conservatively assess the full economic impact if the world's level of violence decreased. This is to account for the flow-on effects caused by the diversion of funds from less productive activities related to preventing and dealing with the consequences of violence into more productive growth orientated investments. If global violence is to decrease by 10 per cent, an additional US\$14.3 trillion would effectively be incorporated into the world economy each year. Decreasing violence containment expenditure would allow funds to be diverted into more productive areas such as business development, health, education and infrastructure. This would result in further improvements to human capital and greater social welfare.

Violence destroys human and physical capital as well as social and political institutions. It can lead to disruptions in consumption, investment, trade and production. Further, violence requires the diversion of investment from productive areas such as business development, education, infrastructure and health into areas of violence containment such as large

security forces, high prison populations or the military. While it has been found in a wide range of studies that the cost of violence on society is large, there is no universally agreed upon method to holistically aggregate the current and future financial effects of violence and conflict. The definition of violence containment expenditure is: forms of economic activity related to dealing with the consequences or prevention of violence, where the violence is directed against people or property. Within the violence containment framework there are a number of indicators grouped into four categories of violence containment. These four categories are military, crime and interpersonal violence, conflict and internal security and include the following items:

### **Homicide**

Counts the number of homicides recorded each year multiplied by the direct costs of loss of life which are average court, investigation and health costs. Indirect costs are lost earnings and productivity as well as the cost of grievance accrued in the current year.

### **Violent and Sexual Crime**

Counts the number of severe violent physical attacks on individuals including severe sexual assault and rape. Average underreporting rates are also applied to account for underreporting. Minor assaults such as slapping, punching and threats are not included.

### **Incarceration**

Based on the average cost of incarcerating an individual based on incarceration rate per 100,000. Also includes those on pre-trial detention for the current year.

### **Fear from Violence**

Counts the reduction of individuals' consumption as a consequence of fear of violence. Based on a conservative average of existing studies and Gallup World Poll data on fear.

### **Small Arms Industry**

Counts the dollar value of total imports and trade of small arms. Based on data from the Small Arms Survey.

### **Private Security Services**

Based on estimates on the amount of expenditure on security personnel employed by private bodies, such as security guards employed by business.

### **National Security Agency Costs**

Total national expenditure on security and intelligence agencies, such as the CIA, MI6 and Russian FSB. Based on a range of relevant government sources.

### **GDP Losses from Conflict**

Counts GDP losses as a result of conflict and are calculated as within two to eight per cent of GDP, dependent on the severity of the conflict. Based on Collier, IMF and World Bank studies.

**Losses from IDPs and Refugees**

Calculates the lost production of refugees and IDPs who are no longer a part of the formal economy. Based on the number of IDPs and refugees per country counted by UNHCR and the Internal Displacement Monitoring Centre (IDMC) multiplied by the participation rate in each relevant country, accounting for GDP per capita.

**Deaths from Internal Conflict**

Counts the direct cost of battle-related deaths that have occurred as a consequence of conflict internal to the country.

**Terrorism**

Counts the economic impact of deaths, injuries, asset damage and ransom payments that occur as a consequence of terrorism.

**UN and Peacekeeping Operations**

Counts the total collections for UN peacekeeping missions and operating costs of the UN around the world.

**The pillars of Peace**

The dream of the world to end poverty in all its form everywhere by 2030 through Sustainable Development Goals (SDGs) may not be realizable considering the huge economic losses on violence annually by the world. To reduce violence for world peace for global economic growth and development, those factors that engender peace must be initiated, embraced and sustained by all nations – these are pillars of peace which are discussed below as published by IEP in its 2015 GPI.

**Well-Functioning Government**

A well-functioning government system that delivers high-quality public and civil services, engenders trust and participation, demonstrates political stability and upholds the rule of law in the country.

**Sound Business Environment**

The strength of economic conditions as well as the formal institutions that support the operation of the private sector determine the soundness of the business environment. Business competitiveness and economic productivity are both associated with the most peaceful countries, as is the presence of regulatory systems which are conducive to business operation.

**Equitable Distribution of Resources**

Peaceful countries tend to ensure equity in access to resources like education and health, as well as, although to a lesser extent, equity in income distribution.

**Acceptance of the Rights of Others**

A country's formal laws that guarantee basic human rights and freedoms and the informal social and cultural norms that relate to behaviours of citizens serve as proxies for the level of

tolerance between different ethnic, linguistic, religious and socioeconomic groups within the country. Similarly, gender equality, worker's rights and freedom of speech are important components of societies that uphold acceptance of the rights of others.

### **Good Relations with Neighbours**

Having peaceful relations with other countries is as important as good relations between groups inside a country. Countries with positive external relations are more peaceful and tend to be more politically stable, have better functioning governments, are regionally integrated and have low levels of organized internal conflict. This is also beneficial for business and supports foreign direct investment, tourism and human capital inflows.

### **Free Flow of Information**

Peaceful countries tend to have free and independent media that disseminates information in a way that leads to greater openness and helps individuals and civil societies work together. This is reflected in the extent to which citizens can gain access to information, whether the media is free and independent and how well-informed citizens are. This leads to better decision-making and more rational responses in times of crisis.

### **High Levels of Human Capital**

A skilled human capital base — reflected in the extent to which societies educate citizens and promote the development of knowledge — improves economic productivity, care for the young, enables political participation and increases social capital. Education is a fundamental building block through which societies can build resilience and develop mechanisms to learn and adapt.

### **Low Levels of Corruption**

In societies with high corruption, resources are inefficiently allocated, often leading to a lack of funding for essential services. The resulting inequities can lead to civil unrest and in extreme situations can be the catalyst for more serious violence. Low corruption, by contrast, can enhance confidence and trust in institutions.

### **Conclusion**

The economic cost on violence is a clear indication that the world is not at peace considering the fact that the world spends US\$14.3 trillion representing 13.4% of its GDP on violence containment annually. If this amount is not spent on violence, it would be available and effectively injected into the world economy each year. This means that instead of developing the global economy by US\$14.4 trillion, the economy loses this amount. The world economy is being underdeveloped by this amount annually.

For the global economy to grow and develop there must be world peace which must be initiated, embraced and sustained by all nations. World peace can only stand on pillars of peace viz: sound business environment, high levels of human capital, low levels of corruption, free flow information, good relations with neighbours, acceptance of the rights of others, well functioning government and equitable distribution of resources. In the absence of these pillars, the ground is made fertile for violence.

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