Commentary

How To Prevent War And Famine

Raymond Fisman and Edward Miguel 10.15.08, 12:00 AM ET

With the U.S. financial system in unprecedented turmoil and the economy moving toward recession, ordinary Americans wake up to daily panic about their mortgages and mutual funds. But while we fret for our financial security, the volatility in global asset prices and commodities resulting from the U.S. financial crisis will have global reach, threatening the very survival of Africa's poorest villagers.

Take oil prices, for example. With the price of oil back down below $100 per barrel, there's been a collective sigh of relief from America's drivers and car companies (though the oil sheiks in Riyadh and Moscow might not be celebrating). But it's not just oil that's down: After a six-year rally, commodity prices across the board have headed south over the past few months, driven down in part by the risk of a recession in the U.S. And while this means your morning cup of coffee or slice of toast might cost a few cents less someday, it's troubling news for many farmers in poor countries who live on the edge of survival even in good years.

To see what might be on the horizon, think back to previous times when the price of coffee--and other agricultural products--took a nosedive. In 1989, the price of Arabica beans, the economic lifeblood of Rwanda's poor farmers, fell by 50% and didn't recover until 1995. But by this time, perhaps a million Tutsis were dead, victims of mass genocide arguably driven in part by the economic desperation of their Hutu countrymen. In the more recent coffee price decline of 2000 to 2001, violence spiked in the coffee-growing regions of Colombia, as desperate coffee farmers became easy prey for that country's rebel groups and paramilitary recruiters.

But these are far from isolated instances. The vagaries of commodity markets often serve as a trigger for violence, unrest or even civil war in the developing world. The economies of many poor countries are heavily reliant on agriculture and mining. As prices decline, farmers' incomes drop, miners lose their jobs and government revenue for social programs--and army and police salaries--also dry up. Political instability, and potentially much worse, may not be far behind.

Unfortunately, in prior crises the global response has mostly been too little and entirely too late. Famine relief treats the patient only after she's already half-dead. Countries' domestic policy responses--in the form of price controls and trade restrictions to protect vulnerable sectors--may help for a short while, but you can only fight global markets for so long.

We propose a form of foreign aid that would treat the symptoms of conflict--economic shocks to the incomes of the poor--before the disease of civil war takes hold and doing so in a way that would not undermine the functioning of the market system.

Under our proposal--which we call rapid conflict prevention support, or RCPS--organizations like the World Bank and IMF would target short-term emergency aid toward countries hard-hit by adverse commodity price movements or weather shocks like drought and would do so before famine or war break out. So we'd channel aid to Rwanda's farmers when coffee prices fell, or if the Rwandan rain gods failed to nurture their crops. These emergency funds would be scaled back when prices stabilized or the rains returned. (Similarly, emergency funds for the urban poor could increase when food prices go up: High food prices have recently led to rioting in cities from Mexico to Morocco.)

Can RCPS work in practice? In the southern African country of Botswana, something like it already does. Since the 1970s, the government has provided direct income support for rural households in drought years, boosting public works employment and providing transfers to vulnerable farmers. In those difficult years, drought relief helped preserve social stability by keeping rural poverty and income inequality in check.

But Botswana's government got its money's worth: The country hasn't had a single year of armed conflict since independence in the 1960s. Botswana has been Africa's economic superstar for the past 40 years, and it's likely that rapid response drought insurance played at least some role in this success story. In countries without Botswana's resources or good governance, international aid donors could take the lead.

Even as the U.S. and other wealthy countries grapple with potential solutions to the global financial crisis, they should also consider the impact of its aftershocks on less developed countries. We need not stand by and passively watch dire circumstances unfold, as the world did with Rwanda in 1994. But we don't believe that blue-helmeted U.N. troops are necessarily the only or best way of preventing further bloodshed and armed conflict. Insuring the world's poor against adverse shocks to their incomes may be the smartest way of keeping the peace.

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