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The impact of wars on the economy of countries: theoretical and practical aspects

Abstract

Wars leave deep traces in the country's economy during and after the war, as well as social and psychological consequences. At the beginning of the economic consequences of war, there is a loss of labour. The withdrawal of skilled labour from the country due to the war, the reduction of the population as a result of injuries and deaths leads to serious losses in production and national income. The decline in production leads to inflation and the emergence of a «black» market, faced with difficulties in meeting the needs of the population, whose incomes are falling due to the war. The division of resources into army and defence needs during this period leads to bottlenecks in meeting the resource needs of many sectors, especially basic consumer goods. With war, it becomes impossible to provide new production tools, find loans, continue working without interruption in the face of possible enemy attacks, and increase production within the optimal norms of leasing.

This study is intended to discuss the economic consequences of wars. The basic macroeconomic effects of war on the economy are discussed, and the economic costs of war through experiences of the most significant countries are explained with regard to World War I and II. The effects of the Syrian war on the Turkish economy are opened up, and political and economic recommendations are given.

Keywords: War; Economic Consequences of War; World War I; World War II; Syrian War; Turkish Economy

JEL Classification: N10; N50; O50

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Наслідки впливу воєн на економіку країн: теоретичні та практичні аспекти

Анотація. Війни залишають глибокі сліди в економіці країни під час і після них, а також соціальні та психологічні наслідки. На початку війни як економічний наслідок відбувається втрата робочої сили, а саме, відтік кваліфікованої робочої сили з країни, а скорочення населення в результаті травм і смертей призводить до серйозних втрат у виробництві та національних доходах. Зниження виробництва призводить до інфляції і виникнення «чорного» ринку після зіткнення з труднощами в задоволенні потреб населення, доходи якого падають через війну. Перерозподіл ресурсів на потреби армії та оборони в цей період призводить до виникнення вузьких місць у задоволенні потреб багатьох інших секторів, особливо основних споживчих товарів. З війною стає неможливим надавати нові інструменти виробництва, знаходити кредити, продовжувати роботу без переривання перед лицем можливих ворожих атак і збільшувати виробництво в рамках оптимальних норм лізингу. Це дослідження присвячене обговоренню економічних наслідків воєн: визначаються основні макроекономічні наслідки війни для економіки, а також пояснюються економічні витрати війни через досвід найважливіших країн стосовно Першої та Другої світових війн. Нами проаналізовано наслідки сирійської війни для турецької економіки, дано політичні та економічні рекомендації.

Ключові слова: війна; економічні наслідки війни; Перша світова війна; Друга світова війна; війна в Сирії; турецька економіка.

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Последствия влияния войн на экономику стран: теоретические и практические аспекты

Аннотация. Войны оставляют глубокие следы в экономике страны во время и после войны, а также социальные и психологические последствия. В начале войны как экономическое последствие происходит потеря рабочей силы, а именно, отток квалифицированной рабочей силы из страны, а сокращение населения в результате травм и смертей приводит к серьезным потерям в производстве и национальных доходах. Снижение производства приводит к инфляции и возникновению «черного» рынка после столкновения с трудностями в удовлетворении потребностей населения, доходы которого падают из-за войны. Перераспределение ресурсов на потребности армии и обороны в этот период приводит к образованию узких мест в удовлетворении потребностей в ресурсах многих секторов, особенно основных потребительских товаров. С войной становится невозможным предоставлять новые инструменты производства, находить кредиты, продолжать бесперебойную работу перед лицом возможных вражеских атак и увеличивать производство в рамках оптимальных норм лизинга. Это исследование посвящено обсуждению экономических последствий войн: определяются основные макроекономические последствия войны для экономики, а также объясняются экономические издержки войны через опыт важнейших стран после Первой и Второй мировых войн. Нами проанализированы последствия сирийской войны для турецкой экономики, даны политические и экономические рекомендации.

Ключевые слова: война; экономические последствия войны; Первая мировая война; Вторая мировая война; война в Сирии; турецкая экономика.

1. Introduction

The war leads to a radical transformation in the economic and social structure of the country. The goods and services that are placed on the market greatly meet the needs of the army, because they are used as a basic consumer item that people need, and the share allocated to civilian consumption is declining, gradually withdrawing from the market.

In normal periods, according to the law of demand, the increase in prices leads to a decline in demand, while during times of war, this theory has been the opposite, rising prices and willingness to buy which is due to uncertainties and future demands for goods increase. The concern prices will increase in the future and also added when a property buyer has sought to transform money in their hands to material form of capital. If it supplied, the demand for every commodity at each price provokes transitioning to a monopoly position of a seller, as in other areas, the government is losing control of the market and the transparency disappears.

Another problem that the government has to deal with the war is social shortcomings. A significant portion of war spending from the budget allocation of the government budget need leads to the withdrawal of the benefits from the previous recipients. Absence of the government assistance as well as rising of inflation and the prices of basic goods and services put the low-income part of

the nation face-to-face with the poverty and even hunger. The war-budget and conditions hurt especially the people with fixed income who are public sector employees and pensioners. Hence, decline in wealth and income as well as unfavourable macroeconomic situation lead to the impoverishment of the state.

2. Brief Literature Review

From the first societies to the present day, more powerful people, tribes and states have wanted to establish dominance over others. These aspirations and efforts still appear to be. Intellectual efforts, religious or national ideals form superior perception of the right to life, natural resources of strategic importance and weapons of mass destruction. The study of the desire to have a sense of superiority against other nations and the idea of getting them under the direction of provision has been studied by many researchers, for example, Gareth (2008). Wars as a result of problems and issues which cannot be resolved with peace methods are studied by Bayart (2000) and many other scholars.

Many differences are experienced between the wars and armed conflicts of the past and the present. The aftermath of the wars of the century history is incomparable with the one of any ongoing conflict in any region of the world which affects the economy of many other countries in times of globalization (Belloni, 2014; Gareth, 2008).

During the war, some countries affected had received financial resources from the external interested parties to pursue certain economic and political policies (Uche, 2008). In the times of war, by bringing additional tax obligations, governments provide a massive redistribution of income between social classes, individual and social needs. The welfare of the people is set back and the needs of war are moved to the first place, worsening and changing macroeconomic and consumer conditions. For this reason, the sales of consumer goods may significantly grow in volume regardless of the price growth and causing the development of smuggling (Heap, 1990; Bayart, 2000).

Planning arrangements for war, while sticking to the countries' economies and peace talks, is a threat and a sign of the future armed conflict which is especially true for the African countries (Hopkins, 2009).

During the war, primarily defence spending experienced significant losses in public revenues and increases in public spending (Sugihara, 2007). Under such periods, it is required for the financing of deficits and maintaining the credibility of the country because of the higher cost of debt and unwillingness of the creditors to undertake the highly risky decisions (Jayasundara-Smits, 2018). Export revenues losses and the burden of external debt, the decline in interest rates, the deficit of financing, in most cases, met by a central bank combined with the impact of a bigger country confronted with, make the inflation and worsening of internal and external economic environment inevitable (Jerven, 2009).

The war is costly itself and leads as well to the next economic costs which are the repair costs of the damage caused by war (Jespersion, 2015). They are costs incurred for reconstruction activities, health and social security and present a type of expenditure which implies a significant burden on the state budget. In the period of after-war restoration, the distribution of income and wealth for the minimization of the economic and social problems leads to a significant amount of transfer spendings carried out by the government and, consequently, the continuation of public debt and inflation growth (Moradi, 2008).

3. Purpose

The purpose of the work is to study the economic consequences of war by studying historical events against the background of globalization of the world's economies.

4. Results

The economic impact of war

Determination of the costs of war and restoration for the future generations and the discussion regarding expediency of their occurrence is the question which must be answered. The concept of alternative (opportunity) costs is very relevant in such situation as far as the expenditure for the intake of weapon may have been used to build a school. In the same way that the expenditure will be used to buy war planes and helicopters the cost of the construction of an industrial area may be

abandoned. In this case, the human capital of the country for employment expenses are essential and necessary investments to be made, unfortunately, is wasted.

The degree of war involvement of the country influences its level of development, wealth, development in the defence industry, depending on nature and quantity of the productions. If the needs for materials and equipment needed to perform the armed conflict are met by the local production in the country, it ends up the war with less damage for the industry and the country's economy as a whole is less affected. Otherwise, if there is a high import dependency ratio of the country's economy, then war-implied foreign trade in the period of the interruption of the country is being dragged into a crisis (Gareth, 2008). In this regard, the sustainability of the country's production in the period of either war or peace is directly related to the strength of the production. The complex economic impact of war is presented in Figure 1.

Economically a country unprepared to war suggests that there will be difficulties in the production and supply of military equipment and vehicles needed at the first place. For this reason, to avoid a negative situation of the countries unready in face of war, there is a need to have a state team making preparations in times of peace and creating the conditions to survive in the war economy with economic power under the name in, accumulating the reserves for the war expenses (Scott et al., 2006). Therefore, in the era of pre-war, a part of the public resources must be spent on defence instead of providing exclusively public and social needs of the country (Jespersion, 2015).

Another of the economic effects of the war is the decline of the working population. Although there has been a change in the methods of war in the past, it is still seen that the civilian population as well as the military personnel has lost their lives. Human capital is also used as an input in production because human deaths in wars cause losses in the production and national income of countries. The closing of production enterprises in war conditions causes unemployment to rise and consumption to fall due to salary losses.

Another economic impact of the war is the increase of the national debt. Since losses in production and national income during war times led to a decline in tax revenues, the financing of the war was covered by borrowings. This also causes debt interest rates' increase and future generations are burdened with the financing of debt.

When country's statistics are examined, it is seen that health expenses also increased during and after the war. The costs for the treatment of the injured and the care and treatment of

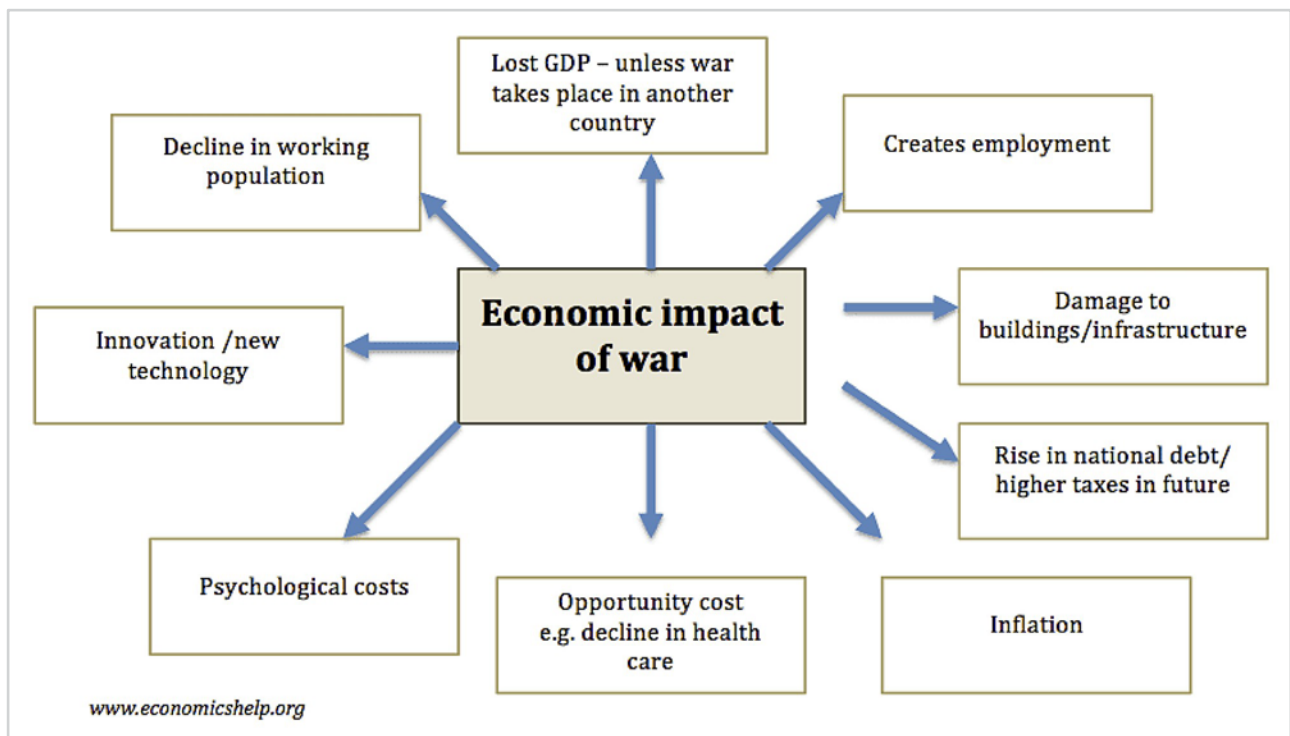


Figure 1:
The economic impact of war
 Source: Pettinger (2019)

psychologically affected people are significant. Again, the damage suffered by the health sector in the war, the damage to the medical equipment and devices received lead to serious costs for their renewal. An example of these costs is the war between the United States and Japan, which the United States responded to with an atomic bomb. Apart with the damage to physical and mental health, the damage to infrastructure such as water and sewerage during these periods is another reason for the increase in diseases and health costs.

Damage to government investments such as infrastructure and buildings destroyed by the war, roads and power stations are also costs caused by the war. Again, inflation, falling savings rates, lack of investment caused by the lack of savings, lack of confidence in the financial system leading to the cutting of financial sources can be named as an example of the economic problems caused by war (Jayasundara-Smiths, 2018).

Another of the economic effects of the war is the damage caused by the destruction of buildings due to weapons and bombs. The restoration of the buildings and the reconstruction of the destroyed buildings are severely affected economically. Even if there are positive aspects to post-war employment creation, the financial burden of rebuilding affects the economy negatively.

Although the effects of wars in general are negative, in some cases a positive influence of war on the economies of the country is seen. For example, some countries have gained economic wealth from many wars in the past and present. Germany, the United States and China, for example, have had a good economy and industry since the World War II ended. However, the main basis of the improvement in the German and Chinese economies is the people's efforts to get the economy back on its feet after the war. However, the wealth gained by countries such as the United States during and after the war is effective in the weapons and war industries. In this respect, the share of the country's war industry compared to national income increases during the war periods and significant capital flows come from the foreign countries. The emergence of new technologies can also be an example of the positive impact of wars. Weapons and equipment can be tested in combat, and the defence industry is developing. Another positive effect is the increase in employment caused by public expenditures after the war. Again, it is observed that unemployment fell rapidly after the war, as production and consumption, which were suppressed during the war period, would show significant increases after the war (Uche, 2008).

Wars entail huge costs, and considerable resources are needed for them. The war affects the building sector, the industrial sector, the agricultural sector, the service sector, exports and investment, in short, the entire basic economic structure. The reconstruction of the buildings destroyed by the bombing, the removal of the damage to the transportation networks, damaged industrial facilities and dams are the problems that await the country in the post-war period. The elimination of these problems brings a significant cost to the country. The other pillar of the cost of war is the resources allocated for the continuation of war (Jespersion, 2015).

Resources allocated for war financing include interest paid for internal and external debts, consumption, savings and investments that society has given up due to the tax increase, and resources allocated for the defence industry. Apart from this, export revenues, depletion of tax resources, import expenses for defence needs and repair of the economy, social life, environment and city after the war are the factors that cause war financing.

The heavy taxes imposed on the financing of the war have different effects on the obliged parties according to the source of the taxation. If the financing of the war is done by taxes on consumption, poverty will accelerate, and if it is met through wealth or income, then savings and investments will be reduced. However, in order to prevent the deterioration in income distribution, a tax on income and wealth would have more effective consequences.

If war costs are to be covered by tax, the most effective method to be applied is to increase excise taxes on luxury goods and arbitrary products such as cigarettes and alcohol. The real wealth tax and wealth increase taxes are also taxes levied on war finance in times of war. The rate of these taxes, usually levied on a one-off basis in times of war, may be severe enough to require the debtor to sell a portion of his wealth (Moradi, 2008).

In order to finance the war, countries have three different sources of financing: domestic and international debt, as well as emissions through their central banks. In this period, the emission, i.e. money printing, causes the general level of prices in countries to increase rapidly and reach triple digits and the country's economy to face hyperinflation. In domestic borrowing, the country has different alternatives. The first of these are banks and financial institutions. However, the

continuity of this resource is not possible as the profitability of banks and financial institutions. The other source of domestic borrowing is individual savings i.e. borrowing from the public. The main reason for the public's willingness to lend to the state during such periods to get out of the existing bad situation quickly and the national commitment. However, governments aim to borrow from the public and thus reduce their purchasing power, especially in order to relieve the inflationary pressure caused by the scarcity of supply in the market.

Effects of wars on national economies

The effects of the World War I are significant in that the interaction between the war and the economy is the war in which it is most clearly seen. The foresight that this war would be short has prevented countries from making the necessary preparations before the war. However, the devastating effects of the war caused countries to use almost all their resources for war (Cockayne, 2013). In general, during the World War I, countries exercised strict control over the market. In particular, regulations were made on food and raw materials, inspections of strategic products, war equipment and those supplying them, and inspections were increased in the transport and agriculture sectors. While the costs of wars in the past were measured in millions, the cost of the World War I was USD 211 billion (Jayasundara-Smits, 2018).

As a result of the lessons learned from the World War I, countries took some measures and made economic plans before the World War II. For example, when the World War II began, about 80% of Germany and Britain's overall spending and almost half of national income were earmarked for war spending. Governments have resorted to some economic and fiscal measures to cover war financing, such as increasing existing taxes, taxing high earnings, and mandating savings. In addition, the purchasing power was reduced through domestic borrowing and thus the production increase was attempted (Jayasundara-Smits, 2018).

The fact that Turkey is Syria's longest border neighbour has caused Turkey's economy to be more affected by the war than other world economies. The economic cost of the Civil War in Syria to Turkey, Egypt, Lebanon, Jordan and Iraq amounted to about USD 35 billion, according to a World Bank report. In particular, the good levels of trade relations between Turkey and Syria until the start of the war led to the loss of these relations after the war and Turkey suffered a significant loss of foreign trade (French, 2014).

Another important economic consequence of the Syrian war is asylum seekers, which forced to emigrate to Turkey to solve the problem of the war to their families. It is estimated that 2.5 million Syrian asylum seekers currently live in Turkey, along with 3.5 million who are not registered. Inflation caused by the increase in demand, especially in areas where Syrian asylum seekers live heavily, has recorded serious rises. The cost of asylum seekers to Turkey has exceeded USD 5 billion as of 2019 (Amnesty International, 2020).

The cessation of border trade, such as cigarettes and sugar, which reached USD 2 billion due to the war, also cost the country. Factories serving the region in Turkey have been left dormant, and Turkey's investments in areas such as Raqqa and the Asia River in Syria have been halted.

Again, Turkey was exporting mainly to Middle Eastern countries and South Africa via Syria. However, after the start of the war, this trade network by road reached the point of breaking down and Turkey's foreign trade with these countries fell. In this case, the Turkish companies that set different alternative routes had to bear additional costs due to transportation costs.

In addition to the impact of the Syrian war on Turkey and the world economies, the biggest economic impact has been in the key indicators of Syria. When we look at the economic indicators of the pre-war period in Syria, it is seen that the country has an average growth rate of 4% per year and inflation is around 5%. After the war, inflation rates in the country reached 48% (Central Bank of Syria, 2019). According to experts, this war has taken Syria's economy back for 30 years. According to ministers in Damascus, oil production has reached its lowest level in years, and phosphate exports and electricity production have dropped dramatically. The report published by the World Bank in July 2017, which examined the economic and social consequences of the war, stated that the cumulative loss in gross domestic product in Syria was USD 226 billion (World Bank, 2017).

5. Conclusion

The greatest economic impact of wars, whether Cold War, is the alternative costs of expenditures made during the war period and after the war. If there were no wars, many economic, social

and cultural developments would be possible in countries with the use of these expenditures in alternative areas, and countries could make their development easier.

Countries lose their labour force due to wars, bear interest burden due to high borrowing, have to approve the physical and human destruction caused by war, and endure additional repair costs in many areas from economy to infrastructure, health to education.

Most important things are to repair the psychological and sociological costs that wars have left on people. It may be possible to repair the physical costs, but it sometimes takes a long time to repair the impact of war on people, and sometimes it is not possible.

If the war had not happened, there would not have been any unemployment compared to the pre-war situation. Or, when production and consumption, which was kept under pressure during the war, led to growth when the economy returned to its normal course, this positive result would again be the result of the negative effects of the war.

Without war, there would have been no spending on these technologies and above all. Therefore, every aspect of the war, no matter how you evaluate it, is negative, and causes serious damage to the economies of the country.

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