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## The impact of structural adjustment loans on civil conflict

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THE IMPACT OF STRUCTURAL ADJUSTMENT LOANS ON CIVIL CONFLICT

A Thesis  
Submitted to the Graduate Faculty of the  
Louisiana State University and  
Agricultural and Mechanical College  
in partial fulfilments of the  
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in

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## **Abstract**

This paper examines the impact of structural adjustment loans of the International Monetary Fund and the World Bank on Civil Conflict. The paper argues that there are three major shortcomings to previous research on this topic. Previous research has focused more on grievances with little focus on the opportunities that may influence rebel behavior. In addition, previous research has placed little focus on the role of state capacity can play in affecting rebel behavior. As such previous research has not fully explained how both opportunities and willingness (Most & Starr 1989) are necessary conditions needed for civil conflict to occur (Most & Starr 1989; Gartzke 1998) or incorporated these conditions into their models. The paper argues that the rebel's willingness to engage in civil conflict can be derived from either grievance associated with income inequality or rent seeking opportunities. Further it argues that opportunity is derived from the state capacity. The paper finds support for the argument that opportunity and willingness are necessary conditions needed for civil conflict to take place. It finds that the interaction of inequality and state capacity or rent seeking opportunities and state capacity increases the likelihood that civil conflict will take place. The paper concludes by suggesting that the impact of structural adjustment loans on civil conflict is complex and may impact different groups in the society differently. Therefore it is necessary to identify the particular grievance that may affect the various groups while also examining how state capacity can also affect group behavior.

## **Introduction**

This research looks at the impact that the International Monetary Fund (IMF) and the World Bank (WB) structural adjustment loans has on civil conflict. This research adds to the body of literature that has specially examined how structural adjustment loans cause civil conflict. It generally argues that previous research (Abouharb & Cingranelli 2003; Abouharb & Cingranelli 2007; Di John 2005; Mars 2001; Auvinen 1996) have fallen short in their examination of the relationship between structural adjustment loans and civil conflict in three major ways. Firstly, it is argued that previous research have focused mainly on the grievances or willingness of rebels or actors to engage in civil conflict, without little or no focus on the opportunities.

They have generally argued that civil conflict occurs as a result of relative deprivation (Gurr 1970). They argue that the conditions attached to structural adjustment loans create a discrepancy between what actors expect and what they actually have (Gurr 1970). This discrepancy or grievance generates feelings of frustration and discontent (Gurr 1970) increasing the likelihood that rebels will engage in civil conflict to address these feelings.

There is indeed merit in that line of argument because structural adjustment loans do have the potential to generate grievances and affect various groups in the country. The conditions attached to these structural adjustment loans force government leaders to redistribute resources in the society and such redistribution can increase relative deprivation. Such explanations focus on the rebel or actor's willingness (Most & Starr 1989) to engage in civil conflict. Willingness is concerned with explaining the motivation or objectives behind the actor's decision to engage in civil conflict (Most & Starr 1989).

While it is necessary to explain the actor's willingness to participate in civil conflict in order to understand the actor's psychological reasoning and the motives behind his willingness to engage in civil conflict (Gurr 1970; Gartzke 1998), it is also necessary to explain how opportunities can constrain or enable the actor's behavior (Most & Starr 1976; Most & Starr 1989; Sieverson & Starr 1990). Opportunities concern the possible constraints or possibilities that are available to actors (Most & Starr 1976; Most & Starr 1989). Opportunities are taken into the actor's calculations of the cost and benefits associated with engaging in civil conflict (Most & Starr 1976; Tarrow 1994; Lichbach 1995) and, as such, are likely to affect the likelihood that structural adjustment loans affect the onset civil conflict.

Secondly, it is argued that the type of grievance is important as it can affect the likelihood that these structural adjustment loans affect the onset of civil conflict. In particular, it is argued that the type of grievances that scholars should examine when examining the relationship between structural adjustment loans and civil conflict are income inequality and rent-seeking opportunities. It is argued that different groups will be affected differently by these two types of grievances (Auvinen 1996). It is argued that income inequality may affect non-elite groups more than elite groups, while rent-seeking opportunities affect the powerful political elites. It is argued that income inequality or rent-seeking opportunities can affect the impact that structural adjustment loans have on civil conflict.

Finally, it is argued that state capacity has not been incorporated into previous models examining the effect of the IMF and WB structural adjustment loans on civil conflict (Abouharb & Cingranelli 2003; Abouharb & Cingranelli 2007; Di John 2005; Mars 2001; Auvinen 1996). State capacity can also affect the likelihood that these loans affect the onset of civil conflict. The state capacity affects the state's ability to repress rebel behavior, as well as, its ability to

accommodate grievances. It is important therefore, that these studies incorporate state capacity into their models in order to better understand how state capacity can mitigate or increase rebel behavior.

Studies that do not address these aforementioned shortcomings will give misleading results. It is quite possible that without addressing these shortcomings the variable that measures the implementation of structural adjustment loans will find that structural adjustment loans have a negative effect on civil conflict, that is, that the likelihood of civil conflict decreases with the implementation of structural adjustment loans.

The paper argues that opportunity and willingness are both necessary conditions needed to explain the factors affecting the likelihood of civil conflict (Most & Starr 1989; Most & Starr 1976; Gartzke 1998). The paper examines the interaction between the variables state capacity (opportunity) and income inequality (willingness), as well as, between rent-seeking opportunities (willingness) and state capacity (opportunity). It also examines the interaction among the variables state capacity, income inequality and structural adjustment loans, as well as, the interaction among the variables state capacity, rent seeking opportunities and structural adjustment loans.

It is expected that if any of these interaction terms are incorporated into models examining the effect of structural adjustment loans on civil conflict then the likelihood of civil conflict will increase. It is also expected that the coefficient of the variable structural adjustment loans would be negative indicating that the likelihood of civil conflict decreases with the implementation of structural adjustment loans. This is because in order to show the effects it is necessary to examine the interaction terms. The paper expects that these interaction terms

would have an effect both on civil conflict and on the structural adjustment loan variable. The structural adjustment loan coefficient is expected to be positive once the interaction term is included in the model.

Using logistic regression the paper finds initial support for the expectation that the interaction of the variables inequality and state capacity have a positive effect on civil conflict. It also finds that there is a positive relationship between the interaction term rent effect and civil conflict. The evidence also suggests that by itself the variable structural adjustment loans will have a negative effect on civil conflict. There is also a positive effect on civil conflict found by the interaction term looking at the interaction among the variables structural adjustment loans, state capacity and inequality, as well as, the interaction term looking at the interaction among the variables structural adjustment loans, state capacity and rent seeking opportunities.

The evidence holds in the examination of developing countries and countries in general. Only the coefficient for the interaction term for the interaction among the structural adjustment loans, state capacity and rent seeking opportunities is insignificant. The paper concludes by arguing that when examining the effects of structural adjustment loans on civil conflict a redress to the grievance either inequality or rent seeking opportunities explain rebel's willingness (Most & Starr 1989) and state capacity explains the opportunities (Most & Starr 1989; Tarrow 1994) that rebels have available to them for civil conflict to take place. Therefore both opportunity and willingness are necessary conditions needed in the analysis of civil conflict.

## **Review of the Literature**

Previous research examining the effect of structural adjustment loans on civil conflict (Abouharb & Cingranelli 2003; Abouharb & Cingranelli 2007; Di John 2005; Mars 2001; Auvinen 1996) have fallen short in their examination of the relationship between structural adjustment loans and civil conflict in three major ways. Firstly it is argued that the focus has been mainly on the grievances or willingness (Most & Starr 1989) of rebels or actors to engage in civil conflict, without little or no focus on the opportunities (Most & Starr 1989). As such scholars have failed to recognize that both opportunity and willingness (Most & Starr 1989) are necessary conditions for civil conflict to occur (Most & Starr 1989; Gartzke 1998).

Previous research on the impact of the IMF and WB structural adjustment loans on civil conflict have argued that these loans increase citizens feelings of relative deprivation (Abouharb & Cingranelli 2003; Abouharb & Cingranelli 2007; Di John 2005; Mars 2001; Auvinen 1996). Relative deprivation describes the disparity between “men’s value expectations and their value capabilities” (Gurr 1970, 13). Value expectations refers to the values, goods or conditions to which people believe that they are owed and value capabilities refers the social means people believe have available to them to be able to obtain value expectations (Gurr 1970).

The disparity between what people expect to have and what they actually get, as well as, the means available to getting what they want is crucial to understanding why people engage in civil conflict (Gurr 1970; Davis 1962) because this disparity generates discontent and frustration. Discontent or grievance increases the greater the extent of man’s relative deprivation (Gurr 1970). As man sees the disparity between what he has and what other have increase, his discontent also increases. These studies show that there is a psychological and subjective

element in collective violence. Further the individual's psychological and subjective perception affects their level of frustration and similar perceptions can be shared by an entire group leading to collective violence. Grievance is determined by the individual perception of expectations being met (Gurr 1970; Davies 1962).

The role of the state in mitigating grievances or satisfying needs is also important. Citizens expect the state's continued ability to satisfy their social and economic needs (Davies 1962). If society members' shared discontent is high and if they also blame their political institutions for such discontent, then the potential for collective violence and political violence is quite possible (Davies 1962; Gurr 1970).

The conditions attached to these structural adjustment loans can be expected to raise the level of people's relative deprivation (Abouharb & Cingranelli 2007, 157). Gurr (1970) argues that material or economic values are the common sources of discontent among members of society (p. 69-71). Further Lichbach (1995) contends that relative deprivation is the source of dissident mobilization drive (p.22).

The policies, used by the IMF, WB and advanced nations, are drawn from the classical economic theories, (Abouharb & Cingranelli 2003, 7-8; Abouharb & Cingranelli 2007), which support liberal principles of free market and structural adjustments (Abouharb & Cingranelli 2003; Keen 2005; Stone 2004; Nooruddin & Simmons 2006), which reduce "the size and role of government in the economy" and thus limit the chances for corruption (Abouharb & Cingranelli 2003, 8; Abouharb & Cingranelli 2007), as well as, fiscal austerity measures and tight monetary policies (Przeworski & Vreeland 2000, 388).

Critics of IMF and WB economic policies argue that such policies are linked to grievance, discontent, as well as, frustration (Abouharb & Cingranelli 2007; Abouharb & Cingranelli 2003; Di John 2005; Auvinen 1996). They argue that these policies increase the level of relative deprivation because of the tight fiscal and monetary policies ordered by the IMF or WB programs (Abouharb & Cingranelli 2007, 157). Further, they argue that these programs change people value expectations, as well as, value capabilities (Abouharb & Cingranelli 2007, 157), which can lead to civil conflict (Abouharb & Cingranelli 2007; Keen 2005; Auvinen 1996).

Austerity measures call for fundamental changes in fiscal, monetary and exchange rate policies. These austerity measures include currency devaluation, deregulation, placing limits on banking credit and public borrowing, elimination of price subsidies, the elimination of price controls, reform of trading policies favoring free trade, tariff reduction and elimination of import controls, encouragement of foreign investment by reducing any such restrictions, tax increases, as well as, wage freezes for government employees, privatizing state-owned industries, and open economy (Pastor 1987, 250; Garuda 2000; 1033; Haggard 1985; Abouharb & Cingranelli 2003; Keen 2005; Przeworski & Vreeland 2000; Abouharb & Cingranelli 2007).

The idea behind economic liberalization has also been to reduce rent-seeking opportunities, in which “state-created rents” create opportunities for corruption, a major impediment to development (Di John 2005, 108). The various policies seek to address poverty, as well, as corruption (Kapur 1998).

People’s value expectations, as well as, value potential can change because of drastic changes fiscal and monetary changes. Drastic changes such as increases in taxes, prices of goods and services, a reduction in the size of the government, wage freezes, as well as, a reduction in

social welfare spending can greatly affect value expectations, as well as, increase discontent and frustration (Abouharb & Cingranelli 2007). The value expectations of business owners whose industries were previously protected by free trade restrictions and limits on foreign investment can also be expected.

Reduced government spending mainly affects important but “pro-poor” (Nooruddin & Simmons 2006, 1011) services such as education, health, and housing subsidies (Palast 2003; Bello et al 1994; Nooruddin & Simmons 2006; Keen 2005; Abouharb & Cingranelli 2007). The failure of developing countries to sustain economic growth under these programs has meant that they have been pushed into further debt (Abouharb & Cingranelli 2007).

In addition, Abouharb & Cingranelli (2007) argue that the implementation of these programs have been found to decrease state respect for human rights (p.1) and these programs affect the most underprivileged sections of the country (p.1). They argue that respect for human rights is conducive to economic development and economic growth. Further they find that “respect for economic and social rights” which includes basic human rights decreased for countries under structural programs (p.137).

Further scholars argue that the WB and IMF’s hopes of macroeconomic stability, economic growth, improvement in balance of payments and general economic improvements, have not been met (Pastor, 1987; Przeworski & Vreeland 2000). They contend that the IMF’s measures are adversative to economic growth (Przeworski & Vreeland 2000), inflation and macroeconomic stability (Pastor 1987). Current account deficits initially were reduced but rose again after the first year (Conway & Fisher, 2006).

Also, IMF loans have been found to reduce economic growth (Conway & Fisher 2006; Przeworski & Vreeland 2000) and that countries that did not take IMF loans and were in the same predicament as those who took IMF loans grew at a faster rate (Przeworski & Vreeland 2000, 395). The IMF's programs have been attacked for not improving countries inflation rates or economic growth rates but rather charge their measures with accelerating inflation rates (Pastor 1987, 257; Abouharb & Cingranelli 2007), with inconsistent growth rates and low growth rates (Pastor 1987, 258; Conway 1994), lower public investment (Conway 1994), as well as, a real depreciation of the exchange rate (Conway 1994).

Scholars argue that economic problems are created from moral hazard issues generated by a lender of last resort (Stone 2004; Conway & Fisher 2006; Rogoff 2003). The moral hazard is created since advanced countries can rely on IMF to guarantee that funds loaned to developing countries will be repaid (Rogoff 2003). Scholars argue that such a guarantee leads to ill-advised financial investments and policies (Stone 2004). The countries therefore suffer from continual economic underdevelopment and mismanagement of the economy (Stone 2004).

Scholarly evidence supports the argument that the conditions attached to the structural adjustment loans can increase relative deprivation. In addition, structural adjustment loans have been associated with increased economic woes and further economic crises. This would further reduce the government's ability to alleviate citizen's grievances and their financial burdens. Citizens' expectation that the structural adjustment loans would alleviate financial pressures may decline drastically while their frustration and discontent at the failure of these programs to improve their economic standing may increase. The potential for these structural adjustment loans to generate feelings of relative deprivation therefore is high and evidence in the literature supports the claim.

Studies examining the impact of these structural adjustment loans on the incidence of civil conflict have generally focused on explaining how increased relative deprivation leads to civil conflict (Abouharb & Cingranelli 2007; Keen 2005; Auvinen 1996). Keen (2005) study of Sierra Leona maintains that there is a direct relationship between grievances caused by the implementation of IMF policies and political violence.

Further Keen (2005) states that IMF policies discontented many state workers as the government had to reduce the number of state employees and the size of the salaries. In addition reduced state spending meant that state infrastructure, including roads and property, greatly deteriorated. There was also a severe reduction in funding for health, education and other social services. These affected groups were willing to join forces against the government.

These studies argue that these structural adjustment loan conditions create discontent and grievances among groups in society (Auvinen 1996; Abouharb & Cingranelli 2007; Keen 2005). Additionally, it is argued that the extent to which these programs are implemented affects the intensity and extent of the conflict (Abouharb & Cingranelli 2007, 158). Auvinen (1996) argues that IMF policies have a “trigger effect” (p. 381) in which the negative impact of the IMF’s structural adjustment programs on the different affected groups in society produces instant frustration and discontent which leads to political protest. Further Auvinen (1996) argues that there is also an economic effect (p.381) which is caused when the IMF policies is unsuccessful at bringing about economic improvements or compensation for the affected groups in the society.

The studies find that there is empirical support for the argument that these programs have an adverse effect on civil conflict (Abouharb & Cingranelli 2007; Auvinen 1996; Mars 2001). Auvinen (1996) finds evidence that there is a negative relationship between IMF programs and

political protest. He finds that inflation and debt service ratio increase the likelihood of political protest. Abouharb & Cingranelli (2007) find evidence that WB or IMF agreements increase the likelihood of rebellion and also that the longer a country is under an agreement the more years these countries experience collective violence (Abouharb & Cingranelli 2007, 164). Schatzman (2005) that in Latin American countries democratic and liberal transition does not necessarily result in a reduction of civil conflict. In fact she finds that it may actually increase the likelihood of civil conflict.

This paper differs from previous research by arguing that both opportunity and willingness (grievances) (Most & Starr 1989) are necessary conditions needed for civil conflict to take place (Most & Starr 1989; Siverson & Starr 1990; Gartzke 1998). While the concern with grievances is crucial to the examination of civil conflict and especially to those examining the relationship between structural adjustment loans and civil conflict, it is necessary to also look at the opportunities that affect the likelihood of civil conflict occurring. The grievances concern the rebel's willingness (Most & Starr 1989) to engage in civil conflict. They represent the motivation or psychological rationale (Gartzke 1998; Gurr 1970; Most & Starr 1976) driving rebels or actors to engage in civil conflict.

The opportunities (Most & Starr 1976; Most & Starr 1989) are also crucial to understanding why people would engage in civil conflict. Opportunities represent the "total set of environmental constraints and possibilities" (Most & Starr 1989) that actors are confronted with. The actor therefore must act within the constraints and possibilities of the environment in which he functions. Opportunities concern the actor's "degree of interaction" (Most & Starr 1976; Siverson & Starr 1990) and show that there are limits on the actor's ability to engage in civil conflict.

These opportunities can serve to either constrain actor's behavior or enable the actor's behavior. Just as it is important to identify the rebel's willingness to engage in civil conflict it is also necessary to account for the opportunities facing the rebels in studies focusing on civil conflict. The examination of the effects of structural adjustment loans on civil conflict is no exception to this as environmental factors such as the state structure can either constrain or enable rebel behavior.

Both opportunity and willingness are necessary conditions for civil conflict to occur and as such they must be incorporated into models analyzing civil conflict (Most & Starr 1989; Siverson & Starr 1990; Gartzke 1998). This concept developed by Most & Starr (1989), show the relationship between the environmental and systemic factors and an actor's behavior. A good assessment of civil conflict must entail looking at the constraints and possibilities that the actors face and their motivation or rationale in light of these constraints and possibilities (Most & Starr 1989). Opportunity or grievance alone cannot account for the civil conflict (Gartzke 1998; Sobek 2010). The opportunity to engage in civil conflict could exist but the willingness to rebel may not be exist and vice versa (Gartzke 1998; Tarrow 1994).

Generally, scholars examining the effect of structural adjustment loans on civil conflict have placed little focus on how political opportunity can mobilize groups as well as constrain group behavior. It has been argued by mobilization theorists that individuals, who lack resources and access to political institutions, are mobilized by changing political opportunities and political constraints (Tarrow 1994). These create incentives for individuals to mobilize and engage in civil conflict.

Tarrow (1994) argues that the psychological and social sources of civil conflict focus on grievances and consensus in a movement without actually specifying the agent responsible for change. They tend to under specify the mobilization process and do not answer how collective action could ever form by self interested individuals. The author argues that any theory that explains social movements or collective action must look at the conditions of political struggles, which are the political opportunity structures necessary for social movements.

Political opportunity structures are “comprised of specific configurations of resources, institutional arrangements and historical precedents for social mobilization” (Kitshelt 1986, 58) which can either facilitate or constrain the development of social movement. They influence protest strategy choices, as well as, the impact of social movements on their environment and the course of the social movement (Kitshelt 1986).

Scholars argue that the political institutional arrangement often create the type of political opportunities structures available which influence the occurrence of civil conflict (Gurr 1970; Tarrow 1994; Kitshelt 1986; Huntington 1968). Kitshelt (1986) argues that open and weak political systems, invite “assimilative strategies”, such as lobbying and petitioning the government, while closed and strong political systems have considerable capacities to deter threats in which movements are likely to adopt confrontational, disruptive strategies developed outside established policy channels (Kitshelt 1986; Gurr 1970). Therefore state structure has a pivotal role in influencing rebel behavior, scope and intensity of civil conflict.

Huntington (1968) argues that the state’s stability depends on the ability of political institutions to deal with demands for participation through institutions. He contends that the degree of government and the development of political institutions are critical to the likelihood

of violence against the state, disorder and instability. As such he argues that when there is a significant gap between political institutions' development on one hand and social and economic changes on the other, instability and violence against the government is likely.

A second shortcoming of previous research has been the failure to incorporate state capacity into their models examining the effect of the IMF and WB structural adjustment loans on civil conflict. State capacity affects the rebel's opportunity to engage in civil conflict (Sobek 2010; Gurr 1970; Hendrix 2010). The state can either satisfying the demands of dissenters, reasonably accommodate their demands (Sobek 2010; Hendrix 2010) or can repress dissenters (Hendrix 2010; Gurr 1970). State structures and political institutions affect the intensity and form of civil conflict (Gurr 1970 p.233). Gurr (1970) argues that the more repressive the state's response to perceived and actual threat, the less violent will be the form of protest (p.233).

Several characteristics have been used to define state capacity. While some scholars, refer to state capacity as being related to the strength as its military capabilities, resources, police, the loyalty of the military and police forces, as well as, the harshness and regularity of sanction (Gurr 1970, 237, Lichbach 1995, 52; Hendrix 2010), others argue that state capacity relates to economic performance, as well as, the state's bureaucratic and administrative capacity (Schatzman 2005; Fearon 2005; Fearon & Laitin 2003; Goldstone 2002; Hendrix 2010). These features seek to explain the state's ability or strength to address grievances or to repress rebels.

Strong states or states that have greater state capacity are also better able to redistribute power and wealth to other groups without a reduction in their political power and influence (Oatley 2008, 101; Goldstone 2002). Weak states are more vulnerable to civil conflict when they are unable to resist elite demands and aggression (Goldstone 2002). State strength also

affects policy choices, coalition formation and their impact on the state (Gourevitch 1996; Fearon 2005; Schatzman 2005; Fearon & Laitin 2003).

The state capacity to suppress insurgencies is important to the overall decision to partake in any form of civil conflict (Gurr 1970; Tarrow 1994; Lichbach 1995; Schatzman 2005; Norton & Reagan 2005). Scholars argue that men have a “utilitarian justification” for engaging in civil conflict, which is the extent to which “the use of violence...will increase their overall value position and that of the community with which they identify” (Gurr 1970, 157). The benefits, costs and the success of tactics are vital for overcoming collective action problems (Green & Shapiro 1994; Tarrow 1994; Lichbach 1995), as well as, for collective action to take place (Tarrow 1994; Lichbach 1995).

Governments which are able to lower the benefits and increase the costs of participations are able to lower the intensity, as well as, the likelihood of civil conflict (Lichbach 1995; Tarrow 1994). While grievances comprise the core of protests and conflicts it is not enough to keep the majority of insurgents committed to the cause as repression may discourage most from remaining committed (Tarrow 1994; Lichbach 1995). State strength is therefore a determinant of civil conflict. For instance, Goldstone (1982) contends that a major cause of a regime’s decline is the inability of the state to deal with economic, military and political problems.

Generally it is held by scholars that a vital component of overcoming the collective action problem is when the benefits outweigh the costs (Tarrow 1994; Lichbach 1995; Green & Shapiro 1994). High costs usually mean that benefits are lower and also that the risks or costs involved are higher (Lichbach 1995). Thus when there are increased benefits and lower costs more people are geared up to participate in collective violence (Tarrow 1994; Lichbach 1995). The state has

the capacity to increase the incentives people have to not engage in civil conflict by lowering the benefits to be derived from engaging in such activities (Lichbach 1995)

Strong states are more likely to repress conflicts against the state (Norton & Reagan 2005; Schatzman 2005). Government repression is a severe constraint on people's willingness to fight for the cause (Abouharb & Cingranelli 2007). As government repressions increase the selective benefits or incentives that insurgent leaders have to employ to keep insurgents motivated also increase. Norton & Reagan (2005) find that repression is an important mechanism both at controlling low levels of disenchantment with state policies, as well as, fuelling the mobilization of insurgents toward civil conflict.

State capacity is important in the examination of the impact of structural adjustment loans on civil conflict. The main question here is whether these states that implement the IMF or WB structural adjustment loans have the ability to resolve grievances, alleviate the aggrieved discontent and frustration and thus reduce the likelihood that civil conflict would occur. While states have the ability to increase the costs and thus reduce the likelihood that rebels would be successful (Lichbach 1995) they also have the ability to reduce the likelihood of civil conflict by satisfying aggrieved persons thus decreasing their benefits from engaging in civil conflict (Sobek 2010; Hendrix 2010).

It is debatable that these states that implement structural adjustment loans do not have strong state capacity and may be incapable of addressing grievances or repressing dissenters. Prior to applying for such structural adjustment loans from the IMF, these states were experiencing severe economic crisis (Thacker 1999). Their government faced balance of payment problems (Thacker 1999; Marchesi & Thomas 1999; Pastor 1987) macroeconomic crisis, size of the current account balance, debt crisis, low per capita income, high inflation, low

economic growth, as well as, inflated budgets and currency devaluation (Thacker 1999; Abouharb & Cingranelli 2003; Nooruddin & Simmons 2006). The financial pressures that these governments faced made it necessary to seek financial assistance from the IMF even though such assistance, some scholars claim came at a high price (Abouharb & Cingranelli 2003).

In addition, the conditions attached to the structural adjustment loans may further inhibit the state's ability to alleviate citizens' financial strife or grievances or increase state repression (Abouharb & Cingranelli 2007). The conditions constrain the decision making policies of states. These constraints can weaken the state's capacity and as such increase the opportunities for rebels to engage in civil conflict. This however may increase the state's need to repress in order to maintain order. Abouharb & Cingranelli (2007) find that state repression increases the longer that states implement structural adjustment loans.

There is scholarly support for the claim that the political opportunities structures in these countries that implement structural adjustment loans are conducive to facilitating civil conflict. Scholars argue that economic crisis tends to expose both the strengths and weaknesses of the state (Gourevitch 1996; Schatzman 2005; Gurr 1970; Sambini & Elbadawi 2002)). States that are prone to low economic and social development and economic crisis are characterized as weak states (Fearon 2005; Schatzman 2005; Fearon & Laitin 2003) and create the opportunities for groups to mobilize against the government (Fearon 2005; Fearon and Laitin 2003; Gilmore et al 2005). Countries with weak economic development or low capital with midlevels of ethnic linguistic fragmentation are associated with a greater likelihood of civil conflict (Sambini & Elbadawi 2002, 329).

Fearon (2005) finds that poorly developed bureaucratic and administrative institutions characterize weak states and that the likelihood of civil conflict is associated with such weak

states. He finds that weak states that have a higher reliance on a primary commodity such as high oil revenues. These states have fewer incentives to develop strong bureaucratic and administrative capabilities than states with similar per capita income. The government is weak at countering insurgent's ability to gain from rents. Rebels have opportunities for primary commodity predation that can help support conflict (Collier & Hoeffler 2000). Humphreys (2005) finds support that weak state structure does increase the insurgents' ability to finance a civil conflict and also that insurgents are better able to profit financially from agricultural goods.

These states' ability to repress or accommodate (Hendrix 2010) affects opportunity and the rebel's involvement in civil conflict. It again shows that opportunity cannot be excluded from the discussion of the impact of the structural adjustment loans on civil conflict. The conditions attached to these loans can affect the behavior of government leaders as states are constrained by these conditions and there may be an increase in the demands placed on state leaders to provide for its citizens.

The constraints placed on governments by the conditions attached to these structural adjustment loans have the potential to generate two types of major grievances: either inequality in the distribution of resources or changes in rent seeking opportunities. It is believed that either of or both of these conditions has the potential to affect the likelihood of civil conflict.

Critics of the IMF and WB's use of classical economic theories posit that these theories have a very narrow focus on economic growth and incorrectly assume that the reduction of government intervention in the economy is necessary for these inexperienced and underdeveloped economies to develop and grow (Abouharb & Cingranelli 2003; Abouharb & Cingranelli 2007). They contend that the benefits of economic growth are lost if the wealth is

unevenly distributed with most appropriated to the small elite group instead of toward social spending (Abouharb & Cingranelli 2007).

Unequal distribution of resources has been argued to have a critical effect on various groups engaging in civil conflict (Reenock, Bernhard & Sobek 2007; Goldstone 2002; Homer-Dixon 1991; Urdal 2005; van der Berg 1998). The fuel igniting civil conflict by various groups in the society is generated when the demands for a more equitable socioeconomic distribution by disadvantaged groups is met with opposition from the privileged powerful smaller elite group (Reenock, Bernhard & Sobek 2007; Goldstone 2002), from competition among elite groups for scarce resources and from elites use of their power to gain favorable policies (Goldstone 2002; van der Berg 1998; Homer-Dixon 1991).

Scholars have identified that major sources of people's grievances leading to collective violence is inequality in the distribution of resources (Russett 1964; Lujala, Gleditsch & Gilmore 2005; Ross 2004). In his examination of the relationship between economic inequality and political instability, Russett (1964) finds that higher degrees of inequality in land distribution coupled with lower levels of a country's economic development or wealth increased the likelihood of political instability. Further he finds that unequal economic distribution of resources decreases a state's democratic stability.

Governments' response is imperative to these demands and a likely response would be to favor policies that quell their most powerful opposition, namely political elites (van der Berg 1998). Elites, in societies that do not have highly developed economies, may react to such activities by force in order to control the distribution of resources and resist demands of the non-elites (Reenock, Bernhard & Sobek 2007). Government leaders therefore may find it in their best interest to maintain order by satisfying these elites by creating redistributive policies that

favor the elites to the disadvantage of non-elites (Abouharb & Cingranelli 2007; Pastor 1987; Garuda 2000).

The conditions attached to these loans make it inevitable that government's redistribute the resources. The conditions generally disadvantage lower income groups in the society (Abouharb & Cingranelli 2007; Pastor 1987; Garuda 2000). In addition, it would seem a fair claim that the government would seek to satisfy its powerful selectorate (Putnam 1988; Kahler 1993; Vreeland 2003; de Mesquita, Morrow, Siverson & Smith 1999). The cooperation of local elites in agreeing to the adjustment measures generally determines the governments' acceptance of the terms of the agreement (Putnam 1988; Kahler 1993; Vreeland 2003).

Actual public policy must have the support of those who hold political power (Gourevitch 1996). Governments must "win" ratification for their proposals from their particular "win-sets" (Putnam 1988) and if the programs are not favorable to the elites, it was not endorsed (Kahler 1993; Gourevitch 1996). Political leaders' decision making power and public policy choices are constrained by their support base (Gourevitch 1996, 19). Payoffs from public policies are important to members of the government's "winning coalition" (de Mesquita, Morrow, Siverson & Smith 1999) who expect that such conditions will have distributional consequences (Nooruddin & Simmons 2006, 1006).

In addition, Gourevitch (1996) argues that during economic crisis when resources are scarce groups with like interests and concerns usually form coalitions to lobby their interest (p.21). Such members are usually elites or interest groups that are well organized and politically powerful and thus influence government's behavior and decisions (Garuda 2000; Nooruddin & Simmons 2006; Gourevitch 1996).

A major determinant of their approval is that of cost (Garuda 2000; Nooruddin & Simmons 2006; Gourevitch 1996). Their approval is dependent on them not having to endure the burden of the terms of the loan (Garuda 2000). They therefore influence where the distributional costs and benefits will fall (Nooruddin & Simmons 2006). Nooruddin & Simmons (2006) identifies the military elites as one group benefiting from IMF loan agreements (p.1023) while Conway & Fisher (2006) find that inflation measures negatively affected the poor in these developing countries (p.118).

There is scholarly evidence that the burden and costs of macroeconomic stability are endured more by labor and the working class than the capitalists or elites (Pastor 1987; Garuda 2000; Abouharb & Cingranelli 2007). The IMF and WB justify this by arguing that their objective is to promote economic growth and economic development rather than on limiting income equality (Abouharb & Cingranelli 2007, 31). Such burdens will become evident as price controls are implemented, social spending is reduced, consumer subsidies are eliminated, wages are reduced or frozen and the size of government is reduced (Garuda 2000, 1033).

Pastor (1987) found evidence for the redistributive effect of IMF programs on labor, stating that the decline in labor's wages, as well as, social wage and consumption growth accelerated during the IMF loan period (p.258). These results are supported by Garuda (2000) which finds that the implementation of IMF programs have "a negative distributional effect on the poor" (p. 1042). Additionally, studies found that the IMF programs concerned with inflation and economic growth, and which prescribe devaluation as a standard adjustment measure results in accelerated inflation and increases in the prices of consumer goods, which greatly affects urban groups, as well as, low income groups (Auvinen 1996; Keen 2005).

The conditions attached to the structural adjustment loans also aim at rent seeking opportunities, as well as, corrupt practices of elites (Di John 2005). Such conditions, if implemented will adversely and directly affect their income, as well as, power. It would be expected that such changes would not be met favorably by these elites. Generally theorists of rent seeking posit that rent seeking is the notion that economic actors “actively use the political process to further narrow private interests” (Cairns 1985; Godwin, Lopez & Seldon 2006). As such rent seeking involves the redistribution of income toward particular political elites, state leaders or interest groups (Cairns 1985).

The distribution of power among groups or individuals usually determines which groups are rewarded such rents (Khan 2000). Rent seeking can entail legal activities such as lobbying (Krueger 1974; Khan 2000) or illegal such as bribes, illegal political contributions to political officials, smuggling, black markets and corruption (Krueger 1974; Khan 2000). It is generally held that regulations policies increase the opportunities for rent seeking to take place (Cairns 1985) as it creates “monopoly- type benefits” (Cairns 1985, 592) for an individual, individuals or interest groups. Powerful interest groups, elites or individuals are able to influence political leaders and government officials to pass such regulations (Cairns 1985).

Weede (1986) argues that rent-seeking is usually the result of collective action (p.295). As such he argues that in developing countries urban interest groups such as the urban public sector, military groups, urban manufacturers and urban employers are better able to exploit their rural counterparts because they are better able to organize for collective action and better able to overcome collective action problems (p.295).

In addition “an overvalued domestic currency” (Weede 1986, 296) contributes to rent seeking benefits as it restricted trade thus protecting urban manufacturers and industries at the expense of rural farmers (Weede 1986). Additionally, protectionism in the form of tariffs and import licenses, as well as, quotas, place restrictions on trade and encourage rent seeking opportunities.

Government ministers, as well as, senior public employees form a cohesive and powerful interest group which protects its interests and benefits from rents (Buccola & McCandlish 1999; Di John 2005). This group remains in favor of state control of the economy and state controlled industries (Buccola & McCandlish 1999). State dominated rent-seeking in South Korea, for instance, created a centralized structured which prevented the inclusion of unfavorable, less powerful groups (Khan 2000, 23). This prevented “decentralized centers of organizational and political power” (Khan 2000, 24), which could pressure the state, as well as, increase rent-seeking demands. Khan (2000) argues that when rent-seeking is controlled by the state it reduces access to rent-seeking opportunities (p.44).

Evidence supports the claim that the implementation of structural adjustment loans could have a drastic impact on the domestic politics and democratic stability. The implementation of economic liberalization may be fiercely resisted and difficult to implement in countries where permissive rent seeking is high (Buccola & McCandlish 1999; Cairns 1985; Di John 2005; Khan 2000). Cairns (1985) argues that deregulation is only possible if a powerful and well organized interest group or coalition of rent seekers agree to such a policy (p.596). For instance labor unions usually encourage a closed economy in order to reduce foreign competition and increase their influence in succeeding at wage demands (Weede 1986). Labor, therefore, would be less likely to encourage policies geared toward an open economy (Weede 1986).

Such policies could be met with “distributive conflicts” (Khan 2000, 1). As it relates to rent-seeking, Khan (2000) finds that economic liberalization in the emerging economies of Asia including India was met with increases rather than decreases in rent-seeking activities (Khan 2000, 14). He also finds that previously excluded interest groups gained entry into rent-seeking opportunities and activities from economic liberalization (Khan 2000, 18). As such Khan (2000) argues that these interest groups were able to gain political power through membership in political organizations and therefore created their own political protection which insulated them from economic liberalization policies (22-23).

Di John (2005) states that reform measures in Venezuela, which included tax reforms, devaluation, trade liberalization, financial deregulation, the removal of almost all restrictions on foreign investment, value added taxes, and privatization, largely challenged Venezuela’s “state-led developmentalism and economic nationalism with centralized rent-deployment patterns controlled by the executive and brokered by two hegemonic and highly centralized and clientelist political parties” (p.109).

Further liberalization measures added to the declining power of labor groups and redistributed income away from labor (p.113), redistributed wealth in favor of the upper income elites as they endured a lower tax burden, increased factionalism, and increased lower income groups’ anti-economic reform sentiments (p.113). The growth of income inequality grew at an unprecedented rate in Venezuela (p.117). In addition, deregulation did not result in a decrease in rent-seeking opportunities but rather an explosion in the number of groups intensely competing for rent-seeking rewards and corruption (p.114) which the state was unable to control.

Mars (1995; 2001) argues that political opportunities for political elites are created by IMF measures imposed on Caribbean countries. The predominantly ethnic based government distributes limited resources and government spending to benefit mainly citizens of their ethnicity. Resource distribution based on ethnicity led to the struggle for political power among ethnic groups, as well as, the rise of political elites' propaganda and ideological movements aimed at sustaining the division among ethnic groups.

These agreements usually call for a reduction in the role and in the size of government (Nooruddin & Simmons 2006; Abouharb & Cingranelli 2003; Abouharb & Cingranelli 2007; Keen 2005; Stone 2004) and an open economy (Kapur 1998; Pastor 1987). Such measures would definitely impact the state capacity and strength (Pastor 1987). With IMF and WB agreements the role and power of the state is shifted to the market (Abouharb & Cingranelli 2007).

They have found that the reaction of elites to such policies ensured that they would be the beneficiaries of any changes even if force was needed to implement these changes (Keen 2005). Political elites were able to "adjust to the adjustment" (Keen 2005, 76). IMF policies which called for the privatization of state industries, such as the fishing, agriculture and diamond industries, led to the creation of "monopolistic and oligopolistic markets... high prices" (Keen 2005, 75) which discontented non-elites who could not afford such high prices.

In addition the military elites used a combination of their military power, as well as, harsh, repressive measures which entailed many severe human rights abuses to benefit from rent seeking measures in the diamond industry and from collecting foreign currency from ordinary

citizens. These elites were willing to defend their rent-seeking advantage and privilege at any cost against the rebels (Keen 2005).

## Theory Section

From the literature there is mounting evidence that structural adjustment loans have the potential to cause many grave grievances in the society. Such loans have been found to lower economic growth (Conway & Fisher 2006; Przeworski & Vreeland 2000), to increase human rights violations (Abouharb & Cingranelli 2007; Abouharb & Cingranelli 2003), to lead to higher inflation rates (Pastor 1987, 257; Abouharb & Cingranelli 2007), as well as, continued current account deficits and balance of payment problems (Conway & Fisher, 2006).

The paper argues that particular types of grievances caused by structural adjustment loans will lead to civil conflict. In addition, the paper argues that while these grievances are necessary for civil conflict to take place, they are not sufficient factors for civil conflict to take place. It is argued that opportunity namely state capacity is also a necessary condition for civil conflict to take place. Opportunities and willingness are necessary conditions for civil conflict to take place (Most & Starr 1989; Gartzke 1998).

It can be argued that structural adjustment loans have the potential to generate two types of grievances that would lead to civil conflict in these countries namely inequality or the unequal distribution of resource and changes to rent-seeking opportunities. Therefore, the ability of state governments to deter people from engaging in civil conflict by either accommodating or repressing (Hendrix 2010; Gurr 1970; Lichbach 1995) is crucial to the likelihood that civil conflict will take place.

While problems such as low economic growth, balance of payment failures, human rights violations and high inflation have the potential to cause frustration and discontent in the society they are not the type of grievances that would lead to civil conflict. Prior to these government

leaders applying for these structural adjustment policies their countries were experiencing severe economic crises (Thacker 1999; Pastor 1987; Przeworski & Vreeland 2000) such as recession, economic crisis and low economic development (Thacker 1999; Pastor 1987; Przeworski & Vreeland 2000). When countries are experiencing dire economic traits or low economic development, it may not be enough to cause civil conflict as the majority of the people's efforts may be focused more on securing basic needs than focused on civil conflict (Davis 1962; Reenock, Berhard & Sobek 2007). The majority's expectation of the government may also be one of passive tolerance for government policies.

It is argued that the conditions attached to structural adjustment loans however can cause two types of grievances that have the potential to increase frustration and aggression leading to civil conflict namely inequality and changes in rent-seeking opportunities. It is also argued that each grievance may affect groups in society differently. We can divide society in two groups: the first group consists of the well organized and politically power group, which include the political elites, senior government officials, labor unions, the military, as well as, the upper class and middle classes (Schatzman 2005; Khan 2005).

It is argued that political elites are usually better educated and better organized (Sullivan, Walsh, Shamir, Barnum & Gibson 1993) and also are valuable contributors to intense civil conflicts (Moore 1996). The second group, which consists of the less organized and less influential political group comprising, the working class, non-unionized workers, government workers, as well as, lower income groups (Pastor 1987; Garuda 2000; Abouharb & Cingranelli 2007).

It is argued that prior to the implementation of structural adjustment policies, these countries were experiencing economic strife but the majority may have grown accustomed to a particular standard of living and had particular expectations of government such as continued social welfare spending on programs such as health, education and subsidies on consumer goods. However, structural adjustment loans cause governments to redistribute resources in the society. In particular government spending on social welfare programs is the targeted resource to be redistributed (Pastor 1987, 250; Garuda 2000; 1033; Haggard 1985; Abouharb & Cingranelli 2003; Keen 2005; Przeworski & Vreeland 2000; Abouharb & Cingranelli 2007).

While the potential for all groups in the country to be affected by the structural adjustment loan conditions, powerful and well-organized groups in society especially the political elites attempt to shield themselves from any adverse effects (Kahler 1993). As such these groups lobby the state leaders to protect their wealth, income and power (Garuda 2000; Nooruddin & Simmons 2006; Gourevitch 1996). Even when there is no economic crisis these groups compete for resource (Gourevitch 1996). The competition increases as these groups, in the face of economic recession and crisis, compete for scarce resources (Gourevitch 1996; Khan 2000).

It is in the interest of members of this group to protect their resources and the benefits that they receive from the system. The stability of the political system is threatened when the demand for a redistribution of resources is high from the members of the non-elite group and the need to satisfy such demands from political elites is low (Reenock, Bernhard & Sobek 2007). Unwilling to accept the demands of these groups these elites may use force in order to control the political system and the distribution of resources themselves (Reenock, Bernhard & Sobek 2007).

The members of the second group would be more likely to be adversely affected by these inequality grievances (Abouharb & Cingranelli 2007; Abouharb & Cingranelli 2003; Keen 2005). The economic consequences for members of this group are tremendous as governments can agree to fiscal and monetary policies which call for radical measures such as wage freezes, reduction in subsidies on utilities, tax increases, as well as, the reduction in social spending, (Pastor 1987, 250; Garuda 2000; 1033; Haggard 1985; Abouharb & Cingranelli 2003; Keen 2005; Przeworski & Vreeland 2000; Abouharb & Cingranelli 2007) which increase the financial burden of citizens in the society.

Such government policies that cause the unequal redistribution of resources to the disadvantage of the second group cause their value expectations to change. They become discontent and dissatisfied with the government's efforts and ability to satisfy their needs. Citizens had grown to expect government spending on social services such as health, education and subsidies on consumer goods and when those expectations are not met it can lead to growing frustration and discontent with the government.

Certainly it can be said that for most citizens, increases in the costs of living without any compensation or reprieve from the state would not be well received. Also people would not be pleased that in the face of present economic crisis they are faced with additional burdens. Therefore there would certainly be a disparity between what they believe is owed to them, their economic expectations of government and their present reality. There would be aggregate increases in grievances, frustration and anger and a demand to redistribute the resource. This group may become frustrated by the inability of government to address their grievances. They may feel that the use of violence is the only means available to them to redress their grievances.

Elite groups may also be affected by the conditions of structural adjustment loans in another way. These loan agreements may affect rent-seeking opportunities for the powerful and well-organized groups and this should have an impact on the likelihood of the civil conflict. Rent-seekers benefit from rent-seeking opportunities and have been able to profit from these opportunities, as well as, build up monopolies from these opportunities (Buccola & McCandlish 1999; Di John 2005; Weede 1986; Cairns 1985).

Deregulation policies, privatization of state-owned industries, trade liberalization, as well as, foreign competition, directly affect rent-seeking opportunities and corrupt practices that have benefitted these groups for a very long time period (Di John 2005; Buccola & McCandlish 1999). Such policies reduce the opportunity for political elites to monopolize industries and benefit from rents (Cairns 1985). In addition, such policies increase the competition among political elites to benefit from rent-seeking opportunities (Keen 2005; Di John 2005; Khan 2000). As these groups feel and realize that their income is being depleted, they will seek drastic measures to protect their interest.

Political elites that previously benefitted from government regulation policies and rent-seeking opportunities would demand a return to the status quo. They may become frustrated and discontented with government efforts to enact such disadvantageous policies. These groups would be willing to use force in order to enforce their own policies and control of power. Civil conflict may seem the necessary or only efficient way to gain favorable outcomes.

The ability of the state to ignore the demands of groups opposed to the implementation of structural adjustment loans is critical. State strength should impact the ability of states to prevent civil conflict from occurring. If governments are unable to satisfy group demands then groups

may feel that there is no other choice available for them but to take matters into their own hands through the use of violence or force.

State capacity affects the benefits and costs calculations of potential insurgents (Tarrow 1994; Lichbach 1995; Green & Shapiro 1994) and the political opportunities available for groups or individuals to have their demands satisfied or heard. Strong states would have lower opportunities than weak states for opportunities to engage in civil conflict or have their demands satisfied by the government (Norton & Reagan 2005; Schatzman 2005; Huntington 1968; Oatley 2008). Repression (Abouharb & Cingranelli 2007; Schatzman 2005; Norton & Reagan 2005) and strong political institutions (Huntington 1968) drastically limit insurgent behavior and access to control of the decision making process.

As such it can be argued that strong states are more able to increase the costs and lower the benefits for those who are likely to engage in civil conflict. High costs such as political imprisonment, torture, disappearance and death (Cingranelli & Richards 1999; Abouharb & Cingranelli 2006; Abouharb & Cingranelli 2007) usually mean that benefits are lower and also that the risks involved are higher (Lichbach 1995). Thus increases benefits and lower costs incorporate more participants in collective violence (Tarrow 1994; Lichbach 1995).

The state ability to accommodate the demands of groups opposed to their structural adjustment policies can also have a critical effect on those willing to engage in civil conflict (Hendrix 2010; Sobek 2010). If the state is able to reduce grievances for either group then the likelihood of that group engaging in civil conflict would be lower since the particular group's grievance is being redressed.

Incorporating opportunities and willingness therefore is vital to getting a more complete assessment of the impact of structural adjustment loans on civil conflict (Gartzke 1998; Most & Starr 1989). If we are arguing that the potential for grievances exists or is created as a result of the conditions attached to the loan, then we must also argue that the state's response to the demands of the aggrieved affect the dissenters' behavior and likelihood of civil conflict. There is a relationship between the constraints on dissenters' behavior and their motivation or willingness to engage in civil conflict.

		Grievance	
		HIGH	LOW
Opportunity	HIGH	Likelihood of Civil Conflict High	No Likelihood of Civil Conflict
	LOW	Likelihood of Civil Conflict Moderate	No Likelihood of Civil Conflict

Figure 1 – The Interaction of Opportunity and Grievance on Civil Conflict

As Figure 1 shows, it can be argued that when grievances are high and when opportunities are high as well, the likelihood of civil conflict is high as well. In such situations grievances are high enough to encourage aggressive or violent behavior. In addition, the opportunities for civil conflict to occur are also high. This means that potential constraints such as fear of imprisonment, death, torture or disappearance are low. Low may also represent the government's ability to accommodate the dissenters' grievances.

Conversely, when there are little to no grievances and also where the opportunities available for civil conflict to take place are also low, the likelihood of civil conflict is also low.

The opportunities may be low because of a high level of repression or because the government's ability to accommodate grievances are high. The both conditions necessary for civil conflict to take place are satisfied but are too low to cause civil conflict.

If there are no grievances there is no reason to believe that structural adjustment loans will cause civil conflict to take place. While other factors may cause the likelihood of civil conflict to increase, grievances are not present and therefore one of the necessary conditions for civil conflict to take place in this context has not been met. This line of reasoning shows that there is an interaction taking place between opportunity and willingness. The interaction between the unequal distribution of resources and state capacity or the interaction between the changes in rent-seeking opportunities and state capacity can have an effect on the likelihood of civil conflict. These interactions may also have an affect on the structural adjustment loans variable itself in predicting the likelihood of civil conflict.

The following hypotheses are developed from the preceding discussion:

H1: The variable structural adjustment loans by itself will have a negative effect on the likelihood of civil conflict

H2: The interaction between inequality and state capacity increases the likelihood of civil conflict.

H3: The interaction between rent-seeking opportunities and state capacity increases the likelihood of civil conflict.

H4: The interactive terms can better account for the impact that the structural adjustment loans have on civil conflict: The incorporation of the interactive term, rent-seeking opportunities

and state capacity, will cause the structural adjustment loans variable to be positive indicating that there is a positive relationship between structural adjustment loans and civil conflict; The incorporation of the interactive term, inequality and state capacity, will cause the structural adjustment loans variable to be positive indicating that there is a positive relationship between structural adjustment loans and civil conflict.

H5: The interaction among the variables structural adjustment loans, rent-seeking opportunities and state capacity will increase the likelihood of civil conflict.

H6: The interaction among the variables structural adjustment loans, inequality and state capacity will increase the likelihood of civil conflict.

## **Research Design<sup>1</sup>**

The period under investigation is 1980 to 1999. The 1980s has been cited by scholars as the beginning of the period of extensive structural adjustment loan agreements between the WB and IMF and the developing countries (Thacker 1999; Pastor 1987, Abouharb & Cingranelli 2003; Bird 2001; Abouharb & Cingranelli 2007). The dataset comprises a total of two hundred and five countries. While the study examines all countries, it also looks separately at developing countries to determine if generalizations can be made from the results. The study employs a logistic regression and the unit of analysis is country year.

The data is derived from several datasets. One of the two main datasets used was the Quality of Government Dataset (2009) produced by Teorell, Jan, Nicholas Charron, Marcus Samanni, Sören Holmberg and Bo Rothstein. The other main dataset used was the Fearon & Laitin (2003) replicata dataset. Variables were also derived from the following datasets: Abouharb IMF/WB dataset (2010), Abouharb & Kimball Infant Mortality Rates Dataset (2007), as well as, Abouharb & Cingranelli Structural Adjustment Loan Dataset (2007).

### Dependent Variable

#### Civil Conflict

The dependent variable is civil conflict. Violent or armed civil conflict describes conflict in which armed force or weapons are used by two parties of which one party must be the government and which results in at least twenty five or more battle-related deaths (Strand 2006; Gleditsch, Wallensteen, Eriksson, Sollenberg & Strand 2002). The death threshold therefore is 25 battle-related deaths or more.

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<sup>1</sup> For Operationalization of Variables Table see Appendix A

The variable is obtained from the The Uppsala Conflict Data Program (UCDP/PRIO) Conflict Database. In line with the coded method employed by Gleditsch, Wallensteen, & Strand (2005), Abouharb & Cingranelli (2007), Fearon & Laitin (2003) the variable is coded as 0 if no armed civil conflict took place, 1 if conflict has taken place.

### Independent Variables

#### Structural Adjustment Loans

The variable, Structural Adjustment Loans, measures whether the country is under a structural adjustment loan or not. This variable is obtained from Abouharb IMF/WB Dataset (2010). The variable is a running count of the number of years that the country has been under either a World Bank or IMF structural adjustment loan. Because both institutions implement structural adjustment loans (Abouharb & Cingranelli 2007, 2003), the study takes the advice of Abouharb & Cingranelli (2003, 2007) that it is best to examine both the World Bank and IMF in order to avoid problems of underestimating the effects of structural adjustment programs. The variable was recoded 1 for any year that the country has been under a structural adjustment loan of either the World Bank or the IMF and 0 for each year that the country has not been under the structural agreement loan (Abouharb & Cingranelli 2007).

#### Inequality

The Inequality variable looks at the unequal distribution of income and the measure used is the infant mortality rate. It has been argued that the infant mortality rate is a better indicator of economic development and in particular the distribution of income in the society (Abouharb & Kimball 2007; Pampel & Pillai 1986; Urdal 2005; Willie 1959) because it has less missing data problems than using the Gini index (Abouharb & Kimball 2007) and also because it is good at

showing how well governments provide for their citizens' social and economic welfare (Abouharb & Kimball 2007; Willie 1959; Pampel & Pillai 1986). The measure is obtained from Abouharb & Kimball dataset (2007). It measures the number of infant who die before they are one year old per one thousand of infant born.

### Rent Seeking Opportunities

Rent seeking opportunities is included to assess the impact of changes in rent seeking on civil conflict. The variable is developed by the International Country Risk Guide (ICRG). It is the mean value of the ICRG variables "Corruption", "Law and Order" and "Bureaucracy Quality", it is measures on a 0-1 scale. The higher values indicate less corruption and a better bureaucratic quality of governance. The ICRG variable has been used in studies as a proxy for corruption (Schatzman 2005). It is taken from the Quality of Government Dataset (2009).

The description of the variables Corruption, Law and Order and Bureaucratic Quality is taken from the Quality of Government Code Bank:

#### Corruption

This is an assessment of corruption within the political system. The ICRG looks at the most prevalent type of corruption, financial corruption, "in the form of demands for special payments and bribes connected with import and export licenses, exchange controls, tax assessments, police protection, or loans" (Quality of Government 2009). It is proposed by the ICRG that these types of corruption are potentially of much greater risk to foreign business in that they can lead to "popular discontent, unrealistic and inefficient controls on the state economy, and encourage the development of the black market" (Quality of Government 2009).

## Law and order

Law and Order are assessed separately, with two sub-components, each comprising zero to three points. The Law sub-component measures the strength and impartiality of the legal system, while the Order sub-component measures popular observance of the law.

## Bureaucracy Quality

This variable measures the institutional strength and quality of the bureaucracy. Higher points are given to countries where the bureaucracy has the strength and expertise to govern without drastic changes in policy or interruptions in government services.

## State Capacity

This variable measures the ability of government to either repress or accommodate rebels. The variable used is Tax Capacity and is obtained from the Quality of Government Dataset (2009). Hendrix (2010) finds that tax capacity is a strong indicator of state capacity.

## Inequality Effect

This variable is constructed by the author and is a measure of the interaction between the inequality and state capacity variables.

## Rent Effect

This variable is constructed by the author and is a measure of the interaction between the rent seeking opportunities and state capacity variables.

## Loans and Inequality Effect

This variable is constructed by the author and is a measure of the interaction among the inequality, structural adjustment loans and state capacity variables.

## Loans and Rent Effect

This variable is constructed by the author and is a measure of the interaction among the rent seeking opportunities, structural adjustment loans and state capacity variables.

## Control Variables

### Democracy

The variable Democracy measures the level of democracy in the developing countries. Government preferences and ideology may determine the likelihood of loan acceptance (Stone 2004; Abouharb & Cingranelli 2003; Hegre, Ellingsen, Gates & Gleditsch 2001), as well as, the likelihood of civil conflict (Schatzman 2005). It was originally obtained from the Polity IV dataset which scores countries by year on a 21- point scale, from -10 (most autocratic) to 10 (most democratic). The measure is obtained from the Fearon & Laitin Dataset (2003).

### GDP per capita

The variable GDP per capita measures the GDP per capita in the particular developing country. The measure is obtained from the Fearon & Laitin Dataset (2003).

### Mixed Regime Polity Score

This variable measures countries that mix democratic and autocratic features (called “anocracies” or semidemocracies”) (Fearon & Laitin 2003). Fearon & Laitin (2003) mark regimes that score between -5 and 5 on the difference between Polity IV’s democracy and autocracy. It is coded 0 if the polity score is < -6 and 1 if otherwise. It is obtained from the Fearon & Laitin Dataset (2003).

## Population

The Population measures the population density of the developing country. It is measured by dividing the total population size by the country size in square miles and is obtained from the Fearon & Laitin Dataset (2003).

## Ethnic Fragmentation

The variable Ethnic Fragmentation measures the ethnic and religious composition in the developing country (Sambini & Elbadawi 2002). It is a measure of the share of population belonging to the largest ethnic group constructed from the CIA Factbook and other sources (Fearon 2002). It is obtained from the Fearon & Laitin Dataset (2003) and it is measured along a 0 to 1 scale.

## Regime Durability

This variable measures the number of years that the country has operated without a regime change. This variable measures the number of years since the most recent regime change “(defined by a three point change in the p\_polity score over a period of three years or less) or the end of transition period defined by the lack of stable political institutions (denoted by a standardized authority score)” (Quality of Government 2009).

According to Quality of Government (2009) the Regime Durability value is calculated as such: “the first year during which a new (post-change) polity is established is coded as the baseline “year zero” (value = 0) and each subsequent year adds one to the value of the p\_durable variable consecutively until a new regime change or transition period occurs”. The variable is taken from Quality of Government Dataset (2009).

## Primary Commodity

The variable Primary Commodity is the log of primary commodity and is in line with Fearon (2005) which finds that the primary commodity has an impact on civil conflict. Fearon (2005) and Fearon & Laitin (2003) argue that dependence on primary commodity is a proxy for weak state. It is the annual measure of primary commodity resources as a proportion of GNP and it obtained from the Fearon & Laitin Dataset (2003).

## Mountainous States

This variable is the log of mountainous states, which is the percentage of the country that is mountainous. It is in line with the reasoning of Fearon & Laitin (2003) which argues that mountainous terrain increases the probability that civil conflict will take place. The measure is obtained from the Fearon & Laitin Dataset (2003).

## Physical Integrity Rights

The Physical Integrity Rights variable is measures the level of human development or social development. It is in line with Abouharb & Cingranelli (2007) which argue that respect for human rights and human development affects the likelihood of civil conflict. The measure is obtained from the Cingranelli-Richardson Human Rights dataset (2009).

## World Bank and IMF Selection Effects

Several studies contend that studies looking at the effect of IMF and World Bank structural adjustment loans must control for selection bias (Abouharb & Cingranelli 2003; Abouharb & Cingranelli 2007; Przeworski & Vreeland 2000; Vreeland 2002). Controlling for selection bias is therefore important to determining whether civil conflict was a result of

structural adjustment loans or a result of economic crisis in these developing countries (Abouharb & Cingranelli 2003; Abouharb & Cingranelli 2007).

Scholars have argued that successful loan recipients are a “non-random sample of all possible countries” (Abouharb & Cingranelli 2003, 15; Abouharb & Cingranelli 2007) in its decision to grant loans to countries is evidence of a selection process in operation. They argue that the factors that affect the likelihood that the applicant will be successful include economic factors (Marchesi & Thomas 1999; Pastor 1987; Thacker 1999; Abouharb & Cingranelli 2003), political factors (Thacker 1999; Abouharb & Cingranelli 2003; Stone 2004), human rights factors (Abouharb & Cingranelli 2003; Abouharb & Cingranelli 2007) as well as domestic conflict and international conflict factors (Abouharb & Cingranelli 2003).

The political power held by the US in the IMF and World Bank as a result of its weighted voting advantage (Abouharb & Cingranelli 2003) greatly influences the IMF’s decision to grant loans to countries (Thacker 1999) or its decision not to punish loan violators (Stone 2004). Since the end of the cold war the US has used its power to influence such decision (Thacker 1999, 65; Abouharb & Cingranelli 2003).

Abouharb & Cingranelli (2007) find that the World Bank and IMF selection effects are debt crisis, low levels of international trade, higher levels of respect for physical integrity rights and larger populations, with weaker support that US dependence, as well as, being former British or French colonies.

### Debt Crisis

This variable measures the country's balance of payment, which is the amount of debt the country owes. The variable is taken from the Abouharb & Cingranelli Structural Adjustment Loan Dataset (2007).

### International Trade

This variable measures the total number of exports and imports. The measure is obtained from the Abouharb & Cingranelli Structural Adjustment Loan Dataset (2007).

### US Dependence

This variable measures the different types of alliances that the country may be in with the US. It is coded as 1 if it is a defense alliance, 2 if it is a neutral alliance, 3 if it is entente and 4 if there is no alliance. It is taken from the Abouharb & Cingranelli Structural Adjustment Loan Dataset (2007).

### British Colony

This variable measures whether or not the countries was a former British Colony. It is coded as 0 if it was not a former British Colony and 1 if it was a former British Colony. The variable is derived from the Fearon & Laitin Dataset (2003).

### French Colony

This variable measures whether or not the countries was a former French Colony. It is coded as 0 if it was not a former French Colony and 1 if it was a former French Colony. The variable is derived from the Fearon & Laitin Dataset (2003).

## Temporal Dependence

### Binary Time-Series Cross Section

Abouharb & Cingrilli (2007) used the binary time-series-cross-section (BTSCS) observations in their dataset because binary time series cross section observations are likely to violate the independence assumption of the ordinary logit or probit statistical model. When observations are temporally related, the results of an ordinary logit or probit analysis may be misleading. The measure is derived from Beck, Katz, and Tucker (1998).

## Results and Discussion

### Results

Table 1<sup>2</sup>: Logistic Regression: Structural Adjustment Loans Effect on Civil Conflict All Countries

Variables	Model 1 Coef.	Model 2 Coef.	Model 3 Coef.	Model 4 Coef.	Model 5 Coef.	Model 6 Coef.	Model 7 Coef.
Structural Adjustment Loans	-*	-*	-*	-*	-*	-*	-*
Physical Integrity Rights	-*	-*	-*	-*	-*	-*	-*
Primary Commodity	-	+*	+*	-*	-*	-*	+*
Population	-*	+*	+*	+*	+*	+*	+*
GDP per Capita	-*	-*	-*	-*	-*	-*	-*
Ethnic Fragmentation	+*	+*	+*	-	-	+	+*
Regime Durability	+*	-	-	+*	+*	+*	-
Mixed Regime Polity Score	+*	+*	+*	+*	+*	+*	+*
Mountainous State	+*	+*	+*	+*	+*	+*	+*
Total Trade	-	+*	+*	-	-*	-*	+*
US Dependence	-*	-*	-*	-*	-*	-*	-*
Debt Crisis	-.	-.	-	+*	+*	+*	-
French Colony	+*	+*	+*	+	-	+	+*
British Colony	+*	+*	+*	+*	+*	+*	+*
Rent Seeking Opportunities				-*	-*	-*	
Inequality		-*	-*				-*
State Capacity		-	-*	-	-*	+*	-*
Inequality Effect			+*				
Rent Effect					+*		
Loans and Inequality Effect							+*
Loans and Rent Effect						+*	
Constant	25.40	-12.62	4.69	-27.17	-16.86	-9.84	5.09
No. of Observations	829	556	556	391	391	391	556
Pseudo R <sup>2</sup>	0.3201	0.4450	0.4485	0.5899	0.5902	0.5924	0.4556
Log Likelihood	-323.319	-181.561	-180.396	-95.670	-178.095	-95.078	-178.095
	p<0.5						

\*- represents significant at the 0.5 level

Model 1 shows initial support for the hypothesis 1 that by itself the variable structural adjustment loans does not increase the likelihood that civil conflict will take place. The model

<sup>2</sup> For Complete Table See Appendix B

shows that there is a negative relationship between structural adjustment loans and civil conflict, indicating that structural adjustment loans actually decrease the likelihood of civil conflict. The variable is significant at the 0.5 level and does provide evidence that there is more to be incorporated into the model looking at the effect of structural adjustment loans on civil conflict.

Model 2 includes inequality and state capacity into the model, without the interaction term. There still exists a negative relationship between structural adjustment loans and civil conflict. Inequality and state capacity both are negative indicating that they would decrease the likelihood of civil conflict. State capacity however is insignificant in this model. Model 2 however shows support for the hypothesis that higher dependence on primary commodity increases the likelihood of civil conflict (Fearon 2005).

Model 3 includes the interaction term inequality effect which is the interaction between inequality and state capacity (opportunity and willingness). Although there is still a negative relationship between structural adjustment loans and civil conflict, there is a positive relationship between inequality effect and civil conflict. This provides evidence that it is not enough to state that structural adjustment loans increase the likelihood of civil conflict. The likelihood of civil conflict increases when we can account for both the willingness of rebels to engage in civil conflict, as well as, the opportunity available for them to engage in civil conflict.

Model 4 includes the variables rent seeking opportunity and state capacity but omits the variables inequality effect and inequality. State capacity is insignificant while there is a negative rent seeking opportunities and civil conflict. This indicates that the likelihood of civil conflict is negative when rent seeking opportunities increase. There is also a negative relationship between structural adjustment loans and civil conflict.

Model 5 includes the variable rent effect, which is the interaction between rent seeking opportunities and state capacity. The variable is only slightly significant but does show that there is a positive relationship between rent effect and civil conflict. The interaction between rent seeking opportunities and state capacity does increase the likelihood that civil conflict will occur.

Model 6 includes the variable loans and rent effect, which is the interaction term for the variables structural adjustment loans, rent seeking opportunities and state capacity. The model looks at the effect that having a structural adjustment loan, changes in rent seeking opportunities and state capacity to repress or accommodate would have on civil conflict. There is a positive relationship between loans and rent effect and civil conflict. The likelihood of civil conflict is increased if the country has implemented a structural adjustment loan, the state's capacity is low and there are changes in rent seeking opportunities.

Model 7 includes the variable loans and inequality effect which is the interaction among the variables structural adjustment loans, inequality and state capacity. We see that the variable is both positive and significant. The results provide evidence that it is not enough to state that structural adjustment loans have an effect on civil conflict.

Models 8-14 look only at developing countries. The logistic regression performed is similar to those in models 1-7. The models are included to determine if we will observe similar results to those for all countries and also to determine if we can make generalizations, that is, if the conclusion can be applied to developing countries, as well as, to countries in general.

Table 2<sup>3</sup>: Logistic Regression: Structural Adjustment Loans Effect on Civil Conflict Developing Countries Only

Variables	Model 8 Coef.	Model 9 Coef.	Model 10 Coef.	Model 11 Coef.	Model 12 Coef.	Model 13 Coef.	Model 14 Coef.
Structural Adjustment Loans	-*	-*	-*	-*	-*	-*	-*
Physical Integrity Rights	-*	-*	-*	-*	-*	-*	-*
Primary Commodity	-*	-	-	-*	-*	-*	-*
Population	-*	+	+	+	+	+	+
GDP per Capita	-*	-*	-*	-*	-*	-*	-*
Ethnic Fragmentation	+	+	+	-*	+	-	-*
Regime Durability	+	+	+	+	+	+	+
Mixed Regime Polity Score	+	+	+	+	+	+	+
Mountainous State	+	+	+	+	+	+	+
Total Trade	-	+	+	-*	+	-*	-*
US Dependence	-*	-*	-*	-*	-*	-*	-*
Debt Crisis	-*	+	+	+	+	+	+
French Colony	-	+	+	-	+	-	-
British Colony	+	+	+	+	+	+	+
Rent Seeking Opportunities				-*		-*	-*
Inequality		-*	-*		-*		
State Capacity		-	-*	-	-*	-*	-
Inequality Effect			+				
Rent Effect						+	
Loans and Inequality Effect					+		
Loans and Rent Effect							+
Constant	39.51	65.15	61.44	-6.99	58.41	-17.74	-11.23
No. of Observations	734	496	496	359	496	364	364
Pseudo R <sup>2</sup>	0.3306	0.4612	0.4646	0.5580	0.4650	0.5731	0.5616
Log Likelihood	-295.35	-163.34	-162.32	-98.145	-162.18	-95.567	-98.131
	P<0.5	P<0.5	P<0.5	P<0.5	P<0.5	P<0.5	P<0.5

\*- represents significant at the 0.5 level

Similar results are seen when the logistic regression is performed using data on developing countries only. In Model 8, we see that there is a negative and significant relationship between structural adjustment loans and civil conflict. In Model 9 there is the inclusion of the variable inequality and state capacity. Both show a negative relationship but state capacity is insignificant. Model 10 incorporates the variable inequality effect. There is a

<sup>3</sup> For Complete Table See Appendix C

positive and significant relationship between inequality effect and civil conflict showing that the likelihood of civil conflict increases when there is both opportunity and willingness.

Model 11 drops inequality and inequality effect from the base model and includes rent seeking opportunities. The model shows that there is a significant and negative relationship between rent seeking opportunities and civil conflict. Model 13 includes the rent seeking effect into the model. It shows that a positive relationship there although it is only slightly significant.

Model 12 includes the interaction term loans and inequality effect into the model and drops rent seeking opportunities and rent effect from the model. There is a positive and significant relationship shown. Model 14 includes the variable loans and rent effect. Although there is a positive relationship shown it is not significant.

## Discussion

The results give support for all hypotheses with the exception of Hypothesis 4. Neither interaction increases the likelihood that the structural adjustment loans variable by itself would increase the likelihood of civil conflict. This result can be seen as an indication that there is more that needs to be explained when examining the impact of structural adjustment loans on civil conflict. It seems more likely that the negative effect of structural adjustment loans on civil conflict can be explained when we examine the interaction between the opportunity and the willingness variables.

The interaction between opportunity and willingness are necessary when examining the likelihood of civil conflict and these results show support for this. By itself the variable inequality and rent seeking opportunities show a negative effect on the likelihood of civil conflict. The negative relationship between inequality and civil conflict may suggest that

inequality of income is not affected by the implementation of structural adjustment loans. However, it may be also possible that inequality of income may not have a negative effect because the state has the ability to repress and limit rebel activity.

This is why it is important to see how the interaction of inequality and state capacity affects the likelihood of civil conflict. We see that once state capacity is included in the interactive term the likelihood of civil conflict increases. The same can be said for the rent seeking opportunities variable. We see that rent seeking opportunities decreases the likelihood of civil conflict. This seems plausible as when rent seeking opportunities increase the likelihood of civil conflict may in fact decrease. The elites are satisfied with the rent seeking opportunities and as such would have no cause to engage in civil conflict.

However it is also likely that rent seeking opportunities may be increasing because of the entry of new rent seekers as a result of the implementation of structural adjustment loans. This may increase conflict among the elites to return to the status quo. State capacity is again important as the ability of the state to quell or redress grievances, as well as, to repress is an important determinant of the likelihood of civil conflict. The interaction between rent seeking opportunities and state capacity shows that the likelihood of civil conflict is increased.

The interaction between rent seeking opportunities and state capacity can account for the struggle among elites for control of rent seeking opportunities and the ability of the state to restrict such behavior. The state has the ability to control the behavior of both types of rebels in the society therefore the interaction among the two terms is important to determining the likelihood of civil conflict.

The likelihood of civil conflict occurring seems also likely when structural adjustment loans is included in each interaction term. Structural adjustment loans should have an impact on the likelihood of civil conflict. The research does not deny that the conditions attached to the loans do have an impact on civil conflict. However it is important to fully explain how these conditions can have a negative impact on civil conflict. Without such an explanation it seems that the explanation is wanting. The likelihood of civil conflict increases when we look at the effect of implementing a structural adjustment loan, changes in rent seeking opportunities or income inequality and state capacity has on any particular country.

The results hold even when we look only at developing countries. This suggests some robustness to the results and also that opportunity and willingness must be incorporated into any models examining civil conflict. While this research is in its preliminary stages it does support a well established argument by Most and Starr (1989) that opportunity and willingness are necessary conditions in any models looking at civil conflict. It also supports the argument that future work in this area would benefit from a closer examination of the impact of rent seeking opportunities on civil conflict.

## **Conclusion**

The grievances, as well as, the opportunities must be incorporated into models examining the effect of structural adjustment loans on civil conflict. Structural adjustment loans constrain government decision making power because the conditions attached to these structural adjustment loans call for a redistribution of resources and deregulation. Such conditions have the potential to generate two major types of grievances: income inequality and changes in rent-seeking opportunities.

The conditions attached to the loans are stringent and the aims of such policies are to correct the poor spending and fiscal policies of government by tighten social spending, reducing impractical monetary practices and to reduce corrupt practices. By implementing these programs at least one group in the society may be affected and may use force to redress their grievances.

Scholars must recognize that these societies are dynamic in which there are different groups that have different grievances and concerns. The society is not static and there is not a single issue that would lead people in the society to engage in civil conflict. This complexity can be explained by looking at the conditions attached to the structural adjustment loans and determining which groups are more likely to be affected by which condition. This research reasons that deregulation, as well as, the reduction in social spending are the major conditions that would affect the major groups in the society.

Grievances, however, represent only one part of the story, the opportunities are also important as we need to know how the state has the ability to repress or accommodate these grievances. The structural adjustment loans may not have an effect on civil conflict if the state is able to satisfy these groups or if the state does not affect either group to a considerable extent.

The state's response to these grievances can influence rebel behavior as it may mitigate discontent or augment discontent leading to a decision to engage in civil conflict to change the present oppressive system.

The ability of the state to ignore the demands of unfavorable groups to the implementation of structural adjustment loans is critical. State strength should impact the ability of states to prevent civil conflict from occurring. If governments are unable to satisfy group demands then groups may feel that there is no other choice available for them but to take matters into their own hands either through violent or non-violent means.

In regards to lower income groups including labor and the working classes, some scholars argue that they are not able to organize intense conflicts such as revolutions without the leadership of other groups in the society especially the middle and upper classes (Moore 1966). For instance, Moore (1966) maintains that "By themselves the peasants have never been able to accomplish a revolution ... The peasants have to have leaders from other classes" (p. 478). As such the influence of the elites is a crucial factors affecting civil conflict. The elites can stir feelings of discontent among the lower income groups in order to increase their anger toward the government and their willingness to engage in civil conflict.

Opportunities and willingness are therefore important and are necessary conditions to be incorporated into any model examining civil conflict in general and the effect of structural adjustment loans on civil conflict in particular. This study finds that the likelihood of civil conflict increases when the interaction of inequality and state capacity, as well as, the interaction of rent seeking opportunities and state capacity are incorporated into the model.

The study also finds that the interaction among the variable inequality, structural adjustment loans and state capacity increases the likelihood of civil conflict in countries in general including developing countries. The findings suggests that there is more to be explained. Studies examining the effect of structural adjustment loans on civil conflict therefore stand to benefit for the incorporation of these interaction terms into their models.

The result of this study shows some support that the type of grievances matters when examining the impact of structural adjustment loans on civil conflict. These grievances are inequality and rent seeking opportunities. Either of these grievances together with state capacity will increase the likelihood of civil conflict. It is up to future research to further this study by improving in several areas.

Such future research on this topic should focus on the role of state capacity and as such it should not ignore the state's role in affecting the likelihood of civil conflict. The state's ability to implement these austerity measures is important. The state's ability to repress potential rebels or to withstand pressure from the IMF or World Bank is also important. Therefore state capacity has an important influence on rebel behavior and the implementation of these policies. Like grievances, the state cannot be ignored.

There are some areas where this study can be improved as this is only an initial attempt to find support for the effect that grievances and rent seeking opportunities coupled with state capacity can have on civil conflict. Future research would benefit by offering a better proxy of state capacity, by using either event history analysis or time series analysis, which are tests used in previous studies examining the relationship between structural adjustment loans and civil

conflict, to support the results found in this study. It is believe that those tests will further support the results found in this study.

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## Appendix A: Operationalization of Variables Used

	Indicator	Source
Dependent Variable		
Civil Conflict	<p>Violent or armed civil conflict describes conflict in which armed force or weapons are used by two parties of which one party must be the government and which results in at least twenty five or more battle-related deaths</p> <p>It is a dichotomous measure coded “0” if no civil conflict took place, 1 if conflict took place</p>	<p>Fearon &amp; Laitin (2003)</p> <p>Quality of Government (2009)</p>
Independent Variables		
Inequality	<p>Measure of unequal distribution of income using Infant Mortality Rate</p>	<p>Abouharb &amp; Kimball (2007)</p>
Rent Seeking Opportunities	<p>Measure of rent-seeking opportunities: composite index ranges of corruption, Law &amp; Order and bureaucratic quality</p>	<p>Quality of Government (2009)</p>
Inequality_Effect	<p>Measure of the interaction between the inequality and state capacity variables</p>	<p>Constructed Measure</p>
Rent_Effect	<p>Measure of the interaction between the rent seeking opportunities and state capacity variables</p>	<p>Constructed Measure</p>

Loans and Inequality Effect	Measure of the interaction among the variables structural adjustment loans, inequality and state capacity variables	Constructed Measure
Loans and Rent Effect	Measure of the interaction among the variables structural adjustment loans, rent seeking opportunities and state capacity.	Constructed Measure
State Capacity	This variable measures the ability of government to either repress or accommodate rebels. The variable used is Tax Capacity	Quality of Government Dataset (2009).
Structural Adjustment Loans	Running count of years a country has been implementing structural adjustment loans. Recoded as 1 if the country has implemented a structural adjustment loan and 0 if no structural adjustment loan has been implemented.	Abouharb dataset (2010)
Control Variables		
Primary Commodity	Log of primary commodity	Fearon & Laitin (2003)
Physical Integrity Rights	The Physical Integrity Rights variable is measures the level of human development or social development.	Cingranelli & Richards (2007)
GDP per capita	GDP per capita current US\$ (PPP)	Abouharb & Cingranelli (2007)
Population Density	Population density: population size divided by country size per square miles	Fearon & Laitin (2003)

Mixed regime Polity score	<p>This variable measures countries that mix democratic and autocratic features. Fearon &amp; Laitin (2003) mark regimes that score between -5 and 5 on the difference between Polity IV's democracy and autocracy.</p> <p>It is coded 0 if the polity score is &lt; -6 and 1 if otherwise. It is obtained from the Fearon &amp; Laitin Dataset (2003).</p>	Fearon & Laitin (2003)
Ethnic Fragmentation	<p>It is a measure of the share of population belonging to the largest ethnic group constructed from the CIA Factbook and other sources (Fearon 2002). It is obtained from the Fearon &amp; Laitin Dataset (2003) and it is measured along a 0 to 1 scale.</p>	Fearon & Laitin (2003)
Regime Durability	<p>Running count of number of years without a change in polity score of 3 during three-year period or regime transition</p>	Fearon & Laitin (2003)
Mountainous State	<p>Log of percentage that states are mountainous</p>	Fearon & Laitin (2003)
World Bank and IMF Selection Effects		
Debt Crisis	<p>Measure of the county's balance of payment</p>	Abouharb & Cingranelli (2007)

International Trade	Total number of Exports and Imports	Abouharb & Cingranelli (2007)
US Dependence	This variable measures the different types of alliances that the country may be in with the US. It is coded as 1 if it is a defense alliance, 2 if it is a neutral alliance, 3 if it is entente and 4 if there is no alliance. It is taken from the Abouharb & Cingranelli Structural Adjustment Loan Dataset (2007).	Abouharb & Cingranelli (2007)
French Colony	Measure indicating whether the state was a former French Colony	Fearon & Laitin (2003)
British Colony	Measure indicating whether the state was a former British Colony	Fearon & Laitin (2003)
Temporal Dependence		
Cubic Splines	BTSC method	Beck, Katz, and Tucker (1998)

## Appendix B: Complete Results for Logistic Regression: Structural Adjustment Loans Effect on Civil Conflict All Countries

Civil Conflict	Model 15	Model 16	Model 17	Model 18	Model 19	Model 20	Model 21
Variables	Coef.	Coef.	Coef.	Coef.	Coef.	Coef.	Coef.
Structural Adjustment Loans	-0.098* (0.022)	-0.073* (0.032)	-0.070* (0.032)	-0.101* (0.049)	-2.011* (1.123)	-2.425* (1.218)	-2.634* (0.8240)
Physical Integrity Rights	-0.352* (0.068)	-0.427* (0.097)	-0.359* (0.107)	-0.581* (0.137)	-0.673* (0.151)	-0.688* (0.152)	-0.324* (0.105)
Primary Commodity	-0.0326 (0.288)	0.937* (0.444)	0.868* (0.445)	-1.009* (0.594)	-1.009 (0.593)		0.385* (0.488)
Population	-6.800* (6.780)	0.000* (5.340)	0.000* (5.44)	0.000* (7.48e-)	0.000* (8.170)	0.000* (8.270)	0.000* (5.500)
GDP per Capita	-0.538* (0.104)	-1.342* (0.230)	-1.309569 (0.229)	-966* (0.287)	-0.071* (0.295)	-0.687* (0.296)	-1.346* (0.238)
Ethnic Fragmentation	2.799* (0.529)	2.550* (0.926)	2.312* (0.943)	-0.239 (1.369)	-0.342 (1.372)	0.110 (1.431)	2.086* (0.947)
Regime Durability	0.128* (0.007)	-0.002 (0.012)	-0.003 (0.012)	0.027* (0.017)	0.021	.0160472	-0.001 (0.012)
Mixed Regime Polity Score	0.904* (0.247)	0.751* (0.361)	0.747* (0.363)	2.024* (0.658)	1.571* (0.575)	1.301* (0.615)	0.824* (0.369)
Mountainous State	0.434* (0.116)	1.157* (0.206)	1.178* (0.210)	2.451* (0.456)	2.154* (0.424)	2.016* (0.421)	1.115* (0.208)
Total Trade	-1.700 (4.060)	8.370* (8.520)	7.790* (8.44)	-1.530 (0.000)	-9.590* (0.000)	-9.460* (0.000)	7.740* (8.480)
US Dependence	-1.811* (0.234)	-1.435* (0.307)	-1.352* (0.312)	-1.103* (0.419)	-1.094 (0.445)	-1.149* (0.458)	-1.433* (0.315)
Debt Crisis	-0.001 (0.001)	-0.001 (0.001)	-0.000 (0.001)	0.002* (0.013)	0.002* (0.001)	0.002* (0.001)	-0.001 (0.001)
French Colony	0.743* (0.383)	2.754* (0.611)	2.899* (0.624)	0.309 (0.858)	-0.228 (0.835)	0.198 (0.835)	2.550* (0.617)
British Colony	1.238* (0.355)	1.759* (0.631)	2.132* (0.694)	2.751* (0.987)	3.132* (1.091)	3.592* (1.217)	2.420* (0.747)
Rent Seeking Opportunities				-5.054* (1.846)	-6.694* (3.095)	-6.370* (2.241)	
Inequality		-0.068* (0.013)	-0.086* (0.018)				-0.088* (0.018)
State Capacity		-0.000 (0.000)	-0.095* (0.055)	-0.000 (0.002)	-0.005* (0.007)	0.005* (0.004)	-0.086* (0.054)
Inequality Effect			0.001* (0.001)				
Rent Effect					0.081* (0.119)		
Loans and Inequality Effect							0.001* (0.001)
Salreffect						0.006* (0.005)	
Constant	25.39 (36.65)	-12.62 (52.82)	4.68 (1.519)	-27.16 (110.04)	-16.85 (115.68)	-9.84 (116.40)	5.09 (55.13)
No. of Observations	829	556	556	391	391	391	556
Pseudo R <sup>2</sup>	0.3201	0.4450	0.4485	0.5899	0.5902	0.5924	0.4556
Log Likelihood	-323.319	-181.561	-180.396	-95.670	-178.095	-95.078	-178.095
	p<0.5	p<0.5	p<0.5	p<0.5	p<0.5	p<0.5	p<0.5

\*- represents significant at the 0.5 level

## Appendix C: Complete Results for Logistic Regression: Structural Adjustment Loans Effect on Civil Conflict Developing Countries Only

Civil Conflict	Model 22	Model 23	Model 24	Model 25	Model 26	Model 27	Model 28
Variables	Coef.	Coef.	Coef.	Coef.	Coef.	Coef.	Coef.
Structural Adjustment Loans	-1.93* (.582)	-1.84* (0.825)	-1.713* (0.841)	-1.819* (1.04)	-0.043* (0.850)	-2.009* (1.122)	-1.985* (1.446)
Physical Integrity Rights	-0.387* (.071)	-0.471* (0.103)	-0.421* (0.108)	-0.648* (0.151)	-0.418* (0.108)	-0.673* (0.151)	-0.653* (0.152)
Primary Commodity	-0.544* (0.316)	-0.200 (0.469)	-0.208 (0.467)	-1.035* (0.587)	-0.205* (0.467)	-1.011* (0.594)	-1.031* (0.588)
Population	-1.12* (6.92)	0.000* (5.29)	0.000* (5.29e-06)	0.000* (7.24)	0.000* (5.29)	0.000 (8.17)	0.000* (7.48)
GDP per Capita	-0.582* (0.112)	-1.124* (0.229)	-1.130* (0.230)	-0.794* (0.307)	-1.128* (0.230)	-0.705* (0.296)	-0.794 (0.307)
Ethnic Fragmentation	2.400* (0.504)	1.050* (0.818)	0.884* (0.824)	-1.405* (1.241)	0.891* (0.823)	-0.350 (1.373)	-1.420* (1.247)
Regime Durability	0.0120* (0.008)	0.007 (0.011)	0.006 (0.011)	0.0159* (0.015)	0.006* (0.011)	0.021* (0.016)	0.016* (0.015)
Mixed Regime Polity Score	0.945* (0.254)	0.979* (0.387)	1.009* (0.393)	1.210* (0.526)	1.015* (0.393)	1.566* (0.575)	1.204* (0.525)
Mountainous State	0.490* (0.127)	1.550* (0.225)	1.534* (0.224)	2.379* (0.440)	1.530* (0.223)	2.153* (0.424)	2.391* (0.448)
Total Trade	-2.37 (4.54)	1.38 (8.73)	1.45 (8.64)	-0.000* (0.000)	1.330 (8.64)	-9.690* (0.000)	-0.000* (0.000)
US Dependence	-1.543* (0.254)	-0.359* (0.161)	-0.306* (0.166)	-0.409* (0.235)	-0.305* (0.165)	-1.091* (0.446)	-0.422* (0.249)
Debt Crisis	-0.002* (0.002)	0.000 (0.001)	0.000 (0.001)	0.002* (0.001)	0.000 (0.001)	0.001* (0.001)	0.002* (0.001)
French Colony	-0.008* (0.395)	0.804* (0.600)	0.929* (0.608)	-0.461 (0.847)	0.962* (0.612)	-0.232 (0.835)	-0.464 (0.847)
British Colony	0.586* (0.374)	1.649* (0.682)	1.825* (0.701)	3.808 (1.121)	1.829* (0.700)	3.130* (1.090)	3.814* (1.124)
Rent Seeking Opportunities				-4.657* (1.811)		-6.728* (3.110)	-5.001* (2.751)
Inequality		-0.0332* (0.013)	-0.049* (0.018)		-0.050* (0.018)		
State Capacity		-0.000 (0.001)	-0.074* (0.053)	-0.000 (0.000)	-0.077* (0.052)	-0.005* (0.007)	-0.001 (0.006)
Inequality Effect			0.001* (0.001)				
Rent Effect						0.082* (0.119)	
Loans and Inequality Effect					0.001* (0.001)		
Salreffect							0.018 (0.106)
Constant	39.509 (39.99)	65.15 (58.06)	61.44 (58.77)	-6.99 (118.62)	58.41 (59.00)	-17.738 (115.82)	-11.23 (121.29)
No. of Observations	734	496	496	359	496	364	364
Pseudo R <sup>2</sup>	0.3306	0.4612	0.4646	0.5580	0.4650	0.5731	0.5616
Log Likelihood	-295.346	-163.336	-162.318	-98.145	-162.184	-95.567	-98.131
	P<0.5	P<0.5	P<0.5	P<0.5	P<0.5	P<0.5	P<0.5

\*- represents significant at the 0.5 level

**Vita**

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