in brief...
'Stop fighting and wealth will follow'

Tim Besley and **Hannes Mueller** use house prices to measure the peace dividend in Northern Ireland – and draw lessons for other parts of the world that have endured long conflicts.

When Nobel peace prize-winner Archbishop Desmond Tutu delivered a sermon for South Sudan's first birthday in July 2012, he told the nation's leaders: 'stop fighting and wealth will follow'. But what is the evidence that ending conflict can deliver economic regeneration? And might the possibility of a 'peace dividend' itself contribute to lasting peace?

The peace process in Northern Ireland provides an opportunity to estimate the value of peace. Violent conflict flared up there in the late 1960s and ultimately claimed around 3,500 lives before the Downing Street Declaration was signed nearly 20 years ago in December 1993. The conflict caused major economic dislocation, but as peace took hold, the economy began to be repaired.

In a recent study, we use house prices to measure the peace dividend. Our basic idea is that willingness to pay for a house will reflect investors and homeowners' perceptions of the value of peace. Between 1992 and 2009, the average house price in Northern Ireland more than quadrupled. But before assuming this represents the value of peace, we need to recognise that the period saw prices rising similarly in England and indeed across the British Isles.

We know that while some regions in Northern Ireland were heavily affected by the violence, others were peaceful throughout the conflict. We can therefore drill down into the housing data to compare prices in violent and non-violent regions before and after the cessation of violence.

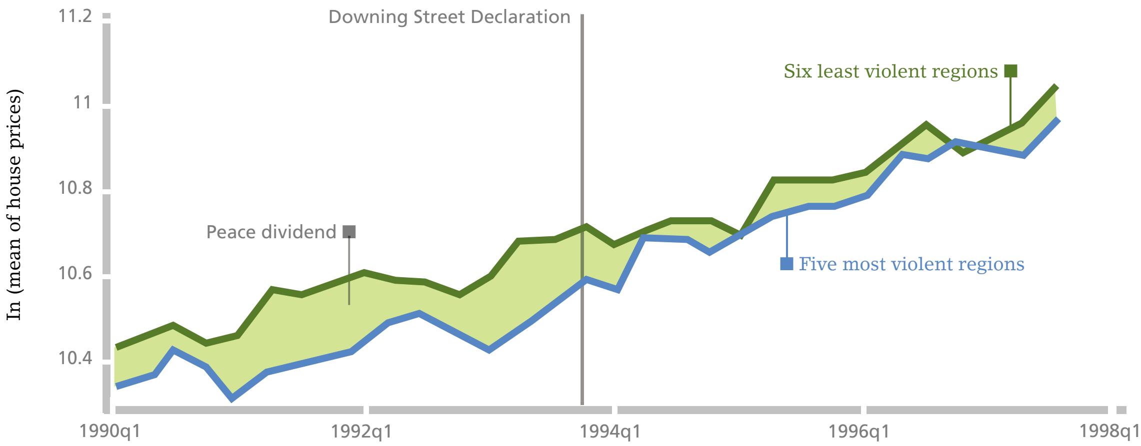
It turns out that after the peace process began, house prices started to converge (as Figure 1 illustrates). The peace dividend can then be measured as the difference in house prices between the violent and peaceful regions during the conflict.

One of the biggest concerns during any peace process is the chance of a relapse. Despite the Omagh bombing in 1998, which killed 29 people, Northern Ireland saw a fairly permanent shift away from violence after 1993. This matters for estimating the peace dividend, especially when people are making long-term investment decisions such as buying houses.

At what stage did expectations about the future change and by how much? Research methods developed for analysing business cycles can be used to deal with the problem that we don't know exactly when peace arrived

As the peace process in Northern Ireland began, house prices in violent and peaceful regions converged

Figure 1:
Average house price movements in the most and least violent regions in Northern Ireland around the time of the peace process



in Northern Ireland and whether its timing varied across regions. Data on killings are potentially informative about what people care about – peace or conflict – so they can measure expectations about peace.

This approach can be used to explore the size of the peace dividend region by region. We find that Belfast benefited most with an increase in house prices of between 6% and 17%. Mid- and Southwest Down and Londonderry/Strabane experienced house price increases of between 2% and 8%. Other regions – North Down, for example – were largely unaffected by the conflict and therefore did not benefit as much.

Did the peace dividend help to build peace? Anecdotes suggest that even Republican sympathisers were gambling on houses on Belfast's sectarian dividing lines in the 1990s. We have heard of one who bought six houses nearby, paying around £7,000 per house in the belief that if he spent £3,000 on each and the peace process held, then they would be worth about £35,000 apiece. If the peace process didn't hold, the investment would become worthless. In this way, the possible dividends helped to create a vested interest in peace and might have helped to stabilise it.

Every conflict is different, but what might our findings imply elsewhere? Baghdad, for example, is a city 10-15 times the size of Belfast and where the current level of violence per capita is around 2.8 times higher than in Belfast during the 1980s. But the mixture of insurgency and sectarianism has parallels with Northern Ireland.

We can use our estimates from Northern Ireland to ask what would happen if Baghdad entered a phase of peace comparable to the peace in Belfast. These suggest that the peace dividend in Baghdad would be between 16.4% and 46.4%.

Stretching our argument even further, we can get an idea of the economic effects of current events in Syria. The city of Homs experiences violence per capita more than 48 times as intense as Belfast in the 1980s. If there were a functioning housing market, our estimates suggest a collapse in house prices to only an eighth to a third of what they were before the conflict started. Reversing this collapse suggests a sizeable stake for citizens in ending the conflict if only this could be engineered.

So the example of Northern Ireland is not only useful for calibrating the peace dividend: it can also give hope to other places where long conflicts have reduced the quality of life. The potential gains and losses in the value of fixed assets vividly illustrate Archbishop Tutu's maxim: stop fighting and wealth will follow.

The possibility of a peace dividend can itself help to build peace

This article summarises 'Estimating the Peace Dividend: The Impact of Violence on House Prices in Northern Ireland' by Tim Besley and Hannes Mueller, *American Economic Review* 102(2): 810-33.

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