The Economic Consequences of War

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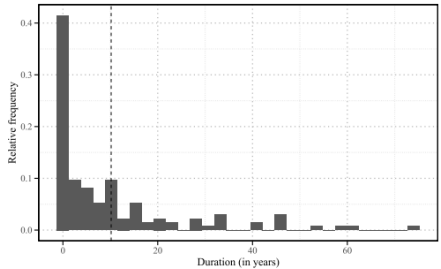
Introduction

- **What the paper does:** a large-scale, systematic panel of the macroeconomics of conflict – 135 conflicts, 115 belligerents, 75 years.
- **Scope:** a *unified* treatment of the real (GDP, investment, trade), fiscal (debt, revenue, maturity), and nominal (money, prices, exchange rates) sides in one empirical design.
- **Main result:** conflict causes large and *persistent* damage – real GDP $\downarrow$ $\sim$12% with *no recovery* after a decade; investment and credit collapse; revenues fall while spending holds; inflationary war finance with full exchange-rate pass-through.
- **Relation to the literature:** complements Federle-Meier-Müller-Mutschler-Schularick (AER, 2026) – they emphasize cross-border *spillovers* on a developed-economy panel; this paper studies *direct* effects on a broader and longer emerging-market sample and adds the fiscal/nominal block.
- **Canonical theories engaged:** fiscal dominance, financial frictions, nominal rigidities, rare disasters.

Comment I: Measurement

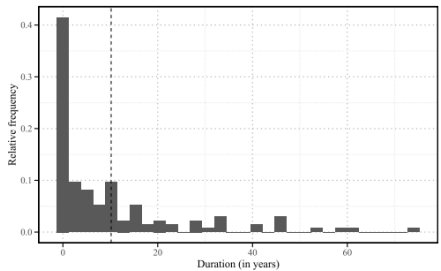
FIGURE A.2
Distribution of Conflict Duration



- **Censoring bias.** No recovery after 10 years conflates *ongoing war* with *failure to recover*: mean duration ≈10 years, so for long conflicts year +10 is still *during* the war.
- The event study runs $\tau = -5, \ldots, +10$ *from onset*, and the sample window is defined the same way. So the +10 horizon is benchmarked against war length – and the mean war *is* ≈10 years.
- The persistence result is exposed to this issue.

COMMENT I: MEASUREMENT

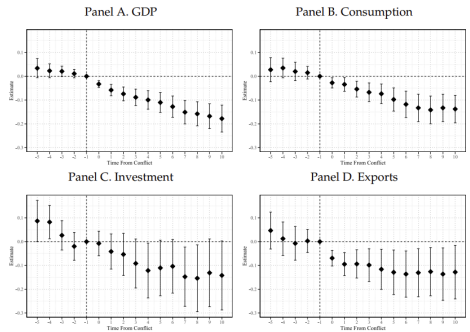
FIGURE A.2
Distribution of Conflict Duration



- **Recommendation.** Simple fix is to line everything up by when the war *ended*, not when it started, and then follow countries for several years into peacetime.
- That way "no recovery" really means no recovery – you're measuring the post-war period, not averaging over countries that are still fighting potentially.

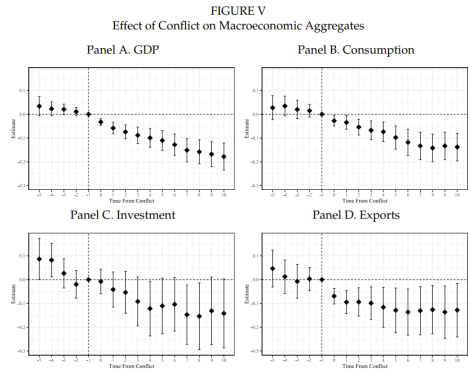
Comment II: Identification

FIGURE V
Effect of Conflict on Macroeconomic Aggregates



- **Pre-trends.** For most macro responses, visible pre-trends.
- Conflict measure is autocorrelated. Estimates as an *upper bound*: effects likely still "large & negative," just not as large. Set identification over point identification.
- Roth (2022): but *clean* pre-trends are not clear evidence of "causality" either, because tests are under-powered. Not a death sentence.

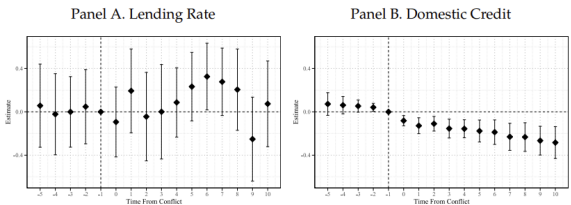
Comment II: Identification



- **Recommendation:** Rambachan–Roth (REStud, 2023). Let the post-period counterfactual trend deviate from the pre-trend by a factor M; report the *threshold* at which significance is lost.
- Given the huge GDP/credit effects, the threshold should be high $\Rightarrow$ not quite "pre-trends are flat" but "*robust to economically meaningful trend violations*."

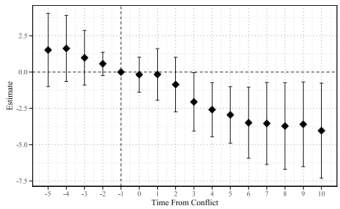
COMMENT III: TRANSMISSION

FIGURE VI
Effect of Conflict on Credit Conditions



Credit

FIGURE B.10
Effect of Conflict on Deposits/GDP

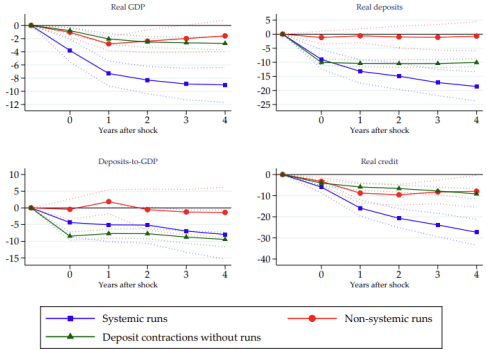


Deposits

- **Confounding channel.** The credit and deposits/GDP decline are a signature of macroeconomic effects of systemic bank runs – not necessarily a conflict-specific channel.
- Deposits collapse – particularly classic systemic-run flag; the “flight to liquidity” reading is consistent with a run.

Comment III: Transmission

Figure 6: Macroeconomic Aftermath of Runs and Deposit Contractions

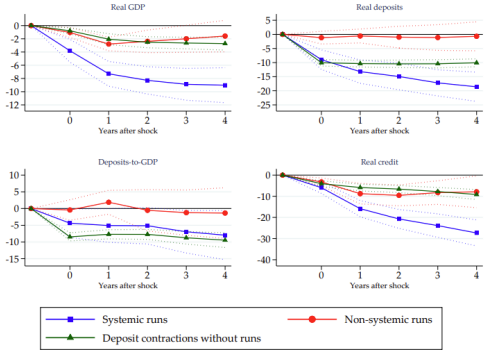


Source: "Two Centuries of Systemic Bank Runs" (Jamilov, König, Müller and Saidi 2025)

- Effects of war and of systemic runs are *quantitatively similar*: real GDP, deposits/GDP, and credit all exhibit the same persistent decline.
- "Cost of war" or "cost of bank runs that predate or amplify wars"?

COMMENT III: TRANSMISSION

Figure 6: Macroeconomic Aftermath of Runs and Deposit Contractions



Source: "Two Centuries of Systemic Bank Runs" (Jamilov, König, Müller and Saidi 2025)

- **Recommendation.** Can simply control for (or interact with) country-year systemic-run data from JKMS.
- Data are available from: `https://www.systemicbankruns.com/`

Comment IV: Some Theory

Three readings of the same facts – partly competing, not complementary:

- **Fiscal dominance:** E and P both pinned by the fiscal block $\Rightarrow$ *flat real exchange rate*.
- **Credit channel / bank run:** deposit & credit collapse drive the real side.
- **NK small open economy:** a negative supply shock should *move* the RER (appreciate). ✗ contradicts the flat RER.

The draft borrows from both a flexible-price (full pass-through) and a sticky-price (Tobin's q via real rates) world. The flat RER + full pass-through forces the choice **toward fiscal dominance.**

Comment IV: Some Theory

Two sides, two mechanisms:

- **Real side – financial frictions.** Firm produces $Y_t = AF(K_t)$ and finances investment with debt under a collateral constraint:

$$B_{t+1} \leq \vartheta\, q_t\, K_{t+1}, \qquad \vartheta \text{ fixed (pledgeability).}$$

- **Nominal side – fiscal dominance.** Conflict opens a deficit (spending $g_t\uparrow$, revenue $\tau_t\downarrow$); with passive money this is financed by inflation, pinning down P and E and leaving the *real exchange rate flat*.

Conflict shock (real side): a single capital-destruction shock $K_t \to (1-\delta_w)K_t$ that (i) *lowers output*, (ii) *raises* $F'(K)$, and (iii) shrinks pledgeable collateral $\vartheta q_t K \Rightarrow$ the constraint binds endogenously.

Fiscal response (nominal side): deficit opens endogenously ($\tau_t\downarrow$ with output, $g_t\uparrow$) $\Rightarrow$ inflationary finance under passive money.

Comment IV: Some Theory

Investment Euler equation (binding constraint with multiplier μ_t):

$$\underbrace{q_t\,[\,1+\mu_t(1-\vartheta)\,]}_{\text{effective cost (constraint wedge)}} \;=\; \mathbb{E}_t\left[\Lambda_{t+1}\Big(\underbrace{AF'(K_{t+1})}_{\uparrow\ \text{capital destruction}} + (1-\delta)\,q_{t+1}\Big)\right].$$

- Capital destruction raises $F'(K) \Rightarrow$ *should* stimulate investment.
- But the *same* shock shrinks collateral $\Rightarrow$ the constraint binds ($\mu_t \uparrow$). Two forces, opposite signs.
- **Which wins is quantitative – and the data answer:** we *observe* investment falling, so the constraint force dominates the higher $F'(K)$.
- **Persistence:** $I_t \downarrow \Rightarrow K_{t+1} \downarrow \Rightarrow$ collateral $\downarrow$, $q_{t+1} \downarrow \Rightarrow$ constraint tightens further (accelerator).
- **Nominal side, separately:** fiscal dominance $\Rightarrow P\uparrow$, $E\uparrow$, real debt eroded, RER flat.

Comment IV: Some Theory

The three mechanisms have *distinct, testable predictions* – can discriminate:

- **Sticky-price / real-rate channel:** requires nominal rigidity so that policy moves the *real* rate (then q↓, investment ↓). Result: incomplete pass-through, *moving* Q_t. Flat RER + full pass-through suggest prices aren't sticky. ✗
- **Financial frictions:** one capital shock; investment falls only where the collateral constraint binds (low ϑ). The low-income vs. high-income heterogeneity *is* the test. ✓
- **Fiscal dominance:** inflation/depreciation only where pre-conflict fiscal stance is weak. ✓

Evidence consistent with **fiscal dominance on the nominal side** (inflation, depreciation, debt revaluation) and **financial frictions on the real side** (investment, credit), and is in tension with the sticky-price channel the paper uses at times to explain investment.

Conclusion

Excellent paper – ambitious, important, and will be widely cited.

- **Main result:** conflict inflicts large, multi-dimensional, and *persistent* macro damage with no recovery after a decade.

Three comments:

1. **Measurement:** censoring – track outcomes *after* conflict ends, not after onset.
2. **Identification:** Pre-trends, treat point estimates as an upper bound, run an honest DiD.
3. **Transmission & theory:** disentangle the bank-run channel (JKMS) from the conflict-specific narrative, and let the flat RER discipline the model toward fiscal dominance (nominal) + financial frictions (real). Not all theories are complementary here.