

Mitigating the Moral Hazard of Humanitarian Intervention: Lessons from Economics

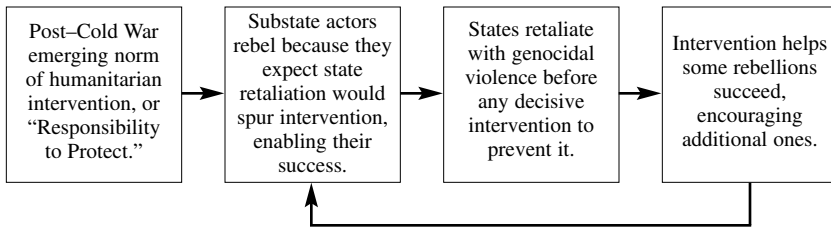


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The emerging norm of humanitarian intervention, or the Responsibility to Protect, resembles a social insurance policy to protect ethnic groups against genocide and ethnic cleansing. If a state perpetrates such genocidal violence, the norm calls for a payout—up to and including military intervention—to protect the group and ensure its security, often by enhancing its autonomy from the state. Unfortunately, this leads to a common pathology of insurance—moral hazard—whereby the expected payout for a loss unintentionally encourages excessively risky or fraudulent behavior. Thus, some militants may rebel despite the risk of provoking state retaliation, because they expect any resulting atrocities to attract intervention that facilitates their rebellion. This article summarizes recently published evidence for this dynamic, explores the feasibility of adapting insurance strategies that mitigate moral hazard, and then proposes a reform of humanitarian intervention based on the most feasible of these adapted strategies. **KEYWORDS:** humanitarian intervention, moral hazard, genocide, ethnic conflict, Responsibility to Protect, norms.

The emerging norm of humanitarian intervention, or Responsibility to Protect, resembles an imperfect insurance policy to protect ethnic groups against genocide and ethnic cleansing. If a state threatens to perpetrate such genocidal violence, the norm calls for a payout—up to and including military intervention—to protect the group and ensure its security, often by enhancing the group's autonomy from the state. Unfortunately, this leads to a common pathology of insurance—moral hazard—whereby the expected payout for a loss unintentionally encourages excessively risky or fraudulent behavior. Accordingly, some militants may rebel despite the risk of provoking state retaliation, because they expect any resulting atrocities to attract intervention that facilitates their rebellion. Ultimately intervention may help their rebellion succeed, but it often is too feeble or too late to avert state retaliation, just as insurance does not always restore the status quo ante even if it provides compensation. Underscoring the danger, the literature documents that rebellion is the most common trigger for genocidal violence by states.¹ Thus, contrary to its intent, the emerging norm of humanitarian intervention may actually cause some genocidal violence that otherwise would not occur (Figure 1). Although moral hazard has only recently been

Figure 1 Moral Hazard of Humanitarian Intervention and Its Potential Consequences



identified as a problem of humanitarian intervention,² it has been examined extensively in economics. Accordingly, this study assesses the feasibility of adapting prescriptions from the literature on insurance to mitigate the moral hazard of humanitarian intervention.

Clear definitions are vital for such a sensitive topic. *Humanitarian intervention*, in this context, encompasses the full spectrum of potential international action motivated primarily by the humanitarian desire to protect civilian targets of state violence, as envisioned by the 2001 report *The Responsibility to Protect* and subsequent UN documents.³ This ranges from pacific measures that respect traditional state sovereignty to forceful ones that impinge on it, including but not limited to the following: rhetorical condemnation; threats or imposition of economic sanctions; recognition of the independence of secessionist entities; air strikes on military or economic assets; military assistance to or coordination with rebels perceived as defending at-risk civilians; consensual deployment of peacekeepers; and nonconsensual deployment of troops for peace enforcement. *Genocide* is defined by UN convention.⁴ *Ethnic cleansing* means the expulsion of members of an identity group from a territory by force or threat thereof.⁵ *Genocidal violence* encompasses both of the preceding concepts. *Genocidal retaliation* is such violence employed by a state in response to an armed challenge to its authority.

In economics, the solution to moral hazard is not usually to eliminate insurance, which can serve important social needs by protecting the insured against risk. Rather, we reform insurance to reduce its tendency to promote excessive risk taking while partially preserving its safety net, thereby minimizing human suffering. Analogously, humanitarian intervention can serve the important social need of protecting innocent civilians from harm. Simplistically addressing moral hazard by eliminating intervention could actually increase genocidal violence. Instead, we should reform the practice of intervention to reduce moral hazard and thereby minimize such violence.

This article first discusses the analogies between insurance and intervention. Then it summarizes two recent cases where the moral hazard of

humanitarian intervention exacerbated ethnic violence. Next it examines theoretical obstacles to reducing moral hazard. The heart of the article explores four approaches—cost sharing, randomization, regulation, and other methods—that have been used to mitigate moral hazard across a wide range of insurance schemes, from private provision of car, life, and medical insurance, to public provision of bank deposit and unemployment insurance. For each approach, the article infers analogous reforms for humanitarian intervention and examines their potential efficacy and practicality. The most promising strategies are then combined into a proposed reform package. The article concludes by exploring the trade-off between competing values that is implicit in any policy of humanitarian intervention.

Moral Hazard Analogies

A typical example of moral hazard arises when government provides unemployment insurance, or “the dole.” The goal is to provide temporary financial protection to the jobless, to mitigate the negative impact on them and the larger economy, and to facilitate their finding a good job. But in practice, by alleviating suffering, such insurance creates moral hazard that encourages both irresponsibility (not looking hard for a job) and outright fraud (deliberately not finding a job, for those who prefer a work-free insurance payout to working for a higher salary).⁶ Thus, a policy intended to increase income of the disadvantaged may unintentionally have the opposite effect.

This domestic example has been replicated on an international scale in recent years by the advent of bailouts from the International Monetary Fund (IMF). Such bailouts provide an infusion of hard currency to states in emerging markets that otherwise would default on their foreign debt because of severe balance-of-payments deficits. The goal is to preserve domestic and international economic welfare and stability by reassuring lenders and investors that they can continue to do business in emerging markets without fear of huge losses. But reducing the penalty to states for risky economic policies and to lenders for risky loans has the unintended consequence of encouraging these inefficient behaviors that undermine economic stability.⁷

Problems of moral hazard apply to humanitarian intervention as well. The international community has sought to insure vulnerable groups against the risk of genocidal violence, as codified recently in *The Responsibility to Protect*. In so doing, however, it inadvertently has encouraged such groups to engage in the risky behavior of launching rebellions that may provoke genocidal retaliation. A distinction can be drawn between rebels who intentionally provoke genocidal retaliation (fraud) and those who merely knowingly run a high risk of provoking such violence (excessive risk taking). But moral hazard is responsible in both instances so long as two conditions hold: the rebels challenge the state because they expect that state retaliation

likely would spur intervention enabling them to prevail; and the rebels accept in advance that genocidal retaliation against their own civilians is a tolerable cost to achieve their political objective. As in economics, moral hazard does not require protection to be guaranteed but merely probable. Just as prospective IMF bailouts create moral hazard, despite being merely likely rather than guaranteed, so the Responsibility to Protect creates moral hazard even though it does not absolutely ensure humanitarian intervention.

Obviously, the prospect of intervention is not a cause of every rebellion, let alone of all genocidal violence. Likewise, the dole is not responsible for all unemployment, yet we still strive for reforms to mitigate its perverse contribution to the very problem that it was intended to solve. Analogously, even though moral hazard may not contribute to all genocidal violence, we should explore reforms of humanitarian intervention to minimize its unintentional contribution to such violence. Finally, it should be underscored that nothing in this analysis exculpates the perpetrators of genocidal violence from ultimate responsibility for their criminal acts.

Evidence from the Balkans

Evidence for the moral hazard of humanitarian intervention has been documented in several conflict zones, including most recently the Darfur region of Sudan, where Roberto Belloni finds that “the responsibility to protect is reactive, contributes to the outbreak of violence and then gives incentives to oppressed groups to continue their struggle to attract international involvement.”⁸ But the most thoroughly documented cases are Bosnia and Kosovo during the 1990s.⁹ In both instances, genocidal violence targeted ethnic groups—Bosnia’s Muslims and Kosovo’s Albanians—only after members of these groups pursued armed secession. Many theories based on greed, grievance, or the security dilemma can explain the desire to rebel, but none can fully explain such seemingly suicidal challenges. As subsequently revealed by the leaders of these rebellions—including in interviews that I conducted with the eventual presidents of Bosnia and Kosovo and with most of the senior civilian and military officials of each group—they rebelled because they expected that retaliation by the state would attract intervention sufficient for them to attain independence. Contending hypotheses fail: the militants were not blind to the dangers of rebellion; they believed they could avoid genocidal violence so long as they eschewed rebellion; they did not expect to prevail without outside intervention; and they did not act irrationally—that is, without considering the consequences. They rebelled only when they believed that state retaliation would attract sufficient intervention to achieve their political goals, and they decided in advance that genocidal retaliation was an acceptable cost of victory.

In Bosnia, prior to the outbreak of genocidal violence, Muslim leaders negotiated, but then rejected, two compromises that they acknowledge might have averted such violence: keeping the republic in a rump Yugoslavia or accepting ethnic cantonization of Bosnia prior to secession from Yugoslavia. Instead, the Muslims organized and armed a 100,000-strong militia and, in March 1992 (with the republic's Croats), declared Bosnia's independence, against the will of Yugoslavia's government and Bosnia's Serbs, despite knowing that they could not defend themselves against expected retaliation. As Bosnian president Alija Izetbegovic later explained, "Our tactics were . . . the international community would defend this country." His foreign minister, Haris Silajdzic, confirms, "My main priority in the whole strategy was to get Western governments and especially the United States to get involved, because [Serbs] had the whole Army." Omer Behmen, perhaps the most influential Muslim official, says the goal was to "put up a fight for long enough to bring in the international community."¹⁰

The Muslims expected such intervention because of the emerging norm of humanitarian intervention after the Cold War. When Kuwait defied Saddam Hussein's demands, prompting his August 1990 invasion, a UN coalition expelled Iraqi troops and restored Kuwait's sovereignty. When Iraq's Kurds rebelled soon after, the United States intervened in April 1991, protecting them from genocidal retaliation and providing long-sought political autonomy. When Croatia seceded from Yugoslavia in June 1991, triggering retaliation by Yugoslav and Serb forces, who occupied one-third of the republic, the UN deployed peacekeepers who replaced the occupying forces and thereby helped preserve Croatia's sovereignty. This emerging norm understandably encouraged Bosnia's Muslims to believe that they could gain control of a unitary Bosnian state by arming and seceding, despite the Serbs' massive military superiority.

Only when intervention turned out to be less than expected did the Muslims reconsider their previous rejection of an ethnic division of Bosnia. As Izetbegovic explained in February 1993, "Our expectations have been betrayed. But perhaps these expectations were too high. They have not come here to protect us from the *Chetniks* [Serbs]. . . . Now that the Americans have accepted [cantonization], looking at it realistically I do not think that there is an alternative."¹¹ Still, the Muslims continued to fight a losing war in hopes of garnering intervention to obtain a better deal. The UN's peacekeeping commander in Bosnia in 1994–1995, British general Michael Rose, reports that the weaker, Muslim side repeatedly rejected cease-fires based on an expectation that if they "attacked and lost, the resulting images of war and suffering guaranteed support in the West for the 'victim State.'" Even James Gow, overtly sympathetic to the Muslims, concedes that their army broke cease-fires "in the hope of provoking a U.S. intervention."¹²

Ultimately, this strategy did compel greater intervention. The United States facilitated the smuggling of arms to the Muslims and their Croat allies by deliberately not enforcing a UN embargo; provided military training to Croatia's army; and then led a NATO bombing campaign against Bosnian Serb military assets. But the intervention still was too weak to compel the Serbs to accept a unitary Bosnia, so the Muslims had to settle for the 1995 Dayton accords, which included an ethnic division of the republic similar to that they had rejected in favor of war. The cost of three years of war turned out to be roughly 2 million displaced and 100,000 dead, mostly Muslim.¹³ Had it not been for the expectation of international intervention, the Muslims might not have seceded at all, or at least not without first agreeing to a cantonization plan, so the bloody Bosnian war might have been averted. At the very least, without the moral hazard created by the prospect of intervention, the Muslims would have better prepared themselves militarily before declaring independence and thereby mitigated any potential retaliation.

Kosovo

Similarly in Kosovo, there had been no genocidal violence for decades until militant ethnic Albanians launched a rebellion in 1997. Serbia had revoked the province's autonomy eight years earlier, citing Albanian nationalism and discrimination against Serbs, but the Albanians initially had responded by boycotting government institutions. There was little violence so long as the Albanians, under Ibrahim Rugova's Democratic League of Kosovo, pursued their goal of independence exclusively through passive resistance. Indeed, by establishing parallel institutions for education, health care, and taxes, the Albanians succeeded at restoring a degree of de facto autonomy. The peace was broken when militant Albanians of the Kosovo Liberation Army (KLA) launched a full-blown rebellion in 1997, expecting to provoke state retaliation that would attract intervention sufficient to achieve independence. The rebels rejected pacifism on grounds that only a militant strategy could attract the intervention necessary for independence, citing the precedents of Bosnia and Croatia as detailed below.

Belgrade responded in spring 1998 with a counterinsurgency that defeated the rebels but also killed hundreds of ethnic Albanian civilians and displaced tens of thousands more. In autumn 1998, the United States threatened to intervene militarily on humanitarian grounds, which compelled Serbian forces to retreat but also enabled the rebels to regroup and resume their attacks. In March 1999, when Belgrade rejected a US-dictated peace plan at Rambouillet, France, NATO announced it would bomb Yugoslavia. Belgrade countered by forcibly expelling 850,000 Albanians from Kosovo—half their total in the province—and killing an estimated 10,000. After eleven weeks of

bombing, Belgrade capitulated, whereupon the Albanian refugees returned and forcibly expelled more than 100,000 Serbs from Kosovo—likewise about half their total in the province—and killed hundreds more.

The KLA rebellion was facilitated by the availability of small arms looted during a civil war in neighboring Albania in 1997, but the rebels never expected these light weapons to enable them to defeat the better equipped and more numerous Serbian forces. A top KLA commander, Emrush Xhemajli, reveals, “We knew our attacks would not have any military value. Our goal was not to destroy the Serb military force [but to make it] become more vicious. . . . We thought it was essential to get international support to win the war.” Likewise, an Albanian negotiator at Rambouillet, Dugi Gorani, admits, “The more civilians were killed, the chances of international intervention became bigger, and the KLA of course realized that.” The rebels anticipated and accepted the human cost of their strategy. Hashim Thaci, a founder of the KLA and head of its political directorate during the war, acknowledges, “We knew full well that any armed action we undertook would trigger a ruthless retaliation by Serbs against our people. . . . We knew we were endangering civilian lives, too, a great number of lives.”¹⁴

The rebels expected to benefit from humanitarian intervention if they provoked the violence because of precedents and signals from the international community. In a May 1998 press report, the KLA revealed its intention to “attract heavy Yugoslav barrages and thus win strong international sympathy, as the Croats did in Vukovar.” A leading Kosovo Albanian journalist similarly noted, “There is a message that is being sent to the Kosovars—if you want to draw international attention you have to fight for it. That is exactly it. You need to use violence to achieve your goals.” Gorani subsequently revealed, “There was this foreign diplomat who once told me, ‘Look unless you pass the quota of five thousand deaths you’ll never have anybody permanently present in Kosovo from the foreign diplomacy.’”¹⁵

Because the KLA strategy was based on attracting humanitarian intervention, but the rebels harbored no hope of prevailing themselves, violence might well have been averted if not for the moral hazard of humanitarian intervention. As Diana Johnstone noted in 1998, “Without the prospect of decisive outside intervention on their behalf, the ethnic Albanians of Kosovo might have tried to make use of the existing legal framework” in Yugoslavia to restore autonomy, rather than violently seeking independence.¹⁶ Even after the outbreak of violence, had the international community eschewed such intervention, Belgrade probably could have stanching the rebellion at the cost of a few hundred lives, mostly rebels, as it appeared to have done by mid-1998. Instead, Western threats and bombing exacerbated the rebellion and provoked an escalation of state retaliation, leading to 10,000 deaths and the ethnic

cleansing of nearly a million Albanians and Serbs. These are indisputably perverse consequences for ostensibly “humanitarian” intervention.

Obstacles to Mitigating Moral Hazard

Moral hazard encourages two kinds of risky behavior—irresponsibility and fraud. In the former, the insured stops taking normal precautions against loss because insurance reduces or eliminates the potential cost. In the latter, the insured intentionally seeks nominal loss because the insurance payout is greater. Reforms to reduce moral hazard often aim to make insurance “market neutral,” so the insured acts as if there were no insurance, which enables insurance to provide a partial safety net without encouraging additional risky behavior.¹⁷

The basic obstacle to reform is the inverse relationship between moral hazard and risk. Insurance reduces risk but in so doing produces moral hazard. Conversely, any reform to reduce moral hazard will increase risk. Simply put, it is impossible to reduce both the expected cost of taking risks and the propensity to take such risks.

Special challenges are associated with social insurance, which is provided by the state to serve a public interest. The state, rather than the market, must determine the proper balance between moral hazard and risk. An overly large safety net may promote so much risky behavior as to bankrupt the insurance system. But cutting back on insurance can engender excessive fear that inhibits productive human activity (such as depositing savings in banks to enable loans). The optimum solution balances reasonable levels of moral hazard and risk—promoting productive risk taking while avoiding insolvency.¹⁸ Social insurance also confronts a game of chicken between the state and the insured. The state tries to reduce moral hazard by limiting insurance, but the insured knows that the state wants to provide insurance to promote social welfare. As a result, the insured may take excessive risks that nominally disqualify it for insurance because it still expects to receive a payout in the event of loss. Ironically, this dynamic may promote greatest risk taking by those with the most to lose, because states often view such players as “too big to fail.”¹⁹

The main difference between humanitarian intervention and insurance is that the former not only may reduce the cost to the insured of an adverse event, but also may reduce the probability of such an event. That is, not only can intervention assist a group targeted by state violence, but the prospect of intervention also may deter such violence. This difference has two consequences. First, it magnifies the moral-hazard effect by further reducing the expected cost of rebellion and thereby making it even more likely. Second, it increases the danger of trying to reduce moral hazard, because any limits

on intervention may also increase states' inclination to use violence against domestic opponents.

Cost Sharing

Because moral hazard arises when the potential costs of risky behavior are paid by an insurer, the simplest and most common remedy is to require the insured to share in these costs.²⁰ One option is a deductible, commonly used in car insurance, requiring the insured to pay a fixed amount of the cost before insurance covers the remainder. Absent a deductible, drivers would have less incentive to drive defensively or to pay for off-street parking to avoid vandalism. Another option is coinsurance, where the insurer pays only a percentage of the cost, commonly 80 percent in medical insurance. The insured's prospect of having to pay the remaining 20 percent deters irresponsible overutilization of medical care (while the relatively low copayment also promotes routine care to avert high-cost emergency procedures). Similarly, unemployment insurance utilizes a "reduced replacement rate," where the insurance benefit is only a fraction of the former wage, to deter workers from fraudulently or irresponsibly getting fired.²¹ A final option is to cap the amount of an insurance payout. US bank deposit insurance is capped at \$100,000 per depositor, so that larger depositors share in the cost of a bank failure and thus have incentive to avoid risky banks. This system insures most deposits, thereby averting runs on troubled banks, while still providing banks an incentive to avoid risky loans and investments. Capping is also used in unemployment insurance, by limiting its duration to increase the incentive for the jobless to look for work.

Each of these three cost-sharing strategies to reduce moral hazard—deductibles, coinsurance, and caps—could be adapted to humanitarian intervention, but with varying degrees of practicality. A deductible-based strategy would declare that the international community would withhold humanitarian intervention until a certain threshold of violence had been exceeded. The goal would be to deter rebellion by groups unwilling to accept this level of retaliation who might rebel if they expected intervention to arrive sooner. But this strategy has several weaknesses. First, many rebels have high tolerance for retaliation when perceived as necessary and sufficient for intervention to achieve their political goals, so they would not be deterred by a deductible. This cost acceptance stems from two factors: the high value that rebels place on achieving their goals, and the principal-agent dynamic whereby the cost of rebellion—state retaliation—is borne more by noncombatants than by the rebels who provoke it. Rebels also might not view the deductible requirement as credible if they expected media images of civilian suffering (the "CNN effect") to compel humanitarian intervention before violence exceeded the

deductible threshold. The deductible strategy also would contradict the prescription of many humanitarian advocates for preventive or early intervention as the most humane and cost-effective remedy for genocidal violence. Indeed, a *de facto* deductible already exists, because humanitarian intervention is rarely launched until civilian suffering mounts to the point where international media publicize it. Raising this deductible, to require even greater human misery prior to intervening, is unlikely to be politically acceptable to much of the international community.

A coinsurance strategy would call for intervention in proportion to violence, but always less than necessary to fully protect civilians or enable rebel victory. This could protect most civilians without unduly fomenting rebellion, since escalation by the rebels would increase their costs without furthering their goals. Although an intriguing concept, in reality interveners prefer short deployments and decisive outcomes to open-ended commitments—and rebels know this, which would undermine the credibility of a coinsurance strategy. Rebels could continue to fight despite suffering losses, expecting that the international community eventually would tire of protracted deployment and escalate intervention to help the rebellion. Indeed, this happened in Bosnia from 1992 to 1995, when the international community initially pursued a *de facto* coinsurance strategy by intervening only with limited humanitarian aid and “pinprick strikes” insufficient to fully protect Muslim civilians or enable Bosnian army victory. The Muslims gambled that if they continued to fight and suffer losses, the international community would escalate its intervention—which eventually occurred, enabling the Muslims to recapture territory and avoid the formal partition of Bosnia along ethnic lines.

A capping strategy would limit the amount or type of intervention. For example, it could confine intervention to protecting civilians rather than helping rebels. This option would be the most promising of the cost-sharing strategies. It would provide maximum protection to civilians, the main goal of humanitarian intervention, without promoting rebellion. It also could be more feasible politically than the others because the international community would not have to resist public pressure from the CNN effect to protect threatened civilians. But two practical problems could arise. First, it is difficult to protect civilians without also helping rebels among them, so militants would deliberately embed themselves among civilians.²² Second, protecting civilians may sometimes require a full-blown military occupation, which could effectively reward rebels with autonomy and thereby exacerbate moral hazard. Still, this strategy has some potential.

Randomization

Another way to reduce moral hazard is to add uncertainty about insurance payouts, thereby lowering the insured’s incentive to take excessive risks. Two

strategies are possible. The first is to introduce “constructive ambiguity” to the rules for insurance protection. For example, Barry Eichengreen says that the IMF should exercise more discretion on bailouts to reduce the moral hazard that arises from today’s high probability of financial rescue.²³ A complementary strategy is to insulate insurance from politics, to reduce the insured’s expectation of being able to lobby successfully for a payout. For example, Charles Kindleberger says decisions on international financial bailouts should be made by a small multilateral group, because an individual decisionmaker would be extremely vulnerable to lobbying and thus provide too much insurance, while a large group would be paralyzed by collective action hurdles and therefore provide too little.²⁴

Both of these strategies have analogies in humanitarian intervention, but neither offers much hope for mitigating moral hazard. First, it would be difficult to increase the level of constructive ambiguity, because there already is little certainty as to when, where, and by whom intervention will be launched. Intervention decisions hinge on factors such as level of violence, degree of media attention, political power of the state in which the violence is occurring, historical relationship between that state and potential interveners, and competing demands for intervention forces. Intervention is more likely in Europe than in Africa, but even the Balkans exhibited great variance: decisive intervention in Kosovo came after just 2,000 deaths but in Bosnia not until a toll fifty times higher. And although Rwanda received little humanitarian intervention until its 1994 genocide was virtually complete, elsewhere in Africa since 1992, intervention has saved lives in the Democratic Republic of Congo, Côte d’Ivoire, Liberia, Somalia, Sierra Leone, and Sudan. Humanitarian advocates decry this inconsistency, but the resulting ambiguity has the unintentional virtue of reducing moral hazard. Ironically, if advocates of the Responsibility to Protect succeed at establishing uniform standards for intervention, they might increase moral hazard and thereby inadvertently foster rebellion that provokes genocidal retaliation.

The second strategy, insulating intervention from lobbying by putting the decision in the hands of a small multinational decisionmaking body, is easier in theory than in practice. Some such decisions already are ostensibly delegated to this type of body, the UN Security Council. Under the UN Charter, armed force is prohibited unless explicitly authorized by the Council (or as self-defense from cross-border attack—but this is rarely the justification for humanitarian intervention). But this proscription is honored in the breach. For example, in 1999, when the United States realized it could not obtain UN authorization for intervention in Kosovo because of opposition from veto-wielding China and Russia, it simply led the intervention under NATO authorization.

Even if all states were to respect the UN’s authority, delegating intervention decisions to the Security Council might not be advisable. This is

because the five permanent members of the council have veto power, which they could exercise to block intervention against their allies. Logically, such allies would be less deterred by the prospect of intervention. Thus, if the Security Council really were in charge, state violence might rise precisely where intervention were inhibited, potentially increasing overall civilian suffering.

Regulation

To reduce both the fraud and irresponsibility occasioned by moral hazard, insurers can impose regulations that permit payouts only to those who behave responsibly. Two approaches are possible: *ex ante*, where payouts are conditioned on how the insured behaves prior to filing a claim; and *ex post*, where payouts are conditioned on the insured's behavior afterwards. Some examples of *ex ante* regulation are the requirements imposed on banks for deposit insurance, such as minimum reserve holdings and maximum interest rates.²⁵ If banks behave irresponsibly by skirting these rules, they lose the insurance coverage that attracts deposits, so they have incentive to follow the rules. But *ex ante* regulation has at least two shortcomings. First, although it provides incentive for the insured to behave responsibly prior to filing a claim, afterwards there is less incentive for prudent behavior to contain the loss, because it is covered by insurance. Second, regulators of social insurance may have difficulty withholding insurance payouts in the face of human misery, even if the victims did not meet the formal requirements for insurance, which reduces the credibility of *ex ante* regulation. For example, in the 1980s, the United States bailed out failed "savings and loan" institutions, which were uninsured and had attracted customers by offering high interest rates that banks were prohibited from as a condition of their insurance. Although understandably motivated by compassion and the desire to avoid an economic crisis, this bailout nevertheless undercut the credibility of banking regulation.

The alternative strategy, *ex post* regulation, has the opposite strengths and weaknesses because the regulator has more leverage after a claim is filed. For example, the IMF will condition the bailout of a highly indebted state on its making fiscal reforms such as reducing budget and trade deficits. Because such a state typically is desperate for a bailout to avert an economic crisis, it has strong incentive to behave responsibly by observing these requirements, which limits the extent of the needed bailout. But *ex post* regulation offers less incentive for the insured to behave responsibly prior to seeking a bailout. Moreover, *ex post* regulation of social insurance may lack credibility (the "chicken" problem) because the insured knows that the insurer wants to provide a bailout. For instance, it is well known that the IMF wants to avoid the insolvency of any country to avert contagion

and international financial crisis. As a result, states feel free to violate austerity pledges when faced with competing domestic political demands, because they expect to be bailed out anyway.

Both types of regulation have analogies for humanitarian intervention, including the drawbacks. An *ex ante* approach would permit intervention only on behalf of groups that had behaved “responsibly”—that is, eschewed rebellion—prior to suffering state violence. By barring intervention for groups that had provoked retaliation, this regulation would reduce moral hazard and thereby discourage cycles of violence. As with all *ex ante* regulation, however, the incentive for responsible behavior would diminish once the payout started. For example, if a state initiated violence without apparent provocation, thereby triggering intervention, the targeted group would have incentive to escalate the violence to increase intervention. Credibility of this policy also would be a problem, because rebels may expect the CNN effect to prompt intervention on their behalf even if they provoke violence.

An *ex post* policy would authorize intervention even if a group had provoked retaliation, but only if the militants henceforth abandoned violence and lowered their demands—for example, from independence to autonomy—or if the state’s retaliation were grossly disproportionate to the provocation. The international community could thereby entice states toward moderation by discouraging armed challenges to their sovereignty so long as they eschewed excessive violence. This policy would limit escalation but could not completely deter groups from initiating violence to gain international attention. The credibility of this policy also could be a problem, because rebels might expect that a protracted war eventually would attract intervention regardless of the declaratory policy of potential interveners.

Other Methods

In private insurance, moral hazard is often addressed through “risk-based premiums,” which impose higher insurance fees on those deemed more likely to file a claim. This provides a financial incentive for the insured to behave more responsibly. For example, car insurance rates are raised on those who file claims, which encourages the insured to drive safely. No perfect analogy exists for humanitarian intervention, because vulnerable groups are not charged insurance premiums for protection against genocidal violence. However, the international community could encourage lower-risk behavior by aiding nonviolent protest groups rather than rebels. This would include enticing and coercing states to meet the demands of such pacifist groups. Ironically, the emerging norm now does the opposite, denying significant intervention until the outbreak of violence. This is well illustrated by the case of Kosovo, where NATO members largely ignored the pacifist, ethnic Albanian opposition in 1989–1997 but spent billions of dollars

on military intervention and reconstruction after the KLA launched its rebellion.

The next strategy builds on the fact that moral hazard also can distort incentives for insurers themselves. This problem arises when the government protects insurance companies against bankruptcy, which reduces their incentive to be careful in writing insurance policies that minimize moral hazard for the insured. Thus, an indirect way to reduce moral hazard among the insured is to reduce it among insurers, by limiting their financial protection. For example, state guarantee corporations often cap bailouts of insolvent life insurance companies.²⁶ An analogy for humanitarian intervention could be envisioned if all intervention were conducted by a single institution, such as the United Nations. Then, member states could firmly cap their contributions for intervention, leaving the UN with fixed resources for this activity. Facing such a constraint, the UN would limit its intervention—ideally to the most deserving cases—and thereby reduce moral hazard. But there are two practical obstacles to this approach. First, under current procedures, if the UN exhausts its peacekeeping resources, it can appeal to member states for more. Second, member states sometimes launch their own interventions. Accordingly, capping contributions for UN intervention is not now a realistic remedy.

A final option to reduce moral hazard is mutual liability, where insurance is provided not by a third party but by a pool of the insured themselves. This creates an incentive for the pool members to monitor and constrain each other's risky behavior by threatening to withhold payouts for excessive risk taking. Some banks in the early nineteenth century provided deposit insurance this way and thereby reduced moral hazard, lowering the incidence of bank failure compared with traditional deposit insurance systems.²⁷ A strict analogy for humanitarian intervention does not exist because it would require vulnerable groups from different states to intervene on each other's behalf, which is beyond their capability. However, the benefits of mutual liability could be realized if the pool of vulnerable groups were given control over intervention decisions by third parties, and if the total amount of intervention were capped. Groups would then have incentive to monitor and reduce each other's risk taking—for example, by confining intervention to cases of unprovoked state violence. This system would be both just and efficient, because no observer is more qualified to determine if a vulnerable group deserves intervention than one in a similar situation that would have to reduce its own prospect of intervention in order to help. Unfortunately, this option is unrealistic, because the international community is unlikely to explicitly authorize a pool of substate actors to dictate where and when it should intervene. (Ironically, though, the emerging norm implicitly empowers some rebels to compel intervention by provoking state retaliation.)

Reforming Humanitarian Intervention

The preceding analysis suggests combining four reforms to reduce the moral hazard of humanitarian intervention: ex ante and ex post regulation, capped payouts, and incentives for risk avoidance (Table 1). The minimum goal is to prevent the equivalent of insurance fraud: rebels who intentionally provoke state retaliation to attract the intervention necessary to achieve their political objective. A further goal of reform is to stop promoting irresponsible behavior: when rebels do not intentionally provoke but do knowingly risk retaliation because they expect the emerging norm to provide a safety net.

Ex ante regulation would deny intervention to rebels whose armed challenges had provoked retaliation. This could deter potential rebels who expected to fail without intervention, or were risk averse, or had low tolerance for retaliation against their own group. But some militants would rebel anyway. In this case, ex post regulation could encourage mutual restraint by withholding intervention for rebels unless the state’s retaliation were grossly disproportionate or until the rebels abandoned violence and reduced their demands. Capping payouts would reduce the rebels’ incentive for violence by

Table 1 Options to Mitigate the Moral Hazard of Humanitarian Intervention

Insurance Prescription	Analogy for Intervention	Useful Reform?
<i>Costsharing</i>		
Deductible	Violence threshold for intervention.	No. Insufficient to deter rebels.
Coinsurance	Inadequately protect rebels and civilians.	No. Not credible.
Cap payout	Help civilians, not rebels.	Maybe. But aid may help rebels too.
<i>Randomization</i>		
Constructive ambiguity	Avoid clear criteria for intervention.	No. Already exists.
Hinder lobbying by insured	UN Security Council monopoly on intervention.	No. States insist on right to intervene.
<i>Regulation</i>		
Ex ante	No intervention if rebels provoke retaliation.	Maybe. But “CNN effect” creates pressure to intervene.
Ex post	Aid groups that end violence and reduce demands.	Maybe. But initial violence still rewarded.
<i>Other Methods</i>		
Risk-based premiums	Support nonviolent groups rather than rebels.	Maybe. But political will lacking until violence.
Limit guarantees	Cap contributions to a single authorized intervener.	No. States insist on right to intervene.
Mutual liability	Peer substate groups authorize third-party intervention.	No. States won’t explicitly delegate intervention decisions.

targeting intervention narrowly to help civilians but not rebels—for example, by avoiding establishment of large “safe areas” in favor of narrow aid corridors and circumscribed displaced-person camps policed to exclude rebels. The international community also could boost incentives for sub-state groups to pursue the low-risk path of nonviolent resistance rather than rebellion by expending international resources to entice and coerce states to appease the legitimate demands of pacifist groups. Finally, if the international community ignores this advice by continuing to aid provocative rebels by giving them military assistance or pressuring states to concede sovereignty to them, as in Kosovo, it also should deploy troops preventively to defend against the likely state backlash. (The proposed reform package is summarized in Figure 2.)

These reforms would pose several practical challenges. First, it is unclear who would judge—based on what standard—whether rebels had provoked violence, whether retaliation were grossly disproportionate, or whether rebels later moderated their behavior sufficiently to qualify for intervention. The UN Security Council is the most obvious candidate but could be hampered by politics and the veto power of its permanent members.

An additional challenge is how to respond to strong militants who rebel because they think they can win on their own, not because they expect intervention, but who nevertheless trigger retaliation against civilians. Intervention in such cases could save lives without encouraging this type of rebellion but still would raise the overall expectation of intervention and thereby the moral hazard that promotes rebellion by weaker groups. Accordingly, as a general principle, the international community should withhold intervention from provocative rebels, whether or not they originally were emboldened by expectations of intervention.

Figure 2 Proposed Reform of Humanitarian Intervention

- Do not intervene on behalf of rebels unless state retaliation is grossly disproportionate.
- Deliver purely humanitarian aid—food, water, shelter, medical care—in ways that minimize benefit to rebels.
- Expend substantial resources to persuade states to address the legitimate grievances of nonviolent domestic groups.
- Do not coerce regime change or surrender of sovereignty without robust preventive military intervention to protect against violent backlash.

Reform also would face political and logistical hurdles. Mustering international support on behalf of pacifist groups would be difficult precisely because of the absence of violent media images. By contrast, state violence could spur overwhelming pressure for intervention, even if the state were responding proportionately to rebellion. Indeed, even if the international community denied aid to rebels until they disavowed violence, an incentive still would remain for them to initiate violence to garner world attention. Finally, it would be difficult for interveners to protect civilians without inadvertently aiding some rebels too.

Despite these practical challenges, the above reforms are more realistic than two others that are commonly advocated. The first, touted by humanitarian and human rights organizations, calls for quick intervention in all cases of imminent or actual large-scale internal violence, to prevent or physically curtail it in the short run and subsequently deter it. But this is impossible because of the limited global capacity for intervention. The 1990s alone witnessed major civil violence in at least sixteen areas, some on multiple occasions: Albania, Algeria, Angola, Azerbaijan, Bosnia, Cambodia, Congo-Brazzaville, Croatia, Ethiopia, Kosovo, Liberia, Sierra Leone, Somalia, Sudan, Tajikistan, and Zaire. Intervening in all would have required simultaneous deployment of hundreds of thousands of troops—many times the world's capacity to project force.²⁸ By the logic of moral hazard, moreover, any increase of intervention would raise expectations of future such aid, fostering additional rebellion that could provoke retaliation and thus further overwhelm interveners. Capacity for timely intervention can be increased, but moral hazard suggests that this capacity never will be sufficient to prevent or deter all genocidal violence.²⁹

The second alternative proposal, by arms control advocates, is to inhibit rebellion by curtailing the supply of weapons to militants. Unfortunately, global proliferation of light arms and the porous nature of international borders render this proposal implausible in most cases. At best, enhanced intervention capacity and reduced weapons traffic could supplement—but not substitute for—the proposed reform.

In light of current world attention to Darfur, it is useful to envision how the proposed reform could have guided intervention in that crisis. At least one disgruntled Darfur group, the Justice and Equality Movement, enunciated its grievances well before the outbreak of violence by publishing its "Black Book" in 2000.³⁰ If those grievances were legitimate, the international community should have pressured and enticed Sudan's government to address them on the explicit grounds that the movement was peaceful. This could have encouraged nonviolence by disgruntled groups in Darfur and possibly elicited marginal concessions from Khartoum. Had that failed and had the rebellion broken out anyway in 2003, the international community immediately should have announced that it would not intervene diplomatically or

militarily on behalf of the rebels unless Sudan's retaliation in Darfur were grossly disproportionate, but that it would provide humanitarian assistance to innocent civilians through aid corridors and camps policed to exclude rebels. This would have encouraged restraint both by Khartoum, assuming it feared greater diplomatic or military intervention, and by the rebels, assuming they realized that victory was unattainable without international support. Only if these strategies had failed—so that the rebellion provoked grossly disproportionate state retaliation, as actually has occurred in the absence of these strategies being attempted—would there have been justification for more robust intervention. In this worst-case scenario, the situation would be as it is today, so the proposed reform would not have done any damage. But it is possible that the reform might have averted escalation at an earlier juncture by providing incentives for restraint and compromise to both sides. Thus, at least in Darfur, the proposed reform could only have improved the humanitarian outcome, not worsened it.

Conclusion: Balancing Competing Values

The proposed reform would discourage both rebellion and genocidal retaliation. But such reduction of violence is not the top priority for all advocates of intervention. Some aim to promote other values, such as freedom or democracy, even at the expense of increased violence.

Analogous questions about priorities pervade the literature on moral hazard. Economists typically want insurance to be market neutral, so the insured will act as they would if uninsured. But some analysts favor higher insurance that increases moral hazard, on grounds that promoting risky behavior has positive externalities. For example, although boosting unemployment insurance discourages some recipients from looking for work, supporters say this cost is outweighed by the good of helping the truly needy.³¹ Likewise, health insurance leads to excessive medical care, but proponents prefer this to the inadequate care they say is provided without insurance.³²

To ensure that social insurance promotes society's values, those values should be debated openly. Unfortunately, this has yet to happen for humanitarian intervention. Those who favor intervention—even when it fosters rebellion that provokes retaliation—because they prioritize the rebels' liberation agenda, rarely admit this publicly. Instead, they insist that intervention simultaneously promotes justice and order. They also typically claim that any rebellion that provokes retaliation is *ipso facto* a liberation movement because of the state's violent response, regardless of whether there had been any significant oppression prior to the rebellion.

Such supporters of intervention for liberation purposes should make their case explicitly rather than cloaking their advocacy in the garb of humanitarianism, which confuses both debates. If such liberal hawks, or hawkish

liberals, support secessionist demands at the expense of peace and stability, they should have the courage to say so openly and see if their polity supports them—or not.

The alternative to a policy of intervening to help rebels is not necessarily to doom their peoples to perpetual oppression. Some of these groups, such as Bosnia's Muslims, faced no discrimination or violence until they acquired weapons and seceded. In such cases, it is rebellion that causes oppression, not vice versa. In other cases, international leverage could encourage states to address the legitimate grievances of nonviolent groups. While this less aggressive approach might not produce the quick results or visceral satisfaction of helping rebels defeat a perceived oppressor, it could avoid provoking retaliation against tens or hundreds of thousands of innocent victims. Ultimately, that is the choice the international community may face: foster revolutionary change at the cost of genocidal violence or settle for more gradual progress at a substantially lower human toll. It is a debate worth engaging—on these terms explicitly. 🌐

Notes

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1. Barbara Harff and Ted Robert Gurr, "Toward Empirical Theory of Genocides and Politicides," *International Studies Quarterly* 32, no. 3 (September 1988): 359–371. In at least thirty (68 percent) of their forty-four episodes of "genocide and politicide," from 1943 to 1988, the violence was triggered by a challenge to the state's authority by members of a group that then was targeted for retaliation. Helen Fein, "Genocide: A Sociological Perspective," *Current Sociology* 38, no. 1 (Spring 1990), identifies nineteen cases of genocide from 1945 to 1988, concluding that "one could classify at least 11 cases [58 percent] as retributive genocide in which the perpetrators retaliated to a real or perceived threat by the victim to the structure of domination." For a detailed analysis, see Alan J. Kuperman, "Suicidal Rebellions and the Moral Hazard of Humanitarian Intervention," *Ethnopolitics* 4, no. 2 (July 2005). Benjamin A. Valentino, Paul Huth, and Dylan Balch-Lindsay, "'Draining the Sea': Mass Killing and Guerrilla Warfare," *International Organization* 58 (2004): 375–407, finds that an increase from moderate to high in guerrilla threat and civilian support for rebels increases the likelihood of "mass killing" by a remarkable eighteen-fold.

2. Dane Rowlands and David Carment, "Moral Hazard and Conflict Intervention," in Murray Wolfson, ed., *The Political Economy of War and Peace* (Boston:

Kluwer, 1998), pp. 267–285; Alan J. Kuperman and Timothy W. Crawford, eds., *Gambling on Humanitarian Intervention: Moral Hazard, Rebellion and Civil War* (Abingdon, UK: Routledge, 2006); Roberto Belloni, “The Tragedy of Darfur and the Limits of the ‘Responsibility to Protect,’” *Ethnopolitics* 5, no. 4 (2006): 327–346.

3. United Nations, World Summit Outcome, A/RES/60/1, 2005, p. 30; United Nations, *A More Secure World: Our Shared Responsibility—Report of the Secretary-General’s High-level Panel on Threats, Challenges and Change*, 2004, www.un.org/secureworld (accessed 3 December 2004), p. 66; International Commission on Intervention and State Sovereignty, *The Responsibility to Protect*, 2001, www.iciss.gc.ca/Report-English.asp (accessed 22 April 2002). Precursors of this concept can be found in T. Franck and N. Rodley, “After Bangladesh: The Law of Humanitarian Intervention by Force,” *American Journal of International Law* 67, no. 2 (1973); and R. J. Vincent and P. Wilson, “Beyond Non-intervention,” in I. Forbes and S. Hoffman, eds., *Political Theory, International Relations and the Ethics of Intervention* (Basingstoke, UK: Macmillan, 1993), p. 125.

4. United Nations, Convention on the Prevention and Punishment of the Crime of Genocide,” adopted by Resolution 260 (III) of the UN General Assembly, 9 December 1948, UN Treaty Series No. 1021, vol. 78, p. 277, www.preventgenocide.org/law/convention/text.htm (accessed 6 September 2005).

5. Andrew Bell-Fialkoff, *Ethnic Cleansing* (New York: St. Martin’s Press, 1996).

6. The term *moral hazard* originally referred to the alleged immorality of those who would act fraudulently or irresponsibly when covered by insurance. Modern economists have changed its usage, so that it now indicates the perverse incentives created by insurance. Tom Baker, “On the Genealogy of Moral Hazard,” *Texas Law Review* 75, no. 2 (December 1996): 237–292.

7. Paul Blustein, “IMF Says Its Policies Crippled Argentina; Internal Audit Finds Warnings Were Ignored,” *Washington Post*, 30 July 2004, p. E1. See also Axel Dreher, “Does the IMF Cause Moral Hazard? A Critical Review of the Evidence,” December 2004, <http://econwpa.wustl.edu:8089/eps/if/papers/0402/0402003.pdf> (accessed 3 August 2005). Even skeptics concede that bailouts create some moral hazard: Timothy Lane and Steven Phillips, “IMF Financing and Moral Hazard,” *Finance and Development* (June 2001); Ken Rogoff, “Managing the World Economy,” *The Economist*, 1 August 2002.

8. Belloni, “The Tragedy of Darfur,” p. 328.

9. Alan J. Kuperman, “The Moral Hazard of Humanitarian Intervention: Lessons from the Balkans,” *International Studies Quarterly* 52, no. 1 (March 2008); Alan J. Kuperman, “Tragic Challenges and the Moral Hazard of Humanitarian Intervention: How and Why Ethnic Groups Provoke Genocidal Retaliation,” PhD diss., Massachusetts Institute of Technology, 2002.

10. Alija Izetbegovic, interview with author, Sarajevo, 19 July 2000; Haris Silajdzic, phone interview with author, Sarajevo, 19 July 2000; Omer Behmen, interview with author, Sarajevo, 12 October 1999.

11. Alija Izetbegovic, interview quoted in *BBC Summary of World Broadcasts*, 17 February 1993.

12. Michael Rose, *Fighting for Peace: Bosnia 1994* (London: Harvill Press, 1998), p. 141; Steven L. Burg and Paul S. Shoup, *The War in Bosnia-Herzegovina* (New York: M. E. Sharpe, 1999), p. 13; James Gow, *Triumph of the Lack of Will* (New York: Columbia University Press, 1997), p. 96.

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15. Tihomir Loza, "Kosovo Albanians Closing the Ranks," *Transitions* 5, no. 5 (May 1998): 27; Little, "Moral Combat: NATO at War." The journalist quoted is Veton Surroi.

16. Diana Johnstone, "Notes on the Kosovo Problem and the International Community," *Dialogue*, no. 25 (Spring 1998), www.bglink.com/business/dialogue/diana.html (accessed 1999). See also Diana Johnstone, *Fool's Crusade: Yugoslavia, NATO and Western Delusions* (New York: Monthly Review Press, 2002).

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20. Mark V. Pauly, "The Economics of Moral Hazard: Comment," *American Economic Review* 58, no. 3 (June 1968): 535–536.

21. Cheng Wang and Stephen D. Williamson, "Moral Hazard, Optimal Unemployment Insurance, and Experience Rating," Working Paper 99-03, Department of Economics, University of Iowa, January 1999. A similar prescription is offered for IMF bailouts in Olivier Jeanne and Jeromin Zettelmeyer, "International Bailouts, Moral Hazard and Conditionality," *Economic Policy* 33 (October 2001): 409–432.

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23. Barry Eichengreen, "Whither IMF Reform?" Department of Economics, University of California, Berkeley, <http://emlab.berkeley.edu/users/eichengr/reviews/swissreview7.pdf> (accessed 24 August 2004), p. 3.

24. As cited in Moore, "Solutions to the Moral Hazard Problem," p. 458.

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O'Hanlon, *Expanding Global Military Capacity for Humanitarian Intervention* (Washington, DC: Brookings Institution Press, 2003), pp. 51–83.

29. On improving intervention capacity, see Alan J. Kuperman, *The Limits of Humanitarian Intervention: Genocide in Rwanda* (Washington, DC: Brookings Institution Press, 2001), pp. 109–119; “G-8 Action Plan: Expanding Global Capability for Peace Support Operations,” Office of the Press Secretary, White House, 10 June 2004.

30. Belloni, “The Tragedy of Darfur,” p. 333.

31. Baker, “On the Genealogy of Moral Hazard.”

32. John A. Nyman, “The Theory of the Demand for Health Insurance,” University of Minnesota, 4 January 2001, www.econ.umn.edu/workingpapers/nyman.pdf (accessed 25 August 2004).