



Institutionalizing and Safeguarding Peace

Perspectives from the Hirshleifer Model of Conflict

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Peace as the “Norm” in Mainstream Economics

Alfred Marshall’s definition of economics, *Principles of Economics*, 1890:
“...economics is the study of mankind in the ordinary business of life.”

Violent human conflict is not ordinary →

- Conflict lies outside the domain of economics; thus conflict tends to be ignored in mainstream economics textbooks
- Economists specializing in conflict are doing political science, not economics; hence, there are relatively few courses and fields in conflict economics in graduate and undergraduate economics programs



How Economics and Conflict “Go Together”

1. Conflict affects economic activities
2. Economic activities affect conflict
3. Conflict is an economic choice
4. Conflict is a mode of wealth acquisition
5. “Security...the most important of all services.”
(Nassau Senior, *An Outline of the Science of Political Economy*, 1836)

→ The fates of economics and conflict are intertwined



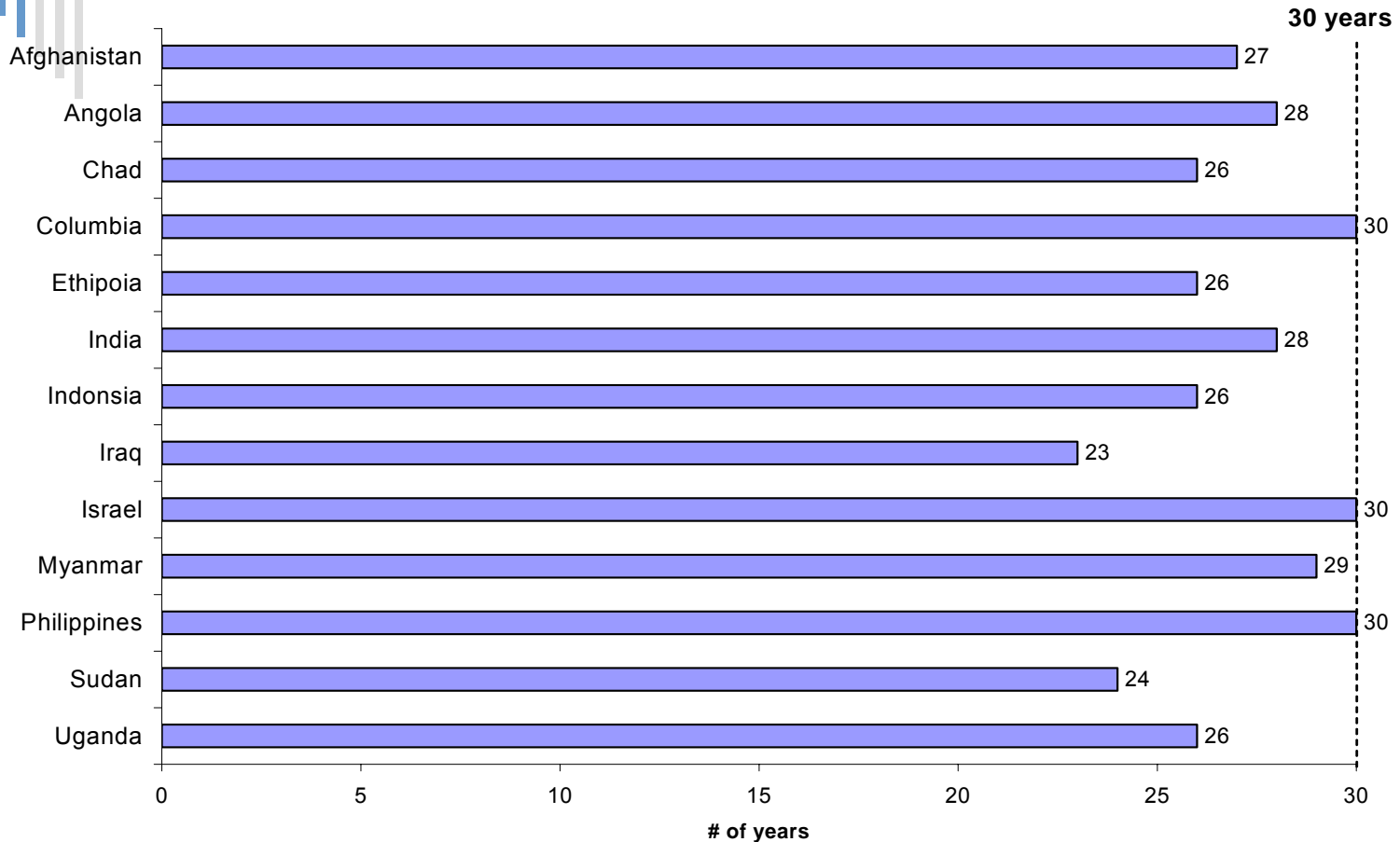
Peace as the “Norm” in Conflict Economics

Wars Occur Due to Misinformation and/or Irrationality:

1. War diverts resources to military production, destroys people and property, and disrupts economic activities
→ war is very costly
2. Whatever outcome arises from war, it could have been achieved without war at a much lower cost
→ players' initiating war are misinformed and/or irrational

Enduring Conflict

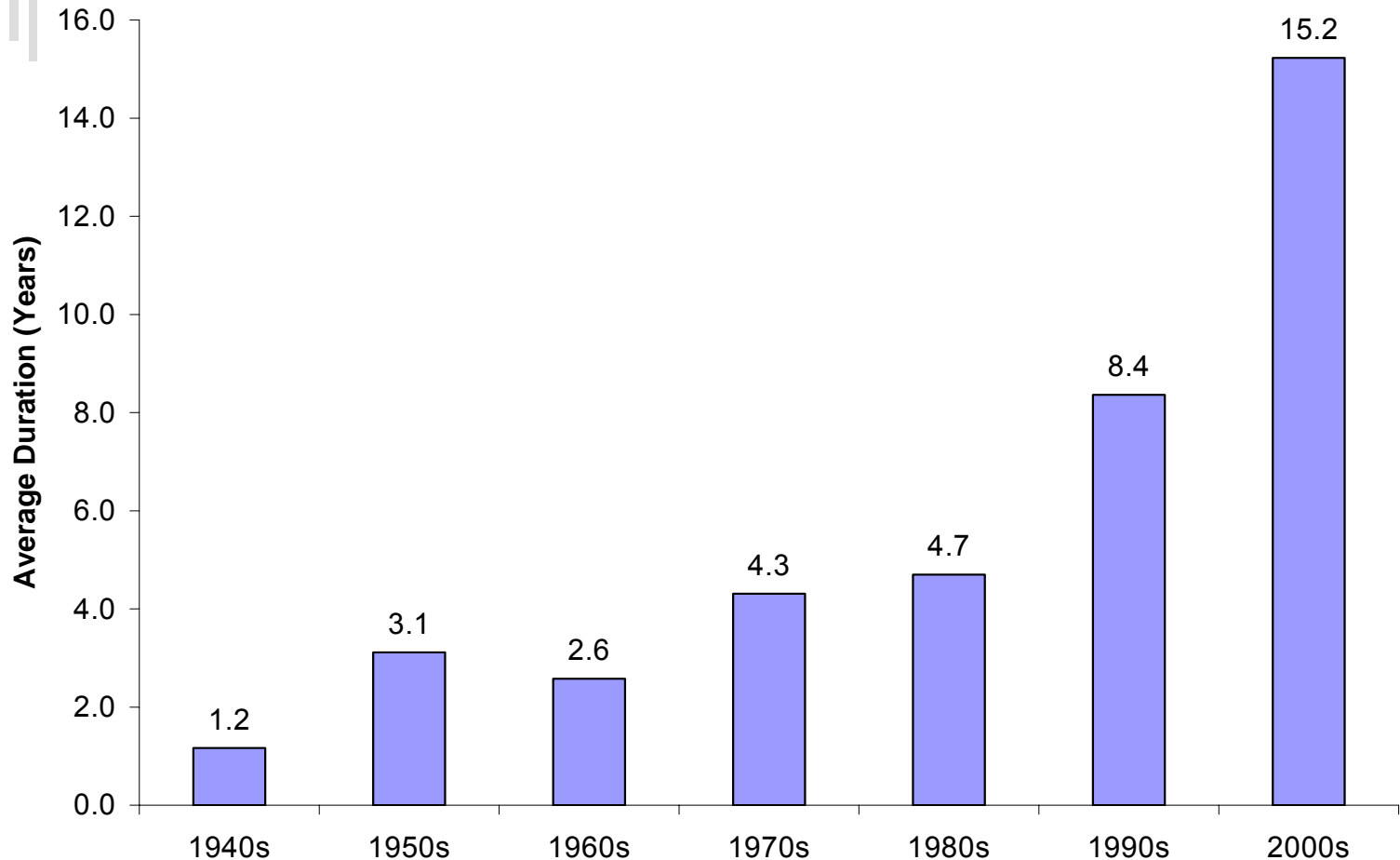
Number of Years in Conflict for Selected States, 1976-2005 (30 years)



➔ Actual or threatened violence is the norm for many people

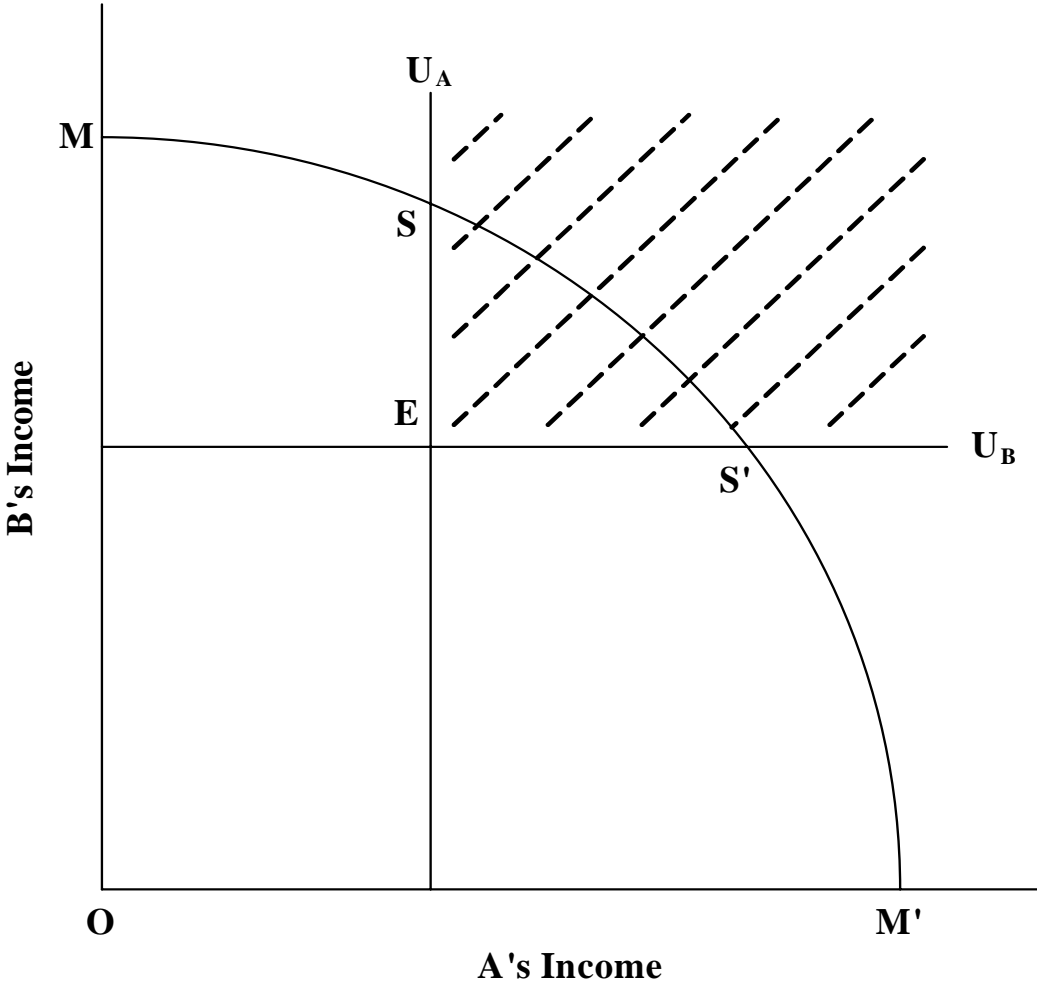
Enduring Conflict

Average Duration of Civil Conflicts Terminated in the Decade Shown



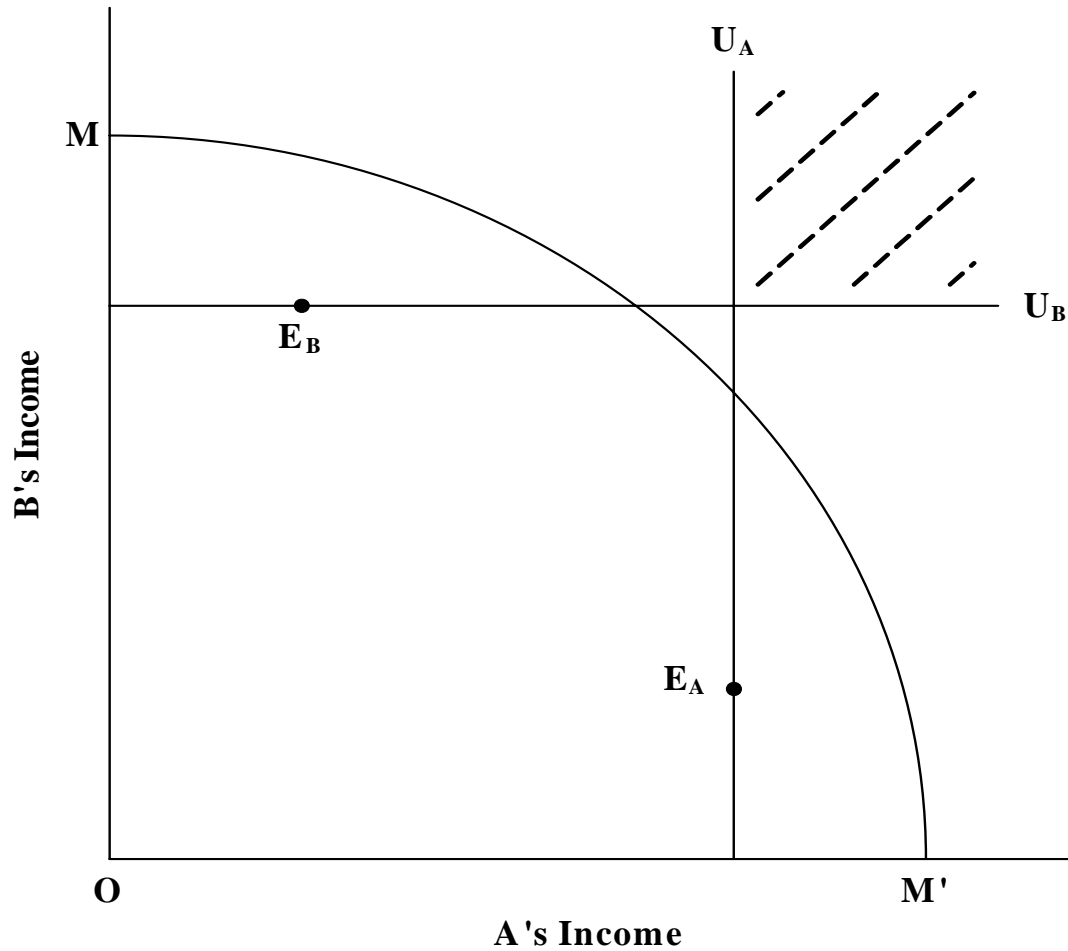
Sources: International Peace Research Institute, Oslo (PRIO) and Gates, Scott and Håvard Strand (2006) "Modeling the Duration of Civil Wars: Measurement and Estimation Issues," Working Paper. Notes: The data include civil wars (fatalities per year of 1000 or more) and sub-war civil conflicts (fatalities per year between 25 and 999). The data for the 1940s are for 1945-49; the data for the 2000s are for 2000-05.

Hirshleifer Model of Conflict



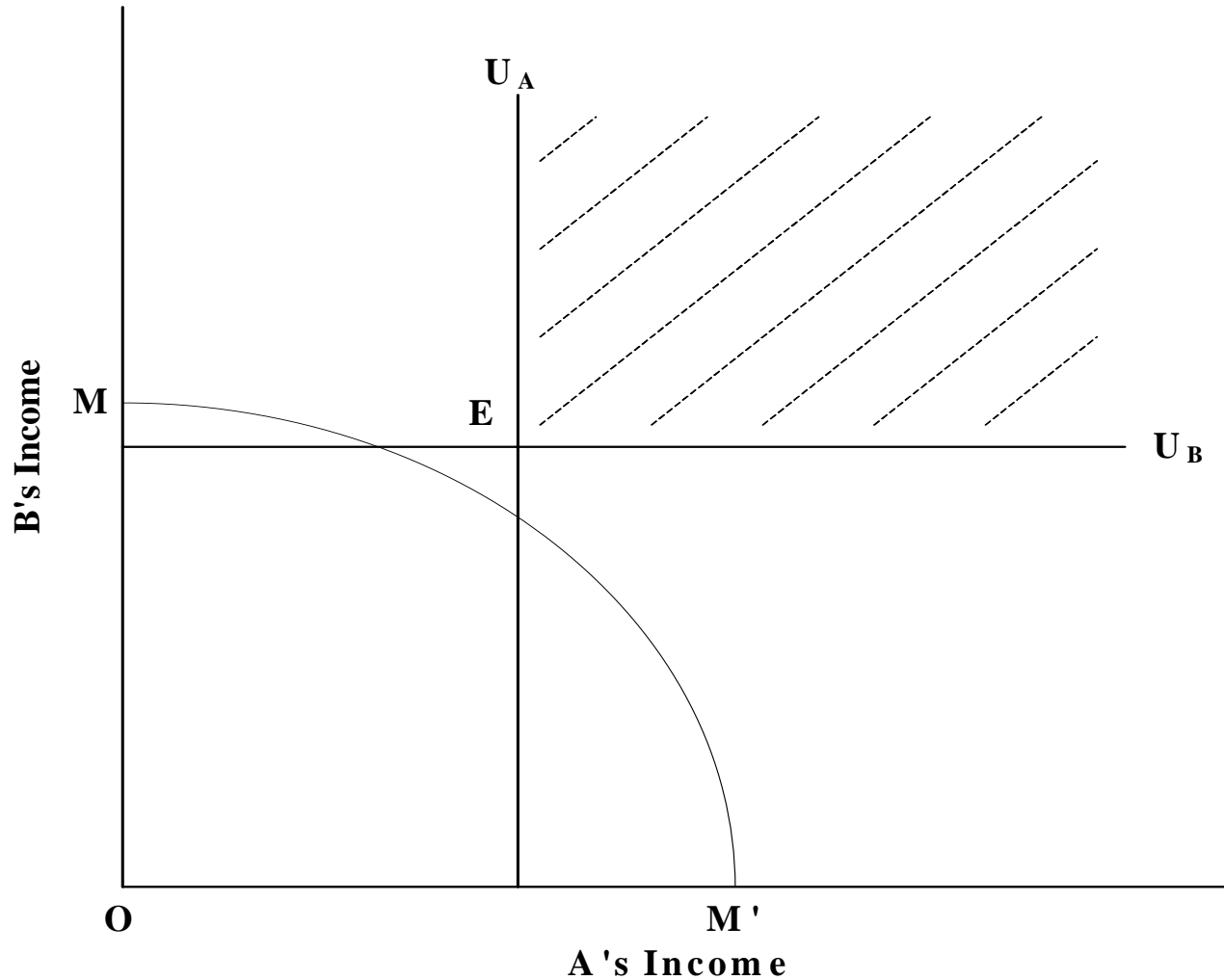
Risk Factors for Violent Conflict

Divergent and Optimistic Expectations of Returns from War



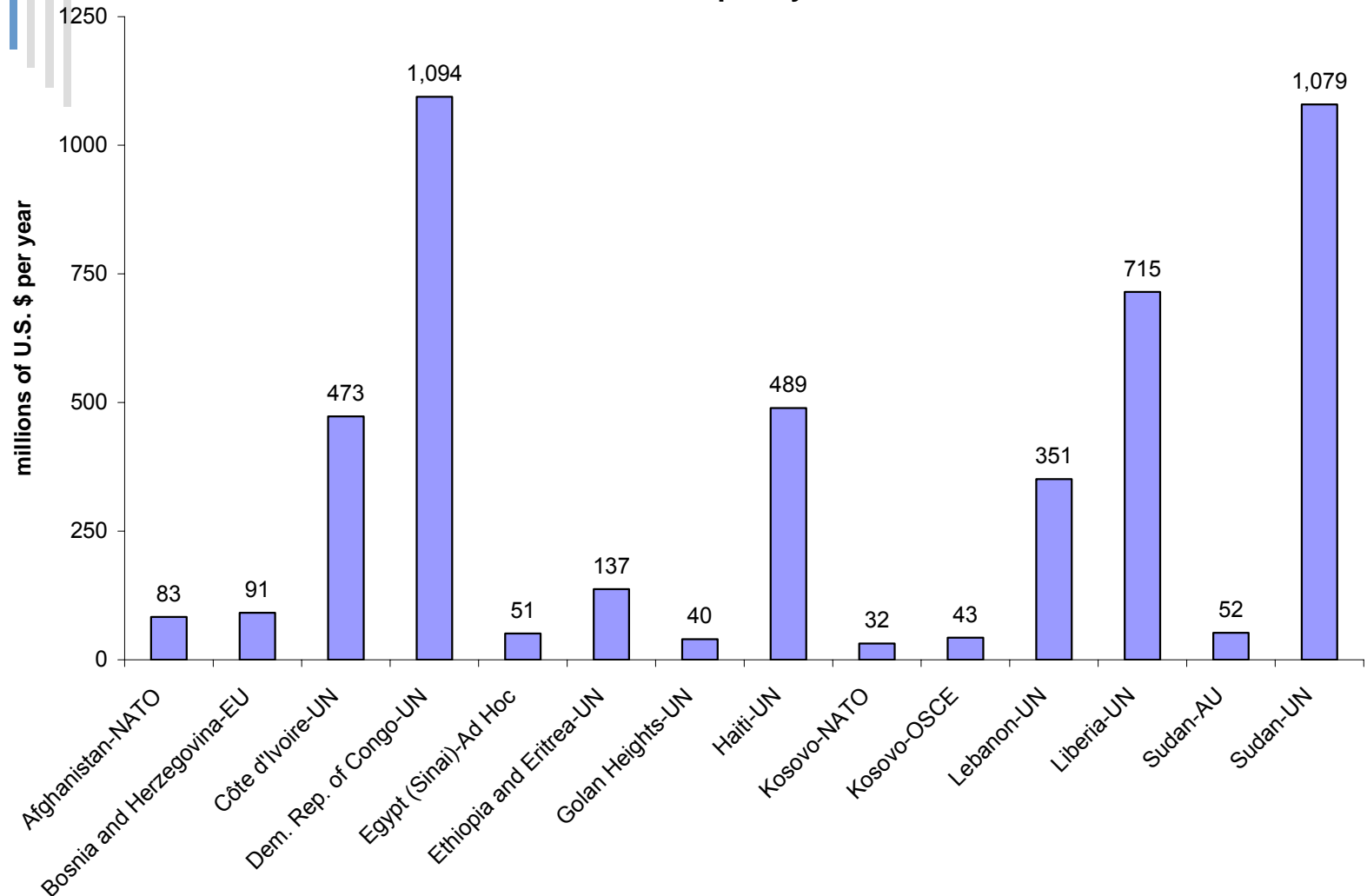
Risk Factors for Violent Conflict

High Settlement Costs



Risk Factors for Violent Conflict

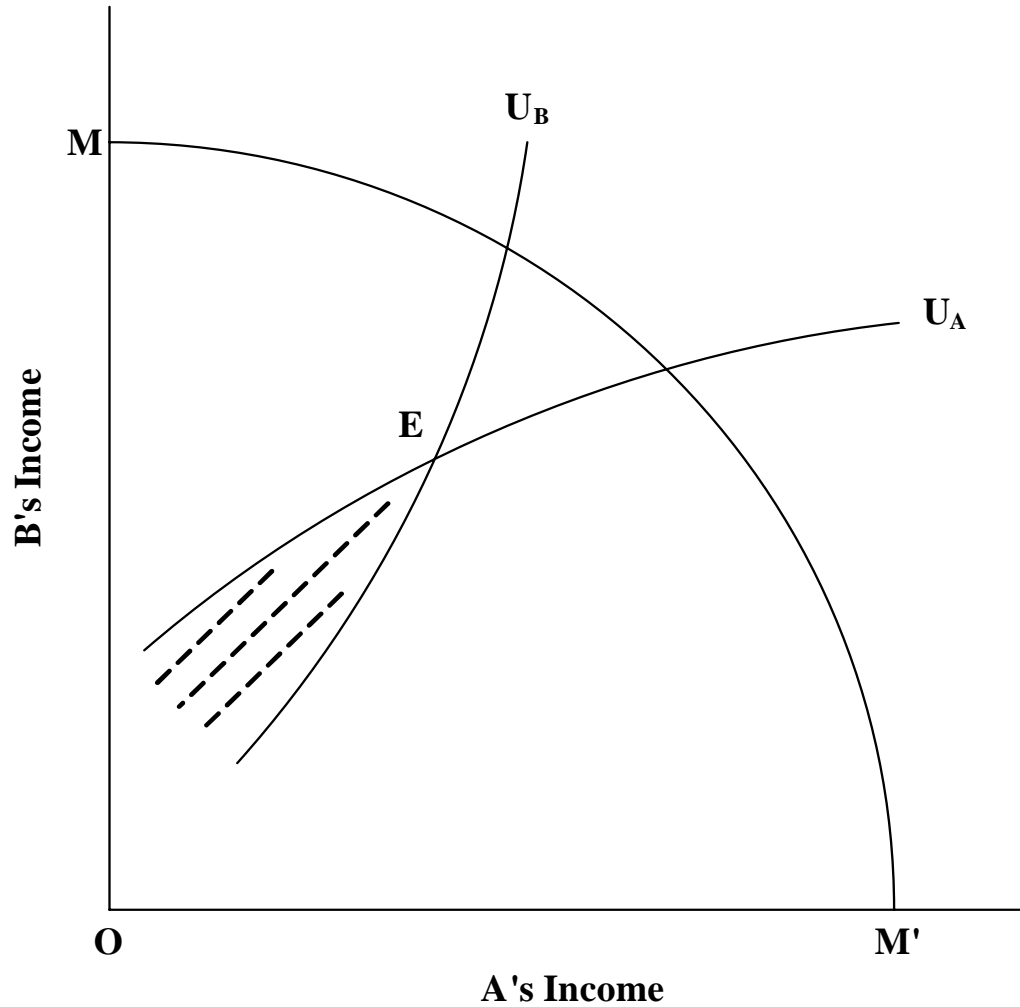
Annual Cost of Selected Contemporary Multilateral Peace Missions



Note: Annual cost data for AU, EU, NATO, OSCE and Ad Hoc missions are for 2005 and are from the SIPRI Yearbook (2006). Annual cost data for UN missions are the approved budgets for fiscal year 2006/07 from the UN peacekeeping web site at www.un.org/Depts/dpko/dpko/

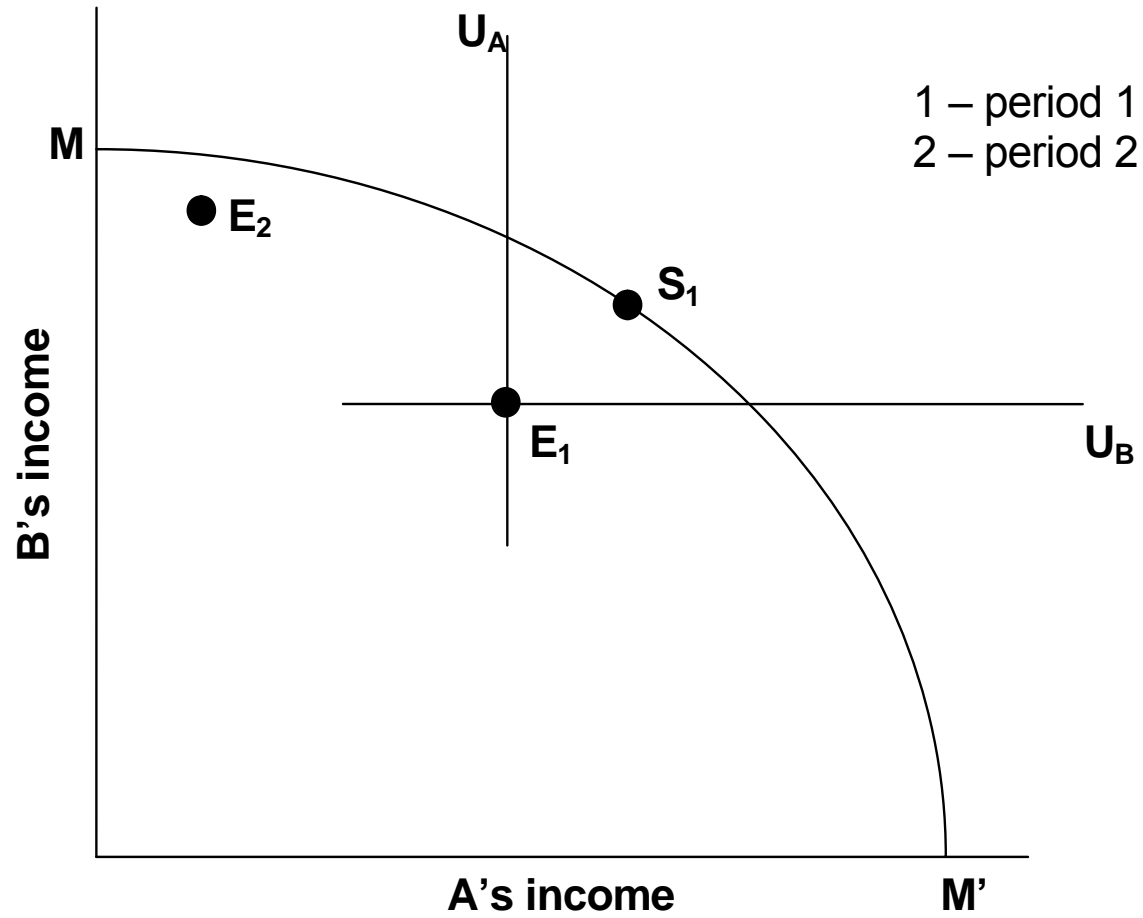
Risk Factors for Violent Conflict

Mutual Malevolence or Other Things Matter



Risk Factors for Violent Conflict

The Commitment Problem





Conflict Conditions and the “Entry” of Violence-Producing Organizations

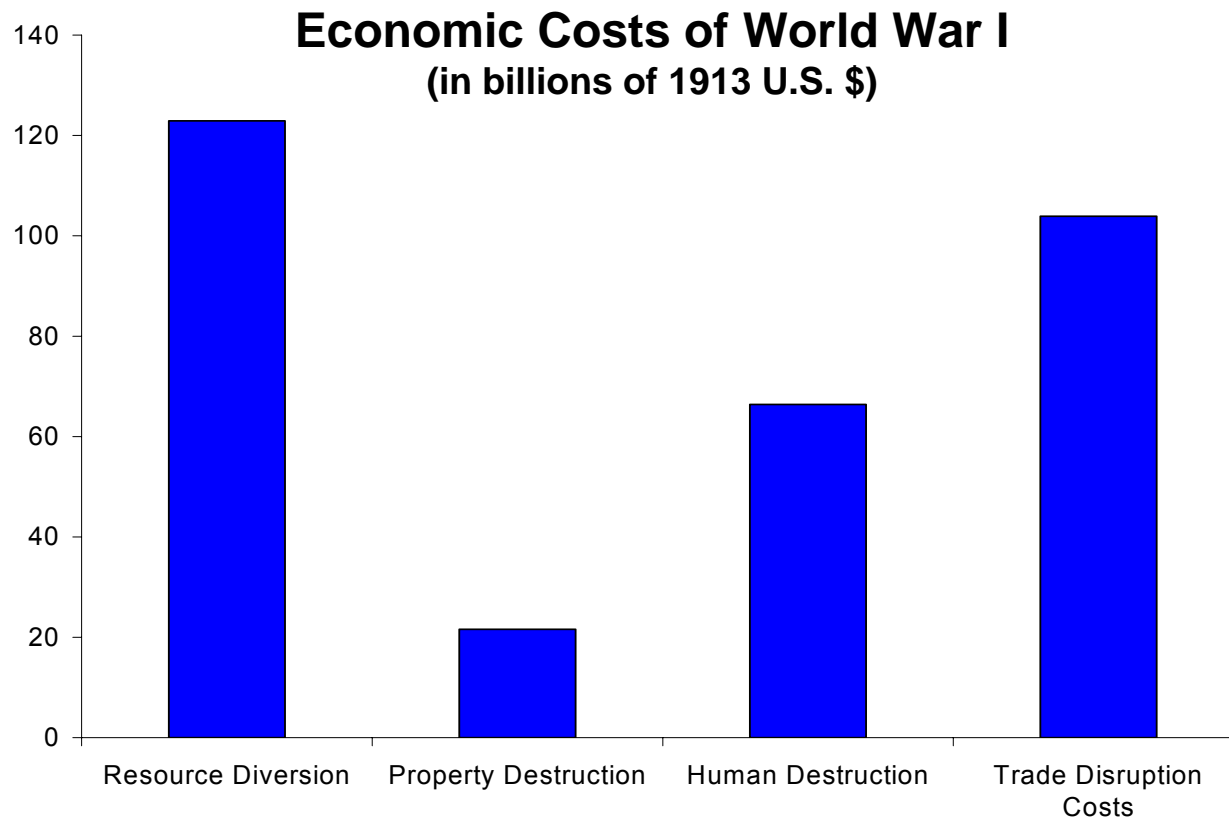
Conditions for violent conflict persist (vicious circles)

- Poverty → risk of civil conflict → more poverty
- Ethnic dominance → risk of civil conflict → more ethnic hatreds
- Corruption → new discovery of resources (e.g., oil) → more corruption
- Habituation to conflict and insecurity → static and zero-sum views of economics predominate → peace is undervalued
- Distrust and security dilemmas worsen following reneged peace deals → high settlement costs and commitment problems → conflict endures
- Factionalism: peace deal between *A* and *B* does not preclude entry of *C* (or *D* or *E* or *F*...) into conflict → conflict endures

→ Conditions for conflict invite “entry” of violence-producing organizations

Additional Areas for Further Development

- Systematic studies of the economic costs of war



The economic costs of World War I are estimated to total more than 1.5 times the world's 1913 gross domestic product.



Additional Areas for Further Development

- Systematic data collection

- Selected Intrastate Conflict Datasets:

- Uppsala Conflict Data Program/International Peace Research Institute (UCDP/PRIO)

- Correlates of War Project (COW)

- Political Instability Task Force (PITF)

- Sambanis

- Fearon and Laitin

- Minorities at Risk (MAR)

- Violent Intrastate Nationalist Conflicts (VINC)

“The Gross [Domestic] Product is one of the great inventions of the twentieth century, probably almost as significant as the automobile and not quite so significant as TV. The effect of physical inventions is obvious, but social inventions like the GDP change the world almost as much.” (Kenneth Boulding).



Additional Areas for Further Development

- Explore the limits of economic assumptions and methods (e.g., preference formation, group preferences, lexicographic preferences, hyper-factionalism, religious/cultural valuations)
- Better understand the “bottom up” peacekeeping efforts of the thousands of NGOs that directly or indirectly contribute to poverty reduction and peace around the world
- Do a better job of distilling practical policy prescriptions from the voluminous literature on violent human conflict



Summary

There is ***much*** more work for economists to do in understanding the causes and promoting the amelioration of violent human conflict

- Consider alternatives to the view that peace is the “norm”
- Continue to develop models (theoretical and empirical) and case studies to understand:
 - conflict among players
 - conditions that invite “entry” of violence-producing organizations
- Additional areas for further development:
 - Systematic studies of the economic costs of conflict
 - Systematic data collection
 - Explore limits of economic assumptions and methods
 - Explore “bottom up” peacekeeping efforts of NGOs
 - Development of practical policy prescriptions