

**ECONOMICS OF  
WAR AND PEACE:  
ECONOMIC, LEGAL, AND  
POLITICAL PERSPECTIVES**



Contributions to  
**CONFLICT MANAGEMENT, PEACE ECONOMICS  
AND DEVELOPMENT VOLUME 14**

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# ECONOMICS OF WAR AND PEACE: ECONOMIC, LEGAL, AND POLITICAL PERSPECTIVES

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United Kingdom – North America – Japan  
India – Malaysia – China

Emerald Group Publishing Limited  
Howard House, Wagon Lane, Bingley BD16 1WA, UK

First edition 2010

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**British Library Cataloguing in Publication Data**

A catalogue record for this book is available from the British Library

ISBN: 978-0-85724-004-0

ISSN: 1572-8323 (Series)



Certificate number .....1985.....

Awarded in recognition of Emerald's production department's adherence to quality systems and processes when preparing scholarly journals for print



INVESTOR IN PEOPLE

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# FOREWORD

The book includes a set of chapters primarily to investigate the link between economics and conflicts. Although the subject matter has been presented in some other volumes in this series, this book spans a wider area covering cross fertilisation of disciplines and the role of law and institutions. The cross-disciplinary approach is necessary because some pure economists are presenting their findings in the area of politics and international relations. Some contributors are asking the questions about the economic value of peace. For that purpose they are using sophisticated scientific methods to analyze domestic and international conflicts. A related specific question is asked about the cost saving by privatising military prisons rather than contracting. This substitution has implications in other areas such as contracting military operations at the time of war. Of course, this cost savings should be weighed against motivation of the soldiers to fight. The question of comparative cost also arises in the technology transfer of military goods without giving out sensitive information and at the same time, concerned about competition from indigenous capabilities of substitutions. This alternative will induce proliferation of arms capabilities of other countries.

The second set of chapters addresses the most researched topic in Peace Science, namely internal, domestic and ethnic conflict. A set of excellent chapters targeted to specific countries in Africa and Asia combining theory with empirical evidence has been presented. In post-conflicted situation the role of institutions, particularly financial institutions handling fiscal instability, is also highlighted. Another interesting topic in one chapter is whether economic interdependence between contesting groups can lead to peaceful resolution of conflict. The role of international institutions like Security Council through sanctions etc. is also discussed in a paper. Another significant contribution of some chapters is to show how law plays a role on pre-conflict and post-conflict situation emphasising the concept of liability. It is argued that an expanded compensation regime for all civilian victims of military action should be accepted.

Manas Chatterji  
*Series Editor*



## ACKNOWLEDGMENTS

This book, and the conference from which most of the papers are drawn, would not have been possible without the support of numerous individuals and organizations. For funding, we thank several organizations within the University of Sydney: the Institute of Social Sciences, the Faculty of Arts, and especially the School of Social and Political Sciences. For important in-kind and operational support, we thank the Departments of Government and International Relations, and Political Economy, within the University, as well as the Peace Science Society (International) and Economists for Peace and Security. We also thank members of the conference organizing committee, Partha Gangopadhyay of the University of Western Sydney, and David Throsby and Tony Bryant of Macquarie University.

We thank all participants in the Third Australasian Conference on the Economics and Politics of War and Peace, held in Sydney in June, 2009. We would especially like to mention Paul Huth and Brian Pollins, both of whom traveled from the United States to give keynote addresses and generously provided advice and feedback to many of the paper presenters, including some in this volume. We also thank Steve Killelea and Camilla Schippa for important participation from the Global Peace Index.

Jane Ford did a tremendous job, in a very short time, copyediting the chapters. Jolyon Spencer and postgrad students from Goldsmith's International Security subject at the University of Sydney provided essential logistical help during the conference.

Finally, we would like to extend special gratitude to Manas Chatterji, who not only found our project of interest for this Emerald series but was also the initiator of the conference series from which the book emerged.



# CHAPTER 1

## INTRODUCTION

Benjamin E. Goldsmith and Jurgen Brauer

The role of economic factors in social processes leading to peace, conflict and war is an increasingly important area of scholarly research, and of interest from policy makers. For example, the continuing efforts to understand the causes of international war and civil war have recently turned to debates over whether there is a ‘capitalist peace’ effect internationally, and what the respective roles of ‘greed and grievance’ are in the occurrence of war within states. Although the democratic peace supposes that liberal states tend not to go to war with each other due to their political institutions and norms, the capitalist peace identifies economic factors, such as economic development and open markets, as the key causes of this liberal peace. The capitalist peace proposition will have real-world policy implications, not least because it is often proposed as an alternative explanation for the peaceful effects previously attributed to the ‘democratic peace’. The greed and grievance debate has had wide resonance in the policy community, especially through the work of Paul Collier at Oxford University.

This book is an attempt to contribute to these strands of research in a way that broadens our thinking about the connections between economics and organized social conflict. Of course it cannot present a comprehensive analysis across all areas of potential interest. Rather, it provides interesting and innovative research across a number of key areas. The collection of these chapters into one volume also highlights potentially important areas of cross-fertilization among disciplines, methods of analysis and substantive areas of interest. The book showcases the work of economists, political

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**Economics of War and Peace: Economic, Legal, and Political Perspectives**  
**Contributions to Conflict Management, Peace Economics and Development, Volume 14, 1–9**  
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**ISSN: 1572-8323/doi:10.1108/S1572-8323(2010)0000014005**

scientists and legal scholars, with varying degrees of concern for basic research and policy applications. It includes purely qualitative case-study analysis, analysis based on formal game-theoretic models, as well as quantitative analysis using large datasets.

Although in terms of the substantive topics covered the book contains an eclectic mix of chapters, nevertheless all chapters address the book's central theme: the effects of economic factors on conflict-related outcomes. Thematically and analytically there are some important connections that give this volume intellectual coherence, and an overall value that is greater than the sum of its parts. Goldsmith discusses some of the emergent insights and new research questions in the concluding chapter to this volume, but readers will discover many more directly from the chapters, and from thinking about the topics they explore. We especially want to emphasize the element of creative thinking about existing topics, and the progress towards new theorizing, that many chapters exhibit.

This volume collects some of the best papers presented at the *Third Australasian Conference on the Economics and Politics of War and Peace*, held at the University of Sydney in June 2009. The papers have been substantially revised, in large part in order to enhance the degree to which they relate to the overall theme of the volume, and to each other. They represent the work of scholars based in North America, Europe, Asia and Australasia.

The rest of this introductory chapter provides an overview of the chapters, which are organized into three major parts in the book. Part I, titled 'Markets and force: Foundational aspects of the relationship between economics and violence within and between states', presents three chapters which address some core theoretical issues in the economics-conflict nexus, and demonstrate the potential for productive cross-disciplinary interaction because they are written by economists thinking about political processes and outcomes. Part II, 'Internal conflict: Economic aspects of outbreak, endurance and recovery from large-scale intra-state violence', addresses in five chapters what is perhaps the most vibrant and productive area of current conflict scholarship, the causes of civil war. It contains papers focused on cases in Africa, Asia and the Middle East, and one chapter which explicitly addresses and extends some of Collier's well-known ideas as they are applied in real-world situations. Part III, 'Trade, law, institutions and international conflict: New perspectives on enduring debates', contains five chapters focused on economic factors related to conflict between states, with an emphasis on systemic or regional, rather than just bilateral ('dyadic') dynamics. A fourth part contains only the concluding chapter, which



attempts to draw insights from connections among the chapters, and point to the book's overall contribution as well as to areas of potentially useful further research that the book suggests.

## OVERVIEW OF THE BOOK

### *Part I: Markets and Force: Foundational Aspects of the Relationship between Economics and Violence within and between States*

In their chapter, 'A method to compute a peace gross world product by country and by economic sector', Jurgen Brauer and John Tepper Marlin present a novel method to assess the economic value of peace, in both the domestic and international realms. This is not only a tool for assessing and forecasting the potential benefits of reduced violence, but it is an example of best social science practice in that by design it incorporates the best existing knowledge on the effects of peace. This approach combining meta-analysis with a novel integrating framework is quite promising. For the purposes of the book, it sets the stage nicely for the subsequent chapters by highlighting the big picture of expected welfare gains from peace, within a rigorous scientific context, rather than one of advocacy. Estimating the potential economic benefits of internal and international peace is also fundamental in understanding the potential economic incentives which might drive political and business leaders to avoid deadly conflict, and pursue peace.

Aditya Agrawal and Keiran Sharpe, in their chapter 'Privatising military prisons: The case of the United States', take on a rather narrow issue – how to design arrangements with private contractors to improve the correctional capabilities of military prisons. But their formal model adjusts a well-known framework to emphasize quality of personnel over cost-savings in military contracting. As the authors point out, the implications of this application of the quality versus costs trade-off for private contracting in military affairs could be wide-ranging. With the expanded use of private military companies, the need for quality control is all too evident. For the U.S. military, both the Abu Ghraib prisoner torture and abuse scandal (although this involved regular military personnel as well as contractors), and the apparent deadly and reckless behavior of contracted forces from Blackwater corporation (renamed Xe Services to shed the bad image it created), can be seen in this light. Although, the authors rightly state that much more work and thought are necessary before their results regarding military prisons can be generalized to other aspects of military contracting, perhaps especially to

those involving areas of combat operations, their basic framework is of great interest. It may also prove controversial, given the common assumption that military forces must be driven by national interest motivations (or public goods) rather than by private profit motives. The implications for economic incentive structures and war fighting are worth deeper consideration – how should soldiers and military organizations be motivated?

In their chapter on export restrictions and military technology proliferation, titled ‘Arms export controls and the proliferation of military technology’, Peter Hall and Robert Wylie provide important insights into both the supply and demand aspects of the proliferation of military technology, and they illustrate their logical argument with a fascinating case of U.S.-Australian technology transfer. As they correctly point out, well-documented instances of this sort are rare in publicly available research. But their discussion does more than provide a plausible account of a particular instance of transfer of advanced electronic warfare capability. By (informally) building on other formal, game-theoretic models in the literature, they not only extend theorizing on the international trade in arms to consider the general dilemma of a potential arms exporter who is both reluctant to share the latest technology, but also wary of encouraging potential competitors or even security threats from developing their indigenous capabilities. In the end, the U.S.-Australia case at least suggests the considerable advantages that great powers and technology leaders have in such relationships. But it also suggests the leverage of smaller players, and even contains an assertion by a former Australian defence minister that at least one technology that the United States sought to deny Australia access to was acquired through Australia’s espionage on their ally. The provocative and compelling suggesting of the Hall and Wylie chapter for policy makers is that ‘raising the price of arms exports [including complete export control] may *encourage proliferation* by inducing investments in other countries to produce substitutes’ (emphasis in original).

*Part II: Internal Conflict: Economic Aspects of Outbreak,  
Endurance and Recovery from Large-Scale Intra-State Violence*

In their chapter on ‘Probing the roles of governance and greed in civil strife in West Africa’, Helen Ware and Oladele Ogunmola use four case studies of West African countries, informed by some striking evidence from on-the-ground interviews and observation, to highlight the complexity (and brutality and human pain) of the conflicts there. Importantly, their

cases do not fit neatly into the emerging general theories of civil war, and perhaps the only clear suggestion of potential escape from the Gordian knot of poverty and violence is that a country, such as Ghana, which is lucky enough to have a period of (relatively) enlightened leadership, can seem to turn the corner and escape the cycle of civil violence and degradation. Their chapter implicitly challenges studies based on statistical analysis of correlations in large-n datasets to more often apply their general findings to specific cases to illustrate their causal plausibility and policy relevance.

Leanne Piggott's chapter, 'Terrorism and violent internal conflict in post-Soeharto Indonesia: Beyond the Jihadi Prism of analysis', on domestic secessionist groups' choices for using terror tactics, or avoiding them, in Indonesia provides a useful perspective on a less-studied aspect of terrorism, domestic rather than international and political rather than ideological or religious. She finds that the Free Aceh Movement (GAM) was more prone to use terror tactics than the Free Papua Movement (OPM); however, GAM also abandoned terror once a basic autonomy agreement was reached with Jakarta, whereas the low-level conflict, including occasional terror attacks, continues in Papua. What is the role of economic factors in the process? Clearly, economic exploitation and grievance in the face of relative deprivation were important motivating factors for both secessionist movements, as was the general feeling of injustice at being incorporated unwillingly into the Indonesian state. However, GAM seemed to adopt terror more actively because it had a more coherent organizational structure and an ideology which more easily justified killing for the cause. OPM's deep internal divisions hindered mustering the resources for terror, it seems, and its origins as a non-violent resistance movement seem to continue to cause moral qualms for some of its members who do not adopt terror as a tactic. Therefore, as with much other research on the topic, Piggott finds limited evidence for economic roots of the choice for the tactic of terror specifically, as distinct from the choice for rebellion in general. It does seem that the diverse preferences of the OPM members prevent them from agreeing on tactics, and then devoting the necessary resources to them, but this diversity of preferences does not seem to be strictly economic in nature.

Jennifer Hunt applies prospect theory to an analysis of the relationship between oil price instability and political violence in Iran in her chapter titled 'Great expectations: Prospect theory and oil price volatility in Iran'. She develops an intriguing psychological explanation for the risky behavior of both the conservative ruling elites, and the reform-minded urban publics and their leaders. Hunt's plausible suggestion is that the excessive vote rigging and other actions to guarantee an electoral victory, which seemed

likely anyway, shows that the huge economic costs of the fall in oil prices had put the ruling elite in the ‘domain of losses’, thus predisposing them to such disproportionately risky behavior to retain power they felt might be threatened. The application of prospect theory to mass-level political behavior is rare, but Hunt also makes a plausible case for the resulting ‘stolen’ election of 2009 putting the opposition collectively into the ‘domain of losses’, predisposing its members to sustained and risky protest and other anti-regime actions.

Fabrizio Carmignani and Adrian Gauci, in their chapter ‘Does fiscal policy differ between successful and unsuccessful post-conflict transitions? Lessons from African Civil Wars’, provide strong evidence that answers this question in the affirmative. Their findings add to the policy-relevant knowledge about how to best help states establish a stable peace in the aftermath of internal conflict, showing empirically that increasing the size of government tends to bolster the peace, while economic contraction of the state makes conflict more likely to reemerge. But they provide more specific insights based on their nuanced data on fiscal policy: capital expenditures should increase more than government consumption, and grants to the budget and debt, are positively associated with stability post-conflict given that both revenues and expenditures should grow. Theoretically, the findings point to the equitable distribution of the ‘peace dividend’ as an important factor in post-conflict transition, strongly suggesting that economic disparities are important causes of cycles of civil war.

Andrew Ladley and Jessie Williams’s chapter, ‘The Collier challenge: How can reliable transitional financing systems be created in ‘Barely Functional’ States?’ proposes mechanisms for what they term ‘buttressing’ to support Paul Collier’s proposals for international guidance of states’ post-conflict transitions. They effectively use the example of the Regional Assistance Mission to Solomon Islands (RAMSI) undertaken with Australian leadership, to demonstrate both the plausibility and the potential effectiveness of the idea. They point to the need to enmesh arrangements for Domestic Internationalised Financial Institutions (DIFIs), as proposed by Collier, into contractual and bureaucratic linkages such that they cannot be easily dislodged or manipulated once local political imperatives exert pressure. This highlights the importance of supporting the efficient and clean financial and distribution functions of DIFIs with strong political defences. The Solomons example is noteworthy because of the role of democratic institutions in preserving RAMSI’s role. Their suggestions for Haiti have become even more relevant, given the devastation of the January 2010 earthquake there, which they briefly discuss.