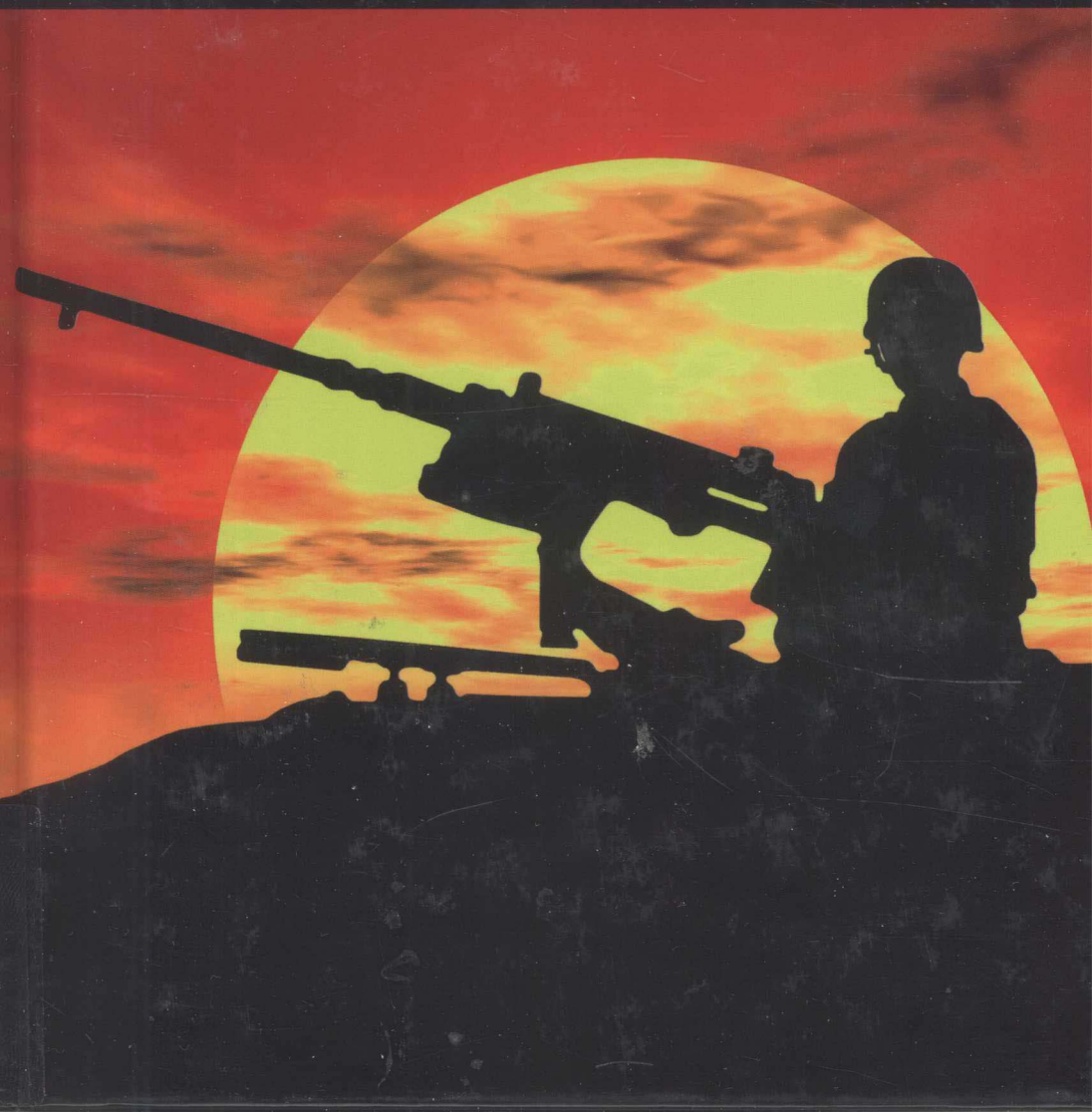


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The Handbook on the Political Economy of War

Edited by

Christopher J. Coyne and **Rachel L. Mathers**



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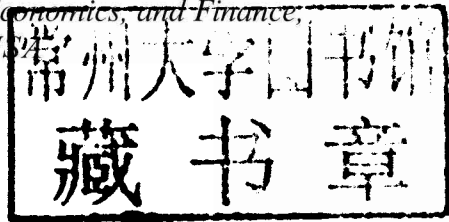
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Christopher Coyne and Rachel Mathers

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1 Introduction

Christopher J. Coyne and Rachel L. Mathers

1.1 INTRODUCTION

Political economy is an interdisciplinary approach that draws on concepts from economics, law, political science and sociology to understand how economic, legal, political and social systems influence each other and outcomes. In the broadest sense, the concept of war refers to organized violence between distinct social entities. The entities involved in war may refer to nation-states (inter-state war), distinct social groups within a given state (civil war or revolution) or third parties representing states or groups who choose not to engage in war directly (proxy war). *The Handbook on the Political Economy of War* applies the political economy approach to explore the various aspects of war. Our focus is broad and considers such issues as the causes of war, revolutions, post-war occupation and ways of avoiding war.

By defining political economy and war in the broadest sense, the *Handbook* brings together a broad range of scholars with different backgrounds and expertise to address a wide range of topics. Scholars included in the *Handbook* come from a variety of disciplines, including economics, political science, sociology and policy studies, to name a few. The topics addressed by these scholars include, but are not limited to, an analysis of why wars begin, how wars are waged, what happens after war has ceased, and various alternatives to war, among other topics.

In the chapters that follow, some of the leading researchers working on issues related to war and conflict have contributed an overview of the fundamental concepts in their area of expertise, both providing a useful reference for those unfamiliar with these topics and a vision of future research endeavors for those already working in these areas. The chapters included in the *Handbook* are intended to serve as a guide to important research questions in the political economy of war. The chapters are written in an accessible manner, with the intent of providing the core elements of the political economy of war such that scholars in a variety of fields will find this compendium useful. Likewise, given its accessibility, practitioners and policymakers should also find the *Handbook* useful in contributing to a greater understanding of the political economy of war. The chapters communicate both past and current research in several important areas of war and conflict. Most contributors also discuss future areas of research.

2 *The handbook on the political economy of war*

This introduction is intended to provide a brief background on the political economy of war, followed by a discussion of the current importance of this area of research. It concludes with an overview of the organization of the chapters in this *Handbook*, which represent some of the main subfields of the study of the political economy of war.

1.2 BACKGROUND ON THE POLITICAL ECONOMY OF WAR

Interest in the political economy of war is as old as the economics discipline itself, as evidenced by Adam Smith's ([1776] 1977) writings in *An Inquiry into the Nature and Causes of the Wealth of Nations*, where he discusses some aspects of war. For example, in Book V, Smith ([1776] 1977, p. 455–6) discusses how war leads to increases in the public debt, as those in government seek to cover the expenses of war without increasing taxes for fear of repercussion by citizens:

The ordinary expence of the greater part of modern governments in time of peace being equal or nearly equal to their ordinary revenue, when war comes they are both unwilling and unable to increase their revenue in proportion to the increase of their expence. They are unwilling for fear of offending the people, who, by so great and so sudden an increase of taxes, would soon be disgusted with the war; and they are unable from not well knowing what taxes would be sufficient to produce the revenue wanted. The facility of borrowing delivers them from the embarrassment which this fear and inability would otherwise occasion. By means of borrowing they are enabled, with a very moderate increase of taxes, to raise, from year to year, money sufficient for carrying on the war, and by the practice of perpetually funding they are enabled, with the smallest possible increase of taxes, to raise annually the largest possible sum of money.

According to Smith, increases in public debt could have long-term negative consequences on the financial health of the country carrying out the war. At the extreme, excessive debt could result in bankruptcy and economic collapse. Although Smith did not offer a complete theory of the political economy of war, he clearly recognized the importance of the political and economic aspects of the use of military.

The analysis of war in modern political economy can be traced back to the 1960s. Several prominent works during this period include Schelling's (1960) use of game theory to analyse conflict, Peck and Scherer's (1962) study of defense contract competition and the nonmarket procurement of procuring weapons in *The Weapons Acquisition Process*, and Olson and Zeckhauser's (1966) study of military alliances in a public goods framework (see Hartley and Sandler 1995). Another notable development in the

literature of the 1960s and 1970s is the study of agrarian revolutions and the role of inequality grievances in sparking conflict (see Blattman and Miguel 2010). From these pieces, emerged a strand of literature including a combination of game theory, analytic narratives and statistical techniques to analyse the various aspects of war.

Theoretical contributions to the analysis of war have been numerous. During the 1980s, models of armed conflict, based on Haavelmo's (1954) contest model, offered new insight into the theoretical explanations for war and the role of resource competition in this framework (see Hirshleifer 1988, 1989). For example, Garfinkel (1990) and Skaperdas (1992) use this framework to explain the probability of success in armed conflict, based on the allocation of resources to production and appropriation. Further, Jean and Rufin's (1996) *Economie des Guerres Civiles* provides an analysis of the economic factors involved in war. The importance of the interaction between political and economic factors in determining war outcomes has been widely acknowledged; for example, Berdal and Keen's (1997) work derived policy implications from their analysis of economic and political agendas. These models are unique in their assumptions, as property rights and contracts cannot be guaranteed, which further exhibits the complexities of modeling war using the standard economic tools.

Though the contest models of armed conflict provided a theory of success or failure, war was the equilibrium and new theoretical insights were necessary to explain why compromise either works or fails to prevent or cease armed conflict. Among the work in this area are Fearon's (1995) explanation of the potential shortcomings of bargaining efforts, Anderson's (1999) examination of the effects of aid on markets and war and Acemoglu and Robinson's (2001, 2006) bargaining models of elites and the poor. Among Fearon's (1995) list of bargaining's shortcomings, there has been continued theoretical work to shed light on the cases in which war is rational. In particular, Powell (2002) analyses the role of asymmetric information, where one side either overestimates its own strength or underestimates the opposing side. Garfinkel and Skaperdas (2000), Powell (2006) and McBride and Skaperdas (2007) analyse the role of commitment problems in bargaining breakdowns, where the future balance of power can lead a group to war in the present.

In addition to contest models and theoretical explanations for rational warfare, micro-level theories focusing on individual behavior have contributed to the understanding of the formation and function of groups embroiled in conflict. For example, some work in this area has focused on the efficiency gains of group action versus individual action, the size and property rights of groups, and the management of inter- and intra-group conflict (Blattman and Miguel 2010). The role of ethnicity in war has also

been a topic of analysis, as studied by Horowitz (1985) and Easterly and Levine (1997). Post-conflict reconstruction is a continuing debate in the literature, as evidenced by the large number of articles and books written on the subject (see Carbonnier 1998; Duffield 1998; Coyne 2008).

Though the theoretical work in the political economy of war began more than half a century ago, the empirical tests of these theories are relatively new, having emerged in the last 10 to 15 years. Most empirical studies on the political economy of war are cross-country analyses, and some of the most notable of these include Collier and Hoeffler's (1998, 2004) claim that economic incentives, not grievances, spur conflict and Fearon and Laitin's (2003) logit specification of cross-country regressions for the onset of war. While the application of regression analysis to the political economy of war yielded additional insight into the key theoretical claims in the literature, issues of data limitations and endogeneity led to concerns regarding the reliability of these results. To address these issues, recent research efforts have focused on developing improved datasets and strategies to determine causality with more accuracy. For example, the use of exogenous variables as instruments, the construction of new, more descriptive, datasets, regression analysis with clearer ties to theory and the use of case studies to provide a more in-depth analysis of war in conjunction with empirical regressions are several advances witnessed in the literature (Blattman and Miguel 2010). Stewart and Fitzgerald's (2000) analysis of the costs of war, both economic and social, is one example of the use of both case studies and standard statistical techniques to add to our understanding of the political economy of war.

The importance of both theoretical and empirical studies on the political economy of war is evidenced by the number of books and articles published on the subject. Some of the main journals featuring articles on the political economy of war are *Conflict Management and Peace Science*, the *International Journal of Conflict and Violence*, *International Organization*, the *Journal of Peace Research*, the *Journal of Conflict Resolution*, the *Journal of International Affairs* and *Public Choice*, among many others. Most indicative of the impact of studies on the political economy of war is the presence of such articles in some of the leading general-interest journals across a variety of disciplines, such as the *American Economic Review*, the *American Journal of Political Science*, the *American Journal of Sociology*, the *American Political Science Review*, the *Journal of Political Economy* and the *Quarterly Journal of Economics*.

Though the study of the political economy of war has advanced greatly since its inception, there still remain many questions to be answered and areas where methodological improvements are necessary. As mentioned earlier, there have been substantial improvements in measurement and

regression analysis over the past several decades. Further investigation into potential measurement errors or specification errors is important, as well as ensuring that sound theory underlies empirical attempts to explain the nuances of war. Also relevant is the question of the applicability of one result to all cases; given the intricacies of each conflict, these studies may not be appropriate for general applicability in future conflict situations. Future research into the short-term and lasting effects of war leaves room for many inquiries, especially in the areas of institutional analysis at both the formal and informal levels. Cultural factors have only recently been introduced into institutional studies and economic growth studies, thus there remains fertile ground for new research. Cultural inputs in the form of belief systems, norms, ideology and identity clearly play a role in the prevention or onset of war, and therefore require deeper study.

1.3 IMPORTANCE OF THE POLITICAL ECONOMY OF WAR

The study of the political economy of war will continue to be of great importance in the foreseeable future for several reasons. Though warfare has morphed in form throughout history, it is as relevant a problem now as it was in earlier times and, some would argue, perhaps more so. Large sums of funding – in the form of aid and military efforts – and the potential for extensive loss of human lives are at stake, placing the analysis of the various aspects of warfare – the causes of war, war prevention, alternatives to war, reconstruction and so forth – at center stage and of critical import to policy-makers and individual citizens, whose lives and livelihoods are at risk. With the modern threats of terrorism, ongoing civil warfare and post-conflict reconstruction efforts as daily reminders of the costs of war, the necessity for research in this area is evident. Specifically, we identify three key reasons why the political economy of war will continue to be of importance.

First, the political economy of war is an essential element of the study of economic development. Internal violence is a central cause of continued economic stagnation in many of the world's poorest countries. As Collier (2007, p. 18) notes, many of these countries “are stuck in a pattern of violent internal challenges to government,” which contributes to continued poverty. Understanding the causes of this conflict trap and potential solutions is a central policy issue. Given this, social scientists are paying increasing attention to how war and conflict impact economic development for the worse. The causality of the empirical relationship between these two variables is still debated, though there is consensus that the two are intertwined. There is merit in developing clearer models of how conflict

and economic development are interrelated, an effort that will require a deep appreciation of the various aspects of the political economy of war discussed in this volume. Understanding how conflict can be avoided or resolved is a critical aspect of understanding the broader process of economic development.

Second, the study of the political economy of war is critical given ongoing concerns over weak and failed states. These states have the potential to create significant decreases in the well-being of their own citizens and those of other nations due to their dysfunction in providing basic services to their citizens, their detrimental policy decisions and their predatory actions. Continued conflict limits the emergence of sustainable economic, legal, social and political institutions which can overcome many of the problems created by weak and failed states. Research in the area of the political economy of war is critical to understanding the various dynamics of weak and failed states, as well as feasible policies toward these states.

Third, understanding the political economy of war is vital to gauging the feasibility of reconstruction efforts in post-conflict societies. To determine which strategies have the greatest potential for success, one must understand the incentives and constraints existing in post-conflict situations. To this end, the study of the political economy of war offers the wisdom of historical analyses of past efforts and educated hypotheses applicable to current or future reconstruction efforts based on the incentives and constraints at play. Of particular importance is the thorough analysis of the various institutions involved in reconstruction including both formal institutions – for example, written laws and regulations – and informal institutions – for example, norms and beliefs. Comprehending the complex interplay between economic, legal, political and social institutions is at the heart of political economy and central for understanding the viability of current and future reconstruction efforts.

These three reasons for the continued importance of the political economy of war may explain why there has been growing attention given to this topic by scholars from across the social sciences. In spite of continued research in these areas, much work remains in understanding the various aspects of the political economy of war. It is our hope that this volume will serve as a bridge between existing research and future research in this area.

1.4 ORGANIZATION OF THE BOOK

The Handbook on the Political Economy of War is organized into seven broad parts based on the prominence of these topics in the political