

Lecture 11.1

Economic & Rationalist Explanations for War

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Rationalist conflict

Why is conflict important to study? Why is it a puzzle?

Economic shocks and conflict

A simple illustrative bargaining model

- The Coase theorem in action

- Limited transfers and commitment problems

- Incomplete information (very briefly)

Research frontiers

Global deaths in conflicts since the year 1400

Each circle represents one conflict. [Data from the *Conflict Catalog* (1400-2000)]

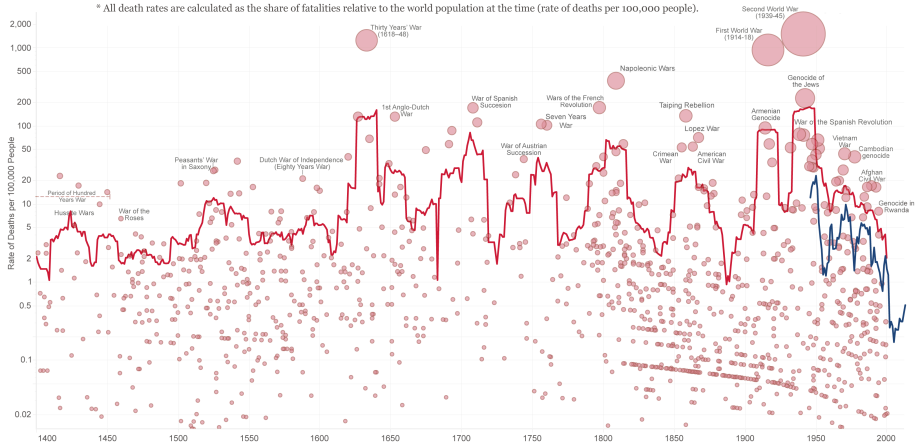
The **size** represents the absolute number of fatalities (military + civilian fatalities)

The **position** on the y-axis represents the fatality rate* (military + civilian fatalities)

— **Military + civilian death rate* for 1400-2000** [Data from *Conflict Catalog*] – 15 year moving-average

— **Military death rate* for 1946-2013** [Data from the PRIO Institute]

* All death rates are calculated as the share of fatalities relative to the world population at the time (rate of deaths per 100,000 people).



Data sources: Battle Deaths Dataset v.3.0. published by the PRIO Institute and Conflict Catalog by Peter Brecke for data on battle deaths. And world population data from HYDE and UN.

This is a data visualisation from [OurWorldinData.org](https://ourworldindata.org). There you find more visualisations on this topic.

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In past half century, civil wars have been particularly common & lengthy
20% of nations experienced >10 years of conflict 1960-2006 (Blattman & Miguel 2010 JEL)

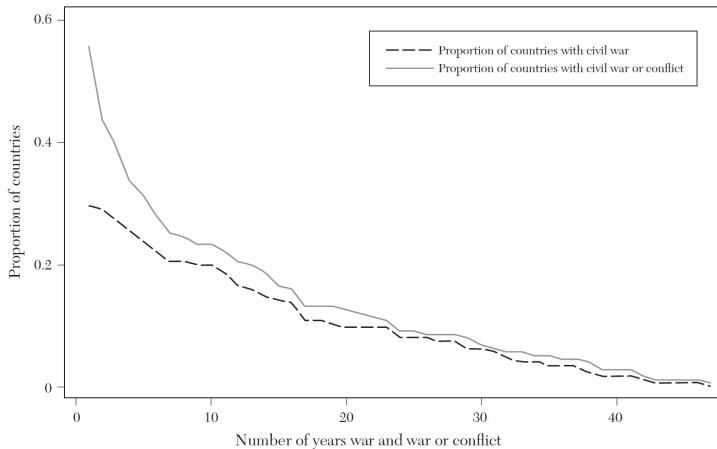
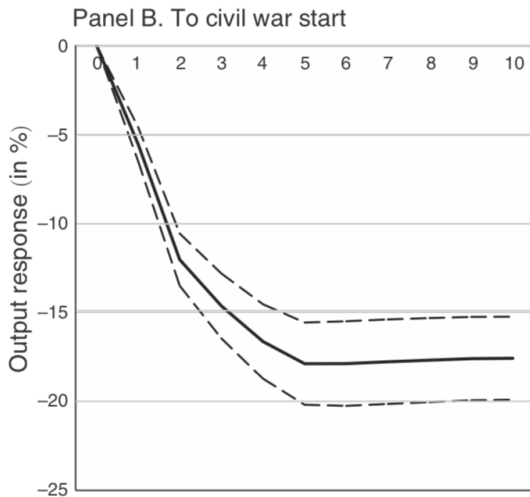


Figure 1: The Distribution of Civil War or Conflict Years across Countries, 1960–2006

These wars have had huge economic and human costs

Mueller 2012 AER



These costs imply war is a puzzle — A highly inefficient way to bargain

Fearon 1995 IO

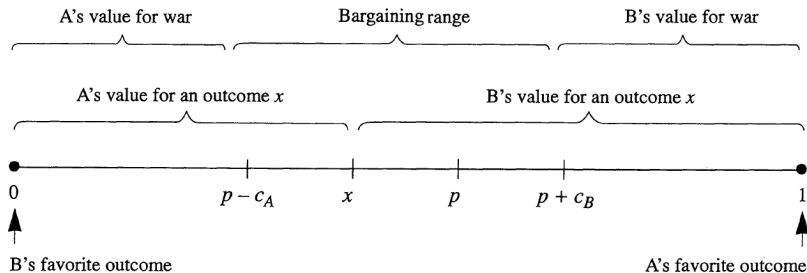


FIGURE 1. *The bargaining range*

- Akin to a literature on strikes and legal disputes (Kennan & Wilson 1993 JEL)

This is a cousin of the Coase Theorem

- ▶ Coase theorem:
 - ▷ Rational agents who can bargain freely (without transaction costs) and who can make unrestricted transfers to each other, will negotiate an efficient, surplus-maximizing outcome
 - ▷ The initial allocation of bargaining power will affect the distribution of the outcomes, but not the overall efficiency
 - ▷ Delays, hold up and fighting are all inefficient and hence to be avoided
- ▶ Coase emphasized that efficiency fails when there are transaction costs
- ▶ We are going to focus on a range of strategic and non-strategic failures of the basic incentives for peace, beyond the usual concept of transaction cost
- ▶ In general, this is exactly what happens
 - ▷ Most hostile ethnic groups do not engage in prolonged violence (Fearon & Laitin 1996)
 - ▷ Most cities in India have never had a major religious riot (Wilkinson 2004; Varshney 2003)
 - ▷ Most hostile nations do not go to war
 - ▷ Most political factions do not start a civil war

Even so, for the most part this theory is correct

- ▶ Most hostile ethnic groups do not engage in prolonged violence (Fearon & Laitin 1996)
- ▶ Most cities in India have never had a major religious riot (Wilkinson 2004; Varshney 2003)
- ▶ Most political factions do not start a civil war
- ▶ Most hostile nations do not go to war (Weisiger 2013)
- ▶ When nations do go to war, those conflicts are typically short
- ▶ Skirmishes are much more common than long wars

Most societies avoid conflict through a patrimonial splitting of the spoils

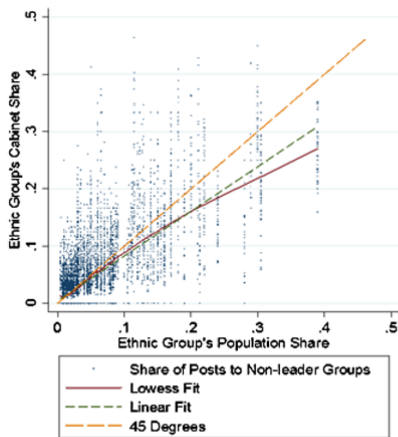


FIGURE 2.—Allocation of cabinet shares and population shares, full sample, 1960–2004.

- ▶ e.g. Francois et al. 2015 show that African ruling coalitions are large and that political power is allocated proportionally to material bases of power
- ▶ We can see this across history
 - ▶ Cities paying tribute to barbarians
 - ▶ Small nations acquiescing to empires
 - ▶ Peasants who do not rebel
- ▶ Even our theories of institutional change and democracy are mostly a long series of revolutions without revolt

Contrast with view that conflict is commonplace, war is in our nature

e.g. Wrangham 2020; Macmillan 2020



- ▶ Selection on the dependent variable has two consequences
 1. Overestimate frequency of war
 2. Causal inference problem — Trace back to erroneous causes

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Research frontiers

The empirical conflict literature kicks off with the advent of new cross-national data

- ▶ Collier & Hoeffler 1999: Propose notion of “opportunity cost of conflict” to explain poverty-conflict correlation
- ▶ In response, Fearon & Laitin 2003 emphasize that rising income associated with more state capacity to resist insurgency

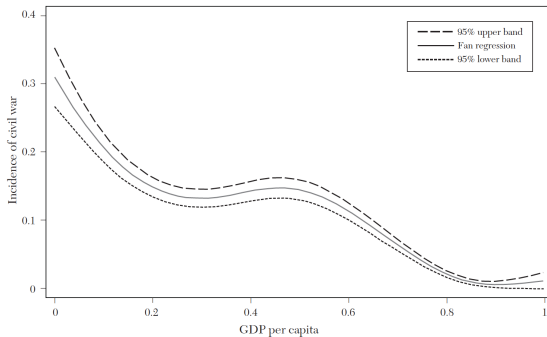


Figure 3: Incidence of Civil War by Country Income per Capita, 1960–2006

Rainfall shocks and civil war (Miguel, Satyanath & Sergenti 2004)

- ▶ After a long line of poorly-identified, kitchen sink-style cross-national regressions, this was a breakthrough in credible causal inference
- ▶ Instrument was semi-weak and exclusion restriction was later contested, but reduced form relationship with rainfall was robust

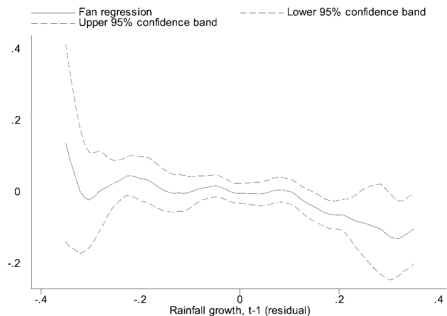


FIG. 2.—Current likelihood of civil conflict (≥ 25 battle deaths) on lagged rainfall growth. Nonparametric Fan regression, conditional on current rainfall growth, country fixed effects, and country-specific time trends.

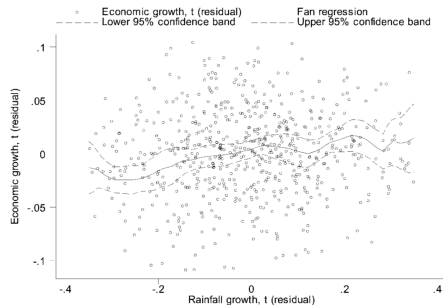
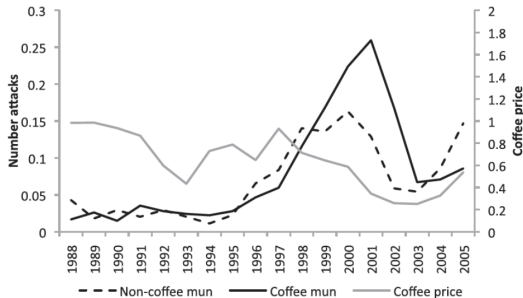


FIG. 1.—Current economic growth rate on current rainfall growth. Nonparametric Fan regression, conditional on country fixed effects and country-specific time trends.

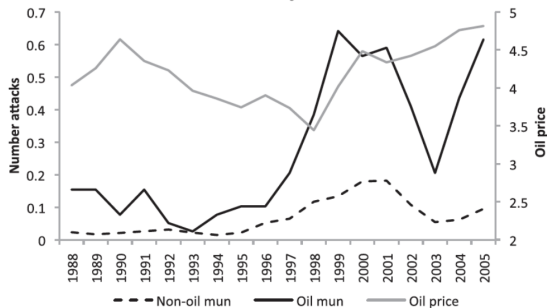
More papers established causal links from incomes and revenues to conflict, pushing data down to district levels

- ▶ Dube Vargas 2013: Battles and attacks in Colombia
 - ▷ – associated with coffee prices, and + associated with oil prices
- ▶ Interpreted through the lens of *opportunity cost of conflict*
 - ▷ Rising coffee prices increased local real wages item Rising oil prices decreased local wages

Paramilitary attacks

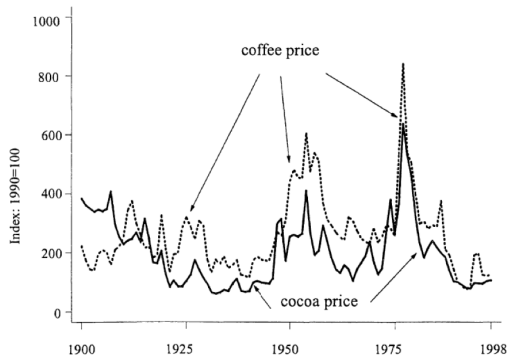


Paramilitary attacks



Commodity price shocks have a number of nice features

- ▶ Unlike rainfall shocks, they have a large effect on national incomes
 - ▷ Most countries' exports are concentrated in 1–3 commodities
 - ▷ 1s.d. price fall leads to 36% fall in GDPpc (Bazzi & Blattman 2013)
- ▶ Also, plausibly exogenous shocks
 - ▷ Most countries are price takers on the world market
 - ▷ Most shocks are temporary



Recent papers have pushed to more granular levels

And expanded range of plausible mechanisms (e.g. Berman et al 2017)

- ▶ Map mining sites to a fine spatial grid in Africa, and look at price swings in mining sites
- ▶ Several reasons why conflict increases around mines when prices rise:
 - ▷ Value of capturing prize; source of rebel funding; weaker or less accountable local states; and a possible source of grievances

Estimator	LPM					
Dependent variable	Conflict incidence					
Sample	All	$V(M_{kt}) = 0$		All	$V(M_{kt}) = 0$	
	(1)	(2)	(3)	(4)	(5)	(6)
mine > 0	0.112 (0.065)					0.048 (0.065)
ln price main mineral	-0.029 (0.032)					0.028 (0.019)
ln price × mines > 0	0.086 (0.034)	0.072 (0.020)	0.060 (0.021)		0.085 (0.024)	0.108 (0.041)
ln price × mines > 0 (neighboring cells)			0.021 (0.006)			
ln price × mines > 0 (ever)				0.045 (0.014)		
Country × year fixed effects	Yes	Yes	Yes	Yes	No	No
Year fixed effects	No	No	No	No	Yes	Yes
Cell fixed effects	Yes	Yes	Yes	Yes	Yes	No
Neighborhood fixed effects	No	No	No	No	No	Yes
Observations	143,768	142,296	127,974	143,864	142,296	17,360

Thoughts on the paper?

- ▶ Novelty
- ▶ How does this advance the field?
- ▶ Generalizability / External validity
- ▶ Adequacy and appropriateness of theory
- ▶ Data and measurement
- ▶ Empirical strategy and internal validity
- ▶ Consistency and robustness of results

But where is the Coase theorem?

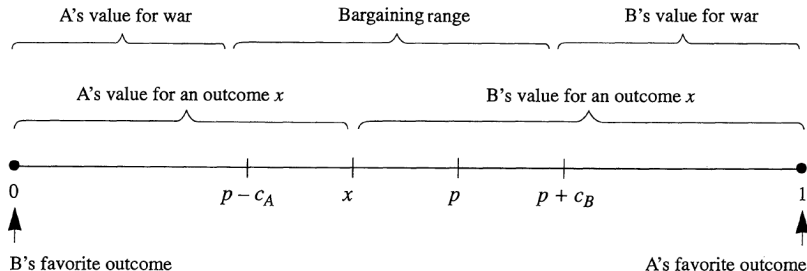


FIGURE 1. *The bargaining range*

- What should levels and changes in income do in this framework?

Rationalist explanations for war

Fearon 1995

- ▶ A large “rationalist conflict” literature treats conflict as strategic, often through the lens of bargaining
 - ▷ It focuses on violations of the Coase theorem, without sacrificing rationality or introducing non-standard preferences or agency problems
- ▶ Preoccupied with two main violations
 1. **Lack of credible commitment** to make future transfers and/or not to attack in the future
 2. **Asymmetric information + incentives to misrepresent** — Fighting is a way to identify weak from strong opponents
- ▶ Occasionally you see a nod to **agency problems** — Leaders who do not internalize the costs of war, or have privatized the benefits (e.g. Jackson & Morelli 2007)

A disconnect

- ▶ The empirical and formal theory literatures on conflict have not been in close conversation
- ▶ Many empirical papers view actors as maximizing against constraints in an essentially nonstrategic environment, e.g.
 - ▷ Individuals: Armed fighting as an occupational choice
 - ▷ Warlords: A prize as something to be won in a costly battle
- ▶ So what's going on?

What's the dependent variable here? What are we estimating?

Estimator Dependent variable Sample	LPM					
	Conflict incidence					
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Observations	143,768	142,296	127,974	143,864	142,296	17,360

What does a conflict incidence regression estimate?

Most conflict regressions look something like:

$$Incidence_{it} = \alpha IncomeShock_{it} + \beta GroupCleavage_{it} + \lambda Controls_{it} + \gamma_i + \theta_t + \epsilon_{it}$$

- ▶ Alternative dependent variables:
 - ▷ *Incidence* = 1 if new or ongoing year of conflict, 0 otherwise
 - ▷ *Onset* = 1 if first year of conflict, 0 or undefined otherwise
 - ▷ *Continuation* = 1 if ongoing year of conflict

- ▶ When we run an incidence regression, what crucial assumption are we making?

What does a conflict incidence regression estimate?

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► When we run an incidence regression, what crucial assumption are we making?

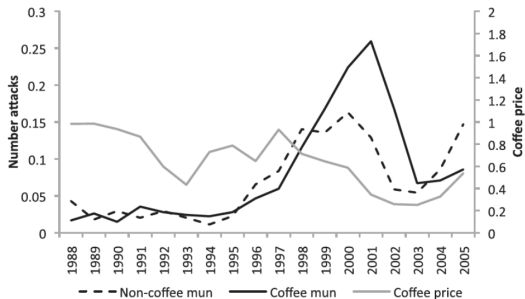
- ▷ $\alpha_{Onset} = \alpha_{Continuation}$ and $\beta_{Onset} = \beta_{Continuation}$

► And note that Continuation years are about 10 times as numerous as Onset years

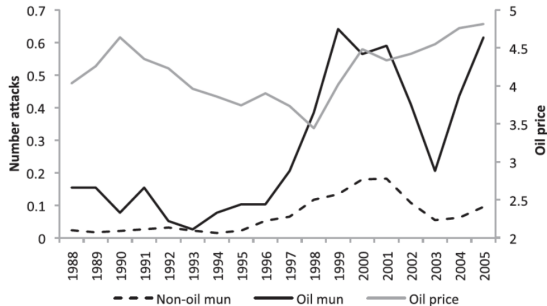
Dube & Vargas estimate effect of shocks on *intensive margin* of conflict

- Conditional on *war already being fought*, income shocks to individuals & state shape
 - ▷ Incentives for and ability to recruit, or
 - ▷ Attempts to capture valuable point resources

Paramilitary attacks



Paramilitary attacks



Implication: Many empirical papers are not actually studying the causes of conflict, but rather length & intensity

- ▶ If you look carefully at many papers, the explanatory power of income shocks mainly comes from years of continuation (intensity) not onset
 - ▶ Though the Berman et al paper does show robustness to onset in the appendix
- ▶ Yet, what does "Onset" mean with this level of granularity?
 - ▶ What's the difference between a country-level move from 0 to 1, and a local-level move from 0-1?

Table A.6: Conflicts and mineral prices: conflict onset

Estimator Dep. var. Sample	(1) All	(2) $V(M_{kt}) = 0$	(3) LPM Conflict onset: $V(M_{kt}) = 0$	(4) All	(5) $V(M_{kt}) = 0$	(6)
mine > 0	0.059 (0.063)					0.028 (0.026)
ln price main mineral	-0.014 (0.023)					0.024 (0.011)
ln price \times mines > 0	0.060 (0.029)	0.066 (0.022)	0.047 (0.023)		0.075 (0.024)	0.028 (0.018)
ln price \times mines > 0 (neighbouring cells)			0.018 (0.005)			
ln price \times mines > 0 (ever)				0.038 (0.013)		
Country \times year FE	Yes	Yes	Yes	Yes	No	No
Year FE	No	No	No	No	Yes	Yes
Cell FE	Yes	Yes	Yes	Yes	Yes	No
Neighbour-pairs FE	No	No	No	No	No	Yes
Observations	136565	135268	121742	136658	135268	16515

Also, political events and crises more subjective to code than you think

Sambanis 2004 JCR

TABLE 1
Correlations among Civil War Lists, 1960-1993

a. Version (a) of War Onset (3,198 Observations)											
COW 1994	COW 2000	Collier and Hoeffler (2001)	Licklider (1995)	Gleditsch et al. (2001)	Fearon and Laitin (2003)	Leitenberg (2000)	Regan (1996)	Doyle and Sambanis (2000, Extended)	Doyle and Sambanis (2000)	Sambanis (This Study)	
warst1a	warst2a	warst3a	warst4a	warst5a	warst7a	warst8a	warst9a	warst10a	warst11a	warstnsa	
warst1a	1.00										
warst2a	0.96	1.00									
warst3a	0.82	0.83	1.00								
warst4a	0.74	0.75	0.71	1.00							
warst5a	0.42	0.46	0.52	0.57	1.00						
warst7a	0.69	0.70	0.70	0.70	0.54	1.00					
warst8a	0.60	0.66	0.56	0.66	0.46	0.59	1.00				
warst9a	0.70	0.70	0.66	0.66	0.46	0.67	0.59	1.00			
warst10a	0.69	0.69	0.80	0.68	0.48	0.72	0.55	0.72	1.00		
warst11a	0.76	0.76	0.75	0.79	0.53	0.77	0.61	0.77	0.85	1.00	
warstnsa	0.74	0.74	0.73	0.83	0.51	0.80	0.62	0.72	0.83	0.88	1.00

What drives differences across data?

- ▶ Datasets differ on:
 - ▷ How to deal with lulls in violence, or periods of truce?
 - ▷ When does a war start? When it's declared or when it passes a certain threshold?
 - ▷ How to deal with short-lived skirmishes? How to deal with non-violent destruction?
 - ▷ And a hundred other decisions...
- ▶ The dataset now most commonly used (PRIO/UCDP, who produce ACLED) is the most episodic – driven by rises and falls above yearly battle deaths thresholds (15 and 1000 deaths, for "conflicts" and "wars", if I recall)
 - ▷ What would be alternative approaches?
 - ▷ How should we interpret the coefficient on onset in an episodic, localized, battle death driven measure?
 - ▷ What happens to interpretation as we look at onsets in subnational units?

My personal conclusions

- ▶ We have a LOT of empirical papers on why conflicts spread, lengthen, and intensify
- ▶ Economic conditions and natural resources play a major role, potentially shaping...
 - ▷ Ease of arming and recruitment
 - ▷ Strengthening one actor over the other
 - ▷ Autocratic institutions
 - ▷ Inequality and associated grievances
- ▶ But we have strikingly little rigorous evidence on why wars break out
- ▶ The limited tests of our rationalist and behavioral theories come mainly from studying interventions, but even here the theoretical implications remain murky

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- Incomplete information (very briefly)

Research frontiers

Modest goals

- ▶ Baliga teaches a (recommended) PhD course at Northwestern on a variety of conflict models
 - ▷ We're only going to skim the surface today
- ▶ What I think are the most original and important insights from his simple model and summaries:
 - ▷ The commitment problem as a combination of *shifts in power and limited transfers*
 - ▷ Relatively simple, consistent framework for thinking about the core problems and the frontier topics (salami tactics, fighting while bargaining)
- ▶ I'm going to aim to highlight basics and briefly discuss what I think are exciting frontiers of theory development

First: The Coase theorem in action

Baliga & Sjostrom 2013 model of guns & butter

- ▶ Risk neutral players $i \in \{N, S\}$. (North and South)
- ▶ Player i has resource x_i can be used to produce:
 - ▷ Guns $g_i \geq 0$
 - ▷ Butter $b_i \geq 0$
- ▶ Budget constraint:

$$g_i + b_i = x_i$$

Winner takes all situation

- ▶ If there is a war, the country with more guns is more likely to win
 - ▷ The winner takes all available butter, $b_N + b_S$
 - ▷ The loser gets nothing
- ▶ No war can happen if $g_N = g_S = 0$
- ▶ Contest success function: Player i wins the war with probability

$$\rho(g_i, g_j) = \frac{g_i}{g_i + g_j}$$

- ▶ Crucially: Each player suffers c_i when a war happens

Some additional simplifying assumptions

- ▶ South is rich and has a high cost of war
- ▶ North is poor and has a low cost of war
- ▶ $x_N < c_S$: North does not have enough resources to make war worthwhile for South
- ▶ $x_S > c_N$: South has enough resources to (possibly) make war worthwhile for North

Game Structure

Take-it-or-leave-it offer

- ▶ Stage 1: Productive decisions
 - ▷ Each player chooses g_i and b_i subject to $g_i + b_i = x_i$
 - ▷ Decisions are simultaneous and publicly observed.
- ▶ Stage 2: Bargaining with transfers
 - ▷ South proposes to transfer t butter to North, $0 \leq t \leq b_S$
 - ▷ North accepts this proposal or declares war
 - ▷ i.e. All these models assume that the default condition is conflict

Coase working: With complete information and *unlimited transfers* t , there is arming but no fighting

- ▶ North will accept South's proposal if North's consumption of butter exceeds its expected payoff from war

$$b_N + t \geq \frac{g_N}{g_S + g_N}(b_S + b_N) - c_N$$

- ▶ South's problem

- ▷ Propose the smallest t that satisfies the above appeasement constraint

$$t = \frac{g_N x_S - g_S x_N}{g_S + g_N} - c_N$$

- ▶ In equilibrium,

- ▷ $g_N > 0$: There is always (inefficient) arming, otherwise South provides no transfer
- ▷ $t > 0$: There is appeasement of the actor with a lower cost of war (a version of the Coase theorem)
- ▷ $g_N = x_N$: In this example, North puts all of its resources into arming

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Incomplete information (very briefly)

Research frontiers

Most commitment problem stories implicitly involve some argument for limited current transfers and inability to commit to future transfers

Baliga & Sjoström 2013 (Section 3.3) illustrate with two changes to the previous model:

1. Payoffs to winning rise

- ▷ The payoff to winning is now all the butter plus a fraction η of the productive resources of the losing side, e.g. North's payoff is:

$$b_N + b_S + \eta x_S$$

2. $t \leq b_S$: Transfers cannot exceed current output, because

- ▷ Productive asset x_S cannot be transferred without war
- ▷ South cannot credibly commit to make transfers in future, and cannot borrow sufficiently

There is no war if there are no practical limits on transfers

- ▶ Now, North accepts South's proposal if

$$b_N + t \geq \frac{g_N}{g_S + g_N}(b_S + b_N + \eta x_S) - c_N$$

- ▶ Consider the simple case where North is relatively poor and c_N is small, then (as above) North sets $(b_N, g_N) = (0, x_N)$ and the appeasement constraint above is satisfied when

$$t \geq \frac{x_N}{g_S + x_N}[b_S + \eta x_S] - c_N$$

- ▶ The right hand side of this appeasement condition is large (i.e. greater than b_S) when η is large (since when $\eta = 0$ we revert to the prior case where there is no commitment problem because current transfers never need to exceed b_S)

More elaborate examples of commitment problems

► “Preventative war”

- ▷ North powerful now (high x_N), but expects to lose power in future
- ▷ By attacking now, North expects to receive a better outcome than after South is strong and can negotiate harder terms
- ▷ Crucial to this story is the notion of limited transfers
 - ▶ South cannot transfer enough now to appease North
 - ▶ Moreover, South cannot transfer productive resources or otherwise prevent the power shift from occurring

► “Indivisibilities”

- ▷ There is a resource or some aspect of x that cannot be divided
 - ▶ e.g. Sacred sites (Holy Mount?) or strategic territories (Golan Heights?)
- ▷ Again this is a form of the limited transfers argument, perhaps one where t is discontinuous over some range and South prefers to go to war than to give away all of it

A proposition: Most long wars are the result of commitment problems

► World War II (Weiseger 2013)

- ▷ Hitler was convinced that German people would eventually be dominated by larger empires & lose their identity, independence
- ▷ Convinced that they could also not feed the growing population on existing land & needed to control swathes of eastern Europe
- ▷ Allies refused to negotiate once they started winning because a belief that Germans could not credibly commit not to continue aggression

► 2003 US invasion of Iraq (e.g. Debs & Monteiro 2014)

- ▷ WMD would shift in geostrategic power, and US can act to avert this erosion
- ▷ Bush administration did not believe Saddam could commit to not develop nuclear weapons

► Civil wars (Walter 2009)

- ▷ Wars may begin for another reason
- ▷ But once they are running, there is a commitment problem in settlement
- ▷ Can one side be persuaded to put down its weapons to allow the other side
- ▷ Limited transfers = Difficulties of designing a system for power sharing

Could large economic shocks prompt commitment problems?

Could large economic shocks prompt commitment problems?

- ▶ Large price swings or major discoveries can drastically change productive power and revenues
 - ▷ Opposition (potential insurgents or coup plotters) demand a share in proportion to their strength
 - ▷ Most of the time, revenues are shared among powerful groups
- ▶ But with a large enough price swing, it could be difficult to credibly commit
 - ▷ If ownership is naturally concentrated, it may be difficult to commit to a stream of transfers
 - ▷ Capture could provide one group with enough might to permanently weaken or eliminate other groups
 - ▷ Bargains be most difficult where coalition maintenance is hardest — e.g. In places with highly concentrated power (e.g. weak executive constraints)
- ▶ Most theoretical papers showing shocks cause conflict have a hidden commitment problem built in (e.g. Chassang and Padro-i-Miquel 2009)

Another theoretical frontier: N-player bargaining

- ▶ Violence is not a equilibrium in 2-player games. In N-player games, however, there can be multiple equilibria, including violence.
 - ▷ With three or more players they may start forming coalitions, and a theory should predict what coalitions will form or break
 - ▷ May be logically impossible to design any one transfer institution that deals with all potential threats at the same time (Ray 2009)
- ▶ Currently an opportunity for theorists familiar with coalition dynamics to introduce latest development to conflict literature
- ▶ In some ways this resembles a commitment problem, because actors cannot write binding contracts not to form a coalition or split

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Research frontiers

Incomplete information leads to a signaling game

Baliga & Sjostrom 2013's simple illustration

- ▶ Essential point: Under imperfect information, war is a risky gamble that reveals the strength of the foe
- ▶ With probability p , North is a tough type with cost $c_N < x_S$ as before, but with probability $1 - p$, North is a weak type with cost $\bar{c}_N > x_S$
- ▶ If p is close to one, there is a pooling equilibrium where South chooses to appease a probably strong North
- ▶ If p is smaller, there is a risk of warfare
 - ▷ There is no pure strategy separating equilibrium
 - ▷ Since North is probably a weak type who is just bluffing, South takes a risky gamble and refuses to appease
 - ▷ The more unbalanced is the situation, in the sense that South is relatively more productive than North (i.e. $x_S - x_N$ is big), the more likely South is to win a war, the more likely South is to call North's bluff, and the more likely it is that a war occurs

A current theoretical frontier: Fighting while bargaining

- ▶ One criticism of incomplete information stories is that they should only explain short wars
 - ▷ Weak types should be revealed fairly quickly, at which point Coase theorem should kick in
- ▶ As it happens, skirmishing and short conflicts are very common in history, and so this is a useful contribution
- ▶ But how to explain long wars?

- ▶ Fearon 2013:
 1. Fighting as screening: Private information is about how long one side can hold out in a war leads to fighting as screening
 2. Fighting as signaling (reputation building): Expectation of having to fight future conflicts with other enemies is an added incentive for weaker types to bluff and to fight

Rationalist conflict

Why is conflict important to study? Why is it a puzzle?

Economic shocks and conflict

A simple illustrative bargaining model

- The Coase theorem in action

- Limited transfers and commitment problems

- Incomplete information (very briefly)

Research frontiers

In some ways this has been a “background” lecture than a discussion of frontiers

- ▶ The widest and most promising frontier may be the extension of these “standard” models and empirical approaches to non-standard explanations of conflict (next two classes)
- ▶ Probably the most under-researched “solution” to conflict is the state and formal/informal institutions
 - ▷ e.g. See Pinker (2011) or forthcoming Acemoglu & Robinson book
- ▶ There are also some areas of rationalist conflict theory waiting to be further worked out
 - ▷ Mutual optimism (e.g. Ramsey 2017)
 - ▷ N-player bargaining, coalition formation, spoilers (e.g. Ray & Vohra 2014)
 - ▷ Agency problems (e.g. Jackson & Morelli 2007)

Research frontiers

- ▶ There is strikingly little empirical testing or exploration of bargaining and rationalist breakdowns — a lot of the evidence is circumstantial correlations
- ▶ May be opportunities or clues for research ideas in
 - ▷ Lab experiments
 - ▷ (Non-violent) negotiations literature
 - ▷ Labor strikes literature
- ▶ Arguably there is much more room for testing interventions, especially ones amenable to large(ish)-N data analysis
 - ▷ Credit and contracts in reducing commitment problems
 - ▷ Local institutional reforms
 - ▷ Mediation
- ▶ Arguably there are some ongoing lines of research that should get less emphasis in future
 - ▷ Economic shocks and conflict
 - ▷ Ethnic divisions and conflict