Lecture 5: Intangible incentives

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Next steps on projects

• Meetings next week
• What to hand in
• How the presentation days will go
Before we get to the last two reasons: Some advanced topics

1. Some commitment problems other than preventative war
2. How do these strategic explanations interact?
3. The problem of centralized power
Other situations that can create a commitment problem

1. First strike advantages
   – Also known as “offensive advantages” or “preemptive war"
   – e.g. Imagine if Athens and Sparta were evenly matched, but whichever moved first had a 75% chance of victory
   – How would this apply to the situation of nuclear war?
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     • Perversely, led to investments in “mutually assured destruction” and deterrence
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2. “Indivisibilities”
   - Just another kind of limited transfers
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3. Laying down arms
   – A particular problem in civil wars, where enemies must live together afterwards
   – Also, typically one side must give up its arms, leaving itself vulnerable
Other situations that can create a commitment problem

4. Collective action problem in arming
   – Arming is inefficient
   – In anarchy, hard to agree with your enemy to both reduce arms investments
   – Successfully winning a war would give you a huge peace dividend from not having to arm any longer
   – If this peace dividend is large enough, is there any transfer your enemy can provide you now to avoid fighting (especially if they too face a peace dividend)
   – Reportedly led US to consider a preventative war with USSR early in the Cold War

5. Bargaining over the source of power
   – What happens when the thing you transfer changes your ability to win future conflicts?
     • e.g. Strategic territory, arms, technological secrets, allies
   – Better just to attack now?
   – Related to idea of an indivisibility – the idea that you cannot give something away that does not have long run strategic consequences
Some advanced topics

1. Some commitment problems other than preventative war
2. How do these strategic explanations interact?
3. The problem of centralized power
What happens when other forces shrink the bargaining range?

- Suppose unchecked rulers or intangible incentives halve the net costs of war that leaders consider.
- Today, Sparta’s expected value of war is $135 = 75% of 2($100–10)
- Athens’ expected value of war is $45 = 25% of 2(100–10)
- The bargaining range is just $20 wide
Addendum: What happens when other forces shrink the bargaining range?

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  \[= 75\% \text{ of } 2(100-10)\]
- Athens’ expected value of war is $45
  \[= 25\% \text{ of } 2(100-10)\]
- The bargaining range is just $20 wide
- Backwards induction tells us there should be no war—barely
  - Tomorrow, when playing for $100 pie, Sparta knows it is assured of at least $45
  - Thus, it needs to get $90 today
- Athens can transfer this today, provided there are no limits on its ability to hand over territory or spoils
  - Especially in ways that avoid decreasing its future power
Some advanced topics

1. Some commitment problems other than preventative war
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Let’s look at the example of Liberia
And Amos Sawyer’s diagnosis and cure
Liberia

- ~4 million people
- Colonized by African-Americans in early 19th century
- Independent republic since 1847
- Two devastating civil wars 1989-2003
- Relatively stable and growing 2003 – present
- Still one of the world’s least developed nations
The first American colony
Born of the 19th century Back-to-Africa movement

Departure of the Back-to-Africa Movement ship Laurada bound for Liberia with approximately 300 passengers, half of them from Arkansas; March 1896.
How concentration in economic power favored concentration in political power

- Major commodities and exports in Liberia
  - Iron
  - Rubber
  - Diamonds
  - Gold

- What differentiates these products from:
  - Grains
  - Light manufactures
Increasingly centralized politics

- Relatively stateless, diverse region before settlement
- Americo-Liberian colonization (1821-1847) and dominance of politics
  - Merchant oligarchy dominated country through patron-client relations and military control
  - Relative exclusion of indigenous tribes
- All power concentrated in the Presidency
  - Had American institutions in loose imitation and form, but not function
- Augmented by US Cold War support to President
- Post WWII President cultivated a cult of personality
1980-89: Junior officer coup followed by decade of military rule

- Like much of Africa, a highly centralized regime
- (Indigenous) Samuel Doe overthrows government in a coup
- Has US support and aid
- Increasingly brutal and repressive rule
- Tribes aligned with Doe’s Krahn group favored, rivals are disfavored, intimidated, increasingly persecuted
- Doe loses aid and military support with end of Cold War
Charles Taylor and the invasion of Liberia, Christmas Eve 1989

• US intelligence agents reportedly help Charles Taylor escape from a maximum security prison in Boston in 1985
• Received guerrilla training and funding from Libya and Côte d’Ivoire
• Leads 100 soldiers over Côte d’Ivoire border, igniting a civil war
• Fails to capture the capital
Nigerian “peacekeeping” force occupies capital, civil society installs a civic leader/activist/academic as President (of Monrovia)

1990-1994
“World War I” and “World War II”
Become iconic examples of civil wars in Africa
Amos Sawyer, political scientist and former President, emphasizes over-centralization of power in the executive

- Like many African countries, almost no formal checks on Presidential power
  - No local fiscal or decision-making governments
  - Weak parliamentary bodies with little power
  - All revenues, aid travel through the President’s cronies in national ministries

- Rule is largely personalized
  - No party system or professional bureaucracy to check the power of the President
  - Only a narrow relatively ethnically-focused set of elite actors

- The Presidency, which has near absolute power, becomes a prize to be captured through coups or invasion
How might over-centralization of power lead to bargaining breakdown?
Can it help us explain why Charles Taylor couldn’t demand a deal?

1. Unchecked leaders
2. Uncertainty
3. Commitment problems
4. Intangible incentives
5. Misperceptions
How might over-centralization of power lead to bargaining breakdown?
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In short, all of them
Example: Unchecked leaders:

1. A personalized dictatorship
   – Insulated from many costs of war

2. Private benefits from war
   – Magnified by the presence of “lootable resources”: Diamonds, gold, lumber

3. Foreign powers unchecked as well
   – Funded proxy wars at little cost to themselves
Outside powers can give actors private incentives to fight & impede bargains
Precisely because outsiders are not bearing the costs of war (i.e. they too are unchecked)
We also have several ingredients for a commitment problem

• **1989: Sudden downward shift in Doe regime’s power**
  – With end of Cold War, US decreases aid and military support for its more thuggish client states
  – A growing push to democratization in Africa reduces legitimacy of thuggish coup leaders

• **Limited transfers**
  – Like most African governments, already in fiscal crisis even before the plummet in foreign aid
  – Limited ability to borrow or allot revenue sources

• **Personalized dictators can’t make credible commitments**
  – Institutions are sticky, and so power-sharing agreements are extremely difficult
  – No President can credibly commit to giving opponents a future share of the spoils

• **This is a kind of “indivisibility” argument**
  – There is a split of the pie that would give Doe and Taylor large shares (a bargaining range)
  – But the rules and apparatus of government means this bargaining range is institutionally infeasible
  – Rather, the rules and organizations have created a “winner take all” situation
Finally when rule is centralized and personalized, a ruler’s individual tastes and irrationalities will not be constrained or mitigated by institutions

1. Unchecked leaders
2. Uncertainty
3. Commitment problems
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Sawyer: Argues for a set of constraining institutions

- Shared, divisible power would:
  - Reduce commitment problems
  - Reduce elite’s private benefits of war and force them to face costs
  - Reduce the role of a leader’s idiosyncratic preferences and biases

- What would it take to make power more divisible and shared?
  - Fundamental Constitutional change
  - Complete restructuring of government to make it polycentric
    - Empower local government jurisdictions (elections, budgetary power)
    - Independent, task-specific bureaucracies crossing space
    - Regional security and economic apparatus

- Echoes elements of European and American constitutional principles:
  - E pluribus unum, Checks and balances

We will come back to this again in Part 2
1. Unchecked leaders
2. Uncertainty
3. Commitment problems
4. Intangible incentives
5. Misperceptions
The temptation of irrationality:
Irrationality, barbarism, emotions were a common narrative, rather than the underlying incentives and politics

• A common journalistic response to the wars in the Mano River region: Irrational barbarism
  – Crime and lawlessness spreading
  – State control and communal norms weakening
  – An underlying barbaric nature unleashed
  – Compounded by younger, more urban, rootless populations
  – Compounded by environmental degradation and disease

• We have to be wary of the irrational explanation because it is too easy to explain the “other’s” behavior this way
How to integrate psychology into our framework?

Economic decision-making under uncertainty are founded on rational expected utility:

$$\max p(s)U(x|s)$$

What if we relax this?
How to integrate psychology into our framework?

Economic decision-making under uncertainty are founded on rational expected utility:
\[ \max p(s)U(x|s) \]

Matt Rabin (2004) categorized all of behavioral economics into:

1. **Non-standard preferences**
   - what does \( U(x|s) \) really look like? What is in our utility function?
   - Nothing “irrational” – permits us to use standard tools and models

2. **How do people really form beliefs \( p(s) \)?**
   - What heuristics, biases, and systematic mistakes do we make
   - Implies we may have the wrong \( p(s) \), or fail to update, but we maximize

3. **Lack of “stable utility maximization”**
   - Do people really max \( p(s)U(x|s) \)?
   - When do we fail to carefully calculate?
How I bucket these, when it comes to conflict

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   “Violent tastes”

   “Misperception”
Many forms of political participation are hard to explain without an appeal to preferences: intrinsic motivations or emotional rewards.
Preference-base explanations share a common feature: There are some circumstances where violence becomes its own reward

- There are times when violence is intrinsically valuable
  1. Direct utility
  2. Indirect utility
- This will offset costs, narrowing the bargaining range
  - At minimum, makes peace more fragile
  - In the extreme, the bargaining range could disappear
- If fighting is intrinsically valuable, then bargaining breakdown is no mystery
What kinds of intangible incentives might plague the conflicts we have been discussing?

- China—Taiwan
- US—Taliban
- India—Pakistan
- Mexican state—Drug cartels
- Israelis—Palestinians
- US urban gangs
Varieties of violent tastes I
Sources of direct utility from violent actions

• Conditional on enemy’s actions
  – Vengeance
  – Pleasure in agency, righteous action

• Not necessarily conditional
  – Status, glory and esteem
    • Absolute levels of status
    • Relative status / dominance
  – Aggressive drives
    • Pleasure in violence
    • Scapegoating and sacrifice
    • Social bonding, camaraderie
  – Parochial altruism / out group antipathy
Varieties of violent tastes II
Sources of indirect utility from violent actions

• “Value rational” violence
  – Actions “determined by a conscious belief in the value for its own sake of some ethical, aesthetic, religious, or other form of behavior, independently of its prospects of success” (Weber 1978)
  – Of course, doesn’t have to be independent of prospects of success
    • One is merely willing to pay an extremely high price

• Identity and ideological examples
  – The elimination or subjugation of an ethnic rival
  – The extermination of a heretic ideology or religion

• Unwillingness to compromise
  – Where the idea of compromise on some ideological principle is abhorrent
    • Liberty and self-determination
    • Property rights
    • The idea of a just distribution
Note: Nothing about these preference-based explanations are necessarily “irrational”

- The actors are still maximizing, calculating, with stable preferences, intelligent and accurate information processors

- With violent values, we’ve simply opened up standard economic preferences (selfish, material) to social preferences and non-material payoffs
  - Even emotional reactions to injustice are rational if they are well-defined and stable, and rational actors know to expect at least some people to behave this way

- We can get awfully far with just these rational standard and rational non-standard explanations

- But a whole range of explanations for war violate the idea that we are calculating, optimizing, information processors with consistent preferences