Working Paper Draft

Economic Analysis of Persistent Civil Conflict:

Violence, Corruption and Rent-Seeking

by

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Abstract

Economics of conflict, corruption and rent seeking are combined to create an analytical framework for empirical research on the phenomenon of prolonged civil conflict. Prolonged conflict is understood to last across at least one generation in a society. Game theory and a supporting narrative identify five empirical hypotheses to be tested against qualitative and quantitative data developed from contemporary and historical case studies of conflict. Inspiration for this framework and potential case studies include the civil conflicts in Chechnya, Colombia, Nagaland in northeastern India, Northern Ireland, and Sri Lanka. The central hypothesis is that economic rents available to a corrupted rebel group under conditions of conflict outweigh their costs of engaging in conflict, and thus serve as an incentive to prolong fighting even when the communities on both sides would gain from settlement.

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Although it's often said that violence is good business, think before you act, and never bully or be angry. – Wu Cheng-en, *Journey to the West*

1. Introduction

Remedies for violent civil conflict must be based on an understanding of underlying social processes to be effective. This paper seeks to elucidate such processes by using tools of economic analysis to explain behavior of social actors engaged in prolonged civil conflict, shedding light on its internal dynamics. The central proposition is a plausible economic basis for the continuation of conflict, despite the fact that disputant communities could both gain economically from cessation of fighting. A framework for analysis is grounded in economic theory of conflict, supported by economic theories of corruption and rent–seeking. From this theory essential hypotheses are derived. Empirical illustrations are drawn from three case studies of contemporary conflict: Northern Ireland, Colombia and Chechnya. Additional case studies will follow, and all will be framed in the same analytical framework. Rigorous testing of this theoretical framework will require extensive development of such cases.

Some theories explain persistent civil conflict based on ethnic, religious or ideological differences (e.g. Rule 1988, Sambanis 2001, Petersen 2002) or on political dynamics such as the "security dilemma" (Walter & Snyder 1999). These theories may well have some explanatory power, but analysis of economic interests in conflict is crucial for a full understanding. My paper focuses on this dimension, while recognizing political antecedents to conflict. This framework may not explain all violent civil conflicts, but it is relevant for many and is particularly germane to prolonged instances. Economic analysis of conflict, while having deeper roots (e.g. Lane 1958, Schelling 1966, Tullock 1971, Silver 1974), has recently been substantially advanced by the work of Enders & Sandler (1995), Grossman (1995), Hirshleifer (1995), Garfinkel & Skaperdas (1996), Collier & Hoeffler (1998), Collier (2000), Gates (2002), and Ballentine (2003). The present paper builds on this literature. Sandler (2000) provides summary comments on the economic approach to conflict, and Hirshliefer's seminal contributions are collected in his 2001 book.

This paper is distinguished from previous economic studies in three ways. First, I apply the same analytical framework to three case studies, two of which, Chechnya and Northern Ireland, have not been well studied from an economic perspective. Fully developed case studies will allow empirical tests of hypotheses rigorously derived from a theoretical model. Second, a critical focus of my framework is the relationship between

the military organization of one of the disputant communities (the Rebel Council described below) and the community it represents. Previous work has touched on this issue but has not treated it as central to the dynamics of conflict. (Gates 2002 and Ballentine 2003 come the closest.) I believe it is essential. The critical distinction of my framework is the emergence of corruption in this formally illegal yet politically legitimate organization. Third, my framework emphasizes evolutionary features, which are especially important in instances of prolonged conflict. I adopt an arbitrary criterion of two decades to consider a conflict prolonged. That is, at least one generation has essentially grown up under conditions of violent conflict. This approach provides an explanation to the observations of Ballentine that: a) while opportunities for enrichment often promote conflict, they are rarely the initial stimulus; and b) conflicts originating from political disputes often transform into cases of violent rent seeking. The evolution of corruption is the key to this transformation.

2. Narrative of the Framework

The cases of interest involve prolonged periods that are properly described as equilibria. A seemingly intractable conflict cannot be won decisively by either side and persists for decades. Details differ, but some broad features are common to developments that lead societies into such tragic circumstances. Here I provide a narrative sketch of a general framework of this process. The next section proposes analysis based on game theory.

The kernel of many civil conflicts is an initial dispute between social groups with class or ethnic features that color fundamental political and economic concerns. In some cases social institutions are inadequate for reaching a resolution, and one group enjoys or gains ascendancy over the other. Typically this involves control of an established machinery of government (a *State*) that is used to repress expressions of dissent. I use the terms *Dominant* and *Repressed Communities* (which together comprise the society) to distinguish these groups; the State is an agent of the Dominant Community.

Because resolution of the dispute is blocked under existing power arrangements, the State loses legitimacy in the view of the Repressed Community, leading members to form organizations dedicated to correcting perceived injustices by extra-legal means. I refer to such an organization as a *Rebel Council*. Often, although not always, strategies of Rebel Councils involve the use of force to promote change through violence, sometimes extending to terrorism. They are a form of organized crime. Changes promoted vary from redistributive policies to secession of the Repressed Community from the larger society or even usurpation of the State. As this is extremely threatening to the Dominant Community, the State's coercive power is brought to bear, intensifying the conflict and driving

Rebel Councils into increasingly secret organizations. The ability of the State to prevail is stymied, despite superior force capabilities, because Rebel Councils enjoy legitimacy (Weber 1968) in the eyes of the Repressed Community.[1] Legitimacy supports the Councils with camouflage and an economic base. Establishment of secret organizations with force capabilities within the Repressed Community is a crucial development leading to the next stage of evolution.

This subsequent stage is characterized by *corruption* that emerges within Rebel Councils. Appealing to its Latin roots meaning a kind of breakage, I intend corruption to mean a deviation of practice or behavior from some previously established purpose or expectation. Corruption in a Rebel Council is contrary to the interests of its Repressed Community, whose members expect the Council to act on their behalf. Interests of actors that comprise Rebel Councils are sometimes not well aligned with interests of the Repressed Communities from which they emerged, a particular Principal–Agent problem. Because there are other agency relations relevant to my framework, I refer to this one, between the Rebel Council and the Repressed Community as a problem of *illicit governance*.

A corrupt Council may seek private wealth at the expense of political and economic interests of the Repressed Community. Council and Community interests are sometimes served by the same actions, but often they will not be. Of special relevance is the choice to engage the State in violent conflict or in negotiations. The ability of a Rebel Council to act contrary to the interests of its Repressed Community depends on two critical features of the conflict environment. One is control of information; the other is the Council's ability to impose sanctions, positive or negative, on members of the Repressed Community. The Council can buy allegiance by providing benefits to the Community, or, since it has violence capabilities, it can punish defectors in the Community. Thus the Rebel Council faces a problem of cohesion internally (Gates 2002) and a challenge of governance by the Repressed Community.

Corruption is a problem facing organizations of the Dominant Community as well, which has its own governance issues with the State. But the problem is arguably worse for the Repressed Community. Following principles described by Klitgaard (1988), corruption is more likely to emerge when agents of an organization face larger disparities in the payoff from corrupt activities relative to non-corrupt behavior, when they have greater discretion in decisions and when mechanisms of accountability are weaker. Owing to the general position of the Repressed Community within the larger society, alternative economic opportunities available to agents of Rebel Councils are less favorable than those available to agents that comprise the Dominant Community's State. The need

for secrecy forces Rebel Councils to adopt security practices that favor greater discretion and limit accountability. There is a distinct lack of transparency.

When a Rebel Council enjoys legitimacy within the Repressed Community, Community income is subject to transfer to the Council and can be privately acquired by a corrupt agent.[2] Remittances from a diaspora of the Repressed Community are one example. Another arises when a corrupt agent utilizes force capabilities provided by the Repressed Community against the Community itself. The ability to exert force provides capacity to threaten as well as to protect and thus to extort. A related tactic available to corrupt agents is selective withdrawal of protection over members of the Repressed Community. This is particularly relevant in a social environment made hostile by attempts of the State to suppress dissent within the Repressed Community. Capacity to exert force conveys an opportunity to extract value from an economy in the form of what Lane (1958) refers to as "protection rent." One manner in which this occurs is through the extortion of entrepreneurs.

Another source of rent lies in the ability to control economic activity that has been suppressed by the State or made difficult in an environment of conflict. Rebel Councils already operate extra-legally, so extending their activities beyond political struggle to illicit production and trade does not entail an extremely large increase in risk. Moreover, because Councils are specialists in violent force and intelligence, they have enhanced capacity to control such activities and thus extract economic rent from them. Prominent examples include production and trafficking in illegal drugs, black markets in arms, illicit exploitation of natural resources, and production and trade of legal commodities in short supply owing to circumstances of active violent conflict.

These rents would largely be dissipated under reconciliation between Dominant and Repressed Communities. Rebel Councils would lose legitimacy in Repressed Communities and no longer enjoy the cover provided nor resources willingly sacrificed to them. Entrepreneurs could appeal to a State for protection against extortion, market adjustments would eliminate shortages induced by active conflict, and illegal production and trade could be suppressed more effectively. Such developments are often at variance with the interests of corrupt agents in Rebel Councils[3], although they may well provide substantial gains to Repressed Communities.

Two final observations summarize the analysis. First, the stream of economic rent is not available, or at least is substantially diminished, under conditions of settlement. Rebel Councils would have no legitimate claim, and their capacity to seize it by force would be more restricted. They have an <u>incentive</u> to perpetuate conflict. Second, these agents usually have the <u>capacity</u> to perpetuate conflict. Means of perpetuation vary, but include acts of

violence, such as terrorism, that would induce more suppression from the State, and so increase legitimacy of the Rebel Council within the Repressed Community. This would not be difficult to accomplish for a secret organization with access to armaments. Moreover, Rebel Councils are capable of suppressing dissent in the Repressed Community that might shift toward reconciliation with the Dominant Community.

3. Methodology, Model and Hypotheses

Civil conflict presents difficult choices for social science methodology. On the one hand, I seek to uncover distinct causal relationships with application beyond particular case studies. This argues for method using abstract models. On the other hand, the relevant social variables, both qualitative and quantitative, are manifested in complex social relations from which it is challenging to uncover systematic data. This stymies rigorous testing of theoretical models against quantitative variables. My approach develops an analytical framework based on game theory from which testable hypotheses are derived that relate to both qualitative and quantitative variables. Empirical tests can be approached through case studies supplemented by estimates of relevant quantitative variables, such as volumes of remittances and illicit drug production. Such tests are not undertaken in this paper, but the next section presents a cursory review of three conflicts to illustrate the applicability of the theoretical framework. Rigorous testing will require much more development of empirical materials. The empirical component of my project is likely to prove the most challenging, and the extensive previous research on Colombia suggests I will be most successful in that particular case study.

Here I establish mathematical notation and present two games in strategic form, Deadlock and Assurance (also known as Stag Hunt), which express essential strategic relations among the actors. In both games actors choose between two strategies: Reconcile (Recon) and Fight. I begin by treating the two communities as rational unified actors, while recognizing limitations of this assumption.[4] Figure 1 shows payoff matrices under these games, where payoff is expressed in ordinal expected utility, with payoff to the row player in the lower left of each cell. Deadlock is descriptive of interactions in early stages of conflict, with Nash equilibrium in the lower right cell. Assurance shows altered payoffs that support a Nash equilibrium in the upper left cell, in which conflict is resolved. Payoffs are related to differences between benefit and cost to each actor in each of the four cells, which depend on the objectives of the Repressed Community. Negotiations toward conflict resolution can be understood as a process of altering the pattern of payoffs toward Assurance.

Figure 1. Games of Deadlock (left) and Assurance (right)

Dominant Community

	Recon	Fight
Recon	1 / 1	3 / 0
Fight	0 / 3	2 / 2

Repressed Community — rows Recon, Fight

Dominant Community

	Recon	Fight
Recon	3 / 3	2 / 0
Fight	0 / 2	1 / 1

Repressed Community — rows Recon, Fight

Suppose the Repressed Community seeks secession. Their benefit in Deadlock equilibrium is the expected future gain as an independent community, i.e. the degree to which their economic fortunes would be enhanced if independent, designated as B_R, multiplied by their subjective probability of success, p_R. Their cost, C_R, is the sacrifice required to engage the Dominant Community in conflict, e.g. military resources and casualties. Using EU as the expected utility operator for the Repressed Community, $EU[p_R B_R - C_R] = 2$. Benefit to the Dominant Community in this equilibrium is gain derived from continued territorial integrity, B_D, multiplied by their subjective probability that the Repressed Community will <u>fail</u> in conflict, $(1 - p_D)$.[5] Their costs, C_D, are the resources required to suppress efforts at secession plus losses incurred under conflict, thus $EW[(1 - p_D)B_D - C_D] = 2$, where EW is the expected utility operator for the Dominant Community.

To move the dynamics of interaction from Deadlock to Assurance requires altering the payoffs to each Community. This can happen in a number of ways. For example, the Dominant Community could offer greater public goods or other social services contingent on cessation of violence, and thus lower B_R. Or it could engage in more extreme repressive measures, thus lowering p_R and/or increasing C_R. Similar responses to alter payoffs might originate in the Repressed Community. It could drop demands of secession in exchange for limited autonomy and/or economic development aid. With territorial integrity no longer under threat, the payoff to the Dominant Community under Reconcile is enhanced and this strategy could come to dominate Fight, or at least make that strategy attractive if cooperative signals came from the Repressed Community. The extent of autonomy and aid demands would influence whether such a shift occurs, but it is possible in principle.

These two games provide a frame of reference for relations between the communities, and Deadlock is characteristic of early stages in prolonged civil conflicts. It is in these circumstances that violence emerges. Yet it

is not realistic to treat the broad communities as unified actors engaged in strategic exchanges. Rather it is their respective agents, the State and the Rebel Council, who actually occupy these roles. Using these organizations as strategic actors instead of their respective communities addresses, in part, the problematic assumption of collective rationality required for this modeling approach. While the State and Rebel Council are comprised of individuals and must overcome problems of cohesion, the incentive and coordination difficulties are considerably less than for the whole communities. Failures do occur, but in the conflicts I seek to analyze empirically, there are successful coherent organizations on each side, at least for some period of time.

Yet if the problem of cohesion is solved, a problem of governance arises between these organizations and their respective communities. Since my interest focuses on relations between the Repressed Community and its Rebel Council, I assume that the Dominant Community has effectively solved its governance problem with the State, so that State preferences are aligned with those of the Dominant Community. Payoffs to the Dominant Community can now represent payoffs to the State. But this is not necessarily true for the Rebel Council and the Repressed Community, where governance presents a greater challenge, especially under the evolution of corruption within the Council.

Consider again equilibrium under Deadlock, where the Repressed Community is replaced by the Rebel Council. Benefits to the Rebel Council would include a portion, γ, of the expected payoff to the Repressed Community, expressed as $\gamma p_R B_R$. The size of γ depends on the degree of influence that members of the Rebel Council would enjoy after a successful conflict. Again presuming secession as the goal, if the Council became an effective dictatorship, γ would be larger than if its members assumed average positions of citizenship in a new democracy.[6] Yet even under dictatorship γ is expected to be much less than 1.

Benefits of conflict would also include the potential rents the Council could seize during a state of conflict, represented as ρ. If the Rebel Council prevails against the State, a portion of the rents, perhaps all, will no longer be available to the Rebel Council. If we understand ρ to be rent captured by the Rebel Council only in active conflict, it enters the council's expected utility (*EV*) with probability $(1 - p_R)$. Set against these gains is a cost the Council incurs in fighting. This includes resources devoted to fielding the military force as well as a degree of casualties, represented by μ. While μ would constitute a part of the Repressed Community's cost of fighting, it is only the part that impinges directly on the Rebel Council, and it is smaller than C_R for three reasons. First, many of

the casualties in the Repressed Community will not be among families represented by the Council. Second, like casualties, some costs imposed on the Repressed Community in the conflict are not channeled through the Rebel Council. The sacrifice of forgone economic development under conflict is an example. Third, material resources that are channeled through the Rebel Council are subject to diversion by a corrupt council. Resources thus diverted would effectively become part of ρ. To summarize, the Rebel Council's payoff under continuing conflict is expressed as: $EV[\gamma p_R B_R + (1 - p_R) \rho - \mu]$.

Consider now the evolution of corruption within the Rebel Council. When a Council becomes corrupted, it is more likely to seize a larger ρ, to push μ lower, and to generally ignore the welfare of the Repressed Community in favor of its own interests. It is entirely plausible that this calculation would result in a payoff matrix characterized by Deadlock, while calculation for the Repressed Community would yield a matrix for Assurance. The failure of governance over the Rebel Council traps the Repressed Community in a dysfunctional equilibrium. Moreover, if the State attempts to alter payoffs to change the matrix from Deadlock to Assurance by lowering p_R, this will clearly dissuade the Repressed Community collectively, but has an offsetting effect on the Rebel Council when there are rents available under conflict.

These considerations and the previous narrative lead to the following set of hypotheses to be confirmed or rejected by appeal to case studies, as a test of my particular theory of the economic basis of prolonged civil conflict. Under conditions of prolonged violent civil conflict:

1. Payoffs to a Rebel Council and the Repressed Community it represents will diverge to an extent that the former results in a game of Deadlock with the State while the latter results in Assurance.

2. There will be evidence of corruption in the Rebel Council.

3. There will be evidence of mechanisms the Rebel Council uses to manage defection in the Repressed Community.

4. There will be a source of rents to the Rebel Council that are available only in conditions of active conflict.

5. When the Rebel council can claim only a small part (γ) of the Repressed Community's expected benefit of fighting, the rent available to it under conflict will exceed its cost of fighting: $\rho > \mu$.

4. Case Studies

Each description contains a brief historical background and preliminary delineation of features that relate to key elements of the analytical framework described above. These particular cases were chosen for their diversity of cultural settings and of political – economic institutions. Similar treatment of additional case studies will follow.

Northern Ireland[†]

Roots of conflict in Northern Ireland extend back to the English subjugation of Ireland beginning in the 12th century. Particular policies of the British Crown and subsequent Parliamentary governments set the stage for sectarian violence that emerged in the 1960s.[7] Notable among these were confiscation of lands from Irish owners and the Plantation of Protestant settlers in the old province of Ulster. Large numbers of Protestants from England and Scotland settled in areas that would eventually become Northern Ireland. Through most of the 18th, 19th and 20th centuries, Irish Catholics suffered political and economic discrimination, especially in the Ulster region where, due to the Plantations, Protestants grew to a majority. The union of Ireland to Great Britain in 1800 was favored by this regional majority but violently opposed by Irish Catholics throughout the island. The movement for Home Rule in the late 19th century was so effectively opposed by Protestants in Ulster that it led to partition in the 1920 Government of Ireland Act, which first established Northern Ireland as a distinct political entity.

An autonomous government in Northern Ireland continued policies discriminatory to Irish Catholics living there, which eventually led to an activist civil rights movement in the middle 1960s and subsequent violence against Irish Catholic participants. In response to attacks on Catholics and ensuing riots, Great Britain inserted troops in 1969. Although Irish Catholics cautiously welcomed British troops early on, missteps in their patrolling practices led to violent consequences, and Catholics turned to associate them with the police force of Northern Ireland (the Royal Ulster Constabulary). As both were deeply distrusted by Irish Catholics, the Provisional IRA emerged in the role of Catholics' protector in Northern Ireland. Protestants reacted by establishing their own paramilitary groups, such as the Ulster Defence Association, and escalation of violence led Britain to impose direct rule in 1972. Proposals to reinstitute devolved administration in the 1980s were thwarted by continuing violent conflict. The Belfast Agreement of April 1998 (also known as the Good Friday Accord) re-established devolution, but the Omagh bombing a few months later by the Real IRA and continued intransigence of the IRA over decommissioning led the British government to re-impose direct rule in 2000. Further evolution away from conflict allowed the re-emergence of devolved government in Northern Ireland, but periodic political crises occasionally threaten the fragile stability of the power sharing government.

[†] I am indebted to Neil Jarman of the Institute for Conflict Research in Belfast for correcting my history of the conflict in Northern Ireland.

A Rebel Council in the form of the Provisional IRA resulted from spurned efforts of the civil rights movement. The evolution of corruption and the availability of economic rents are less evident. But some hints of their existence emerge in a cursory look at this conflict, and I deeper investigation may reveal them more fully. First, the Belfast Agreement of 1998 was supported by 96% of Roman Catholics voting in the referendum, suggesting that the repressed community strongly favored a negotiated settlement. Second, the Real IRA's continued violence suggested it no longer acted in the interests of the Repressed Community. Historically, whenever a dominant faction within the Irish republican forces has moved toward reconciliation with the *State*, splinter groups have broken away to continue armed conflict. Third, the Irish American community has provided large amounts of financial support for Irish groups promoting conflict, a feature with precedence in the nineteenth century. The IRA also received massive supplies of military materiel from the Libyan regime of Muammar Gaddafi. Finally, there is evidence that Irish militant organizations engaged in extortion of Irish-owned businesses in Northern Ireland.

<div align="center">Colombia</div>

Colombia has a long history of political violence with roots in the colonial period. The current civil war has more recent origins in class conflict that emerged in the 1960s. Colombia is different from the other case studies in that the Dominant Community is not strongly allied to an external actor. Attempts by lower classes in Colombia to achieve more equitable economic status were resisted by elites, and when demands were pressed more vigorously, the State engaged in repression. Formation of Rebel Councils within the Repressed Community, the Army of National Liberation (ELN) in 1962 and the Armed Forces of the Colombian Revolution (FARC) in 1964, set the stage for violent civil conflict that persists to the present time, although in the past three years substantial deescalation has been achieved. Two additional Rebel Councils developed later, M-19 in 1970 and the People's Army of Liberation (EPL) in 1974. Attempts by the State to achieve reconciliation in the 1980s and 1990s under the Betancur and Pastrana administrations were used by Rebel Councils to strengthen their force capabilities in order to persist with conflict, suggesting motivations that are not aligned with interests of the Repressed Community.

Special complexity in Colombia is presented by the reactionary paramilitary organizations that, while, opposing the Rebel Councils, also engaged in similar kinds of rent seeking. The multiplicity of violent organizations outside the State complicates empirical analysis of this conflict. A substantial source of rent associated with the Colombian conflict derives from production and trafficking of cocaine, but there are other sources, such as kidnapping, extortion, provision of protection and profits from arms trafficking. This conflict is one of the best studied from

both political and economic perspectives, and much data, both qualitative and quantitative, has been collected by previous researchers of this conflict.   (For example, Rangel 2000, Richani, 2002, Guaqueta 2003 and Rubio 2004.)

<center>Chechnya</center>

While roots of conflict in Chechnya extend back to the 16th century, when Astrakhan fell to Russian forces of Ivan IV in the first steps of Russian expansion into the Northern Caucasus, the recent manifestation of violent conflict there has a shorter history than contemporary conflicts in Colombia and Northern Ireland. It may be early to consider the Chechen conflict prolonged, but dim prospects for quick resolution and evident sources of rent associated with this conflict justify including it.

Although militarily defeated by the end of the 19th century, Chechens effectively resisted assimilation and maintained a distinct national identity throughout the Soviet period, including the agonizing mass deportation into Central Asia ordered by Stalin. Allowed to return to their homeland in 1957, this small nationality enjoyed a degree of political autonomy under later Soviet regimes. After dissolution of the Soviet Union in 1991, Chechen leaders declared the Republic of Ichkeria as independent of the Russian Federation. The Yeltsin administration attempted to prevent secession first by political means and then by military force during the Chechen war of 1994–1996, which was extremely destructive of the local economy. A ceasefire negotiated by Aleksander Lebed and Aslan Maskhadov in 1996 allowed Russian military forces to withdraw and the status of Chechnya vis-à-vis the Russian Federation was left unresolved. Three years later Shamil Basayev led Chechen forces on incursions against authorities in the neighboring republics of Ingushetia and Dagestan, inducing the Russian military to renew suppression in Chechnya. This conflict achieved greater prominence due to terrorist tactics employed by Chechens against the Russian Federation.

The Chechen case is distinguished from Colombia and Northern Ireland by the action of the Russian State in an essentially external role. Although in a technical legal sense this is a civil conflict internal to the Russian Federation, in a broader sense it is a conflict between two nationalities. The 1999 incursions led by Basayev, in a situation of relative stability, suggest that this Rebel Council neglected the interests of its Repressed Community in favor of other objectives. Similar to Northern Ireland, one of the main sources of economic rent available in Chechnya is remittances from a diaspora as well as supporters among non-Chechen militant Islamic groups. There are other sources of "conflict" rent as well. Actors in Chechnya are known to engage in lucrative trade in illicit arms

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and drugs, kidnapping is common (as in Colombia), and capability to exert violent force allows extortion and provision of protection for profit.

5. Conclusions

The incredible economic destruction caused by violent civil conflict might be explained as collective irrationality. Yet when such conflicts become prolonged, it is natural to ask why there is no learning. Why does the irrationality persist? How can such conflicts be so resistant to resolution? This paper provides an answer that relies on standard assumptions of economic rationality.

The tragedy of continuing civil war is rooted in a failure of governance that emerges as a result of the evolution of corruption. A critical actor on this stage, the Rebel Council, is able to avoid control by the Repressed Community it represents while enjoying this Community's protection against the military force of a State that would otherwise crush the Council, resolving the conflict. Availability of economic rent tied to the conflict leads to an essential divergence in the payoffs from the strategies available for interacting with the Dominant Community and its State. Although it is rational for the Community to prefer reconciliation, it is also rational for the Rebel Council to choose to fight. While the Council may not have the capacity to prevail militarily, it may well have the capability to perpetuate the conflict. Cursory review of three contemporary conflicts suggests this framework can provide an explanation of the intractability of many civil conflicts.

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Notes

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[1] I assume that the State is constrained from engaging in mass destruction of the Repressed Community, which would expose the Rebel Council to the state's destructive force and end the conflict. This need not be true, and history provides many counter examples. But for the conflicts of interest here, States are somehow constrained from this action. Reasons could include international pressure or the ethical stance of the Dominant Community.

[2] Although income in the Repressed Community comes from many sources, from the perspective of a controlling authority like the Rebel Council it is essentially economic rent. Actions dedicated to seizing it are referred to as rent seeking. This conceptualization differs slightly from that in the early literature on rent seeking (Tullock 1967 & 1993, Buchanan 1980 and Tollison 1982) in that my rent-seeking agents do not avail themselves of the "aegis of the state." Rather they seize economic value more directly with their own force capabilities. In this, rent seeking essentially becomes pursuit of income by any means other than production and free exchange.

[3] Corrupt agents engaged in illicit drug trafficking may be an exception here. To the extent that they are able to avoid detection, agents engaged in drug trafficking may well find their profits enhanced as a result of more effective suppression by the State, which would likely emerge under reconciliation of the basic civil conflict.

[4] My approach to the problem of prolonged civil conflict is what Bates et al. (1998) refer to as *analytic narrative*. Elster (2000) has criticized analytic narrative on a number of points, among them the assumption of rational behavior on the part of a collective of individuals: "…any account that imputes goal-oriented behavior to aggregate entities has to explain why we should expect consistency in their behavior" (p. 693). I argue that individuals, through common experiences, identify with one of the communities and share values and social position with other individuals in their community. This in turn supports similar preferences and perceptions of constraints on collective behavior. Empirically we do find such collectives acting in a goal-oriented manner. Yet the cohesion this underpins varies in resilience and can well break down under stress. The tension that can evolve between a Rebel Council and its Repressed Community is precisely an instance of what Elster warns against. Thus my particular narrative is compatible with his critique. At the same time, I do impute a degree of goal-oriented behavior to both the communities and their representative organizations, the State and the Rebel Council, which are also collectives of individuals. Within these organizations the problem of cohesion is lessened by the presence of institutional structure that provides incentives for compliance with organizational goals.

[5] I intend for p_i to represent the probability that the Repressed Community will win its fight with the Dominant Community. Each Community formulates its own expectations for this event, so $i = R$ and D. Thus the Dominant Community's expectation that <u>it</u> will prevail is $1 - p_D$.

[6] The wealth amassed by Ramzan Kadyrov and his associates in Chechnya are an example of this prospect.

[7] There were also notable periods of violence before this period, but those are outside the scope of my case study.