

JACK HIRSHLEIFER INTERVIEW WITH WEBPONDO

Webpondo: Recently you published a book called *The dark side of the force: Economic foundations of conflict theory*. Could you please explain us a little bit of your view on the economics of conflicts?

Jack Hirshleifer: Here's the way I think of the economics of conflict. Basically, there are two ways of making a living (the problem of making a living faces not only human beings but also animals). One way is by exchange: I provide something you want, you provide something I want, we're both better off. That's very, very nice. But, there's another way of making a living. Instead of giving you something in exchange, I just try to take away from you what you have that I would like. Now, that's practical economics too, and we see it taking place in the animal kingdom and among humans as well. So, we have crime, we have exploitation in various ways. The classical model of course is warfare, though not all warfare is motivated by the desire to achieve material income. Conflict is a very important economic activity, as important as exchange. I won't try to say which is more important, but it is comparable in importance to exchange. And yet, if you look at what the economists have done, this economic activity has had maybe, one tenth of one percent of the attention that has been devoted to exchange. So, as a result, this is a great understudied area. Now, it has been studied by other people..., philosophers, historians, political scientists, and sociologists, and so forth, and, of course, a lot of them have done some good work, but there's room for economic analysis too. Economists can bring our special angle. So what's our special angle? We generally assume that people are trying to maximize utility, or firms maximize income or a nation state maximizes some kind of national welfare; anyway, we have the principle of maximization and rational behavior (well, maybe not always strictly rational, but still that's the main line of thinking). And then finally, that there's some kind of an equilibrium, that the interactions of all these private motivations come together and determine a balance among the activities. So, these concepts are natural to the economists. For historians of course, it would be strange and novel as applied to warfare, but still we can do it and I think there already are a good number of studies that show how it can be done.

W.P: I understand that there has been an introduction of new concepts into the analysis of conflicts. Actually, in one of your papers you say something like, what social scientists have done in order to understand the dark side of human activity looks like the work of a-theoretical aborigines.

J.H: You mean the non-economists, right? The others.

W.P: Yes, I guess that you not only point out the relevance of the contribution of the economists to this problem but also, that there are flaws and weaknesses in what philosophers, psychologists, etc, have done... so, what is their main weakness?

J.H: Well, I wouldn't emphasize, myself, the weaknesses of what they've done. I read an awful lot of military history and some stuff is really quite wonderful. And political scientists recently have absorbed a lot of economics and so they have begun thinking like economists. So, when political scientists talk for example about the balance of power, they are indeed thinking that each nation is trying to maximize some concept of well-being and there's some kind of equilibrium there. So, I wouldn't be really critical particularly, but the economists have a system of thinking that can, advance upon what has been done. I just want to make one clarification first, that the economic view of conflict is not limited to warfare. I argue in some of my papers that litigation and crime, both of which have been studied to a degree by economists, still also represent essentially the same kind of relationship. The general idea is that one person is trying to do something at the other's expense. Of course the game theorists get into this when they talk about zero sum games. Clearly, game theory is one of the major techniques of analysis that we use.

W.P: What do you mean when you say apart from, what I think is pretty obvious in terms of morphology and biochemistry, when you say: human society although unique in many aspects, nevertheless exists within some established balance by nature. What is the implication of that on your view about conflicts?

J.H: Well, there're several implications. First, on one level, our physical and mental make-up are of course the result of evolution, and this evolution involved being able to deal with threats and conflicts. As a matter of fact, there is a school of thought among the biologists that the human brain is itself the result of what's called Machiavellian intelligence. The need to make coalitions to figure out who is an enemy, who is really a friend, and so forth. The need to maneuver in the face of the possibility that a person could be engaged in a conflict with you, is what caused the development of the human brain. So, in large part our ability to reason itself stems from the fact of conflict. And even if you yourself do not plan to take anything from anyone else, and you only want to engage in mutual advantageous exchange transactions, you have to realize that there are some other persons who want to take what you have away without giving anything in exchange. So you have to protect yourself defensively, even if you yourself do not intend to engage in exploitation or privation.

W.P: Does it have any implications in terms of passions and sentiments and the way we usually think of these things as very particular to human beings, as opposed to the way animals act?

J.H: Yes. Actually, that's another aspect of our mentality, our ability to have emotions. And the fact that our emotions sometimes overcome our rational capacities. Now, whether animals have such emotions and so forth is I suppose debatable, but I think they do, as well. But they don't have the power of abstract thinking and so they may not know when they become emotional. But nevertheless I think that the capacity for emotion goes all the way back to lower evolutionary levels.

W.P: In The Bioeconomic causes of war you say that in modern times the direct food and sex motives for warfare have been waned. What are the implications of this qualification for modern conflicts? Does it mean progress for human society?

J.H: The central argument there was that aspects of the human psyche evolved as proximate mechanisms to promote success in the struggle for food and sex. These proximate mechanism included psychic drives for dominance and prestige, the urge to lead and the willingness to follow leaders, and the inclination to bond with comrades (members of your own group) and to hate those regarded as outsiders or strangers. Even

though food and sex no longer play such a role in the decisions of national leaders, all these other factors are still operative. Also, any optimism justified by this waning of the motives for war must be weighted against the terrifying increase in the potential destructiveness of warfare. So on the whole; I am not really optimistic that warfare will fade away.

W.P: You should be a fan of Ed Wilson's work on sociobiology. You like that?

J.H: Yes, I think that's a very important contribution. I must say I'm not so enthusiastic about some of his later work. He's gotten out of sociobiology into environmental advocacy and propaganda. He has also put forward a certain high-flown philosophy about the relations among all the sciences. There's something to be said for it, but it's not really the great contribution that he made when he first developed sociobiology.

W.P: There is in one part, in one of his books, in which he traces down some ethical and moral behaviors of human beings to evolution. And in one particular aspect, I think you also mentioned that in your book at some point which is related. How do you explain philanthropy?

J.H: Real philanthropy you mean.

W.P: I mean, when you are in the middle of the battlefield, and you give your life to save the life of your friends. That shows the nicest side of the human beings and is against this dark side that you stress.

J.H: Well, that's probably the major problem addressed by sociobiology. They call it the problem of altruism. How do we explain altruism, given that evolution is survival of the fittest? If you are giving away resources to someone else or what it is even more extreme, if you're giving away your life to save someone else, how is that consistent with the idea of survival of the fittest? There's a whole range of opinions among sociobiologists about that. There are some partial explanations that everyone agrees with. For example, there's kinship, that is to say a mother will give her life sometimes to save her child, and this of course makes perfect sense under certain circumstances in evolutionary terms. More debatable is the willingness to give your life for your social

group, where they are not necessarily closely related to you. Well, it has been shown that in a variety of circumstances, altruism still could pay off in an evolutionary sense. So, one can give evolutionary explanations for it. On the other hand, some analysts emphasize correctly that our evolutionary origin doesn't fully specify the details of our behavior. The very fact that the human being has a mind has enabled us to, "revolt against our genes". We can, for various mental reasons, pursue activities that are not even in the long run favorable for our genes. True, this particular type of human being might become extinct eventually, but after all, eventually is a long time off. Some types of irrational or faddish behavior are observed even in economic affairs. Similarly in evolutionary affairs, there are some things that appear to be dysfunctional, but that doesn't mean that they're going to be eliminated immediately. So, we have a degree of freedom.

W.P: You mean that altruism could be in a sense a useless from the standpoint of evolution?

J.H: Some type of altruism maybe. Yet these types can be consistent with evolutionary survival, because we do see it even in animals.

W.P: Being more specific, what are the bioeconomic consequences of war that you analyze in you paper? What do you mean by that?

J.H: I already mentioned the Machiavellian intelligence that has to do with the constitution of the human being. And another is the ability to bond with other humans with whom we somehow identify. This bonding clearly promotes military success. So, some of the forms of our association, whether evolutionary or cultural, are formed by military success. For example, there is the willingness to follow a charismatic leader. A charismatic leader is able to trigger self sacrificial behavior, on the part of followers, that lead to military success.

W.P: What are your main contributions to conflict theory?

J.H: I think one of the important contributions has been the idea of a conflict technology or rather, a whole set of technologies (you can do better by sometimes

having a navy or an army or an air force, or attack across the mountains, or across the plains, and so forth). Conflict technology, is analogous to the productive technology that economists usually deal with. That's something I've tried to promote, and I've even proposed some characteristic stylized forms of conflict technology. In production technology we find it useful to think of Cobb-Douglas or the CES production function. And so I have formulated some parallel ideas in the domain of conflict. For example, the degree of success is some function of the ratio of the forces involved or alternatively, where conflict success is a function of the difference between the forces involved. These are interesting polar cases with different implications. And of course there are mixed cases as well.

W.P: How far we are from calibrating these models and coming up with an idea of how costly is one particular conflict against another one and how much is the stake of the price for each part?

J.H: That's not an easy question to answer in generality. I mean, one can look at some particular conflict, say the American Civil War and try to explain why that war was so costly because it might have been settled early on. So, is there anything that we can say other than this was a good General and this was a bad General? One can ask in a more abstract way what caused those conflicts to be of such a large scale. I'd like to see more work along that line and I think is a very, very good area. I have not actually done that myself, but I would hope that as historians become more familiar with this type of literature, they will look at it in that way. I mentioned the American civil war. An excellent article by the economist Gerald Gunderson hypothesized that the American Civil War came about because of incorrect beliefs as to how costly the war was going to be. Each side thought it was going to be victorious on a short war, which made them refuse to compromise. Actually, many historians have said something like this, but Gunderson's actually quantified a structured economic model. So he was able to say how seriously wrong anticipations must have been. He didn't explain why the North and the South went wrong, but he was able to bound the error. Another point of interest here is selection bias. The very fact that you go to war means you probably underestimated the cost. So Gunderson's analysis is an illustration of how economic theory suggests we should think about warfare.

W.P: What is the Paradox of Power? Is there anything economic theory can say about it?

J.H: I can answer this most easily by quoting from one of my papers. In a market economy, there is no clear implication as to whether economic activities will tend to reduce or else to widen initial wealth disparities. When it comes to political or military struggles, in contrast, it might be expected that initially stronger or richer contenders would grow even stronger and richer still. The “Paradox of Power” is the observation that very often the reverse occurs: poor or weaker contestants defeat large ones. Or consider income redistribution. Although citizens in the upper half of the income spectrum surely have more political strength than those in the lower half, modern governments have systematically been transferring income from the former (strong) to the latter (weaker) group. The economic explanation is that the initially weaker or poorer contenders are typically motivated to fight harder, that is, to devote relatively more effort to appropriative (conflictual) effort. Put another way, the marginal payoff of appropriative effort relative to productive effort is typically greater at low levels of income. Although the rich may have capability of exploiting the poor, it might not pay them to do so. On the other hand, sometimes the stronger do succeed in extorting even more resources from the lower classes. So the question is, when does and when does not the Paradox of Power hold? The governing factor is the decisiveness of conflictual effort. When decisiveness is low, the rich are content to concentrate upon producing a large social pie of income (even though the poor will be gaining a bigger share). But when conflictual preponderance makes a sufficiently weighty difference at the extreme, when the battle is “winner take all” – the rich cannot afford the poor win the contest.

W.P: In one of your papers you say that under a particular set of assumptions, the poor side tends to specialize in conflict and the rich side in production. Though obvious for some activities like rape, robbery, assaults, etc. it seems to imply that poverty is the source of some conflicts. Do you think the real world supports that view? Take for example the case of the guerrillas in Latin America. Do you think this is a good example of that? What about the rebels in Colombia?

J.H: Well, I hesitate here to speak about this specific case or even a range of cases because; there are so many special complications. For example, they’re probably not

two-sided games, but have many different parties involved in the conflict. One illuminating actual case was Imperial China, where on the periphery they had nomads who engaged largely in banditry. Of course the Chinese Empire was always stronger than the nomads, but it didn't pay the Chinese to make the effort to go out and kill off the nomads. Instead they let them engage in a certain amount of banditry; they occasionally would buy them off and so forth. This illustrates how, a relatively weak party is able to prey on a stronger party, simply because it does not pay the stronger party to devote the effort necessary to stop it. However, whenever it does become essential to stop these intrusions, then, of course, you will have serious fighting. But, as long as banditry remains on a tolerable scale, this could be an equilibrium situation. It's not the only possible equilibrium, but it could be equilibrium.

W.P: Changing a little bit of topic, what do you think about America's war against drugs?

J.H: I was hoping you were not going to ask that, because I don't have any good answer. I'm going to have to pass on that one.

W.P: What about legalizing drugs?

J.H: I think that's basically the same question. Milton Friedman is in favor to some degree of legalization, isn't he? Well, this seems to make sense, but I'm not quite sure.

W.P: So, you see a lot of big social costs of legalizing drugs? Or how do you think it's too different from the problem with alcohol at the beginning of past century? Why is it so different?

J.H: Well, you're pressing me into an area where I don't feel I have anything of special value to offer, where I could say something that wouldn't be already familiar to your readers.

W.P: Fine. I don't know if this is a sensitive point for you or for Americans in general, but is there anything you would like to say regarding the recent terrorist attacks to the U.S.? How do you interpret that from your perspective?

J.H: Yes, that is quite interesting. I have a recent paper on appeasement in the American Economic Review . Sometimes we hear or we read in history that it never pays to appease an aggressor. Before World War II, at Munich, British Prime Minister Neville Chamberlain was trying to appease Hitler to say, “oh, I will give you this, I will give you that, then you’ll be satisfied, we hope, and we will not have a war”. Whereas, Winston Churchill, said, “no, no, it will not work”, and of course Churchill was absolutely right. Now the question is how general is that? Is it always true that you should never appease someone who is hostile to you? Or might it be the case that sometimes appeasing might make sense? This paper in the American Economic Review says, yes, there are circumstances where it might make sense. Nevertheless even though there are circumstances in which appeasement might make sense, they did not apply to Hitler. So Churchill was right, but that doesn’t mean that it’s absolutely always right, never, never to appease. Here is the key idea. Assume the other party is hostile. Even so, it might pay to appease him if, by making him richer, he becomes less hostile. The point is that as he gets wealthier, he will devote less effort to attacking you, then it might pay to buy him off. But, if, when he gets wealthier, he will devote more effort to attacking you, then it goes the other way. So, in the case of Hitler, Chamberlain thought: well, he’s really not a very nice man, but it could be that if we make him more powerful or wealthier, then he’ll realize that it makes sense not to go to war. Whereas Churchill thought that would be giving him the resources with which to buy weapons and attack us more. In my opinion that’s the situation here also. Let’s say we’re talking now about anti-American extremists or Islamic extremists, are they people who can be bought off? My own belief: no, they can’t. I don’t think this is a case where appeasement pays. Appeasement can sometimes pay, but I’d say no, not in this case. I don’t think these are people who can be bought off. So, going easy on them, giving them more resources, in my opinion, is not going to work.

W.P: Broadly speaking, you are more of a micro theorist than a macroeconomist, very popular people in developing countries. For that reason, it would be interesting to hear from you, why do you think North America came to be what it is in terms of economic development, and why Latin America is what it is?

That is quite a wonderful question. Although not a specialist in this area, I have been reading a few papers. Some believe it is the Anglo American tradition. Or is it something about the availability of national resources, or perhaps only accident of history? I don't really claim to have any answer. Professor Harberger, is the great expert on this. I would just say that I am intrigued by geographical explanations as opposed to the cultural explanation. I really think the cultural explanation is the basic thing. But still, geographical explanations are true to a degree. I mean, we understand why the African jungles are not industrially developed; it's just too difficult for human beings to live and work effectively there. So, clearly to a degree, geographical factors play a role, but I think it is primarily cultural.

W.P: Thank you very much Professor Hirshleifer.