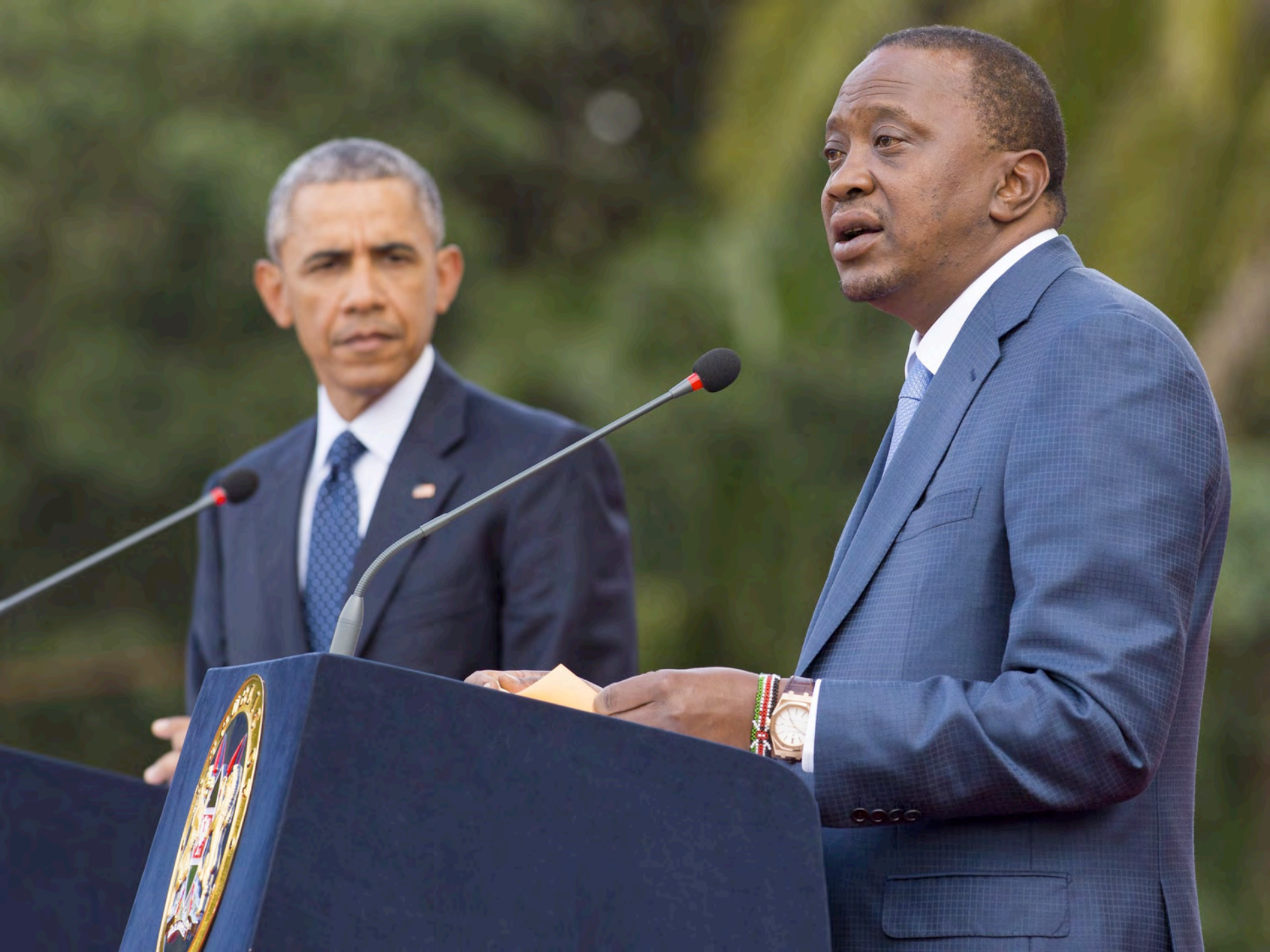


# Order & Violence (Political Economy of Development)



Week 1: Introduction & The Demand for Order  
Chris Blattman





# Many smart people are genuinely puzzled by these cases

- Why do countries with so much potential seem to stay poor, unequal, and violent?
- Why have their leaders not implementing better policies?
- Actually, why do so many leaders seem to do the opposite?
- Why do so many interventions—aid, trade, peacekeeping, regime change, democratization—look good on paper but go awry?
- What (if anything) can domestic reformers or people from other countries do about it?
- What can you do about it?

# The idea behind this course

These situations are less puzzling once we understand:

- How groups compete for power in a society
- When and why this competition turns violent
- How states provide order
- Why order is so often “corrupt”
- When these orders become more free and equal
- How interventions and reforms interact with these conditions

Most of you instinctively know how complicated it all is when you analyze your own country



But if you send me to Lesothu, not only do I not know these politics, but I forget to ask



Cows will teach us an awful lot about politics in  
this class





# “The anti-politics machine”

- Solving poverty and implementing programs is as technical problem, not a social and political problem
- Development projects are apolitical machines that exist to provide social services
- Cliques, factions, inefficiencies, and corruption are seen as impediments rather than strategic reactions to the environment
- Partisan and interested aid interventions are disguised as impartial and disinterested



This course is about politics and  
political development

The goal is to avoid any of you  
becoming anti-politics machines

# Economic development is (relatively) easy to quantify

## Total income produced per km<sup>2</sup>, 1995

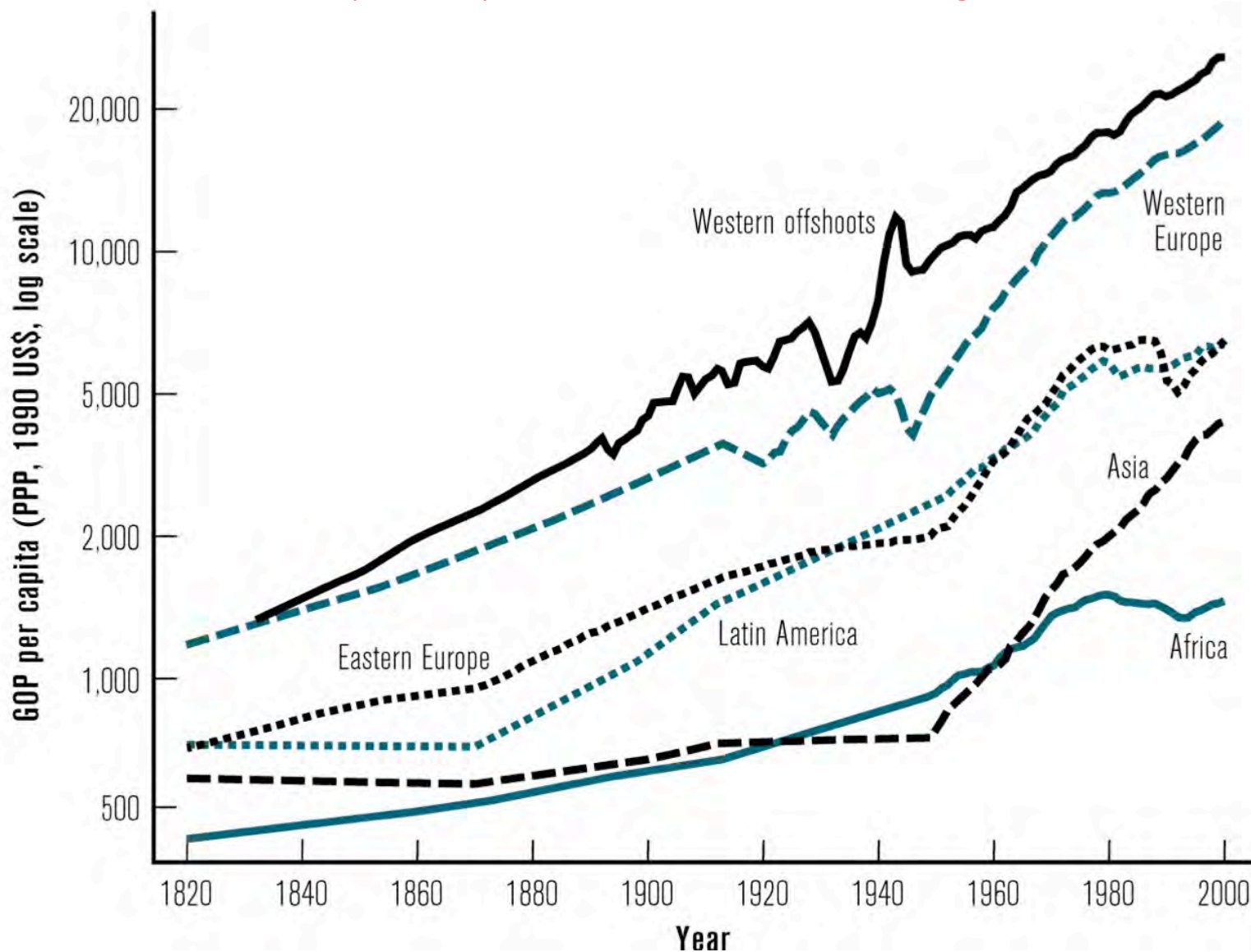


Basically, we are talking about industrialization



# What most development courses try to explain

Income per capita (PPP, 1990 US\$, log scale)



Ends versus means:  
Production and GDP are not an end in themselves

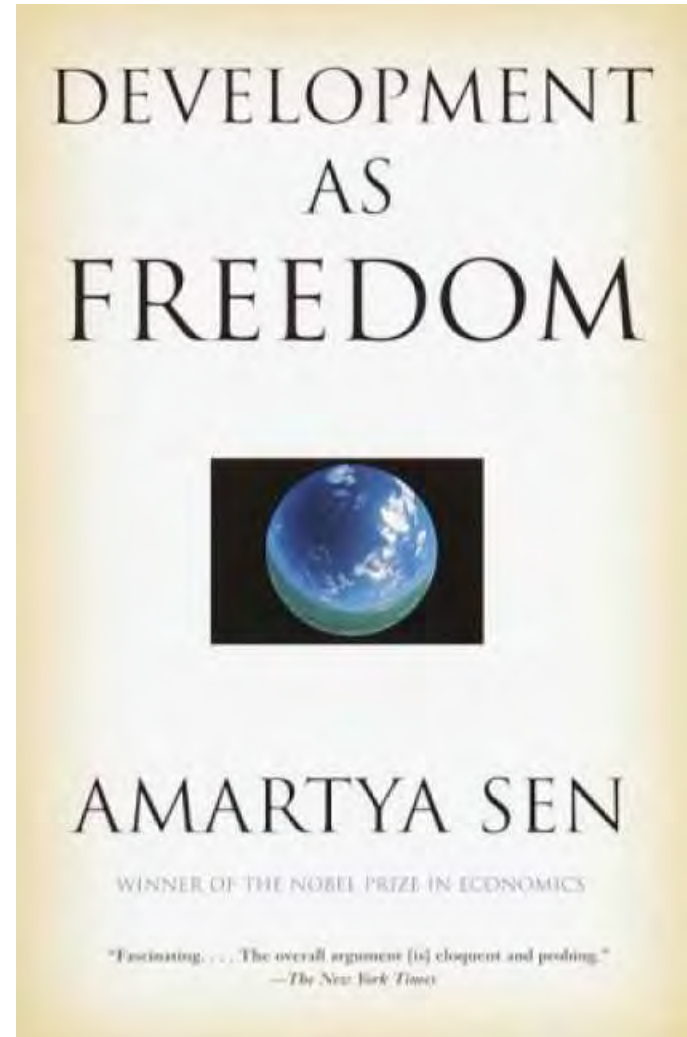
“ *The life of money-making is one undertaken under compulsion, and wealth is evidently not the good we are seeking; for it is merely useful and for the sake of something else.*

– Aristotle, *Nicomachean Ethics*



# Amartya Sen's "capabilities approach"

- The central aspect of well-being is functioning: the freedom of choice and control over one's life
  - Freedom from hunger, from disease, from early death, from violence, from oppression...



# Political development as freedom from violence, oppression, injustice, uncertainty

## Define as outcomes...

- Order
  - Protection from violence
  - Access to justice
- Equality
  - Mass participation
  - Preferences aggregated and represented
  - Rule of law
- Ability to shape society
- Complex, adaptable, coherent, shared rules

## ...or in terms of structures

- States
  - Monopoly of legitimate violence
- Bureaucratic organizations and public administration
  - e.g. formal legal system
- Constraining “institutions”
  - Constitutions
  - Democracy
  - Informal norms and traditions



# Most of the economics you have learned has assumed that order exists

- Property rights and contract enforcement exist
- Actors can trade and exchange peacefully
- States are coherent unitary actors who can implement policies
- States are constrained by formal and informal rules
  - E.g. Constitutions, social norms
- Markets may be imperfect, perhaps because different actors have different information, but markets mainly function

How did these things come about?

What happens when they don't exist?

Weeks 1–5: Understanding how these outcomes and structures evolved historically

Weeks 6–10 : Understanding what reforms and interventions can do today

1. How and why order emerges out of anarchy
2. Why is there violence and war?
3. The origins and nature of states
4. When do states become more equal and participatory?
5. How does civil society foster and protect freedoms?
6. Adding it all up: Understanding today's weak states
7. Can armed interventions create order?
8. How to peacefully promote order and good government?
9. What about fostering democracy?
10. How not to be an anti-politics machine

Announcements and latest  
syllabus or updates will be on  
Chalk site

## Required readings

- Roughly 4 chapters or papers a week
- Yes, really, these 4 really are required
- I will discuss some of the recommended readings in the lecture
- All links on the syllabus
- Let me know if one is broken

# Midterm assignment and exam

- Designed to reward reading along the way
- I will give you  $X$  essay questions in advance
- I will give you  $Y < X$  questions to answer on the midterm/final
- All lecture material and required readings are testable
- You should work independently, as original insights will be rewarded
- The midterm will be a take home assignment, and you will be allowed to bring your laptop for the final

Teaching assistants & sections

# Wikipedia-based assignments

- You're going to integrate more social science into Wikipedia
- Each of you will be responsible for choosing a handful of articles and ideas from the readings to incorporate into Wikipedia articles
- We're going to teach you what you need to know, starting next week
- What you need to do BY MONDAY
  - Follow the link to the Wikipedia course page I sent you (or see on Chalk site)
  - Join course with signup code, register with Wikipedia and complete training before class begins April 3.
  - This is (a small part of) your grade

This week:  
The emergence of order



# Week 1 objectives

- Why is order valuable?
  - Protect people from violence
  - Lower transaction costs and risk, promoting specialization and trade
- How have societies produced order?
  - Cooperation, states, and bandits
- Early states as organized crime
  - States provide protection and governance in return for tax and tribute
  - Have often been coercive, and emerged through conquest
- Why is it difficult for people to cooperate without states and coercion?
  - Need to solve commitment problems and overcome information asymmetries
  - These are the conditions that produce violence

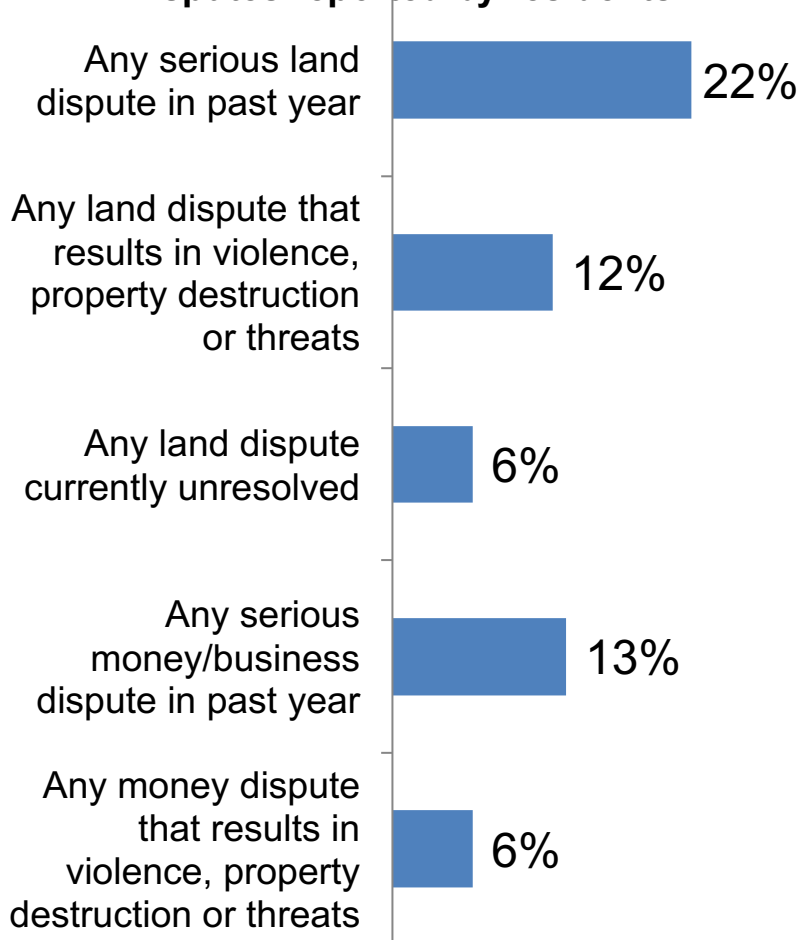
# Example 1: Property disputes in rural Liberia



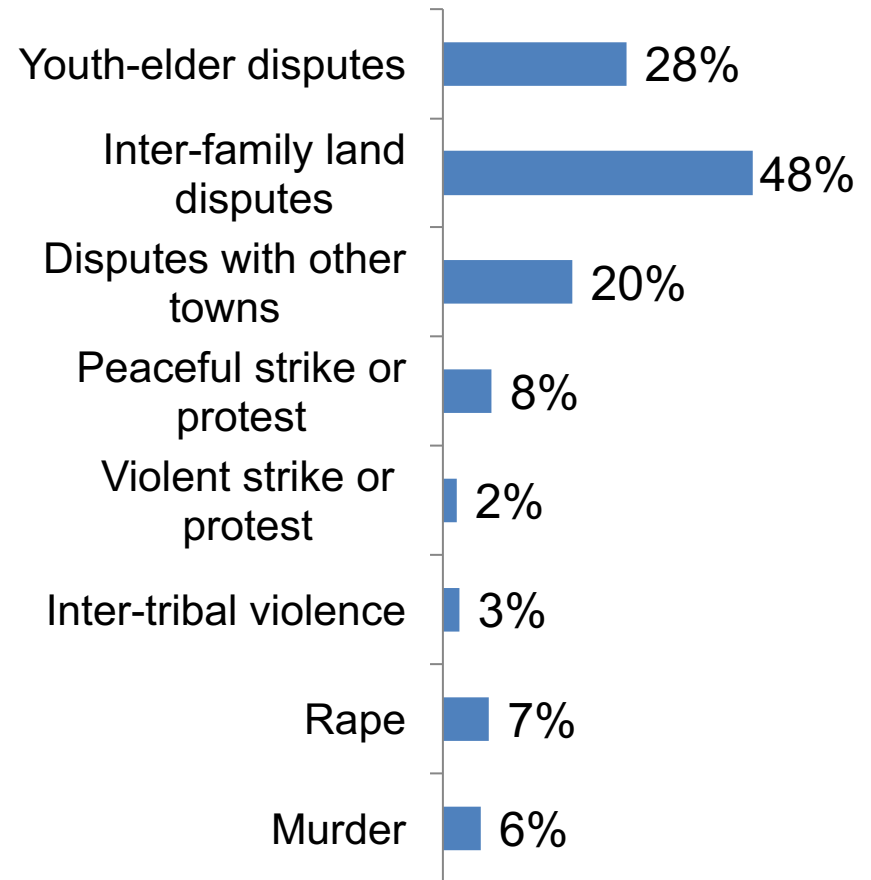
# Everyday disputes

A 2010 survey of 250 towns and villages

**Disputes reported by residents**



**Disputes reported by town leaders**



Resolutions are slow and sometimes violent because the systems for resolving disputes are imperfect



# What can make disputes hard to solve?

Asymmetric information, commitment problems, indivisibility



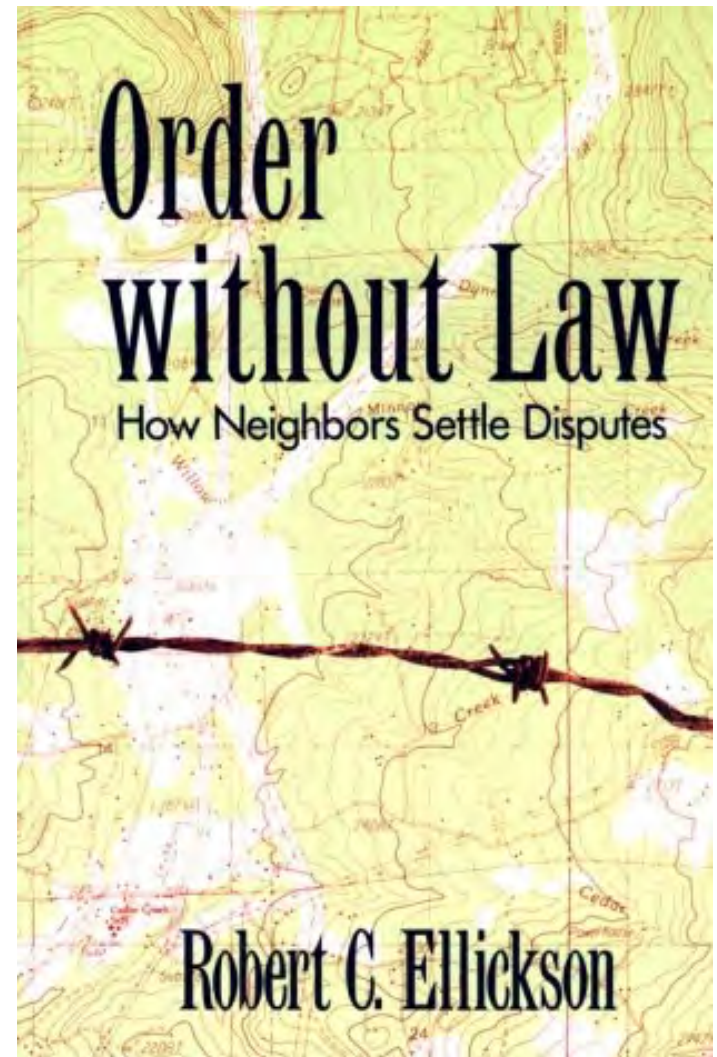
# Example 2: Dispute resolution in California

## The case of loose cattle damaging crops



# Locals largely resolve these disputes via informal rules (social norms) that develop without the aid of a state

- It can be costly to learn the law and enforce rights through formal court systems
- Transaction costs from dispute resolution are lower if informal, common sense norms can be followed and enforced through the threat of sanctions
- Here, if a cow damages crops, ranchers are expected to be good neighbors and compensate the farmer
  - Cheaper than building fences
- Part of a large libertarian tradition of “law and order without legislation”



## Example 3: A very different outcome in Sicily's black market for cattle

No state to enforce contracts

There's also little trust: buyers can't trust the quality of the seller's cow, and sellers can't trust buyers to pay

A local big man steps in to provide information to each side and guarantee the sale

The big man may also enforces contracts with the threat of violence

He is a brokers of trust between buyers and sellers





# The mafia steps in where the state and society do not

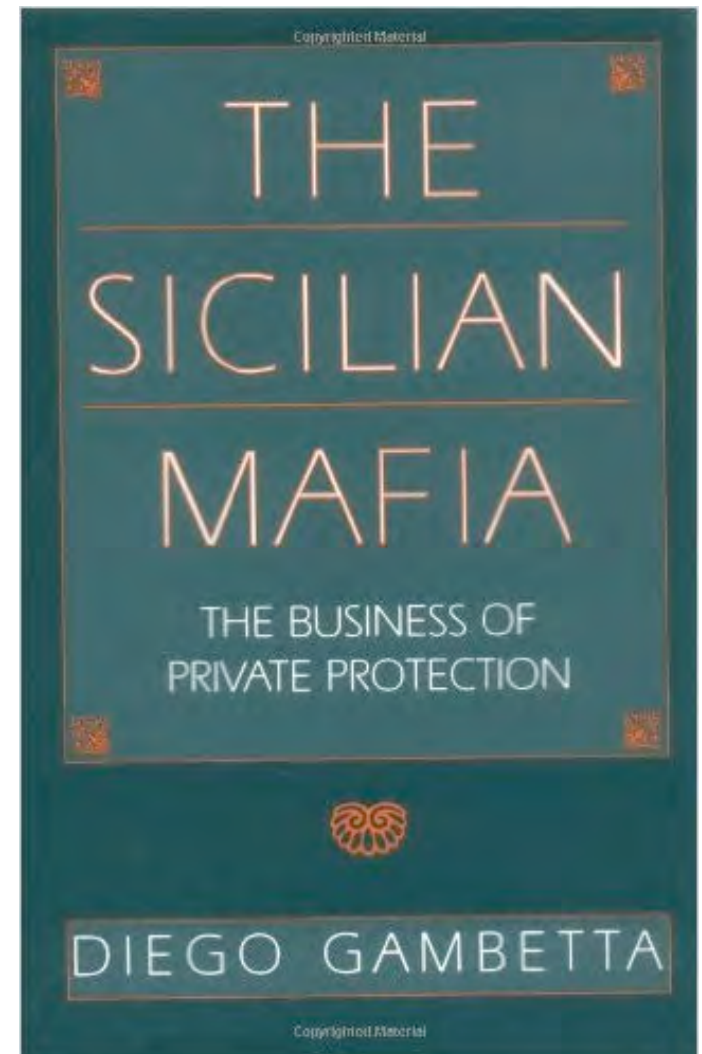
A local big man steps in to provide information to each side and guarantee the sale

The big man may also enforces contracts with the threat of violence

He is a brokers of trust between buyers and sellers

He produces, promotes, and sells private protection

This is a lubricant to the market, reducing the cost of transactions



# Example 4: Gangs of Medellin



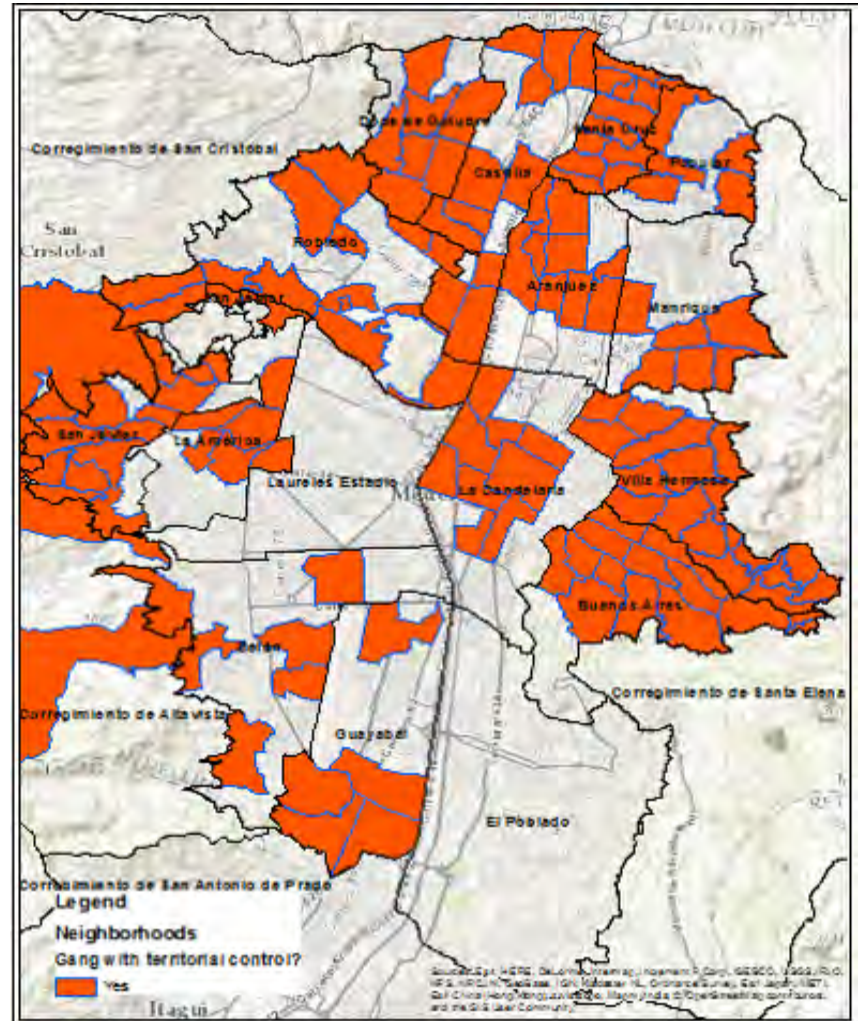
# From 200–400 local youth gangs city-wide

- 30-60 men aged 11-35
- Little states-within-a-state
  - Settle disputes between households
  - Regulate markets
  - Prevent some forms of insecurity (outside theft)
  - Collect “taxes” through extortion
- Began in lower income neighborhoods, among displaced, when state did not provide services



# Third parties like gangs and governments do more than just sell protection

- Coordinate public goods, like external defense
- Broker trust by defining and enforcing property rights and contracts
- Adjudicate disputes and reduce the cost and risks of transactions
- Stop people from taking harmful actions towards others (externalities)
- Reduce or regulate sexual violence
- Provide employment through regulated markets



# Example 5: The “Dark Web”



In an anonymous market, trust is even harder to maintain than a rural town. If buyers are hesitant enough, sellers will have no-one to sell to, and the market will fall apart.

The screenshot shows the Silk Road anonymous market website. At the top left is the Silk Road logo with a camel and the text "Silk Road anonymous market". To the right of the logo, it says "messages 1 | orders 0 | account \$0.00". Further right, there is a search bar with a "Go" button and a user greeting "Hi, [redacted] logout" next to a shopping cart icon with "0" items. Below the search bar is a "Shop by Category" sidebar with a list of categories and their item counts: Drugs (4,093), Cannabis (999), Dissociatives (78), Ecstasy (314), Opioids (354), Other (153), Precursors (18), Prescription (903), Psychedelics (586), Stimulants (390), Apparel (82), Art (5), Books (768), Collectibles (15), Computer equipment (42), Custom Orders (27), Digital goods (369), Drug paraphernalia (153), Electronics (35), Erotica (296), Fireworks (5), Food (4), Forgeries (55), Hardware (1), Herbs & Supplements (11), Home & Garden (6), and Jewelry (57). The main content area displays a grid of product listings. Each listing includes an image, a description, and a price. The listings are: 1. "5G Cocaine Pure Cristal Flakes" for \$41.94. 2. "[28.0G] High Quality Crystal Meth" for \$188.72. 3. ">>SPECIAL OFFER " BRAND SUBOXONE" for \$0.91. 4. "alprazolam [Xanax] 100 x 1mg" for \$11.31. 5. "Cocaine of high quality over 80% purity 25 gram" for \$190.12. 6. "\*Ethyphenidate\* -2,5g- of the best racemic HCl qit" for \$6.18. 7. "Colombian Cocaine Lady's and Gentleman 10G" for \$67.32. 8. "0.5g #3 Brown Heroin , good quality!" for \$7.52. 9. "SESAMPINO @ SILKROAD 25-02-2012". 10. "10 packs of [product] shipped worldwide". 11. "MAGIC STARS". 12. "BROPHETOPAM". On the right side of the main content area, there is a "News" section with a list of articles: "Closing the Armory", "A brand new look for Silk Road!", "The gift that keeps on giving", "Who's your favorite?", and "Acknowledging Heroes".

# As in rural Sicily, a well functioning market needs intermediaries and guarantees

“ I have been scammed more than twice now by assholes who say they're legit when I say I want to purchase stolen credit cards. I want to do tons of business but I DO NOT want to be scammed. I wish there were people who were honest crooks. If anyone could help me out that would be awesome! I just want to buy one at first so I know the seller is legit and honest.

—Anonymous commenter on dark Internet market

- Can provide information
- Can guarantee a contract
- Can enforce contracts if need be

Libertarian activist and businessman: Ross Ulbricht of Texas, a.k.a. the “Dread Pirate Roberts”: Sets out to build a market free from the thieving and murderous state





## To keep Silk Road from unraveling, Ulbricht develops centralized market management, defense, adjudication and punishment

- Introduced automated rating system and payment in escrow to establish credibility
- Began policing the system, banning untrustworthy buyers and sellers
- Paid hundreds of thousands of dollars to stave off denial-of-service attacks that threatened to cripple his website
- Eventually, turned to violence. One seller, FriendlyChemist, threatened to leak the names of all its customers, threatening credibility of Silk Road
  - “He paid \$150,000 to someone whom he believed to be senior member of the Hells Angels to arrange for the murder of his blackmailer, later paying another \$500,000 to have associates of FriendlyChemist murdered too.”

# Free markets and free association can be costly to coordinate and transact

- Communities and markets can operate more effectively if they somehow can:
  - Define and enforce property rights and contracts
  - Adjudicate disputes
  - Prevent people from taking actions that harm others (negative externalities)
  - Manage communal resources
  - Cooperate on systems of measurement and exchange
  - Minimize the use of force

# Different structures can produce order and reduce the costs of coordinating and transacting

- Societies can evolve informal ways of cooperation, e.g.
  - Norms of dispute resolution and informal justice
  - Market associations
- In other cases, order is provided by a stable and effective states
- Often times, warlords and mafioso supply protection where states and societies do not
  - In markets for illegal goods
  - In black markets that evade taxes or regulation
  - In spaces distant from government reach
  - In cases where government institutions are too slow, ineffective, or corrupt

# But being preyed upon by many mafiosos and warlords is almost always inefficient

- Mafias can make markets more efficient than anarchy
  - Make money by providing information, guaranteeing transactions, threatening cheaters
- But many sources of inefficiency
  - Threaten and extort
  - Incentives to cultivate an atmosphere of paranoia in order to ensure demand for their services
  - May eliminate traditional sources of trust and enforcement, formal and informal
- The citizenry are a common pool resource and hence violence is overproduced

# The common pool resource problem

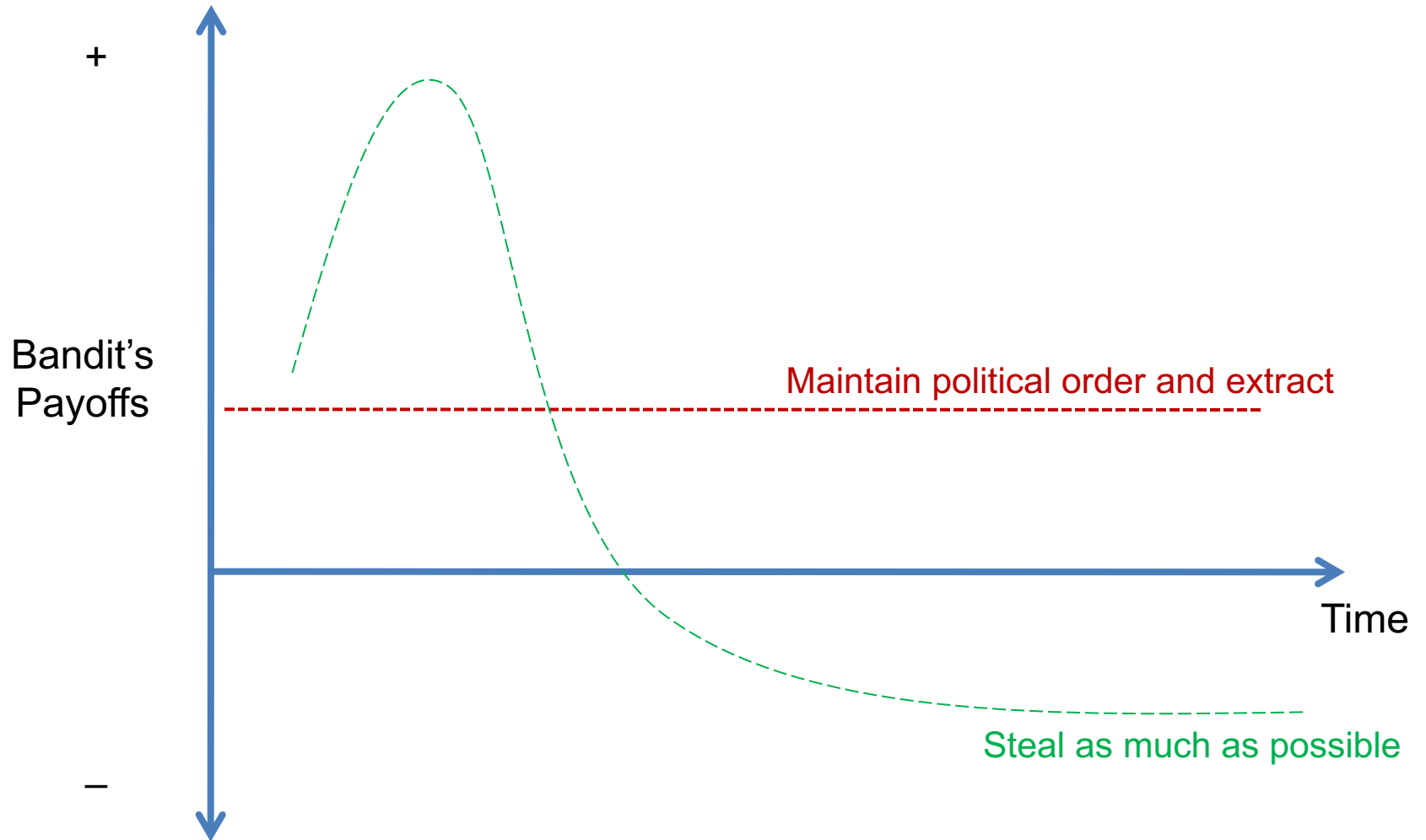


One possible solution:  
Why not pick just one mafioso  
or warlord to rule you?

# Mancur Olson: The stationary bandit is one solution to the common resource problem

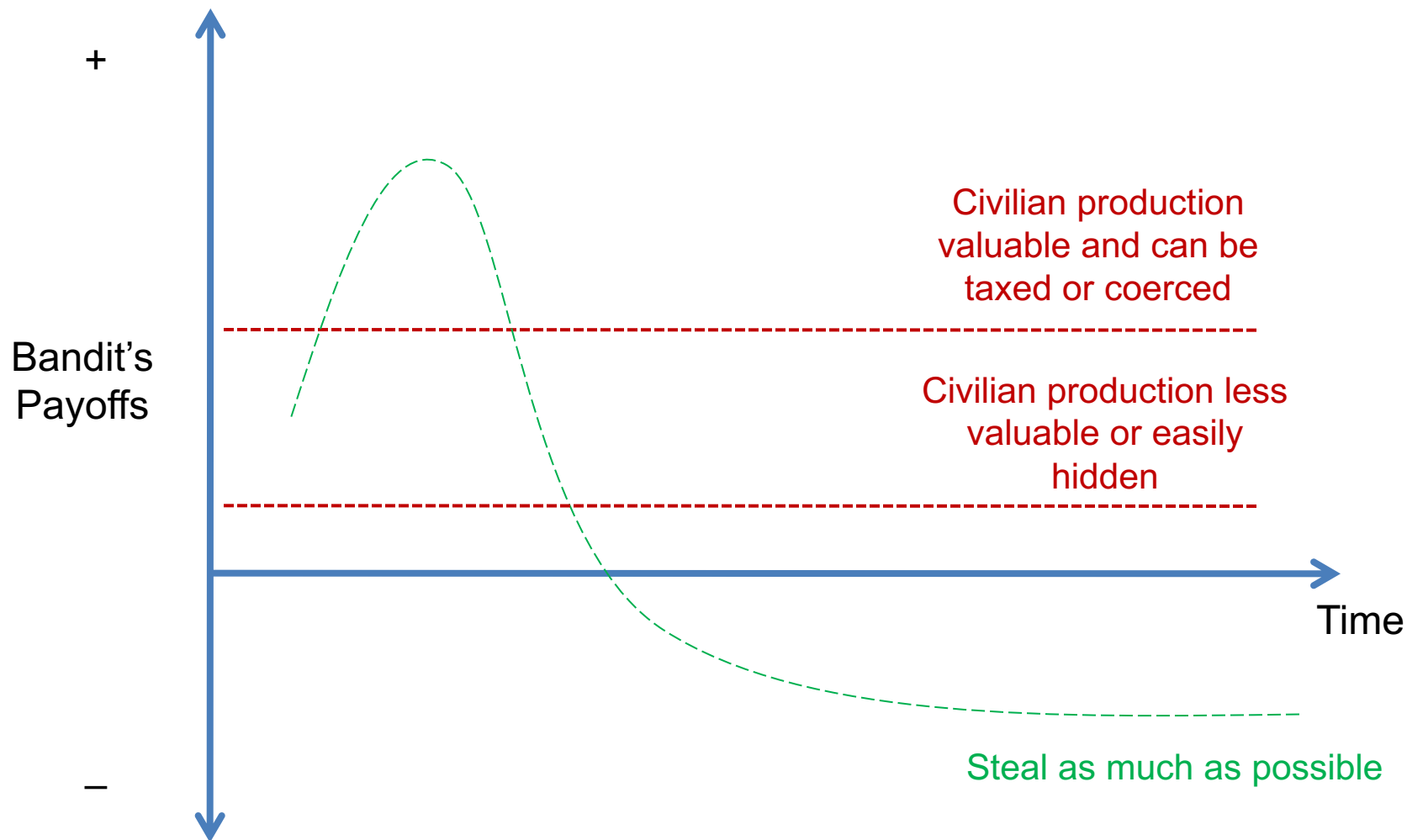
- In small groups voluntary agreement can produce order, but this becomes harder to do in larger groups
  - People can free ride, and as group gets larger this becomes harder to control
  - e.g. transition from small hunter-gatherer bands to more settled, denser agricultural societies
- Larger societies attract roving bandits (mafiosos, warlords)
- These societies will prefer a stationary bandit, continuously stealing a little from them
  - Rational self-interest
  - If the stationary bandit takes too much, people will reduce what they produce
- Thus the bandit has an incentive to take just enough that the marginal dollar taxed does not decrease production enough to lower total revenues

# A simple model of stationary vs. roving bandits





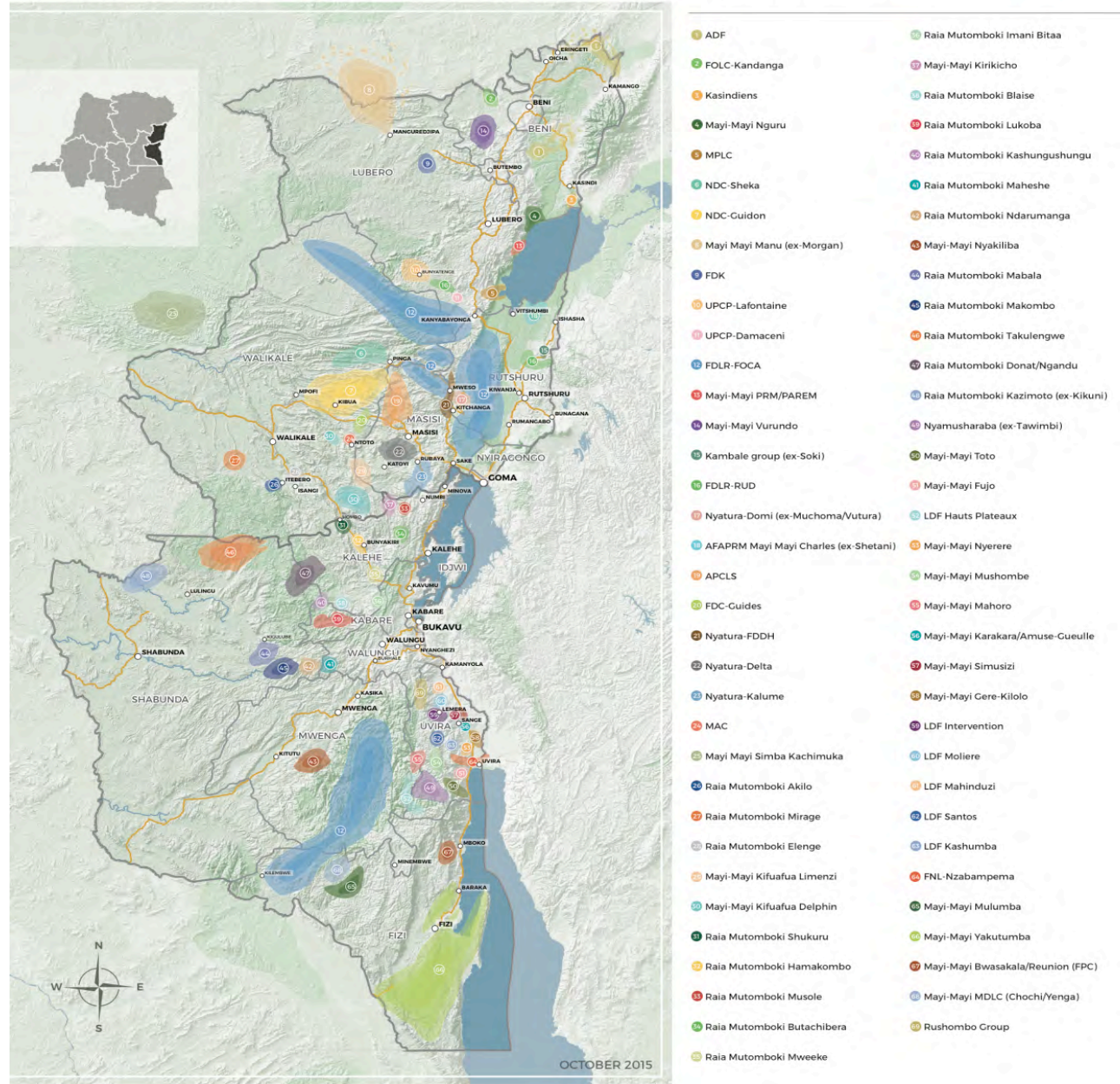
# Why do mafiosos in Sicily, Medellin, and the Dark Web choose to provide order?



When do we get roving  
bandits versus stationary  
bandits?

# Example 6: Eastern Congo

- Failed state
- Multiple warring armed groups
- Modern instance of roving bandits?

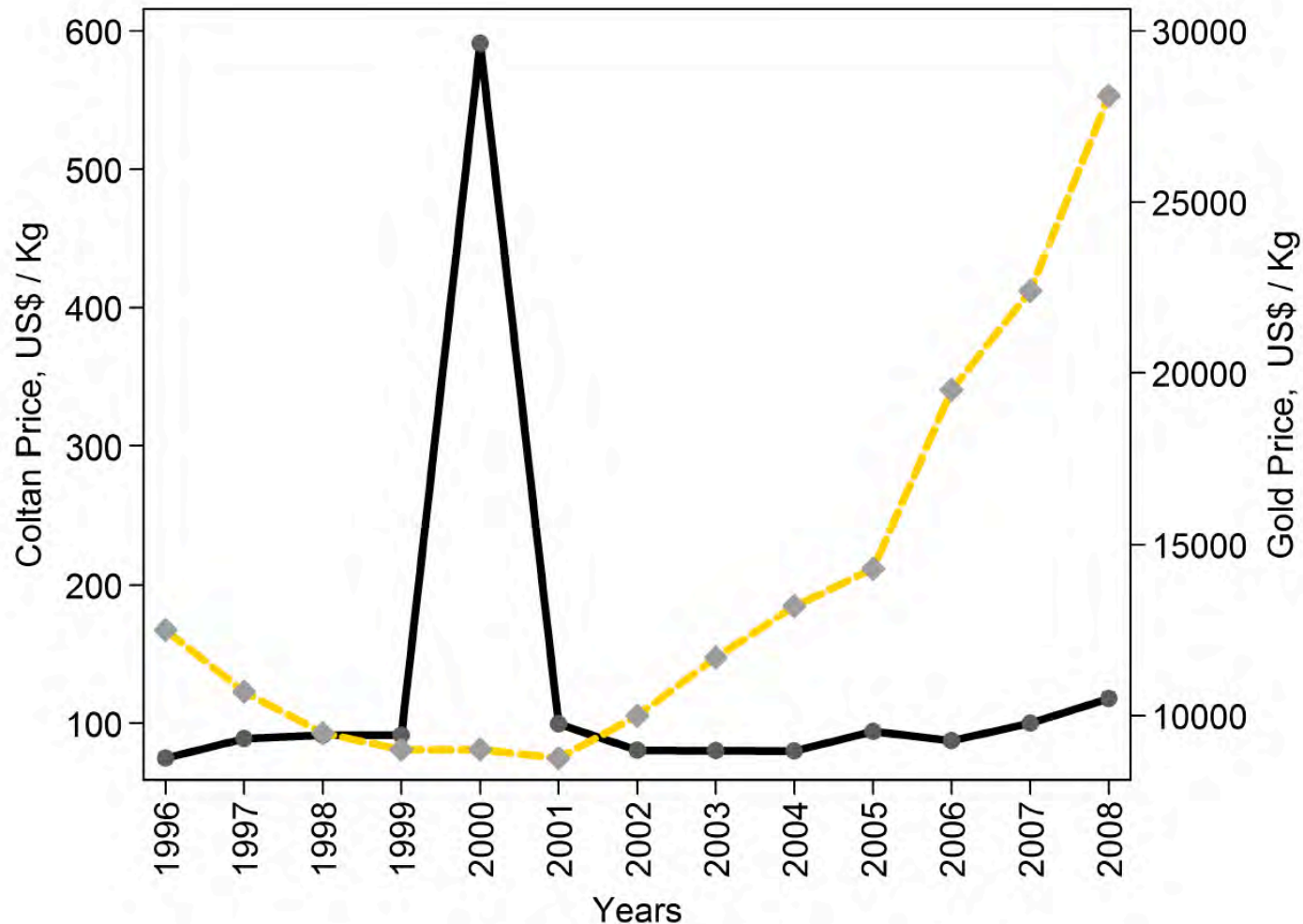


An essay explaining key trends in armed mobilization and our methodology can be found at [www.congoresearchgroup.org](http://www.congoresearchgroup.org) and [www.christophvogel.net](http://www.christophvogel.net)

# Roving bandits: Armed groups rob and flee isolated villages



# Raul Sanchez de la Sierra: Two commodity price shocks. How do armed groups respond?



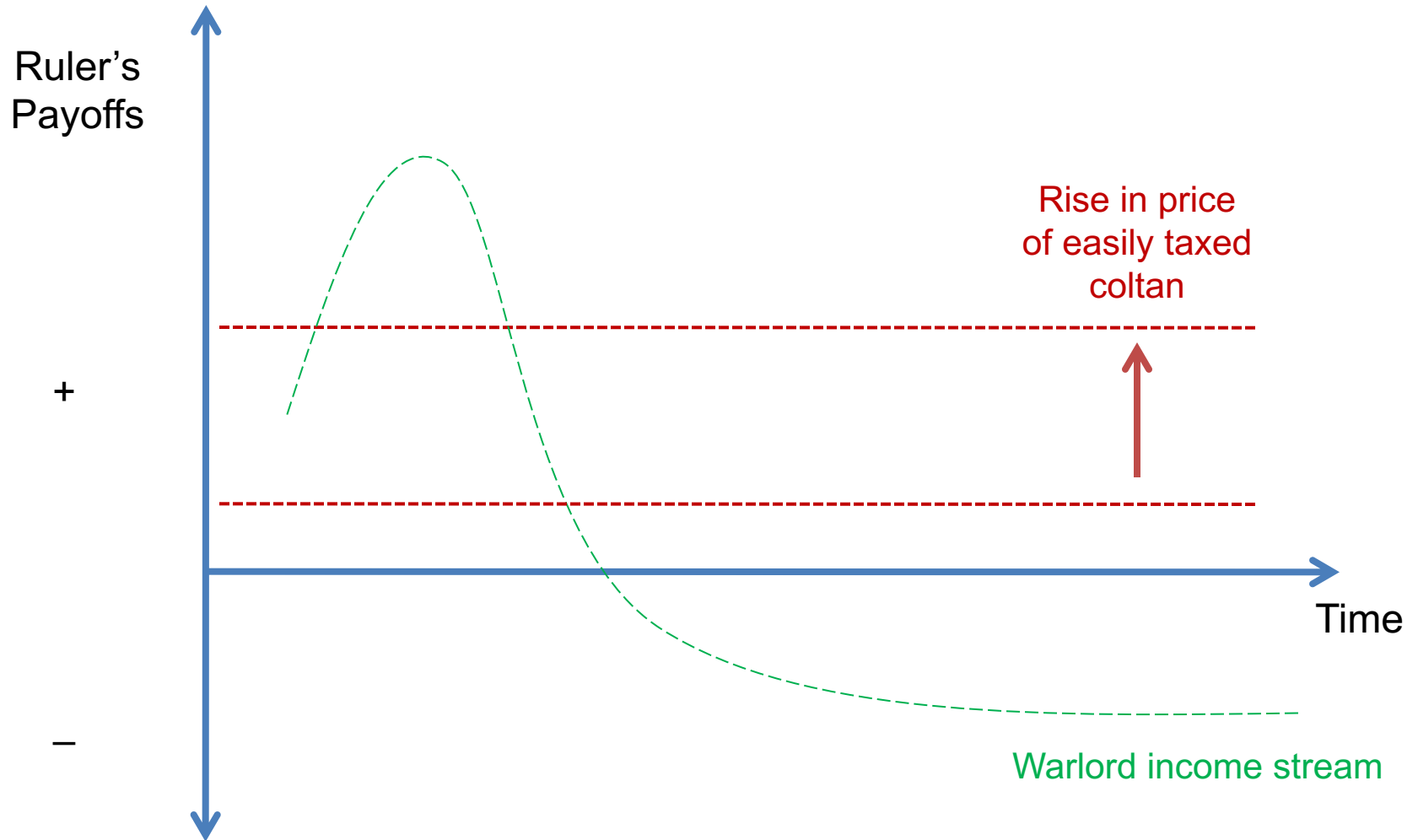
Coltan is very bulky, production is easily tracked



# Gold not so much



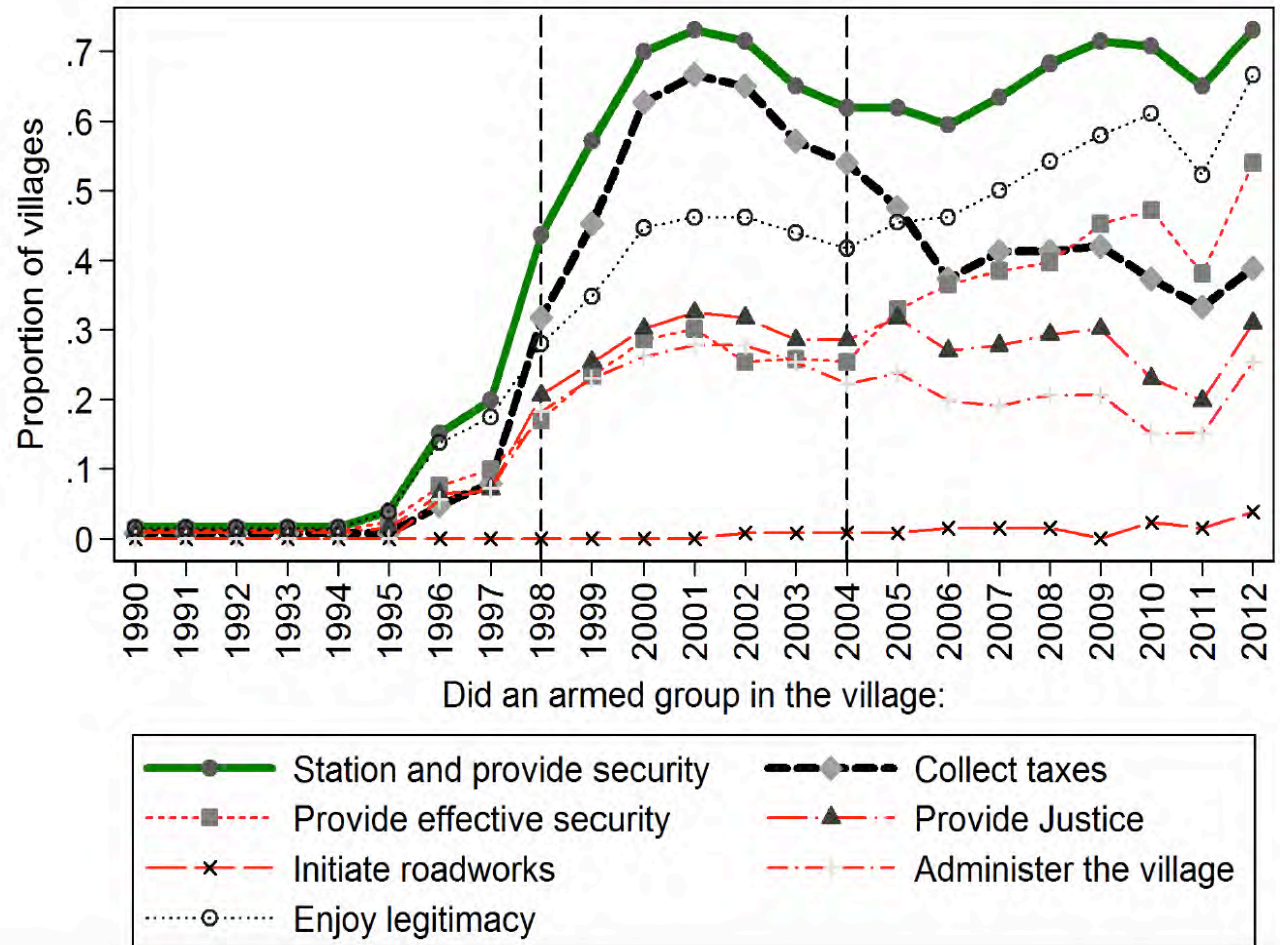
# Incentives to become stationary bandits





# Coltan, not gold, leads to an increase in conquest of territory, taxation, and services

- Armed groups begin providing basic services: justice, security, roads
- Effects are largest closer to airports, where mineral trade costs are lowest
- Attempts to tax gold lead to more violence, disliked administration
- Unclear to what extent there is a “social contract”



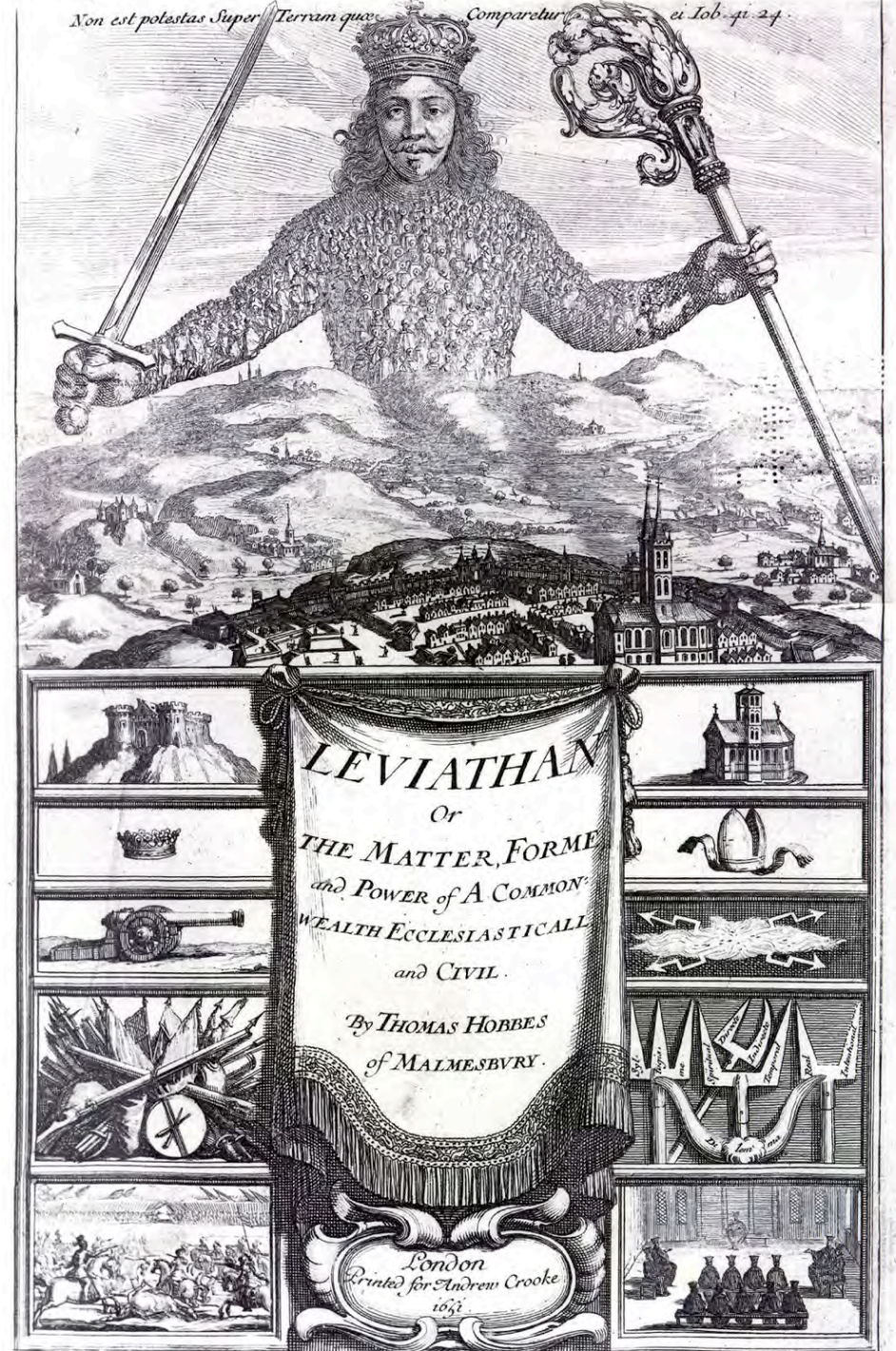
# These have been stories of stationary bandits through conquest and competition

1. Start with anarchic situations
  - Liberia and the trouble of resolving disputes
  - The Dark Web and the Silk Road
2. Mafiosos and other warlords emerge as brokers of trust and contract enforcers
  - Sicilian and Medellin gangsters
  - The Silk Road's Dredd Pirate Roberts
3. They compete with other bandits and “overfish” citizens
4. Sometimes they manage to eliminate rivals and create a “monopoly of violence”
  - This can be better than the roving bandit situation for all
  - Some conditions promote this more than others

Is a warlord or mafioso  
different than a state?

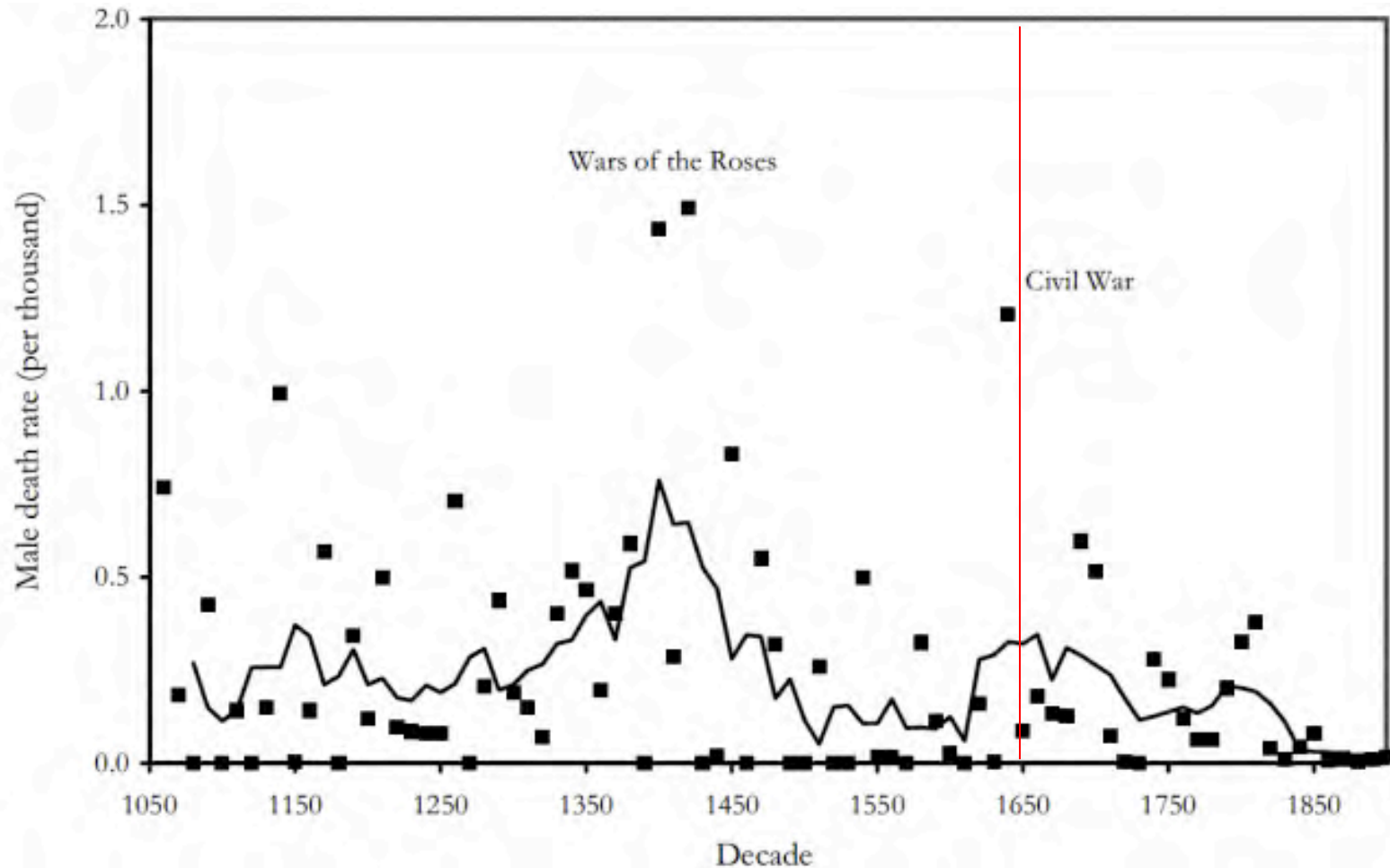
# Leviathan

Hobbes: Early  
states as stationary  
bandits



# Published at the end of a 9-year English Civil War

## Death rates from military conflicts in England, 1170s-1900s

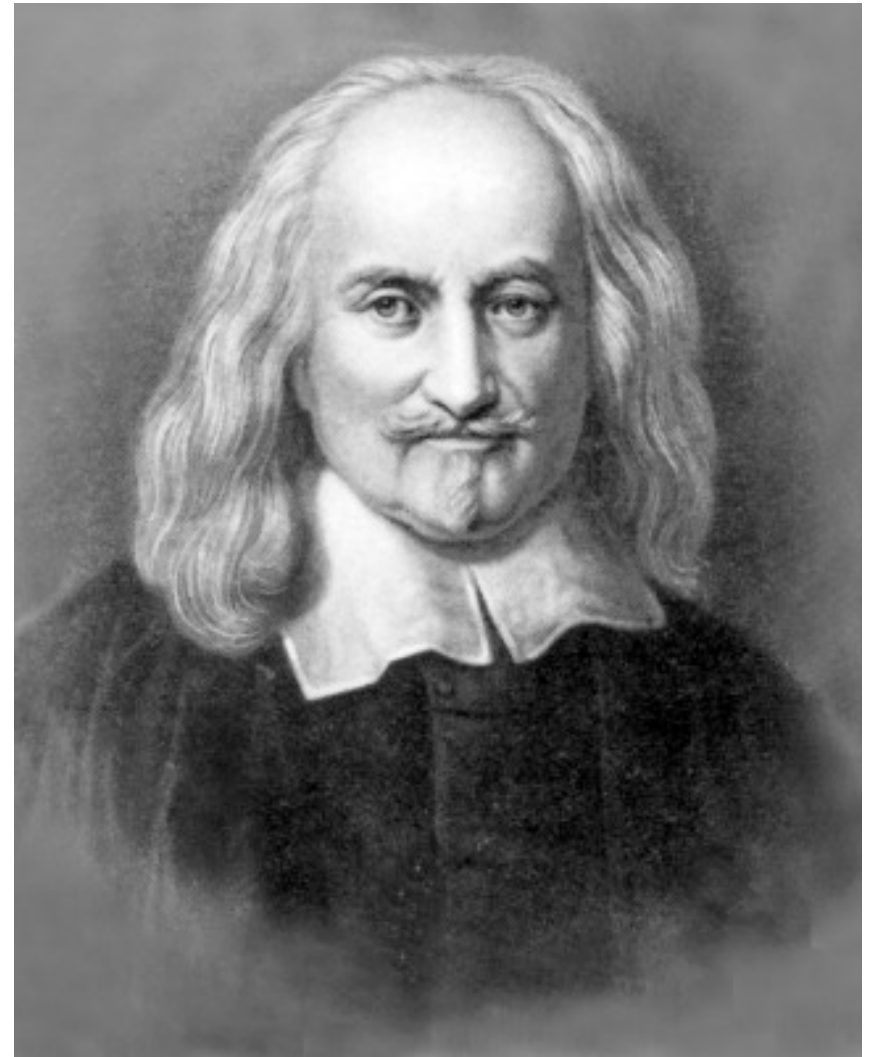


## Anarchy as the “War of all against all”

“ *during the time men live without a common power to keep them all in awe, they are in that condition which is called war; and such a war as is of every man against every man.*

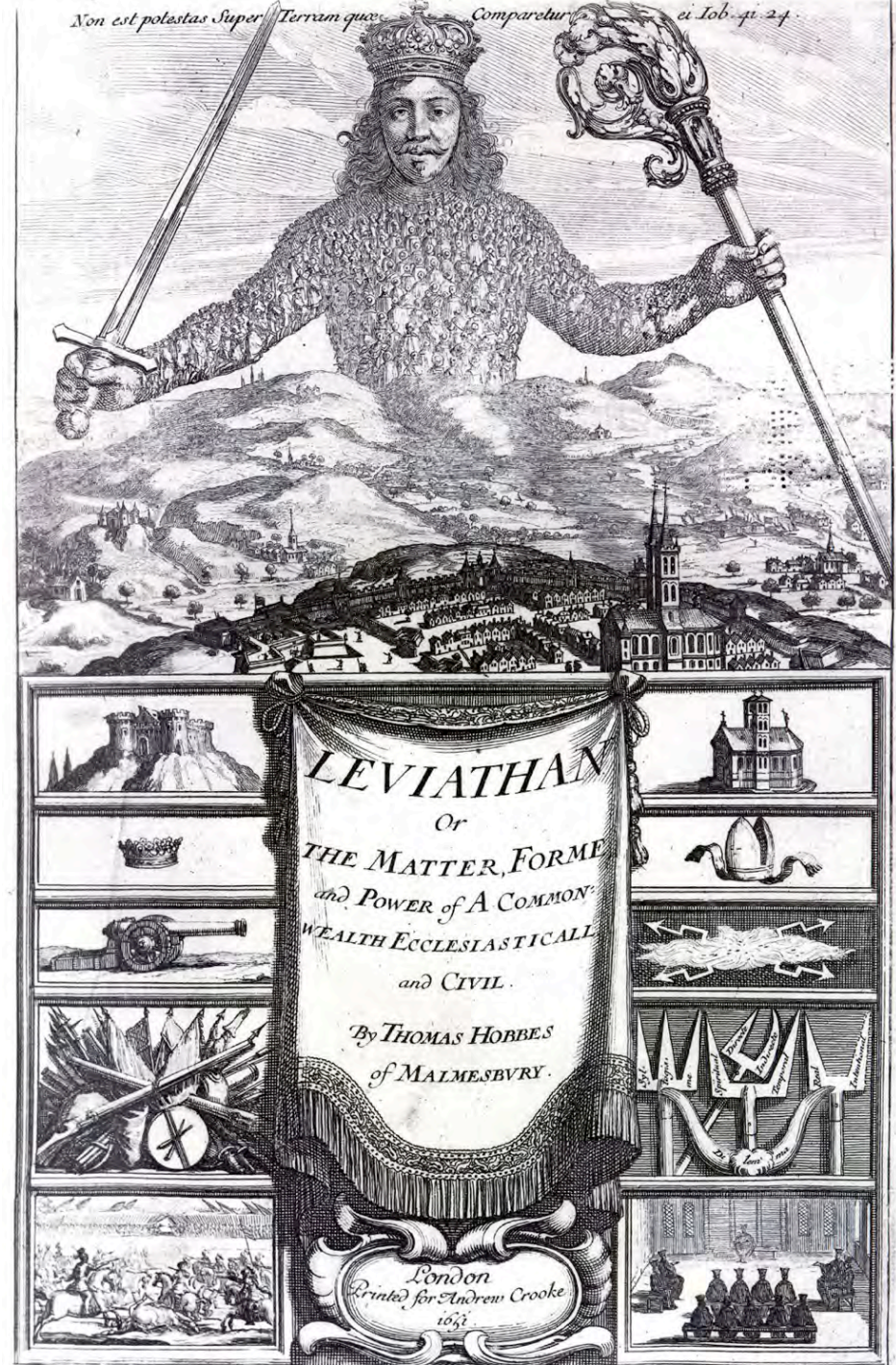
“ *[Life is] solitary, poor, nasty, brutish, and short*

—Leviathan (1651), Chapters XIII &  
XIV

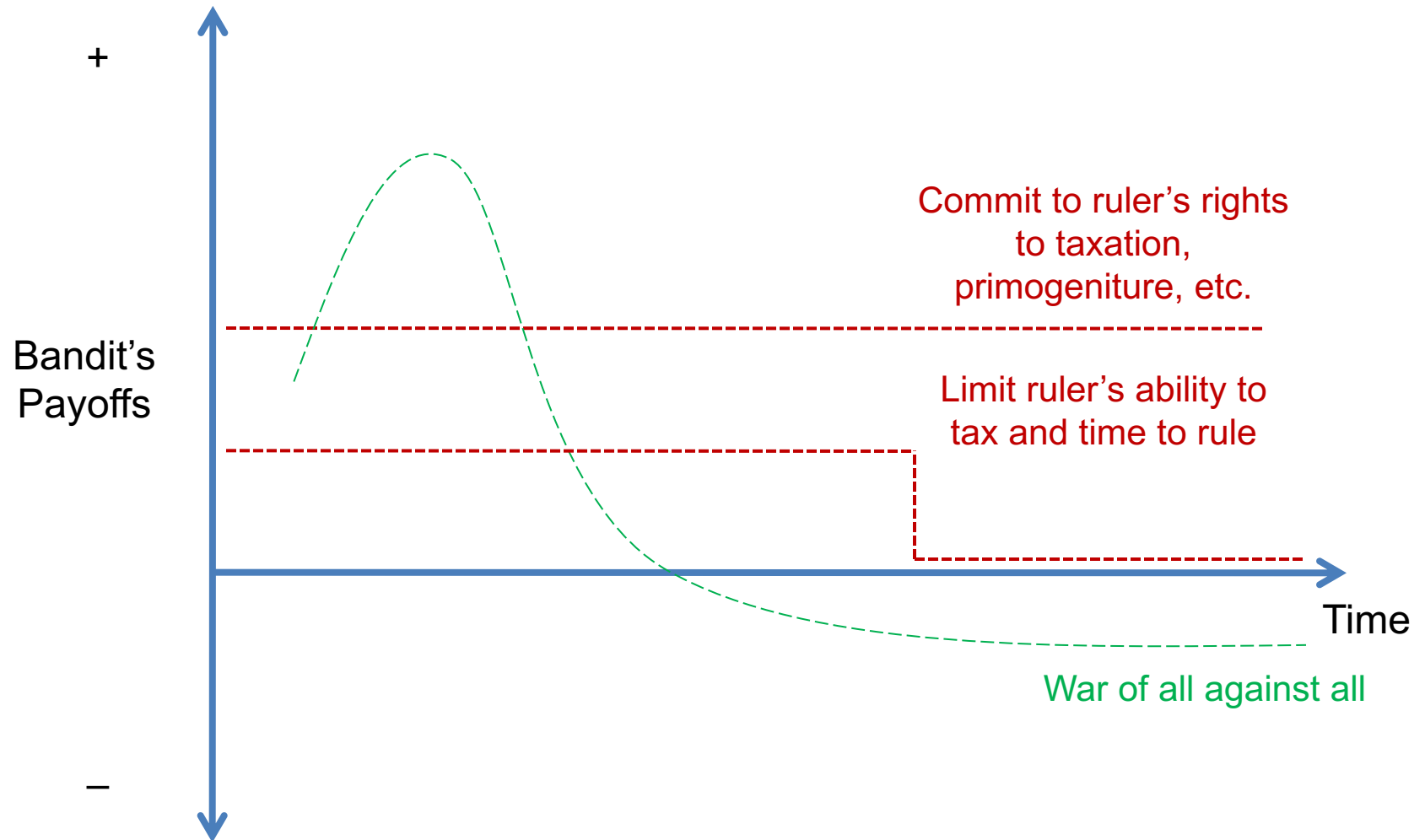


# Hobbes' solution: A social contract that produces a stationary bandit

- The war of all against all avoided by a “social contract” that allows an absolute sovereign to come to power
- Legitimate authority backed by threat of force
  - Threat of punishment prevents people from violating others' rights
  - A solution to the common pool resource problem



# A social contract in our simple model



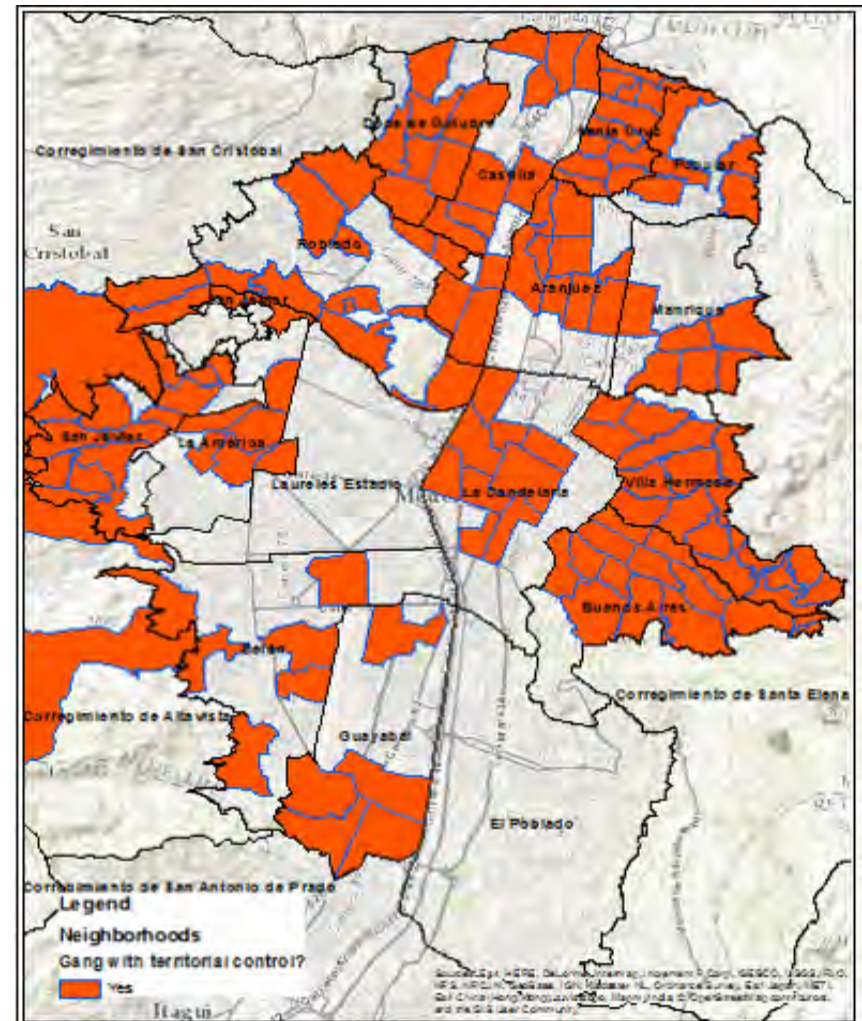


# How credible is this “social contract” view?

- On the one hand, it’s a silly idea
  - Implies that society calls forth some kind of governor, and that roving bandits compete to offer their services to willing communities
  - History suggests that these bandits have been coercive, selfish entrepreneurs who have conquered rather than be invited
- On the other hand, once a community has a stationary bandit, how many would choose a return to anarchy?
  - Recall that order has value

# In Medellin, it is hard to say whether communities prefer the gangs to the alternative

- Largely depends what people think of as the alternative
  - Anarchy?
  - Increased presence of the state?
  - Cooperative organization?



# Where we are going to take this (in Week 3):

What is a state, how do they emerge, & what makes them strong?

## “Stateless”

Chieftoms, bands, and other small political units, often with informal systems of rule



## “Early states”

Larger, more hierarchical, often coercive political authority(ies) that may only loosely control the people



## “Modern states”

More centralized, rule-governed, bureaucratic, depersonalized, political organizations with more social and sovereign territorial control

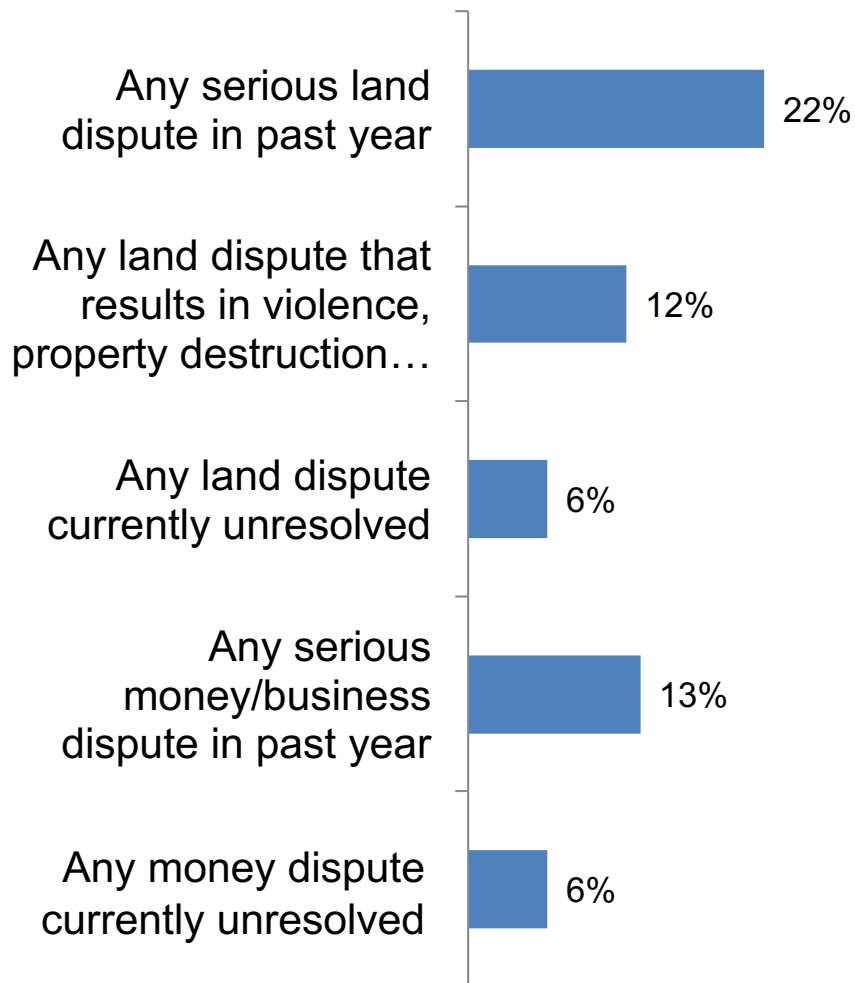
# Let's review Week 1 objectives

- Why is order valuable?
  - Protect people from violence
  - Lower transaction costs and risk, promoting specialization and trade
- How have societies produced order?
  - Cooperation, states, and bandits
- Early states as organized crime
  - States provide protection and governance in return for tax and tribute
  - Have often been coercive, and emerged through conquest
- Why is it difficult for people to cooperate without states and coercion?
  - Need to solve commitment problems and overcome information asymmetries
  - These are the conditions that produce violence

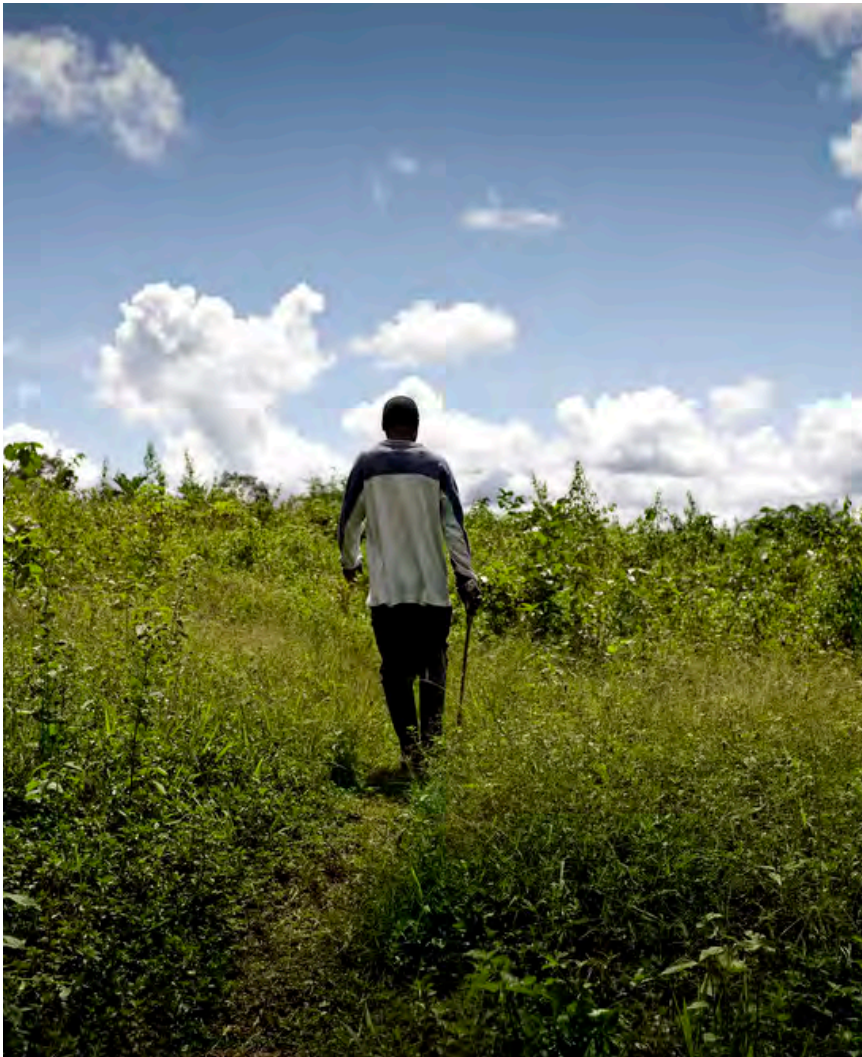
Why do we need a bandit to provide order? Why can't people cooperate without giving the monopoly of violence to a thug?

(We're going to tackle this in more depth in Week 5, but this is actually going to lead us into theories of conflict)

# Let's go back to our Liberia example. Why couldn't people solve disputes on their own?



What kinds of disputes are these?



## In rural areas there is little formal state presence

- Legal rules and laws unclear, unavailable
- Civil and criminal courts corrupt, expensive and inaccessible
- The few police are untrained, poor mobility, and corrupt
- Competing and inconsistent bodies





# In principle, “informal institutions” can fill the gap

- Shared, unwritten rules of appropriate behavior enforced through social sanction and praise
- In the context of conflict, these can facilitate bargaining and enforcement
  - Negotiation
    - Decentralized bargaining
  - Mediation
    - Elder councils, chiefs, civil society, neighbors



# But Liberia's informal institutions leave room for improvement

## Function poorly

- Difficult to reach bargains
  - Don't know how strongly other party feels
  - Don't know how long the other party is willing to hold out
- Difficult to enforce bargains
  - No central authority
  - Relies on social enforcement
- Problem is not absence of institutions but multiple, competing ones
  - "Forum-shopping"
  - Defection

## Can undermine rule of law

- Inconsistently applied
  - Unequal application
- Potential for bias and inequality
  - Reinforces power imbalances
  - May violate constitutional rights
- Illegal justice
  - Extrajudicial violence

# Speaks to two general reasons why bargaining breaks down

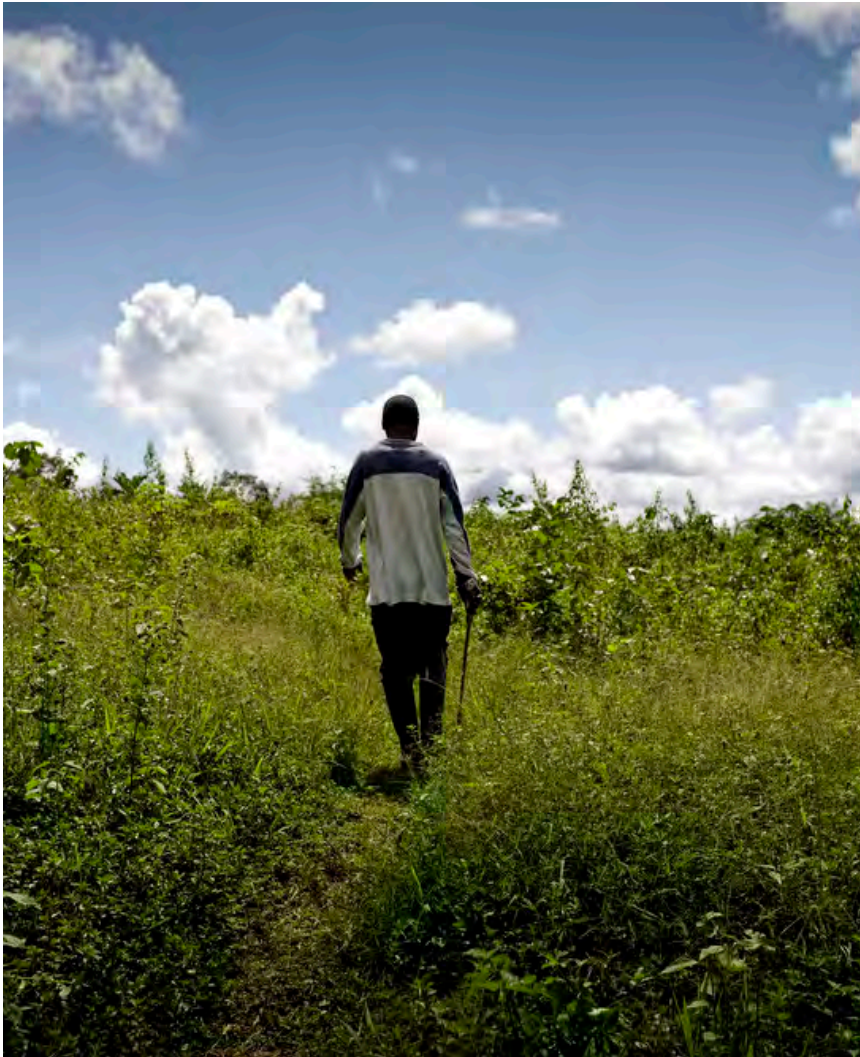
## 1. Asymmetric information

- We each know our own strength and cost of holding out or fighting, but not the other person's
- The optimal strategy is to “hold out”
  - Take a strong position
  - Gradually concede a little at a time
  - Eventually the party with the highest cost of holding out concedes
- Leads to drawn out bargaining with risk of breakdown

## 2. Commitment problem

- There exists a bargain, but we cannot trust the other party to uphold it
- Range of enforceable bargains that avoid fighting could be small or zero
- If you think power will shift in future, you have an incentive to strike now

# How do information and commitment problems play out in land disputes?



# Now: Can informal institutions of dispute resolution be fostered?



- Program by the UN, Government of Liberia, & local NGO in 86 small towns
- Intensive training in “alternative dispute resolution” (ADR) techniques and norms
- Aimed to improve the functioning of informal institutions to reduce information asymmetries and improve commitment without coercion

# Changing skills and norms



- Aimed to get 15% of each town's adults into eight days of classes spread over several months
- This is partly because they wanted to instill ADR skills widely
- But also because they were explicitly thinking about what coverage was needed to change social norms
  - Generally accepted understanding of how people will and ought to behave
  - And social sanctions/pressure to enforce

# ADR through the lens of non-cooperative bargaining

## 1. Reduce info asymmetries

- Teaches skills and practices:
  - maintaining empathy
  - keeping communication open
  - building trust
- Mediators elicit information
- Instill norms
  - Provide incentives to
    - Share information
    - Have empathy
  - Emphasize more symmetric bargains

## 2. Increase commitment

- Discourage
  - Defection
  - Forum shopping
- Legitimate informal negotiation
- Raise costs of non-cooperation
  - Social sanctioning
  - Social esteem

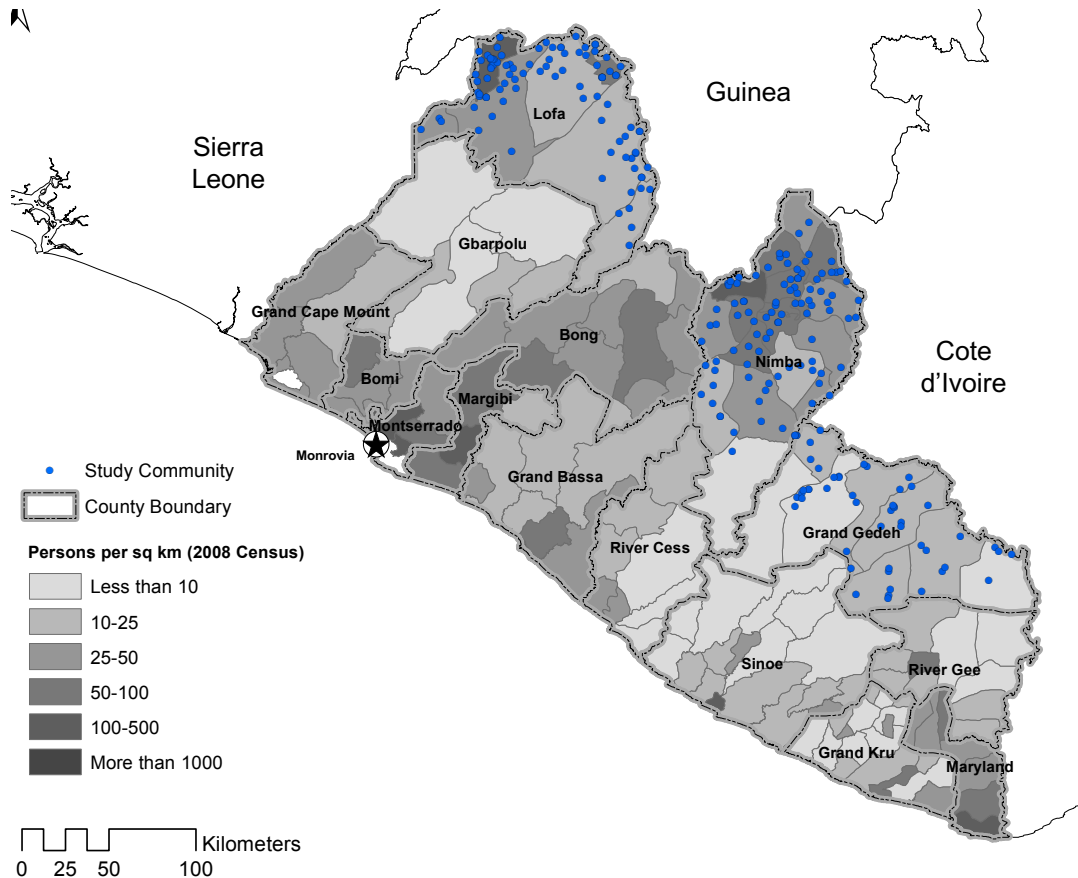
# ADR through the lens of non-cooperative bargaining

## 3. Speed bargaining, avoid breakdown

- Teaches techniques for:
  - Managing anger
  - Recognizing biases
  - Behave “rationally”
- Encourages
  - Engage directly in disputes
  - Keep people at the table



# We conducted a randomized control trial



- Randomize intervention at community level
- 246 communities nominated
  - 116 assigned to treatment
- Roll out over 20 months
  - Mar 2009 - Nov 2010
- Randomize order (5 phases)
- Program halts after phase 4
  - These 86 a random subset of 116
  - 160 controls

# The results suggest that skills and norms can be fostered, at least temporarily

## Intended consequences

- No decrease in the number of disputes
- But Increased the rate of land conflict resolution
  - Especially longstanding disputes
- Reduced violence (especially property destruction)
- Contagious beyond directly treated
- Persistent over two years
- Faded after three years somewhat, in part because disputes lessen

## Unintended consequences

- No increase in resolution of other disputes
- More disputes, with more gusto
  - But generally peaceful
- Increased extrajudicial punishment

It's difficult to settle disputes and reduce transaction costs through cooperation alone.

Thus we begin to see some of the advantages of states or even mafias

Conflicts in Liberia might be less likely, less lasting, and less violent with clear and consistent laws, accessible courts, able and resourced police



So why did informal institutions work well for those California cattle ranchers?

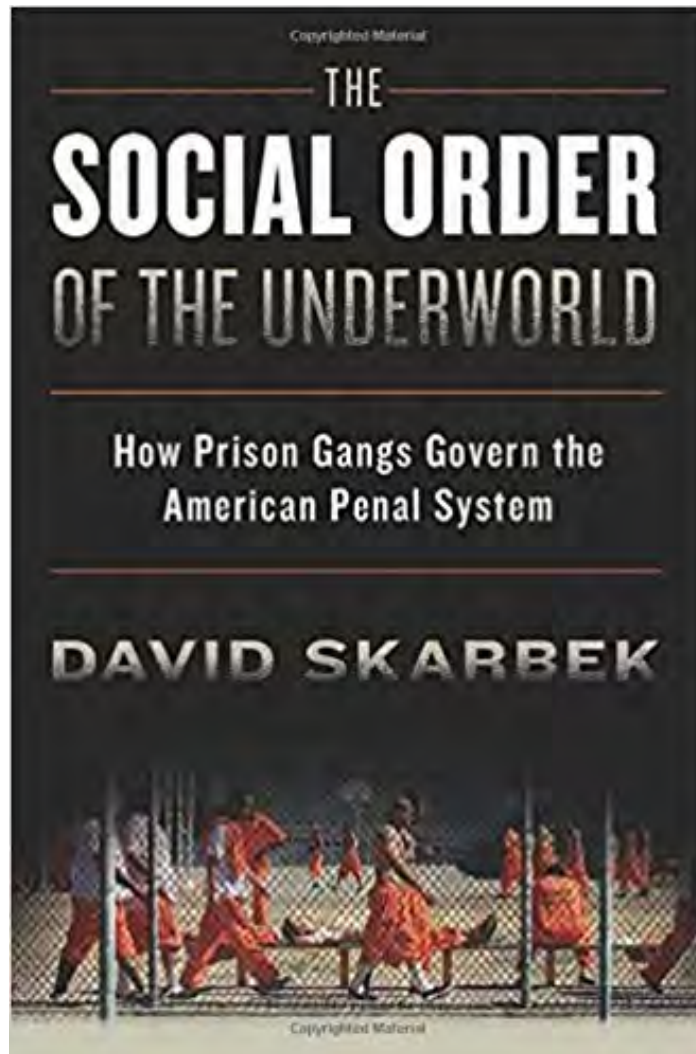


# California had several advantages

1. Easier to maintain trust in small, close knit, relatively non-changing communities
2. Engaged in regular exchange (hence a repeated game)
3. They operated in the “shadow of the law”
4. (Maybe) American culture evolved more effective informal institutions

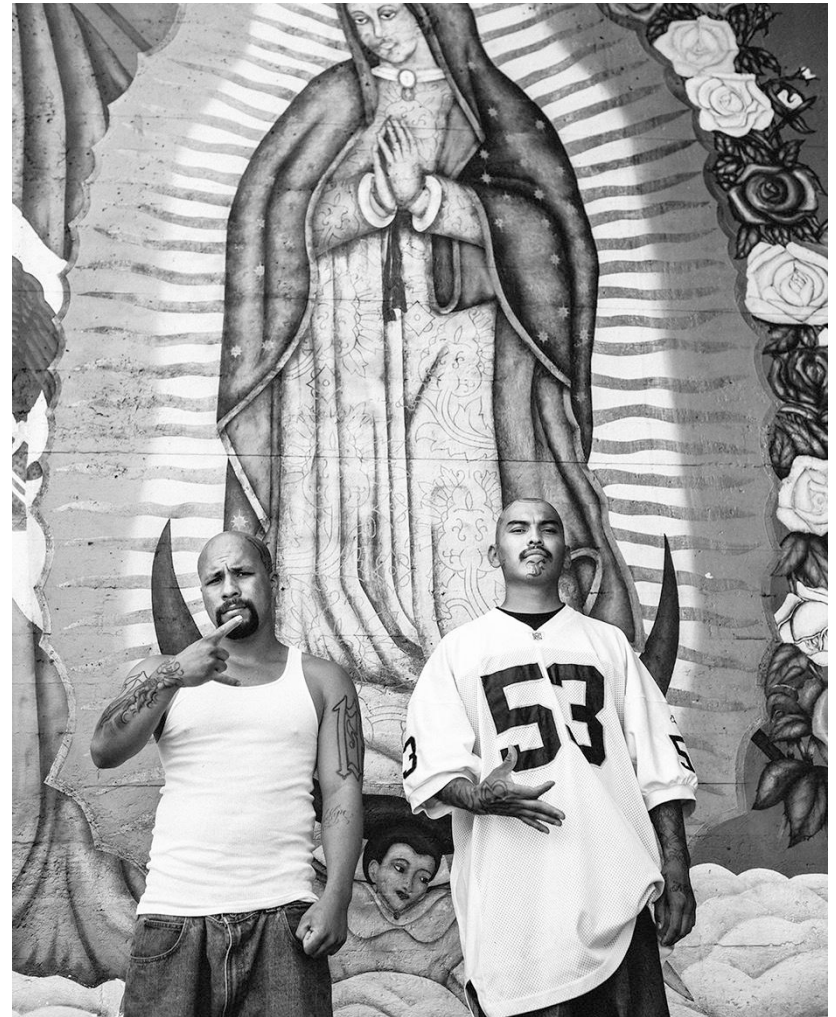


An example of situations where informal institutions no longer suffice: California prisons



# David Skarbek on Los Angeles prison gangs

- The state outlaws currency, communications, drugs, and other goods and services in prison
- This creates a black market where the state (the prison) cannot enforce contracts or reduce transaction costs and risks
- When prison populations were small and people were not moved from prison to prison much, informal systems of order sufficed
- But as the prison system and population grew, and transfers and traffic increased, the informal systems could not cope





## e.g. The “Mexican Mafia”

- The most powerful prison gang in California, and one of the best organized criminals enterprises in US
- Like most prison gangs, organized racially
- Has two of the key features of Olson’s stationary bandit:
  - The ability to forcibly extract resources (Can credibly threaten to harm Hispanics in prison should they become incarcerated, or if they have friends and family incarcerated)
  - Long time horizon (lifetime membership, long jail sentences)
- Control and extort Hispanic drug dealers outside the prison, who pay taxes of 10-30% per week
- Provide governance services, protecting Sureño members in jail and on street, enforcing transactions as well as credit and insurance markets

What are other situations where disputes must get resolved without the help of a centralized power?

In international relations theory, “anarchy” is the idea that the world lacks any supreme authority or sovereign to provide commitment and mitigate information asymmetries



You now have all the ingredients  
for a theory of conflict

Between neighbors

Between warlords

Between states