

# **The Dark Side of the Force**

*Economic Foundations of Conflict Theory*

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## Introduction

The efforts of men are utilized in two different ways: they are directed to the production or transformation of economic goods, or else to the appropriation of goods produced by others.

[Vilfredo Pareto]

In racing for a prize, there are two main ways to win: running faster yourself, or tripping up your opponent. Or suppose you are engaged in a cooperative enterprise with others, possibly within a business firm. Again there are a range of options: you can concentrate on becoming more productive on behalf of the firm as a whole, or else upon grabbing a bigger share for yourself. In the realm of politics, Mary Lease, an agrarian rabble-rouser of the 1890s, put it this way: “Kansas farmers should raise less corn and raise more hell.”

Correspondingly, there are two main methods of making a living. The first aims at producing useful goods and services for exchange with other producers. Alternatively, you might try to appropriate a larger slice of whatever is being produced. Think of these as *the way of production and exchange* versus *the way of predation and conflict*. Each way of making a living has an associated technology: there is the familiar *technology of production*, but also a *technology of struggle*. There is one set of techniques for tilling the land, and quite a different set of techniques for capturing land and defending it against intruders.

The way of conflict does not necessarily involve violence. Among the usually nonviolent forms of contests are strikes and lockouts (industrial conflict) and lawsuits (legal conflict). Then there are back-biting maneuvers for advancement on the promotion ladder, and family squabbles ranging from the trivial to the deadly serious. In the world of business a firm might find ways of sabotaging competing enterprises without actually assassinating their executives. Nevertheless, although not all

struggles involve violence, warfare serves as a convenient metaphor for strife and contention generally.

*The way of production and exchange* enlarges the social total of wealth. *The way of predation and conflict* merely redistributes that total (less whatever is dissipated in the struggle). In a world requiring defense against aggressors, even decisionmakers otherwise inclined to be pacific have to balance on the margin between these two strategies. And in fact all choices take place in the shadow of conflict. What a nation can achieve by diplomacy depends largely upon what would happen in the event of war. Deciding whether to plant a crop or build a factory will be influenced by ability to protect your investment against invasions, by enemies foreign or domestic. (Including the efforts of adversaries operating under color of law, such as tax collectors and class-action attorneys.)

Corresponding to the two strategies for making a living there are, in principle, two main branches of economics. Traditional economics has been almost exclusively devoted to one of these branches, the way of production and exchange. But the way of conflict and predation is equally “economic.” It responds to the omnipresent fact of scarcity, there is scope for rational choice on the level of the decision-making agent, and decentralized choices interact to bring about a societal equilibrium. Mainline economics has not totally ignored conflictual activities: topics such as crime, litigation, labor-management struggles, rent-seeking contests, redistributive politics, and so forth have received a certain amount of attention. But these investigations have not been woven into the central fabric of economic thought. It is as if international trade, industrial organization, public finance, labor economics, and all the other traditional subdivisions of economic theory had developed as separate fields with no recognition of their common foundation in the microeconomics of production and exchange. A failing of exactly this type has occurred here. The first aim of conflict analysis in economics is therefore to provide an underlying theory of struggle that will be applicable to all the specific topical areas such as warfare, litigation, strikes and lockouts, crime, power politics, and family quarrels. Ultimately, a unified economic theory should allow for *both* of the two main forms of social interaction: on the one hand exchange and contract, and on the other hand struggle and contention.

Here are some illustrative questions – some obvious, some perhaps less so – upon which the articles reprinted here shed light:

1. What governs the intensity of struggle and the associated wastage of resources? When do contenders such as individuals, tribes,

and nations “fight” (literally in the case of warfare, or metaphorically in contexts like political campaigns and litigation) rather than come to an agreed settlement? Do interpersonal sympathy, greater wealth, improved productive opportunities, and increased economic interdependence conduce to peaceful settlement? What happens as conflict technology becomes more destructive? When the contestants are more equally matched, does conflict become more likely?

2. Who wins, and by how much? As determinants of conflictual outcomes, how important are disparities of wealth endowments, comparative advantages in production versus combat, differences in time-preferences or in risk-aversion, and so forth? For example, other things being equal, does conflict tend to improve the position of the initially better endowed side? That is, will the rich become richer and the poor poorer?
3. Is conflict usually or always a mistake on the part of one side or the other, so that better information will tend to promote peaceful settlement?
4. What are threats and promises? Why should they ever be believed? When are they likely to be effective? Conversely, when is “appeasement” likely to work?

Although I have complained about the relative lack of attention to conflictual competition, this volume is not the first to have addressed the topic. For one thing, just about every important social scientist has had something valuable to say about the contest for wealth and advantage. Adam Smith’s *The Wealth of Nations* (1776) has dozens of references to war and perhaps hundreds to political quarrels, exploitative taxation, and the like. But Smith and other classic authors never pushed toward systematic analysis of the way of conflict. By the time of Alfred Marshall the central tendency of economic thought had narrowed drastically. War does not even appear in the index of Marshall’s *Principles of Economics* (1920). In contrast, standing apart from the central tradition, Karl Marx in *Das Kapital* (1867) placed struggle – the class struggle in particular – at the center of human social activity. However incoherent his effort may have been from a scientific standpoint, Marx at least perceived the analytic gap that modern conflict theory has attempted to fill.

A few pioneering volumes have led the way. Schelling (1960) addressed topics such as threats and deterrence, especially with regard to national strategic policy. Boulding (1962) is wider-ranging, emphasizing

the problem of *viability*: the circumstances in which a party to conflict can guarantee its own survival against opposed force. Tullock (1974) was perhaps the first to employ standard analytic building blocks such as preference functions and opportunity sets for dealing with conflict interactions. Of these volumes only Schelling's is at all well known and still in print. More recent monographs, once again hardly well known, include Bernholz (1985), dealing with power balances in international systems, and Usher (1992), who studied the viability of forms of government from despotism to liberal democracy.

Individual journal articles are of course far too numerous to cite extensively here. Two early contributions stand out, however. Bush and Mayer (1974) described a "natural equilibrium" generated by decision makers' competing predatory efforts ("stealing" from one another). Skogh and Stuart (1982) is more fully developed and was apparently the first to model both offense and defense in contesting for income. More recent years have seen a modest boom in analytic treatments of conflict interactions, warranting publication of several valuable edited collections of journal articles, among them Isard and Anderton (1992), Hartley and Sandler (1995), and Garfinkel and Skaperdas (1996). These contributions have addressed a wide range of topics, including – to name but a few – the sources of between-group and within-group conflicts, the conditions leading to compromise and settlement, the technology of warfare and other forms of struggle, the consequences of balances and imbalances of power, and the formation of coalitions and alliances.

This extremely condensed review of the literature undoubtedly displays parochial professional bias. Political scientists also, at least in recent years, have been generating analytic models of warfare and contests for power. (Some such studies are cited in the chapters in this volume.) And a few relevant writings in sociology are analytical in a way that economists would recognize. Even closer to economics – though this fact is largely unknown on both sides – is the work of evolutionary biologists and anthropologists on topics such as predator–prey interactions, contests for territory and dominance, and the power gradient within hierarchical social groups. I will only cite one truly remarkable early contribution, Robert H. MacArthur's *Geographical Ecology* (1972) (especially Chapter 2, "The Machinery of Competition and Predation"). That study developed, among other things, an evolutionary general-equilibrium model of contentious competition (for example, between predators and prey).

I will mention here several continuing themes:

1. Conflict theory shares with exchange theory the central analytic paradigms of *optimization* on the individual level of analysis and societal *equilibrium* on the aggregate level. Features like preference functions, competition, increasing and decreasing returns, and so forth play comparable roles in both branches of economic theorizing.
2. The key difference is that the social interactions dealt with in exchange theory are a source of *mutual* advantage, whereas in conflict theory any advantage gained by one party must come at the expense of its rival or rivals.
3. Any settlement or compromise arrived at, and even the process of exchange itself, takes place in the shadow of the potential conflict lurking in the background.
4. Human society, although of course unique in many ways, nevertheless exists within bounds established by Nature, which, through the evolutionary process, has fashioned important aspects of our morphology, biochemistry, and psychology and behavioral inclinations as well.

Many of these themes are illustrated in the opening essay, one that bears the same title as the book as a whole: "The Dark Side of the Force" (my 1993 Presidential Address to the Western Economic Association). The articles grouped in Part One fall under the general heading *Causes, Consequences, and Conduct of Conflict*. The selections in Part Two, under the heading *Evolutionary Approaches to Conflict and its Resolution*, show how modern evolutionary theory bears upon topics such as the development of law and social ethics and the viability of reciprocity strategies. Finally, the concluding article, "The Expanding Domain of Economics," addresses the imperial pretensions of economics to constitute a universal social science.

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