

**COMMITMENT REGIMES: THE INTERSECTION OF VIOLENCE  
AND DEVELOPMENT**

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## **ABSTRACT**

Development practice in conflicted countries is conceptualized and carried out upon a shaky economic theoretical foundation. These theories were built upon research conducted on the development of European nations. This has led to a focus in the development community on investment led growth models, which state that large and small scale government grants can be targeted to touch off latent engines of economic growth.

In this thesis I contest that model drawing from counterinsurgency (COIN) examples in Iraq and Afghanistan, demonstrating how such investments can be a source of instability through increased incentives for rent seeking behavior as well as direct theft. I propose a better focus would be to investigate and improve what I call commitment regimes: the methods whereby commitments are made and enforced in a society, be it through religious, tribal, regulatory or violent means. As these regimes are improved, reducing transactions cost and increasing stability, more investment will be made in society as returns become more certain.

For my Father, a mountain in an uncertain world

“Men and women and children have been murdered by extremists from Casablanca to London; from Jalalabad to Jakarta. The global economy suffered an enormous blow during the financial crisis, crippling markets and deferring the dreams of millions on every continent. Underneath these challenges to our security and prosperity lie deeper fears: that ancient hatreds and religious divides are once again ascendant; that a world which has grown more interconnected has somehow slipped beyond our control.”

Barak Obama, President of the United States

Address to the United Nations General Assembly, 23 September 2010.

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## INTRODUCTION

Development is a strategic issue for the security and prosperity of all nations. Falling transactions costs, for transportation and information, bring individuals and cultures closer together. Population growth has increased the number and the proximity of our neighbors, and the modern cornucopia of technological innovation has dramatically improved lives. Everywhere your gaze falls progress has improved processes, lowered prices and connected people. Unfortunately, these springs of prosperity are also ones of ruin. Lethality of conflict is one improved process. Prices of weaponry are falling. Radical ideas and messaging have become easily accessible. In addition, as the anonymity in massive populations grows, the balance of credible terror shifts away from government to individuals; problematically, individuals willing to take up the sword in pursuit of their goals.

US President Barak Obama acknowledged the importance of development to the security of the United States in remarks made at the United Nations Millennium Development Goals Summit in September of 2010: "In our global economy, progress in even the poorest countries can advance the prosperity and security of people far beyond their borders, including my fellow Americans... So let's put to rest the old myth that development is mere charity that does not serve our interests... My national security strategy recognizes development not only as a moral imperative, but a strategic

and economic imperative.”<sup>1</sup>

Many indigenous structures of governance throughout the world are more or less successfully adapting to these modern realities. External aid, while of benefit, is not critical to their continued stability. Still, some areas, often gripped by conflict, have no local consensus on institutions and organizations of governance or how to go about establishing such. In these cases external advice and guarantees can be a good way to create an environment where agreements leading to governance and growth are possible. However, in order for external involvement to be useful, a better understanding is required of the interaction of violence, anarchy, and development.

While development is a primary tool sought to alleviate tensions and defuse incipient violence simmering in postconflict societies. The typically advocated, and adopted, “Washington Consensus” policies can become new sources of discontent in societies; illustrating Hirschman’s “Antagonistic Growth,”<sup>2</sup> where growth leads to social conflict. Yet, these policies are based upon sound economic ideas, conceived by a broad array of well intentioned, brilliant scholars. So, why have these policies failed to bring the hoped for results? Why does investment in infrastructure not result in increased and sustained growth rates? Why do infusions of capital fail to deliver follow on investment and growth? A primary reason is that the base assumptions of most ideas in economics have been built primarily in, and for, stable states.

The most abused assumption in development economics often goes unstated

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<sup>1</sup> Barak Obama, “Remarks by the President at the Millennium Development Goals Summit, September 22, 2010,” The Whitehouse, <http://www.whitehouse.gov/the-press-office/2010/09/22/remarks-president-millennium-development-goals-summit-new-york-new-york> (accessed 16 Aug. 2011), para. 4.

<sup>2</sup> Hirschman, *Rival Views of Market Society and Other Recent Essays*.

and unanalyzed: the idea of a state which holds a monopoly on the legitimate use of violence. Weber conceptualized the state in the following terms: "A compulsory political association with continuous organization will be called a 'state' if and in so far as its administrative staff successfully upholds a claim to the *monopoly* of the *legitimate* use of physical force in the enforcement of its order."<sup>3</sup> Yet, this rarely exists in the areas where the most urgent development work is being undertaken. Even this definition of a state is rather imprecise. Legitimacy is a slippery term, and how it is defined creates differences in how entities are treated. Is a state legitimized by international endorsement? Or does legitimacy depend on the opinions of the people within the state? The first criteria has not proven to be sufficient, and many developing "states" do not meet the second criterion. Yet the international community continues to regard the traditional territorial claims of these entities as sacrosanct, and in the postcolonial world, refuse to meet indigenous organizations based on coercion with countervailing force. This void is filled with societies which fail to develop.

The mainstream development community has conceptually divorced itself from violence as a constructive tool. Utopian ideas have been adopted: the belief that cultural progress will free all people from coercion, without the use of coercion. Unifying the actions of the development and military communities in Iraq and Afghanistan has been a great challenge; but it is essential for coalition victory.

This brings me to my contention. A focus upon investment led growth is flawed in weak and conflicted societies. The lack of a systemic method of third party contract

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<sup>3</sup> Weber, *The Theory of Social and Economic Organization*, 154.

and property enforcement interrupts any positive reinvestment cycle. The risk of expropriation of future gains will continue to restrain investment until this problem is solved. Understanding the inherent violence in the base dynamic of commitment, especially in enforcing commitment, is essential to crafting effective and sustainable development solutions.

Recognizing the significant role violence plays in shaping incentives, and costs, faced by individuals in unconstrained environments, will improve economic theory and planning. Violence is not only relevant in the realm of political science; economists cannot ignore the possibility that negotiations may end in expropriation rather than mutually beneficial exchanges.

Ungoverned spaces continue to be redoubts for extremists and banditry. In an earlier age, solutions involved importing, or imposing, external systems of governance. In the post-colonial world, we attempt to assist these communities through investment programs in an attempt to “jump start” their economies on the road to prosperity. However, this strategy has limits on its efficacy. It is expensive, and in the face of poorly governed societies, it is failing.

A new idea is rising; strategies are shifting to focus more on institutions and organizations within societies. But critically, advocates of this approach need to keep the capacity of man for violence in the forefront of their thoughts when managing development. Violence is not illogical actions of irrational, uncivil, or uncouth minds. It is a calculated choice made by purposeful individuals attempting to shape an uncertain world in order to maximize their particular utility function. Ignoring this propensity will

continue to lead to unproductive practices; especially in areas where the expected returns to expropriation frequently exceed expected returns to exchange.

Contract enforcement is the primary fulcrum from which to productively leverage violence to exit a negative equilibrium. Contracts are the bedrock of organizations and economic growth, and enforcement is a necessary piece of contracts. Nicholas Blomley describes how property rights are based on violence, a physical disbarment of nonauthorized individuals from the use of designated items or locations. He recognizes that “violence and law appear antithetical. Liberalism tends to locate violence *outside* law, positing state regulation as that which contains and prevents an anomic anarchy”<sup>4</sup>. When in fact, law itself is often enforced through violent means.<sup>5</sup> But, law is an institution which is particularly reliant upon legitimate state organizations of violence for enforcement.

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<sup>4</sup> Blomley, “Law, Property, and the Geography of Violence,” 121.

<sup>5</sup> Some institutions can be enforced and maintained through threats of sanctions rather than violence, but these require that expected future returns to association be greater than the reward for contract violation in the present. Thus uncertainty in future relationships inherent in conflicted societies is an impediment to the solidification of these sorts of institutions.

## HISTORY OF DEVELOPMENT

Strategic meetings in the decrepit palaces of Saddam Hussein's Iraq brought home the idea of path dependency. Where we are depends critically on where we have been. Not just developmentally but also ideologically. Investment is the critical factor in all discussions focused on bringing development to Iraq. Job creation is the primary goal, seeking to reduce the pool of unemployed malcontents whose vitriol is often available to those willing to pay for their services.

Investment is an easy to understand solution. It is an answer that most individuals imbibe from basic economics education. It is an answer which fits into the neo-classical narrative, which is often the introductory framework in economics instruction. If there is investment, there will be business creation, business creation brings jobs, and jobs are a prime factor related to unrest; particularly jobs for the burgeoning youth. The Middle East has the highest regional unemployment rate in the world<sup>6</sup> and the International Labor Office estimates that the youth unemployment rate is "almost four times the adult rate."<sup>7</sup> Yet, even the billions spent by the US in the early years of the war in Iraq did not appear to bring the benefits predicted, in development or in pacifying unrest. Fraud, waste and abuse became a common moniker of the strategic scale investments made in early years of the war.

What are the mechanisms which allow increases in investment to foster growth

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<sup>6</sup> International Labor Office, *Global Employment Trends 2011*, 48.

<sup>7</sup> *Ibid.*, 49.

in an economy? Rosenstein-Rodan observed that the vast majority of workers in third world countries were employed in pursuits that had long since passed the threshold of labor effectiveness. Agriculture was the culprit in his time. One more worker added or subtracted did not significantly impact the amount produced. If this underutilized workforce could be harnessed, through increases in investment, they would be a dynamo of growth, which could only result in higher standards of living for everyone.

Walt Rostow proposed that growth followed a staged path. Starting from traditional society then progressing to preconditions for take-off, take-off, drive to maturity and, finally, arriving, along with the West, in the age of mass consumption. This theory is based on the idea that as a sector develops the biggest gains to be made are early in the process of modernization. Once this tipping point is reached there is rapid change, and growth, in that sector. Each sector has an optimal growth path, which in less developed nations deviated due to factors such as misallocation of investment, poorly constructed private investment, government policies or war. "In essence, it is the fact that sectors tend to have a rapid growth phase, early in their life, that makes it possible and useful to regard economic history as a sequence of stages rather than merely as a continuum, within which nature never makes a jump."<sup>8</sup> A push of investment then could propel an economy from one stage to another and thence into rapid growth.

For Rostow, traditional society is organized along traditional lines passed down from previous generations. It lacks modern scientific thought, particularly ideas of

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<sup>8</sup> Rostow, "The Stages of Economic Growth," 2.

causation ingrained in the Western scientific method. Production is primarily agricultural and technological processes are few. There is innovation, but it is haphazard and nonsystematic.

The two pieces which signal that the preconditions for take-off have been met are the adoption in a large portion of society of scientific ideas of causation, and the broadening of markets which “brought not only trade, but increased specialization of production, increased inter-regional and international dependence, enlarged institutions of finance, and increased market incentives to create new production functions.”<sup>9</sup> On the technical side Rostow states another precondition for society which is more interesting for our inquiry: there must be a build-up of social capital in transportation, not only for the transport of goods which enables the market expansion, but “also to permit the national government to effectively rule.”<sup>10</sup> Interestingly, Rostow also posits that the pace of economic take off has been greatly impacted by nationalist ideology. Nationalist societies, that have a desire to avoid the impact of foreign power upon domestic issues, require economic development to fund defensive military growth.

Take-off consists of rapid growth in a limited number of economy leading sectors. It is different from other surges in that it embodies the ideas of modern industrial techniques. During the take-off growth becomes a part of society’s habits and institutions, sustainable means of investment are devised, and the number of entrepreneurs and technicians are enlarged. The society must “sustain an annual rate of

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<sup>9</sup> Ibid., 4.

<sup>10</sup> Ibid., 5.

net investment of the order of, at least, ten percent.”<sup>11</sup> In the noneconomic realm this take-off also consists of the social victory of the forces of modernization over traditional sources of power. This victory is never total, but is enough that the inhibitors to modernization are sufficiently overcome to enable changes in social institutions that govern society.

The drive to maturity consists of the extension of these modern processes in industry and investment into the remaining sectors of society. An increase of educated workers, equipped with scientific reasoning, is a piece of this expansion.

Once this economic maturity is achieved, elites are faced with the question of to what end will this new industrial might be put. Rostow names three options to which this surplus may be applied: increased public measures to increase security and welfare; providing increased private consumption goods through mass production; or, increased might on the international stage. Societies choosing mass production enter upon a self-sustaining age of mass consumption. Demand becomes the continuous engine for growth.

The combination of these two ideas: investment led growth, and stages of development, gave rise to the idea that through a shock of investment under-developed nations could be pushed to the next stage. This movement to the next stage would build momentum that would carry them to modernity.

Ragnar Nurske contributed a more class related stance with his observations on the vast rift between the rich and poor in developing nations. He felt that conspicuous

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<sup>11</sup> Ibid., 7.

consumption was the primary hindrance to indigent led development. Elites who owned the land spent their income on consumption rather than investment in industry. But a point needs to be made regarding this theory. In a system with two categories of spending, investment or consumption, payments made to sustain patronage networks must be slated in the consumption category. These monies are passed down the patronage pyramid, with a portion being consumed at each level. Given this, it can be seen that the problem with lack of internal investment is not that the wealthy directly consume their entire income, but that income is used to secure patronage, and is then consumed, or distributed again and consumed. Some actors are able to invest a portion of their income into productive enterprise, but often the best place for them to do this is abroad. Local institutions of investment, and more importantly commitment, need to be developed before individuals with small or nonexistent patronage networks can invest with positive expected returns.

Robert Solow changed the foundation of development when he declared that investment has a small impact on growth. Seven-eighths of growth could instead be attributed to technological advancement. Neo-classical development economics embraced a formula where income ( $Y$ ) is a function of capital ( $K$ ), technology ( $A$ ), and labor ( $L$ ).<sup>12</sup>

$$Y = F(K, AL)$$

This works well to explain growth in modern developed countries but is problematic when a cross section of nations is considered. To do this we must assume

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<sup>12</sup> Mankiw, Phelps, and Romer, "The Growth of Nations," 276.

that the production functions of the compared countries are the same, i.e., that if the same amounts of capital, labor and technology are put into different countries then outputs will be equal. Mankiw puts the assumption this way: “the production function should not be viewed literally as a description of a specific production process, but as a mapping from quantities of inputs into a quantity of output.”<sup>13</sup> Differing levels of inputs present in the broad array of nations are, to him, a movement along a similar production function, rather than a shift to a different production function.

However, for the idea of a universal production function to be true, this production function must exist at all times and in all circumstances. During peace and during war the same production function must rule. For if you reject the idea that the production function continues even in the midst of warfare then how can you grade the slide from total war to peace? A continuum of conflict is not amenable to a dummy variable which is either on or off.

Economists who have rejected this assumption are gathering momentum in development economics. Institutionalists have existed outside of the mainstream for some time—Thorstein Veblin is a prominent example. Modern institutionalists have adopted a specific point which advances them into a more mainstream role: a transactions cost view of the differences in production functions. If in Iraq bribes must be paid to criminal elements in order to conduct business this increases the cost of doing business, conducting transactions, in that country above what costs may be in more developed countries. The focus of this work becomes the institutions of a nation

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<sup>13</sup> Ibid., 281.

and how they assist or hinder development through a neo-classical model of prices.

Another related theory pushes for a focus on incentives. Actors making decisions are driven by incentives. The effort of this theory is to unravel various incentives faced by different actors which create disincentives toward development<sup>14</sup>. Problems identified through an incentives framework are ones such as when policy intended to fix one problem gives rise to incentives which create another problem. In 2003 Paul Bremmer disbanded the semidefunct Iraqi Army. This policy was intended to be a de-Ba'athification measure, but many analysts vilify this action as the base point of the rapid expansion of insurgency in Iraq. Thousands of military aged males lost their employment, and a primary source of identity. Although it is not hard to imagine once American troops withdrew, had the old Iraqi army remained, a Baathist officer corps conducting a coup, destroying a fledgling democracy.

An analyst from the RAND think tank who was a part of Multi-National Force – Iraq regularly stressed to meeting participants on getting the incentives right; but “getting incentives right is not itself another new panacea for development. It is a principle that has to be implemented bit by bit, stripping away the encrusted layers of vested interest with the wrong incentives, giving entry to new people with the right incentives.”<sup>15</sup> Incentives for one action can take away incentives from other actions, sometimes desired ones. Grants for small businesses do increase investment in small business, yet they also reduce the willingness of small businessmen to borrow money

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<sup>14</sup> Even personal incentives can interfere in the operation of an organization, such as agent-principle problems.

<sup>15</sup> Easterly, *The Elusive Quest for Growth*, 143.

from banks, reducing the number of bank customers, and thus reducing the desire to invest in banks. Many Iraqis refused loans, hoping instead to receive grants from other organizations.

Considering incentives is a good tool to aid thinking in tactical decision making, but as a strategic tool it leaves a lot to be desired. The primary difficulty is related to a problem faced by communist leaders, and was expounded upon by F.A. Hayek in his paper on information<sup>16</sup>. He posits that there are two different types of knowledge/information: scientific and locational. Scientific knowledge is an understanding of the particular manner in which things work; natural or social laws. Locational knowledge is an understanding of the “particular circumstances of time and place.”<sup>17</sup> Therefore, in order for a central planner to set a proper price for a commodity, say tin, he must not only have the scientific knowledge of how an economy functions, but he must also have knowledge about who needs tin, for what, and how much society should value that particular reason. Whereas with competitive markets these two types of knowledge need not be gathered in one location, the pricing mechanism sorts out all these problems. The factory manager in Philadelphia does not need to know that a new, more productive use for tin has been found in Beijing, he just sees the price of tin go up. Because of this, Hayek predicted a victory of competitive markets over planned markets.

Just as communism struggled to bring together and process information at the proper level to make efficient decisions about pricing, people who believe in the value of framing incentives to solve problems at the highest levels often do not have the

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<sup>16</sup> Hayek, “The Use of Knowledge in Society.”

<sup>17</sup> Ibid., 522.

locational information available to craft meaningful incentive schemes.

These different approaches attack different leverage points. Investment led growth programs target either infrastructure improvements or business linkages to provide a positive shock to inspire growth. Incentive programs use these same investment programs but label them as incentive based approaches, i.e., small business grants, supplementing private investment in specific target sectors. In our era this obfuscation has become more palatable than state led investment and ownership, though still possessing many of the market distorting features of state ownership.

Today's practice has become an amalgamation of our past ideas, and though the names and methods vary, most programs still orbit the strategic idea that investment will lead to growth. Only a few programs have veered from this loadstone. One such was hinted at in a briefing which circulated among the US Military titled "Money as a Weapon System" (MAAWS).<sup>18</sup> This briefing discussed how to use the different sources of funding available to commanders in order to pacify their area of responsibility. It discussed the efficacy of using grants and loans to build political influence and from that political compromise.

Yet even this methodology is not always productive. MAAWS has been, correctly, criticized for not having a firm basis in development or economic research. It is a tactic rather than a strategy. MAAWS, as implemented, focused on short term investments rather than political compromise, and some programs turned out to be counterproductive to long term development goals, while only moderately successful in

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<sup>18</sup> Later expanded by the Center for Army Lessons Learned into "Commander's Guide to Money as a Weapon System."

the short term.

How can these methods be brought together in order to harness the best features of each? More thought will need to be put into the setting in which development programs are implemented in order to build more sound theory.

## THE STATE OF NATURE

Economists are familiar with the nineteenth century ideas of Bentham and Mill, that humans are decision makers who maximize their utility. Economic models assume rational actors but they often decline to delve into the locational and social bounds on this rationality.

Ideas of Thomas Hobbes are often absent in modern economics. John Locke's social contract, a voluntary union of citizens, makes more sense in a democratic capitalist society and has taken the day. Though once we venture outside the developed world, the ideas of Hobbes assume a more vibrant character. Integrating these ideas into models of economic development will dramatically improve the efficacy of development programs.

For Hobbes, the world is one of unrestrained freedom. Each person possesses the ability to, at any time, take any action. The only natural laws are those of nature. Physical laws which man cannot surmount. Concepts of basic human rights are constructs that persistent ideologues have imagined and realized on this foundation of conflict.

In this state of nature each individual is responsible only for themselves. Each takes intentional action based on their personal interests, much like rational choice utility theory. Still, in this state of unrestrained freedom there is also unrestrained uncertainty. If each individual is a law unto themselves cooperation becomes

problematic. "In such condition, there is no place for Industry; because the fruit thereof is uncertain... and which is worst of all, continuall feare, and danger of violent death; And the life of man, solitary, poore, nasty, brutish, and short."<sup>19</sup> In this freedom there can be no society, or organization without violence. What one man claims, another may take through greater force. A Darwinian conflict reigns supreme. Individuals find themselves in a constant state of war.

Each individual is reliant upon themselves to secure their own claims, and freedom. It is a system of self-help. In this situation, if you claim a particular asset which will produce a stream of benefits into the future, then in order to realize those benefits you must ensure your claim will remain valid in the future. To do this "there is no way for any man to secure himselfe, so reasonable, as Anticipation; that is, by force, or wiles, to master the persons of all men he can, so long, till he see no other power great enough to endanger him".<sup>20</sup> Another implication of this is that the individual will only be willing to invest in the improvement of an asset to the point that they expect they will be able to defend their claim to the fruits of investment in the future. Expected future benefits must exceed expected costs. The risk of expropriation limits investment in the same fashion as the risk of business failure. For this reason warlords accrue power to themselves. Any means are legitimized. Slavery, double dealing, lies. "Force, and Fraud, are in warre the two Cardinall vertues."<sup>21</sup> This is the harsh equality which is often found in weak and stateless societies, yet it is hardly mentioned in economic development

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<sup>19</sup> Hobbes, *Leviathan*, 77.

<sup>20</sup> *Ibid.*, 76.

<sup>21</sup> *Ibid.*, 78.

theory.

“To this warre of every man against every man, this also is consequent; that nothing can be Unjust. The notions of Right and Wrong, Justice and Injustice have there no place. Where there is no common Power, there is no Law: where no Law, no Injustice.”<sup>22</sup> The state, Hobbes’ Leviathan, ensures order through the creation, and enforcement, of laws. Once these laws are created by the state it becomes mandatory for the populace to conform to these laws, else they are justly punished by the state, which is more powerful than they. Hobbes has located the legitimacy of these laws within the idea of his state of nature. Legitimacy does come from the barrel of a gun in this case. No law that can be easily flouted is legitimate. Without force there is no order, and therefore no legitimacy. However, with force laws become a powerful tool for individuals to organize power relationships based on rules, rather than ever changing comparisons of strength.

We have only succeeded in overcoming the anarchy and warlordism inherent to the state of nature through governance; governance which limits individual freedom in order to expand the ability of individuals to work together; to achieve greater things than they would otherwise be able. Trade and organization enable the efficiencies of specialization and the benefits of self-interested action. Governance is the basis of cooperation.

We have often seen that when governance is cast down mankind reverts to tribal practices and relational enforcement mechanisms. The destruction of Roman

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<sup>22</sup> Ibid., 78.

order preceded the Dark Ages, the destruction of Soviet order preceded a long slide for Eastern Europe, and the destruction of the Ba'athist regime in Iraq predicated the implosion of Iraq's economy.

Under what conditions is an investor likely to invest? If there are no laws, only individuals who can forcefully protect their investments are likely to invest. Yet, these are the same people who do not need to invest, as they can expropriate wealth from others. Facing these incentives, burying bullion in the backyard becomes a more rational choice for less powerful groups and individuals. In Iraq, the 3rd Squadron, 4th US Cavalry Regiment created a program in 2009 to educate "mattress millionaires" on the benefits of investment over hoarding<sup>23</sup>. Many of these potential investors felt they would lose their wealth should it become known they possessed it.

Another example is in property. Valuation of property in Iraq plummeted as the insurgency gained momentum. Without disinterested third party enforcement of property rights exchanging deeds became pointless. In areas where ethnic militias actively evicted non-member families, occupation by force became common; squatters reigned supreme.

Curtis Milhaupt and Mark West, professors of law, published<sup>24</sup> on the intersection of government and criminal enforcement. They demonstrate, through data collected in Japan, that the Yakuza, Japanese organized crime, has the most influence in areas of dispute resolution where the government has the least amount of presence. They argue that organized crime is "an entrepreneurial response to inefficiencies in the

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<sup>23</sup> Hodne, "After the Surge," 22.

<sup>24</sup> Milhaupt and West, "The Dark Side of Private Ordering."

property rights and enforcement framework supplied by the state.”<sup>25</sup>

The inefficiencies of the Japanese legal system run across a number of sectors: bankruptcy, debt collection, landlord-tenant issues, shareholders’ rights, dispute intermediaries, and entrepreneurial finance. All of which now have some connection with organized crime rather than being a state monopoly. “Thus, in many ways, organized criminal firms are the missing transaction cost engineers in the Japanese system.”<sup>26</sup>

When the state is absent warlordism and concomitant trials of strength through violence are the norm. The difference between a nation like Japan and anywhere else in the world is the extent of the state, and its ability to drive out competitors. Most other nations have even less complete state structures as well as less ability to drive out competition.

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<sup>25</sup> Ibid., 43.

<sup>26</sup> Ibid., 66.

## UNDERPINNINGS OF RATIONAL CHOICE

Prior to the January 2005 elections in Iraq a politician was asked about his party's economic platform and he replied: "An economic plan is not a priority.... The priority is security. Any words on the economy are ignored by Iraqis. Iraq is looking for security only, so when a man's son goes to school he comes home safely, when his wife goes to the market she comes home safely."<sup>27</sup> Obviously a noneconomic decision matrix has been prioritized in Iraq.

With a Hobbesian framework we can see that there is a realist interpretation of economic decision making; realist in the terms of international relations, power relationships govern all, and rational self-interest is the magnetic pole attracting decision making. In places with laws and credible enforcement power these impulses can be directed into efficient economic competition rather than power. In this milieu liberal ideas then come to the fore and appear to be the defining characteristics of interaction between individuals.

Maslow's hierarchy of needs<sup>28</sup> is an important concept when trying to discern the motivations of action in this muddle. Many factors which bound rational decision making are embedded in his theory. The five needs are physiological, safety, love, esteem and self-actualization.

Physiological needs are anything necessary to ensure continued biological

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<sup>27</sup> Rosen, *In the Belly of the Green Bird*, 211.

<sup>28</sup> Maslow, "A Theory of Human Motivation."

functioning. These include nutrition, sleep, basic clothing and shelter. The lack of these needs will lead to death through starvation or exposure. The second need is for safety; protection from pain, injury, and death are the highlights of this category. Security also includes ensuring continued access to the means of fulfilling physiological needs. Love is the third need. Not limited to romantic notions of love, but also including the need for relationships which produce a feeling of belongingness. Securing a place in a group becomes paramount to fulfill this need. Fourth are esteem needs. The need for respect among compatriots drives fulfillment of this need. The fifth need is self-actualization. The desire for self-fulfillment, to do what the individual is fitted for. "What a man can be, he must be."<sup>29</sup>

These needs are ordered by priority of desired fulfillment. Physiological needs, such as hunger, will trump less essential needs such as love or self-actualization until this need is met. The emergence of later needs occurs as more basic needs become increasingly satisfied. Maslow realized that there is no particular line at which one need can be said to be satiated. Each individual exists along a continuum where some needs are fulfilled more or less than others. Also, some individuals, who had encountered a surfeit of satisfaction in some needs, may have the ranking of their hierarchy modified.

An important idea that Maslow elucidates is that even the philosophical outlook of the individual will be impacted by either the lack or surfeit of fulfillment of basic desires. Fulfilling unsatiated needs will become an overwhelming locus, driving behavior.

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<sup>29</sup> Ibid., 383.

A great number of development practices are focused on developing capitalist, democratic systems. Problematically in many cases this approach skips over more the basic needs of the population and the circumstances in which the population is enmeshed. Maslow compares individuals with unsatisfied basic needs to those diagnosed with maladies of malnourishment, such as scurvy. "He is as surely sick as if he had suddenly developed a strong salt-hunger or calcium hunger."<sup>30</sup> Yet, regardless, we expect them to sprint across the finish line into a capitalist democratic society through the implementation of elections and elimination of the state role in the economy. No wonder transition countries have so often run aground.

Theory, also, has largely glossed over this hierarchy. A nod is given to rational choice, but not to the basis of rationality. A problem faced in encouraging the establishment of capitalist democratic systems is connecting theories with reality. It is probably true that a capitalist democratic system would bring needed solutions to problems these societies face; yet, it is more important what indigenous individuals believe, and can achieve within the bounds on choice they face.

Is it likely that democratic systems implemented in societies which lack basic necessities or security will lead to the desired democracy? More often we have seen the rise of demagoguery and populism from efforts to secure democracy through elections, let alone the hurdles faced when traditional sociological structures, which provide a sense of belonging and esteem for many individuals, are deemed antidemocratic, and slated for removal. Bringing to mind the problem of the Ba'athist Iraqi Army. Many men

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<sup>30</sup> Ibid., 388.

found their identity, comradeship and esteem from their ranks and positions in that army; in addition to a source of income which provided their livelihood. Without it, they became unemployed, and lost a primary means to satisfy a diverse array of needs. It is no surprise they turned to alternate sources; including the insurgency. Yet, the Iraqi Army was a tool used by the Baath party to ensure its continued rule. Military coups have been historically common in the Middle East. If the army had been left in place what was the likelihood of a coup, especially had our stay in Iraq been as brief as originally planned?

The absence of theory is problematic because theory supplies tools necessary for argument. Without those tools we turn to unfocused pragmatics, without a firm foundation in either economic or political sciences. Understanding the underlying logic of rational choice is essential for comprehensive theory. Individuals or groups without food or security are not likely to make the same decisions as those with a surfeit of material wealth, even when presented with the same opportunities. Even within a society there are haves and have-nots. These divisions within a nation will impact the effect of growth strategies pursued and needs to be taken into account.

## A MODEL OF EXPROPRIATION

Bates, Grief, and Singh (2002) build a number of models to demonstrate the interactions of violence and production in a stateless society. Time is a limited commodity in any society, which individuals must choose how to invest. Therefore, a production trade-off is faced by individuals. Should they produce wealth through labor? Have a capacity for violence? Or should they produce nothing and enjoy their time as leisure? The expected ex-post balance of power plays a central role in this decision. Wealth produces utility. But capacity for violence enables the expropriation of wealth created by others. In this case the third option, leisure, which cannot be expropriated, may be the dominant strategy. The rules set in this model are a little abstract, but are not unreasonable. The most interesting result of their analysis is they “uncover a fundamental trade-off in the political economy of stateless societies. In such societies, we find, poverty can be the price of peace.”<sup>31</sup>

Their model plays through in the following fashion: should an individual produce wealth, then the expected reward to individuals who have produced a capacity for violence is increased. With this increased reward more individuals should choose to produce a capacity for violence instead of wealth or leisure. However, as the capacity for violence increases, then the rewards to raiding are reduced, both because of the increased number of individuals choosing to produce capacity for violence and the

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<sup>31</sup> Bates, Grief, and Singh, “Organizing Violence,” 600.

reduced number of individuals producing wealth. At this point the third option, producing leisure, becomes a dominant strategy for maximizing utility. This reveals a link between stateless societies and poverty. In a dynamic model, with multiple periods, any movement towards production is expected to be met with violence and disorder.

This is a startling conclusion; that the accumulation of wealth in a stateless society will be accompanied by a rise in violence. Conflictingly, we have seen in development theory and practice the opposite claim, that a rising level of wealth is tied to peace and prosperity. How are these views to be reconciled? It is apparent that affluent societies enjoy the benefits of peace, and less economically developed societies are often the locus of battle. It seems antithetical to suggest that investment, *ceteris paribus*, will lead to conflict. So, how to explain this schism?

Bates, Grief and Singh take the first step when they introduce a specialist in violence, a Leviathan, to the mix. They demonstrate that a specialist in violence with a mandate to protect wealth from expropriation is a Pareto dominant strategy. This service is remunerated by wealth producers through a tax, or tribute, paid to the violence specialist. The level of the tax needs to be such that it is in the interest of the violence specialist to continue enforcing rules rather than engaging in raiding activity. This specialist is deterred from plunder by two expected costs. First, raiding by the violence specialist would destroy the expected future value of payments for protection, and second, this would encourage producers to switch into building capacity for violence, lowering the returns from any tax.

When a Leviathan protects wealth more individuals will find production is a

viable alternative to leisure, increasing the wealth of society. This indeed reflects Hobbes' world, with a concern for extra-societal raiding, and the incentive for the local violence specialist to increase its power in order to protect this wealth and dominate the wealth of other societies.

Thus, in order to escape the poverty trap of persistent conflict it is necessary to erect a specialist in violence; and then empower this specialist to enforce order within as large an area as it can reasonably dominate. This sounds similar to Weber's definition of sovereignty given earlier.

Further economic benefits are realized with the creation of a specialist in violence other than simple protection from expropriation. Given a sliding level of trust where those closer and more known are ranked more trustworthy than outsiders, there will exist a corresponding level of propensity toward ensuring these outsiders do not gain power relative to trusted insiders. Outsiders cannot be trusted to remain peaceful, if they should gain power relative to insiders they can be expected to dominate this inside group through whatever means available. So, in any contracts, or economic activity, relative gains of the insiders versus outsiders will be an essential strategic calculation towards the feasibility of a deal. As the expectation of the ability of outsiders to enforce domination is lowered then absolute gains become more attractive. Therefore a specialist in violence which enforces commitments can reduce balance of power considerations, enabling positive sum games to be considered.

The negotiation of an oil law in Iraq is an example of one such problem. Kurds and Arabs; Sunni and Shia; Basrawis and Baghdadis all stand to gain from a new oil law.

All will gain money and power from its passage, but some will gain more than others. The conflict between Kurds and Arabs is the best example. The Kurds fear that should Arabs gain primary control of oil revenues, without a deal on reorganizing the Iraqi Army, then this money will be used to fund Arab units which may, someday, march on Arbil. While the Arabs do not fear the threat of a Kurdish attack so acutely, they are concerned with the threat of empowered separatist Kurds breaking away from Iraq.

Contract enforcement is an area where the state functions as an essential third party enforcement mechanism. The power of the state, as the specialist in violence, can be used to ensure a third party is available to guarantee and enforce contracts. Contracts are a pivotal point of transactions and economics as a whole.

How does the state achieve dominance and create an environment of cooperation? Just through its existence? It is readily apparent that the tax rate is a flimsy guardian of order. If dollars spent on infrastructure and microgrants risk increasing the value of the prize and fueling conflict then, perhaps, the most productive strategy in fostering development is to focus directly on reducing raiding through two means: first, assisting the specialist in violence to punish raiding within their territory, and, second, encouraging structures which ensure that the specialist refrains from plunder.

Visible institutions of laws are necessary, and organizations of enforcement. At this juncture development assistance is required by many nations throughout the world. Yet these visible institutions and organizations must conform to invisible local institutions, and belief structures, of justice, or they will be rejected over the long term.

Foreign aid has had difficulty in achieving this local support. Externally imposed structures are not likely to last. Only by proffering our understanding of alternate, and more successful, strategies of organization can we assist local leaders to improve extant local institutions. Here is where greater results can be had with fewer resources.

## INSTITUTIONS, ORGANIZATIONS, AND BELIEFS

“And this also... has been one of the darkest places of the earth.”<sup>32</sup> Marlow, before delving into the depths of Africa, mused that even the banks of the Thames were once anarchic wilderness; a place where Roman legionnaires struggled, and died, to impose rule on a tribal people. Yet now, London is a focal point of world capitalism, even though England had been as savage and unknown as the depths of Africa. How was this darkness lifted?

The previous sections have elucidated the necessity for a third party, the state, to provide order amidst anarchy; a specialist in violence. But how is this implemented in actuality? How can such a specialist be created, and more importantly, restrained? Early in human development personal relationships were able to control violence. In small communities information on others is readily available and self-help is efficacious. Tribal systems are an early means to expand these personal network arrangements to accommodate a growing population, but with continued growth these systems grow unwieldy and become a less viable means of control. An organized state becomes a crucial means of controlling violence.

North, Wallis, and Weingast in *Violence and Social Orders* have built a model to illuminate how mankind has overcome Hobbesian anarchy. For them, the central problem of society is how to control violence. They place the nexus of control in the

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<sup>32</sup> Conrad, *Heart of Darkness*, 5.

entity of the state. They posit that the state is a supra-network of institutions, enforced by organizations. The differences in development outcomes for various states are dependent upon the efficacy of this system in supporting organizational forms necessary for economic growth, while at the same time controlling noneconomic competition.

They open with evidence that modern nations are not wealthy because of higher growth rates than those of less developed states, but rather “because they greatly reduced the episodes of negative growth.”<sup>33</sup> Stability is the key to wealth. Dazzling rates of growth of many developing nations have been dashed on the rocks of dissent rather than contributing to long term prosperity. This observation fits in with our earlier thought experiment where we saw how increased wealth can lead to higher payoffs to violence and thence increasing struggle.

Some definitions are in order to ensure clarity. Too often institutions and organizations are lumped together and in-depth analysis of each goes unexamined. What goes overlooked is the third element of this tripod, social belief structures. These three supports act in concert. When one is shifted, all shift in reaction.

An institution is a system of rules and expectations by which individuals and organizations organize their activities. “*Institutions* are the ‘rules of the game’ (North, 1990, pp. 3-4), the patterns of interaction that govern and constrain the relationships of individuals.”<sup>34</sup> These may or may not be codified. Institutions are not self-enforcing. They may designate punishments but are reliant on organizations to carry these out.

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<sup>33</sup> North, Wallis, and Weingast, *Violence and Social Orders*, 4.

<sup>34</sup> *Ibid.*, 15.

An organization is an arrangement of individuals who work in concert to achieve organizational goals. “[O]rganizations consist of specific groups of individuals pursuing a mix of common and individual goals through partially coordinated behavior.”<sup>35</sup> It is not required for the individuals to have common goals, but it is necessary for an effective organization to have some sort of leadership structure which will decide upon the goals which the organization will pursue. The advantages for organizing are either to exploit specialization or to provide group reinforcing motivation. Organizations can be very diverse, from very structured hierarchies to rapidly shifting conglomerations.

How groups organize depends on many factors, including the institutions of the group; beliefs of the society in which they operate; the purpose to which they are aligned; and, the nature of their competitors. For example, where conflict is a definite possibility weaker organizations will be decentralized in order to reduce the impact of leadership losses due to attacks of stronger opponents. Or, decentralization may occur in places with greater benefits to quick localized action. Where gains can be made from specialization, centralized forms of leadership dominate.<sup>36</sup>

Though only mentioned tangentially in *Violence and Social Orders*, I put forward that beliefs are a third, necessary element in this structure, and support institutions and organizations. Beliefs are very similar to institutions, except that they exist inside the minds of the individual rather than being an external influence upon the individual. Institutions are an external, visible, set of rules, while beliefs are an internal, invisible, idea of how the world does or should work; which can be as binding a set of restraints

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<sup>35</sup> Ibid., 15.

<sup>36</sup> Sinno, *Organizations at War in Afghanistan and Beyond*.

as external institutions enforced by organizations. Cognitive psychology has a theory which illustrates this concept; self-efficacy theory demonstrates through clinical study how an individual's belief in their ability to do something is more important to success than actual ability<sup>37</sup>. Beliefs encompass not only efficacy but also ideas of right and wrong, a sense of justice in a group, lauding some norms of behavior and castigating others. There must be individuals who identify that an institution is the proper way to comport themselves and that particular organizations are the best way to realize these beliefs. Then they align themselves into these organizations to implement these beliefs, creating, changing and destroying previous institutions, organizations and beliefs.

The US Department of Defense, after cultural missteps in Afghanistan and Iraq, saw the need for a better understanding of indigent culture, and sought to build Human Terrain Teams (HTTs) filled with social science researchers, primarily anthropologists, to conduct cultural research and advise military units in the field. The American Association of Anthropologists is, as the name suggests, an organization of anthropologists. This association called for a boycott against participation on HTTs, which drove up the cost of the program dramatically. Primarily, this conflict came about not because of institutional or organizational conflict, both purport to desire a society based on local participatory democracy which supports human rights, but rather a conflict of beliefs on how to achieve that goal.

North, Wallis, and Weingast mention beliefs as motives for behavior, yet purposefully do not delve too deeply. They are satisfied with examining external

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<sup>37</sup> Bandura, *Self-Efficacy*.

behavior rather than internal origins of behavior. However, without motivators to inspire behavior these institutions and organizations will crumble and fade, inspiring no more dread, or obedience, than Shelley's Ozymandias.

North, Wallis, and Weingast describe a spectrum of states and compare their success in controlling violence and building prosperity based on the ability of state institutions to foster support for organizations. They model the evolution of how states improve themselves and then cross a tipping point into stability and prosperity. Their base unit is the "natural state" where elites have come together and created institutions and organizations which can regulate interactions among themselves. Elites submit to this third party in order to gain benefits they would be unable to procure alone.

These states have two strategic methods to reduce violence. The first method is to increase the expected costs of violent behavior; the second is to increase the expected rewards of nonviolent behavior. Reducing violence involves revaluing the rewards matrix of independent actors adding weight toward the rewards of production rather than of violence. For weak states, it is often impracticable for the state to enforce punishments. Violent actors may be more powerful than the state, or the costs of detection and punishment are unreasonable or beyond the capacity of the state, impacting the credibility of punishment. Therefore the most often used mechanisms in weak states come from the second method, creating and controlling rents generated by nonviolent behavior.

The ability of the state to control access to the rents generated by organizations is the key to stability. As a state gains more control, and organizations become less

charismatically based, institutions move the state into new, more developed, categories; culminating in a mature natural state. They acknowledge that this is not a linear preordained process through which states evolve; but rather a back and forth, sputtering, and often failing, process. The key to prosperity is the strengthening of enforcement organizations, and the expansion of access to organizational forms to the populace. As the state is able to offer greater and greater access to support for organizations, while simultaneously minimizing violence, the entire society prospers. Critically they do not believe that this process necessitates a confrontation where elites are forced to relinquish their rights, but rather can incorporate scenarios in which expanding the rights of citizens to construct organizations supported by the state is in the interest of elites.<sup>38</sup>

The tipping point into the modern prosperity of the West comes when a society becomes an “open access order.” In an open access order the ability to create state supported organizations is open to all members of a nation, regardless of social standing. Elite privileges are transformed into impersonal rights of all citizens. This unleashes the ability of all individuals to utilize these powerful organizational tools, outside the purview of the state, to pursue private goals.

The model they describe is useful. It lays out a path for development successes. They advise development practitioners to increase the ability of the state to facilitate organizational forms and to expand access to these forms to the entire population.

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<sup>38</sup> North, Wallis and Weingast expound a theory very similar to the one Bates lays out in *Prosperity and Violence* (2001), that elites are motivated to invest political power in economic producers in order to secure the military might to leverage against outside threats or opportunities.

However, the focus of their model pushes all of this power and responsibility to the state. Other means of providing support for institutions are neglected. They build a Platonic nationalist society without conflicting social structures and call it peace.

North, Wallis, and Weingast lay out a very good argument linking state support for organizations and successful development. Still, I feel that they have failed to examine the larger sociological tapestry. The state does not have a monopoly on institutional support for organizations and rarely, except in cases of totalitarianism, exerts effort to influence the belief structures of citizens. They do not examine the role of nonstate entities and the conflict that develops between competing institutional structures based on differing beliefs of the populace in developing societies.

*Violence and Social Orders* is extremely state centric. This view is very Western, sublimating the role of religion and other such nexuses. It seems to usher in a view similar to Fukuyama's *End of History* rather than Huntington's *Clash of Civilizations*. Throughout human history the state has been only one nexus around which institutions, organizations and beliefs cluster. Tribalism and religion are also able to support organizations through a construct of beliefs, institutions and organizations. Additionally, any area which the state neglects, or refuses to enter, will become a point where other violence based systems, such as gangs, will thrive. These entities need not necessarily end at a strictly defined national border, and struggle among them is not limited to Westphalian state conflict. In any given physical space multiple independent sets of institutions, organizations and beliefs are operant<sup>39</sup>.

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<sup>39</sup> Culture could be envisioned as this mesh.

## COMMITMENT REGIMES

We need better tools to organize our thoughts about effective development practices; tools that encompass the experience of struggling nations in which most development work occurs. When industrial and technological advancements clash with established ideas and organizations, then development is retarded. In a contorted web of needs, beliefs, and power, ignoring the role of competing structures will lead to less efficient, and in some cases counterproductive, practices.

Avner and Kandel found, in research on the transition economies of Eastern European formerly socialist states, that desired success never materialized because: “In devising transition policies, Western economists have implicitly assumed the existence of a market economy and hence, by and large, they have ignored the policy implications of the need to create markets.”<sup>40</sup> Assuming markets exist is again the assumption of a Westphalian state. They saw that when technocratic policies of privatization, and democratization, entered a showdown with a violent, and relational, state of nature, chaos was the result. They conclude: “To foster growth there is an urgent need to devise and influence private order institutions and legal mechanisms that would enable small firms to credibly commit themselves to respect their contractual obligations.”<sup>41</sup>

Commitment has always been a central facet of human interaction. How individuals commit to present and future action with regards to an uncertain future is a

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<sup>40</sup> Grief, and Kandel, “Contract Enforcement Institutions,” ii.

<sup>41</sup> Ibid., iii.

mainstay of most social structures. The advancement of governance can be viewed as the evolution of commitment. For Hobbes, without a state there is no injustice, and hence no commitment: “[W]here there is no Common-wealth, there nothing is Unjust. So that the nature of Justice, consisteth in keeping of valid Covenants: but the Validity of Covenants begins not but with the Constitution of a Civill Power, sufficient to compell men to keep them: And then it is also that Propriety begins.”<sup>42</sup> From this rises the difficulty faced in modern times of operating in ungoverned zones of conflict.

Making commitments, resolving disputes, and enforcing compliance are crucial pieces of commitment. Contrary to Hobbes and other thinkers, a state is not the only nexus capable of supporting commitment, rather it is the primary nexus in modern Western societies. I will call a nexus amalgamating the three processes of commitments a commitment regime. This includes: codification of what consists of a commitment, a process for resolving disputes over the terms of the commitment, and a method of enforcing violations of commitments. Each of these steps involves a transaction cost.

As stated, commitment regimes are not the sole province of politically created legal structures. Commitment regimes are also found in divinely inspired religious structures; relationship based traditional familial constructs, present in many tribal forms; and informal groups, characterized by explicit threats and use of violence, found in gangs and organized crime. Delimiting categorical boundaries between political legal structures and systems based on explicit threats of violence can be difficult. Similarly, there is not a bright line dividing traditional relationship structures and religious

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<sup>42</sup> Hobbes, *Leviathan*, 89.

structures.

A good lens through which to examine the differences and similarities between these commitment regime categories is Max Weber's thoughts on charisma and bureaucracy.<sup>43</sup> For Weber institutional change is implemented through charismatic means against embedded bureaucratic power. Once changes are implemented, actors then attempt to rationalize and bureaucratize new rules in order to solidify the changes. Using his framework to examine commitment regimes we can see gangs as charismatic movements building similar powers to those built by states. We can see as well that to a certain extent new religious systems are charismatic based changes to traditional tribal and familial practices.

When systems are rationalized, and bureaucratized, there often is compromise among competing charismatic systems to reduce conflict and realize individual gains. Thus we see that bureaucratic systems are generally amalgamations of numerous charismatic systems. What we refer to as states are the remains of numerous, violence based, charismatic movements, while tribes and traditional practices are often remnants of many charismatic divinely inspired systems. Regardless of origin, each competes for adherents. Each commitment made using a particular commitment regime validates and strengthens the institutions, organizations and beliefs of the structure.

Governmental commitment regimes are generally applied to all individuals who reside within a specific geographic area; though, in weak states, there is often contention over this designation. Gang commitment regimes are informal violence

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<sup>43</sup> Weber, *On Charisma and Institution Building*.

based systems which fill in the cracks of government regimes. There is no monopoly of violence in any society; realms where entry cost is low and profits are high there will be entry. When governments decline to enforce contracts, such as for illegal transactions, gangs often step in. Whether people submit to governments or gangs depends on the capabilities of these types of regimes.

Tribal commitment regimes are regimes which extend among individuals related by blood and conceptually identifying with tribal leadership. These tribal leaders can and often do engage with other tribal leaders to resolve intratribal conflicts. However, these leaders are often ignored, or relegated to lower status, by national political leaders.

Religious commitment regimes bring together individuals united through their belief in a common doctrine of divine revelation as to the purpose of man and/or the consequences for present actions in the afterlife. Often these commitment regimes posit an infallible ruler or system which will unerringly punish transgressors. Religious commitment regimes can minimize enforcement costs based on this belief.

Difficulties arise when there are deals to be made across regime boundaries; the enforcement problem comes up again. This builds intraregime conflict, at higher levels leading to Huntington's clash of civilizations. I see these forces behind two powerful historic phenomena: the rise of messianic religions and imperialism. In the first case, commerce is facilitated by both parties holding the same religious system; if both parties believe that an infallible God will unerringly punish transgressors then the cost of enforcement is low. Therefore, expansion of religious doctrine by the sword begins to make economic sense as a method to facilitate exchange and build wealth. One could

posit that the adoption of Christianity by the Roman Empire extended the life of the empire by reducing transaction cost of commitment. In the second case, governments trying to expand the reach of their commitment regime mechanisms embodied in national laws and courts subjugate newly discovered lands in order to enable commerce. If the local system is not able to reliably guarantee contracts then the system of the imperialist nation is imposed.

A modern case of commitment regime expansion is embodied in globalization. Globalization is expanding the ability to make commitments across national boundaries, facilitating international commitments and thus commerce. Trade courts have been established in the World Trade Organization, and imbued with authority to enforce their rulings.

Thinking in terms of commitment regimes is useful for development efforts. The goal of building democratic capitalism in conflicted areas has proven elusive and difficult to measure. Practitioners need a better framework to guide decision making and data collection. Increasing efficiency of commitment regimes appears to be a more useful strategy than the continued focus on investment led growth. To assess this claim we must ask: what makes a theory useful for practitioners? Then we can explore if a commitment regime focus can provide this utility.

First, a theory must lend itself to measurability. The most successful organizations track successes and failures in order to learn and improve actions and ideas. Second, a theory needs to have some idea of where it is going and how to get there, phases or lines of effort help give a sense of progress. Third, a theory must be

ideologically fulfilling, without this, gathering the requisite support is not likely to happen. Fourth is sustainability, the latest catch phrase in international development, projects which require ongoing external support having fallen into disfavor. Fifth, and finally, in the current economic climate an essential element is a theory's ability to deliver results with a small investment. Multibillion dollar development commitments are an inconstant star, for who can predict when political conditions will allow these expenditures.

A commitment regime focus lends itself well to measurement, but, each of the four types (governmental, religious, tribal, gang) must be gauged in regards to the physical area of desired effect. Each type should be assessed at the beginning of a campaign in regards to the three pillars of commitment regimes: making commitments, dispute resolution and enforcement. Through building this community commitment matrix the observer will have a base point from which to measure improvements. A related measure of effectiveness would be to try to come to an understanding of the number of commitments. As the efficiency of a commitment regime increases we should expect the number of commitments utilizing that regime to go up. Even the process of gathering this number is a good first step in the process of making commitment regimes more useful. Organizations which make up commitment regimes often possess this information through information gathered in the making of commitments. Entities that do not possess this information are not being utilized effectively for the making of commitments. Ease of business registration in the Western world is an example of a more efficient commitment regime. Once these businesses are

registered, they commit to reporting business activity and in return are guaranteed certain rights by the government, including the use of the court system to arbitrate and enforce contractual commitments.

Activity on lines of effort in a commitment regime approach can in some cases run concurrently; but, at others, are more effective being implemented after other lines have advanced to a certain point. A primary line of effort is a focus on reforming business laws of the indigent political commitment regime. Developing the primary modern commitment nexus, government should start by redrafting business, finance, and even property laws. Once this line has started to produce reforms another line of effort should be activated: educating current and potential businessmen on the changed laws. Else, in the confusion of transition, numerous opportunities may be lost. A third line of effort is to connect financial organizations, international and domestic, with effective local commitment regimes. An example of the success of this can be seen in the success of microfinance. Instead of relying on inefficient political/governmental commitment regimes microfinance relies on enforcement by local tribal/family regimes. Hawalaat are another means of finance which rely on traditional systems such as family or religion rather than political/governmental court systems. The specific required lines of effort enacted are dependent on local conditions. Still, the focus of these efforts should be to improve the three pieces of commitments: making commitments, resolving disputes, and enforcing resolution.

As for the ideological attractiveness of commitment regime improvement, the base intent of this focus is to expand upon the set of possible transactions increasing

opportunity in an economy. Increasing the ability for individuals to make choices and commitments is favorably looked upon and aligns with the current international environment which calls for increased freedoms. A drawback may be seen in the push to increasing enforcement abilities of some undesirable organizations.

Sustainability, while important, is a subjective assessment. Entropy and change seem to be the only constants in the world; even the Roman Empire crumbled. If we define sustainability as self-perpetuation, then, in order for anything to be sustainable, there must be some sort of commitment regime in place. These regimes are what enable sustainability. A primary caveat for constructing sustainable commitment regimes is that these regimes must align with the belief structures of the groups which will remain in the area. As discussed earlier, when local ideas and beliefs are incorporated with institutions and organizations these structures will stand.

Finally, cost is an important element of calculation as budgets are finite, especially in a political environment of government spending cuts. The advantage of commitment regimes is ambiguous in this area. While this approach does not necessitate physical construction it will still require staff and advisors. The value of a commitment regime outlook, in this respect, is in its scalability. Investment-shock growth theory calls for significant initial investment. If the investment gap is not bridged then investment will not lead to sustained growth. Commitment regimes are a more gradual process of advisement and shaping. Efforts, such as a big investment push, which stress immediacy, often fail to achieve desired effects.

Though I see commitment regimes as an excellent framework for development

work, there are some opposing arguments. One such is why should we create new category in a production function for commitment regimes rather than conceptualizing them as a facet of technology? Commitment regimes could be envisioned as simply the application of commitment technology, and that once discovered could be put to use by any organization. A process for guaranteeing commitment is still a process and not vastly different than a process to organize and operate a factory.

This argument is logically sound. However, enforcing commitment is rarely as value neutral as a technological process used to produce a new widget. Furthermore, commitment regimes underlie and perhaps even dictate to a certain extent what processes may be adopted by a society. A Leninist society has no operant way to adopt the capitalist technological process to operate a bank.

Another criticism is that a focus on commitment regimes may be too sympathetic to dictatorship and tyranny, that this focus may lead to a decoupling of development and democracy. In this argument development is not achievable without political freedoms.

This linkage is a sacred cow of the Western development community, and, beyond that, in popular thought. Any government pondering increasing its economic outlook is blatantly advised that democratization is the only path. While it is true that the Western nations which are more economically developed are democracies, it is not true to say that democratization is required for development. Germany, Japan, and South Korea are examples of nations which developed rapidly under authoritarian systems of government. Advocates for democratization bringing growth face the same

problem Friedrich List considered in the nineteenth century. List claimed the opposite, that industrialization would foster liberalism, yet he could never definitively prove causation rather than simply correlation.<sup>44</sup> The experiences of Germany, Japan, and South Korea seem to provide more evidence for an argument that industrialization leads to liberalization rather than democratization leading to growth.

Nevertheless, in the long run, democracy has proven more stable, and each of these three nations made the transition to democracy at some point in their development. While democratization is a good tool for growth enhancing stability, it is not the only possible path to foster development; especially when rapidly introduced democracy leads to demagoguery and turmoil.

Fostering commitment regimes appears on the surface to be neutral, and maybe beneficial, towards dictatorships when implementation supports state apparatuses of enforcement. However, many times nations have arrived into dictatorship and totalitarianism because commitment institutions were weak or failing, not because they were strong and well connected to local beliefs. The primary nexus that development practitioners should focus on is the dynamic between state power and market economics. A state with the ability to enforce contracts also has the ability to expropriate wealth. Should practitioners support and improve democratic commitment regimes, which restrain the expropriative power of the state, then growth of a democratic society can be established.

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<sup>44</sup> Hoselitz, *Theories of Economic Growth*, 202.

## COIN DEVELOPMENT DOCTRINE

The interaction of development and violence is most clear in the churn of insurrection. Doctrine is a good place to examine the methodology applied by the counter-insurgent, often the international community, and compare it to a commitment regime approach. Current doctrine has neglected the role of institutions, organizations, and beliefs in economic development, leaving these ideas to political officers rather than economic ones. The result of this imbalance is inefficient economic institutions which do not serve the society well, and hinder the establishment of sustainable indigenous practices.

The guiding purpose of counter insurgency (COIN) action is “to build popular support for a government while suppressing or co-opting insurgent movements.”<sup>45</sup> United States Government COIN doctrine describes best practices as a mixture of security, economic development and information actions, all guided by a political plan.<sup>46</sup> The goal of these actions is to enable the indigent government to control its environment. This will lead the population to support the government rather than insurgent forces.

While this approach does note the interconnectivity of political, economic, security and information spheres it lacks a clear description of how these factors link together. A commitment regime construct gives a more clear vision of what tasks need

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<sup>45</sup> US Government, “COIN Guide 2009,” 14.

<sup>46</sup> Ibid., 17.

to be accomplished in order to enable economic development in a society and link them to political development. Political efforts are necessary to create institutions and organizations, supported by local belief structures, in order to foster economic growth.

COIN doctrine describes the sphere of economic development as: “immediate humanitarian relief and the provision of essential services such as safe water, sanitation, basic health care, livelihood assistance, and primary education, as well as longer-term programs for development of infrastructure to support agricultural, industrial, educational, medical and commercial activities.”<sup>47</sup> This description focuses practitioners’ attention on three primary spheres of development: humanitarian relief, essential services, and infrastructure. All three of these spheres are geared towards a Rosenstein-Rodan Big Push capital investment effort. None look to improve commitment regime efficiency.

Doctrine says that development agencies should conduct an “in depth assessment of the back ground situation followed by the application of program management tools to give continuous evaluation and adjustment.”<sup>48</sup> How this should be done is not indicated. In fact, the scant page and a half devoted to economic development primarily notes the difficulties that will be encountered, due to the security environment, rather than any sort of prescriptive strategic advice.

US military COIN development doctrine is based on the idea that: “Economic recovery begins with an actively engaged labor force.”<sup>49</sup> The methodology is focused

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<sup>47</sup> Ibid., 24.

<sup>48</sup> Ibid., 24.

<sup>49</sup> US Army, *Field Manual 3-24.2*, 7-23.

directly on two immediate problems: militants recruiting from the pool of unemployed labor to conduct attacks, and the disgruntlement of an unemployed populace. “A poor and unemployed population is naturally dissatisfied. The major pool of insurgent recruits are young, unemployed, adult males. The primary motivation for a young male to join an insurgency is often the wage that it provides.”<sup>50</sup> Thus, with this narrow focus the methods used are primarily focused on short term improvements. The two methods are an infusion of capital, again leveraging Big Push ideas, and “conduct[ing] stability operations to create situations where businesses can thrive.”<sup>51</sup>

Billions of dollars have been spent on the Commander’s Emergency Response Program (CERP). This program gives low-level commanders significant funds to jump start the communities in which they operate. This program has been very successful from the point of view of these commanders. However, these successes have only been enduring when they strengthen indigent elements of commitment regimes.

Military doctrine does acknowledge its short-term focus and notes “this initial economic infusion must be translated into consistent capital availability and sustainable jobs programs,”<sup>52</sup> but offers little advice on how to achieve these effects. Commanders attempt to increase the effect of their investment funds through targeting meetings. They chase projects while struggling to implement Hirschman’s Unbalanced Growth model on the fly; but, without the assistance of industrial organization economists or Leontief’s comprehensive input/output tables.

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<sup>50</sup> Ibid., 6-32.

<sup>51</sup> Ibid., 6-32.

<sup>52</sup> Ibid., 7-23

Injecting an economy with capital development projects while calling for sustainability will not create an environment conducive to long-term economic growth. Security is essential for economic growth, but greater effort needs to be placed on producing an environment which leverages commitment regimes to foster broad based growth.

## COMMITMENT REGIMES AND IRAQ

Many of the successes, failures, and conundrums in Iraq can be clarified using a commitment regime model. I will focus on four areas: ideas of investment led growth, the success of the Sons of Iraq, the failure to pass an oil law, and the neglect of Iraqi business law.

Investment led growth practices led to a problem with reconstruction efforts in Iraq. The demand for new projects overwhelmed the economy's ability to produce, and retain, skilled labor. Finding competent contractors was a large problem. Rather than this demand for labor leading to an increase in the supply of workers and the production of vital infrastructure, it led to a rapid drop in work quality which led to the long term failure of many projects.

In an economy with better commitment regimes this would be a temporary quality slump. On the job training would improve job quality and eliminate new workers who could not improve. However, without the institutions and organizations that enforce contracts this is not necessarily the case. Fraud became a large problem. Contractors bid on work they were unable to complete, yet the entities letting these contracts were unable to effectively monitor and enforce contracted standards. Many projects became entangled with layers of subcontractors. Primary companies would bid and win contracts, then hire another company to perform on the contract. Without credible enforcement many times these subcontracts were underperformed. It became

more profitable to not fulfill contracts. Lack of enforcement enabled a downward spiral.

Even organizations attempting to enforce contracts by not hiring firms that failed to perform faced serious hurdles. First, with the high demand for skilled labor, organizations which failed to perform and were caught could simply reorganize and change their name and get new work. Second, and more problematically, many organizations lacked the ability to monitor the work they contracted due to the number of contracts and the restrictions on their movements due to security problems.

Violence was not only a political tool, but an economic one. Competent oversight of construction was eliminated when travel became restricted. This creates an environment where governance is not only contested by political insurgents, but also by economic agents focused on profits. The weakening of commitment regimes spread the roots of insurgency to economic actors. Blasting investments into an economy may have created short-term growth but it definitely created rewards for violence, incompetence and corruption.

The Sons of Iraq, and the tribal Awakening movement, was a successful program for increasing security in Sunni neighborhoods throughout the former Triangle of Death. Though not an explicit embrace of commitment regimes, it is apparent that the base idea played a role in the success of the program. Success was achieved through US commander support for organizations which leveraged tribal institutions and beliefs.

The Sons of Iraq program was an initiative of the US military which began small and soon became the primary approach towards Sunni areas. The Sons of Iraq were groups paid to stand guard over their own neighborhoods. The US military did not arm

these groups, individuals used their own weapons, or no weapons at all, to perform their duties. CERP funded these contracts, which were let to tribal, or sometimes neighborhood, leaders. Once a contract was assigned for an area to a local leader, these leaders used personal connections to fill slots. This built up their *wasta*, an Arabic term for honor and influence, because it created indebtedness for income to this local leader. Increased *wasta* gave these leaders the needed leverage to mediate neighborhood conflicts. This helped to break the ties which connected many young men to insurgent paymasters.

These structures were better able to stand against foreign mujahedeen groups organized around a fundamentalist interpretation of Islam than intermittent Iraqi and US military patrols. Many locals had become embittered against foreign fighters. These mujahedeen had been harassing Iraqis for “smoking cigarettes and even for drinking water.... They had banned alcohol, Western films, makeup, hairdressers... and even playing dominoes in the coffeehouses.”<sup>53</sup>

Supporting oppositional commitment regimes helped the Government of Iraq and the Coalition defeat the violent extremists present among the populace of Iraq. These tribal regimes were not against Islam, or even against government. They were concerned with preserving their dignity and building a future for their communities.

Progress on a national oil law is still stalled in the Council of Representatives, years after US Ambassador Khalilzad declared a breakthrough as he exited Iraq in 2006. This law has consistently been highlighted locally and internationally as essential to the

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<sup>53</sup> Rosen, *In the Belly of the Green Bird*, 170.

development of Iraq. The scope of the law is creating a national oil company and a system to distribute profits from the enormous mineral assets to be found beneath Iraq.

Issues remain on what percentage of oil profits will go to which provinces, how this percentage will be decided in the future, how money will flow from the oil to provinces, what are the roles of regions, groups of provinces, in the process of oil project development, etc.

The Iraqi Council of Representatives has difficulty passing a law because there is no authority which is able to credibly adjudicate and balance the concerns of all parties; nor will there be until the governmental commitment regime becomes more stable, and less partisan. Rather than focusing on stabilization of underlying commitment regimes, years of attempts have been made to come to an agreement with extant power balances. Who would be the guarantor? There is no outside party with credible enforcement power.

So much effort has been spent on developing a national oil law, while something much more essential has been glossed over, nearly ignored. Iraqi business law is in a state of disrepair. Doingbusiness.org, an international research group under the auspices of the World Bank and the International Finance Corporation, has consistently ranked Iraq at the bottom end of international rankings for ease of doing business. Iraq ranked 166 out of 183 in both 2010 and 2011 reports.<sup>54</sup> Many Iraqi business laws date from the monarchy, or the days of the national socialist Ba'ath party, without modification.

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<sup>54</sup> Doing Business, accessed 12 Aug. 2011, <http://www.doingbusiness.org/>

One stubborn problem is the difficulty and cost of importing and exporting goods. The Doing Business survey ranked Iraq at 180 of 183 in 2010, improving one position in 2011. They estimate in 2011 that clearing customs took 80 days and cost \$3550 USD per container of goods. The bulk of these difficulties are legislative rules in nature, though corruption certainly plays a part in this process in many cases. The US military, in cooperation with other US agencies, assembled a number of Point of Entry Training Teams (POETT). These officers struggled daily with accelerating the process of importing and exporting goods and streamlining border control points. They faced numerous obstacles. No Iraqi agency was accorded authority over the entire process or operations at a POE and so every change became an intra-ministerial boondoggle requiring authorization from Baghdad. This authorization usually ended up bogged down in coordination between ministers, who may be political opponents due to the power sharing character of Iraqi governments.

In 2011 Iraq ranked 141<sup>st</sup> in contract enforcement. This enforcement would take an estimated 520 days and cost 28.1% of the claim.<sup>55</sup> In addition, this enforcement is primarily available for legitimate registered businesses, while starting a business in Iraq requires 11 steps, involving around 77 days, and the cost to do so is more than the average Iraqi made in a year. In contrast I registered a consulting business in Utah online in two days for around \$100 USD. Many international nongovernmental organizations have had trouble registering as a business in Iraq in order to legitimately conduct reconstruction programs benefiting the Iraqi people.

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<sup>55</sup> Ibid.

Yet, very little high level work has been done in Iraq to streamline these business processes. Instead, most Iraqi legislative, and US Embassy energy was focused instead on negotiations regarding oil. One body was established to spur international investment in Iraq, the Iraqi National Investment Commission (NIC).<sup>56</sup> However, this group has turned primarily into a promotional body. For instance, in 2009 they sponsored a business fair in Washington DC to showcase business opportunities in Iraq.<sup>57</sup> The NIC had no powers to offer incentives for international companies to bring investment to Iraq. The most they can do is attempt to help companies wend their way through bureaucratic hurdles.

Development needs to focus more on building institutions, creating efficient rules, and then empowering organizations to disseminate and enforce them. Private markets are a disorganized hodgepodge in Iraq, many Iraqis do not understand how private markets function and have limited access to the tools to create success. Colonel Peter Mansoor remarked: "I did my best to tutor the advisory councils on the laws of supply and demand, fixed price controls, and the black market, but to little avail... The Iraqis looked at me like I was crazy. They had adjusted their mindset to price-controlled LPG [liquefied petroleum gas] at 250 Dinars per bottle, and no one could convince them of the folly of the economics at that price."<sup>58</sup>

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<sup>56</sup> National Investment Commission, Republic of Iraq, accessed 12 Aug. 2011, <http://www.investpromo.gov.iq/>

<sup>57</sup> US Department of State, "Iraq Investment and Business Conference," accessed 12 Aug. 2011, <http://www.state.gov/r/pa/prs/ps/2009/oct/130661.htm>

<sup>58</sup> Mansoor, *Baghdad at Sunrise*, 154.

## CONCLUSION

The developed world is not characterized by the absence of violence. Rather it embodies better organized violence, which minimizes violence at the individual and charismatic levels. Commitment regimes are the best way to envision productive structures of violence. If we want to increase the options and investment in a society we need to explicitly work with these regimes; fighting some, supporting others. As Lieutenant General Jacoby, commander I Corps, Multinational Corps – Iraq, once said to us: “the longer I look at this [the war in Iraq], the more it looks like a rule of law problem.”<sup>59</sup> Establishing structures of rules and enforcement in accordance with local belief structures is the key to building security and stability.

Development planning, and practice, needs to better take into account the role of violence. Specifically, indigenous structures which harness violence need to be investigated and improved, or attacked. The continued focus of the development community on outdated ideas of kick starting development through investment shocks is nonproductive. A change in focus toward structures of commitment and violence is necessary for effective development.

Development at the strategic level requires a holistic practice. Specialization at the strategic level is not likely to lead to better results. Specialized individuals often attempt to apply the solutions found in their particular area of expertise. Without a

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<sup>59</sup> Author’s Notes, Advisor Multinational Corps – Iraq, 2009.

comprehensive idea of process this amalgamation leads to Frankensteinian policy, a simulacrum of a solution, but one which often brings out fire and pitchforks among the local populace. Political scientists are quick to implement democratic solutions while economists implement free market reforms. Little do they understand that rapid simultaneous implementation of these two paths often leads to chaos, and thence welcomed tyranny, rather than the freedoms to which they aspire.

As our national security has become more dependent on security in foreign lands this becomes a more important problem. In the face of tighter budgets, development practitioners need to adopt a new methodology. Too often investment led projects have brought scandal, and the response often is that these are the bad apples, not representative of general practice, but repetition makes one wonder. Commitment regimes give a new focus for practice. One which can unite disparate development communities—military, diplomatic and nonprofit—in a way investment led growth has not.

External infusion of capital based on political decision making creates subsidized opportunity. This should not be mistaken for intrinsic growth. Once the subsidies end, the opportunities will end. The role of development should be to create the preconditions for success which are based in the institutions, organizations and beliefs of indigent structures. Development practice which focuses on creating viable indigent commitment regimes will create a more efficient and efficacious system and will make each exchange more profitable. Doing so will open the floodgates to international capital; where millions of investment professionals are searching every day for

opportunities to invest trillions of dollars, more than any national development agency could ever command.

Commitment regimes and concomitant security are an input in a production function as essential as capital and labor. Without credible commitment, and security, production is limited by fraud, extortion and expropriation. Development must embrace this new idea in order to harness humanity's fire.

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