

## The Value of Destructive Power

### INTRODUCTION

In *the Kid* (1921), Charlie Chaplin's little tramp finds an ingenious way to earn his living as well as that of his little kid. The tramp and the kid go to a middle class district. First, the kid throws a stone and breaks the window of an apparently well to do apartment and then makes his escape. Then the tramp appears as a glazier and is hired to repair the broken window. In this way, the deliberate destruction of a window by the kid creates an outlet for the tramp.

Deprived layers of population are not only ones that may use their destructive power to create an outlet for their living. Strong states sometimes pursue imperialist policies to dominate other countries. The destruction of colonized countries may create new markets for the "civilized" states. However, there are crucial differences between Chaplin's story and the imperialist policy. In the former case, only windows are broken, whereas in the latter one, people are usually killed and states are broken. Many companies

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could be hired to reconstruct the windows (economy), but who can repair broken states? This was and remains as yet an unresolved puzzle. However, destruction can create outlets both for creating income (or *property*) and *sovereignty*; a fact that is often ignored by economists. The reason should be sought in the fundamental orientation of our discipline.

From its inception, Political Economy has been interested in analysing the value of creative power or the value that agents, individually or collectively, can produce or exchange at national or international level. What is at stake here is the exact opposite: how much can an agent *destroy*? This question is not less important than the traditional central question of the Political Economy, since it is easier to *destroy* than to *create*. In fact, we are able to destroy hundred or even thousand times more than what we can create. Destructive power is defined as threat power that may lead to the destruction of use or exchange values or even human beings and nature (Vahabi 2004). It bears many forms, violent as well as non-violent ones. Warfare, revolution, crime, strikes, demonstrations and social exclusion are some examples of destructive power.

Destructive power has two different functions. It can be used as a *means* to grab or appropriate the value created by others. In its *appropriative* function, destructive power redistributes the social amount of created wealth without mutual consent of all participants. The Rational Conflict theory (Boulding 1962; Schelling 1963) and New Political Economy (Tullock 1974; Hirshleifer

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<sup>1</sup> Andrei Nikolayev, chairman of the Russian Parliament's Defense Committee, said that Russia was trying to counterbalance NATO expansion by creating in Asia a triangle of strategic stability (*Russia and the Balance of Power*). Alexander Yakovenko, official spokesman for the Russian Foreign Ministry, has used a less loaded term, saying that Russia and China were keen on forging trilateral cooperation with India (Radyuhin, 2003).

1991) have focused on this aspect of destructive power. However, destructive power has a second function, namely *rule-producing*. The social product of destructive power as an *end* in itself is sovereignty. This aspect of destructive power has been neglected in Neo-classical approach, since this approach is based on a strict separation of property from sovereignty.

The purpose of this article is to discuss the value of destructive power. The specific properties of the value of destructive power in comparison to that of creative power will be studied in the first section. Section two will explore two different functions of destructive power, namely *appropriative* and *rule-producing* functions. Finally, the limits of marginal utility theory and standard economic assumptions in explaining the value of destructive power will be underlined in section three and alternative assumptions and method of analysis will be suggested.

### THE SPECIFICITY OF THE VALUE OF DESTRUCTIVE POWER COMPARED TO CREATIVE POWER

In this section, I will argue that the process of value destruction has two peculiar characteristics that distinguish it from the process of value creation. First, its value is based on the non-equivalency principle. Second, destructive power is more destructive than creative activity is productive.

#### *Non-Equivalency Principle*

It is a well-known fact that everybody can destroy a hundred or even a thousand times more than what s/he creates. However, this fact should be lent

to scrutiny in order to avoid possible misinterpretations. It is true that, at *individual* level, any agent (be it an individual, a group, or a nation) can destroy more than what s/he is able to create. But at *aggregate* level (all individuals, groups, or nations), agents cannot destroy more than what exists<sup>1</sup>.

If one imagines Robinson Crusoe on his isolated island and ask how much he can produce, one can conceive that the value of Robinson's creative power is equal to his marginal productivity. In this state of nature, Robinson has no *social* destructive power. But when Friday arrives, he can use his destructive power to enslave Friday. Now, the value of his destructive power is the amount of value that he can appropriate without any exchange by enforcing Friday to work for him. In other words, the marginal productivity of Friday is what Robinson can grab. However, to insure a permanent flow of revenue, Robinson can give a part of the marginal productivity of Friday to Friday and keep the rest for himself<sup>2</sup>. The value of Robinson's destructive power will augment with the increase in the total social value created by others, as if the creative activity produced a positive externality for grabbing activity. For instance, if Robinson's marginal productivity is equal to  $W_R = F'(L_R)$ , and there are two other individuals whose marginal utilities are

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<sup>1</sup> An individual who seeks wealth through the forcible appropriation of others' resources does not add to the national product. The net effect may be not merely a transfer but a net reduction in social income and wealth. However, I am not suggesting that warfare is unquestionably a source of impoverishment for any country and can never contribute to its prosperity. "Certainly the unprecedented prosperity enjoyed afterward by the countries on the losing side of the Second World War suggests that warfare need not always preclude economic expansion, and it is easy to provide earlier examples." (Baumol: 1990: 904).

<sup>2</sup> This is possible only if Friday can produce more than what is necessary to keep him alive, namely a surplus product, otherwise slavery has no economic rationale.

respectively  $W_1 = F'(L_1)$ ,  $W_2 = F'(L_2)$ , and that

$$W_1 + W_2 \geq W_R \quad (1)$$

Then while Robinson cannot expect to exchange more than  $W_R$ , he can expect to grab more than that amount since the total amount of created value is more than what he has produced. This implies that the expected value of Robinson's destructive power is more than the expected value of his creative power, since he can *violate* the exchange *equivalency principle*.

At an individual level, one can expect to appropriate more than one can expect to produce, since one may escape from what Clower calls "Say's Principle". Clower (1965) employs Say's Principle as synonymous with budget constraint. It states that "...the net value of an individual's *planned* trades is identically zero." (Clower and Leijonhufvud 1981: 80, the emphasis is mine). The budget constraint is regarded as a "rational postulate" of the individual's "planned" or "intended" behaviour. It implies that the individual's total spending *plan* cannot exceed his/her budget constraint, namely the total *expected* monetary revenue at his/her disposal.

Budget constraint as an *ex ante rational* behaviour should always hold true for describing the behaviour of transactors except for "a thief or a philanthropist" (Clower and Due 1972: 320)<sup>3</sup>. All predatory activities escape from the *ex ante equivalency principle*. They are subject to the *ex ante non-equivalency principle*. Nonetheless, the total amount of the market value of

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<sup>3</sup> For a more detailed analysis of Say's Principle and budget constraint, see Vahabi (2001: 161-165).

grabbing *ex post* cannot exceed the total amount of produced value *ex post*. Hence, if  $Y_c$  and  $Y_d$  represent respectively the total amount of created value *ex post* and the total amount of value that destructive power can win *ex post*, then we will have:

$$Y_c \geq Y_d \quad (2)$$

It is true that the total amount of value that can be destroyed may exceed the total amount of value created, since one is able to destroy not only what is *actually* produced, but also what can *potentially* be produced. In this way, one may extend the range of destructible things to not only those items produced, but also those goods that can be produced. Nevertheless, we cannot destroy more than what actually or potentially exists. The equation (2) will be justified, if we focus only on the creation and destruction of *exchange values*.

#### *More Productivity of Destructive Power*

Speaking about “productivity” of “destructive” power seems like an oxymoron. The word “productivity” is inappropriate to define the “destructivity” of each destroyer in a unit of time. It is necessary to invent another term like “destructivity” of destructive power to measure it. I propose “destructivity” defined in the *Webster Dictionary* as “capacity for destruction”, whereas “productivity” is “quality of being productive that is yielding benefits, profits”. Although I am aware of the inaccuracy of the term “productivity of destructive power”, I will continue to use this term due to its

conventional acceptance.

Destructive power is more destructive than creative power is productive, since the process of value destruction is much faster than the process of value creation. One can kill another person in a moment, and thus take his/her life that has required a complex and long process to develop from an embryo. It takes a few seconds to destroy a bridge by putting some explosives under it, whereas to construct it necessitates weeks, months, or even years of diligent work. Capital construction takes much longer time than capital destruction. In other words, the shorter necessary time for the destructive process compared to that of the creative process is the source of higher productivity of destructive power.

#### TWO DIFFERENT FUNCTIONS OF DESTRUCTIVE POWER

In recent economic literature, destructive power is usually reduced to a means of appropriating resources. In this section, my endeavour will be to demonstrate that destructive power has also a rule-producing function. Although these functions are inextricable, I treat them separately for theoretical clarity. For example, a revolution is for changing rules, but it also has an appropriative aspect, namely a redistribution of property rights. In the case of strikes, the *appropriative* function is straightforward, since their targets are usually to increase salary, reduce working hours and so on. Nevertheless, strikes also decide on the way an enterprise should be run. For workers' trade unions, striking is a very strong means that allows them to negotiate with employers concerning workers' participation in the management. Even the

right to strike is an important political question that involves the *rule-producing* function of destructive power. Criminal activity, as another form of destructive power, has both types of function. Its pirating or *appropriative* function is obvious, but it has a more enduring effect, namely a destabilising or *rule-disturbing* effect which implies disorder, anarchy, and insecurity.

The difference between these two functions is crucial. Destructive power in its *appropriative* function is a means, whereas in its *rule-producing* function, is an end in itself. In the former case, destructive power can be defined as an alternative means of reallocating resources. It can be dubbed “rent-seeking”, “predation”, “appropriative” and be integrated in a rational expectation or general equilibrium model of individual agents choosing between creative and destructive activities in accordance with their *private* costs and benefits. In a perfect world of fully informed agents with no randomness, and exempt of radical uncertainty, it can be shown that *appropriative* function of destructive power may be realised with no real destruction or violence (Grossman and Kim 1995: 1279; 1996a: 60; 1996b: 347). All strands of Neo-classical approach, such as rational conflict theory, general equilibrium models of violence, and socio-political instability models of new political economy lead to this result. The analogy to *money neutrality* in a general equilibrium model of creative activity is *violence neutrality*<sup>4</sup> in a general equilibrium model of appropriative activity. In both cases, money and violence are considered to be means to

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<sup>4</sup> The *correct* expression is “destructive power neutrality”, since “violence” is only one form of destructive power. However, I use “violence neutrality” for the convenience of using a *shorter* expression.

achieve a particular end. In the Neo-classical theory, money neutrality is related to the role of money as a means of commodity circulation, or *fiat* money (Patinkin 1956). By the same token, violence neutrality is related to the role of destructive power as a means of appropriation. In both cases, money and violence disappear in equilibrium. Agents are regarded as self-interested and calculating individuals endowed with *ex ante* rationality and maximising behaviour.

Destructive power in its *rule-producing* function resembles money as a *store of wealth*. Money in its function as a store of wealth is required for its own sake, for its *liquidity* and can be regarded as an end in itself. What determines the *liquidity preference* of people? "Our desire to hold Money as a store of wealth is a barometer of the degree of our distrust of our own calculations and conventions concerning the future." (Keynes 1937: 216). Uncertainty about conventional judgements resulting from a multitude of agents' anticipation about the state of the market in the future, and their distrust about their own calculations are the sources of *liquidity preference*. Money can serve as an insurance against uncertainty because of its *social* or *universal* value. *Liquidity preference* is thus decided not by *individual* agents but by conventional judgements, which are formed through a *social* process. In this process, the dominant opinion of the leading deciders in financial markets determines the *social norm*.

Destructive power in its *rule-producing* function is most likely required for its own sake, since it is the foundation of law or legal order. Destructive power as the last resort to maintain a desired order can overcome or mitigate our

distrust about the possible violations of order by others. If in case of *liquidity preference*, a state-contingent uncertainty about the future is determinant; in the case of *violence preference*<sup>5</sup> strategic uncertainty is decisive.

Keynes's famous phrase "in the long run, we are all dead" reveals an important aspect of economic reasoning. Any individual is concerned first and foremost by economic interests during her/his personal lifetime. Individuals do not behave as species or dynasties with regard to their short-term economic interests. However, it is true that in war as well as revolutionary action "individualism is the first to disappear" (Fanon 1968: 47). In such cases, one can observe a kind of group coherence which is more deeply felt and shared by large masses of people and shows a much stronger, but less enduring, attachment than all other varieties of private or civil friendship. In this context, our own death is only a link in the whole chain of the immortality of the group we belong to. Individual self-consciousness thus turns into a collective consciousness and the immortality of the species takes the centre stage of our experience. Nonetheless, it is not only in wars, revolutions, or other violent forms of action implying death that we are confronted with such type of behaviour. Almost in all protestations undermining the existing order, individuals become conscious of their role as part of a species or a dynasty. Broadly speaking, if economic reasoning comes to Keynes's motto that "in the long run, we are all dead", political reasoning results in an opposite motto "in the long run, we are all alive". The time horizon of economic reasoning is

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<sup>5</sup> Once again, the *correct* expression is "destructive power preference", since "violence" is only one form of destructive power. However, I use "violence preference" for its convenience as a *shorter* expression.

different from that of political reasoning.

While economic reasoning comes within the scope of an individual's lifetime, the political reasoning bypasses the individual's time horizon and adopts the species' or dynasties' (social groups') time horizon. Destructive power in its *appropriative* function follows economic or *private* reasoning, whereas destructive power in its *rule-producing* function complies with political, social groups' (classes) or *public* reasoning.

#### **THE VALUE OF DESTRUCTIVE POWER IN ITS APPROPRIATIVE FUNCTION**

As a general principle, resources can be used not only for production but also for appropriative purposes such as theft, plunder, warfare, insurrection or other forms of destructive activity. Individuals and groups can either produce (thus create wealth) or seize the wealth created by others. "The efforts of men are utilised in two different ways: they are directed to the production or transformation of economic goods, or else to the appropriation of goods produced by others." (Pareto [1902] 1966: 341). Haavelmo (1954) pioneered a canonical general equilibrium model of the allocation of resources among appropriative and productive activities which was further developed, during the last four decades, in a variety of ways by game theoretical models of rational conflict and different strands of new political economy. In formalising appropriative activity, economists adopted "standard (though possibly still highly arguable!) economic postulates like rationality, self-interested motivations, and diminishing returns." (Hirshleifer 1996: 18).

However, recent economic literature does not distinguish the

*appropriative* function and the *rule-producing* function of destructive power, and provides no explanation of the way the value of destructive power is decided. It simply assumes that the value of destructive power is determined in the same way as that of creative power. This explains why, as Hirshleifer acknowledges, “standard economic postulates” are applied in the analysis of appropriative activity. I will show that although the value of the *appropriative* function of destructive power can be decided on principles similar to that of *creative* activity, the value of the *rule-producing* function of destructive power is determined by different (if not opposite) principles.

*Appropriative* activity is carried out in the absence of a third party, such as the state, which can act as the proximate enforcer of claims to property. It is a *bi-party* relationship, since the relationship between the parties is not regulated by law, and only decided on force or coercion. In such conflictual situations, enforcement is fulfilled either by the first party through a self-imposed code of conduct, or by the second party through retaliation. My contention is in both cases, enforcement is based on the *symmetry principle* and *equivalency of prejudices*.

#### *Symmetry Principle and Equivalency of Prejudices*

The *symmetry principle* applies to all the sources of power and instruments of enforcement. Power and countervailing power play symmetrically. Any effort to subjugate people will encounter a resistance by them through time. As many aphorisms indicate, “one fights fire with fire”; “force begets force”; and “those who live by the sword shall die by the sword”. The power stemming

from personality is usually challenged by a strong personality; a power originating in property is opposed by property; and that generating from organisation is met by organisation. By the same token, coercive methods and punishments are countered by coercive methods and punishments, whereas compensatory rewards by compensatory rewards. If the instrument of sanction is moral or ideological, then the resistance to it will also be moral or ideological. "There have been striking examples in history of countering or countervailing power that have depended for their effectiveness on their asymmetry...Mahatama Gandhi and Martin Luther King, Jr., owe some of their fame to their success; they owe even more to their break with the accepted and accustomed dialectic of power." (Galbraith 1983: 79-80). Nonetheless, in the dialectic of power, *symmetry* is the rule.

*Appropriative* activity is not only subject to the *symmetry principle*, but also to the *equivalency of prejudices*. This *equivalency* is related to what Gabriel Tarde ([1904] 1999: Chapter VIII) calls "psychological value" or "conflictual value"<sup>6</sup>.

Tarde distinguishes two different types of value in every commodity, namely "conflictual value" and "assistance value"<sup>7</sup>. "Conflictual value" is the result of an internal conflict between our contending desires which brings us to choose one commodity instead of another. Choosing a commodity is the result of a teleological duel, since this choice satisfies one desire at the expense of non-satisfaction of other desires. As André Gide (1897) once said: "To choose is to deprive oneself for ever, for always, from all the rest." This explains why this type of value can be regarded as "psychological value".

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<sup>6</sup> My translation of the French expression "valeur-lutte" is "conflictual value".

<sup>7</sup> My translation of the French expression "valeur-aide" is "assistance value".

However, desires may be complementary in the sense that the satisfaction of one desire may lead to a better satisfaction of some other desires. In this case, there exists an “assistance value”.

Tarde’s “conflictual value” has a similarity to what is called “opportunity costs” in modern economic literature. Following Samuelson, elementary textbooks frequently introduce the production possibilities frontier between “guns” and “butter” to illustrate the nature of the economic problem and the concept of opportunity cost. In fact, the use of labour and natural resources for *appropriative* activity (producing canons) reduces the allocation of resources to *creative* activity (producing butter) for the same amount. In this sense, there is an *equivalency* between what is chosen and what is foregone. However, the concept of “opportunity cost” is not theorised to make sense of how “guns” might be used in a predatory fashion to acquire resources from neighbouring peoples or states, and “thus push out the production possibilities frontier of the society itself.” (Findlay 1996: 42).

Contrary to the “opportunity costs” concept, “conflictual value” can shed some light on the issue of warfare and other predatory activities, since it draws our attention to *spoliation* value of every commodity, which precedes its *exchange* value. Take cattle as an example. Before being exchanged, cattle have a *spoliation* value that can be revealed when they are captured as spoils of war. Although warriors do not pay for cattle, they risk their lives and it usually costs them many injuries. Hence *spoliation* precedes *exchange*, and it is the reciprocal form of exchange. In other words, “conflictual value” assumes that the idea of *equivalency* precedes *exchange*. Exchange is nothing but the

commercial expression of division of labour. The price theory has generally neglected a particular category of value, which plays a major role in warfare and in penalty. Following Tarde, this category of value, can be named “equivalency of prejudices”<sup>8</sup>.

*The Equivalency of Prejudices and “as if” Method*

The “equivalency of prejudices” is like the equivalency of services. For warriors as well as thieves, the *spoliation* value of their plunder corresponds to be the costs of capturing it, or the risk which they have to bear. Furthermore, when warriors struggle among themselves, or when a society punishes a criminal, we observe a permanent reference to the notion of “equivalency of prejudices”. Without this notion which is the result of a complex reflection on justice and public goods, retaliation during wartime, vendettas, or the civilised penal code become meaningless. What distinguishes “exchange” (productive activity) from “grabbing” (appropriative activity) is the absence of *mutual consent* in the latter case<sup>9</sup>.

If the law of supply and demand decides the value of commodities, the “equivalency of prejudices” determines the value of *appropriative* activity. While in the former case, *exchange* of commodities reveals the *equivalency* of exchanged values, in the latter case the *equivalency* of prejudices precedes *exchange* and is justified on some non-economical considerations such as

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<sup>8</sup> My translation of the French expression “*equivalence de préjudices*” is “equivalency of prejudices”.

<sup>9</sup> Romanists, Canonists and Theologians largely developed the reflection upon fraud, retaliation and corrective justice during the medieval times. For a detailed survey and presentation see Baldwin (1959), and Langholm (1992).

*military, juridical or moral arguments.*

The “equivalency of prejudices” is also relevant in economic transactions with the presence of a third party enforcer such as the state or courts. Hold-up literature, as well as incomplete contracts’ theory has already underlined the complexity of contracts in the case of specific investment (Vahabi 2002). The concept of “equivalency” of performance in contractual literature is based on specific *juridical* notions concerning obligations.

The “equivalency of prejudices” is thus *non-neutral* with regard to value judgements. However, in Neo-classical approach, destructive power in its *appropriative* function is regarded as a *means* to achieve an *end*, which is to capture the booty. The Rational conflict theory and different strands of new political economy share the central thesis of Utilitarianism according to which only ends are the object of valuations, and means are valued only as instrumental to ends. The basic principle of this moral philosophy is that nothing is good or bad in itself, rather its effects can be good or bad. We may also recall in passing that this thesis has been one of the main objects of the Institutionalists’ attack on utilitarian philosophy. The gist of objection is clearly expressed in Myrdal’s works: “In any human valuation means have, in addition to their instrumental value, independent values as well. The value premise which has to be introduced in order to allow policy conclusions to be reached from factual analysis has therefore to be a valuation of means as well as ends.” (Myrdal 1958: 49). Hence, even if *appropriative* activity is regarded as a “means”, it does not imply that it has no independent value. The “equivalency of prejudices” as the founding principle of the value of

*appropriative* activity is based on specific value judgements. It should not be confused with the *equivalency* in economic transactions based on exchange.

How can then one gauge the value of human life on the basis of “equivalency of prejudices”? For example, the September 11 attack on New York City took the lives of 3000 people. This number includes those who worked in the two World Trade Centre towers, the fire-fighters and police personnel who responded to the attack, and the tourists and other visitors who were in the World Trade Centre Complex that morning. Although human life as an “invaluable good” cannot be priced, Rosen and Thaler (1976) provide a method to estimate it. This method estimates *individual economic* loss by adding up a worker’s pre-tax annual income from the year of death to the year that he or she had expected to retire. Of course, human life cannot be sold or bought, since as I previously emphasised the economic valuation is not free of social judgements. Hence, the use of Rosen’s and Thaler’s method is based on an “as if” hypothesis. In other words, *if* we suppose that “human life” has no *social value*, and is limited to *individual* or *private economic* value, then it can be argued that for those who died in the attack, the estimated earnings loss can be calculated by multiplying the average expected level of annual earnings by the average number of years left to work before retirement<sup>10</sup>.

Another benchmark in valuing lives lost or saved is the Value of Statistical Life (VSL) in the United States. VSL was developed for costs-benefits analysis to assist in the evaluation of public and private programs that reduce the probability of death (industrial safety, pollution control, etc.) and to settle

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<sup>10</sup>The average age of those who died in the attack was 39.9 years (Bram, Orr, and Rapaport, 2002, p. 16).

legal claims for wrongful death. The VSL is calculated from “wage-risk studies” where the inclination of individuals to bear a higher risk of death is assumed to be a function of wage differentials. The literature estimates the acceptable range of VSL between \$ 1.7 and \$ 9.2 million. Wolfson *et al.* apply VSL in valuing lives lost during Desert Storm operations in the Gulf War. VSL is also based on an “as if” hypothesis, since it “only represents the social cost of life to the extent that *the social welfare functions of decision makers reflect individuals’ own valuations*. In particular, national civilian as well as military leaders value the lives of their enemies - particularly their military personnel - much lower than they do.” (Wolfson *et al.* 1992: 162).

The authors acknowledge the difficulties and pitfalls in putting a dollar value on human life as discussed in Dorman (1996). Nevertheless, for estimating “individual economic losses”, they adopt an “as if” method. The use of this method hinges upon the knowledge of the *number* of dead people, their *average* age (necessary to calculate the number of working years before retirement), and *average* wage. For example, if one asks a similar question about the *individual economic* losses of Iraqi people due to the First and Second Gulf War, one cannot find any answer since “This is a war that may never have a reliable body count...Even if taking a formal census of the Iraqi dead were possible, it’s doubtful the U.S. military would try. Americans got out of the business of counting enemy losses after the Vietnam War.” (*Time*, April 21, 2003: 39)<sup>11</sup>. Furthermore, the application of this method leads to an absurd

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<sup>11</sup> It is noteworthy that *Time* magazine notes that “when it comes to American deaths in Gulf War II, U.S. officials are quite precise. In the first three weeks of fighting, 110 U.S. troops were killed. The Iraqi body count, by contrast, is a mystery.” (April 19, 2003, p. 39). *The Economist*

result: *individual economic* loss due to the death of any Iraqi soldier will be less than that of any American soldier. And the life of each American soldier or worker will be less than that of any American businessman who worked in Manhattan and died in the September 11 attack! It goes without saying that “human life” cannot be priced, but from a very narrow economic point of view, such kind of estimation can be operational for deciding the amount of compensation budget.

The estimation of all sorts of *individual economic* losses and damage requires the use of the “as if” method. This method reduces the “equivalency of prejudices” to a pure economic calculation of the amount of loss. In this perspective, *appropriative* activity can be expressed in terms of exchange value. But can marginal utility theory be applied to determine the value of *appropriative* activity?

#### *Appropriative Activity and Marginal Utility Theory*

New political economy considers that marginal utility theory can be applied to *appropriative* activity due to the trade-off effect between productive and *appropriative* activity given common pool resources available for capture. Two different lines of argument are developed. The first one is based on a *general equilibrium* model with no fictitious auctioneer (imperfect competition). The basic model is that of Haavelmo (1954) concerning interregional relations. The second line of argument is developed on a *Cournot equilibrium* model (duopoly) and is known as “the paradox of power” (Hirshleifer 1991). This

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(April 19<sup>th</sup>-25<sup>th</sup> 2003, p. 20) also agrees that the number of Iraqi soldiers killed may never be known.

type of reasoning is inspired by rational conflict models of non-zero-sum game theories in which players are both adversaries and partners, and follow mixed strategies of conflict-cooperation (Schelling 1963)<sup>12</sup>.

In both types of argument, perfect competition is excluded. Agents in these models have rivals, and the actions of their rivals affect how well they do. But at the same time, agents behaving as producers and fighters are *not price takers*; when they optimise<sup>13</sup>, they take into account how their actions affect the redistribution of income.

As we shall develop further on, in both types of argument, marginal utility theory does not seem to be an appropriate theory to determine the value of destructive power even in its appropriative function.

#### *Haavelmo's General Equilibrium Model*

In Haavelmo's model (1954), the diminishing returns to "grabbing activity" is justified by two reasons: first, the trade-off effect between "grabbing" and "creative" activities; second, increasing "grabbing" activity will lead to less wealth, since competition between different regions makes it harder to gain anything for any region by "grabbing". Of course, this second argument is only valid if no region has the monopoly power on the use of sophisticated military weapons. If one or some regions could have an overwhelming supremacy in fighting efforts, then instead of "diminishing returns", one could

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<sup>12</sup> Although Hirschleifer (1991) does not give any reference to Schelling (1963), it was Schelling who pioneered this type of modelling.

<sup>13</sup> It is noteworthy that in Haavelmo (1954), agents are not necessarily supposed to be optimisers.

speak of “increasing returns” to “grabbing activity”. This result is formally demonstrated in Hirshleifer (1996: 19-32). Hirshleifer finds that an important condition for the sustainability of anarchy is the existence of diminishing returns to fighting effort, or according to his terminology, when “conflict is not decisive”. In this circumstance, no one can completely overtake others, and at the same time, there are some incentives to devote a part of resources to production. This case corresponds to Haavelmo’s model of “interregional competition” with no decisive conflictual power for any region. By contrast, under increasing returns to fighting effort (when conflict is more decisive), the party which can devote more resources to fighting activities may win and replace anarchy for a “Hobbesian ‘vertical’ contract” or an autocratic or dictatorial rule<sup>14</sup> (Hirshleifer 1996: 36-39).

Nevertheless, in a competing situation with no decisive conflictual power for any party, diminishing returns to “grabbing” will prevail. Moreover, in a competing situation, “grabbing” activities lead to *a reduction in global output*, since the common pool available for capture will be reduced. In other words, increasing quantities of “grabbing” effort will lead to less wealth. Hence, it *seems* that “grabbing” activity is subject to marginal utility theory of value.

However, there is only a similarity in *appearance* and not in *essence*, since fighting or “grabbing” effort has no proper utility except the fact that it can appropriate other goods. In other words, unlike other goods, it has a *derived utility* dependent on the utility of other goods. The marginal utility theory of

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<sup>14</sup>Hirshleifer (1996) does not examine this latter case of “increasing returns” in his paper, but he conjectures reasonably that a Hobbesian “vertical” contract will result in such circumstances.

value argues that the utility of a good or a service will diminish when its quantity augments. But “grabbing” activity has no utility of its own. Its utility depends on its power to redistribute wealth that is created by “creative” activity. Put differently, the increasing quantity of “grabbing” activity will not lead to less marginal utility of this activity, but it results in a diminished amount of wealth redistributed by such activity. As I stressed earlier, “grabbing” activity resembles *fiat money* which has no utility in itself, and only finds a utility as a means to facilitate the exchange of commodities. Patinkin tried to integrate *fiat money* in a general equilibrium theory of goods and services through its “real purchasing effect”, and concluded the *neutrality* of money. There is no equivalent theory for “grabbing” activity and Haavelmo’s model does not explicate why marginal utility theory can be applied to “grabbing” activity.

#### *Hirshleifer’s “Paradox of Power”*

Hirshleifer’s “paradox of power” (POP) can be regarded as a new attempt to integrate “grabbing” activity in the marginal theory of value. In his model, like Haavelmo (1954), agents can choose to divide their efforts between “productive” and “appropriative” (or “fighting”) activities. However, Hirshleifer (1991), unlike Haavelmo, adopts a *partial* equilibrium (and not a *general* equilibrium) framework. He studies two-party interactions and employs the Nash-Cournot solution concept<sup>15</sup>. The parties are simultaneously co-operating yet competing with one another: i) the resources devoted to

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<sup>15</sup>In Hirshleifer (1991), no allowance is made for Stackelberg leadership or for the use of threats and promises.

“productive” activity mainly determine the total income available; and ii) the contenders’ relative commitments to “fighting” (or “appropriative”) activity mainly decide how the total income will be distributed between them.

Furthermore, following Gordon Tullock (1974), Hirshleifer adopts standard economic assumptions regarding agents’ behaviour in conflictual activity: “Conflict interactions, like all economic interactions, involve equations of *optimisation* on the decision-making level and of *equilibrium* on the society-wide level.” (Hirshleifer [1994] 2001: 18). In this way, he advocates economic imperialism: “What gives economics its imperialist invasive power is that our analytical categories-scarcity, cost, preferences, opportunities, etc.-are truly universal in applicability. Even more important is our structured organisation of these concepts into the distinct yet intertwined processes of optimisation on the individual decision level and equilibrium on the social level of analysis. Thus economics really does constitute the universal grammar of social science.” (Hirshleifer [1985] 2001: 308).

Hirshleifer’s model is very similar to Schelling’s rational conflict theory of non-zero-sum games (Schelling 1963). Total war is excluded, and in accordance with the limited-stakes assumption, “the underlying resources themselves are supposed invulnerable to destruction or capture. Only the income generated by productive use of resources is at issue.” (Hirshleifer 1991: 179). Moreover, apart from opportunity costs in the form of foregone production, *fighting is assumed to be non-destructive*. The model is inappropriate for the analysis of conflicts dominated by single overwhelming or irreversible events like the Pearl Harbour attack, the Hiroshima and Nagasaki

bombardments, and Second Gulf War. In the military domain it is more applicable to protracted cold wars or to continuing low-level combats like those between city-dwellers and nomads in early times, or among the small states of pre-imperial China.

In this model, “fighting” activity is *integrated in the utility function* of agents as a redistributive mechanism. Decision-makers on each side make collectively rational choices aimed solely at maximising group income.

The “paradox of power” (POP) *allegedly* can provide a rationale for marginal theory of “appropriative” activity. The marginal payoff of “fighting” activity is higher for the poorer side, whereas the marginal payoff of “productive” activity is higher for the richer side. Hence, the more the poorer side redistributes resources through fighting, the more the marginal payoff of his/her “fighting” activity decreases and the more the marginal payoff of his/her “productive” activity increases. This implies that marginal utility of “fighting” activity *increases* for a party when his/her income *decreases* or when his/her income differential with the other party *increases*. Conversely, marginal utility of “fighting” activity *decreases* for a party when his/her income *increases* or when his/her income differential with the other party *decreases*. If each additional “fighting” effort can be translated into an additional amount of income redistribution, then according to POP, it can be argued that the marginal utility of each additional fighting effort will decrease with the increasing amount of conflictual efforts. It seems then that the marginal utility theory can be applied to *destructive* power in its “appropriative” function.

However, this conclusion is not valid since POP does not hold universally. It is a well-known fact that in war as well as in politics, sometimes (if not most of the time) the rich become richer and the poor poorer. In fact, in Hirshleifer's model, the validity of POP hinges upon the level of the "decisiveness of conflict". High *decisiveness* is more advantageous to the better-endowed parties, since they can invest more heavily in "fighting technology" and be in a better position with regard to contest power. Hence, Hirshleifer stresses that POP may apply to "limited contests that take place within nation-states (class struggles) or firms (labour-management conflicts) or families (sibling and generational rivalries)" (1991: 197). Even in these cases, it is more logical to assume that the "richer" has an advantage in terms of "fighting technology" over the "poorer" side. But this military advantage cannot indefinitely hinder the outbreak of social movements, since the occurrence of such movements is related to the way rules should be defined or enforced. Social movements, particularly large and massive ones, are not essentially related to "appropriative" activity. They aim at "rule-producing". It is precisely this aspect of *destructive* power that has been ignored by the new political economy.

Given the limits of POP, another line of argument based on "collateral damage" may be invoked to explicate the limits of "fighting" effort.

#### *Collateral Damage and the Limits of Appropriative Activity*

Analysing pressure groups competition, Becker (1983) showed how "deadweight loss" tends to limit the extent of conflict. Following Becker's

view, Grossman and Kim (1995, 1996a) account for damage due to fighting. They formulate the concept of “collateral damage” which measures the destructiveness<sup>16</sup> of “appropriative” (“predation” in their terminology) activity.

According to these authors, predation is destructive in the sense that in any appropriative interaction the predator gains less than what the prey loses. For example, a predator’s gain is subject to deterioration during shipment, or it needs to be processed in order to be usable. Specifically, if agent  $A_i$  (prey) loses the fraction  $(1 - p_i)$  of its endowment, agent  $A_j$  (predator) gains only the fraction  $(1 - \beta)(1 - p_i)$  of the endowment of agent  $A_i$  (prey),  $0 \leq \beta \leq 1$ . The parameter  $\beta$  measures the destructiveness of predation or “collateral damage”. It is noteworthy that the destructiveness of predation deters predation. Usher (1992) also invokes “deadweight loss” as one of the four costs of theft or grabbing. In his model of anarchy, Usher incorporates deadweight loss by drawing a distinction between types of goods such as food that have to be defended against bandits and types of goods such as clothing that are intrinsically secure. In this model, the deadweight loss is incurred because people produce and consume too much of the good (clothing) that is safe from theft and too little of the stealable good (food) (Usher 1992: 78-89).

However, unlike Grossman and Kim (1995, 1996a), Usher distinguishes between “deadweight loss” and “pure waste” or destructiveness due to theft. Pure waste is another cost of theft that may result due to the lack of a more

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<sup>16</sup> It is noteworthy that “destructivity” should not be confused with “destructiveness”. While the former one refers to the capacity for real destruction, the latter one measures “collateral damage”.

amicable way of transferring the property from victim to thief. For instance, in robbing someone's money, the thief may consider it necessary to physically assault the person in order to reduce his/her ability to defend his/her property, or even go so far as to incidentally or intentionally kill the person. Grossman and Kim (1995, 1996a) exclude this type of cost, since they do not account for "real destruction" in their models. Hence, their concept of "collateral damage" or the destructiveness of predation does not take into consideration "pure waste".

The "collateral damage" or the parameter  $\beta$  is not included in Hirshleifer (1991), since the POP provides an alternative explanation for the limits of "fighting" effort. The POP is not *universal*, but "collateral damage" may be regarded as a universal property involved in any destructive activity. Nonetheless, the concept of "collateral damage" does not imply that *predation involves violence and destruction*. Like Hirshleifer (1991), Grossman and Kim (1995, 1996a) study "rational conflict" without any real destruction. "Collateral damage" only refers to potential deterioration due to the deadweight costs of the transfer process. These costs set limits upon how far any beneficiary group can advantageously push for redistribution.

The essential trade-off that each agent faces is that an *increase* in the amount of endowment that s/he devotes to appropriative activity *decreases* his/her production but *increases* the agent's final wealth. In this sense, diminishing returns to appropriative activity are justified by "collateral damage", and hence the decreasing amount of the common pool for capture.

In summary, the New Political Economy has integrated destructive

power in economic theory as a *means* of redistributing resources. However, this approach has not resolved a fundamental problem regarding the applicability of marginal utility theory to destructive power: the marginal utility of destructive power is derived not from its own sake, but from its ability to appropriate wealth! *The value of destructive power in its appropriative function is decided by the amount of creative value transferred through conflict minus the amount of value dissipated due to struggle (pure waste and collateral damage).*

A second problem is related to the fact that in anarchy, war, criminal activity, and other types of predatory activity involving violence, human life can be destroyed. But the Rational conflict theory excludes real destruction and violence, since in equilibrium “violence” (like “money”) disappears, and rational and maximizing agents can avoid it entirely.

#### **THE VALUE OF DESTRUCTIVE POWER IN ITS RULE-PRODUCING FUNCTION**

Destructive power in its rule-producing function is an *end* in itself and *not* an *instrument* to redistribute resources without mutual consent. New Political Economy does not integrate this function of destructive power. However, it is through this function that destructive power has a utility for its own sake. The specific utility of destructive power is its ability to establish sovereignty. As I earlier mentioned, while destructive power in its appropriative function resembles *fiat* money, destructive power in its rule-producing function resembles money as *store of wealth*. The problem of valuing destructive power in this latter case is that it *is* the source of *valuation*. In other words, destructive power as the source of sovereignty cannot be valued, since sovereignty is the

basis of *valuation*.

For instance, the abolition of slavery in the United States completely changed the basis of valuation. Before the civil war, slaves could be bought or sold, but after the abolition of slavery, the principle of liberty and equality of all citizens before the law regardless of their race was acknowledged. According to this principle, human beings could not be bought or sold. This example clearly illustrates that the question of property cannot be separated from sovereignty, and it is sovereignty that defines the fundamental social conventions or rules from which valuation derives its social meaning. When sovereignty is questioned, then there is no *unique* fundamental convention that can definitely specify the value of goods, services and even human life. In such circumstances, one can confront manifold subjective valuations regarding goods and even human life hinging upon the position of social subjects involved in the conflict. As I have argued previously, the *equivalency of prejudices* determines the value of destructive power in its appropriative function. However, it is the *incommensurability principle* that decides competing valuations of destructive power in its rule-producing function.

#### *Rival Valuations: The Incommensurability Principle*

The First Gulf War sets a very good example to examine both functions of destructive power. If one analyses this war from the viewpoint of appropriative activity, one can estimate the value of destructive power in terms of the amount of Kuwait's oil reserves which has been saved from Iraq's aggression, minus the dissipated values due to the pure waste and collateral

damage incurred by the war. However, the war was not only about Kuwait's petroleum, but also about Saddam's claim regarding the hegemony in the region and the Americans' conception of the New World order. This second aspect is related to the sovereignty question on a national, regional, and international level. Different participants in this war, on the United Nation's side, as well as on Iraqi side, had their own concept of benefits and costs, since each of them had their own goals. They can be schematically identified as follows:

1. The UN Security Council's announced objective was to expulse Iraq's army from Kuwait.
2. President Bush's target was beyond the UN's goal, since he officially vindicated "the security of the Persian Gulf". This meant the security of the world oil supply, the removal of Saddam Hussein from power, and the destruction of Iraq's military apparatus.
3. General Norman Schwarzkopf aimed at destroying Iraq's military machine as much as possible with the least sacrifice in terms of the value of American soldiers' lives.
4. The goal of the Europeans, Japanese, and other US allies consisted in destroying as much as they considered to be consistent with the marginal cost of their participation in the war effort.
5. President Saddam Hussein's target was to impose a prohibitive cost on the UN to avoid or defeat an attack.
6. Senator Sam Nunn wished to force Iraq to withdraw from Kuwait by means of sanctions.

Each of these decision-makers had his own targets, perceptions of costs and benefits, and his own conclusions. Nonetheless, it was George Bush who had the last word in the UN, although he might not have represented the valuation schemes of the other parties who shared both the costs and benefits of Desert Storm. One of the major differences between these different schemes of valuation concerned the life of the Iraqi people and military personnel as well as the US military personnel.

If we adopt the Value of Statistical Life (VSL) in the United States as our benchmark in valuing lost or saved lives during Desert Storm, then the differences of valuations among different decision-makers become clearer. First, regarding the differences of valuation about the lives of the Iraqi people, the following ranking can be suggested: “The UN Security Council (1) which wished simply to expel Iraq from Kuwait, presumably reflected the *highest value on Iraqi life*. In contrast, General Schwarzkopf (3) following Clausewitz’s dictum that the concept of war should be aimed at destroying the enemy’s army, probably placed the *lowest value on Iraq’s military personnel* – indeed it must be a *negative value*. Sensitive to political considerations at home and in the likely postwar balance of power in the Middle East, President Bush (2) and Senator Nunn (6) are likely to have *evaluated Iraq’s military life somewhere between the two*. Probably European, Japanese and Middle Eastern allies (4) felt much the same, although, as we shall see, their economic cost structure was different. Judging by his actions, Saddam Hussein’s evaluation of the life of his personnel *was lower than their own estimate*.” (Wolfson *et al.* 1992: 162, the emphases are mine).

Second, regarding differences of valuation about the life of the US military personnel, the following ranking may be proposed among decision makers: "It is reasonable to assume that President Bush (2) and General Schwarzkopf (3) placed the Statistical Value of Life on US soldiers. It is reasonable to assume that the UN (1) members who had not committed sizeable ground troops *evaluated US soldiers at less than these American decision makers*; allied countries (4) that had substantial forces probably valued them much as did the US. Some military officials of UN members such as the Soviet Union scoffed at the American sensitivity to casualties. Senator Nunn and other congressional opponents of an early ground war (6) probably placed a *higher value on military casualties*. That is not to say they necessarily had a higher level of sympathy than other US decision makers, but sensitive to the experience in Viet Nam, they seemed to feel that the cost of substantial casualties are reflected in the Social Welfare Function implicit in American public opinion would exceed even the valuation of the volunteer army soldiers themselves...Finally we should mention the pacifist position expressed by Senator Mark Hatfield (R-Ore) who regarded the value of human life on either side of the conflict as *greater than any benefit that might accrue from war*. Undoubtedly Saddam Hussein's valuation of *American life was negative*." (Wolfson *et al.* 1992: 162-163, the emphases are mine).

I have summed up these rival valuations in table 1. This table shows that there is no common basis for these evaluations, since there is no unique sovereignty. Different perceptions about costs and benefits cannot converge due to the lack of a fundamental convention. Hence, these rival valuations are

*incommensurable*. The analysis of costs and benefits in the use of destructive power as an instrument of appropriation can be based on a fundamental convention, since its value depends on the amount of creative value transferred. *Equivalency of prejudices* governs the amount of its value. However, destructive power as the source of sovereignty is prior to any fundamental convention. Different *incommensurable* valuations of costs and benefits coexist insofar as one dominant force does not impose its rules and conventions.

Decision maker	<u>The life value of the US military personnel</u>				<u>The life value of the Iraqi people</u>			
	<i>Negative value</i>	<i>Positive value</i>	<i>High value</i>	<i>Invaluable</i>	<i>Negative value</i>	<i>Positive value</i>	<i>High value</i>	<i>Invaluable</i>
The UN Security Council		X					X	
President Bush		X				X		
General Schwarzkopf		X			X			
European, Japanese and other allies		X				X		
President Saddam Hussein	X					X		
Senator Nunn			X			X		
Senator Hatfield				X				X

Table 1. Rival valuations of human life in the Desert Storm military operation

In such circumstances, there is *no unique* value for destructive power as a

source of sovereignty, but there exist *manifold rival valuations* of such power. In this sense, the value -or the *values*- of destructive power in its rule-producing function is (are) completely consistent with Shackle's notion of a Kaleidic society: "The business scene and its participants can be looked on as staging a contest of rival orientations, rival ambitions, rival exploitations of the world." (Shackle 1972: 76).

The kaleidic approach can also be applied to revolutions. What is "The price of revolution"? This is the title of Brogan's book (1951) which suggests that in making an estimate of the benefits of revolution, the cost of it should also be brought into the bookkeeping. But what are the costs and benefits of the English and French revolutions? There is *no unique* answer to this question. The English and French ruling classes of the seventeenth and eighteenth centuries propose an answer to this question, which is different from that of the English and French revolutionary classes. Their valuations of costs and benefits of revolution are rival and *incommensurable*. Regarding the account of revolution, it should be remembered that revolution "provided quickly the necessary complementary institutions, the National Debt and the Bank of England, and when the last institution was successfully launched, it might have opened its books with a page entitled 'The Revolution; account closed'." (Brogan 1951: 3). It is characteristic of the very different histories of the two countries that the Bank of France almost did this. It reduced, year after year, the debt owed to it (against its will) by the defunct Commune of Paris. But it left one franc on the books for 'a reminder'. It was wise not to close the account; it is still open (Brogan 1951: 3). By the same token, one can ask what

was the value of Louis XVI's or Marie Antoinette's heads for French Jacobins? No one would wonder if we said that French Jacobins accrued a *negative value* to the life of the king and queen, whereas French ruling classes placed the highest value on their life. In our times, Pacifist historians may also regard the value of human life on either side of the civil war as greater than any benefit that might accrue from revolution.

*The Changing Frontiers of Costs and Benefits: a Double Transformation*

Destructive power (scream)<sup>17</sup> can become an end in itself, and its exercise can become confused with the attainment of its objective. As soon as that happens, its *costs* (in time spent, or in lives lost, for example) can measure the *satisfaction* or *benefits* received from its exercise or "consumption". For this mutation of cost into benefit to occur, it is necessary that the exercise of destructive power (scream) be felt as something beyond the many activities that are primarily self-regarding. In this case, the exercise of destructive power (scream) relates to *public interest* or *public happiness*. The liberal ideology has noted this fundamental transformation when it criticised the idea of "great sacrifices for utopian ideals": "The problem isn't wanting a better world; it is believing in the utopia of a perfect world. Liberal thinkers are right when they point out that one of the worst things about not only communism, but all the great causes, is that they are so great that they justify all sacrifices, whether imposed

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<sup>17</sup>Hirschman (1970) distinguishes "voice" from within a collective body and "exit" from it. In my opinion, Hirschman's concept of "voice" is ambiguous, since it does not differentiate "voice from within" or voice *within* the existing rules from "scream" or voice *against* the existing rules (Vahabi, 2004, Chapter 2, section 6). Destructive power can be viewed as "scream".

on oneself or on others.” (Hobsbawm 2000: 161). But why is it so?

Hirschman is one of the first thinkers who explains the logic of “great sacrifices for great causes” by referring to the *transformation of costs into benefits* in public activity: “It is in the nature of the “public good” or “public happiness” that striving for it cannot be neatly separated from possessing it. This is so because striving for the public happiness will often be felt not so much as a cost, but as the closest available substitute for it. We all know that participation in a movement to bring about a desirable policy is (and, unfortunately, may be for a long time) the next best thing to having that policy. Uncertainty is an important element in this strange transformation of means into ends, and of costs into benefits. Success in the advocacy of a public policy is always uncertain: nobody knows the size of citizens’ advocacy or protest that is needed to impose, change, or stop a given public policy. If a citizen feels strongly, he may therefore experience the need to *negate the uncertainty about the desired outcome by the certainty of participation in the movement to bring about that outcome.*” (Hirschman 1974: 9-10, the last emphasis is mine). Social protests, wild strikes, revolutions, patriotic wars, and other salient forms of “scream” escape from the fetters of the benefit-cost calculus due to this transformation of costs into benefits. The revolutionary who is struggling for the great cause of revolution cannot be sure whether s/he will see the victory. In this sense, the benefit is *uncertain*, whereas the cost including the possibility of losing one’s life is *certain*. Given the uncertainty about the victory, the next best solution is to feel it through one’s strife. Here the cost turns into benefit. But this is only the *first* transformation of costs into benefits.

There exists a *second* transformation of benefits into costs, when revolutionaries come to power.

Hirschman ignores this second transformation, whereas revolution as a historical process embraces both types of transformation. When revolutionaries are struggling to topple the existing order, they paralyse temporarily the whole productive and exchanges networks, and provoke anarchy, and disobedience. The more they provoke civil disobedience, the more the revolution will have a chance of victory. Hence, the costs of social rupture are the benefits of revolutionaries. However, as soon as the day of victory approaches and revolutionaries prepare to constitute a new order, they change attitude and try the least destruction, since it now becomes a cost. For example, Bolsheviks, who brought about with fierce struggle the October Revolution, and at times of revolution regarded general political strike and armed insurrection as the best methods of ensuring victory, adopted a real economic approach in analysing the costs and benefits of revolution on the morrow of victory. According to Bukharin ([1920] 1976, chapter 3 "The Collapse of the Capitalist System": 126-127), "All the *real* costs of a revolution come down to the *curtailment of the process of reproduction* and to the reduction of the productive forces. They can be broken down into several headings, according to the *form* they take: 1) The physical destruction of the elements of production... 2) The de-skilling of the elements of production... 3) The disintegration of the relations between the elements of production... 4) The redistribution of the productive forces in the direction of non-productive consumption."

The costs of revolution are not limited to these four items, since they also include the costs of *institutional change* implying a period of “institutional vacuum” or “no man’s land”. This period is characterised by the fact that while the *old* institutional set-ups are no longer dominant, the *new* ones are not yet ripe enough to regulate social order. The costs of “institutional vacuum” may be regarded as the *fifth* type of costs of a revolution. Now, we can review the other four types of costs.

- *The physical destruction of the elements of production*

This concerns the destruction of the means of production (factories, machines, railways, etc.) and the destruction of people in the process of the civil war.

- *The de-skilling of the elements of production*

It refers to the physical exhaustion of the working class, the de-skilling of the technical intelligentsia, and the use of “surrogates” in the means of production and “labour power” (a higher percentage of the novices, unskilled or semi-skilled workers instead of skilled ones).

- *The disintegration of the relations between the elements of production*

This alludes to the disintegration of the hierarchical labour system capitalist economy, the social schism and the loss of equilibrium, all of which entail the temporary paralysis of the production process. It also concerns the disintegration of the relations between town and country and between states and so on.

- *The redistribution of the productive forces in the direction of non-productive consumption*

The class war, like any other war, requires the reallocation of resources to the needs of a mobilised economy. Such a war economy augments non-productive consumption of military sectors and reduces expanded reproduction of capital.

According to Bukharin, among these four factors, “the disintegration of the relations between the elements of production is the most important cause of the drop in the level of the productive forces in the transition period.” ([1920] 1976: 127). However, this factor is only one of the aspects of organisational and institutional change that revolution brings forth. Hence, the “institutional vacuum” or the *crisis of sovereignty* should be considered as the most important cause of the fall in the level of the productive forces. In this perspective, the transition to a new structure, which is a new form of development of the productive forces, is inconceivable without a temporary reduction of the productive forces. The experience of all revolutions, which have played a colossal, positive role with regard to economic development shows that they were bought at the cost of colossal destruction and plunder.

The post-socialist transition was carried out through a “transformational recession”, which was more severe than the grand Crisis towards the end of the nineteen twenties and the thirties (Kornai 1995). The destruction caused by the Civil War in America, a war which was a powerful spur to capitalism, is well known, as is the devastation at the time of the French Revolution which advanced the development of the productive forces after a period of profound decline (Bukharin [1920] 1976: 224). Consequently, revolutions, like wars, set in motion a process of reproduction that takes on a distorted, regressive and

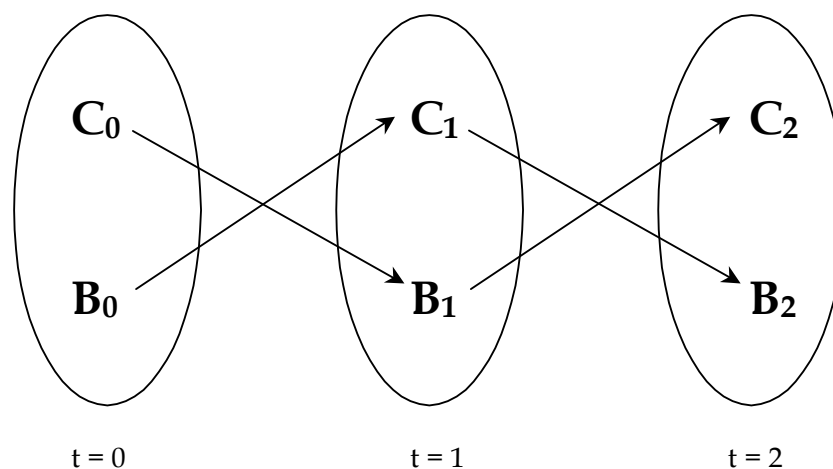
*negative* character. It means that with every subsequent production cycle, the real production basis gets increasingly narrower and development takes place, not in an expanding, but in a constantly narrowing spiral. What we have in this case is not expanded reproduction, but ever-increasing *under-production* and this is what war, revolution, or generally different forms of “scream” are from the economic point of view. Borrowing Marx’s terminology about “expanded reproduction”, Bukharin calls this process “expanded negative reproduction”.

Intense or protracted civil, class, ethnic, racial, or religious wars can lead to total devastation of society. In these cases, the second transformation of benefits to costs and costs to benefits cannot be realised, since if revolutionaries can approach power, they will be obliged to take into consideration the *negative* expanded reproduction as the “costs” of revolution. During revolutionary outbursts, the most courageous, energetic, determined elements of revolution occupy the front line and are the most exposed to death. While, for these people dying for revolution is an honour and “benefit”, after the seizure of power, the lack of them is one of the heaviest “costs” of the revolution. That explains why revolutionaries become more inclined to compromises even with their worst enemies whenever they come to power or close to power. As new rulers, what they previously regarded as “benefits” become “costs” and *vice versa*. Graphic 1 depicts this change in the logic of “costs” and “benefits”.

$C_0$  and  $B_0$  denote respectively costs and benefits before revolution at  $t = 0$ .  $C_1$  and  $B_1$  represent respectively costs and benefits during revolutionary

period at  $t = 1$ . Finally,  $C_2$  and  $B_2$  denote respectively costs and benefits during post-revolutionary period at  $t = 2$ . What is considered to be costs at  $t = 0$  transforms into benefits at  $t = 1$ , and at  $t = 2$  it transforms once again into costs.

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**Graphic 1. Double Transformation of Costs into Benefits**

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This process of “double transformation of costs into benefits” implies a very important result. In analysing the costs and benefits of destructive power in its rule-producing function, not only the question of *who* is evaluating is crucial, but also *when* this valuation is conducted. For instance, when analysing the costs and benefits of the French Revolution, it is important to know

- *which* social class is estimating costs and benefits
- *when* this social class is evaluating

The first question brings us once again back to *rival* and *incommensurable*

*valuations* of costs and benefits among different social subjects. The second question leads to grasp the importance of the *historical* aspect of valuation. The costs and benefits of the French Revolution can be viewed completely differently depending on whether one is analysing them during the Jacobin period of Revolution, the Restoration period, or after the French-Prussian War. Our location in the historical calendar is essential in distinguishing the costs and benefits of revolution, since they cannot be settled before the end of revolution. And revolution is usually a chain of historical events comprising many half or unfinished revolutions, and hence to know the end of a revolution is in itself historical knowledge.

Furthermore, the analysis of costs and benefits of each revolutionary period is different depending on our location in the historical calendar. For instance, the costs and benefits of the “Islamic Revolution” in Iran are evaluated differently even by the partisans of this “Revolution” before and after the end of eight years of war with Iraq in 1988. While at the beginning of the 1979 Revolution and the beginning of the war with Iraq in 1980, many supporters of the “Islamic Revolution” were ready to lose their lives in order to establish the ideal “Islamic fraternity”, at the end of the war, they realised that the real beneficiaries of the “Islamic Revolution” were the Bazaaris (big merchants). Usually revolutionary periods are not good times for evaluating the costs and benefits of revolutions, since these periods are fertile for revolutionary utopias or illusions. Minerva flies at night, and the philosopher enters when the feast is over. It is not thus surprising that the best analyses about the costs and benefits of the French Revolution were formulated by

French historians such as Guizot, Mignet and Thierry during the Restoration period.

From these arguments, I draw three major conclusions. First, there is no unique *ex ante* valuation of costs and benefits of destructive power in its rule-producing function. Second, the analysis of its costs and benefits should be *historical* and *ex post*. Third, its analysis is not limited to an individual time horizon, and embraces the life span of social classes or dynasties. The third result is directly derived from the second one.

#### *Indeterminacy of Costs and Benefits*

Although the process of “double transformation of costs into benefits” is a sufficient argument regarding the *historical* character of costs and benefits, it is not the only one. The *indeterminacy of costs and benefits* is another argument that indicates the need to adopt an *ex post* vision of time in order to come to grips with costs and benefits of revolution, war, or “scream” in general. People do not “scream” in an ordinary situation, it becomes relevant in a critical situation. A *crisis* situation “is one where the deterrent threat may or may not be used, but where there is some doubt about it.” (Nicholson 1972: 247). A crisis can be defined by three characteristics.

First, it is a period of great uncertainty, where the gap between the best outcome and the worst outcome of the situation is very large in comparison with normal situation. In terms of Shackle’s concept of “potential surprise” (1972, 1989), a crisis “is a situation where the severely adverse outcome of war, which normally has a positive degree of potential surprise

associated with it, has a zero degree of potential surprise.” (Nicholson 1972: 244). The second characteristic is that the crisis usually takes place over a short period of time. Finally, the third characteristic is that the problems that generate the crisis are unexpected to at least one of the parties involved: “crises exist where the doubt about the outcome exists in the mind of only one party.” (Nicholson: 245). The formal preference theory has some serious problems in representing a *crisis* situation<sup>18</sup>. I will dwell upon three of them.

In an ordinary situation, it is plausible to assume that the decision-makers have at least some general notion of their preference orderings and that the utility function is relatively clear-cut. However, in a *crisis* situation, it is not plausible to assume that decision-makers have a clearly defined utility function over all possible states of the world, including those which are not likely to come into some current decision problem. It may be suggested that it is sufficient to know only the *relevant pay-off* situations, as is argued in the case of “Incomplete Contracts” by Maskin and Tirole (1999)<sup>19</sup>. However, in a *crisis* situation the *ex ante* distinction between “relevant” pay-off situations from irrelevant ones is impossible. Hence, when some new situations occur, the process of defining a utility function involves both time and decision-making resources. Secondly, in standard theory of decision making, a utility function is assumed to be relatively stable through time. However, in a *crisis* situation, it might fluctuate rapidly. Thirdly, the decision-makers are not individuals but social groups or even dynasties. In this case, the process of determining utility ordering involves discussion and possible internal negotiation. It is thus

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<sup>18</sup> For an opposite view, see Enders and Sandler (1995).

<sup>19</sup> For a discussion about the foundations of incomplete contracts, see Vahabi (2002).

plausible to assume that even when the preferences of the individuals over the relevant alternatives are crystal clear (which in a *crisis* situation is very implausible), the group will spend some time in deciding its group preference ordering. To sum up, we can say that in a *crisis* situation, the preference orderings as well as pay-off matrixes of decision makers are not known in advance. They may only be defined *historically*, or *ex post*.

*Increasing Returns to Destructive Power in its Rule-Producing Function*

In most parts of the world, state usually has the monopoly of military or destructive power. There exist 195 countries in the world, each having a state. Can this *monopoly* of violence by the state be explained by *increasing returns to violence* in a given *geographical territory*? By the same token, can the existence of *many* national states be attributed to *decreasing returns to violence* beyond some given geographical territory? Hirshleifer ([1985] 2001: 332) answers positively to this question. “(1) Within a sufficiently small geographical region such as a battlefield, increasing returns to military strength apply – a small military superiority is typically translated into a disproportionately favourable outcome. The reason is that, at any moment, the stronger side can inflict a more-than-proportionate loss upon the opponent, thus becoming progressively stronger still... (2) But there are decreasing returns in projecting military power away from one’s base area, so that it is difficult to achieve superiority over an enemy’s entire national territory... The increasing-returns factor explains why there is a “natural monopoly” of military force *within* the nation-state. The diminishing-returns factor explains why a multiplicity of

nation-states have remained military viable to this date.”

My answer to this question is somehow different from that of Hirshleifer. My intuition is that destructive power as a *means* to appropriate resources is subject to *decreasing returns*, whereas destructive power as an *end* in itself is subject to *increasing returns*. The difference is not so much about the *transportation costs of projecting military arms* (as suggested by Boulding 1962: 227-233; and Hirshleifer: 332), it is rather about the role of destructive power in producing *rules*. It is the *rule-producing* function of destructive power that generates its increasing returns, whereas destructive power in its *appropriative* function is subject to decreasing returns.

There are two reasons for this. Firstly, violence-preference compared to legality-preference depends on uncertainty and transaction costs. The nature of uncertainty is particularly important. Since any uncertainty regarding the stability of sovereignty is not limited to a particular domain, it will contaminate all spheres of economic, political and psychological aspects of social life. Put differently, it will be *contagious*. There is always a positive or negative externality associated with sovereignty. Secondly, in the absence of law or enforcing mechanism, everybody has an interest to accumulate destructive power. Violence breeds violence, and the *contagious* character of uncertainty propagates violence even further. In such a situation, there exists a process of *cumulative causation* that guarantees a self-reinforcing violence. Thus, the *contagious* character of uncertainty and the *externality* of sovereignty provide the explanation for the increasing returns to destructive power in its rule-producing function.

### CONCLUSION

In this paper, I emphasised two distinctive features of destructive power in comparison with creative power, namely higher productivity (or destructiveness) and non-equivalency. Moreover, I showed that while there is a unique value for destructive power in its *appropriative* function, there are manifold valuations of destructive power in its *rule-producing* function depending on deciders' perceptions of costs and benefits.

There exist many theoretical difficulties in applying marginal utility theory in order to determine the value of destructive power in its *appropriative* function. However, this value can be measured on the basis of the symmetry principle and equivalency of prejudices, and the "as if" method.

Different valuations of destructive power in its *rule-producing* function are incommensurable and are subject to a double transformation of costs into benefits. Moreover, different costs and benefits are often indeterminate. Destructive power in this latter function is the source of sovereignty, and thus political economy should also be apprehended as a discourse regarding both the creative and destructive power of human beings.

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