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Economic effects of a conflict-prone world order*

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1. Introduction

The economic effects of international conflict and war have been the subject of much debate. Critics of militarism frequently cite the costs of wars and armaments; Reston (1988), for instance, notes that the United States and the Soviet Union together spend over $1.5 billion a day on military defense. In addition, wars have taken millions of lives, while the potential of war can militarize societies and produce feelings of regimentation and nationalism that many find repugnant.[1]

In contrast to these issues, I wish to examine how the possibility of international conflict affects the incentives of politicians to implement growth-improving domestic economic policies. A country's success in international conflict is usually closely related to its economic power – a large revenue base and strong economy create economic power and enable high levels of military spending. The existence of a conflict-prone world order may thus strengthen the incentive for growth-promoting economic policies to the extent that public officials value international victories. Although conflict itself is a negative sum game, the results induced by the potential for conflict may yield benefits for the public. This essay is thus an exercise in the tradition of Bernard Mandeville (1962) [1734], who emphasized the theme of "private vices, public benefits."

2. Incentive effects and conflict

For politicians under democratic regimes, international victories may increase the probability of reelection or strengthen a politician's mandate. Capturing rents from other countries usually boosts a politician's standing in the public opinion polls. Conversely, losing international conflicts usually damages a

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politician's electoral standing. Unlike many arcane and obscure policy issues, success or failure in international conflict is usually quite visible to the public and generates strong feelings of support or disapproval.

International conflict may also yield direct material gains for public officials. Capturing territories or winning wars, for instance, may produce a flow of wealth which can be siphoned off by the winning rulers. Even if the victorious government is not corrupt, war reparations may serve the political goal of budget maximization. Conversely, losing an international conflict may decrease the resources at the disposal of politicians.

For public officials who receive a fixed salary, the psychological benefits of international victories may be a primary motivation. These psychological benefits include military glory, national popularity, power, and the feeling of having earned a place in history. Politicians, whether democratic or non-democratic, often become extremely popular after their country achieves an important international triumph. Frank's (1985) argument that individuals are motivated by the pursuit of relative status offers a particularly large role for psychological considerations. Politicians may find that international power is the most effective way of increasing their relative status, both in the world community and among their own citizens. Because the government officials in charge of managing international conflicts (e.g., dictators and presidents) are usually highly visible (both domestically and abroad), self-selection mechanisms encourage individuals who are concerned with relative status to pursue such positions.

Politicians may also be able to achieve personal goals through military expansion. Committed imperialists, for instance, may dream of a large, powerful nation stretching from coast to coast (van Alstyne, 1960). Winning wars or conquering territories will enable such politicians to realize such dreams. The personal goals of politicians may also include national expansion, growing influence for their culture, and international power.

Of course, even in the absence of the possibility of international conflict, politicians will wish to increase the government's budget, all other things being equal. Since high tax revenues require a large tax base and a prosperous economy, revenue maximization tends to induce policies which promote prosperity. The possibility of conflict, however, strengthens this tendency. Politicians do not automatically maximize government revenue because of the effort dimension of politics.[2] Public sector officials must invest effort to determine which policies are best for economic growth. Once the preferred policies are chosen, they must be developed and drafted, a coalition of support must be built, the policies must be implemented, and politicians must ensure that other branches of government, such as the bureaucracy, do not subvert the policy.[3]

The possibility of international conflict increases the spending opportunities of those who control the public sector budget and may thus induce additional effort to increase tax revenues. A ruler, for instance, may not be willing to put the effort into building his country's economy in order to increase the amount of money he can siphon off through either corruption or his privileged position as the sovereign. The same ruler, however, may be willing to work to build up the economy if the potential rewards are personal glory, international conquest, and power.[4]

Of course, if politicians do not understand the link between prosperity and power, or do not understand how to achieve prosperity, the function of incentives may backfire. Many politicians pursue policies which are designed to build national strength, but fail miserably. The five-year plans of Stalin and Mao, for instance, may have been calculated to strengthen the Soviet and Chinese economies but in fact stunted economic development. Since there is no consensus on development policy, even among economists, policymakers cannot be expected to have mastered the art of building a strong nation, regardless of the incentives they face.

Even under conditions of imperfect information, however, both an incentive effect and a selection effect operate in favor of the hypothesis outlined in this essay. Under the incentive effect, the possibility of conflict increases the incentive of policymakers to become well-informed. The expected return from attempting to learn which policies promote development is greater if this knowledge can be applied to improving a country's international standing. The selection effect influences which politicians remain in power. Policymakers who learn how to build a strong nation are more likely to survive and prosper in the international order, whereas policymakers who are unable or unwilling to grasp basic economic concepts will find their nations losing influence, territory, and perhaps even sovereignty. International conflict thus provides an evolutionary mechanism which encourages policymakers to improve their understanding of economics and nation-building.

Of course, incentive and selection mechanisms cannot alone create a world of enlightened policymakers because numerous other factors affect the fortunes of nations and the interests of politicians. Nonetheless, the possibility of conflict should be expected to increase economic understanding in government. In addition, even if ignorance prevents policymakers from attaining the global optimum, the possibility of conflict will still strengthen the incentive to reach a local optimum. Advantageous economic policies with immediately observable, short-run benefits will still be encouraged, even if the best nation-building policies are not implemented.

Although we have stressed the political benefits of victory, the interests of politicians may also be damaged by success in international conflict, a theme emphasized by Tullock (1987). International victories may strengthen the hand of military factions which oppose a dictatorial ruler, for instance. In addition, even war victories may disillusion the public and diminish a politician's influence; after World War I, for instance, Woodrow Wilson could not achieve his dream of convincing the American public to accept membership in the League of Nations. After World War II, Churchill was voted out of office in Great Britain, despite the Allied victory. Even in these cases, however, victory still appears preferable to losing, even though politicians may have found peace preferable to either. These examples do not counter the incentive to structure the economy to create military strength, even though politicians would have found it sometimes preferable to use military preparedness to deter war rather than to win a war.

International conflict, of course, is not the only incentive for good economic policy; democratic government, for instance, is often cited as a means of promoting economic growth. Although the operation of democratic governments is a matter of considerable debate, public choice theory implies that democratic governments do not maximize national welfare (Downs, 1957; Buchanan and Tullock, 1962; Mueller, 1979; and Olson, 1982). Voters have poor incentives to become well-informed and may have little recourse against entrenched or indifferent politicians and bureaucrats who do not adhere to their mandate. Furthermore, political competition is imperfect, as voters must choose across entire packages of policies when electing politicians, rather than voting on a policy by policy basis. Electoral incentives may also be perverse – voter preferences for constituency service and district-specific benefits may militate against public interest initiatives.

3. The economic influence of potential conflict: Examples

Economic history offers a number of examples where the possibility of international conflict appears to have improved economic policies, but the building of nation-states and the disappearance of the medieval order from the Renaissance through the seventeenth century provides perhaps the clearest and most important example to date. Through this period, the medieval system of decentralized finance and regulation of trade was replaced by the emergence of national economies and powerful national governments. What Immanuel Wallerstein (1974, 1980) calls the "modern world-system" has its roots in this transformation.

Many historians have suggested that the building of modern states and economies was motivated by the desire for international power. For instance, the symbiotic relation between economic and military power throughout modern Western history is an important theme in Paul Kennedy's recent work, *The Rise and Fall of the Great Powers* (1987). Kennedy's study begins in the year 1500 and examines which nations have been successful at expanding their power at the expense of other nations. In Kennedy's view (1987: 20), the rise of the market economy was allowed by governments for purposes of national power –

> most of the regimes of Europe entered into a symbiotic relationship with the market economy, providing for it domestic order and a nonarbitrary legal system (even for foreigners), and receiving in taxes a share of the growing profits from trade ... From time to time the less percipient leaders – like the Spanish administrators of Castile, or an occasional Bourbon king of France – would virtually kill the goose that laid the golden eggs; but the consequent decline in wealth, and thus in military power, was soon obvious to all but the most purblind.

Kennedy also credits the desire for state-building with the financial revolution of the late seventeenth and early eighteenth centuries. The financial revolution saw the creation of banking institutions, capital markets, and a national debt on a large scale, especially in England and the United Provinces (Netherlands). Economic historians (Dickson, 1967) agree that the financial revolution was instrumental in mobilizing capital for economic growth and was a necessary precursor to the industrial revolution. Kennedy (1987: 76) offers the following summary of the origins of the financial revolution – "certain western European states evolved a relatively sophisticated system of banking and credit in order to pay for their wars."

Governments needed to borrow extensively from the private sector in order to finance their wars, and this borrowing required relatively efficient capital markets capable of mobilizing large concentrations of wealth (Kennedy, 1987: 76–86). In the seventeenth century, countries such as England and Holland had encouraged commerce and experimented with free trade policies in order to build national strength and increase their ability to wage war. Countries that did not attempt to develop their banking and financial systems, such as France, found themselves at a serious disadvantage in the struggle for political supremacy (Kennedy, 1987: 82–86). France was unable to compete with the British funding system throughout the wars of the late seventeenth and eighteenth centuries. Kennedy (1987: 84) notes that by the 1780s, it cost the French government twice as much in terms of interest payments to borrow a given amount of money as it cost Great Britain, because of inferior credit institutions.

Sombart (1975) [1913], in his study of the origins of capitalism, also ascribes the growth of the market economy to governmental desires to fight wars. Stock markets, banks, and financial institutions were encouraged as a potential source of state credit (1975: 11, 65–65), the grain trade was allowed to develop in order to feed and supply large armies (1975: 135), and trade was encouraged as a source of tax revenue to fund armies (1975: 11).

Jean Baechler (1975) is another historian who has emphasized the importance of an international "state of nature" in the economic development of Europe. Domestically, kings were interested in promoting prosperity because they required funds for subduing recalcitrant nobles. In the international arena, kings understood the relationship between economic power and political power. Baechler (1975: 77) notes:

> *The expansion of capitalism owes its origins and its raison d'être to political anarchy* ... the repercussions of this situation reach the economy ... First of all, the State cannot avoid intervening in economic life in order to promote it. From the beginning, the growth of cities in the early Middle Ages and the increasing influence of the bourgeoisie is explained by the use of this new force by the royal power against the great nobles. Without the possibility of mobilizing large and permanent armies, which is to say, without money, the kings would never have been able to win ... Likewise, on the international scene, sovereign political units saw and still see their political importance as fluctuating in terms of their economic importance since their political weight in large measure is a function of their economic resources.

Had Europe still been unified under the Church as in medieval times, the incentive to develop and implement liberal policies and free trade would have been weaker. Instead, the possibility of benefits through international conflict motivated politicians to produce benefits for their citizens at home.[5] Baechler compares Europe, where the combination of common cultural bonds and international anarchy created capitalism and prosperity, to other parts of the world. Baechler suggests, for instance, that the absence of competition among different political units explains the failure of capitalism to develop in imperial China (1975: 82). Each time that China was politically divided, capitalism began to flourish.[6] China, however, ultimately fell victim to excessive centralization, which stifled pressures for liberalization on the local level.

The link between political power and the growth of markets is not only an interpretation of modern historians but was also well understood by many writers of the time. I have argued (Cowen, 1986) that the rise of liberal, free trade ideas in the seventeenth century was motivated by considerations of state-building and national power. The works of mercantilist Nicholas Barbon, for instance, illustrate the link between state power and the rise of trade. Barbon (1690, preface) argued, for instance, that the rise of trade and prosperity were determined by the military needs of governments:

> Ammunition and Artillery, whose Materials are made of Minerals, that are not to be found in all Countries; such as Iron, Brass, Lead, Salt-petre, and Brimstone; and therefore where they are wanting, must be procured by

> Traffick. Trade is now as necessary to Preserve Governments, as it is useful to made them Rich.

Further below, Barbon (1690: 39–41) lists what he considers the three main benefits of trade: 1) trade increases government revenue; 2) trade is necessary to provide for defense; and 3) "Trade may be Assistant to the Inlarging of Empire; and if an Universal Empire, or Dominion of very Large Extent, can again be raised in the World, it seems more probably to be done by the Help of Trade." (Barbon 1690: 40–41). Barbon argued that an ambitious prince should do all that he could to encourage trade.

Western Europe is not the only instance where improvements in economic policies were motivated by the desire for international power. The reform of the Russian economy and the freeing of the serfs in 1861, for instance, were partially motivated by the desire to avenge Russia's humiliation in the Crimean War (Skocpol 1979: 84–85). Skocpol (1979: 84) notes,

> As before in Russian history, the sense of military backwardness spurred a series of reforms spearheaded from above by Imperial officials backed by the tsar. The conscious aim was to reshape – "liberalize" – Russian society just enough so that it might better support the Great Power mission of the state, yet not so much as to cause any politically dangerous instability.

The growth-oriented economic policies of Japan after the Meiji restoration were also motivated by considerations of international power (Baechler, Ch. 7; Norman, 1940; and Kennedy, 1987). Kennedy (1987: 207) notes that the slogan behind post-Meiji development in Japan was *fukoken kyohei* ("rich country, with strong army").

Current economic liberalizations in China and the Soviet Union may provide more recent examples of the effects which result from the possibility of international conflict. The drive for international influence appears to be a strong motivation behind the moves toward freer markets in both countries. Without advanced technology, a growing resource base, trained scientists, and a large pool of wealth to draw upon, neither nation will be able to compete effectively with America, Japan, and Europe for global influence. The Soviets have lost ground in many third world countries because they have only arms to offer, whereas America can offer both trade and arms. Furthermore, Chinese liberalization has frightened the Soviets with the possibility that China will become the dominant power in Asia. The modernization and liberalization of the Soviet and Chinese economies thus appears to be partially motivated by a desire to preserve and extend their international influence and power.

The above analysis is not inconsistent with the belief that many Soviet and Chinese leaders are benevolent public servants intent on improving living standards. Even if these leaders are altruists, many factions in the Soviet and

Chinese governments are motivated by considerations of state-building and international power. It is easier for altruistic leaders to win support for humanitarian policies if these policies have the incidental effect of strengthening the nation militarily.

A final example of the effects of conflict on government policies comes not from recent history but from the distant past. Theories dating from nineteenth century sociology associate the very origin of organized government with rent-seeking and war governments were formed for purposes of both domestic and external plunder, as the lure of victories over other societies or tribes provided an impetus for the development of organized government and control.[7] Although few modern anthropologists accept this theory in its original form, conquest-oriented motivations behind the formation of governments remain a common theme in anthropological explanations (see Fried, Harris, and Murphy, 1968).

4. Other forms of international competition and cooperation

Violence and the threat of violence are not the only forms of competition available to nations. Rather than forcibly seizing resources from other countries, nations may attempt to entice capital and labor into their borders by offering an attractive economic environment. Tiebout (1956), for instance, argues that in the presence of resource mobility and a sufficiently large number of communities, or governments, decentralized decision-making will result in an optimal production of public goods. Communities (or nations) offer bundles of public goods and individuals express their preferences by voting with their feet, requiring public officials to provide the mix of public goods that their citizens desire. The Tiebout solution thus utilizes voluntary migration to produce good economic policies while avoiding the costs of using force to resolve international disputes.

The Tiebout solution, however, effectively constrains policymakers only under special assumptions. Numerous barriers to mobility, including differences of language and customs, specialized knowledge about one's community, and the oft-present legal restrictions upon both immigration and emigration significantly hinder the effectiveness of Tiebout competition. Stiglitz (1977) points out other problems with the Tiebout model. In some cases, for instance, the number of communities available must be very large (sometimes equal to the number of individuals in society) for competition to be effective; in other cases relocation decisions will lead to the loss of economies of scale. Stiglitz also examines problems of transition from a non-Tiebout world to the optimal Tiebout allocation. The optimal reshuffling might require either that everyone move at the same time or that one group compensate another for relocating.

In addition to rent-seeking competition and Tiebout competition, good economic policies might also be encouraged by the use of cooperative strategies in an international order. Economic interdependence may produce security, as trading and investment links give nations a strong interest in each others' survival and prosperity (Rosencrance, 1986). The link between trade relations and world peace is a common theme in classical liberal philosophy and is a frequently cited argument for trade liberalization (see Silberner, 1946).

Not only may economic interdependence, taken as exogenously given, promote peace, but the security benefits of interdependence may motivate politicians to promote prosperity, thereby increasing economic interdependence. Poor nations without developed resources and trading links find it hard to seek security through economic interdependence because other countries may not have a strong economic interest in their survival. Without economic interdependence, a country may find it difficult to develop reliable alliances and may thus become the target of aggressive rent-seeking.

Like Tiebout competition, cooperative strategies of economic interdependence generate significant benefits but do not necessarily provide incentives sufficient to ensure that good economic policies are adopted. For instance, development strategies which promote interdependence need not maximize welfare, as evidenced by a policy which excessively subsidizes exports at the expense of domestic consumption. Furthermore, economic links to other nations sometimes decrease security, because countries with well-developed resources and trade networks may become tempting targets of aggression. The acquisition of Hong Kong by mainland China, for instance, is of special value to the Chinese government because of Hong Kong's extensive links to the outside world.

5. Concluding remarks

An examination of the economic effects of a conflict-prone world order illustrates problems with many suggested solutions to the problem of war. For instance, many peace proposals place legal restrictions upon national sovereignty; such proposals range from world government to expanded powers for a World Court in settling international disputes. Edward McClennar (1986: 400–401) in his "Tragedy of National Sovereignty," expresses a number of common attitudes:

> It is possible, I believe, to overestimate the need for a system of rights that will govern nations in their dealings with one another and that will be guaranteed by an international organization possessing adequate coercive power ... nations have no choice but to create an international community,

> predicated upon a set of basic rights and duties of nations toward one another, enforced and adjudicated by a coercively backed international order.

Even if implementable, world government may involve serious economic costs. If the possibility of international conflict did not exist, the incentive for governments to implement economic policies to improve the welfare of their citizens might weaken.[8] Reforms of the international order must address not only the issue of security, but also ramifications for political incentives and domestic economic policies.

Similar arguments can be applied to political unions and alliances which decrease the necessity for defense of their member nations. Such institutions may actually encourage economic stagnation by weakening the political incentives to encourage growth. This analysis contrasts with standard theory, which analyzes the effect of alliances on the production of the public good of defense (Olson and Zeckhauser, 1966). Alliances may also have important effects upon domestic economic policies, as well as producing international public goods.

The economic incentives created by a conflict-prone world order indicate why eliminating conflict is a more difficult problem than simply avoiding the dominated solution in the southeast box of a prisoner's dilemma situation. It does not suffice to assert that a world without conflict would be preferable; we must also address the issue of how a world without international conflict would produce sufficiently strong incentives for politicians to implement growth-oriented economic policies.

Notes

1. Angell (1933) and Knight (1936) are two powerful critiques of war. The costs of war can be interpreted in terms of the concept of rent-seeking; Tullock (1967), Buchanan, Tollision, and Tullock (1980), Bhagwhati (1982), Olson (1982), and Tollison (1982) examine general issues in the theory of rent-seeking. I am arguing that international conflict is not a case of pure rent-seeking because incidental benefits may result; Cowen, Glazer, and McMillan (1988) offer a more general perspective on the incidental benefits of rent-seeking. In contrast to rent-seeking interpretations of conflict, Friedman (1977) argues that international conflicts are resolved by quasi-market arrangements; this view is examined in the appendix. Writers who stress the economic benefits of international conflict usually focus on the technological benefits or "spillovers" that may result from spending on armaments and military research. Nef (1952) examines the history of the idea that war and spending on armanents promote technological progress.
2. An analogous argument against automatic revenue maximization can be presented for wage earners in the context of a labor market. Workers do not maximize their take-home pay, because they are also concerned with leisure activities (working fewer hours), and on-the-job consumption (e.g., devoting time to enjoyable tasks rather than increasing one's chance of promotion). An increase in spending opportunities in the marketplace, however, may induce greater effort

and longer hours. This result need not hold, however, if the labor supply curve is backward-bending. An increase in opportunities could thus induce an individual to work less, because he can now achieve more ends with a smaller sum of money.

3. Tullock (1987) argues that even absolute dictators are constrained by the requirement of political support and must engage in political maneouvering to implement their chosen policies.
4. There may be other reasons why politicians, even dictators, will not necessarily maximize tax revenue. Extra revenues flowing into government coffers may not always come under the control of the individuals who determine economic policy. If government revenue increases, the new funds might unavoidably flow to sectors of the bureaucracy or spending programs that yield no direct benefits to policymakers. In addition, the incentive to maximize long-run revenue may be greater under a stable hereditary monarchy than under either democracy or dictatorship, because of the longer time horizon of rulers under a hereditary monarchy. (I am indebted to Gordon Tullock for this insight.) Of course, there is also the possibility that international conflict will lead politicians to minimize tax revenue, if they expect that domestic output will be seized by other nations. The incentive effects of conflict may thus require that the probability of losing forthcoming conflicts is sufficiently low.
5. Different aspects of the relationship between state power and the rise of capitalism are explored in Wallerstein (1974, 1980) and Braudel (1984). Wallerstein emphasizes the role of state-building in creating conditions favorable for capitalism, by unifying markets, creating transportation networks, and breaking down medieval restrictions upon trade. Unlike Barbon, who believed that the public sector deliberately fosters the rise of trade, Wallerstein sees capitalism as an unintended byproduct of state-building. Braudel (1984) emphasizes the role of the state in fostering international trade as a means of building state power. Because of their limited size and resources, countries like Portugal, the Netherlands, and England needed to develop trade networks if they were to be powerful. Braudel sees large-scale international trade as an essential precondition for the capitalist take-off experienced by Western Europe. Related perspectives on European development are offered in Lane (1979) and North (1979). Also relevant is the literature on the "imperialism of free trade" (Semmel 1970, Louis 1976) which suggests that European free trade policies were often motivated by imperialistic desires. Knorr (1944) provides an early, but comprehensive examination of this issue, and Knorr (1975) analyzes the modern relationship between prosperity and power.
6. Baechler (1975: 82) cites the end of the T'ang period and the duration of the Song period, the second half of the eigth century to the thirteenth century, the period of Warring Kingdoms (453–221 B.C.), the period of the Three Kingdoms (A.D. 220–280), and the period of the Six Dynasties (A.D. 316–580). Balazs (1964) examines the relationship between political decentralization and economic growth in Chinese history.
7. Herbert Spencer (1896), Ludwig Gumplowicz (1899), and Franz Oppenheimer (1914) are a number of important figures in this tradition. Carneiro (1970) attempts to integrate these theories with the findings of modern anthropology. Fried, Harris, and Murphy (1968) and Hallpike (1973) discuss other anthropological theories of the benefits of warfare.
8. Creation of a world government would also make policies in each country correspond to the preferences of the world median voter, rather than the median voter of that country. Inefficient production of public goods or excessive redistribution of wealth from the wealthy to the poor are two possible results of this shift.

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Appendix

Can we rely upon the Coase theorem to allocate international resources?

David Friedman's (1977) analysis of international conflict in his "A Theory of the Size and Shape of Nations" argues that international conflicts are not significant because international conflicts can be resolved through market-like mechanisms. Disputed territories and resources will end up in the hands of the highest bidder, i.e., the country that values them the most. Friedman's approach is based upon the Coase theorem, which claims that in the absence of transactions costs, resources and rights will be obtained by the party who values them most highly. Friedman (1977: 59) summarizes the implications of the Coase theorem for international relations as follows:

> Consider two nations, each claiming the same piece of territory. Each may try to gain its ends by force, threats, or offers of payment or exchange. It seems reasonable to suppose that the outcome will be efficient, that the territory will end in the control of the nation willing to pay the higher price.

Under Friedman's approach, nations desire additional territory because more land and more citizens translate into higher tax revenues, but true conflicts between nations do not arise because of the quasi-market arrangements that he postulates for allocating land rights.

Friedman contrasts his Coase theorem approach to the alternative conjecture that stronger nations will seize territory from weaker nations. Friedman (1977: 59–60) claims that unless both countries are engaged in a war of annihilation, the amount of resources each nation is willing to expend to gain its end will determine the result of the conflict, regardless of the relative strengths of the two nations.

A closer examination of the Coase theorem, however, shows that nations' relative valuations of territories are not sufficient to determine a unique outcome and that there is considerable room for international rent-seeking.

First, the Coase theorem assumes that the result of a resource bargain generates no income effects. The Coase theorem is most successful when the individuals or institutions involved are bargaining over a commodity whose loss or possession will not appreciably affect their wealth – an assumption not always satisfied in the case of international conflict. Whether Germany or France possessed the territories of Alsace and Lorraine surely affected their respective willingness to pay for these provinces – presumably the possessor could afford to sacrifice more resources to keep this land than the non-possessor could sacrifice to obtain it. Since the distribution of territories determines willingness to pay, it cannot be argued that willingness to pay determines the distribution of territories, as Friedman's application of the Coase theorem would suggest.

Second, the Coase theorem assumes parties do not engage in strategic behavior. If the Soviet Union and America are engaged in a dispute over American arms supplies to the Afghan rebels, for instance, America may send additional arms to the rebels, even though the marginal costs of these shipments exceed their benefits to America. By sending more arms to the rebels, America is effectively demanding a larger bribe from the Soviets for stopping shipments. The payoffs made to consummate bargains under the Coase theorem can be considered a rent. To the extent a nation engages in behavior that other nations find undesirable, it may be able to demand larger payoffs for stopping and thus benefit, even if the undesirable activities do not benefit the initiating nation at all.

Examples of strategic behavior to obtain larger payoffs are common in international relations. A nation may press an attack against a defeated rival, not to obtain additional territory (which may be valued more by the losing nation), but simply to force the loser to offer larger indemnities in the peace settlement. Likewise, countries may invest in armaments beyond the "optimal" point in order to obtain more favorable terms from their competitors at arms reduction talks.