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**Chapter 6. Appropriation, the state space and the economics of escape (short version)**

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# Chapter 6: Appropriation, the state space and the economics of escape<sup>1</sup>

## Introduction

In the preceding chapter<sup>2</sup>, I showed why the nature of conflictual (protection/aggression) costs cannot be explained in terms of transaction costs. In this chapter, I will argue that these costs should be considered as part of appropriation costs. To understand conflictual costs, we need a theory of involuntary transactions or appropriation that will also be useful in shedding some light on the economic rationale of the state space. In formulating such a theory, I start by distinguishing the value of an asset from its booty value (section 6-1).

The *appropriability* of assets and their *mobility* to escape from confiscatory (predatory) threats will be examined as the two underlying criteria for distinguishing escape and captive assets (section 6.2). Different dimensions of escape assets, and legitimacy costs of transforming booties into new economic assets will be disentangled in sections 6.3 and 6.4. Sections 6.5 and 6.6 will examine the economic rationale of the state-space from two different perspectives, namely the prey and the predator. The former represents the demand side and the latter reflects the supply side of the protection market.

A short conclusion will follow.

## 6.1 Property rights and the booty value of an asset

Protection/aggression costs are costs of appropriation<sup>3</sup> rather than costs of transaction. But the first question regarding « protection costs »<sup>4</sup> is what is being protected? *Physical* assets or a bunch of “rights” (i.e. *rights of action*)?

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<sup>1</sup> This paper is a shorter version of Vahabi (2016, chapter 6). The complete chapter includes two other sections (sections 6.7 and 6.8) providing an illustration of my theory on confiscatory regimes, namely the political economy of the Islamic Republic of Iran. Two examples of indeterminate properties, namely *Bonyads* and *Setad* as religious foundations under the tutelage of the Supreme Leader (the jurisconsult) have been used in discussing the relationships among a confiscatory regime, protection costs and assets structure. These two sections demonstrate the relevance of our distinction between captive and fugitive assets in developing countries where violence is a major impediment of development.

<sup>2</sup> Chapter 5 is a reprint of my paper: Vahabi, Mehrdad, 2011, « Appropriation, Violent Enforcement and Transaction Costs: A Critical Survey », *Public Choice*, Vol. 147, No. 1, pp. 227-253.

<sup>3</sup> I would like to emphasize at the risk of seeming repetitive that by ‘appropriation’ I mean ‘capture by force’ or *coercive* redistribution that includes state’s confiscation, expropriation, extortion and theft. Other modes of appropriation such as acquisition by market transaction, donation, inheritance, and option value of financial assets are not the focus of this study. Furthermore, in organization theory, ‘appropriation’ often refers to post-contractual opportunist behavior *within* voluntary transactions (Klein, Crawford, and Alchian, 1978). This type of ‘appropriative’ activity is also excluded in this section, since they do not come within the scope of *involuntary* (*coercive*) transactions. As discussed in chapter 5, Williamson (1985) excluded all forms of ‘strong opportunism’ including ‘theft and predation’ (see table 5-2), whereas Washington branch of transaction costs conflates appropriation within and outside contractual relationships. For a critical assessment of Washington school, see chapter 5.

<sup>4</sup> As in preceding chapter, by ‘protection costs’, I always mean protection/aggression costs.

According to the property rights approach (Demsetz, 1964), *the value of an asset is not determined by its physical properties, but rather by the allowed rights of action over the asset*<sup>5</sup>. “(T)he value of what is being traded depends upon the allowed rights of action over the physical good and upon the degree to which these rights are enforced.” (p. 18). The right of action depends on the degree of enforcing rights. Protection costs or the amount of costs incurred in enforcing and policing rights should be at least equal to the amount of benefits that might be derived by creating such particular right of action. *Protection costs are hence equal or less than the added value to the asset due to the added right of action.*

Demsetz provides an illustration: the speed limit for automobiles. If drivers are allowed to drive faster, the price of automobiles might increase, but it is not the only effect. The increased speed limit increases the risk of car accidents. This means that the value of other assets that can be affected as a result of a car accident will decrease. Although this risk could be covered by car insurance, the final result highly depends on whether an increase in the price of automobiles would be large enough to offset any increase in the cost of insuring life, limb, and home, i.e. the resulting decline in the value of other property. A similar example is the degree to which auto theft is prohibited. If the law is lenient towards auto theft, and private protection devices are not allowed (or restricted), the car price will fall below the social value of the automobile. “Enforcement thus becomes the specification of additional rights” (Demsetz, 1964, p. 19).

Defining “protection costs” in terms of opportunity costs brings us to consider this type of costs as the costs of a particular type of decision-making. Suppose that the space is divided into ‘authorized’ and ‘unauthorized’. For instance, territorial boundaries delineate a country, a home, or an institution’s zone of influence, etc. Conflict can then be depicted as trespassing the ‘borderlines’ and protection costs might be defined as the costs of securing the ‘borderlines’<sup>6</sup>. To put it differently, protection costs depend on a particular type of decision-making regarding the creation of a specific right of action (authorized versus unauthorized zones).

This approach is particularly fertile in drawing our attention to the importance of enforcement (*agency’s* cost of action) in determining the value of assets. However, it suffers from a fundamental shortcoming: it does not compare the costs of *creating* a right with the costs of *violating* a right. Protection costs are the costs incurred in shunning the violation of rights. A caveat is warranted regarding the meaning of ‘violating’. It entails an *active negation* and not the mere *absence*. Before the existence of a right, there is *nothing* (emptiness); but after a right is created, its destruction requires a particular type of activity, *active negation*. To glean the meaning of what I understand by violating or destroying, consider a land with no property rights. This is a state of *res nullius* (nobody’s property), but once private property on land is established, then the expropriation of land is not a return to *res nullius*, but to the active negation of private ownership. In the same vein, if a certain sum of money is *lost*, there are no property rights on the money and the one who finds it can keep it. But if the same amount is appropriated through theft<sup>7</sup>, the property right is violated. McChesney (2003, p. 247) also notes this distinction when he discusses the role of government as definer of rights: “When contending

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<sup>5</sup> Demsetz’s approach comes within the scope of the “opportunity cost” theory, known as London School of Economics (LSE) cost theory (see Buchanan and Thirlby, 1973; and Buchanan’s introduction to this edited volume). Buchanan (1969) suggested a very interesting interpretation of Coase (1960) which deemed Coase to be a precursor of the “opportunity cost” perspective who developed a *subjective* rather than an *objective* “social cost” approach.

<sup>6</sup> Graph theory may be used in describing conflicts in this way.

<sup>7</sup> The French comedian, Coluche, used to say that “stealing is finding something that was never lost”.

parties for property rights have equal abilities to employ force, force actually is not used (Umbeck 1977a, 1981). Conversely, however, when one party has a preponderance of power, it will use this power against a contending party, at least to some point (Anderson and McChesney 1994). The current problems that Third World nations face in defending private property against government destruction of rights indicates that giving government a monopoly on the use of force can be a double-edged sword; government alleviates strife among private contenders for rights but uses its monopoly to take rights for itself (De Soto 1989; Acemoglu, Johnson, and Robinson 2001).”<sup>8</sup>

Using the above distinction between authorized and unauthorized space, *res nullius* refers to a space in which there is no demarcation line between these two zones. By contrast, violating a right assumes the existence of such a demarcation line, and the trespassing of the line. In other words, with the creation of every right, the possibility of its violation will be born. The protection costs (enforcement costs) cannot be measured in terms of the *added value to the asset due to the added right of action* as implicitly suggested by Demsetz. The difference between the asset’s value before and after the introduction of a new right of action measures the added value in comparison with a ‘state of no right’ (*res nullius*). But a ‘state of no right’ is not synonymous of a state in which a right is violated. *The protection costs are determined by the costs of violating (and not creating) a right.* These two types of costs are not symmetrical. The difference between the *value* of an asset and the *appropriation value* (booty value) of the same asset is insufficiently studied in economic literature, but this difference is key to understanding appropriation costs.

While the value of an asset depends on the allowed rights of action over the physical good, the *booty value of an asset is its (involuntary) non-market exit value* that covers the costs of coercive appropriation. By involuntary, I mean the absence of any other option except *exit option* under the threat of confiscation. When exit is the *only* option for the owner of an asset, the value of his/her asset will be inversely related to the costs of its maintenance since by alienating the asset, the new custodian or the new owner will incur the maintenance costs of the asset. These costs include the reproduction costs of the physical assets without which the property will partially or completely lose its value. The higher the costs of maintenance, the lower will the booty value of an asset be. For example, the booty value of a highly complex industry is much lower than the booty value of a fertile piece of land allocated to corn cultivation. In general the maintenance of ready-made products is less costly than the maintenance of a plant producing the same products. The former requires a storage room whereas the latter needs an overall management of all factors of production involved in the manufacturing of products as well as the coordination of the whole process.

An important caveat is in order. The *exit option* (*abusus*, or the right of alienation and pure physical destruction) is here assumed to be the sole and unique option; it is not an external market option among other market options including the rights of fructifying the asset by disposing *usus* and *fructus*. If the exit option is an option among other options, the cessation

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<sup>8</sup> Similar to Umbeck (1977a,b, 1981), Friedman (1989) contends that in the presence of equal forces, force will not be used. Leeson (2007a) argues that even when one party has a preponderant power, it does not necessarily use it. Smith (2014) underlines the operation of safe-conducts and the civilizing role that *Doux-commerce* played among otherwise religious communities of Christians, Jews, and Muslims residing in close proximity in Medieval Spain. This period known as *La Convivencia* experienced a period of relative peace, prosperity, and cultural exchange.

value of an asset or its *market exit value* will be much higher than the (involuntary) *non-market exit value* of the same asset when exit is the only option. The difference between the market exit value of any asset  $i$  ( $EV_i^m$ ) and its booty (non-market exit) value ( $BV_i^n$ ) determines the amount of absolute rent or tribute appropriated by the use of coercive or confiscatory policy. We have:  $AR_i = EV_i^m - BV_i^n$

The *appropriation costs of an asset are not defined by the allowed rights of action but by the constraint of exit*. In this sense, the non-market exit option is rather a *constraint* excluding the rights of *usufruct* (possessory rights) or the possibility to enjoy the allowed rights of action over the physical good. Hence, the appropriation costs of an asset depends on its possibility to exit or to *escape*. The easier its exit (escape), the higher will its appropriation costs be; similarly, the harder its exit (escape), the lower will its appropriation costs be.

From an anti-predatory perspective, the more an asset is *mobile or invisible* (i.e., having hidden ability), the more it is resistant to confiscatory (appropriative) policies. Although mobility and invisibility are two different properties, they share a common quality in the context of predation: inaccessibility to be tracked down. I will use the term mobility in a broad sense to include the invisibility or the hidden ability of an asset. Movable assets can exit more easily than immovable assets. Assets might be more or less classified into ‘escape’ and ‘captive’ according to their higher or lower booty (non-market exit) value. The booty value of mobile assets is higher than that of immobile assets, and by the same token, escape assets pay less rent or tribute than captive assets. The difference between the rent paid for captive and escape assets form differential rents (DR). The amount of differential rents is a good indicator of success for the anti-predatory strategy against a confiscatory regime.

Borrowing Demsetz’s definition of property rights, any added rights of action over mobile and immobile assets increase their value. The extra value associated with the introduction of a new right of action (denoted by  $R_1$ ) should thus be compared with the value that could be transferred by *violating* the same right (denoted by  $R_{-1}$ ). The ratio  $\alpha = (R_{-1} / R_1)$  defines the *degree of violability of a right*. The lower and upper bounds of  $\alpha$  are as follows:  $0: \leq \alpha \leq 1$ .

This ratio is maximum when  $\alpha=1$ , i.e. when the total value of an asset does not change in case of violation of any added right ( $R_{-1}=R_1$ ). This means that the asset is totally *captive*, i.e. inelastic to confiscatory policies. By contrast, when the asset is completely *escapable* or elastic to confiscatory policies, then  $R_{-1}$  tends to zero, and  $\alpha$  will be nil. Although the added rights of action over mobile and immobile assets increase their value, the rights over *mobile* assets cannot easily be violated as the ones over *immobile* assets, since the former has a higher ability to escape, and is thus more secure than the latter. The lower the ratio  $\alpha$ , the more secure the value of an asset is from an economic point of view, and the higher its differential rent is.

Exploring the difference between escape and captive assets, we should examine whether the exit potential depends on *asset specificity* or the quality of asset as *fixed capital*. If not, what are the underlying criteria to distinguish varying degrees of the asset’s captivity or its potential for escape?

## 6.2 Escape and captive assets

The list of thinkers and philosophers in the eighteenth and nineteenth centuries who noted the importance of mobile assets in restraining and controlling the power of tyranny is very long. Hirschman (1970, 1978) provided many excerpts from Montesquieu, Sir James Stuart Mill, and Adam Smith in which they defined money, notes, bills of exchange, stocks of companies, ships, all commodities and merchandises as ‘movable assets’ that could escape from tyranny and imposed restraint on it.

In this classical literature, *mobility* was employed in a broad sense including the *invisibility* property of assets. For example, discussing the invention of the letter of credit, Montesquieu (1748) underlined its invisibility quality as a factor of mobility<sup>9</sup>: “The Jews invented letters of exchange; commerce, by this method, became capable of eluding violence, and of maintaining everywhere its ground; the richest merchant having none but invisible effects, which he could convey imperceptibly wherever he pleased...From this time it became necessary that princes should govern with more prudence than they themselves could even have imagined” (Book 21, chapter XXI-20). Almost two thousand years before Montesquieu, when *eisphora* (war tax) was assessed and collected during the archonship of Nausinicus in B.C. 378, on the basis of taxpayers’ self-declaration regarding their personal wealth, the Greek orators complained about a good deal of tax evasion, “particularly by concealing what the Greeks called ‘non-apparent property’, that is cash. But the great bulk of Athenian property consisted of land and houses, which it was impossible to conceal, and of slaves which were likewise difficult to hide.” (Jones, 1974, p. 155). In antiquity, the wealth was divided into apparent and non-apparent parts. The latter was cash and easy to conceal though a small fraction of the total fortune. The relative importance of non-apparent wealth radically changed since the rise of merchant and financial capital in the sixteenth century. The ability of capital to evade tax was a limit to tyrannical power.

In this way, contrary to landed property or immobile assets, capital as a movable asset positively contributed to the establishment of good government. Hirschman (1978, p. 98) also cited Turgot regarding the role of the emigration of persons in addition to capital in enhancing democracy. The quoted passages referred to the importance of the asylum afforded by the American people to welcome the oppressed of all nations escaping from the consequences of a bad government. According to Turgot, this opportunity obliged the European governments to be just and enlightened.

Bates and Lien (1985) added several other scholars, including Quesnay, Mirabeau (p. 60) and Marx (p. 53); the latter stating that capital was the most mobile factor of production. More recently, Boix (2003, p. 227) alluded to Hirschman’s references to Montesquieu and Turgot hailing mobile capital as a way of curbing the sovereign’s power, and added to this list Barrington Moore (1966, p. 418) who reasoned in the same line and wrote: “No democracy is possible without a bourgeoisie.”

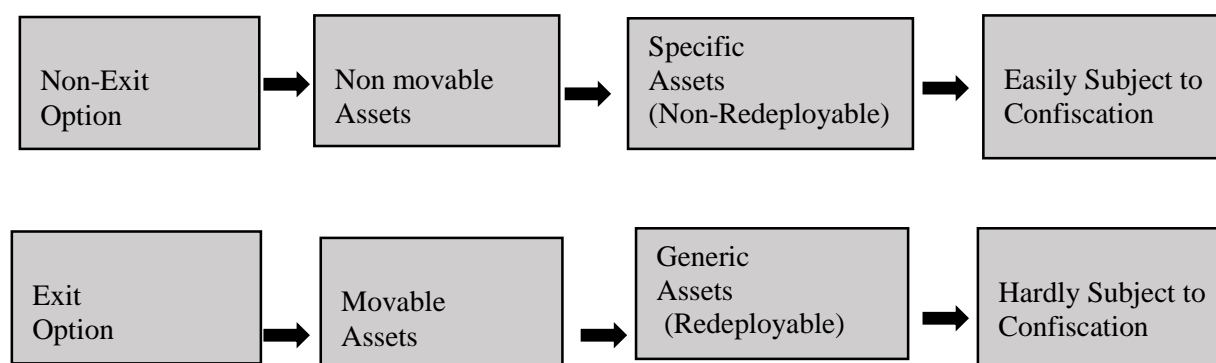
Many economists noted the impact of movable assets on institutional change (e.g., Domar, 1970, pp. 21-26; Friedman, 1977, p. 63; Bates and Lien, 1981, pp. 53-64; De Long *et al.*, 1993, pp. 681, 688), but Hirschman’s systematic work on ‘exit’ versus ‘voice’ became a cornerstone in inspiring recent economic literature on the relationship between democracy and mobile

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<sup>9</sup> This passage of Montesquieu (1748) has already been cited by Hirschman (1978, p. 98) as well as by Bates and Lien (1985, p. 60) in the following terms: “through this means commerce could elude violence..., for the richest traders had only invisible wealth which could be sent everywhere without leaving any trace...Since that time, the rulers have been compelled to govern with greater wisdom than they themselves have intended”.

assets. However, in the recent body of works, ‘unmovable’ assets are often defined as ‘specific assets’ or ‘fixed capital’. Borrowing upon transaction costs economics, ‘unmovable’ assets were described as *non-redeployable* or *specific assets* and ‘movable’ assets were qualified as *redeployable* or *non-specific assets*. This new synthesis between transaction costs economics and Hirschman’s exit and voice theoretical framework resulted in two main ideas that are captured by the following two equations (see Figure 6-1).

**Figure 6-1 Exit option and asset specificity**



First, unmovable assets associated with the non-exit option are specific, non-redeployable and easily subject to confiscation.

Second, movable assets related to the exit-option are generic (non-specific), redeployable and hardly subject to confiscation.

This synthesis was not suggested either by Williamson (1976) or by Hirschman (1978). Although Williamson (1976) emphasized complementarity between the two theories in comparing markets and firms (hierarchies), he underlined differences regarding the background and orientation of the two approaches and particularly noted: “The antecedent tradition on which EVL [*Exit, Voice and Loyalty*] relies is a mixture of politics and economics, the former of which is rather diffuse.” (Williamson, 1976, p. 371, brackets added). It is noteworthy that Williamson (1975) had not sufficiently explored the asset specificity dimension in delineating the frontiers between markets and hierarchies as he did in his later works (Williamson, 1979, 1981, 1985)<sup>10</sup>.

This synthesis has been recently advocated by other scholars in economics and political science (Rogowski, 1998; Boix, 2003; Clark and McGirr, 2010; Connolly, 2012; Freeman and Quinn, 2012). Rogowski (1998, p. 53) wrote: “The cost of exit is affected, in politics as in economics, by at least two things: actual conversion costs (acquiring new equipment or skills) and write-off of non-redeployable assets (incompatible or highly specific equipment).” Rogowski’s insightful analysis of ‘conversion costs’ notwithstanding, the use of asset specificity in

<sup>10</sup> In Hirschman (1970), ‘exit’ is an *economic* mechanism whereas ‘voice’ is a *political* one. Williamson (1976) was critical about Hirschman’s “diffuse political” aspect. He rather preferred to relate ‘voice’ to an *economic* internal mechanism of firms (hierarchies). His later theory of asset specificity (Williamson, 1985) provided an economic explanation of the transition from market *exit* to firm’s *voice* in terms of grand transformation. The ‘grand transformation’ is a transition from impersonal market relationships involving generic assets to personal bi-lateral relationships engaging idiosyncratic assets within the firm (hierarchy).

discussing political exit is misleading. Boix (2003) does not explore ‘conversion costs’, but follows Rogowski in analyzing the causal relationship between exit (mobility) and political regimes in terms of asset-specificity (non-redeployability). In his opinion, the process of economic development is the story of a shift from a “complete asset specific” (non-redeployable) economy based on agriculture (landed property) to a “relatively non-specific asset” (redeployable) economy built on industry and commerce (Boix, 2003, pp. 38-43). He claims that the origins of democracy relies on the interaction of inequality and asset specificity. In Boix’s historical account, as asset specificity declined, the constraining effect of inequality on democracy lessened and the extension of the franchise became a much less painful option to the owners of industrial capital.

In my opinion, this new synthesis is misleading, since it misinterprets the relationship between asset-specificity and vulnerability to confiscatory measures, and it elides the difference between economic asset-specificity and political mobility (exit). Clearly speaking, I claim that: 1) the higher the level of asset specificity, the lower the value of confiscated assets will be; 2) the economic asset specificity (i.e. non-redeployability) has no bearing on the political mobility of an asset. Before substantiating these points, I must clarify my definition of asset-specificity and political exit. In defining ‘asset specificity’ in terms of non-redeployability due to a particular investment, I follow Williamson (1985)<sup>11</sup> and by ‘political exit’, I assume an exit from a given state space<sup>12</sup> as Hirschman (1978) suggested.

My first point holds that specific or idiosyncratic assets are almost non-appropriable. The story of Ghazali<sup>13</sup> and the robbers elucidates this claim.

“[Nizam al-Mulk] told the story of how the Imam Abu Hamid al-Ghazali, the Sufi once traveled to Abu Nasr al-Ismaili in Gurgan and how he took notes from him... When he returned to Tus, he was robbed on the road and his notes were taken away from him. He said to the captain of the highway-robbers: “Return my notes to me!” He asked: “What are these notes?” Al-Ghazali answered: “A bag in which are the books of my studies.” [Al-Ghazali said]: “And I told him my story. So he asked me: How can it be that you have learned things that you get rid of when this bag is taken away from you? And now you remain without knowledge?” Then he returned it to me. I said: “He was sent by God to alert me and guide me towards what is best for me. And when I entered Tus, I turned my attention to this for three years until I had memorized all my notes in a way, would I have been robbed I would not have been deprived of my knowledge.” (Cited in Giffel, 2009, p. 28).

Ghazali’s story about acquiring a non-stealable knowledge pertains to a particular type of asset specificity, namely *human asset specificity*. A bag full of books and notes can be robbed but your personal knowledge is not ‘stealable’ and cannot be confiscated. That explains why any authoritarian regime needs to be tolerant towards and compromise with experts if it wants their help and collaboration; otherwise, it has to slaughter them as Pol Pot’s regime did in Cambodia. Moreover, experts can more easily emigrate. Brain drain is usually the result of tyranny or warfare.

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<sup>11</sup> For more details about asset specificity in Williamson, see chapter 5.

<sup>12</sup> The state space may or may not be national. Following Scott (2009), the effective ‘state space’ should not be equated with its formal political frontiers, see chapter zero.

<sup>13</sup> Abu Hamed Mohammad ibn Mohammad Ghazali (1058-1111), known as Al-Ghazali or Algazel to the Western medieval world, was an Islamic Persian theologian, jurist, philosopher and mystic born in Tus, a small village near Mashhad in the eastern part of Iran.



Therefore, human specific assets are both movable (capable of political exit) and non-stealable or hardly subject to confiscation. In this sense, human specific assets are *escape assets*. By escape assets, I mean assets that have two properties:

1) *Mobility*: they are movable, i.e. capable of escaping from a given state space, since they can be easily hidden or displaced geographically. Movability also refers to the possibility of altering political (authority) allegiance without any physical (geographical) displacement.

2) *Non-confiscable*: they are hardly subject to confiscation in the sense that i) any attempt to transfer property rights through coercion destroy the asset or reduce its value to almost nil<sup>14</sup>; ii) the costs of confiscation is higher than benefits of confiscation.

Escape assets have a higher non-market exit value than other types of assets and as a consequence of this advantage, they are *potentially* subject to less tribute (AR) and enjoy differential protection rents (DR). This ‘potential’ depends on what Rogowski (1998, p. 53) named ‘conversion costs’. These latter costs include the costs of adaptation to the new environment and acquiring new skills. If these costs are less than the amount of differential rents due to emigration, then this potential will become actual and effective. That explains the massive flee of professionals and middle classes during repressive authoritarian measures or warfare threatening the life of civilians (e.g., in Iraq after the American invasion, and in Iran after the establishment of the Islamic Republic of Iran).

Specific investment in physical capital is another source of asset specificity. But physical capital, i.e. plants, machines and equipment cannot easily emigrate<sup>15</sup>. In this sense, they are less movable. Adopting Boix’s definition of asset specificity as the “cost of moving capital away from its country of origin” (2003, p. 3), physical capital is highly specific<sup>16</sup>. The major question is not whether they are *movable* but whether they are easily subject to *confiscation*? The answer is negative, since the continuation of particular investments requires specific entrepreneurial capabilities including marketing, financing, monitoring, coordinating and networking abilities. In the absence of these capabilities, the investment will shortly stop and specific assets break down into generic assets losing if not the whole, at least most of their value. As I showed in chapter 5, highly specific assets are less vulnerable to strong opportunistic behavior (such as theft and predation) *outside* the contractual relationship, and are more prone to subtle forms of opportunistic behavior (such as moral hazard and adverse selection) *within* the contractual relationship. In other words, specific investments in physical capital are hardly subject to

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<sup>14</sup> Angell [1910] 2012 devoted a whole chapter on the “impossibility of confiscation” (chapter IV) and wrote: “If credit and commercial contract are tampered with in an attempt at confiscation, the credit-dependent wealth is undermined, and its collapse involves that of the conqueror; so that if conquest is not to be self-injurious it must respect the enemy’s property, in which case it becomes economically futile.” (p. 2). The same is true with specific human capital. It is extremely hard to force experts to collaborate with a government. Bolsheviks were extremely prudent in dealing with ‘bourgeois experts’, Pol Pot preferred to exterminate them totally.

<sup>15</sup> The frontier between ‘movable’ and ‘immovable’ is not rigid. One previously asset can transform into movable depending on the level of technological and organizational progress. In our time, plants, machines and equipment can ‘emigrate’ overnight from one country to another to profit from cheaper labor costs if the government permits such a movement and do not proceed to expropriation of assets. This is called ‘delocalization’ as part of the process of globalization. Physical capital investments like human capital assets are becoming increasingly movable. However, even in the era of globalization physical capital is less movable than liquid capital.

<sup>16</sup> I do not accept Boix’s definition of asset specificity and prefer rather that of Williamson (1985) for whom specificity does not only refer to asset’s physical quality, but also to contractual relationships.

confiscation. This type of specific assets cannot be qualified as *escape assets*, but they are not *captive assets* either. By *captive assets*, I mean assets that have two properties: 1) they are unmovable in the sense that they are not capable of escaping from a given state space; 2) they are easily subject to confiscation.

Landed property, oil fields and other minerals are salient illustrations of captive assets. Contrary to Boix's claim, these assets are not necessarily specific. In fact, they are often generic in the sense that they are not the product of a particular investment. Landed property devoted to agriculture is a case in order. This type of basic agricultural activity since the birth of civilization does not come within the scope of specific assets. It is a purely generic asset. It was much later that agriculture became industrialized and transformed into specific assets. In other words, in contrast to Boix's historical account, human civilization started by *generic* assets and evolved to *specific* assets through a long historical process. Similarly, once necessary investment was engaged in extracting oil and other minerals, they transformed into specific assets. However, the most important fact about these assets is not their specificity but rather their value as generic primary raw materials. This category of assets are *captive* since they are both appropriable and unmovable.

There is no general rule about the relationships between escape assets and asset specificity. I showed that human specific assets are part of escape assets, but physical capital assets are not. However, the latter are not captive assets either. Generic assets, like sweet potatoes are typical examples of escape assets: "A reliance on root crops, and in particular the potato, can insulate states as well as stateless peoples against the predations of war and appropriation...Enemy armies might seize or destroy grain fields, livestock, and above ground fodder crops, but they were powerless against the lowly potato, a cultivar which Frederick William and Frederick II after him had vigorously promoted. It was the potato that gave Prussia its unique invulnerability to foreign invasion." (Scott, 2009, p. 196). Other examples of escape crops are roots and tubers (having the hidden ability) such as yams, cassava, manioc, and yucca. Many *generic crops* that do not need any attention can be labelled as 'escape crop': "Cultivars that require little attention and/or that mature quickly are also state repelling inasmuch as they afford more mobility than labor-intensive, long-maturation crops." (op.cit.). Thus, escape assets might be generic or idiosyncratic.

Similarly, captive assets might be generic or specific. Landed property is immobile (and part of 'fixed capital') but not a specific asset. It is rather a *generic asset* easily vulnerable to confiscation and hence a *captive asset* according to my definition. But *specific assets* related to particular investment in extracting raw materials and minerals are also *captive assets*. My contention is that while asset-specificity is germane in determining the level of appropriability, it is not relevant in distinguishing assets with regard to their mobility (*political exit*).

There are at least three different ways to distinguish assets. The distinction between *fixed* and *circulating* capital is relevant in describing the transfer of value within *market* relationships. Landed property is a form of 'fixed' or immobile capital<sup>17</sup>. But all fixed capitals are not immobile. A truck or a car belonging to an enterprise is also a fixed capital, although it is a mobile asset. Therefore, the distinction between fixed and circulating capital is irrelevant in clarifying asset mobility.

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<sup>17</sup> With technical progress, land may also become a 'movable' asset and be transferred from one region to another.

Transaction costs economics explored a second distinction between *specific* (non-redeployable) and *generic* (redeployable) assets to delineate the frontiers between different forms of governance structures, notably *markets*, *firms* (hierarchies), and hybrid forms (Williamson, 1985). While this distinction is germane in understanding the degree of appropriability, it is irrelevant in elucidating asset mobility (political exit).

I suggest a third distinction between escape and captive assets that captures *political exit*, i.e. the property of assets to be both *mobile* and *resistant to appropriation*. My suggestion prolongs Hirschman's work on 'exit' and 'voice' as well as a vast body of multi-disciplinary studies that directly or indirectly contribute to our understanding of resistance to predatory and confiscatory regimes.

### 6.3 Dimensions of escape assets

Assets may be classified with regard to the prey-predator relationship. While 'appropriation' describes the rationale of predator's behavior, 'mobility' captures prey's resistance to it. The two dimensions together reflect predation and resistance to thwart it. Accordingly, the distinction between *escape* and *captive* assets are based on two criteria: 1) mobility; 2) appropriability. Considering these two criteria, all assets may be regrouped in four major categories: 1) *pure escape assets* that satisfy both mobility and non-appropriability criteria; 2) *mixed escape assets* that satisfy mobility criterion and are appropriable; 3) *mixed captive assets* that satisfy the immobility criterion and are non-appropriable; 4) *pure captive assets* which satisfy both immobility and appropriability criteria.

While pure escape assets (category 1) are out of the state space, and pure captive assets (category 4) belong to the state space, the 'mixed escape assets' as well as the 'mixed captive assets' (categories 2 and 3) are *intermediary assets* and have an ambivalent position with regard to the state space. They can become part of a state space or do political exit; all depends on the outcome of the bargain between the state and the owners of these assets.

In the case of 'mixed escape assets', the owners of assets can use their 'exit power' to take advantage from rival predatory states to lower down the amount of tribute that they should pay to protect their appropriable goods against potential threat of confiscation by local authorities or by pirates and armed bandits. This 'exit power' of merchants and financiers pertains to their ability to substitute a provider of protection for another in virtue of the mobility of their assets. In this sense, a price competition *à la* Tiebout (1956) ensues in the protection market among providers of protection (king, lord or religious authority) to attract consumers of protection (merchants, financiers, industrialists) (Pietri, Tazdait, and Vahabi, 2014).

The owners of 'mixed captive assets' do not have such *exit* power, but the value of their assets and hence the amount of the state's revenue or taxes depend on their *entry* on the market. Their power is an 'entry power' that gives them the opportunity to bargain with the state to commit itself credibly *ex ante* to guarantee the security of physical capital investment by promulgating laws and regulations as well as by granting them different types of pledges and privileges. Table 6-1 summarizes these four categories of assets with regard to a given state space.

**Table 6.1 Types of assets and state space**

Type of assets	Mobility (including hidden ability)	Appropriability	State or non- state space	Examples
<b>1. Pure Escape assets</b>	Yes	No	Non-state space	Human specific assets, sweet potato and other “famine” goods
<b>2. Mixed escape assets</b>	Yes	Yes	Ambivalent	Notes, money, gold, commodities and merchandises
<b>3. Mixed captive assets</b>	No	No	Ambivalent	Physical capital investment
<b>4. Pure captive assets</b>	No	Yes	State-space	Landed property, oil

Following Scott, by “famine” foods, I mean oats, barley, fast-growing millets, and buckwheat that “were tolerant of poor soils, high altitudes, and short growing seasons, as were cabbage and turnips, and allowed people to settle at higher altitudes than hill rice would permit. Old World roots and tubers, taro and yams, as well as the sago palm, were also favored by nonstate peoples.” (Scott, 2009, p. 199). These famine goods were both *mobile (hidden)* and *non-appropriable* and belonged to poor and stateless people. Contrary to them, the owners of *mobile but appropriable* goods, were the rich. They could use their exit power to exact concessions from the state. In this sense, they were not ‘out’ of the state, but could threaten not to be ‘in’ the state.

Although my table provides a general nomenclature for all goods, I do not pretend that all goods can be put into one of the boxes. In fact, some goods cannot be clearly classified as only one of the above mentioned categories. ‘Lootable’ goods are among these products. The term ‘lootable goods’ is coined by Le Billon (2001, p. 569) to describe primary commodities that “are often highly amenable to taxing and looting. This *lootability* arises in part from the fact that resources, and in particular extracted ones, are often easily accessible to governments and rebels alike with minimal bureaucratic infrastructure. Furthermore, resource extraction activities are, to a greater degree than other economic activities, spatially fixed.” Gemstones (diamonds), narcotics (opium, cannabis, coca), and timber are cited as illustrations of ‘lootable’ commodities (Ross, 2004).

These goods are distinguished from oil as primary commodity<sup>18</sup>. Although loutable goods are spatially fixed, they are “lucrative and easy-to-transport resources” (Snyder, 2006, pp. 943-944). They can be considered both as ‘pure captive assets’ or ‘mixed escape assets’ according to the way they are classified with regard to mobility. Since the source of loutable products is *spatially fixed*, they may be regarded as ‘pure captive assets’. However, because of the *high ratio of value to weight* (easy-to-transport) of the extracted resources, they might be viewed as mobile and pigeonholed as ‘mixed escape assets’. This duality is interesting since in countries

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<sup>18</sup> In his survey of empirical studies about the relationship between natural resources and civil war, Ross (2004) underlines that oil increases the likelihood of conflict and notably the initiation of separatist conflicts, whereas ‘lootable’ commodities as a source of revenue for contending parties contribute to a lengthier duration of conflict.

dependent on narcotics or diamonds, drug smugglers behave as statesmen and statesmen behave as drug lords as if the frontiers between state and non-state spaces are conflated for the same and unique states/bandits.

What are the determinants of ‘mobility’ and ‘appropriability’? I start by mobility (including invisibility property) of persons and assets. There are costs and benefits attached to mobility. The benefit of ‘mobility’ is *flight* or *escape* and its costs are *conversion costs*. As Scott (2009, p. 33) eloquently averred: “Physical flight, the bedrock of popular freedom, was the principal check on state power.” Mobility of persons or their ‘exit power’ has always been a means to escape manhunting by changing location or allegiance. In discussing ‘mobility’ as a means of flight, one should not ignore its joint product, namely the power to hide. This power hinges upon three factors and their respective conversion costs: 1) physical or geographical change in location; 2) allegiance shift; 3) human asset specificity or skills.

Since the state has a power gradient depending on the remoteness from the state center (Boulding, 1960), there are geographical zones over which the state exercise less influence. These areas are inaccessible or hardly accessible for the state. Steep hills, marshes, tropical forests and deserts have always been natural refuge zones for escapees throughout history. People living on the borderlines of two or several states also detain an advantageous position in terms of mobility by crossing the frontiers (e.g., Kurds and Baluchis). They may profit from their exit power to reduce the amount of taxes. A salient illustration is discussed by Douglass North (1981) regarding lower taxes imposed upon border areas in medieval Burgundy due to competition between feudal lords. The social organization may also contribute to geographical mobility or the power to hide. While peasants are sedentary, pastoral nomads are not. In pursuit of pasture for their herds and flocks, they constantly move over long distances and often raid sedentary people and states. As noted in chapters 1 and 2, pastoral nomads aggregated into tribal confederations have always been a menace for sedentary civilizations and states or provided the military bone of vast empires like the Persian Empire. Conversely, the ability of tribal confederations to disaggregate into smaller and decentralized tribes (e.g., the Qashqa’i of Iran<sup>19</sup>) has been a way to hide against the menace of centralized states or imperial powers.

Exit is not systematically associated with a physical move. People can decide to disown a provider of protection in order to be protected by another one. Concretely this behavior is a betrayal that was not rare throughout history. Germany during the Thirty Years’ War and throughout the nineteenth century is a good example of how several violence-using enterprises can compete in demanding payments for protection in almost the same territory (Lane, [1958] 1979, p. 51; Volckart, 2000a, p. 2). Hence, even geographically attached people might be ‘mobile’ in the sense that they have an ‘exit power’ and can choose their provider of protection.

Finally, human asset specificity is a third determinant in measuring agents’ exit power. Experts and professionals have a higher level of productivity due to their knowledge and skills. Their asset is non-appropriable, and often highly demanded by different states. They have, therefore, a higher level of exit power.

Asset mobility is defined by the *high ratio of value to weight and volume* (value/weight and volume). The greater this ratio, the greater the distance over which an asset might be traded. The reason is that a higher ratio means a greater amount of traded value covering the costs of

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<sup>19</sup> See Beck (1990) and chapter 1, section 1-5 in this book for more details.

transportation incurred in longer distance. Historically, distant trade was generated on the basis of this type of products. Leeson (2007a, p. 313) cites ivory, rubber and wax as “thievable” goods. “Lootable” goods are other examples of this category of goods in our times. Precious commodities such as silk, gold, gemstones, aromatic woods, pepper, rare medicines, and tea were non-bulky goods that were worth being transported for long distance. They linked centers to peripheries on the basis of exchange rather than political domination.

Capitalist production proliferated and increased the number of mobile assets such as money, notes, bill of exchange, stocks of companies, ships, all commodities and merchandises in the world market. These goods are easily appropriable. It is not by chance that the security concerns became overriding with the ascendancy of the urban dwellers of the third Estate particularly the commercial, manufacturing and professional middle classes. Unlike the old aristocracy, their interests were more immediately tied up with movable property. They were more in need of security and protection against crime in the city. Starting from the last decade of the seventeenth century, the authorities of the city of London, even then a center of commercial and financial capital, run for establishing a more effective administration, new legislation and punishments against criminal activities of the menacing poor urban<sup>20</sup> and other “dangerous classes”. The adoption of the Poor Law in England, and the creation of an organized police force for manhunting criminals, brigands, and other “dangerous classes” (Chamayou, 2010) were all the outcome of violent enforcement of property rights to secure mobile assets.

Appropriability is the second underlying criteria for demarcating escape from captive assets. Four principal<sup>21</sup> determinants are germane in making assets more or less appropriable: 1) asset specificity; 2) accessibility; 3) concentration or dispersal; 4) measurability.

The first determinant is *asset specificity*. An asset is more vulnerable to appropriation when it is more generic, since it can be more easily redeployed without the loss of value. The appropriation of an asset becomes more difficult when it is more specific, since its redeployment will incur the loss of quasi-rents deriving from specific investment. Generic assets are more liquid than idiosyncratic assets. No one can steal the knowledge one possesses, but everyone can steal the books one possesses. Another illustration is the preference of a pickpocket for cash money rather than a traveler’s check, since the latter is a more idiosyncratic means of payment.

The appropriation of generic assets incurs less deadweight losses than the appropriation of idiosyncratic assets. Generally speaking, generic (redeployable) assets are more elastic to appropriative activity than idiosyncratic (non-redeployable) assets. The *degree of the asset’s specificity* plays an important role in deciding the protection costs.

Contractual relationships involving generic assets incur *low transaction costs* but *high protection costs* since they require state violence-using enforcement. This explains why the emergence of extensive impersonal markets for generic assets at the heyday of capitalism

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<sup>20</sup> Regarding security in London during the early modernity, see Beattie (1985).

<sup>21</sup> There are many other secondary factors such as ‘storability’ or ‘perishability’ of assets, their ‘vulnerability to disease’, and their character as ‘labor-intensive’ or ‘capital intensive’ that impact the appropriability of assets (regarding the impact of these factors on crops see Scott, 2009, pp. 202-204). However, I will only focus on primary factors influencing all types of assets (physical as well as pecuniary ones).

required a more comprehensive state apparatus both in terms of central administration and coercive means (North *et al.*, 2009). Conversely, the protection costs decrease with higher level of asset specificity, since contractual relationships involving idiosyncratic assets cannot be enforced by third party enforcers (judges) who are often unable to verify the terms of incomplete contracts. In this case, renegotiation of contractual terms and bilateral internal enforcement will replace third party enforcement. Consequently, more complex contractual relationships incur *high transaction costs* but *low protection costs*.

The development of an *impersonal* market and *anonymous* exchange increase protection costs, while specific contractual relationships (*personal* or face to face market relationship) are less prone to appropriation and more vulnerable to contractual defection<sup>22</sup>. Anonymous exchange can take two forms. One is caveat-emptor. The other, more diverse form includes explicit future-delivery transactions. Unlike future-delivery dispute, caveat-emptor disputes can occur only at the transaction time. In caveat-emptor transactions, the third-party enforcer simply ascertains that each side delivers what was agreed upon, thus preventing the stronger or the quicker from getting away with plain theft. In future-delivery agreements, however, disputes can arise usually if the recipient perceives a discrepancy between the merchandise and the specifications stipulated in the contract (Barzel, 2002, pp. 86-87). In fact, the impersonal market relationship requires more third party violence-using enforcement than a personal exchange relationship. In other words, *impersonal markets incur higher protection costs than personal markets*.

The temporal horizon of social relationships is also a relevant factor in deciding the level of protection costs<sup>23</sup>. In general, protection costs are lower within permanent relationships with no final date of expiration than one-time relationships or relationships with a final date of termination. Repeated contacts make the defection more difficult. A longer relationship is the basis of reputation and trust. This temporal dimension can be regarded as a particular case of ‘anonymity’ versus ‘personal’ relationship. While tribal, clan, and neighborhood communities know little or no protection costs within themselves, capitalist economy with its individualistic, market relationships generates diverse forms of protection costs.

My major result is that protection costs are different from transaction costs and *are inversely related to transaction costs*. Table 6-2 summarizes the results.

**Table 6-2 Asset specificity, transaction and protection costs**

<sup>22</sup> Williamson (1985) calls them « bilateral monopoly » and deals with them as “holdup” cases.

<sup>23</sup> This is partly consistent with asset specificity in Williamson (1985) that favors durable contractual relationships. However, the stability of social relationship is fundamentally related to the formation of social capital that goes beyond transactional approach. Seabright (2010, chapter 4) explains the possibility of living within strangers in terms of combining strong reciprocity and self-interested behavior.

Type of assets	Type of market	Short/long term relationship	Level of appropriability	Type of enforcement	Level of transaction costs	Level of protection costs
<b>Generic</b>	Impersonal competitive markets	Short term relationship	High	External (third party) violence-using enforcement	Low	High
<b>Idiosyncratic</b>	Personal bilateral monopoly	Long term relationship	Low	Self-enforcement or bilateral internal enforcement	High	Low

*Accessibility* is the second determinant of appropriability. Following Schaffer and Lamb (1974), I use the term to describe the administrative allocation of public goods and services. “[W]e call the problem of access: the relations between the administrative allocation of goods and services and the people who need them or for whom they are intended.” (1974, p. 73). The provision of public goods and services to people in a given area as well as the collection of taxes and conscripts from that area are conditioned by the incorporation of that area in the administrative and military apparatus of the state. The return in human and capital assets (manpower, grain and capital goods) should be higher than the administrative and military costs of appropriation to make an area state accessible. Like mobility, accessibility has two dimensions: 1) physical or geographical accessibility; 2) access rationing.

The first one depends on the physical location of an asset that decides its accessibility. Assets in inaccessible geographical areas like tropical forests, deserts, tall hills, marshes, or underground are almost non-appropriable. In fact, the *detection and transportation costs* of inaccessible assets are so high that they exclude appropriation. Only the relative abundance of an asset with relatively high value in an inaccessible zone might make its accessibility economically efficient. The degree of accessibility is measured in terms of detection and transportation costs. This ratio is similar to the mobility ratio (value/weight and volume), but it measures the state’s mobility.

Geographical or locational accessibility is a necessary but insufficient condition for appropriability. The administrative distribution of resources is subject to queuing or rationing defined by the rules of access. Schaffer and Wen-hsien (1975, p. 24) identify three rules of access: 1) “admission rules” that define the eligibility of an applicant to benefit from a service; 2) “line rules” that describe the ordering rules (e.g., first come, first served) to give priority to an applicant for having access to a rationed public service or good; 3) “counter rules” that govern actual exchanges between the authority in charge and the applicant, for example rules stipulating what data will be considered or disregarded. The application of these rules exclude certain individuals from having access to rationed public goods and services despite geographical or locational accessibility. In fact, the exclusion is not always unintentional or imposed by the state. It may also be intentional. Three general options might be disentangled in the presence of exclusion.

The first one is intentional exclusion or self-exclusion. “Some choose to exclude themselves because they know a better service, or, as with taxation and conscription, the point of the game



is to be excluded, and others exclude themselves because they write themselves off, are not interested, are frightened, or avoid the stigma, etc.” (Schaffer and Lamb, 1974, p. 82). This is *exit* and depends on the mobility of individual and his/her assets.

The second option depends whether the excluded applicant from the rationed public service or good has an alternative point of supply, for example whether s/he can acquire the same service through market or cooperative mutual aid. If there is no such alternative, and the bureaucratic/administrative distribution is the only channel, the applicant might attempt to improve his/her situation by using ‘voice’ or acting ‘politically’ through lobbying and even using corruption. Alternatively, the unserved applicant might accept it uncritically or ‘exit’ from the system. They establish a sort of ‘camp’ that might lead to riots. “Strategies can become criminal, riotous, rebellious or revolutionary, violent or radical.” (Schaffer and Wen-hsien, 1975, p. 17). In my terminology, this option includes different forms of voice and scream.

If an excluded applicant can acquire public service and goods through the market channel<sup>24</sup>, then s/he can use a combination of exit and market behavior with voice, like buying a better voice. In case of market availability, Debreu’s (1959, p. 28) definition of a commodity<sup>25</sup> in terms of geographical location, date of delivery, various optional prices according to different states of nature might be used to create a nomenclature of assets’ accessibility. The ratio of the total value of an asset to its degree of accessibility decides its appropriability. The total value of an asset is *the product of available quantity of an asset in a given location with its optional price*. Following Debreu, by optional price, I mean the value of an asset in a given state of nature at a given date. The whole issue then boils down to a comparison of different costs involved in various mechanisms of ‘allocation’ or coordination that enhance exit, voice, scream or a combination of them. The symbiotic relationship among different coordination mechanisms (bureaucratic, market, etc.) within the rule of law or coercive and destructive rivalry among multiple violence authorizers and enforcers in a lawless state determines the capacity of the state to secure the allocation of public goods<sup>26</sup>.

Accessibility is contingent on the relative costs and benefits of administrative allocation of public goods and service as well as the costs and benefits of complementary mechanisms that are mobilized to serve rationed applicants conditional to the type of existing political regime (within or without the rule of law).

*Concentration or dispersal* is the third determinant of appropriability. The more concentrated assets are, the more accessible and appropriable they are. In fact, concentration contributes to

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<sup>24</sup> As Beito *et al.* (2002) argue a great deal of public goods that are conventionally considered to be within the range of public goods might be provided privately. These goods include roads or other similar goods that do not necessarily satisfy the two criteria of pure public goods, namely non-excludability and non-rivalry. In fact, most of them have been historically out of the state’s realm.

<sup>25</sup> Debreu’s definition of a commodity is as follows. “A commodity is characterized by its physical properties, the date at which it will be available, and the location at which it will be available. The price of a commodity is the amount which has to be paid *now* for the (future) availability of one unit of that commodity.” (Debreu, 1959, p. 28). By referring to Debreu’s definition, I do not mean that only decentralized markets can coordinate diversity and secure accessibility. State allocation may also be used in providing public goods to scattered regions. Conversely, De Mariz, Ménard, and Abeillé (2014, chapter 8) develop a theoretical framework to explain why governments choose to delegate public procurement functions to oversight bodies, and what the advantages and consequences of this choice are. A comparative approach among costs and benefits of different coordinating mechanisms (bureaucratic, market, cooperative, and destructive) is required to decide the proper combination allowing accessibility (Vahabi, 2009a).

<sup>26</sup> This point will be further substantiated in section 6.6 of the present chapter.

economies of scale in public provision of services and goods. Moreover, concentration facilitates central administration of resources. By contrast, the more disperse assets are, the costlier will their access and appropriation be. A few concentrated industries are much easier to be confiscated than several thousand small shops (Kautsky, 1903, Vol. II). Dispersion is the enemy of appropriation for two reasons: 1) it increases invisibility; 2) it augments the costs of accessibility and measurement.

*Measurability* is the fourth determinant of appropriability. Accountability and controllability are essential in administering and appropriating assets. Hence, the appropriation of an asset requires the ability to assess and to measure the value of an asset so that it can be seized, controlled, and allocated properly (Lenin, [1921] 1965). Assets' concentration or dispersal is germane in measuring their values. The more concentrated an asset is, the easier it can be measured. The costs of measurement determines the degree of appropriability. These costs include transaction costs (informational and monitoring costs) reliant on the degree of homogeneity or heterogeneity of assets (Barzel, 1982, 1997). The more generic an asset is, the less costlier will its measurement be since generic assets are often more homogenous. By contrast, the more specific an asset is, the costlier will its measurement be because of its idiosyncratic, non-homogenous profile.

Asset specificity impacts measurement and protection costs in opposite directions. Generic assets incur *low* transaction and *high* protection costs whereas idiosyncratic assets involve *high* transaction and *low* protection costs. Table 6-3 summarizes the relationships between specificity, measurability and appropriability of assets.

**Table 6-3 Specificity, measurability and appropriability**

<b>Determinant</b>	<b>Appropriability</b>	<b>Non-appropriability</b>
<b>Asset specificity</b>	Generic	Idiosyncratic
<b>Measurement costs</b>	Low	High
<b>Protection costs</b>	High	Low

Transaction costs are particularly germane in contractual relationships involving highly specific assets that are dependent on complex market relationships rather than external violence-using enforcement. Idiosyncratic assets generating quasi-rents contribute to enhancing a value-added productive economy. By contrast, generic assets are poor in producing added-value and susceptible to redistributive policies.

An important result of table 6-3 is that *appropriative acquisition of resources prevails in an economy with generic assets rather than specific assets*. The difference between these two types of economy, i.e. productive and redistributive, cannot be explained by the level of transaction costs. Their main difference lies in the prominence of confiscatory policies in redistributive economies. A confiscatory (predatory) regime results in dismantling specific assets and transforming them into generic, more liquid, and escape assets. Market forces then retreat from specific investments and leave it to economic sectors directly protected by coercive forces. The political economy of the Islamic Republic of Iran provides a salient illustration that will be studied in the two last sections of the present chapter.

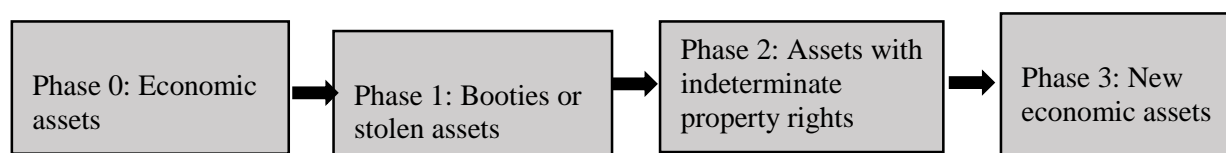
#### **6-4 Appropriation, entitlements and legitimacy costs**

Property is inseparable from sovereignty. This basic fact is often forgotten in our discipline: “Economic science, in England and America, began with the separation of property from sovereignty, on the assumption that private property was a natural, fundamental right of individuals, independent of sovereignty which might artificially and unjustly interfere with it. But this was a substitution of justification for fact, as is often the method of argument in economics and politics” (Commons, 1970, p. 41). With the birth of capitalism and the autonomy of economy from society, assets were purely viewed as a bunch of economic property rights. However, the act of appropriation always dissipates this illusion and reasserts the inseparability of property from sovereignty. Acquisition by appropriation is the founding act of political economy that discredits the established disciplinary separation of economics from politics. Confiscated assets are not just assets or a bunch of economic rights, they represent a violent sanction of sovereign power or a challenge to sovereignty (e.g., regime change by invasion, revolution, etc.).

Appropriation is the violation of property rights that transforms assets into booties. The booty value of an asset is its non-market *exit* value or its termination value as an economic asset. The conversion of a booty into an asset needs its resuscitation, a total rebirth of the booty in the world of economic assets. Appropriation puts an end to an economic asset and gives birth to a booty that compensates predatory effort. But appropriation cannot resuscitate an economic asset from a booty, since it does not provide its own justification. An expropriator may be expropriated if expropriation is considered to be the rule of the game. Hence, appropriation should be represented as an ‘exceptional measure’ or a ‘state of exception’ leading to the restoration of order or the establishment of a new state of law.

The transformation of a booty into an economic asset requires that the booty first be converted into an asset with indeterminate property rights located on the frontiers of the ‘state of nature’ and the ‘state of law’. The booty becomes now similar to a good in a state of nature (*res nullius*) that belongs to no one and everyone (as if it is a ‘lost’ item rather than a ‘stolen’ or ‘confiscated’ good). There exists, however, a major difference between a converted booty and a good in a state of nature: a booty does not derive its status from nature but from a sovereign or an emerging sovereign who acts as the custodian of confiscated assets. The booty transforms into a tutelary good under the guardianship of a custodian. The custodian is not the owner of the good, since the property rights are not yet defined or determinate. The conversion of a booty into a tutelary good with indeterminate property rights is a transitional phase to resuscitate the good to a new ‘purified’ asset. The costs of transforming booties into new economic assets might be named *legitimacy costs*. The three phases of this transformation is depicted in Figure 6-2.

**Figure 6-2 Transformation of booties into new economic assets**



The value of a stolen good is much lower than its market value, since it lacks legitimacy. Acquisition of goods through appropriation incurs deadweight losses, namely costs of fencing or money laundering required to transform stolen goods into ordinary or legitimate assets. Fencing might also be necessary in cases where assets are stolen during revolutions or wars.

For example, stolen antiquities from Iraq by Israeli groups during the U.S. invasion of Iraq is a case in order.

Protesting against Obama plans to return looted Jewish artifacts to Iraq, Professor Harold Rhode (2013), an American member of the *Coalition Provisional Authority* (CPA), told the story of how he himself as well as Natan Sharansky (Israeli government minister), Dick Cheney, Richard Perle (the former assistant secretary of defense under Ronald Reagan), Donald Rumsfeld, Ahmed Chalabi, the members of the WMD team, with the financial aid of Harvey Krueger (an investment banker then of Lehman Brothers) stole a huge amount of antiquities from Iraqi “intelligence headquarters basement” in Baghdad in June 2003 including “a 400-year-old Hebrew Bible; a 200-year-old Talmud from Vienna,... a Megillat Esther of uncertain date; ...the Writings of Ketuvim containing books like Psalms, Proverbs, Job, Lamentations, Ezra, Nehemiah and Chronicles published in Venice in 1568; a printed collection of sermons by a rabbi made in Germany in 1692; ...thousands of books printed in Vienna”.

It is not clear in Rhode’s story why these antiquities had been kept in the “intelligence headquarters basement” instead of the Iraqi National Museum in Baghdad<sup>27</sup>. The Obama administration has declared that it was “illegal for a conquering power to remove property from the country which was conquered, and the bureaucracy did not want to become embroiled in questions of provenance.” (Rhode, 2013). Legitimacy costs were thus considered prohibitive by the Obama administration. But Rhode retorted by questioning the legitimacy of the ownership of the Iraqi state over these assets: “But the property was stolen property in the first place, meaning that the Iraqi government did not own it.” (Rhode, 2013).

*Contested* legitimacy is what happens during wars and revolutions. Booties won in a war against another state or properties confiscated from the ex-dominant groups in a revolution are not legitimized by fencing or money laundering. The new sovereign power legitimizes the new property regime in the name of victory over the enemy or revolution. However, insofar as the new legislation is not clear about the status of confiscated assets, the legitimacy costs may still play a fundamental role.

For example, apartments confiscated in the wealthy residences of Saman in Tehran after the 1979 Iranian revolution were temporarily granted discriminately to certain supporters of the Islamic Republic of Iran in the name of aid to the oppressed (*Mostazafin*). These units, known as ‘confiscated houses’ (*Khanehayeh mosaderehi*) were later sold to individuals at a lower price than their market price. Interestingly, the ‘confiscated houses’ are still transacted for prices much lower than those of similar apartments in the same building that had not been subject to confiscation, as if these units might be vindicated by their original ‘legitimate’ owners at a future date. The lack of juridical clarity regarding the legitimacy of the initial confiscations contributed to the persistence of legitimacy costs with regard to these units.

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<sup>27</sup> In fact, we know that the Iraqi National Museum in Baghdad was ransacked in April 2003. International cultural organizations had urged before the 2003 war that the cultural heritage of Iraq, which had more than 10,000 archaeological sites, be spared. But US forces did not protect, and looters “looted or destroyed 170,000 items of antiquity dating back thousands of years, they were worth billions of dollars.” (Day and Sherwell, 2003). Many reports accused the Israeli nationalists and merchants for being actively involved in the looting (Chmelenko, 2010). Rhode’s (2013) explicit acknowledgement of certain facts is particularly enlightening and lends credence to the idea that the looting of the Iraqi National Museum might have been more than a plight by looters. It may be reasonably doubted that the antiquities to which Rhode’s refer were part of that museum’s treasures stolen in April 2003 rather than June 2003.

The historical origins of an asset play an essential role in evaluating the value of an asset particularly with respect to its legitimacy costs. It is noteworthy that legitimacy costs are not always monetary and do not depend only on formal rules or states' support. For instance, as the *Cato Institute* underlines, the American military presence in the Middle East incurs a considerable amount of non-monetary costs due to anti-American sentiments in the region despite the Gulf States' support<sup>28</sup>. "[A]t present, the American position in the region is weaker than it has been in more than 50 years, even though Washington maintains troops throughout the Middle East and, as of this writing, has *de facto* control over Iraq. The Bush administration has argued that raging anti-Americanism in the Muslim world stems from extremists' hatred of core American and Western values. In reality, it has little to do with cultural incompatibility. Anti-American sentiments are a reaction to America's abrasive policies, including the presence of large military contingents in the Middle East." (*Cato Institute*, 2005, p. 563).

People's perception about their 'entitlements' and their sentiment about what they consider as just or unjust, moral or immoral strongly influence legitimacy costs particularly non-monetary costs<sup>29</sup>. In fact, legitimacy costs might be defined according to the way the rules of 'entitlements' over assets are perceived. By entitlements, I mean a person's command over assets on the basis of the person's position in society, and the rules which give legitimacy to claims over assets.

Two broad perspectives might be distinguished in entitlement analysis<sup>30</sup>. The first one, pioneered by Sen (1981; 1990) and Drèze and Sen (1989), is shaped around a legal and economic notion of 'entitlements'. In this approach, 'entitlements' are often defined principally in terms of *state-enforced legal rules* and tangentially as *socially enforced moral rules*. Gore's critical review of Sen's work shows that while the nature of the entitlement rules are discussed in various ways in Sen, his emphasis has always been on the state-enforced legal rules (Gore, 1993). Starting from this approach, legitimacy costs should be limited to the costs that render an asset legitimate with respect to formal legal rules. But this perspective is not very helpful in understanding legitimacy costs during transitional periods, for example during a regime change by a military invasion (the Iraq's case) or by a revolution (the Iran's case). Legitimacy costs related to the process of appropriation and redefinition of property rights following an invasion or a revolution cannot be captured if entitlements are limited to formal legal rules. *Legitimate but illegal informal rules* are then more prominent in deciding what should be considered as legitimacy costs.

The moral economy approach initially formulated by E.P. Thompson (1971, 1991) and developed by Scott (1976) and other scholars (Randall and Charlesworth, 2000) offer an alternative perspective of entitlements as something *popularly* defined. Thompson's original

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<sup>28</sup> In their technical calculations regarding the costs of the US military presence in the Middle East to protect the use of Persian Gulf oil, Delucchi and Murphy (2008), also note "the unquantified non-monetary costs of the US Persian Gulf military policy and operations [that] may be significant." (p. 2262, bracket added).

<sup>29</sup> The American military presence incurs *high non-monetary costs*, since it is not perceived as legitimate by public opinion in the Middle-East. According to a survey conducted among the residents of five Arab nations (Saudi Arabia, Kuwait, Egypt, Jordan, and Lebanon) in the spring of 2002 by Zogby International, three non-Arab Islamic countries (Iran, Pakistan, and Indonesia), and two other countries (France and Venezuela), the disapproval of U.S. government policy toward the Palestinians, and the stationing of U.S. forces in Saudi Arabia after the first Gulf War have stirred up the anti-American sentiment (*Cato Institute*, 2005, pp. 563-565).

<sup>30</sup> There is also a cognitive, psychological approach to entitlements in terms of avoidance of cognitive resonance and "moral aggression" advocated by Schlicht (1998) on the basis of a Humean perspective of property rights. This approach contributes to our understanding of entitlement at an individual level.

historical analysis of the eighteenth century food riots in England elucidated the moral rules of the English crowd with regard to foodstuffs and agricultural factors of production once famine and hunger prevails. For Thompson, in dire contrast to “crass economic reductionism”, food rights were not “rebellions of the belly” (Thompson, 1971, p. 77) but “popular action, disciplined and with clear objectives”. The crowd action was incentivized by some “legitimizing notion”. By the notion of “legitimation”, he meant that the people were “informed by the belief that they were defending traditional rights or customs.” (Ibid, p. 78). These rights and customs were in turn derived from “the paternalist model of the marketing and manufacturing process.” (Ibid, p. 83). The customary rules regarding food exchange practices which were socially shared by rioters prescribed a specific model of grain marketing including features such as the correct length of the marketing chain, correct practices of dealers, correct profit margins of bakers and millers, and just prices of grain for the poor. As Thompson showed, food rioters were *not looters*, but enforcers of a just price. Their actions were motivated by what they perceived as *legitimate* though *illegal* about their entitlements to food during famine and hunger.

A similar story was told by Scott (1976) about the moral economy of peasant rebellions in Southeast Asia in the twentieth century that was based on two principal norms, namely the norm of reciprocity and the right to subsistence. Reciprocity meant that “a gift or service received creates a reciprocal obligation to return a gift or service at some future date” (Scott, 1976, p. 167). The right to subsistence held that “all members of the community have a presumptive right to a living as far as local resources will allow.” (1976, p. 176).

In general, a moral economy is particularly germane in case of foodstuffs for which the state is supposed to behave paternalistically. In this sense, the goods of vital necessity might be regarded as *political goods*. As Randall and Charlesworth (2000, p. 2) noted: “[F]ood may not be viewed as another tradable commodity but carriers, as Thompson insisted, a social and political baggage which cannot easily be detached.” Even in England where the sanctity of property rights was generally inviolable, “other rights or entitlements might, in the circumstances of the food market, be deemed to be of superior importance.” (Ibid, p. 20).

It may be generally said that there exists a *paternalist model of political economy* which reflects people’s expectation about the role of the state as the final guarantor of security and protection. All goods that need the intervention of the state as the ultimate guarantor of security to be distributed transform into *political goods*. This concerns not only foodstuffs during famine and hunger, but shelter for the homeless during winter time. The provision of goods and services in case of emergencies such as epidemics and natural disasters are other examples of political goods.

In my opinion, entitlements are the outcome of an interplay of *formal legal rules* and *informal moral rules*. Accordingly, legitimacy costs are not reducible to state-enforced legal rules, they are also influenced by *legitimate though illegal* informal moral entitlements that might increase or decrease these costs. However, there is a difference between the two components of legitimacy costs: 1) *formal* legal rules directly impact on monetary costs of legitimacy; 2) *informal* moral rules usually determine non-monetary costs of legitimacy, but they also influence pecuniary costs to some extent. The more the provision of certain types of goods and services is assumed to be *political* or part of paternalistic duties of the state, the more informal rules are prominent in determining their legitimacy costs even if these rules prescribe illegal actions.

## 6.5 Economic rationale of the state space: the prey's perspective

The state space is often considered to be given in an *exogenous* way. After Hirschman's pioneering works on exit, voice and the state (1978), a recent economic literature has addressed the issue of economic integration and political disintegration in light of the collapse of the Soviet bloc, the creation of the European Union and other regional blocs (Alesina and Spolaore, 1997, 2000, 2003; Alesina, Spolaore, and Wacziarg, 2001; Bolton, Roland and Spolaore, 1996; Bolton and Roland, 1997; Wittman, 1991, 2000). This literature has explored the formation of states in an *endogenous* way and discussed the optimal number and size of nations, and the viability of small nations in the context of open market economies at a global level. The originality of my contribution to this literature consists in focusing on the *economic* rationale of the state space within the context of a *prey-predator relationship*.

The economic rationale of the state space can be analyzed from two different perspectives, namely the predator's and the prey's perspectives. While the predator's perspective focuses on *appropriation*, the prey's one favors *mobility* or resistance to appropriation. The former represents the *supply* side of the state space, or the economic interests of *providers* (sellers) of protection. The latter reflects the *demand* side of the state space by indicating the behavior of *consumers* (buyers) of protection.

From the prey's perspective, the economic rationale of the state space depends on two elements: 1) the value of the captive assets that have no exit option as well as the fraction of mixed (escape and captive) assets<sup>31</sup> that are attracted to the space state; 2) the rights of action that can be secured by the state in deploying mixed assets. Appropriation costs determine the first factor. Table 6-4 indicates different levels of appropriation costs according to various types of assets.

**Table 6-4 Assets structure and appropriation costs**

Type of assets	Appropriation costs	State space	Between state and non-state spaces	Non-state space
Pure captive assets	Low	X		
Mixed captive and escape assets	Intermediate		X	
Pure escape assets	High			X

Since captive assets are easily appropriable and their appropriation costs are low, the state has a *monopoly* power in fixing their protection price. But mixed assets are critical assets since they have an exit option, and their appropriation depends on the state's ability to secure property rights by offering a *competitive* protection price. The integration of population detaining mixed assets into a given state space hinges on the value of their exit option. The latter is evaluated by the costs and benefits of exit.

<sup>31</sup> For the sake of brevity, I employ 'mixed assets' instead of 'mixed escape and captive assets'.

The *exit benefit* is the amount of differential protection rents (DR) that can be accrued to the owners of mixed assets in case of exit. Differential protection rents depends on the price of protection between two different spaces. For example, given two spaces, namely  $i$  and  $j$ , and two different protection prices  $p_i$  and  $p_j$ , the differential protection rent for the owner of a mixed asset exiting from a state space  $j$  to a new space  $i$  (another state space or a non-state space) is given by:

$$DR_i = p_j - p_i \quad (1)$$

The *exit costs* (E) contain three ingredients:

- 1) *Displacement costs* (D) or costs of joining another state space or a nonstate zone (that can be situated within the official borderlines of a given territorial state or outside it);
- 2) *Conversion costs* (C) or costs of adapting to the new environment, namely the costs of learning a new language and skills, acquiring new legal, social, economic status, creating new social capital and networking;
- 3) *Legitimacy costs* (LC) that have been discussed in the preceding section. These costs partly overlap with conversion costs since they pertain to the acquisition of a new legal and/or moral entitlement. For example, an illegal immigrant who has not yet achieved a legal residency status or a job permission incurs considerable legitimacy costs to stay in the host country and have an access to employment. However, legitimacy costs are broader than conversion costs and include such costs as money laundering.

If the exit's destination is a new state space, the exit costs largely hinge upon the immigration policy of the host country. The total exit costs  $E_i$  is the sum of three afore-mentioned costs:

$$E_i = D_i + C_i + LC_i \quad (2)$$

Finally, the *income differential* might be regarded as a *cost* or as a *benefit* of exit option. By *income differential* ( $\Delta y_j$ ), I mean the difference between the income per capita under a given state space  $j$  and an alternative space  $i$  (either another state space or a non-state space). The exit option might increase or decrease the income differential, and this depends on two factors: 1) the *additional rights* that can be secured under a given state space to use an asset; 2) the economics of scale and scope.

Contrarily to conventional microeconomics, the choice of technology is not politically neutral. It not only depends on the purely *economic* costs of technology, but also on the *political* costs of assessment and measurement of the economic advantages accrued to the state. The adoption of a technology that escapes from the state's assessment and measurement is hardly acceptable to the state, since it is repelling towards appropriation. A specific state space may only authorize the adoption of productive techniques that are less efficient economically but more prone to taxation or appropriation, since the state controls the right of using the assets. Scott (2009) has shown the relevance of this point in case of swiddening and shifting agriculture in the southeastern Asia. Conversely, a state may secure certain additional property rights that lead to a higher competitive edge in industrial and technological innovation. For example, the importance of securing intellectual property rights in England may be raised to explain the reason of its technological superiority in the nineteenth century.



Even if a state adopts a less efficient productive technique for the sake of a higher amount of appropriable assets, it has an important advantage that might even lead to the adoption of that technique for longer period. This advantage is the *economics of scale and scope* since the state space is marked by a higher concentration of population (i.e. a higher level of population density) and a more diversified economic activity due to increasing division of labor. An initially less efficient technique may survive because of its adoption at a larger scale. In this sense, path dependency or the way a state space interferes in shaping the historical trajectory of national productive systems is relevant. A more efficient productive technique might be excluded due to its non-adoption at a larger scale. Moreover, economics of scale is germane in providing public goods and in having a better access to *infrastructure* embracing more advanced means of transport and communication that leads to a reduction of the fixed costs per head.

The costs of production may be lower in a given state space than a non-state space or an alternative smaller state-space due to the economics of scale and scope. The revenue per capita is an indicator to compare the advantages of producing under a given state-space. The difference between income per capita between a given state space  $j$  and an alternative space (state or non-state)  $i$  is given by:

$$\Delta y_j = y_j - y_i \quad (3)$$

The value of an exit option is defined by:

$$\text{Value of Exit option} = DR_i - E_i \pm \Delta y_j \quad (4)$$

If equation (4) is negative, a given state zone will be preferable to an alternative state or a non-state space; otherwise, escape will follow. In other words, the benefits in terms of differential protection rents (equation 1) should be lower than the exit costs (equation 2) and eventual loss in differential income per capita (equation 3), so that the owners of mixed assets prefer to stay in a given state space.

The exit cost (equation 2) is largely influenced by the immigration policy, but the differential protection rent (equation 1) is the principal variable that determines the exit advantage. Once people's lives, their belongings, as well as their families are menaced under a given state space, differential protection rents are so high that every level of exit costs will not necessarily be prohibitive. The mobility of an asset depends on the value of its exit option: if equation (4) is positive, the exit option will be in order.

The costs of exit option vary among different social groups. One interesting historical example is the difference between the exit costs of peasants and vassals in Germany during the high Middle Ages, i.e. between the eleventh and fourteenth centuries. A vassal (nobleman) had to be protected by a lord, but in case he decided not to obey his lord and exit from the realm of his authority, he did not need to be physically mobile. "He did not have to cross a territorial border whether he was to be excluded from his lord's supply of protection, or whether he wanted to choose another lord. Usually, he had property of his own that was only supplemented by his fief." (Volckart, 2000a, p. 7). The insurgent vassal could only change his allegiance without changing his physical location. This was due to the fact that during this period there was not a territorial state or monopoly of force over a given territory by a lord; different lords ruled over the same territories. Consequently, a vassal's investment in fortifications was not a specific investment. He could change his allegiance without exiting from his castle. The costs of exit option for vassals were limited to *legitimacy costs*, since he had not to incur 1) the costs of

displacement; 2) conversion costs; and 3) the income differential. To put it differently, vassals' exit option was 'rebellion' rather than 'escape', since their exit challenged the power of a given lord in favor of another. The relationship between lords and vassals was not one of prey-predator but two different types of predators.

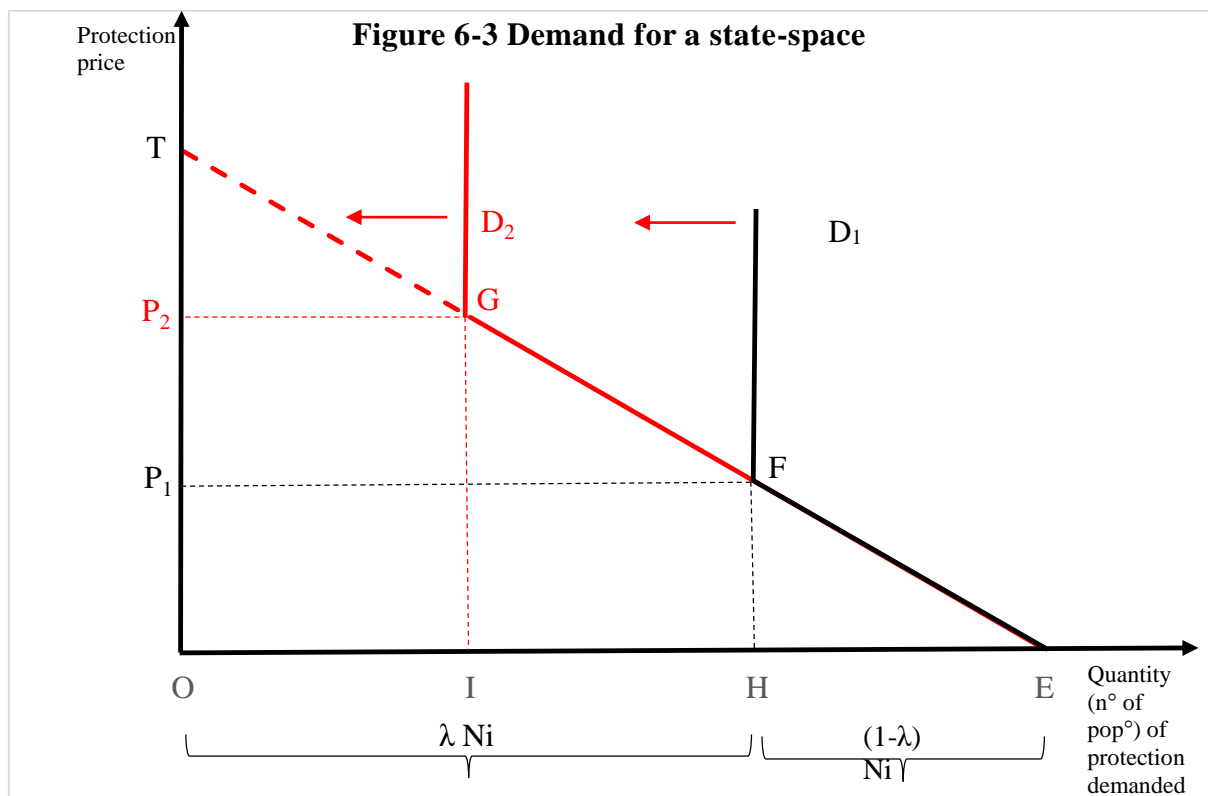
In contrast to vassals, peasants' exit option was much costlier. "Unlike vassals, they needed to be mobile to make use of the option to exit to a different lord. In contrast to vassals who specialized in fighting, peasants concentrated on agricultural labor. They were increasingly unable to use force and had consequently fewer chances to usurp the property rights over their holdings that the lord had reserved for himself. Because of their military inferiority, resources they spent on improving the quality of the land had the character of specific investments which reduced the intensity of competition." (Volckart, 2000a, p. 8). In my theoretical framework, peasants' exit option incurs displacement costs, conversion costs, and income differential. The only element which might cost less would be the legitimacy costs in the sense that peasants' escaping from cruel lords might benefit from moral (and not official) entitlement. Peasants' exit option was clearly 'escape' option and not rebellion. Their relationship with lords and vassals was one of prey-predator.

The higher the value of the exit option of an asset, the less its owner will demand to be protected by a given state space, and the higher the appropriation costs to entrap the asset will be. The demand for the state space is defined by the inverse relationship between the protection price and the number of population (as well as their assets) protected by a state. In defining the demand function, two key factors should be considered: 1) the initial endowment of a state space in terms of captive assets that have no exit option; 2) the assets structure or the ratio of escape assets in total assets within a given state space.

By 'initial endowments in captive assets', I mean the amount of valuable raw resources such as oil, gemstones, and other minerals that are susceptible to be easily appropriated by the state without incurring any additional appropriation cost. Following Pietri, Tazdait, and Vahabi (2014), it can be assumed that the population is divided into two fractions: a fraction  $\lambda$  composed of peasants attached to the land, possessing *captive assets*; and another fraction  $1 - \lambda$  of merchants, industrialists, financiers or other owners of *escape assets*.

The degree of sensibility of these two types of population to the variation in the protection price is not the same. The more captive human and capital assets are, the more inelastic they are with regard to the protection price. An increase in the protection price does not necessarily lead to any kind of reaction from them, since they are entrapped in the state space by *brutal force* rather than through price competition. However, from time to time, particularly during war times or natural disasters, a drastic jump in the protection price might lead to betrayal or different forms of resistance and rebellion against rulers. Conversely, the more escapable human and capital assets are, the more sensitive they are to *price competition* or differential protection rent. Their exit option implies a significant reduction in the fiscal revenues of their aggressive rulers and an increase in the fortune of rival rulers ready to adopt a protective attitude towards them. Hence, in bargaining with rulers, they might win a lower protection price or secure additional property rights over their assets.

Figure 6-3 depicts a linear kinked-demand for a state-space. The abscissa and ordinate axes respectively represent the number of population demanding protection and the protection price.



Tracing the kinked-demand function  $D_1FE$ , I assume a linear function comprising of two parts. First, a *perfectly inelastic* one ( $D_1F$ ) capturing the demand of population owning captive assets, namely peasants attached to land. This assumption focuses on the lack of sensitivity of captive asset detainers to price variation and disregards the possibility of occasional betrayal or rebellions by the peasants. Since the state exercises a monopoly power over these assets, it can fix a monopoly price for this fraction of population. Second, the demand function for the detainers of mixed assets (i.e. merchants, financiers and industrialists) is assumed to be *elastic* ( $FE$ ) and sensitive to price variation, since these assets have an exit option, and the rulers have an interest in adopting a protective attitude to attract them.

This situation resembles what is known in microeconomics as *third-degree price discrimination* (Weber and Pasche, 2008; Liu and Serfes, 2011). Such kind of discrimination leading to a segmented market occurs when three conditions are satisfied: 1) the seller (provider) of a product has a market control and is a price-maker; 2) it is possible to identify at least two distinct groups of consumers (buyers) that are ready to pay different prices for the same product; 3) the buyers of one group should not have the possibility to resell the bought product to other groups. These conditions might easily be verified in the case of a protection market for which 1) the state has a market control particularly with respect to captive assets and is a price-maker; 2) the possessors of captive assets (peasants) can be easily distinguished from the proprietors of mixed assets (merchants, industrialists and financiers); 3) the latter group does not resell military security to the peasants in a country where the state is not composed of merchants and industrialists.

Moreover, I assume that there exists a *limit price*  $P_1$  beyond which no proprietor of mixed assets will desire to be protected by the state. Although the state may fix its equilibrium monopoly

price at  $P_1$  for captive assets, it cannot impose such a monopoly price on mixed assets, since it will lose the share of the market for mixed assets.

My assumption about the state's monopoly discrimination in providing protection (military security) for different types of population can be easily supported by abundant historical evidence. Comparing the American fiscal system with the Roman Empire, Delorme Jr *et al.* (2005, pp. 706, 710) correctly underline that contrary to the present American system, regressive tax was the rule under the Roman Empire. In fact, progressive tax is a very recent historical invention. Jones also substantiated this point: "Under Roman rule so far from being progressive, it [tax] was often regressive, since politically privileged categories of persons, who were usually wealthier, were wholly or partly immune. In Egypt Roman and Alexandrian citizens did not pay, and metropolitans paid at a lower rate. In the latter empire only plebeians paid." (Jones, 1974, p.174, the bracket added). The Roman political economy was based on a balance between public and private exactions, between taxes and rents. As Hopkins (1980, p. 105) aptly pointed out: "Since production could not easily be increased, taxes and rents competed for a limited surplus. I shall argue tentatively that taxes were kept quite low with the result that private exactions could be correspondingly high." Regressive taxation transferred the burden of taxes on poorer peasants (Ibid, p. 121).

During the Middle Ages, regressive tax was again the uncontested rule: "The tax system in the feudal age was highly regressive and put a heavy tax burden on peasants while allowing privileges and personal exemption to members of the upper classes. According to an ancient expression, "the people contribute with their properties, the nobility with their blood and the clergy with their prayers."" (Alink and van Kommer, 2011, p. 9). The nobility as a warrior class or provider of protection contributed with its blood and was even entitled to collect taxes. The question is, however, about the merchants and other owners of movable capital. How was their status with regard to tax payment?

Answering this question, it is noteworthy that the ancient world and the Middle Ages never achieved the notion of an income tax. "Even if they had thought of it [income tax], their accounting methods were too primitive to distinguish income from capital. The result was that persons who gained their livings by wages, salaries and fees paid nothing at all. Wage earners in antiquity were mostly very poor, so that their immunity was no great loss, but lawyers, rhetoricians, grammarians, doctors and higher civil servants often made very large sums in fees and salaries. Merchants and manufacturers were also probably under taxed. The Athenian *eisphora*, it is true, and the Roman *tributum* of the republic and principate took into account property such as ships, slaves, workshops and –theoretically- liquid capital. But most merchants seem to have had little liquid capital, financing their ventures with nautical loans, and their assessable capital assets were probably low in relation to their turnover. In the later empire...the main tax was assessed solely on agriculture, and there was a separate tax, the *chrysargyron*, on trade and industry, apparently a poll tax combined with a tax on capital assets...The trouble was no doubt partly that rich merchants could evade the tax by concealing their liquid assets, but even more, that the rate was not graduated." (Jones, 1974, pp. 175-176). Undoubtedly, merchants and manufacturers were on the whole much poorer than landowners, but the rich merchants were privileged for at least two reasons: 1) regressive tax system; 2) the tax evasion. Considering the privileges of different social groups, one may distinguish three layers: first, privileged elites (senators, military officers, landowners); second, rich merchants, lawyers, rhetoricians, grammarians, doctors and higher civil servants; finally peasants and plebeians

The transition from feudalism to capitalism leads to a reduction of captive assets and augments the share of mixed assets. A new demand function  $D_2GE$  in Figure 6-3 captures this shift. While the captive assets are again represented by a completely inelastic demand ( $D_2G$ ), their share is now reduced to  $OI < OH$ , whereas the share of mixed assets has risen to  $IE > HE$ . The new limit price for captive assets is fixed at  $p_2 > p_1$ , but the state should now adopt a competitive attitude not to lose a bigger share of the market ( $GE > FE$ ) which is sensitive to price variability. In other words, the state cannot easily exact fiscal revenues by using coercive means; it needs to be price competitive on the protection market to seize a larger share of the market. The *protective* behavior of the state towards property rights will become decisive in winning a larger portion of owners of elastic assets, since the costs of *aggressive* (confiscatory) behavior will be much higher.

Further development of capitalism will result in diminishing the fraction of captive assets for the sake of an ever-growing proportion of mixed assets to the point that all assets will finally transform into mixed ones and the demand function will tend towards an elastic one (TE) (see Figure 6-3). This process reflects the total *globalization* or the detachment of assets from the national states. Although the transformation of captive assets into mixed ones will never be complete, it describes a *tendency* towards such an ideal situation.

## 6.6 Economic rationale of the state space: the predator's perspective

The state as master predator should assume the double role of aggressor (confiscator) and protector (provider of protection). From the predator's perspective, the economic rationale of the state space hinges upon its ability to appropriate and organize the administrative allocation of public goods and services or what is known as *state-accessibility*. The state as the supplier of protection will provide more public goods for higher protection prices. Therefore, the supply function is based on a direct relationship between the protection price and the quantity of public goods (e.g. military security) allocated administratively (state-accessibility).

Three elements are relevant in determining state-accessibility: 1) geo-political location; 2) industrial and military technological progress in means of transportation, communication and strike zone; 3) coordinating mechanisms and the rule of law.

The state-space is primarily conditioned by its *geo-political location*. Valleys were the birthplace of states. Indeed, before the *military* revolution in the sixteenth and seventeenth centuries (Roberts, 1956; Parker, 1988), power was about the number of manpower that a ruler had under its command. Territorial power was thus based on arable land and density of population. Agrarian states like Sparta and Syracuse were built on two types of assets: grain and manpower. As mentioned earlier, hills, deserts, tropical forests, marshes and swamps were not easily accessible by an agrarian (valley) state and were often used as refuges for fugitives. Although these inaccessible zones were mainly the territory of acephalous societies, they occasionally appeared to be relatively centralized. In such cases, they resembled "what Batfield has called the "shadow-empires" of nomadic pastoralists, a predatory periphery designed to monopolize trading and raiding advantages at the edge of an empire. They are also typically parasitic in the sense that when their host-empires collapse, so do they." (Scott, 2009, p. 22).

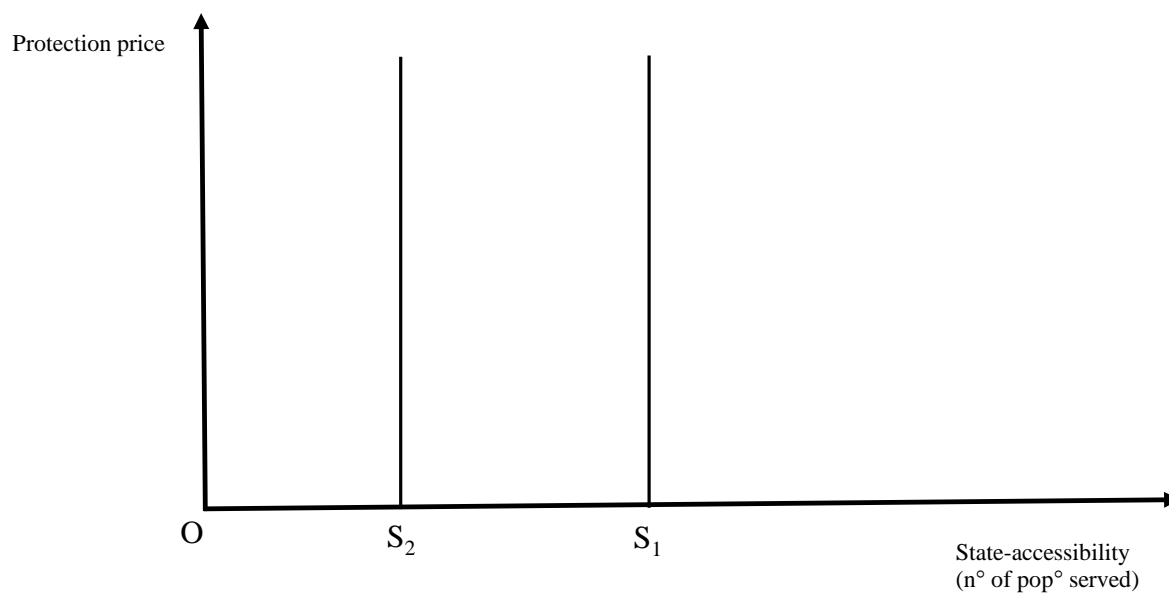
In the pre-modern world, while high hills and mountains separated people, rivers and seas could join them. The maritime routes were faster, and cheaper in transporting bulky cargos. In addition to manpower, access to strategic chokepoints was another major source of power,

allowing the control of land and naval routes. A maritime state like Athens immensely profited from its superiority in controlling the nodes of communication and transportation.

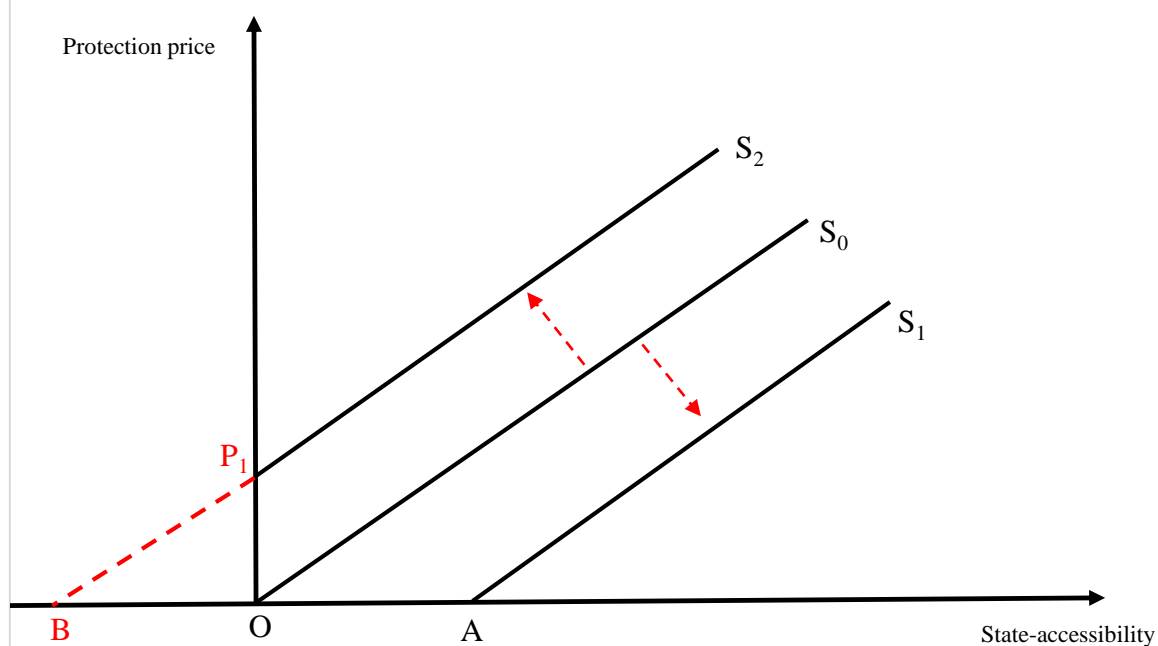
Geo-political accessibility is an *exogenous* factor. The initial endowments of a country with regard to valleys and access to chokepoints are favorable to state accessibility, whereas high hill, deserts, marshes and other inaccessible areas shrink the state space. This initial exogenous difference in the supply function is shown in Figure 6-4. While the supply of captive assets is inelastic (Figure 6-4A), the supply of mixed assets is elastic (Figure 6-4B). Assuming linear supply functions for captive assets (Figure 6-4A),  $S_1$  represents a more advantageous initial endowment than  $S_2$ .

Considering mixed assets (Figure 6-4B),  $S_0$  represents a state-space which is neutral to geo-political location.  $S_1$  indicates a supply function in an advantageous space state, for example a valley state or a maritime state. The difference between the two functions ( $S_0$  and  $S_1$ ) or OA measures this *exogenous* advantage in terms of geo-political location. Conversely, the function  $S_2$  captures the situation of a disadvantageous state space such as high hill or desert zone. The difference between the two functions ( $S_0$  and  $S_2$ ) or OB measures this *exogenous* disadvantage in terms of geo-political location. In this case, the supply curve starts at point D implying an initial extra cost equal to (OB) $P_1$ .

**Figure 6-4 The impact of geo-political location on state accessibility**



**A. Supply for owners of captive assets**



**B. Supply for owners of mixed assets**

The second factor influencing the state-accessibility is *technological* and related *organizational progress* particularly in the field of communication, transportation, and military strike zone. The power of a ruler depends on its omnipresence that requires total mobility and an ability to see and to hear everything without being visible to others. Mobility, invisibility, and omnipresence are the sources of predatory power. Accordingly, the state domineering capacity principally depends on its technological and organizational (De Mariz, Ménard, Abbillé, 2014) accessibility and pertaining to the level of development in both civil and military means of transportation and communication over land, sea, and air. Technological progress in these areas also determines the striking range of military action (Vahabi, 2004, 105-107). Although the extension of the military strike zone is not a sufficient condition to extend the state space, it determines the influence zone of a state and pushes away the frontiers of the buffer zones (Boulding, 1962). Mann (1986, chapter 5) described the Akkadian empire as an “early empire of domination” based on the pure military strike zone of marcher lords<sup>32</sup>.

Contrarily to geo-political location, technological and organizational progress in the means of transportation and communication is *endogenous* and influences the quantity of supply or the number of people provided with public goods. This factor determines the supply function in the long term and results in a shift outward. Figure 6-5 represents this shift for a linear supply function from  $S_1$  to  $S_1'$  both for captive assets (Figure 6-5A) and for mixed assets (Figure 6-5B).

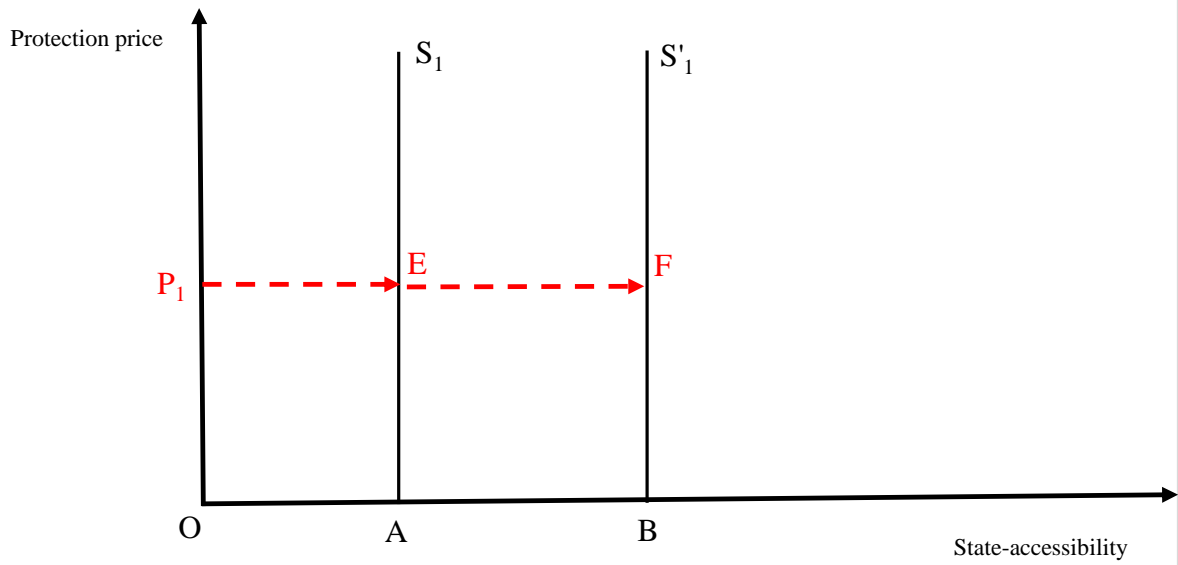
It implies that for every protection price (e.g.,  $P_1$ ), the state is now capable of providing protection for a higher number of population amounting to  $EF=AB$ .

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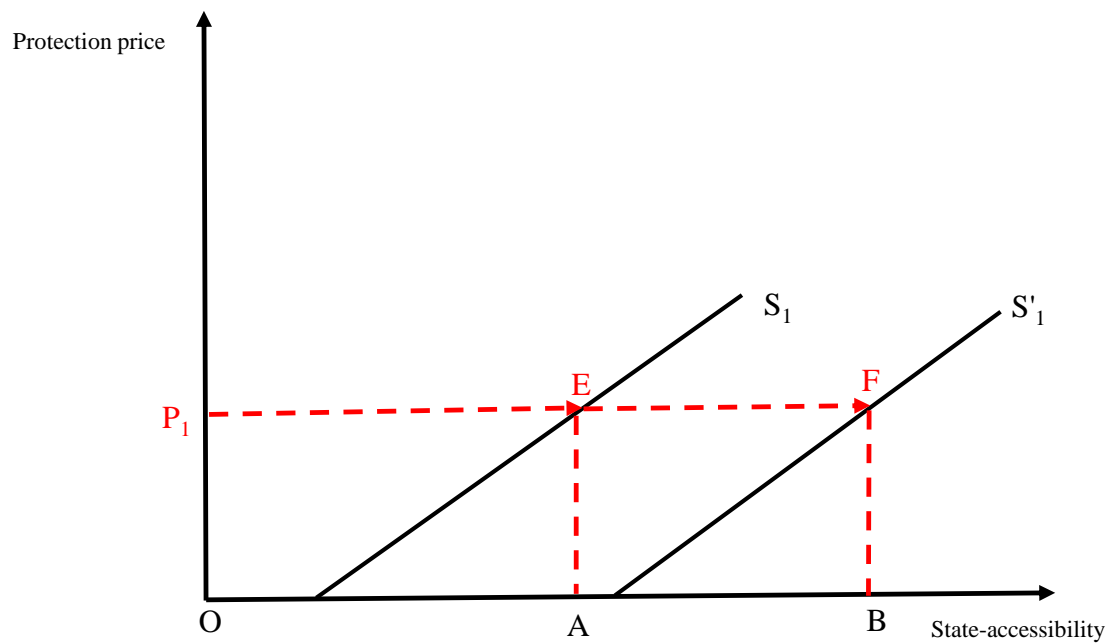
<sup>32</sup> In contrast, Mann (1986, chapter 9) cites the Roman empire as an illustration of a “territorial empire” that does not solely depend on a country’s military striking force, but also on its economic, administrative, and ideological/moral integrative capacities.



**Figure 6-5 A shift in the supply function due to technological progress**



**A. Captive assets**



**B. Mixed assets**

Geo-political, technological and organizational dimensions of accessibility define the initial natural endowments and means of allocating public goods, but the dominant factor in enlarging

accessibility to mixed assets or restraining it to captive assets is the symbiotic relationship between various social coordination mechanisms within or outside the rule of law.

Provision of public goods may be coordinated in at least four different ways: 1) centralized or bureaucratic coordination; 2) market coordination; 3) cooperative coordination; 4) destructive coordination (Vahabi, 2009a). Administrative allocation of public goods employs centralized or bureaucratic coordination. However, this type of allocation is subject to queuing or rationing. If there is a shortage in providing military security and protection, other types of coordination including market and cooperative ones may be used. For example, in Africa, the limited resources available for state administration and policing, and the inadequate training and supervision of state employees have led to a situation in which “Policing for an array of authorities that include business interests, residential communities, cultural communities, individuals as well as the state, is now provided by commercial security companies, formal voluntary non-governmental groups, individuals and even governments themselves as private suppliers of protection.” (Baker, 2002, p. 12). To clarify these different ideal or typical forms of coordination, a brief definition is required.

1) The *Bureaucratic mode of coordination* refers to social organization through the authority of the government. This type of coordination is one of the variants of Polanyi's (1944, 1968) ‘redistribution’. It requires some kind of political or religious center, such as the state, that appropriates resources and then redistributes them. The administrative allocation of public goods, notably security and policing, comes within this type of coordination.

2) The *Market coordination* refers to social organization through exchange and markets. Polanyi (1944, 1968) and Lindblom (1977) coin this form of integration as ‘exchange’, which requires a specific institution, namely a system of price-making markets. Commercial or private security companies use this type of coordination in providing security.

3) The *cooperative mode of coordination* refers to social organisation through ‘reciprocity’ (Polanyi, 1944, 1968). Polanyi's use of the term, reciprocity relates to an overarching social pattern. In that, it differs from modern usage that refers to bilateral interaction. Formal voluntary non-governmental groups such as formal and informal vigilante groups in South Africa and East Africa seeking to curtail cattle rustling are salient illustrations (Baker, 2002, chapters 7 and 8).

A typical or ideal model is of course an abstraction that selects a group of closely related elements from real world mixed systems. There is no real social system that can be exclusively coordinated by only one of these coordination mechanisms; rather, any given society may be analyzed in terms of a certain *combination* of these types of coordination. Accessibility beyond captive assets depends on whether different types of bureaucratic, market, and cooperative coordination of public goods provision are combined within the *rule of law* or not. If these multiple public, private, communal providers of protection are all accountable to law and act in accordance with the rule of law, then state-accessibility is secured to a larger extent to include not only captive but also mixed assets. Law is a code that sets down what is forbidden, whereas “the rule of law is a principle of restraint and compliance entailing self-control and the absence of arbitrary coercion of others.” (Baker, 2002, p. 15). The rule of law does not necessarily imply democracy; it may be well respected by an authoritarian regime as long as private coercion is sanctioned by law, and all power in the state is derived from and exercised in accordance with the law. Historically speaking, the rule of law preceded democracy. In England, the rule of law

was established in the seventeenth century when the Crown became accountable to parliament. But universal suffrage was only achieved in 1928.

Baker (2002) compared the rule of law with democracy with respect to equality, accountability, popular support and libertarian values<sup>33</sup> and summarized the results in the following table (see table 6-5).

**Table 6-5 The parallels between the rule of law and democracy**

	<b>Rule of Law</b>	<b>Democracy</b>
<b>Equality</b>	Equality before the law	Equal political rights
<b>Accountability</b>	Government not above the law, but accountable to it	Government not above citizens, but accountable to them
<b>Popular support</b>	Law upheld and largely obeyed by community	Majority decisions accepted as binding after public debate
<b>Libertarian values</b>	(In the case of ‘right-view’) Law maintains libertarian values	State maintains libertarian values

*Source:* Baker, 2002, p. 19

The rule of law implies the equality before the law and the accountability of the government to law. Accordingly, lawlessness is meant “conduct by law enforcers that is not subject to or controlled by the national law.” (Baker, 2002, p. 10). Undoubtedly, in the absence of the state’s monopoly over the means of violence and the presence of multiple authorizers and providers of protection, it will be much harder to respect the rule of law. But as long as public, private, communal and personal providers of protection are coordinated within the rule of law, coercion is not used in an *aggressive* (confiscatory) but rather in a *protective* way. The rule of law extends the state space beyond captive assets and includes mixed assets. By the same token, the state’s revenues become increasingly dependent on its ‘protective’ rather than its ‘aggressive’ behaviour. The protective aspect of the state towards non-violence using economic enterprises creates a fertile field for the development of *specific assets* and *value-added productive* activities. The state’s revenues increase as a consequence of profit-maximizing economic activity rather than maximizing protection racket.

In dire contrast, if multiple providers do not act according to the rule of law and are not accountable to law, non-institutionalized violence will become the regulator of social order to the point that even *law enforcement will be lawless*. Under such circumstances, the rules of the game are devised in a way that one should violate others’ rights to secure one’s own rights. I have named such type of coordination ‘destructive coordination’: “It is *social coordination through intimidation, threat and the use of non-institutionalized coercive means*. In this type of coordination, resources and human efforts are allocated to *appropriate* what other people produce. Strictly speaking, non-institutionalized coercion refers to coercion unsupported by the law or the state. Yet in a broader sense, it also embraces coercion used by rival, contending parallel institutions.” (Vahabi, 2009a, p. 355). Africa, many Latin American countries and post-

<sup>33</sup> The body of libertarian values include such values as presumption of innocence, non-retroactive law, jury trials, and open courts.

revolutionary Iran under the Islamic Republic of Iran furnish abundant examples for destructive coordination.

Two types of supply function might be distinguished: 1) a supply function adopting *violence-using law-enforcement* protective measures towards property rights to satisfy global demand, i.e. both captive assets  $\lambda N$  and mixed assets  $(1-\lambda)N$  with an objective of maximizing differential protection rents (DR); 2) a supply function using *non-institutionalized coercion* as the main variable to entrap captive assets ( $\lambda N$ ) with an objective of maximizing protection racket (absolute protection rents or AR). The former has an elastic supply curve, whereas the latter is characterized by a fixed monopoly price and an inelastic supply curve.

Destructive coordination is not just about anarchy or lawlessness, it is an implicit and explicit coordination among multiple providers of protection to *perpetuate* the anarchy as a source of outlet for promoting protection racket and appropriation. This implies the allocation of resources to conflictual (predatory) activity *not to win* a contest but rather to *perpetuate* warfare as a source of war economy. “Destructive coordination as a form of social integration is about cooperating to coerce. The resource *allocation* in this type of *coordination* is appropriative and is based on predatory, grabbing or confiscatory activities.” (Vahabi, 2009a, p. 356).

Destructive coordination prevails when the rule of law fails due to parallel institutions, and when multiple providers and authorizers of protection have vested interests to perpetuate anarchy as a source of economic activity. Coercive rivalry restrains the state-accessibility to captive assets over which various political factions compete both as adversaries and partners. They are partners in perpetuating anarchy and are adversaries in securing a larger share of captive assets as booties for their own faction. Booty capitalism is the economic rationale of destructive coordination (Vahabi, 2009a; 2010a,b). Discussing the situation in Uganda and Senegal, Baker (2002, pp. 215-216) refers to those aspects of economic life that are in complete conformity with what I name *destructive coordination*: “All ranks of the army appear to have adopted the “plunder mentality” and exploited for their own profit the situation where the law is not upheld. They have undertaken protection rackets, looting, control of trade in scarce commodities, exploitation of labor, theft of international aid and rape. Little surprising that some will have an interest in perpetuating insecurity so as to sustain the alternative system of profit.”

Destructive coordination enhances a *redistributive regime* in which maximizing protection racket rather than profit-maximizing economic activity is dominant. Failure in the rule of law implies the flight of mixed assets, the loss of value-added idiosyncratic assets and the shrinking of the state space.

## Conclusion

Property rights approach provides an opportunity cost theory of economic assets within market voluntary transactions. But appropriation is about abolishing property rights in the context of involuntary transactions. This explains why in this chapter, we started by demarcating the value of an asset from its booty value.

Booty value of an asset is its non-market exit value and absolute protection rent (tribute) is the difference between an asset’s market exit value and its non-market exit value. Conflictual activity related to appropriation or resistance to appropriation is a type of conflict that delineates the state space. In this sense, the state is a prolongation of a particular form of conflictual

activity, namely appropriative (predatory) conflict. A theory of appropriation is germane in understanding the origins of the state or its predatory core.

From its inception, our discipline underlined the impact of assets' mobility<sup>34</sup> on restricting tyranny and enhancing democracy. The political economy of appropriation requires a classification of assets with respect to their economic appropriability and political mobility. The former measures the interests of the predator and the latter captures the resistance of the prey to thwart predation. Following this line of inquiry, four categories of assets have been distinguished: 1) pure escape assets; 2) mixed escape assets; 3) mixed captive assets; 4) captive assets. Appropriation costs are the highest in the first category and the lowest in the last but are intermediary for second and third categories.

While pure escape assets define the non-state space, pure captive assets trace the state space. Mixed escape/captive assets are located on the frontiers of the state and non-state space, and have an indeterminate position with regard to allegiance to any state space. Four dimensions have been identified in defining escape assets or the frontiers of the state space, namely asset specificity, accessibility, concentration or dispersion, and measurability. The appropriability is a process of transformation of an economic asset into a booty; the main issue is then how the booty will be converted back again into an economic asset. Indeterminate property rights and the legitimacy costs determined by the interplay of legal and moral entitlements have been highlighted in explaining the process of rebirth of economic assets.

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<sup>34</sup> See Hirschman (1970, [1977] 2013, 1978) for detailed references on history of economic thought on the importance of capital mobility in restricting tyranny.

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