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FROM KUWAIT TO KOSOVO: WHAT HAVE WE LEARNED

REFLECTIONS ON GLOBALIZATION AND PEACE

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Reflections on globalization and peace

Sir John R. Hicks, Nobel laureate in economics, once said that an economist who is only an economist is not a good economist. In times of high specialization and segmentation of knowledge, this view is probably out of fashion and regarded as dangerous. Moreover, economics and its clerks are generally considered prone to "cultural imperialism" by other social scientists. Since I regard John Hicks as a master of thought, but also disapprove of the imperialistic grasp of economics on all aspects of human life, I accepted to contribute to this conference as a valuable opportunity to investigate problems and exchange ideas outside the high walls of the economic citadel, in the spirit of a citizen of the world engaged in the search for more equitable, prosperous and peaceful human relations. Hence I have limited the "professional" economic part of my paper to the first two sections, where I outline the issues related to the so-called "globalization" of the world economy in order to provide the background to further considerations on international order and peace. These considerations are developed in the second part of paper, where I try to extract from the dramatic events of the 1990s a pattern of *regional political wars* which in my view is at variance with other patterns of international disorder predicted by current globlization analyses. I then conclude with reflections on the predominantly political-institutional crises underlying the wars of the 1990s, followed by an outline of the "institutions for peace" that ought to be placed on the agenda at the outset of the new century.

1. Globalization: what it is and what it is not

Globalization is a global phenomenon. It involves a variety aspects of human life in many different and distant countries throughout the world. The term denotes the tendency for habits, ideas, needs, language, problems and solutions to converge on a common "world standard" (namely, the Western standard). There is no doubt that the economic aspects and manifestations of globalization are more emphatically under general attention, curiosity and fear. To begin with, globalization is not a word that properly belongs to the economic vocabulary: the right word is "economic integration", which has been part of the lexicon of economic science since its beginnings, and which means that there are no *legal* barriers to the circulation of goods, capitals and persons, and at the same time that there are negligible *economic* barriers (transport costs, intermediation costs, locational tastes and habits, etc.) which prevent the same kinds of goods, capitals or persons from having the same (cheapest) economic value regardless of their location (a key economic mechanism known as "arbitrage"). The U.S. economist Dani Rodrik has summarized the meaning and the popular perception of globalization quite brilliantly:

> In a fully integrated world economy, wages would be set in Shenzen, the price of capital would be determined in New York, and tax rates legislated in the Cayman Islands (...) The logic of integration is arbitrage, and the prospect of being arbitraged in a global economy does not thrill a lot of people (1998, p.4).

As will become clear, a bit of history of globalization will help put the issue in the right perspective. Strictly speaking, the *economic* side of current globalization is a phenomenon with an acknowledged birth date: 1971, the end of the gold convertibility of the U.S. dollar. In a few years, the economic world was stood on its head. Fixed exchange rates were replaced by freely floating exchange rates among major currencies. Legal barriers to international capital movements were removed. Financial intermediaries, and in particular the banking industry, ceased to be the obedient handmaidens of national governments and central banks, and they set out in search of fewer legal controls and greater profits by expanding borrowing and lending on a world scale. The challenges of poverty, famine and underdevelopment were completely recast from being world policy problems to be addressed by fully dedicated international public agencies to a matter to be left to free international banking and finance.[1]

Of course, the forerunners of this rush towards a new deregulated world economy were the Anglo-Saxons, the United States first (the dollar became a floating currency in 1973, and the first deregulation act in the banking system was approved in 1974) and then the United Kingdom. Many scholars argue that this process was caused, and thereafter driven, mainly by U.S. responses to U.S. domestic problems (see e.g. Strange, 1998) combined with America’s traditional "benign (?) neglect" of the external consequences of its domestic policy choices, and with its cultural hegemony over other capitalist countries. As a matter of fact,

[1]For a comprehensive view see e.g. Strange (1998), Eichengreen (1996).

the pace of economic and financial globalization has proceeded with the retreat of U.S. governments from domestic economic affairs, *and at the same time*, with their changing role in world politics from being *the* cold-war political *leader* of the Western coalition to *a* global political *actor*.

The difference between international political *leadership* and political *actorship* was acutely drawn by the economist Charles P. Kindleberger (1976), who pointed out that power or hegemony are by themselves not enough to be a political leader. The difference lies in the presence or absence of *international responsibility* in a government's objective function. In other words, an international political leader must be aware of the external consequences of its actions, and must be ready to restrict its set of feasible actions in the interest of the entire coalition. The paradigmatic example that Kindleberger drew from the economist's tool box is the so-called provision of public goods. Defence is the textbook example of a public good, and it was indeed the key issue in international politics in the 1960s and 1970s. As we know, defence is a public good because everyone benefits from it, but no one in isolation has enough resources or incentives to pay for it, once account is taken of the fact that if any single individual or coalition of individuals pays for defence then it is not possible to exclude those who have not contributed from the benefits. Hence no one will ever pay for defence on a voluntary basis. When the coalition of individuals that we call "the state" exists, the solution to the provision of public goods is compulsory contribution enforced by law and legal sanction – i.e. taxation. In the post-war Western international coalition of states, where no super-state authority existed, the solution was an informal semi-voluntary trade-off. The leader of the coalition would bear the (bulk of the) costs of defence and reap the benefits of leadership.

The fact that for the leader this arrangement imposes an international constraint on domestic choices is clear in another related textbook story. *Insofar as resources are limited*, any government faces the alternative between producing butter or guns. If more guns are produced to meet international defence commitments, less butter is left for home taxpayers. Inwardness and pure domestic self-interest are not compatible with international leadership.

The solution to this dilemma resorted to by the U.S. in the 1960s was another international transposition of the classical economic theory of the state: *seignorage*. Beside levying taxes, the state also has the monopolistic power to print money. Printing money is indeed the alternative means to pay for public expenditures. The U.S. were able to practise seignorage worldwide thanks to the special status of the dollar as world means of payment and reserve: no foreign recipient of dollars would put the Federal Reserve under pressure to convert dollars back into other currencies or gold. This was one of the benefits of leadership that compensated the leader for the costs of providing defence for all, and at the same time allowed the Bretton Woods exchange rate system to survive. Robert Triffin, a Belgian-born economist at Yale, predicted ten years in advance the collapse of the international monetary system brought about by excess U.S. seignorage, i.e. the unsustainable growth of paper dollars in the world relative to the U.S. gold stock (Triffin, 1960). The inconsistency between the international political arrangement based on U.S. leadership and what are now called the "underlying economic fundamentals" exploded with the Vietnam War and the concomitant flood of dollars in the world markets. But the end of the coalition pact on which the post-war political-economic order rested was declared by Charles De Gaulle and his central banker Jacques Rueff when they announced that the privileges enjoyed by the U.S. thanks to the international role of the dollar were extravagant and no longer acceptable.

All this is well known, but I have recalled these facts, albeit very sketchily, because it is often overlooked that globalization, in its genesis, development and consequences, is intrinsically a *political-economic* phenomenon (Strange, 1998). However, I immediately wish to dispel the mistaken idea that globalization is the result of a grand conspiracy to take over the world. Quite the contrary: as the above historical outline suggests, the worldwide expansion of free (unregulated) market activities has penetrated like a sea tide into the territories of economic and social life that national governments locally, and the U.S. governments internationally, have abandoned because of their high costs and low benefits compared with "national interests", or have been lost in the struggle with free marketeers for more private wealth and less taxation. Globalization has been primarily the outcome of the internal collapse of the post-war political-economic order, combined with the fiscal crisis of the welfare model of government. No one planned these events or the advent of the world free market -certainly not the powers then dominant and which were overthrown by these epoch-making changes.

Likewise, as von Hayek foresaw, the key feature and challenge of the market model of society is not the existence of Orwellian powers capable of planning the world order; on the contrary, it is *the absence of such powers*. The outcomes of the choices and actions of a multitude of free individuals having access to dispersed private resources, knowledge and information can hardly be planned or predetermined by design or command

While (...) an organization in the technical sense (...) is a deliberate arrangement of the use of the means which are known to some single agency, the cosmos of the market neither is nor could be governed by such a single scale of ends; it serves the multiplicity of separate and incommensurable ends of all its separate members (Hayek, 1990, p.116).

And even though one may view the market as the best available social organization capable of securing "a high degree of coincidence of expectations and an effective utilization of the knowledge and skills of the several members", one should be aware that if any order eventually emerges it will be a *spontaneous order*, and that this can only come about "at the price of a constant disappointment of some expectations" (*ibid*., p.115). Therefore, the social scientist, as well as the common citizen in a market society, is most struck by the continuous emergence, in von Hayek's words, of the *unintended social consequences* of our intentional individual actions. Globalization is the market society writ large.

2. Globalization: old and new

Public opinion is both fascinated and frightened by the globalization of life – and not only of economic life. Many observers and scholars are worried about these phenomena because they are shaping an unexpected "brave new world", one which seemingly makes our analytical tools, intellectual capabilities and governance institutions obsolete and useless. However, history is always a mysterious mix of change and continuity. And globalization is no exception.

Five key innovative features of current globalization have been identified (Zamagni, 1995).

1) *Financialization*: the growing quantitative and qualitative importance of the financial side of the economy relative to the "real" side of production, consumption and wealth distribution, accompanied by the inescapable submission of both private managers and governments to the judgment of financial markets quotations.

2) *Dematerialization*: the so-called "third industrial revolution", based on information and knowledge, where "software" predominates over "hardware" at all

stages of production and economic activity, and where "software" is much more expensive to develop, much less appropriable by imitation, but much more mobile than "hardware".

3) *Hyper-competition*: the shift of business strategies from a search for long-term comparative advantages to the short-term capacity to "stay ahead" of potential competitors by means of product and/or process innovation.

4) *Contractualization*: the tendency in business relationships to replace a common reference to state legal provisions in retreat, as explained above, with private "spot" agreements which rest only on the principle of free contractual will.

5) *Globalization of society*: as a response to the enlargement of the sphere of unregulated market activity, and to the increasing perception of exposure to the unintended and undesirable social consequences of someone else's actions somewhere in the world, and as an alternative to the scanty formal safety net provided by governments, civil society tends to produce groups, movements and organizations which seek to create a sort of self-organized and self-disciplined "new international order" at the group level based on shared values and common ends.

Each of these features poses complex problems of equity, justice, freedom and governance because they all go beyond the established boundaries of legal authority - the nation states - and at the same time provoke conflicts of interests among states which severely hamper the search for cooperative solutions. Nonetheless, some scholars also emphasize that this *kind* of problem, if not specific traits related to our times, is not entirely new in economic, social and political history.[2]

Without going too far back into the past, the establishment of the British Empire in the eighteeenth and nineteenth centuries was the first major phenomenon of globalization in modern times, and it can indeed be considered the ancestor of subsequent waves of economic and social customs that radiated out from the Western countries to the rest of the world. It is worth stressing that from the point of view of economic indicators, the degree of capital, goods and labour mobility, and the intensity of intercontinental market integration achieved on the eve of World War I was of the same order of magnitude as - if not greater than -

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[2]See e.g. Strange (1998), Obstfeld (1999), Eichengreen (1996).

the present one.[3] The same applies to the second massive wave of globalization during the first decade after World War I.[4] Some analogies between these antecedents and the current globalization are striking[5].

1) What economists would then have called the "international division of labour" was under pressure from an unprecedented acceleration of technical innovations which completely redrew the map of comparative advantages in production and of locational rents due to the discovery of new deposits of raw materials (coal and iron first, fossil oil later).

2) Among technical innovations, telecommunications (telegraph, telephone, radio) boosted market integration, reduced costs and increased arbitrage opportunities.

3) The opening of new financial markets and the diffusion of new financial instruments combined with new telecommunication facilities brought finance to the forefront of the world economic stage. International investment opportunities became enormous, owing to post-war reconstruction in Europe (Germany, France and Italy), to the last wave of colonization (Far East, Central Africa), and to the fast growth rate of "emerging" industrial countries (United States, Canada) and of

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[3]For instance, a simple indicator of the "openness" of an economy is the current-account/GDP ratio. The current account is the difference between the value of exports and imports of goods and services, plus the net transfers of labour and capital incomes with the rest of the world. By construction, a non-zero current account implies that the country must have an equal outflow (if positive) or inflow (if negative) of foreign capitals. Therefore a large current-account/GDP ratio indicates a high level of international integration of both trade and financial markets. Obstfeld (1999) has computed this indicator for twelve major countries, both at the core and at the periphery of the international system, from 1870 to 1996, finding that for the group as a whole the ratio fell from 3.7 to 2.3. In the U.K., the pivot of the system in the nineteenth century, the ratio fell from 4.6 to 2.0. In the U.S., an "emerging" capital-importing country in the nineteenth and early twentieth century, the ratio in 1990-96 was at 1.0, only slightly higher than the 1870-80 decade level of 0.7 (but well below the peak of 1.7 in 1919-26). Argentina, an "emerging" country now and then, had a degree of "openness" of 18.7 in the 18870-80 decade and of 2.2 in 1990-96.

[4]According to Obstfeld's data mentioned above, most countries in his sample reached the highest degree of "openness" in the 1920s, which thereafter declined until the end of the 1970s.

[5] Two major contemporary analyses of those years that still represent a reference point are worth mentioning: Feis (1930) and Arndt (1943).

producers of primary materials (Argentina, Brazil). Even finance as a specialized discipline in economics took its first steps in the first two decades of the twentieth century, when all the great economists of the time - Knut Wicksell, Irving Fisher, John M. Keynes, Alois Schumpeter, Rudolf Hilferding - focused on the relationship between industry and finance as a new key issue in capitalistic development. 4. Global finance after World War I was soon associated with economic disorder and loss of political control over economic processes and interests. The problem exploded when in 1921-22 it became clear to everybody that the central banks were no longer able to ensure the sustainability of the symbol itself of order, prosperity and civilization in economic affairs: the gold-standard system of fixed exchange rates that had ruled the capitalistic world for about one century.[6] Major countries - with exception of the U.K. until 1931- abandoned gold convertibility and let their currencies float freely at market values. Just as today, exchange-rate fluctuations became a major source of profits and losses on financial markets, adding to the other opportunities mentioned above. As a result, between 1920 and 1940 the variability of stock prices, currency prices and other financial prices attained levels that are still unmatched today.[7]

The globalization and eonomic instability of the inter-war years are particularly important. They are the subject of ongoing studies and investigations because there is now little doubt that they were among the main causes of the great depression of the 1930s, of the advent of the euro-asiatic dictatorships, and finally of World War II. We thus come to the most worrying analogy between those times and the present: *the lack of adequate political response*. Susan Strange, in her last book on international economic and political relations (1998), attributes this lack of response to two factors: first, a partial or plainly wrong understanding of the macreoconomic consequences of financial instability; second, the clash between the global nature of the problems raised by the world expansion of industry and finance, and the overwhelming role of the "national interest" in shaping policy actions and institutions. On the first ground, the so-called "Keynesian revolution" was yet to come. The scholars forged by the world

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[6]Under the gold-standard system, each participating country declares the value in gold of its own currency and commits itself to exchanging any amount of currency in gold at that value on demand. By fixing the value of each currency in gold, indirectly all currencies are also tied to each another by fixed exchange rates. In fact, currencies were ordinarily exchanged directly one against the other at the gold-equivalent exchange rate.

[7]See again Obstfeld (1998) for some evidence.

tragedies of 1930-45 who helped to design the post-World War II institutions in accordance with Keynes's ideas all agreed upon the view that: 1) financial instability *in the long run* severely limited the borrowing countries' ability to sustain a desirable path of investment and growth, 2) an exclusive concern with *short-run* balance-of-payments equilibrium and exchange-rate value led to undesirable country-by-country contractionary policies that spread through the world economy with a "domino effect" (Kindleberger, 1973). Therefore, the watchword in all proposals for international economic reform was multilaterality: super-national agencies were to be created and set the task of addressing global problems with global means and shared ends, with a view to *both* the long-run problem of securing stable investments and the growth of developing countries (the Bank for International Reconstruction and Development, then World Bank) *and* the sort-run problems of stabilizing the balance of payments and the external values of the currencies of countries experiencing temporary imbalances (the International Monetary Fund)[8]. Clearly, there was a close interplay between the two critical factors pointed out by Susan Strange: the *economic reforms* arising from deeper understanding of the economic mechanisms underlying the inter-war crisis also required a parallel *political reform* in order to remove the country-by-country approach led by the "national interest" pole star.

Volumes have been written about the extent to which these ambitious reform proposals were actually realized and implemented. Many scholars believe that, although a few multilateral agencies were created, true multilateralism was never embraced by the participating countries. As a matter of fact, the model of leadership sketched above was viewed as the practical alternative to multilateralism; however, it worked *in the context of a controlled and disciplined international setup.* Likewise, the British Empire provided the governance institutions with which to secure some control over the development of the first wave of capitalistic globalization in the 19th century.[9] By contrast, neither the second wave in the inter-war period nor the third one now in progress exhibit any formal or informal international governance structure. And this is where the worry about the analogy arises.

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[8] A significant book in the spirit of the times is Roll (1968).

[9] I am not saying that the way in which the world economy was organized under the British Empire was desirable; I am only saying that *it was organized* in a way that prevented major conflicts and economic crises in the core countries. See e.g. De Cecco (1975)

Of course, as always in history, there are also differences to which one may look for reassurance. First, our understanding of the relationships among finance, investment, growth, employment and well-being is much improved, and although Keynesianism is no longer at its height, policy interventions *after* major financial crises in the 1980s and 1990s have helped preventing the typical disruptive "domino effects" of the 1930s. Second, some multilateral agencies do exist and are trying to redefine their roles in the new global economy.[10] Third, today the leading countries in the world economy are all solid and well-functioning democracies, the interests of the lower classes are better represented, there is a more open attitude towards a global civil society (see above), and even the interests of those who gain the most from globalization are by definition not immediately coincident with the old idea of "national interest", and even less with nationalistic practices. Finally, since the end of the communist system and the collapse of the Soviet Union, the U.S. is in many respects the only super-power on the international stage. But this is an ambivalent situation. As explained above, being powerful and influential is not the same as being the international leader in Kindleberger's sense. The demise of America’s role in this respect seems irreversible. In the absence of any substantial move towards true multilateralism, the U.S.’s new attitude is part of the problem, not of the solution.

3. The changing nature of war: is there a connection with globalization?

I now wish to come to a personal assessment of, and reflection on, the lessons of the 1990s against the background of globalization set out above. The past decade has been enclosed between two major *international war* episodes, Kuwait and Kosovo, and it has been punctuated by several *local wars*, such as Bosnia, Somalia, Rwanda. The difference between the two kinds of event lies not so much in their intensity as in the extent to which external actors have been involved. I insist on this peculiarity because, as I shall explain later, I am convinced that war, and violence in general, is always a latent option in human relations. But we should try to understand how *this option changes* in its triggering factors and its manifestations in order to gauge any viable antidote to it.

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[10] See e.g. Fischer (1999), Stiglitz (1999)

Having being brought up during the Cold War for control of the world economy and society, and amid the fear that the impossible – all-out thermonuclear war – might eventually come to pass, when I look back at the 1990s I am struck most by the three facts. First, although the impossible did not happen, *conventional, bloody wars are still with us* as a possible policy options. Second, these newly possible wars are mainly the means to *resolve local political conflicts*, where "local" refers to their geographical dimension and also to their political-economic peripheral location. Third, the so-called local "warlords" have been wildly *opportunistic* in gambling on non-intervention by the major powers because of their conflicting interests or their lack of interest.

The first reflection I wish to propose in the light of this perception of the 1990s relates to globalization. The apparent international nature of the Kuwait and Kosovo wars may bear out the concerns reported in the previous sections about the connection between globalization and international *disorder*. However, I wish to draw attention to a possible paradox: whereas, as we saw previously, there are in principle good reasons for believing in the existence of this connection, we may question whether the wars of the 1990s really display the characteristics of the conflicts that globalization analyses would predict. The predictable areas of conflict are mainly:

1) access to strategic resources,

2) protection of national entities transplanted abroad,

3) conflicts of interest among economic powers,

4) social turmoil due to economic instability,

5) the general war between the poor and the rich.

In truth, the first three areas are shared with classical economic theories of war, such as Marxist imperialism theory or radical political theories. However, the historical reference of these various theories was the first or second wave of the globalization of capitalism (see above, section 2), when material immobile primary goods were indeed strategic, the involvement of national governments in private international economic endevours was pervasive, and the coordination between (few) private economic powers and (strong) political powers was very close. The advocates of globalization have good reasons to argue that current globalization has swept those preconditions away and made those theories inapplicable. The most interesting argument relates to *dematerialization* (see above, section 2, and e.g. Luciani, 1995). First, the ongoing third economic revolution is based on information and knowledge technologies. Hence, strategic resources are neither material nor fixed in any particular location. Even industrial plants and settlements are today much more mobile than they were in the past (also because no one industrialized country is still engaged in long-term industralization and in plans for settling foreign regions). Second, competition for immaterial and mobile resources is essentially "marketized" in that the holders of strategic resources and human capital in general move where the best offers and living conditions are available.[11] These fundamental changes have substantially nullified any incentive for economic wars aimed at territorial control. Hence, the opening of new markets, and their financial counterpart, vindicates the liberal view held since Adam Smith that markets and trades are not vehicles of conflicts but, quite the contrary, offer society a peaceful alternative to the Hobbesian mechanism of the appropriation of scarce resources.

Every sensible economist and social scientist knows that, unfortunately, this rosy view of markets should be mitigated, to say the least.[12] Firstly, we know that markets can be *perfect* or *imperfect*. Perfect markets are essentially a theoretical construct that requires:

– free (no costs, no legal barriers) entry to market

– absence of uneven powers of control over resources and prices, and of unequal opportunities in bargaining; in particular, this condition must hold as regards information resources, which must be evenly and freely available to all market participants

– absence of non-price transaction costs, agency costs and externalities.[13]

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[11]As some historians argue, the U.S. began to win World War II before the invasion of Germany because it was able to subtract the best intellectuals and scientists from Nazism.

[12]For a non-technical introduction to these issues see e.g. Stiglitz (1989).

[13]This third requirement is more technical but extremely important. The atomic unit of a market is a transaction between two individuals. A transaction in its turn consists of two essential parts: the *object* and the *price*. The object of a transaction may be a material good (oil barrels), an immaterial service (a medical check-up), a contract with the rights and duties of the two parties specified (financial transactions typically have contracts (promises of payment) as their objects). The requirements mentioned entail, respectively, that: a) transactors should bear no other costs than the pure market cost of the transaction (where other costs may derive from intermediation, from gathering information about the quality

Secondly, we know that even when markets are perfect they can achieve *efficiency*, which is a technical property concerning the best possible allocation of the available resources among alternative uses with a view to satisfying the given needs of market participants. But nothing can be said about the *equity* of the market outcome and its social desirability in terms of income distribution, access to the market mechanism, and the provision of public goods. Thirdly, if the above conditions are not met, markets may also fail to be efficient allocation mechanisms, in that they leave resources unused or may allocate them badly in relation to needs. Reflection on the above set of requirements reveals that they are intimately interconnected; if, say, information about market opportunities is not evenly and freely distributed, then also unequal opportunities, non-price transaction costs, agency costs and externalities are bound to arise.[14] Thus, even small imperfections in the initial conditions may give rise to large inefficiencies in reality, and many of the negative phenomena that we observe in market economies, such as unemployment, sharp economic fluctuations, lack of capitals or financial crises, can to some extent be related to one or the other of these imperfections. Therefore, in spite of the apparent conquest of the entire world economy by markets and market ideology, modern economic thought is increasingly aware of the pervasiveness of market failures, both on the grounds of efficiency and on the grounds of equity and justice. From this viewpoint, the reply to globalization advocates is that both *efficiency failures* and *equity failures* pave the way to the potential conflict areas in a "marketized" economy that I have numbered with 4 and 5 in the above list.

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and nature of the object, from bargaining and contracting), b) the transactors must be certain that each of them will act exactly as the transaction terms prescribe and at no cost (where agency costs might arise if one of the transactors (called "the principal", e.g. the patient) can only induce the other party (called "the agent", e.g. the medical doctor) to deliver the contractual object of transaction by incurring further costs, such as gathering information about the counterparty, monitoring, auditing and sanctioning his/her actions, providing incentive premia and benefits), c) one transactor's action must not have unintended effects on the other's actions or opportunities or well-being except through the market price (if oil consumers in one country bid up the oil price in the world market they affect oil consumers in a neighbouring country in a way that the market can accommodate efficiently, but as their increased oil consumption pollutes the air of their own country and of neighbouring countries as well, consumers in these countries are negatively affected in a way that the oil market cannot correct).

[14]See previous footnote.

To take an example, not by chance most recent research on market failures has focused on financial markets. As a result, Stanley Fischer, chief economist at the I.M.F., has written that (1999, p.F557)

> few propositions about the international financial system command as much assent as the view that it should be reformed (...). There are two main reasons:
> – because international capital flows to emerging countries are too volatile, subjecting recipient countries to shocks and crises that are excessively frequent and excessively large (...)
> – because there is too much contagion in the system (...)

The two reasons for reform pointed out by Fischer also aid understanding of why and where globalization may generate conflicts. First, if markets may be the peaceful way to gain access to scarce resources, the other side of the coin is that marketable resources are, or are perceived to be, intrinsically short-term and reversible conquests. If a few years of headlong capital flood and prices are then suddenly followed by years of capital draught and impoverishment, as typically happened in all the financial crises that afflicted the emerging countries in the 1980s and 1990s, the resulting mix of market inefficiency and social discontent is hard to govern. Since, as we have seen, market inefficiency is generally related to unequal powers and opportunities, it is hardly surprising that financial collapses have usually been accompanied by local *revolts of losers against winners*, the former being rightly unwilling to accept these events as physiological "market discipline".

Second, contagion – that is, the "domino effect" of financial crises mentioned in section 2 – is another phenomenon that should in principle be absent from perfect markets and is instead always lying in ambush behind financial instability. Contagion is especially dangerous, and it opens up a specific area of conflict because it may involve the core countries. To stop contagion, prompt and strong policy interventions are needed which typically raise two matters of conflict: *Who should intervene? Who should pay?* These questions have yet to be settled among the leading countries, nor *a fortiori* have they been settled at the international agencies level (Strange, 1998). Susan Strange's book explains at length why these two unresolved questions are among the most awkward stumbling blocks in the way of international economic reform, or at least in the way of efficient global economic policy, and how at the same time they condition international political relations among the core countries of the system, namely U.S./Japan and U.S./Europe relations.

Having broadly expounded the fears and hopes surrounding globalization in relation to war, I finally wish to return to my initial question: is there a connection between the wars of the 1990s and globalization? The tentative answer that I submit for discussion is mixed in form. On the one hand, the first post-Berlin-Wall decade has dramatically gainsaid the prediction that a peaceful era would begin, thanks to the end of East-West confrontation and of the nuclear threat, and by virtue of the expansion of market transnational relations to replace sovereign (armed) state relations. On the other hand, the characteristics of the conflicts that exploded in the 1990s are, in my view, very different in nature from those predicted by globalization analysts. First, neither the two major wars nor the number of other local conflicts broke out in areas deeply involved in global markets; quite the contrary, they exploded in *economically marginal areas*.[15] Second, no conflict had *a clear economic motivation* that could convincingly be traced back to the conflict factors of globalization reviewed above. Neither Serbia nor Iraq, let alone other belligerents in Africa, were at that time particularly involved in global markets;[16] neither of the two major attackers were particularly poor or deprived or had undergone a sudden worsening of its economic conditions due to imported economic instability; the African theatres of war were obviously extremely poor and deprived, but the only complaint raised by their political leaders against the rich countries was that their countries had *too little* access to global markets and their benefits. Third, true dramatic economic crises in regions deeply involved in globalization, such as Latin America in the early 1980s and

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[15] With regard to the Gulf War, strong objections may be raised against this judgement because of the oil wells in the area. Oil is certainly a strategic resource in the world economy and it certainly played a role in the *evolution* of that conflict. However, the way the conflict *started*, as a regional conflict closely related to the *political* needs and strategies of the dictator of a small, poor but self-sufficient oil producer, against another small but rich oil producer well protected against the ups and downs of world markets, fits poorly with the war patterns produced by globalization analysts, while it makes it more similar to the *regional political conflict pattern* of the other episodes of the 1990s. For a good discussion of this point see Luciani (1995).

[16] In addition to the previous footnote it should also be considered that the oil market in which Iraq participated is certainly a world market, but rather a highly regulated, controlled and monitored market by no means comparable to, say, financial markets or some other commodity markets in terms of speculation and instability.

early 1990s, and Russia and East Asia in the late 1990s, produced *little or no social and political violence on a large scale* (in Latin America remarkably less than in the previous decades).

I am not suggesting that all the analyses of globalization as a vehicle of international disorder and war are groundless. I have explained above why some of these fears are not groundless at all. However, my tentative conclusion on this issue is that the lessons we can draw *so far* from the wars of the 1990s is that they bear out the prediction that globalization may be a major conflict factor only for *limited aspects which lie more on the political side of the problem* than on the economic one. This conclusion relates to the third characteristic of the wars of the 1990s that I listed at the beginning of this section, namely the *opportunism* of local warlords. The political leaders of marginal countries may be tempted to engage in civil or regional wars as a means of political struggle because they gamble on the inanity of the major powers and international agencies. This gamble is rational because of the retreat by the former from the idea of designing an international political order, as explained previously. Conflicting political interests, lack of political interests, and uncoordinated foreign policies among the major countries prior to and in the course of regional conflicts are, in my view, strong permissive factors of these conflicts**.** Thus, economic globalization and the increase in conventional regional wars may have a common root, though, at the moment, little mutual connection.

4. War always has a chance: let us give peace a chance

Both the pessimists and optimists of globalization in relation to war inadvertently seem to share the same "economicistic" bias in their reasoning: war is a violent response to the appropriation problem of scarce resources, and it is generally rooted in peoples' material conditions. Judgements on globalization tend to be pessimistic or optimistic depending on whether the emphasis is on the risks of economic distress and impoverishment or on the chances of enrichment and growth offered by opening the economy to the world markets. But this mechanical reasoning is far from providing sufficient grounds for explanation.

Material conditions and economic structures are an important but not exclusive component of the *political* use of violence. As recalled above, all the major war episodes in the 1990s were not spontaneous revolts of the poor against the rich; they were instead *the outcome of planned and well-organized political campaigns*. Hence what I think we should study, understand and seek to remedy is the *pattern of political conflict in marginal regions*, which is the reincarnation of von Clausewitz's idea of war as a particular form of political struggle. I wish to advance the idea that in my view should guide our research and social and political action *We need institutions for peace*, or, to borrow a term coined by the leading Italian political philosopher Norberto Bobbio, we need *institutional pacifism* (Bobbio, 1991).

The theoretical premise of institutional pacifism is that violence is always latent in human relations. This premise is not merely rooted in an anthropologically pessimistic view of human beings, it can also be justified as the result of "rational" choices in conflict-resolution contexts. Consider a simple example analysed as a strategic game. There are two groups or countries, *A* and *B*, competing for a resource of value 1. Each can resolve the conflict by choosing "war" (*W*) or "peace" (*P*). Table 1 gives the four possibile outcomes.[17]

Table 1

		B	
		W	P
A	W	0,0	1,– 1
	P	–1,1	1/2, 1/2

The table should be read as follows. If *A and B* choose *W* nobody gains, while if *A and B* choose *P* both gain half of the resource. The latter is called the *cooperative solution*, the fomer is the *conflictual (non-cooperative) solution.* Hence the game is such that the cooperative solution dominates the conflictual one, which captures the idea that a peaceful world is socially more desirable *and profitable* than a

[17]This is a simple well-known kind of strategic game known as the "prisoner’s dilemma" because it was originally presented as the story of two accomplices in jail each of whom is presented with the alternative between confessing and obtaining a discount, as opposed to not confessing and serving the full sentence. More generally, this kind of games display *cooperation dilemmas.*

violent one. How can we ever fall into warfare, then? The problem, which is the interesting part of this class of games, arises because of the *chances* offered by taking *unilateral (or asymmetric) actions*. Suppose that *B* chooses *P* but *A* chooses *W: A* seizes the entire resource and *B* bears the war losses (or viceversa). The subtlety of the situation lies in the fact that it is not just war that pays, but it is *unilateral war* that may be decisive. This advantage of being the offender when the other has a non-offending attitude has disruptive effects on society; for the sole equilibrium of the game – that is, the rational choice simultaneously taken by both parties – is *W*.[18] This result seems to vindicate the Roman dictum "*si vis pacem para bellum*" (if you want peace prepare war) - with the corollary that most of the time prepared wars are sooner or later waged.

Obviously simplistic and abstract conceptual toys like this cannot conceivably be used to interpret all the nuances of reality; however *the logic* of this strategic game prompts various reflections. First, we should critically reconsider the traditional confidence shown by the classical theorists of state sovereignty, or *political realism*, in the ability of sovereign states, led by pure domestic self-interest, always to negotiate for the socially best solution. This theory is the political equivalent of the pure theory of markets recalled above (simply substitute states for economic individuals), and not by chance it is now once again fashionable to invoke it in justification of the present-day neglect by the major countries of the issue of super-national regulatory institutions. But there are plenty of situations - of which the game presented above is a paradigmatic example - where non-cooperative solutions driven by pure domestic interest are socially worse than cooperative ones, while at the same time no social mechanism exists whereby the cooperative solution is actually chosen. Just as economic markets can fail, so too can "political markets".

Second, closer inspection of the example under consideration shows that *opportunism* does indeed play the crucial role pointed out above. By ‘opportunism’ is meant that an actor can, and will, reply to the other's choice to its own advantage, independently of whether this damages the other or society as a whole. As is clear, opportunism is always a matter of comparison between costs and benefits. The figures in table 1 are such that opportunism always pays, and

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[18]More technically, if *B* chooses *P*, *A*'s best reply is *W* because it gets 1 instead of 1/2; *B* ends up with -1. Knowing this, *B*'s best choice is *W* because if *A* replies with *W*, *B* is better off than by choosing *P*. Given that *B* chooses *W*, *A*'s best reply is indeed *W*.

opportunism leads to war. Basically, as table 1 exemplifies, opportunism emerges when

- choosing war and breaking even costs less (from 1/2 to 0) than choosing peace and losing (from 1/2 to −1) , and/or
- choosing peace and staying in peace pays less than choosing war and winning (from 1/2 to 1).

In short, *war costs too little relative to peace and peace pays too little relative to war*. Is it not generally recognized that the unprecedented period of peace and prosperity of developed countries after World War II was obtained by means of a mixture of the unconceivable costs of war (the nuclear threat) and of growing dividends of peace? Likewise, to repeat my previous point, the actual or expected low dividends of peace for marginal underdeveloped countries are not by themselves sufficient to induce war until they are coupled with the low costs of war.

Third, the basic costs of war are *financial*, *material and political*. The regional political wars of the 1990s were generally cheap in respect to all three measures for a number of reasons.

1) They employed the conventional and rather obsolete weapons that the dismantling of cold-war arsenals had made available at low or no cost. And, if necessary, the events in the Balkans or in Africa remind us that when the reasons of war are overwhelming, *people*, regardless of professional and well-equipped armies, and even in their absence, are ready to kill each other by resorting to the most brutal and primitive codes of violence.

2) Financial and material costs, moreover, are less important in their absolute monetary values than they are in terms of their "price" for policy makers. In pseudo-democracies or dictatorships with almost complete political power over resources (the printing press of money in the first place) the real cost of war resources to political leaders is almost nil.

3) Thus we come to the remaining key variable: political costs. Obviously, political leaders are rather sensitive to the political costs of their actions, costs which basically consist of real threats to their power. Unfortunately, in countries with closely concentrated powers and weak or non-existent checks and balances, the constraints on the exercise of power must substantially come from outside. As is well known, this is a key, if not *the* key, issue in international relations, and this historically thorny issue has certainly been exacerbated by the new international

political-economic setup depicted in the first two sections. For not only have truly multilateral and super-national institutions never developed since Word War II, but even the major political-economic powers have progressively abandoned any informal or factual *system* of international control and leadership. The intangibility of the domestic self-interest of nations and the superiority of the "political market" model of international relations as theorized and practised by the major world countries dramatically underestimates the wide area for opportunism that this kind of relation has opened up to the advantage of political leaders in marginal countries. All the major war episodes of the 1990s were eased by the real or presumed idea that one or another of the major powers would tacitly assent to them, vetoing any real sanction through cynical abuse of the sacred "Non Interference Principle". How can we forget that both Saddam Hussein and Slobodan Milosevic were in power thanks to the advantage that some major countries presumed would accrue from their services as "regional guards"? And that both those tragic warlords explicitly challenged the so-called "international community", betting on the inability of major powers to overcome their conflicting interests?

My last, but not least, reflection concerns the challenge raised by the well-known pacifist slogan: "*give peace a chance*". This plea has a conceptual counterpart in my previous example. As explained above, in an opportunistic context no one has an incentive to give peace a chance (choosing *P* first in table 1) because of the threat of being attacked by the other. This perspective reminds me of one the articles in the Italian constitution, which states that "Italy rejects war as a means to resolve international controversies". Is this a rational statement, is it a credible commitment? The social scientist who popularized the kind of strategic game presented above was Robert Axelrod. In his main work (Axelrod, 1984), he argued that as long as two actors meet occasionally only once there is no way that cooperation can be chosen *rationally*. The stress on rationality has the deep philosophical and ethical implication mentioned at the outset: *violence always has a chance in society independently of individual moral sentiments*. Good moral sentiments on a *societal scale* do not have "in nature" more likelihood of prevailing than their opposite. Each individual has the potential to act altruistically or egoistically, in accordance with given ethical rules or against them. But moral behaviour is not a self-evident and self-enforcing principle for an individual. Living in ordered and peaceful societies (or better in the ordered and peaceful circles of our societies), we tend to believe that all immoral attitudes vanish in morally educated people. But this is not true: immoral behaviour is simply *dominated* as long as the *viability* of moral behaviour is ensured by *social* *institutions*. Otherwise, we would have to believe that the men in Bosnia or Kosovo who raped women from other ethnic groups, or who shot at each other across their back gardens, were intrinisically wicked, which cannot explain how they had lived previously peacefully side by side for years.

Significantly, Axelrod entitled his book *The Evolution of Cooperation*, thus stressing that cooperation does not prevail merely by moral suasion; it must be conquered and rooted in society. Therefore, the formidable challenge faced by society is understanding how to give peace a chance – that is to say, determining the social mechanisms whereby cooperative behaviour becomes a self-enforced and self-sustained habit for each single member and for all members simultaneously. There are basically three such mechanisms: *reciprocity, confidence, credibility*. In part, each of these attitudes may tend to emerge spontaneously through social interaction; but as many other scholars have stressed - Kenneth Arrow, David Kreps, Amartya Sen, for instance - the spontaneous emergence in society of these fundamental cohesive factors is an extremely delicate, fragile and reversible process. Thus, it seems necessary that these attitudes should be, so to speak, cultivated and protected by some external enforcing mechanism, so that *cooperative behaviour becomes an individual's rational behaviour because (almost) everyone else reciprocates cooperatively.*

A fundamental role is palyed by the law system. When we think of a civil society, our mind goes to the extension of freedom granted to its members but also, at the same time, to the *extension* and *effectiveness* of the restraints imposed upon the freedom to pursue one's interests at the expense of others' interests, rights and well being.

5. Conclusions: institutions for peace

Returning to the world's "society of nations", what conclusions can we draw? Just as society needs institutions, formal and informal, which favour the emergence of cooperative behaviour, so the society of nations need institutions for peace. I articulate my conclusions schematically with a view to further discussion.

1) We should work actively in order to give peace a chance in international relations.

2) This task implies not so much moral suasion as the cultivation and protection of cooperative behaviour.

3) This should be long-run patient and systematic action aimed at removing the incentives for opportunistic wars, i.e. by (a) increasing the protection and compensation for cooperative choices, (b) raising the costs of and punishments for non-cooperative choices

4) Compensating cooperative choices is the kind of task to which rich countries are best suited. Compensation may be economic and political. On this view, broader and easier access to rich markets may foster peace. Yet, as Stanley Fischer (1999) explains very well, this process cannot take place in the disordered and turbulent form that it assumed in the 1990s, but (a) access to markets should be truly bilateral (not only should emerging economies liberalize but also developed economies should remove barriers against goods and labour from those countries), (b) liberalization and participation in the global market economy should be a progressive and regulated process, while it is borne in mind that the participation of newcomers should be protected by the safety nets that the developed countries have devised for themselves, (c) economic freedom, like all manifestations of human freedom, must be channelled between strong and well-designed embankments to the advantage of social order and prosperity; these require solid democratic institutions, which must be a *sine qua non* condition for admission to the international community's benefits.

5) Increasing the protection for cooperative behaviour and raising the costs of non-cooperative behaviour is a much more difficult task in the present international set-up. I cannot replicate here the long-standing and thorny debate on these issues, also because it largely falls outside my competence. However, I wish to point out where the conceptual framework otulined above may shed some light. (a) For opportunism prevention to be credible, no opportunities must be available for the offender to trade off "external interference" by means of the usual country-by-country bargaining. Therefore, building institutions capable of preventing opportunistic wars and promoting cooperative behaviour necessarily requires a system of multilateral institutions for peace based on shared means and ends, on a clear-cut delimitation of the "Non Interference Principle", and on (almost) automatic engagement rules. (b) These institutions for peace should be able to implement various forms of gradual intervention based primarily on political and

diplomatic action. (c) A controlled, regulated and strictly multilateral use of the armed force must, however, be part of the system.

These points raise all sorts of political, operational and ethical problems which cannot be ignored and which played a major role in exacerbating the international conflicts of the 1990s. As far as political terrain is concerned, if the considerations put forward at the outset are correct, then the institutions for peace will not emerge until the political pendulum of major countries swings back towards a regime of international regulation. Hence it seems we are trapped in a vicious circle. In particular, super-national institutions for peace inevitably raise the issue of the use of armed force. Elsewhere I have discussed in detail the rationale for "super-national defence" whose founding principle is precisely the community's protection of countries which wish to reject war as a means to resolve conflict (Tamborini, 1995). The critics, whether conservative or pacifist, point out that *in practice* a truly regulated and multilateral armed force can hardly exist at the international level, so that military agencies are inevitably bent to the particular interests of some major power (which means that they may be *used* or *not used* inappropriately). This is indeed a major unresolved problem in the way of institutional pacifism. Let me only add that the Serbian War has been such a disastrous epilogue to the country-by-country bargaining model of the 1990s, and it has provided such blatant proof of the inadequacy of existing civil and military agencies, that the swing of the pendulum should hopefully be not too far.

As regards the ethical terrain, on which I like to conclude, institutional pacifism partly conflicts with ethical pacifism in that the latter bans the use of armed force even as a regulated deterrent (which in fact implies that it should sometimes be used). Though I consider myself a pacifist, my personal objection is that the ethics of values, which should inform individual behaviour, cannot be detached from the ethics of responsibility, which should inform social behaviour. A peaceful world may be the result of a multitude of peaceful individuals, and we should endeavour to root human behaviour in moral principles. However, as I have recalled above, both history and the study of society reveal that moral suasion may be insufficient, and that moral behaviour needs an appropriate institutional support which should eventually include the credible deterrence of immoral behaviour. To be sure, just wars do not exist, but is peace always just?

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