



An Economic Discussion Paper:

**Violence and the Impact of Perceived Economic Wealth
and the Political Atmosphere**

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Introduction

The Second Intifada – the eruption of Palestinian violence in the year 2000 – surprised the Israeli people and government in several ways. At the time, the common perception of Israeli authorities held that years of economic growth had improved the Palestinian situation to a point where the cost of violence had become high enough to deter such a flare-up. The logic supporting this perception stated that as long as the Palestinians were experiencing economic prosperity, their natural interest would be to maintain good economic relations with Israel. This being the case, it would be in their best interests to avoid any acts of violence that might cause the economy to deteriorate on a micro or macro level. This perception, however, disregarded the deep frustration and despair that dominated Palestinian society since 1993, mainly because of the stagnation of the peace negotiations, further building and expansion of settlements, long delays at the checkpoints and daily encounters with the IDF.

Accompanying the idea that the cost of violence to the Palestinians had become too great was the belief that the private sector could control an uprising of lower income extremist factions, who face no economic costs for their actions. The groups in question may have had a low enough socioeconomic condition that the deterioration of the economy became meaningless in their eyes, but this was not considered a real threat.

These two theories acted as the foundation for policies of the State of Israel concerning the P.A from the time of the Oslo agreements until the year 2000. In September of 2000, a booming period from many economic perspectives, the theory collapsed with beginning of the Intifada. Even today, when we examine recent history, it remains unclear whether these underlying assumptions collapsed overnight or over a longer period of time. Since this topic has not been thoroughly examined yet, current policy is still based on this theory, i.e. developing the Palestinian economy is in Israel's best interest (in addition, of course, to a strong Israeli aspiration to have a neighbor and partner in the Palestinians) and therefore encouraged.

Examples that this policy-making doctrine still prevails are:

- Issuance of permits to merchants from the West Bank for the purpose of trade
- Issuance of work permits for 50,000 Palestinians from the West Bank to work in Israel and the Settlements
- Support of economic projects of other countries in the P.A by providing logistics support and cooperation on all levels
- Fostering the establishment of industrial estates in the West Bank by contributing countries (Turkey, Germany, Japan, France, etc.)

In the following pages, a new model for the relationship between economic wealth and the potential for an outbreak of violence is presented. Using the model, this paper will attempt to address the eruption of regional violence during a time of record economic prosperity (per capita GDP \$2000) and to explain at least one main variable in the relationship between violence and economic prosperity. The model is theoretical and has not been tested empirically. It was developed while observing reality and examining the relevant economic data from the last 8 years.

Definitions

- Actual Violence (AV) – The total manifested violence.
- Cost of Violence (CoV)- The potential for economic loss in the case of a continued outbreak of violence
- Critical Point- The level of economic wealth below which a society is sufficiently malcontented that the probability of violence is 100%
- Magnitude of Violence (MoV) - The size and scale of a violent act
- Political Barrier- Relations between two countries that could potentially manifest in violence, also affected by the sociopolitical environment
- Probability of Violence (PoV) - The probability of a violent eruption that is non-local and continuous. PoV can be measured by the atmosphere in the field (could be empirically tested with additional resources)
- Perceived Economic Wealth- The economic prosperity that is apparent to a population that they would consider undesirable to lose in the event of violence. Also, to what degree a population feels satisfied and fulfilled by their level of wealth.
- Threshold Point- The point during economic progress at which the PoV is falling the fastest and to the right of which (economically more favorable) the PoV asymptotically approaches the Political Barrier
- Threshold Region- The approximate level of wealth of a population at which the likelihood of an outbreak of violence changes drastically as a society passes through it.

Assumptions

- The model is generalized to a holistic population and is not specific to individuals.
- The violence addressed by this model is generalized to a large scale (not local), ongoing (continuous) outbreaks.
- PoV and MoV are affected by different factors and can therefore be postulated to be independent.
- There is a delay between the input of money or resources to an economy and the resulting increase in Perceived Economic Wealth.
- During the initial stages of an economic upturn, it takes significant aggregate improvement to perceive economic progress. This explains the increasing marginal utility of economic wealth in its effect on PoV. The same applies in reverse to during a period of economic deterioration.

Model

Prior to the outbreak of the Second Intifada, Israeli authorities and officials in the P.A ascribed to a simple model to explain the behavior of Palestinians. This model suggested that as the economic wealth of the individuals and the society in the P.A increased, they had more to lose and the cost of violence would increase. This idea that economic growth reduces the likelihood of conflict is commonplace, though it usually takes into account other variables and the understanding that such growth must also be reinforced by conflict prevention initiatives (Humphreys, 2002). When violence erupted in the year 2000, a time of peak economic prosperity, it became clear to both Israelis and Palestinians that this idea was only part of a more complex pattern of behavior.

Initially, one may think PoV and MoV are dependent because CoV rises with increased prosperity, so a rare violent outburst would be small in magnitude to minimize damages. The new model suggested in this paper treats probability of violence (PoV) and magnitude of violence (MoV) as entirely separate and independent variables. On a macro level, AV is seen as the product of PoV and MoV

$$PoV \times MoV = AV$$

and while MoV and PoV may show correlation, they are not directly related. Moreover, examining the influence of the economy (using real data) on actual violence can create a situation where PoV is overlooked because it is difficult to measure. It is important to understand that PoV cannot be calculated backwards from measuring the AV because of the great variance in the possible MoV, which likely explains the lack of literature on the topic. This model seeks to show how influencing PoV through economic action may be a mechanism for reducing overall violence, as MoV can only weakly be influenced by economic variables.

We would like to clarify the difference between PoV and MoV. PoV deals only with the probability of an outbreak of violence. PoV is affected primarily by strategic variables like the political prospects and situation (progress in peace talks, ratification of treaties, regime repressiveness, etc.) and the perceived economic wealth of the parties involved. Once violence has erupted, PoV is no longer a variable of consequence. At this point, the magnitude of the ensuing violence becomes important and MoV is the significant variable. MoV is determined by tactical factors like the real impact of violence (number of casualties, value of property destroyed, etc.), success of military operations to quell violence, and the degree of organization of the parties involved (the private population may act spontaneously if uncontrolled, cells of militant groups may act independently and impulsively, preset military responses may be initiated). Practically speaking, this idea suggests that completely different measures need to be taken to prevent violence from sparking in the first place (reduce PoV) and then to minimize violence if it begins (reduce MoV).

Factors Affecting PoV	Factors Affecting MoV
Political prospects	Organization of involved parties
Perceived economic wealth	Real impact of violence
	Military action

Table 1: Factors affecting PoV and MoV

The new model being presented (call it the PoV model), as seen in Figure 1, suggests that PoV is directly dependent on Perceived Economic Wealth. Though it varies in significant ways, this model is similar to the relationship presented relating Per Capita GDP to Probability of Observing a New Conflict (Humphreys, 2002) using a previous model for outbreak of civil war in Africa (Collier and Hoeffler, 2002).

Note first that below a certain point, which we will call the Critical Point, there is a 100% PoV; when a population is economically disadvantaged below a certain level, they are guaranteed to be violent to some extent.

As the economic situation improves, we move to the right on the graph and the PoV slowly begins to fall. This behavior can be explained by the slow realization of economic progress and the accompanying understanding that anything that has been gained may be lost if violence were to begin.

Eventually, the Economic Wealth increases enough to reach the Threshold Region and PoV begins to fall rapidly. It is in this area of economic development that the society is developed to an advanced enough state (infrastructure is developed enough to be highly functional, quality of goods available and affordable increases, recreational activities become popular) that it has a great deal to lose in the case of violence, and as a result there is a significantly decreased PoV.

In the center of the threshold region sits the threshold point. This point represents the fastest fall in PoV as well as where the plot starts to level out and asymptotically approach the political barrier. This behavior is assumed because it is impossible for the PoV to fall entirely to zero. To some extent, no matter how much Economic Wealth increases there is always a possibility of violence, however unlikely. Because of this, the political barrier theoretically always exists at some level, though it may be negligibly low during times of peace.

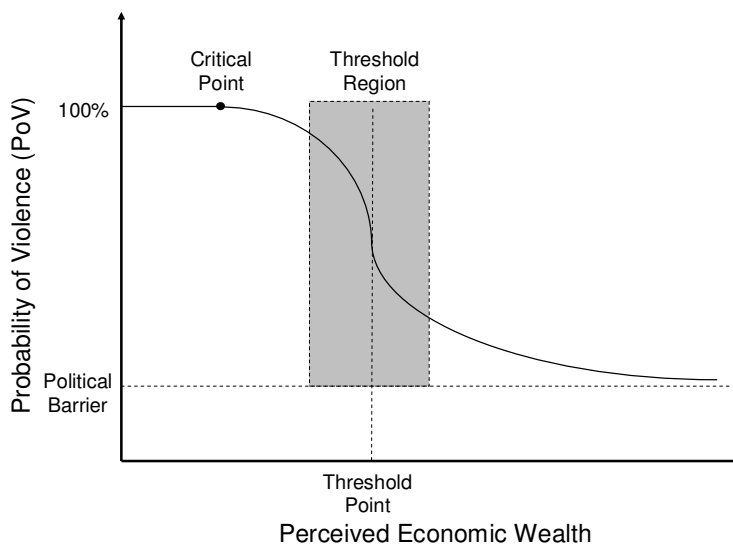


Figure 1: PoV Model

It is possible too for the political environment to influence the PoV model. As it is commonly understood, economic progress alone cannot guarantee peace; the political context should

always be considered (Brown, 2005). In times of political unrest or social tension, the Threshold Region may shift to the right, as seen in Figure 2. In these cases, there are greater tensions and so people will be more prone to violence, raising PoV. Accordingly, a higher level of Perceived Economic Wealth will be required to reach the Threshold Region where people are satisfied with their economic situation relative to their political situation. The opposite also applies: if the political environment improves, it takes less economic progress before a population reaches a level of Economic Wealth at which they are content and the Threshold Region shifts left.

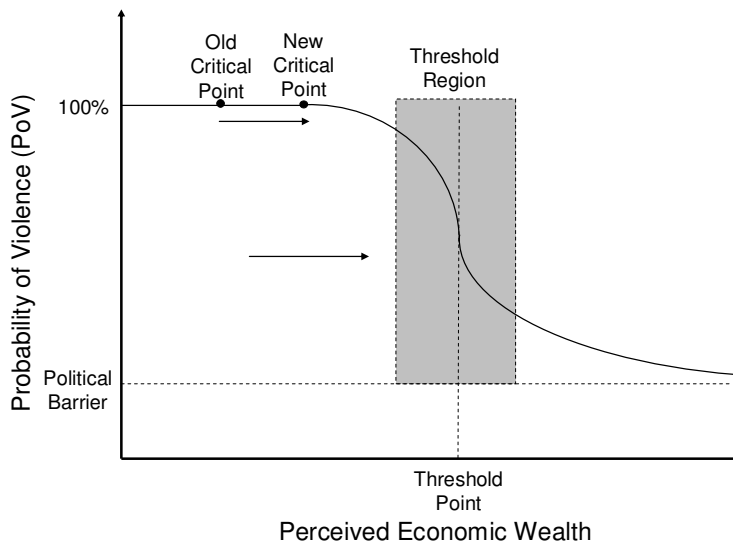


Figure 2: PoV Model, during poor sociopolitical period

Further Concerns

While we focused primarily on analyzing the impact of economics on PoV, we understand this is not the only variable affecting PoV. In particular, we understand that there is a relationship between PoV and a population's Overall Satisfaction with the conditions in which they live. Specifically, the state of rest or unrest is dictated by a combination of satisfaction with the economic circumstances and satisfaction with the political climate. For example, others have suggested that even in cases of net economic growth, discontentedness can arise from lingering economic uncertainty and unequal wealth dispersion (Fitzgerald, 1999). The overall state of satisfaction could probably be represented by

$$\text{Overall Satisfaction} = \text{Political Satisfaction} + \text{Economic Satisfaction}$$

Unfortunately, we don't understand at this point the exact nature of this relationship, or how political and economic satisfactions are dependent on one another. It is likely, though, that there is a diminishing return of the Perceived Economic Wealth versus satisfaction with the economy. For future study, we would suggest looking at the relationship between Overall Satisfaction and the PoV. While it is likely to show negative correlation, at this time we are not prepared to say exactly what shape such a graph might take.

Conclusions

The primary distinction made in this paper is the independence of PoV and MoV. AV, the most important variable to minimize, is partially dependent on both PoV and MoV, which are dependent on separate sets of variables. From this, we conclude that it is important to address PoV as a separate issue when attempting to minimize violence. This leads us to the suggestion that separate measures be taken to strategically control – with the goal of reducing – PoV in order to minimize AV. Once violence erupts, a separate set of actions, exclusive of those taken to avoid the initial outbreak, needs to be executed in order to minimize MoV and in turn minimize AV.

To minimize PoV, it is important to be aware of both the political and economic environment of a population. By investing in economic development alone it is unlikely we can effectively minimize the PoV because the threshold region can still shift. To completely regulate the situation, it is necessary to have both a high level of perceived economic wealth as well as an atmosphere of relative political calm or optimism. When this is the case, a population will exist at a state to the right of the threshold region as close as possible to the political barrier, the minimum possible PoV.

Discussion

The significance of this model is that if the position of the threshold region could have been identified in the year 2000, the likelihood of the Intifada could have been predicted and possibly prevented. This could have been accomplished by initiating actions in other domains, rather than focusing primarily on economic growth. We assume that in the year 2000 the Threshold Region, that had held constant during the years since the 1993 Oslo agreement (the interim agreements), had moved to the right without our knowledge and has stayed there since.

Among the likely reasons for this shift was the planned termination of the Jericho and Gaza (1994) agreements in 1999, five years after their inception. At the time, a final status agreement was supposed to have been agreed upon, but this obligation was not fulfilled and the term of the agreements was not extended. On the ground, this manifested as an increasing intensity of complaints by Palestinians about the political situation and conditions in the Territories and at the borders. As our model suggests, this stagnation of political prospects resulted in the rightward movement of the threshold.

At the time of the eruption, the relationship between PoV and Perceived Economic Wealth was not understood, nor was the difference between PoV and MoV or the variables that influenced them. As a result of this misunderstanding, Israeli and P.A officials focused on continuing to promote trade and economic progress in a period of already great prosperity in the P.A. Had they been aware of what we suggest with this new model, that the threshold region was rapidly shifting right despite the economic conditions, they could have addressed the political situation. Instead, the parties ignored the need to take a drastic action, like extending the term of the interim agreement until a final status agreement had been reached. Had they realized what was happening, parties could have taken the necessary steps and possibly avoided or at least minimized the damages and bloodshed caused by the Second Intifada.

Today, we can reflect on our situation with respect to the model outlined in this paper and question perhaps, is this the beginning of a new phase in bilateral relations?

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