THE TWO SIDES OF THE FORCE:
ECONOMIC ANALYSIS OF PRODUCTION AND APPROPRIATION*

There are two ways for *homo economicus* to make a living. He can produce useful goods and services for exchange with other producers –the way of production and exchange– and/or he can try to appropriate a larger slice of whatever others produce –the way of appropriation and conflict. Until the 1960s, economics was almost exclusively centered on analyzing production and exchange for which it was enough to focus only on the bright side of *homo economicus*, that is, on his propensity to exchange for what he wants. Since then, interest in analyzing appropriation and conflict has been increasing, exposing his dark side –that is, his inclination to grab what he wants. More recently, a synthesis of both analyses has been driving the research on the governance of private and public transactions as well as the growing consensus that almost all transactions need governance (in the sense of a restraining influence over the parties to transactions). Although much remains to be done, a meaningful analysis of governance assumes the dark side of self-interest and deals explicitly with the costs of appropriation and conflict.

This section contains three papers that illustrate progress in the economic analysis of appropriation and conflict. First, Herschel Grossman looks at recurring distributional disputes between social groups to determine the conditions for their settlement through a self-enforcing constitution or for them to become never-ending civil conflicts. Second, Andrés Solimano discusses the threat of huge losses due to civil conflict and terrorism with special reference to Latin America. Given the limits to preventing the losses, Solimano looks at the complementarities between private and public insurance to share them. Finally, Edgardo Barandiarán highlights the relevance of Aoki’s comparative analysis to explain the institutional arrangements to protect property from autocrats (Olson’s stationary bandits) and their implications for the emergence of the democratic state.

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*Keywords:* Conflict; Appropriation; Constitution; Insurance; State.

*JEL Classification:* D74, H1