THE EVOLVING ECONOMICS OF WAR AND PEACE

James K. Galbraith
Lyndon B. Johnson School of Public Affairs, the University of Texas at Austin, USA; Senior Scholar, Jerome Levy Economics Institute; and National Chairman, Economists Allied for Arms Reduction, USA

Keywords: Inequality, Globalization, War.

Contents

1. Introduction
2. Perspectives on the Economic Origins of Conflict
3. Wars of Communist Succession and Capitalist Decline
4. Conclusions and Prospects

Biographical Sketch

Summary

Many hoped that the end of the Cold War and economic globalization would presage a period of worldwide peace, security, and development. Instead, the defining economic characteristics of conflict changed, as they have done periodically, and zones of endemic violence have developed in some of the formerly communist regions and throughout the Third World. The attacks of September 11, 2001, on the United States mobilized the world’s hegemonic power for permanent involvement in global conflict. These developments gravely undermine confidence in the capacity of world institutions to preserve peace or to promote economic justice and development, and call attention to the need for new intellectual frameworks and institutional approaches in this area.

1. Introduction

Economics and conflict have a very long relationship, particularly insofar as wars are fought for material gain. It is the form of gain that changes with economic conceptions. In the mercantilist period, the goal of warfare was the acquisition of treasure. In the industrial and imperial age, the goal became the control of land and raw materials and the delineation of exclusive trading zones. In the twentieth century wars were fought, often by proxy, between competing economic systems; they were in part contests between adversarial networks of financial control.

Financial capitalism triumphed in the Cold War, and set about establishing its unchallenged legitimacy. As it did, wars of national liberation virtually disappeared.1 Contrary, however, to many hopes, the peace that followed has not proved to be a period of stable economic development. On the contrary, conflicts have spread: through the former Yugoslavia, Chechnya, and elsewhere in the Caucasus, the Persian Gulf, South Asia, including Afghanistan, the Philippines, sub-Saharan Africa, and Colombia, not to mention the festering violence of Israel and Palestine.

The nature of these conflicts is still open to interpretation. Many see therein the
emergence—or re-emergence—after centuries of non-economic causes, especially ethnicity in the former Yugoslavia and religion in the Middle East. Others doubt this interpretation: particularly insofar as Yugoslavs share a single ethnicity and many parties to conflict in the Middle East share a single religion. Skeptics see struggles for land and power masked in ethnic and religious terms, as well as post-Cold War mopping-up operations and the age-old imperial struggle for resources, notably oil. A third possibility is functionless conflict, driven by arms contractors rather than by strategic objectives.\(^2\)

The attacks on the United States on September 11 2001 mobilized the world’s remaining great power to participate more or less openly in anti-terrorist operations around the world. The present outlook is for war on a quasi-permanent basis. Indeed the construction of a “war on terror” has the effect of debasing the concept of peace, of making state violence essentially endemic. The US administration, itself closely allied with oil interests and military contractors, appears to have committed itself to the pursuit of a sequence of armed conflicts, with no end in view and no clear criterion for military success. This is in spite of having achieved a clear-cut victory in an initial campaign against the Afghanistan base of the September 11 attackers.

It therefore seems plain now that the world has entered a dangerous phase of increasingly ill-defined and perhaps chaotic violence. As this becomes coupled with the spread of weapons of mass destruction, the prospects for a breakdown in the world order are growing. In this context, the redevelopment of an effective framework for peacekeeping becomes a central and compelling task.

2. Perspectives on the Economic Origins of Conflict

Under mercantilism the purpose of warfare was identical to that of trade: to aid the sovereign in the acquisition of treasure. The greatest fortune defined the greatest empire. Thus, the high purpose of the Spanish conquest was to plunder the Aztec and Inca realms of their gold, silver, and precious stones. Territories so added to the empire were, in general, weakly defended. Similarly, the purpose of Sir Francis Drake in the service of Queen Elizabeth I was to plunder the Spanish galleons on their way home. (As John Maynard Keynes estimated, the booty returned in the \textit{Golden Hind}, invested thereafter at prevailing rates of interest, could account, by 1914, to the entire external capital holdings of the British Empire at that time.) The constraint on the conduct of war was the cost of waging it. Meeting the costs of war—and in particular assuring supplies of naval timber and other essential materiel—became an important consideration in the early expansion of the British Empire, both to North America and to the Antipodes.

The commercial and then the industrial revolutions transformed the goals of warfare; now markets and material resources came to the center of things. The British sought sugar and rum in the Caribbean, tobacco in Virginia, and (later) markets for textiles in India; the French sought furs in Canada; the Dutch campaigned for control of the spice trade, the Belgians raped the Congo for ivory and rubber; all sides raided Africa for slaves. In the twentieth century European wars centered on the regions of coal and steel, while in the period 1937–45 the Japanese sought land in China. German ambitions to their east were for land and for oil; the attacks on France and the Low Countries were
intended mainly to prevent a Western Front from hindering progress to the east.

The Second World War was eventually decided by the balance of industrial power. Supplies of uranium and heavy water took on strategic significance as the war progressed. Eventually, the uncontested material supremacy, and capacity for industrial mobilization, of North America proved decisive, aided as it was by the immigration of scientific talent from Europe.

After the end of the Second World War, oil emerged as the principal strategic good. However, the principal conflict was not over resources, but rather between two systems. Communism and capitalism represented not merely alternative forms of social and political organization, but also competing spheres of financial control. The two systems were each substantially large and wealthy enough to be self-sufficient. The Cold War was therefore not particularly over resources though it was sometimes viewed in those terms by observers. Nor was it principally a contest of ideologies; elements on both sides came to accept the principle of coexistence with the other. Rather the central issue from the beginning (e.g. in the Marshall Plan) was spheres of financial influence and of operation for the banks and multinational corporations of the West. These were largely kept out of the socialist countries until, in the end, those systems were dissolved, at which point they made a rapid, invasive, and destabilizing appearance.

Militarily, the Cold War was a long thermonuclear stalemate, albeit punctuated by full-scale wars in Korea and Vietnam, and by lesser conflicts in many other regions. On the nuclear side, the Cold War was characterized in its early days by strategic instability that owed largely to the unilateral advantage gained early on by the United States, first in bombs, then in strategic bombers, and finally in intercontinental ballistic missiles. As late as 1967 the USSR possessed essentially no weapons that could reach US soil reliably. After that time the Soviets did deploy a missile force and an enduring strategic balance developed, relatively impervious to improvements in technology or increases in stockpiles. This permitted the evolution of a comprehensive framework of strategic arms limitation and reduction. This particular period of stability also came to an end with the breakup of the Soviet Union and the rise to power, in the United States, of constituencies committed to the concept of nuclear security through missile defense.

Since the end of the Cold War new system conflicts have emerged, in particular as between Islamic and Western worlds, with control of oil as a background theme. However, unlike the East-West confrontation, the economic institutions of the Islamic world are, with only a few exceptions (notably, Iran and Iraq), deeply intertwined with those of the industrial West. Thus, the conflicts have an internecine character: they involve non-state actors and unconventional methods and weapons. There are correspondingly few regions in the world today where nation-states face off along hostile frontiers. Of these, Korea remains as a non-volatile throwback to the Cold War period, while the most dangerous is surely South Asia, where India and Pakistan face each other while pursuing a smoldering battle over Kashmir. The complexities of that struggle defy categorization, for they subsume irredentism, religious conflict, great power struggle, and a volatile nuclear confrontation in a single case.
2.1. Conflicts Within States

As in wars between states, so in conflicts within them: economic issues are rarely far below the surface. In the pre-industrial period, the struggle for state power was essentially over the control of fortunes, particularly that granted by the power to tax. Struggles for state power were generally conducted at first by baronial rebellion. Later, after the consolidation of coercive power into national military forces, there emerged the means of the coup d’état, the native form of insurrection by soldiers.

With commerce came the rise of the bourgeoisie, as Marx famously saw; with industrialism there came the prospect of political revolution along class lines. The bourgeoisie overthrew monarchical states in a series of revolutions, beginning with the American and French, and sweeping through Europe in the nineteenth century. Working-class revolutions were confined to the periphery of the developed world: Russia, China, Vietnam. They occurred only in countries devastated by long wars, and in China and Vietnam they were led as much by the peasantry as by the industrial working class. In the case of Cuba in 1959, as in Nicaragua twenty years later, the revolution came against a corrupt neo-colonial government in an agrarian land. Whether these were, in fact, working-class revolutions in the strict sense, as opposed to military successes of an insurrectionary elite, remains an interesting question of historical interpretation.

Counter-revolution came to define political violence in the Cold War. Populist, progressive, or socialist governments met this fate in Guatemala and Iran in the 1950s; in the Congo, Brazil, Greece, and Indonesia in the 1960s; in Argentina, Chile, and countless other places in the 1970s, and in Grenada and Nicaragua in the 1980s. In all cases the United States provided support for counter-revolutionary activity.

In the post-Cold War period, the class-wise delineation of internal political violence seems to have declined. In its place, many argue, religious fanaticism has become a central source of continuing conflict. But as in the case of state action, this interpretation is open to question. The same conflicts are typically also interpretable as a question of political control over disputed territory. Examples range from Palestine to Ireland, Kashmir, Chechnya, Korea, and Taiwan, and even Saudi Arabia. None, however, except the last, involve struggles over treasure, material resources, or a redistribution of power along class lines. Wars over resources remain prevalent, however, in Africa and in parts of South America, as well as Laos, Thailand, and Myanmar (Burma) in the mid-twentieth century, where entire economies of violence developed, with armies fed and maintained on the traffic in diamonds, opium, or cocaine. In these cases, warfare is an extreme example of the black economy, and like the black economy a reflection of failure in the processes of economic and political development.

The complexity of cases complicates the framing of rules for the search for peace. Class conflicts can, as history demonstrates, become subsumed by democratic institutions, leading to the more-or-less peaceful mediation of internal economic conflicts, and indeed to the declining importance of class as a source of conflict. But this is only true so long as all sides accept the legitimacy of the mediating process. Where class issues are intermingled with those of religion and ethnicity—as notably in Northern Ireland,
for the case of religion, or Zimbabwe, for the case of race—the cross-currents can undermine the capacity to accept the good faith of the opposing side, and so make conflict intractable.

Between nations, military deterrence—including nuclear deterrence—has kept the peace for long periods where mediating institutions were unable to do so. However, deterrence is predicated on a balance of forces between the opposing sides, and such a balance is usually only maintained over long periods between countries of equal economic achievement. For unequal countries, the institutions that exist to mediate distributional conflicts across national lines remain militarily weak. There is, nevertheless, a strong taboo under the United Nations system against the use of overt force to resolve economic conflicts, as, for instance, Iraq discovered following its invasion of Kuwait in 1991. Peace is possible where conflicts and injustices are mainly economic. And the same is true within countries, where the rules of engagement across class lines can be enforced by systems of police and courts whose acceptance by the population can be earned by fair and impartial dealing.

On the other hand, in a “clash of civilizations” there can be by definition no framework of peaceful coexistence, no effective deterrence, no system of overarching and stabilizing legitimacy. Likewise though there can be reconciliation with a revolutionary, there can, by definition, be none with a terrorist. Peace with terrorists requires redefining the terrorist as something else—freedom fighter, for instance—a transformation often seen in practice, but whose possibility cannot be admitted beforehand. The construction and representation of the opposition thus becomes tantamount to setting the terms of the ensuing conflict: a point that takes on special significance when sovereign nations come to be labeled an “axis of evil” by other sovereign nations. War is implicit in such formulations; they lie outside the scope of a framework of peaceful settlement.

3. Wars of Communist Succession and Capitalist Decline

The Vietnam War was the last full war, though not the final battle, between communism and capitalism. In the 1980s, the painful revolutionary battles continued in Angola and Mozambique, the contra war was fought by proxy in Nicaragua, as was the anti-Soviet war in Afghanistan. However the governments in question were not strictly speaking communist and the forces arrayed against them were substantially native, covertly assisted by outside powers. Meanwhile, the larger Soviet Empire decayed with remarkable grace, eventually producing the collapse of communist regimes in eastern Europe and then the breakup of the Soviet Union itself; events that occurred at small \textit{ex ante} human cost.

What followed was, however, not peace, but an acceleration of conflicts. These occurred in the vacuum left by communism, and also in regions afflicted by economic failure under free market regimes. Thus the wars of the 1990s may be broadly classed in two categories: wars of communist succession and wars of capitalist decline.
3.1. Wars of Communist Succession

Wars of communist succession began with the breakup of Yugoslavia and had a straightforward cause: the desire of the presiding leadership to maintain power in each of the three largest post-Yugoslav republics: Serbia, Croatia, and Bosnia. The ethnic crimes that came to define those wars had, at their core, a political motivation. And the human rights concerns generated by those crimes brought NATO and specifically US intervention, leading to the establishment of economic and military protectorates, first in Bosnia and then in Kosovo. Meanwhile, the peaceful breakup of the Soviet Union was followed by the attempted secession of Chechnya from Russia, as well as separatist conflicts in numerous other new states, including *inter alia* Georgia, Azerbaijan, and Tajikistan.

While the above makes for a satisfying narrative in certain respects, it overlooks telling facts; in particular the economic dimension. What caused the breakup of Yugoslavia in the first place? It was, in part, the desire of one republic, that of Slovenia, to separate from a failing economic entity for which the Slovenes did not wish to share responsibility. And the economic failure itself was in significant measure due to the unwillingness of the Western financial powers to assist Yugoslav economic transition on terms acceptable to Yugoslav civil society. Debt and financial crisis preceded the breakup of the country. Later on, in the wars’ aftermath the protectorates of Bosnia and Kosovo were enjoined to operate on strict free-market principles, effectively precluding the creation of state mechanisms in support of industrial development.

3.2. Wars of Capitalist Decline

Wars of capitalist decline characterize those regions of the world where global economic forces have not produced broadly-based prosperity and sustainable economic growth. In Colombia, where large regions were ceded to a rebellion fueled in part by the coca trade, as indeed are the paramilitaries on the other side of the struggle. In large parts of sub-Saharan Africa, trade in diamonds and other contraband is the source of armed power. And in the Middle East—apart from the historic struggle over Palestine—the underlying difficulty is the failure of oil states to generate sustained development and a stable political order, apart perhaps from the revolutionary achievement since 1979 in Iran. Oil is an industry requiring little direct wage labor, and the development of an equitable oil economy with a sustainable future (as in Norway, but perhaps nowhere else) requires a highly-developed welfare state in a zone of peace.

In the Middle East there emerged instead a pan-Arab dual economy, with its lower element consisting of politically disenfranchised economic migrants, speaking versions of a common language and sharing in many cases a deep alienation from the governments of their region and the powers of the larger world. This proved a fertile terrain for the development of Al Qaeda, an international network of militants with, eventually, a base in Afghanistan. Following the Gulf War, continued US military presence on Saudi soil provided a focus for rebellion. It was Al Qaeda’s repeated attacks on US targets, including in New York, Saudi Arabia, East Africa, Yemen, and, ultimately, New York again and Washington on September 11 2001, that precipitated overt US involvement in the new wars of capitalist decline.
3.3. Characteristics of War after the Cold War

US involvement in the wars of the post-Cold War era has taken on a distinct character, reflecting the post-industrial and technology-intensive character of the US economy. From Vietnam forward, but especially since the Gulf War of 1991, US emphasis has been on exploiting overpowering advantages in aerial attack and bombardment, preferably with weapons delivered from altitude and a safe distance. The Kosovo campaign of 1999 was conducted entirely from the air, and the Afghan war of 2001–2 substantially so.

Repeated experience with air war makes possible certain generalizations. First, air power is ineffective against military targets unless they are either caught in the open or immobilized in fixed positions that can be located: as they were at the exits from Kuwait City in 1991 or on the plains north of Kabul in late 2001, but not in Kosovo in 1999. Second, the use of air power against targets that are primarily civilian—as in Iraq and Serbia—can achieve the political results desired if the bombardment is relentless and destructive enough. However, there is no such thing as a foolproof bombing campaign: errors of targeting, mechanical failures, and failures of intelligence are all inevitable, particularly where the air force seeks to deploy its resources cost-effectively and so to deliver certain quantities of ordnance per unit time. This combination of realities opens up the temptation to direct bombardment against fixed political and economic targets. This, as settled strategy, cannot fail to cause numberless civilian casualties and to alienate world opinion, as well as to violate the laws of international warfare.

Further, and perhaps most important, as the experience of Iraq has demonstrated after a dozen years, air war against civilian targets can have long-term degrading effects on civilian and economic life, diminishing the industrial capacity, civilian infrastructure, public health, education systems, and other essential features of modern life. In agrarian societies, similar long-term degradation is due to the lingering presence of unexploded ordnance and land mines. And there are new hazards, such as toxic wastes and the residue of depleted uranium munitions, whose health consequences remain only vaguely determined at the present time.

The general conclusion is that warfare in both the formerly communist and the declining capitalist regions is bound up with economic disintegration, raising the relative value of those (natural) resources that are not easily destroyed, and meanwhile destroying the fundamentals of production based on the division of labor. Warfare and internal violence also undermine the willingness of external investors to participate in the development process. Only countries that are able to provide a climate of enduring security—zones of peace—can reasonably hope to build truly developed economies in the long run.

In the wake of an easy military victory over the Taliban regime in Afghanistan—a victory that owed much to the effect of air power on fixed and exposed military positions, as noted above—the US administration moved to extend, rather than retract, the reach of its military interventions. In particular the United States decided to increase deployments of special forces units for counter-insurgency as well as training purposes.
Somalia, Yemen, and the Philippines became potential or actual venues, while Iraq, Iran, and North Korea were put on notice that they might become targets eventually, though obviously of larger operations that would have to involve air power and main battle forces. In many of these cases the link to violence against the United States remains undemonstrated: in that of North Korea it was non-existent.

The administration thus refrained from celebrating its victory, preferring instead to treat the conflict as in its early stages and what might otherwise have been regarded as mopping up operations as though they were more demanding than the actual war. Military budget requests in the United States expanded sharply, as the government embarked on a fifty-year buildup of weapons systems. Whether and to what degree the US administration intends to pursue its rhetoric to the end remains at present writing to be seen. But it is not difficult to imagine events—additional attacks by remnants of the Al Qaeda network or groups resembling them—that would precipitate further US military actions on an even more substantial scale.

The future thus appears to be volatile. Whatever the outcomes of prospective US actions in combating terror or in dismantling threatening regimes, their success in the medium- and long-run will depend on whether they are followed by measures that restore the prerequisite of enduring security. This is necessary in order for development to recommence, and for legitimating democratic governments to be established. Unfortunately, there is no planning underway to assure such an outcome to the unfolding world drama.

4. Conclusions and Prospects

No short summary can do justice to the complexity of human violence between states and within them. However, there is a long tradition of analyzing warfare as substantially the product of economic forces, and it is too early in the new phase of endemic, chaotic post-Cold War violence to assert that non-economic forces will rule the future in this regard. Religion in particular is not per se a wellspring of violence; more commonly religious doctrine serves as the mobilizing agent, bringing recruits to causes that have underlying political and economic objectives. Those objectives, in turn, become salient when alternatives are scarce. Prosperous industrial nations with strong trading networks seem to have learned how to avoid war with each other, as well as to police major forms of internal violence. The same cannot be said for most of the rest of the world, and therefore as the communist development project collapsed and the capitalist development project ran into a prolonged period of crisis, it should have been expected that violence would escalate.

Given the scale of globalization, and the dependence of the industrial nations on resources and labor power originating in the developing world, it becomes unavoidable that violence originating in Third World struggles would come to be felt and experienced in the industrial countries. Europeans have long been familiar with this phenomenon; North Americans much less so, until very recently. Partly for this reason, and partly because of the political orientation of their governments, North Americans have been inclined to view the challenge of world violence as one that must be met mainly in military terms. Europeans tend to be aware that such approaches, while often
successful in the short-run, do not generally yield lasting peace.

If this analysis is correct, it follows that the restoration of a climate of peace and stability—such as indeed characterized much of the world in the period of high development from 1945 through the early 1970s—requires the re-creation of stable and effective mechanisms for economic development, while at the same time prospects for development hinge on progress toward security, the reduction of violence, and demilitarization. None of these objectives can be served by the essentially arbitrary and inaccurate characterization of modern conflicts as atavistically religious or fanatical in character. Such a construction excludes the pursuit of peace as a strategy, and creates conditions under which the reach of violence and insecurity is continually extended. When combined with the reach of modern air power and the long-lasting environmental effects of modern combat, such is a formula for the economic de-development of much of the world.

It is by no means clear, of course, that the creation of new institutions for sustainable development would suffice to inaugurate a new era of comparative stability. Such institutions are fragile, especially in their early days. They are vulnerable to those who prefer violent means. Progress toward the peaceful resolution of economic conflicts is easily disrupted by violent acts, and from time to time military counter-measures are necessary. But there is experience, notably in Europe since 1945, in the development of the United Nations system for stabilizing international frontiers, and in some developing countries, that the institutions for peaceful and reasonably democratic development can be built and defended. To say that there is no alternative to violence is not only a counsel of despair, but also historically incorrect.

Biographical Sketch

James K. Galbraith is Professor at the Lyndon B. Johnson School of Public Affairs and at the Department of Government, the University of Texas at Austin. He is presently national chairman of Economists Allied for Arms Reduction (ECAAR), an international association of professional economists concerned with peace and security issues. He is also a Senior Scholar with the Jerome Levy Economics Institute and Director of the University of Texas Inequality Project. Professor Galbraith holds degrees from Harvard and Yale (Ph.D. in Economics, 1981). He studied economics as a Marshall Scholar at King’s College, Cambridge in 1974–5, and then served on the staff of the US Congress, including as Executive Director of the Joint Economic Committee in 1981–2. He was a guest scholar at the Brookings Institution in 1985. His book, *Created Unequal: The Crisis in American Pay*, was reissued in paperback in 2000 by the University of Chicago Press. *Inequality and Industrial Change: A Global View*, co-edited with Maureen Berner, was published in 2001 by Cambridge University Press.

Visit the University of Texas Inequality Project (UTIP) website at http://utip.gov.utexas.edu for current research and an archive of published writings, and the ECAAR website at www.ecaar.org for the work of ECAAR.