

ECONOMICS AS AN INSTRUMENT OF PEACE OR CAUSE OF WAR

R. Rotte

Political Science and International Relations, University of Technology Aachen, Germany

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Summary

There are two basic ways in which economics may contribute to international peace. First, the Liberal Peace argument claims that increasing international interdependence through trade and finance raises the potential costs of war to a degree that makes warfare an irrational option of foreign policy. Moreover, it promotes international dialogue and economic growth which contributes to democratization and the empirically founded idea of the Democratic Peace. A second possibility is the use of superior economic and military power to harm an actual or potential aggressor's economy and make him stop preparing or waging war, e.g. by blockade or economic sanctions. This article provides a short, critical overview of the theoretical as well as the empirical and historical foundations and problems of these two common views of the economics-peace relationship.

1. Introduction

Economic conditions and interests of states or societies play a key role in domestic and international politics. They are therefore also important issues in the discussion about war and peace in the international system. The basic question is whether economics provides a

promising tool for avoiding war, or whether competition for resources and markets may result in an increased likelihood of war. As early as in the fifth century BC, Thucydides described the economic motives of war in ancient Greece in his famous “Peloponnesian War”. According to him, the major causes of warfare were the need of scarce arable land, pillage, and control of important trading lines and raw materials, e.g. silver mines.

Following the increase of international trade and financial transfers in modern times, however, there has been a growing scepticism concerning the economic wisdom of war. Liberal economists turned against the idea that war might be a good business, and advocated the promotion of peace by intensified international economic links among the states. Although history has shown that enlightened economic self-interest was not always able to contribute to the ultimate avoidance of war, it is basically the same idea of international interdependence promoting international peace which lies behind the currently evolving “paradigm” of the Liberal Peace. Based on mainstream economics, the Liberal Peace has become a benchmark approach to the theory and practice of international relations since the 1980s, especially as far as academic political science/international relations in the U.S.A. and actual policy of western governments are concerned.

This article provides a short overview of the Liberal Peace theory, its empirical foundations, and its criticism. Moreover, it takes a look at the accountability of economic instruments as a means to enforce peace by an economically superior country or group of countries, e.g. within the framework of the United Nations or of regional organizations, like the Organization for Security and Cooperation in Europe, the African Union, or the Organization of American States”.

2. The Liberal Peace

2.1. Traditional Economic Theory

Traditional liberal economics is straightforward on the issue of war and peace. According to David Ricardo, for example, international trade creates wealth for all participants. As a consequence, individuals interested in maintaining and improving their wealth will turn against war which would cut trade links and endanger its foundations. Moreover, as a result of economic internationalization, rational agents become more open-minded and cosmopolitan, and will be less prepared to follow nationalist and chauvinist policies. Building on liberal theory, Immanuel Kant, in his “Perpetual Peace” considered opening societies for international trade as a fundamental instrument of promoting international peace.

During the nineteenth century, and especially in the years before the outbreak of the Great War in 1914, this attitude was refined and found its best known advocate in Norman Angell and his “Great Illusion”. In this book, he explains that warfare and its preparation is economically futile and thus irrational. Not only does war (between greater powers) lead to heavy damage in assets and property in all participating countries, but also to breakdown of the international financial system and of national economies in total. Economic gains through victory are impossible because the winning side lacks the know-how of exploiting the conquered areas (especially colonies), incorporates competing producers into its own tariff area, and depends on the successful performance of the vanquished society, which

forbids massive expropriation or taxes. Moreover, the “liberal pacifists” hinted at the danger of inflation, the waste of resources for hardly productive armaments, and the disadvantages in economic competitiveness of massively arming (i.e. high-tax) countries vis-à-vis less militarized states.

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Biographical Sketch

Ralph Rotte is currently professor for political science and international relations at RWTH Aachen University, Germany. He studied political science, international relations, geography, economics and econometrics at the University of Munich and the Technical University of Munich, Germany. In 1991 he graduated in political science (MA), in 1993 in economics (MA) and received a doctoral degree in political science from the University of the German Armed Forces Munich in 1995. From 1993 to 1998 he was a research associate at the Economics Department of the University of Munich, and from 1997 to 2001 a lecturer for international relations at the University of the German Armed Forces Munich. From 2000 to 2001 he served as a senior researcher for international political economy and economic policy at the Academy of Politics and Contemporary History—a think tank of the Hanns Seidel Foundation, Munich. He was a fellow of the German Science Foundation from 1999 to 2000, and a research affiliate of the Centre for Economic Policy Research, London from 1997 to 2001. His research interests include international relations theory and history, conflict studies and political economy. His publications include books and articles in international journals like *Review of Development Economics*, *Journal of Applied Econometrics*, *War in History*, *European Journal of International Relations*, *Public Choice*, *Journal of Conflict Resolution*, *International Migration Review*, *Journal of Population Economics*, *Paedagogica Historica*, and *Defence and Peace Economics*.