

## WAR, PEACE, AND ECONOMISTS

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### Summary

Since the beginnings of economic science, economists have dealt with war and peace issues, though usually as a theme within a larger study. Only a few books have been entirely devoted to these themes. The great diversity of economists' analyses of defense, war and peace therefore calls for classification. It is now possible to distinguish three main approaches in the history of the economic thought, which still obtain today:

- the theme of the pacifying economy ;
- theories studying the link between foreign policy and economic policy issues ;
- analyses of capitalism as a specific system in which militarism exerts a specific role on social relations.

### 1. Introduction

There is a wealth of literature on the subject of military conflict. Such conflicts are crucial to humanity, not least because of the human and economic losses they engender. Issues of war and peace have commanded the attention of prominent and creative thinkers from a variety of disciplines: literature, philosophy, sociology, political science, and international relations. Curiously, there is no recognized benchmark contribution on this subject from the field of economics. (One exception could be *Guerre et Paix*, written by J. Proudhon, but this book may well be considered as dealing with politics

rather than economics.) Perhaps the closest is *The Economic Consequences of the Peace* by J.M. Keynes, which deals exclusively with post-war economic policy issues rather than military conflict per se. When political economy became economics, it rejected what it did not master. Moreover, it did so through simplistic notions such as the non-economic character of wars or their irrationality. Orthodox economic analysis is based on the conviction that governments must withdraw and let individuals act according to their own rationales. Peace should then automatically follow. This ignores, of course, the collective action problem. Two fundamental hypotheses have been consistently applied by economists: (a) Peace is the normal state of affairs, and therefore wars can be excluded from analytical investigation; and (b) Economic development is the fundamental condition required for an enduring peace.

However, dominant theoretical currents have always led to opposing theories, and of the several heterodox theories developed, most of them have been influenced by philosophies recognizing the role of violence in history and integrating it into their field of study. At the same time, while there is a scarcity of thorough economic analyses of conflict that specifically work on war and peace issues, virtually all great economists have dealt with these issues. Economic theories do not have the same conceptions of defense, war and peace. For the most part, the military is considered to be the source and sentinel for national security and defense. However, it is clear that the control of strategic goods or the use of economic weapons also present important obligations and opportunities for national security. In some respects, foreign economic policy measures aiming at promoting national interests (commercial barriers for example) may also affect defense objectives. A clear distinction between war and peace situations may then appear problematic, because of the probability of warlike behaviors. Some economists even link security issues with problems of international commercial competition, as they present national security and economic power as interrelated. (An early important writing on this topic was Albert Hirschman's analysis of the foreign economic policy of the Third Reich as it was subjugated to the political goals of expanding the national power of Germany.) Others consider that security is a strictly political issue. Another difficulty for the delimitation of our subject is that the distinction between the state of peace and the one of war is not always clear, because of phenomena such as arms races.

This division may be linked to one existing on the methodological level between two distinct currents. On the one hand, "pure" economic theory presents peace as the normal situation and excludes defense from the analysis. This positivist analysis rests on the idea that immutable laws govern the function of the economic system and that modern societies are built on science. But this dominant theory has been attacked on its non-operational concepts, some of which are not susceptible to verification. Some economists contesting this "scientism" have based their theories on the observation of economic facts and on economic history (List, the German historical school) and have therefore dealt with interstate power issues. Others have integrated the tools of other disciplines, such as sociology (Veblen), notably to explain war in capitalist economies. This rejection of scientism has also contributed to the development of a more "pragmatic" approach of applied economics with, among other subjects, studies advising governments on the management of the war and post-war economy.

Historically, a first rupture opposed Mercantilist analyses to Classical ones. The

economy was an instrument of power in the hands of politicians. Indeed it was thought that the development of economic interdependencies through the market, emerging from states' actions, should ineluctably lead to international peace. Following this logic, Neo-classical economists of the end of the 19th century were preoccupied with constructing a pure economic theory exclusively centered on the explanation of economic mechanisms, without any political consideration. With these two corpuses of doctrine, supporting or contesting the theme of international peace through economic development has constituted the main angle of economists' study of international relations.

The dichotomy between the two conceptions of the warlike or pacifying nature of the economy is based on an original perspective of international relations that is still valid today. Nevertheless, the separation has been softened by several theoretical gaps beyond frontiers, even leading to the forming of true heterodoxies. On each theoretical side, the basic position on the links between national power and economic development, and their respective prerogatives, has been qualified. F. List's theory even directly criticized the cosmopolitan liberal optimism. Another perspective appearing during the nineteenth century came from an understanding of capitalism as a specific economic system, liable to be challenged or replaced by alternative systems. The debate, started at the end of the 18th century, has been partially obscured by the analysis of militarism's role in capitalism's survival, notably with the Marxist analyses but also with critics of those analyses such as Veblen or Schumpeter, who introduced a sociological perspective in their economic analyses. Other economists defending the market system, such as Keynes, have also tried to develop a political economy interested both in the scientific process and in the practical considerations of the governments of that time. A third interpretation of defense economics has developed since World War I: the theoretical analysis of the concrete economic problems raised by war and post-war situations on the one hand and by the high level of military expenditures in Western countries on the other. Indeed, the debate on the warlike or pacifying nature of the economy continues with questions about globalization and economic war.

Three main economic approaches of defense and security issues may be distinguished:

- Some economists have based their analyses of international relations on the normative idea that the economy is a factor for peace. It was the perspective first of the Physiocrats, then of Classical and Liberal economists, who have widely used the argument of international peace to justify free trade and condemn military expenditures. The exclusion of defense and security issues from the field of "pure" economic analysis is a preliminary condition of revealing the "true" laws governing the economy.
- Other economists have criticized Liberal "dogmas" and insisted on the interrelation between foreign policy's considerations and those of economic policy. The links between power and economy have been underlined, first by the Mercantilists, then by List, the Historical School and after World War II by some heterodox economic analyses. The formulation of mathematical models using economic methods to explain state strategies has also contributed to the acknowledgment by economists of the close links between economic and strategic considerations within governments. In this fashion economic analysis was able to integrate interstate power relations in its field of analysis.

- A third approach has completely integrated defense and military issues into the analysis of the market economic system. Foreign policy and military expenditures were then presented as very important in determining the state of social relations. This perspective has been used both to contest the capitalist system (Marxist current), and to defend it (institutionalism, socio-economy, Keynesianism).

Each of these three approaches has its origins in the great founder currents of economic thought and can be found all along its development. They will be successively presented here.

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