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The Worldly Philosophers and the War Economy*

DOES WAR PRESENT DISTINCTIVE PROBLEMS FOR THE WORLDLY philosophy? Does empire? Do economists have any particular insight into these topics? Do we have any professional obligations when faced with the threats and circumstances of wartime or the rise of imperial pretension?

The topic receives little enough attention, yet the philosophical tradition of our discipline is broadly antiwar. This is not, as some suppose, because commerce is inherently a pursuit of the peace loving. Quite to the contrary. As Kunibert Raffer (1987) has shown, trade between the strong and the weak was through history generally forced by the former on the latter—typically when the option of pillage was not available. Mercantilism was a doctrine of trade as war by other means. To the mercantilist, the accumulation of surplus served the same purposes as the privateer.

But opposition to mercantilism was the hallmark of the first modern economists. Seen in this light, Adam Smith's *Wealth of Nations* (1776) is a pro-peace tract. Smith identified the fund of labor as the source of wealth, and he did so in order to undermine the rationale for the pursuit of trade surpluses. Further, by making the distinction between productive and unproductive employments (with soldiery counted among the latter), Smith placed expenditure on the military firmly among those types of spending to be kept as small as possible; he

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would have been a comfortable member of Economists Allied for Arms Reduction.

In the early twentieth century, Thorstein Veblen (1899) presented an anthropological view of warlike activity. By a quite different route, he reached a taxonomy similar to Smith's. War—alongside sports, religion, and government—was to Veblen the competitive preoccupation of the nonindustrial classes. War was a form of conspicuous leisure, its social purposes defined by the status seeking that defines the "higher stages of the barbarian culture." Veblen, an early feminist, gave us a gender analysis of conflict—as a game for men, from which the productive classes, predominantly women, were excluded. Veblen's analysis, however, dealt with the social structures surrounding warfare rather than with war's economic consequences. And the character of war changed as the century "progressed."

John Maynard Keynes was operationally involved with war—perhaps the first major economist to earn that distinction, discounting David Ricardo's freelance service as the crown's financier against Napoleon. In 1919, Keynes blamed the Great War for destroying the unstable psychological fabric of nineteenth-century accumulation:

> The war has disclosed the possibility of consumption to all and the vanity of abstinence to many. Thus the bluff is discovered; the laboring classes may be no longer willing to forego so largely, and the capitalist classes, no longer confident of the future, may seek to enjoy more fully their liberties of consumption so long as they last, and thus precipitate the hour of their confiscation (Keynes, 1920: 22).

Keynes was not antimercantilist; he saw the national advantages of such policies even in the modern world, and at one point in the *Treatise* (1930) he calculates that the net foreign assets of the British empire in 1914 could be traced to Drake and the work of compound interest since the return of the *Golden Hind*. Keynes instead had growth-theoretic reasons for being against war. In simplest terms, the large

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economic goal was for accumulation to outstrip population, and war was the "consumer of all such hopes." As Robert Skidelsky writes in the third volume of his Keynes biography, Keynes was therefore "90 percent pacifist" (Skidelsky, 2001). Even in 1939 he was persuaded that war was necessary only when British public opinion shifted decisively toward it as the Polish crisis unfolded.

War posed for Keynes a management problem: that of macroeconomic balance. As an economic liberal, he believed in 1940 that if forced savings could be made to absorb the surplus of income, markets would assure an optimal allocation of what could be produced at stable prices. It was a noble but also an impractical vision, requiring much greater ability to forecast total demand in wartime than existed then or now. Perhaps mercifully, Keynes was soon diverted into problems of postwar monetary management, to which his talents for the architecture of the long term were better suited; rather more ruthless types actually ran the war economy.

The decisive figures in American economic policy during World War II were Simon Kuznets and Robert Nathan, in the sphere of planning and production, and J. K. Galbraith (followed by his fellow economist-*pére* Chester Bowles) in the operational control of prices. The Kuznets-Nathan contribution lay in finding productive capacity sufficient to get the American war machine under way—partly by doubling and tripling shifts on existing equipment, partly by shutting down civilian production that used up critical resources. The Office of Price Administration contribution—not fully appreciated even now—lay not only in stabilizing prices but also in creating the conditions under which saving in the form of government bonds became credible and macroeconomic balance could therefore be achieved. Together these accomplishments meant that GDP could be made to double in five years. Combined with a radical pay compression, the postwar financial condition of the entire American population was transformed.

Nor were they alone. As Michael Bernstein (2001) has argued, an entire generation of American economists was weaned on the American experience of central planning. Other important economic figures in

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this period included Tjalling Koopmans (linear programming), Wassily Leontief (input-output), Richard Ruggles (econometric assessment of German war production), and the late Charles Kindleberger (Office of Strategic Services). The success of their efforts gave many a lingering difficulty in taking seriously the free-market ideologies that came to predominate in economics in later years, and this of course compromised the position of many of them in our profession.

Galbraith made a second contribution to the economics of warfare in the closing months of World War II and immediately after. As the head of the United States Strategic Bombing Survey, a group that included Nicholas Kaldor, E. F. Schumacher, E. F. Denison, Paul Baran, and Piero Sraffa, he developed a critique of the air campaign against Germany that was also an enduring economics of strategic bombing. This involves two basic principles. The first is of substitution. Even in conditions of total war, military use of civilian infrastructure under aerial attack is a small fraction of what is available, while military demands take a categorical priority over civilian. Hence, no matter how many rail yards are bombed, the military trains will continue to get through as bombs fall on the civilian economy at the margin. The second principle relates to induced innovation. There is often, if not always, another way to organize industrial production if the priority is high enough.[1] The validity of these principles was demonstrated again in Vietnam, in Kosovo, and twice in recent years in Iraq. As a corollary, the role of strategic bombing has become almost exclusively that of political intimidation of civilian populations through the destruction of symbolic targets—"shock and awe."[2]

WORLD WAR II INAUGURATED THE ATOMIC AGE, AND THERE IMMEDIATELY followed an engagement of economists with the nuclear danger. Game theory—notably the one-time prisoners' dilemma—illustrated the dangers of bilateral standoff with nuclear weapons, and emphasized the importance of trust and confidence building. Arguably, this played a role in the opening of the "Hot Line" after the Cuban missile crisis, though it is equally possible that common sense would have reached similar recommendations.

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But the economists most deeply involved with strategic war planning faced a different problem in reality. The United States held an overwhelming advantage in deliverable strategic weapons and an inflexible, once-for-all attack plan (Galbraith and Purcell, 1994). The actual problem was to prevent their use until the Soviet Union could *deter us*, something that did not occur until the Soviet Union developed and deployed a land-based rocket force in 1967. In the interim, Carl Kaysen, Thomas Schelling, Walt Rostow, and Francis Bator helped Kennedy, Johnson, and McNamara hold off those who would go "all the way with Curtis LeMay." Schelling's (1960) contribution to the open literature on conflict helped mainly by creating, in the mind of the educated public, the highly premature impression that mutual assured destruction already existed, and that while unsavory and unpleasant, it was not necessarily to be feared. Certainly in comparison to the real situation that was true.

At this point, the attention of the economics profession largely drifted away from strategic issues: much of the Cold War also involved an issue of macroeconomic balance at the global scale. The United States assumed the responsibility of providing security principally for the frontier states of Japan and Germany—and for their oil supplies—at a cost borne by U.S. taxpayers. In return, the world ceded the right of seigniorage on the world's money to the United States. Japan in particular accumulated dollar assets and permitted America to run large current account deficits on a continuous basis. The perception of threat justified Keynesian macroeconomic targets in the United States, and the ability of the system to finance the resulting current account deficits made possible U.S. consumption at a high level, notwithstanding a steady erosion of the domestic capital and technology base, except in areas (such as aerospace and electronics, and also sectors of medicine related to trauma) strongly tied to the military sector.[3] Yet, while these points have been made from time to time, there is so far as I am aware no overarching account of the political economy of the Cold War.[4]

The events of 1989 and 1991 ended the need for an implicit exchange of security for consumption goods, without ending the

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system itself, creating a post-Cold War economic environment whose precise character also remains largely unanalyzed from the economic point of view. The first resort of those accustomed to the old system was to pretend that nothing had changed. Military budgets in the United States were not cut deeply; instead, threats from North Korea and Iraq were blown up to fill the void left by the vanished threat of the Soviet Union. In a specific instance, the threat of rogue states was raised to justify a program of ballistic missile defense that could cost a trillion dollars over three decades (ECAAR, 2002). Nor was this threat reevaluated when the attacks of September 11, 2001, showed that the most dangerous perils did not come from ballistic missiles. Meanwhile, efforts to replace global communism with global Islam as the threat from which America protects the world are not proving persuasive, and the prestige of the United States as guarantor of world peace has largely disappeared.

IT IS THEREFORE CLEAR THAT WHILE THE ECONOMIC BARGAIN THAT underlay the Cold War system has not yet disintegrated completely, a transition is probably in the offing. Europe has largely disengaged from the bargain, and might do so completely if it had energetic leadership and an appropriate system of economic governance, both of which it lacks. The decline of the dollar against the euro could conceivably presage the reduction of U.S. power in the world to an oil-dollar region, not entirely dissimilar to the sterling region of the interwar years.

Wars continue to occur, attended to by a small number of economists mainly motivated by the direct effect of war on civilians and the development process.[5] Korea, pitting the United States against China, was the last open Great Power war. Since then open conflicts involving the United States and Western Europe have all been of the center-periphery type. The first of these were anticolonial, notably Vietnam, Malaya, Algeria, Cuba, and a host of other places. More recently these wars have taken on a different cast: wars of *ab initio* intervention in supposedly sovereign states, justified on grounds of our own security, the interests of regional stability, or even human rights. Thus Bosnia, Kosovo,

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Afghanistan, and Iraq. Many others (throughout Africa, in Colombia and Indonesia and elsewhere) occur with only indirect involvement by the major powers, though few are entirely free of such influence.

While the general economic impact of the now prevalent form of warfare on economic development is not much in doubt, a full political economy of the emerging system remains to be written. In each case the effect is to destroy (or undermine) a weakly statist regime, and to replace it with what are then designated as "free markets." This must inevitably entail a joining of the competition to export, whether oil or other minerals or bananas, and ensuing downward pressure on price. American engagement in the Third World, once pridefully anticolonial and aloof, is coming increasingly to resemble that of colonial Britain, though with less commitment to civil administration and direct investment. Colonial France, if not yet colonial Belgium, begins to come into mind.

The use of war to forcibly liberalize a previously Arab socialist or Islamic nation illuminates relationship of war to the larger neoliberal program, a notable potential topic for economic analysis (Murshed, 2003). The common characteristics include private acquisition on the cheapest terms of public assets previously belonging to sovereign countries, the breakdown of barriers to foreign corporate penetration of domestic markets, and the provision of commodity exports to the West on favorable terms. Privatization undermines existing systems of state subsidy in food and energy, improving the trade balance, while surpluses earned on the current account may be freely exported, converting the national elites into denizens of the shadier parts of the First World. Rising inequality under these conditions is inevitable, feeding a sense of disillusion and dispossession among the losing groups. The larger comparison is perhaps to the Opium Wars.

The economic defect of colonies, as the French learned in Algeria, lies in the relative effectiveness of resistance on even a fairly small military scale. Automatic rifles and rocket-propelled grenades are cheap and effective. Home populations do not like to incur continuing losses in manning the frontiers and garrisons of empire.

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Nor do they especially approve of terror to repress opposition. Put the other way around, the successful imposition and maintenance of empire require an ability to use extreme violence to deter resistance in the colony, and also the ability to win acceptance for the inevitable losses to forces sent to maintain order. This we are now learning once again in Iraq.

In the beginning, a cult of the warrior—flags, bands, and cemetery ceremonials—may be sufficient to mask this cost and to keep the home population in line. This is particularly so in the United States, aided by the fact that American victory in Iraq appeared at first to have lowered the price of oil to Americans for a time. The gasoline price was, in effect, subsidized by taxpayers who pay the military bills and especially by the soldiers themselves—a matter of a few soldiers a week for twenty cents on the gallon of gas. But this did not last; quite soon attrition fatigue set in. The psychological costs of maintaining imperial effort represents yet another field to which economists might now usefully return.

A further cost of war and empire consists in failure to address domestic needs, particularly in competition with other countries or regions not encumbered. These are the opportunity costs. The cross-subsidy from U.S. taxpayers, through the military, to consumers of gasoline and heating oil lowers the rate of return on oil substitutes, including other energy sources and also conservation and reorganization of transport systems and housing patterns. The effect is to raise living standards now, but to heighten the eventual drop in U.S. living standards when conventional oil becomes relatively scarce. This, an increasing body of scientific opinion believes, will happen within a couple of decades, even if the imperial project does not collapse beforehand. Meanwhile, those countries not burdened by the garrison costs and the mirage of cheap energy trade some of their current consumption prospects for a much greater chance of making it across the coming period of energy transition in good shape. The costs of maintaining empire are sunk once the empire folds, whereas capital invested and infrastructure built on the home territory continue to yield for centuries. It may be for this reason

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that empires, when they collapse, cannot easily rejoin the front rank of nations but tend to recede to the second tiers.

None of the preceding is particularly novel; the worldly philosophers certainly knew it all. But one new element in the economics of empire has come to the fore in the past decade. This concerns the presence of atomic weapons in the possession of poor countries. Nuclear weapons were once the preserve of industrial superpowers. This is no longer the case. What may therefore be termed *apocalyptic costs* have to be added to the mix: the danger that atomic weapons will come into the hands of countries who regard us—and not entirely without reason—as a mortal threat to their own existence.

It is not completely obvious that the proliferation of nuclear explosives by small and (in some cases) impoverished states should generally be regarded as an intolerable threat. China (a secondary power at the time) was under leadership arguably more reckless than North Korea's today when it detonated a bomb in 1964, yet no attack on Taiwan ever materialized. Israel has possessed such weapons for decades without using them; their presence may have been a stabilizing factor so far as the behavior of the large Arab states are concerned. Pakistan and India seem to have managed—so far—the trick of not yielding to the temptation to preempt. There are no cases, in today's world, of active nuclear blackmail or even the threat thereof, with one significant exception. And that consisted of U.S. warnings that Iraq's use of (what turned out to be nonexistent) chemical and biological weapons would lead to a nuclear response, in the run-up to the second Persian Gulf War.

The clearest danger posed by nuclear weapons in the hands of small countries lies in the possibility that these weapons will come under the control of nonstate entities that cannot be deterred—the Pakistani nightmare. A second risk is that nuclear countries will overestimate their deterrent value against a large conventional power. A third is that such a power (the United States, first and foremost) will underestimate the willingness of an otherwise outgunned country to deploy and use such weapons in self-defense.

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Precedent for this fear exists in the hidden history of the Cuban missile crisis. It was not known, to U.S. military planners at that time, that Soviet forces on Cuba possessed scores of tactical atomic weapons, and the authority to use them in defense of the island.[6] A conventional strike against the missile sites might or might not have triggered their use. An invasion would certainly have done so. It was only the caution of U.S. civilian authority at the time—Kennedy and McNamara above all—that prevented calamity. Nuclear weapons are the doomsday defense of the doomed; sooner or later the imperial project will have to reckon with their actual presence in a target state. It is not obvious whether economists have anything specific to contribute here, though their role in saving the world in the early 1960s might usefully be reexamined for ideas.[7]

In sum, the economics of war and empire seems on examination a rich field, and no doubt one with renewed scholarly potential. It touches on many of the grand themes of the discipline: the conditions under which there are gains from trade, growth theory, macroeconomic balance, costs and benefits, benefits and risks, and (not incidentally) the structure of once-for-all games, especially where the payoffs are of an asymmetric kind. It can lead to an equally challenging analysis of the converse set of problems associated with the difficult system building necessary for stable development, income convergence, and sustainable peace. In this area especially much remains to be done, as Bob Heilbroner, with his steadfast commitment to an economics married to ethical principle, would always remind us.

NOTES

1. In an article drawn from the United States Strategic Bombing Survey, Kaldor (1945-46) elucidated the economics of blitzkrieg, a strategy made necessary by the very weakness of Germany's industrial effort.
2. This comment does not apply to tactical or close-air support of ground troops, which has often proved effective in modern combat.
3. When this system faltered (as a consequence partly of macroeconomic mismanagement of the Vietnam War), it was restored on an unsus-

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tainable basis by high interest rates beginning in 1980. The result was a system of Ponzi finance on a cosmic scale, culminating in the capital inflows that supported the technology bubble from 1998 to 2000.

4. Scholars such as Seymour Melman (e.g., 1985 [1974]) who devoted careers to the relationship between military and civilian economics usually focused on the engineering and technological rather than the macroeconomic dimensions of the issue.
5. The *UN Human Security Report* (2003) is a new and potentially important effort to highlight the relevance of conflict reduction to the development process.
6. Robert McNamara gave a gripping account of his discussions in Havana in October 2002 with senior Soviet military officers who had been present in Cuba at the time at a dinner organized by ECAAR in Washington, D.C., on January 4, 2003.
7. It consisted, as William Safire remarked of the provision of Patriot missiles to Israel in the 1991 Persian Gulf War, in supplying a very necessary false sense of security.

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