

Notes on the Economics of War and Empire

by James Galbraith

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The philosophical tradition of our discipline is broadly anti-war. This is not, as some suppose, because commerce is inherently a pursuit of the peace-loving. Quite to the contrary: 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 modern economists, and in this light *Wealth of Nations* is a pro-peace tract. Smith identified the fund of labor as the source of wealth, partly 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 would have been a comfortable member of ECAAR.

In the early twentieth century Thorstein Veblen presented an anthropological view of war-like activity. By a quite different route, he reached a taxonomy similar to Smith's. War - alongside sports, religion and government - were to Veblen the competitive preoccupations of the non-industrial classes. War was a form of conspicuous leisure, its social purposes defined by the status-seeking which 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, women and also engineers, were excluded. Veblen's analysis however dealt with the social structures surrounding warfare 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 19th 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, p. 22).

Keynes was not anti-mercantilist; he saw the national advantages of such policies even in the modern world, and at one point in the *Treatise* 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 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 biography, Keynes was therefore "90 percent pacifist."

War posed for Keynes a management problem, that of macroeconomic balance. As an economic liberal, he believed in 1940 that if only 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 vision, but requiring much greater ability to forecast total demand in war-time 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 of course ECAAR's own J.K. Galbraith (followed by his fellow

economist-père Chester Bowles) in the operational control of prices.

The Kuznets-Nathan contribution lay in finding productive capacity sufficient to get the American war machine underway - partly by doubling and tripling shifts on existing equipment, partly by shutting down civilian production that used up critical resources. The OPA contribution lay in stabilizing prices but also in creating the conditions under which saving via government bonds became credible and macroeconomic balance could therefore be achieved.

Nor were they alone. As Michael Bernstein has argued, an entire generation of American economists was weaned on the American experience of central planning. Other important figures in this period included Tjalling Koopmans (linear programming), Wassily Leontief (input-output), as well as Richard Ruggles (econometric assessment of German war production) and the late Charles Kindleberger (OSS). The experience gave many a lingering difficulty in taking seriously the free-market ideologies that came to predominate in economics in later years.

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 which included Nicholas Kaldor, E.F. Schumacher, E.F. Denison, Paul Baran, Piero Sraffa and others, he developed a critique of the air campaign against Germany and 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 much of the rail yards may be bombed, the military trains get through, the 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. The validity of these principles was demonstrated again in Vietnam, in Kosovo, and twice in recent years in Iraq.

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 stand-off 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 alone have reached similar recommendations.

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 - the SIOP. The actual problem was to prevent their use until the Soviets could deter us, something that did not occur until the Soviets 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. The perception of Cold War threat justified Keynesian macroeconomic targets in the United States, and the ability of the system to finance the resulting current account deficits made possible US consumption at a high standard, 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. However while partial analyses have been offered from time to time, there is so far as I am aware no overarching account of the political economy of the Cold War.

And meanwhile in the post Cold War era, 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. In recent times they have taken on a new aspect: wars of intervention in supposedly sovereign states, justified on grounds of our own security, the interests of regional stability or even human rights. Thus Bosnia, Kosovo, 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 loosely called free markets. US engagement in the Third World is coming increasingly to resemble that of colonial Britain, though with less commitment to civil administration and direct investment, but just as much to the rhetoric of virtuous governance in economic matters. The hard analysis of the actual effect of such policies falls to us.

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 at all incidentally, in the case of nuclear dangers) the structure of once-for-all games, especially where the pay-offs are of an asymmetric kind. It is sanctioned by the thought and work of the greatest figures in our profession's history. And it can lead to an equally challenging analysis of another set of problems, having to do with the difficult system-building necessary for stable development, income convergence, and sustainable peace. In this area in particular much remains to be done.

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