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CHAPTER ONE

Introduction

ECONOMIC FACTORS NOW arguably have a greater potential to influence world politics than ever before. The global economy is qualitatively different than in previous eras, and the costs of remaining isolated from it have greatly increased in recent decades. Moreover, markets continue to become ever more complex, while the significance of economic capacity as a priority for governments and citizens has arguably never been higher. Although it would be a mistake to think that economic factors will ever deterministically influence political affairs, the premium on thinking carefully about how economic factors influence world politics has never been greater.

And yet the words with which Robert Gilpin introduced his influential 1987 text on political economy remain valid today: "Transformations in the real world have made economics and politics more relevant to one another than in the past and have forced the recognition that our theoretical understanding of their interactions has always been inadequate, oversimplified, and arbitrarily limited by disciplinary boundaries."[1] The view that economic shifts can influence the political world has been prominent for centuries, and so one would think that scholars would by now have a well-developed understanding of how economics and politics interact in world politics. But that is not the case.

The stakes are stark: to properly comprehend world politics, we must develop a better overall understanding of economic factors. This is not because economic factors can explain world politics on their own. Nor is it because economic factors will always have a significant role. It is because economic factors have achieved enough salience that for analysts to not carefully investigate them means that they will either miss some of what is going on in world politics or, at a minimum, will not be in a strong position to evaluate whether the alternative propositions they put forward are valid. A simple injunction that emerges from this book is thus that analysts need to always carefully consider the role of economics in world politics.

My aim here is to provide a systematic theoretical and empirical portrait of how economic factors influence a particular domain of world politics: security affairs. Scholars and statesmen have discussed how economic factors influence the prospects for conflict for thousands of years, resulting in a vast outpouring of writings on this topic.[2] While much useful work has been done on the economics-security interaction, many key elements of this topic still are not adequately understood.

This book aims to improve our state of knowledge regarding the economics-security interaction by making six key contributions. First, we currently lack an established understanding of the range of core pathways by which economic factors can potentially have a direct influence on security affairs. Here, I delineate sixteen such pathways in total, which fall across four general categories. While these sixteen pathways do not cover everything of relevance, they are, in my judgment, the most noteworthy pathways and collectively encompass the vast bulk of what we need to know about the economics-security interaction.

A second contribution the book provides is a thorough empirical assessment of all sixteen of these pathways. In many cases, this assessment is accomplished by surveying and synthesizing the findings from the relevant studies that exist in the current literature. But concerning those pathways where there are no existing empirical studies or where they are not set up to adequately address the relevant question at hand, I undertake new empirical evaluations.

Third, I establish that the relationship between economic factors and conflict is complex and multifaceted. Having identified and assessed these sixteen pathways, my overall conclusion is that economic factors are not helpful for advancing peace and stability, nor are they detrimental; they are both. My overall conclusion is thus that there is no simple overall conclusion; economic factors are complicated, and they have complicated effects. There are understandable reasons why so many analysts over the centuries have been motivated to tell a pithy story about how economic factors influence security affairs, but the examination here clearly reveals the inaccuracy of this kind of approach.

This understanding runs contrary to the prominent and long-standing view that economic factors can have a specific kind of general effect on security affairs—a perspective that has been advanced most frequently regarding global commerce. Numerous Enlightenment philosophers such as Immanuel Kant and Montesquieu argued that international commerce made war less likely. "The natural effect of commerce is to lead to peace," Montesquieu wrote in 1748.[3] One hundred years later, John Stuart Mill proclaimed that "it is commerce which is rapidly rendering war obsolete."[4] But other thinkers over the centuries have strenuously disagreed, arguing that the opposite is true: that commerce overall enhances the prospects for conflict. For example, in 1787 Alexander Hamilton rebuked the notion that the "commerce has a tendency to soften the manners of men," concluding instead that "commerce in many instances administered new incentives" for conflict and that numerous cases of wars were "founded upon commercial motives."[5] The Austrian philosopher Friedrich List argued in 1841 that reducing participation in international markets was the surest route to protecting a country's security.[6] And Vladimir Lenin famously argued in 1917 that the quest for foreign markets made war among capitalist states inevitable.[7]

It was only after the Cold War ended that this age-old debate moved beyond largely theoretical arguments and significant empirical research on how commerce influences conflict finally emerged. By far the most prominent perspective emerging from this empirical literature comes from proponents of the "capitalist peace," who conclude that the optimistic view that commerce promotes peace is correct. The lead champion of this perspective, Erik Gartzke, has argued across numerous publications that free markets, free trade, and the free movement of global capital are all beneficial for peace.[8]

Although there have been notable individual studies supporting the optimistic view that global commerce promotes peace, they are just that—individual studies. Having now undertaken a systematic examination of all the relevant pathways and empirical research, I conclude that the notion that more trade and globalization inherently curtail war is mistaken—yet so is the inverse. I conclude that international financial flows—the cross-border purchase of bonds, stocks, currencies, and so on—do not have a clear influence on conflict. Moreover, the types of global economic ties that are significant appear to have both stabilizing and destabilizing effects at the same time. I conclude that trade has a mixed effect, sometimes dampening conflict and sometimes fueling it. In turn, I find the globalization of production—that is, the dispersion of economic activity by global firms across borders—has a stabilizing effect among great powers, but it increases the likelihood of conflict among developing countries.

The first three contributions just described, which are all empirical, emerge from analysis in the first part of the book. The next three contributions, all of which are theoretical, are delineated in the book's second part.

The fourth contribution is the identification of a more complete range of answers to the three key conceptual questions that I believe analysts most need to keep in mind when they seek to develop new theories and explanations of how economic factors influence security affairs: (a) How do economic goals relate to security goals? (b) What kinds of economic factors are important to study when analyzing world politics? and (c) How and how much do economic actors influence policies regarding security affairs?

There is no "set" answer to any of these three conceptual questions that analysts now agree upon, nor should there be. The important thing is to have an appropriate range of ready answers available as guides to inquiry, which I show is not the case at present. Instead, analysts are now being directed away from what, in my opinion, are the most useful understandings of these three conceptual questions, thereby unnecessarily constraining our collective ability to generate useful future analyses of the economics-security interaction.

Fifth, I clarify and recast our understanding of the most prominent political economy frameworks that have long been used to understand the economics-security interaction.[9] Analysts could derive their own individual answers to the three just noted conceptual questions and other relevant ones before examining how economic factors influence security affairs. However, for various reasons they instead typically rely—either explicitly or implicitly—upon existing political economy frameworks to guide their research, and there are two in particular that have long been most prominent in this regard. The first—whose leading protagonists include figures such as Alexander Hamilton, Jean-Baptiste Colbert, and Friedrich List—is alternatively called mercantilism, mercantilist political economy, realist political economy, realism, statism, or economic nationalism. The second—which includes figures such as David Ricardo, Montesquieu, and Richard Cobden—is alternatively called liberalism, liberal political economy, free trade liberalism, economic liberalism, or commercial liberalism.

Over the centuries, a wide range of prominent political scientists, philosophers, economists, and historians—including Jacob Viner, Eli Heckscher, Joseph Schumpeter, Paul Samuelson, Edward Mead Earle, David Baldwin, Robert Gilpin, and Albert Hirschman—have extensively discussed the distinctions between these two political economy frameworks. Nevertheless, our current understanding of how they compare and contrast with each other is inadequate; this has caused these two perspectives to be misunderstood and also has led the field to not recognize that there is a middle-ground theoretical space between them that can and should be delineated.

The sixth and final contribution is that I give Adam Smith his proper due as a theorist of world politics. Smith's insights about world politics in general—and the role of economics in security affairs in particular—have been greatly misinterpreted over the centuries and accordingly have been given short shrift.* Here, the core problem is arguably the frequent effort to jam Smith into the conception of world politics that emerged from the writings of later liberal philosophers such as Kant, Ricardo, and Mill rather than reading Smith on his own terms and being comfortable with the prospect that his views are discordant from these later liberal theorists and should be treated as such.[10] As the analysis here will show, Smith's writings provide the basis for a conception of political economy that stands apart from the understanding that flows from the later liberal theorists who wrote after him and that also remains distinct from mercantilist/realist political economy.

In my assessment, Smith is the most useful thinker concerning the economics-security interaction who has ever lived, and his significant insights on this topic have been neglected over the centuries, to our great

*Given the crucial need to read what Smith has to say within the proper context and given that there are so many different editions of his work, I cite his work in such a way that makes it as easy as possible for readers to locate all of the quotations I use and understand for themselves how they appear within his narrative. I therefore follow the standard method regarding citations used in the literature on Smith's work and use the definitive edition of his volumes—*The Glasgow Edition of the Works of and Correspondence of Adam Smith*. The abbreviations used in the footnotes are as follows:

WN: *An Inquiry in the Nature and Causes of the Wealth of Nations*, edited by R. H. Campbell, A. S. Skinner, and W. B. Todd

TMS: *The Theory of Moral Sentiments*, edited by D. D. Raphael and A. L. Macfie

LJ (A): *Lectures on Jurisprudence*, report of 1762–63, edited by R. L. Meek, D. D. Raphael, and P.G. Stein

LJ (B): *Lectures on Jurisprudence*, report dated 1766, edited by R. L. Meek, D. D. Raphael, and P.G. Stein

References to *The Wealth of Nations* and *The Theory of Moral Sentiments* use both the typical citation method in the social sciences (referring to the specific pages of the editions noted above, which are noted at the end of each reference) as well as the particular citation practice used in the Glasgow Edition, which is to cite the relevant section of the book along with the associated paragraph number in that edition. For example, WN,IV.vii.c.80, p. 626 should be read to mean *The Wealth of Nations*, Book 4, Chapter 7, Section C, paragraph 80, page 626.

collective detriment. I will use Smith as kind of a “guide” to this subject; employing his work as a fulcrum of the book provides an ideal platform for the theoretical and empirical work that is necessary. *The Wealth of Nations* points to eight of the sixteen pathways that are examined in the first part of the book. Additionally, the theoretical space occupied by Smith delineated in the second half of the book provides, in my view, the best foundation for future theorizing about the economics-security interaction—a point I will underscore in Chapter 10 by using the end of the Cold War case as an exemplar.

With its aim of systematically evaluating and recasting our understanding of the economics-security interaction, this book has a very wide scope. To allow readers to have a proper understanding of the breadth of the analysis, the remainder of this chapter delineates in more detail the range of empirical and theoretical contributions the book makes.

Because the book covers so much ground, each chapter has been specifically designed so that it can be read “à la carte.” In other words, each chapter is effectively freestanding, with a distinct set of conclusions that can be absorbed on their own. As the chapters all make an independent contribution, as is the case with a scholarly article, readers are encouraged to consult the introduction to each chapter in the same manner that they would first read the abstract of an article when deciding how to engage its contents.

Along the same lines, the empirical part (Chapters 2–5) and the theoretical part (Chapters 6–10) of this book can also be read separately from each other. The respective focus of these two parts is distinctly different, and not merely because one is empirical while the other is theoretical. The empirical part is backwards-looking, concentrating on the pathways that now exist concerning the economics-security interaction and how they have operated so far. In contrast, the theoretical part is forward-thinking, analyzing how to think theoretically about the economics-security interaction with an eye toward understanding what analysts should bear in mind when formulating novel understandings of how economic factors influence security affairs, whether new general theories or specific explanations of individual cases.

Overview of Empirical Contributions

To derive a systematic understanding of how economic factors can directly influence security affairs, we would need a list of the key pathways that need to be examined.[11] But there is no existing list of this kind. To help generate such a list, I first carefully consulted the book that founded the field of political economy: Adam Smith's *The Wealth of Nations*. While this is not often recognized, Smith's book contains a remarkably wide-ranging discussion of the economics-security interaction. Notably, Smith's thinking was not circumscribed by the artificial separation of the academic study of economics and politics—a later intellectual development that has done much to constrain our collective thinking about the extent to which economic factors influence security affairs.

All told, Smith points toward eight pathways by which economic factors can directly influence security affairs. When put together, these eight pathways address a large portion of the most significant issues that lie at the intersection of economics and security in world politics. For some of the pathways, the essentials that are needed to frame them as testable theories are spelled out directly by Smith himself. But for the majority of the pathways, I generalize and/or update arguments advanced by Smith. I begin with the relevant insight that he puts forward in *The Wealth of Nations* and then delineate a theory that resonates with the nature of economics in our current era. I then empirically evaluate each of these theories.

The eight pathways Smith points toward do not tell us everything we need to know about the economics-security interaction. In asking what other key pathways by which economic factors can directly influence security also should be considered, I consulted a range of other scholars who, like me, focus much of their research on the economics-security interaction. This led to the identification of the eight additional pathways that are included in this book. Regarding these additional eight pathways, I empirically evaluate the variable(s) in question but do not outline a particular testable theory that pertains to them; in some cases, however, a single clear theory regarding the security effects of that variable has already been specified.

These sixteen pathways can be grouped into four general categories. The first category concerns how the global economy shapes security affairs. There are four pathways within this first category that are analyzed in Chapter 2.

Pathway 1: how global commerce influences conflict
Pathway 2: how international finance influences conflict
Pathway 3: how the global economy influences the ability of powerful states to secure needed resources and supplies via economic means without the need to use or threaten military force

Pathway 4: how the global economy influences the choice between maintaining autonomy in the production of weaponry versus pursuing openness in defense production

The second category concerns the influence of economic actors and other societal interests—how the former can potentially affect security policy and how the attitudes of the latter toward conflict are sometimes influenced by economic changes. There are four pathways within this second category that are delineated and evaluated in Chapter 3. These pathways are:

Pathway 5: how poor economic conditions (such as low growth or high inflation) influence whether leaders use military force to distract the public

Pathway 6: how the public's support for war depends upon whether the war's economic costs are financed via borrowing versus a tax increase

Pathway 7: how public attitudes toward conflict are influenced by the overall fiscal costs of war and the extent of burden sharing (that is, how war costs are distributed across different countries)

Pathway 8: how the global economy influences whether economic actors are likely to lobby for war

The third category of pathways concerns the influence of domestic economic structure, which Smith conceives as being what a society's economy is primarily geared toward producing. There are three pathways within this third category that are analyzed in Chapter 4. These pathways are:

Pathway 9: how economic development influences the gains of conquest

Pathway 10: how economic development alters both the capacity and willingness of potential initiators of conflict

Pathway 11: how a natural resource–based economic structure influences conflict

The fourth and final category of pathways concerns how economic factors influence civil conflict and terrorism (both transnational terrorism and domestic terrorism). There are five pathways in this fourth category that are evaluated in Chapter 5.

Pathway 12: how economic development influences terrorism

Pathway 13: how economic globalization influences transnational terrorism

Pathway 14: how economic growth influences terrorism

Pathway 15: how economic development influences civil conflict
Pathway 16: how economic globalization influences civil conflict

Most of these sixteen pathways have already been extensively examined empirically. However, the accumulation of knowledge from this existing empirical work has been inadequate. For many of these sixteen pathways, the task at hand is thus to undertake the painstaking work to bring together all of the relevant empirical studies under a single roof to get a sense of what their findings collectively show.

Yet for some of these sixteen pathways, we lack a sufficiently strong empirical base of existing studies upon which to draw any conclusions. Sometimes a hypothesis has been evaluated, but it can and should be evaluated in a different manner; if so, I undertake such a revised empirical evaluation. In other cases, there is no existing empirical work; if so, I undertake such analysis.

Overview of Theoretical Contributions

The analysis of the sixteen pathways examined in the first part of the book covers a great deal of ground. But economic factors are powerful and dynamic, and as time progresses we will need to develop novel general theories regarding their influence on security affairs. And regarding the security behavior of particular states, we will also need new explanations regarding the past or current influence of economic factors as well as fresh predictions about the likely future effects of such factors.

This new theorizing will not emerge from nowhere; it will be shaped by our deeper conceptual understanding of the economics-security interaction. To help further our future theorizing, the theoretical portion of this book concentrates on providing a more complete range of answers to arguably the three most significant conceptual questions regarding the economics-security interaction that analysts should consider when formulating new understandings, both general ones and those pertaining to particular cases.

The first conceptual question concerns how economic goals relate to security goals. Clearly, both goals are important for governments. How do governments balance these objectives? Do they favor one goal over the other in a consistent manner and, if so, which goal has priority? Or do they make trade-offs between these two goals and, if so, in what way? The overall relation of economic goals to security goals is a significant but not straightforward matter for analysts to gauge.

A second conceptual question concerns what economic factors to consider when examining world politics. Economic factors are variegated and become ever more so as domestic markets and the global economy increase in complexity. Out of the range of potential economic factors that could influence security affairs, which one(s) should an analyst consider? Answering this question is important but it is also not easy, especially for those analysts of security affairs who do not have much knowledge of economics and/or interest in its intricacies.

The final conceptual question pertains to the role of economic actors in the formation of security policies. To what degree do government leaders form policy distinct from pressures from economic actors and other societal interests? Do leaders make security policy in a "top-down" manner without reference to economic actors and other societal interests? Or is security policy formed in a "bottom-up" manner, in which policy shifts occur in response to what economic actors and other societal interests want? Or does the answer lie in between, in which economic actors and other societal interests are sometimes, but not always, the drivers of policy change? Conceptualizing the role of economic actors in policy formation is, again, a vital matter without an obvious answer.

There is simply no consensus answer to these three conceptual questions. Individual analysts of security affairs could in theory work to answer these questions themselves. Yet for a variety of reasons, it is simultaneously convenient and understandable to rely upon "off-the-shelf" answers to these conceptual questions from existing political economy frameworks that bear on the economics-security interaction.

However, the range of existing answers to these three conceptual questions that are readily available has been too limited in scope. The collective responses to these questions have accordingly been incomplete, with the result that some of the influence of economics on security affairs is prone to be missed or misunderstood.

Regarding the first question, analysts have generally not conceptualized the relationship between economic and security goals as involving a complex, dynamic trade-off. Concerning the second question, the kinds of economic factors that, in my assessment, would now be most profitable to focus on when examining the economics-security interaction have all too frequently been overlooked; specifically, insufficient attention has been paid to the potential influence of economic structure (both domestic economic structure and global economic structure) on security affairs. And regarding the third question, analysts have failed to adequately consider a political role for economic actors that occupies a middle-ground space in between the bottom-up formulation of policy making and the top-down conception.

The core problem is the absence of a theoretical framework that articulates the critical importance of carefully considering the complex, dynamic nature of the trade-off between economic and security goals, that emphasizes the crucial need for scholars to consider the potential influence of economic structure on world politics, and that sees economic actors and other societal interests neither as subservient to the government nor as dominating the formulation of policy. The tragedy is that a theoretical framework with these exact characteristics is available to scholars. It has, in fact, *been* available for a very, very long time—ever since 1776, when Smith published *The Wealth of Nations*.[12]

For many reasons, the existence and significance of this theoretical framework outlined by Smith has been missed. For centuries, Smith's views on world politics have frequently been caricatured: over and over, he has been incorrectly characterized as being just another example in a long line of liberal thinkers rather than as having his own unique conception.

Smith is indeed a canonical theorist of liberalism, which has "constituted the principal current of modern politics in Europe and the West . . . for almost three centuries" and has long occupied a central place within the study of world politics.[13] But exactly because of its prevalence, liberalism has attracted many thinkers over the centuries. Liberal political economy is diverse, but this diversity has not been sufficiently recognized by analysts of world politics; the interpretation of Smith's views is the greatest casualty in this regard. As I will show, Smith provides the foundation for a conception of political economy that competes with, rather than being compatible with, the standard understanding of liberal political economy—what I term "conventional liberal political economy." Smith is ultimately best understood as occupying a theoretical space between mercantilist/realist political economy and conventional liberal political economy.

The organization of the theoretical portion of this book is as follows. In Chapter 6, I show that our current understanding of how liberal and mercantilist/realist liberal political economy compare and contrast with each other is deficient, that the most appropriate means of differentiating these frameworks is to concentrate on their answers to the three conceptual questions noted above. I also delineate that there is more diversity in liberal political economy regarding these questions than has been understood to this point.

Chapters 7 through 9 will then outline the answers to these three conceptual questions that flow from Smith and, in so doing, will show that his understanding forms the basis for a second, alternative conception of liberal political economy. Chapter 7 examines why Smith places great importance in conceptualizing the trade-off between economic goals and security goals as being complex and dynamic. Chapter 8 reveals Smith's argument for the critical need to focus on the role of economic structure when analyzing world politics. And Chapter 9 unpacks Smith's understanding of how economic actors and other societal interests affect security policy, revealing that he articulates a conceptualization that is neither top-down nor bottom-up.

There are many potential terms that could be used to describe the theoretical space that Smith occupies, including "Smithian liberalism," "Smithian political economy," "classical liberal political economy," "Smithian commercial liberalism," and "neo-commercial liberalism"; I am agnostic as to which one, if any, is used. The important thing is for analysts to recognize that Smith provides the basis for a unique, valuable approach for thinking about the role of economics in world politics.

Chapter 10 then looks at the most momentous shift in security affairs since 1945—the end of the Cold War—as a means of showing in practice what a Smithian theoretical understanding of the role of economic factors can do. As I show, Smith's respective answers to these three key conceptual questions point to three different lessons that analysts would be wise to bear in mind when examining the influence of economic factors on world politics. I use the end of the Cold War case to illustrate that the value of paying heed to these three lessons is hardly hypothetical.

In my assessment, if a Smithian theoretical understanding had existed as a prominent guide to thinking regarding the role of economic factors in world politics, then the end of the Cold War would have been far less surprising and may even have been predicted. Scholars missed a number of factors that we now see as critical to the end of the Cold War that our existing theoretical frameworks did not illuminate. Analysts would have been more attuned to these factors if a Smithian theoretical framework had been available as a conceptual guide. The underlying takeaway is that we will be less likely to be caught off guard if we pay heed to the lessons that flow from a Smithian theoretical understanding.

With its aim of unpacking the underlying theoretical and conceptual issues I see as most relevant and important for improving our future understanding of the economics-security interaction, the analysis in the theoretical part of this book is an exercise in what is commonly called "grand theory."[14] This cuts against the grain of recent work examining international relations. Efforts to grapple with general theoretical and conceptual issues, long very prominent, have recently been overwhelmingly replaced by a focus on "middle-range theories" in which an analyst aims to "explore specific problems, to form hypotheses or generalizations explaining limited ranges of phenomena."[15]

Drawing on the arguments of Robert Merton regarding the importance of what he called "general theoretical orientations," I believe grand theory can helpfully perform four key roles[16] that aid in the construction of middle-range theories:

(1) helping us to select certain variables for investigation out of a large number of potential causal factors;
(2) pushing us to make clear our underlying assumptions;
(3) giving us clues as to the type of causal connections to establish and directing us toward certain kinds of phenomena to investigate; and
(4) making it easier to distinguish our hypotheses from competing ones—including competing hypotheses that feature the same independent variable—that are drawn from different underlying assumptions.

Regarding the study of world politics, I maintain that grand theory should not aim to do more than these limited roles. Understood in this way, grand theories should—as Merton aptly puts it—only be used "tentatively," since they provide "only the broadest framework for empirical inquiry. . . . [T]hey constitute only the point of departure for the theorist. . . . and facilitate the progress of arriving at determinate hypotheses."[17] Ultimately, I believe grand theory should be seen as a tool that helps us determine "where to look" when we try to understand the world and to be cognizant and explicit about the choices we make in this regard. Although this is an important role, it is a much more "minimalist" function for grand theorizing than has typically been propounded by its proponents.[18]

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