



HAL
open science

Pacifism in Economic Analysis

Fanny Coulomb, Keith Hartley, Michael Intriligator

► **To cite this version:**

Fanny Coulomb, Keith Hartley, Michael Intriligator. Pacifism in Economic Analysis: A Historical Perspective. *Defence and Peace Economics*, 2008, War and Peace Issues in the History of Economic Thought, 19 (5), pp.373-386. 10.1080/10242690802354378 . hal-02051640

HAL Id: hal-02051640

<https://hal.science/hal-02051640>

Submitted on 27 Feb 2019

HAL is a multi-disciplinary open access archive for the deposit and dissemination of scientific research documents, whether they are published or not. The documents may come from teaching and research institutions in France or abroad, or from public or private research centers.

L'archive ouverte pluridisciplinaire **HAL**, est destinée au dépôt et à la diffusion de documents scientifiques de niveau recherche, publiés ou non, émanant des établissements d'enseignement et de recherche français ou étrangers, des laboratoires publics ou privés.

Pacifism in Economic Analysis: An Historical Perspective¹

Fanny Coulomb, *Assistant Professor of Economics, University of Grenoble*

Keith Hartley, *Professor of Economics, Centre for Defence Economics, University of York and Visiting Professor, MIOIR, Manchester Business School*

Michael Intriligator, *Professor of Economics, Political Science, and Public Policy, University of California, Los Angeles*

Introduction

Si vis pacem stude bellum. Indeed defense economists are more focused on the preparation for war or its (possible) economic consequences and the efficiency of resource use by the military-industrial-political complex than truly analyzing the economic grounds for peace. Even though working on military spending and related economic phenomenon, many economists have been looking for the means to reduce the social costs of such spending and avoid the militarization of the world that results in conflicts and wars.

Nevertheless, peace remains in the background. Isard and Anderton (1992), among many papers, give good illustrations of this trend. Even though they propose "a survey of the peace economics literature," their article is dedicated to arms races, arms control, resource allocation problems related to military spending, the economic and social impacts of military expenditures, but peace is not analyzed as a positive issue.

The 'dark side' of defense has absorbed almost all of the energy of defense economists. This bias seems to echo the motto of decision-makers: *si vis pacem para bellum*, and it is fully understandable given the incredible level of defense spending since 1945 and even more since 2001. Economists cannot remain passive when such a large share of national income goes to defense while unsatisfied social needs in the form of poverty, lack of housing, inadequate education and poor health are so large.

However defining the economic conditions of peace should receive similar interest, or at least be a full issue *per se*. Indeed, an alternative to criticizing military spending is to define how to reduce military spending and how to create a peaceful world. It would, however, be unfair to say that economists have left such research to other academic disciplines. Many economists are truly concerned by peace and the need for harmony among economic agents. However, relatively few academic economists allocate their time and research resources to studying the economics of war and peace. This article describes the development of economic thought on peace as the starting point for further research dedicated to the economic analysis of peace.

The article is organized as follows: Section 1 explains how peace is considered as the result of economic progress and the generalization of market mechanisms, with a special focus on Thorstein Veblen. Here, the history of economic thought makes a valuable contribution to our understanding of the development of knowledge in this field. Section 2 analyzes the

¹ Article paru en 2008 dans la revue *Defence and Peace Economics*

economic consequences of militarism, based on vested interests and undermining (potential) economic growth. Section 3 presents economists' proposals in favor of international peace, summarizing on-going debates since the Second World War. We then conclude with a research agenda for true peace economics.

1. Economists heralding peace: from liberalism to institutionalism

Since conflicts disorganize production and trade, it is not surprising that liberal economists have always opposed militarism and economic development. The British Classical economists condemned protectionism and militarism; and most of them shared the conviction that economic progress would lead to a lasting international peace. The triumph of economic science in the nineteenth century reinforced the optimism of certain economists concerning the realization of world peace, in particular, due to the education of the population, which would be bound to become aware of the superiority of economic laws and consequently of free trade. But there were few economists really focusing on military issues. Veblen was one of them, as he developed an explanatory theory of militarism in a capitalist system, concluding that a probable reduction in international conflicts would result from economic development.

International peace as a key achievement of economic and scientific progress: a nineteenth century liberal view

International peace through economic progress

Starting at the end of the eighteenth century, the liberal school of economics identifies the achievement of world peace as a possible consequence of the expansion of international trade. A dominant school since the birth of economics, liberalism is based on the postulate according to which the general interest lies above all in the increase of national wealth. It places economic prosperity at the foreground of political concerns, in contrast to the realist approach.

Admittedly, Smith (1776) explicitly wrote that “defense (...) is much more important than opulence.” However, he proposed the renunciation of colonies as well as aggressive trade measures to ensure the development of a mutually advantageous international trade. Ricardo’s famous theory of comparative advantages states that the division of labor between individuals, regions and nations leads to the best situation with regard to the general interest. However, the specialization of national economies can only be allowed through the development of trade without the interference of tariffs or subsidies. The British classical economists considered that mercantilism and colonialism hindered the general interest, notably because they lead to a high level of military expenditures to ensure the defense of the empire and trigger conflicts. This classical theory is therefore at the root of pacifism in economics. One can find its roots in the French Physiocrats, led by F. Quesnay. One of his disciples, Mirabeau (1760), describes humanity as one big family.

The liberal school later developed the idea that the growth of industry and trade favours a state of mind opposed to warmongering. Thus, John Stuart Mill (1848) considered that wars and commercial conquests are characteristic of a still-young humanity. He argued that trade has civilizing and peacemaking virtues, since it creates links with foreigners and leads the populace to consider foreign wealth without envy. International trade strengthens and reinforces individual interests that are naturally opposed to war. Mill felt that this is the main guarantee of world peace, advancing ideas, institutions and, more globally, the morality of

human-kind. Mill considered moral progress as more important than economic progress, since it is the final aim of humanity.

The idea of war becoming gradually archaic as a result of economic development also appeared in other theoretical schools. Marx (1852, 1853) recognized that the development of capitalism results in the replacement of military conflicts by economic war, because peace serves the interests of the bourgeoisie. However, he opposed the pacifist doctrines of “the Manchester school”: the call to peace of the bourgeoisie hides that its struggle for hegemony remains, even though soldiers are replaced by commercial measures. Marx emphasized that if the Manchester school wants peace, it is only because it expects to focus all resources on industrial war.²

Liberal analysis linking the development of market mechanisms and the pacification of international relations is still strong. Recently, Fukuyama (1993) developed such an idea through his theory of “the end of history.” Observing the political changes of the late 1980s and the diffusion of democracy and liberalism, he considered that wars would become less and less probable.

International peace by the spreading of economic knowledge

The 19th century was marked by industrialization and the triumph of science, the latter being presented as able to solve all problems. Comte's positivism was based on the belief that the entire universe is governed by scientific laws that could be deduced from empirical observation, a view that follows from the philosophy of natural law born in the 18th century Enlightenment. Positivism has had a strong influence on economics, with some liberal economists aiming to finding universal laws governing the social universe, just as Newton discovered the natural laws of the physical universe. Thus, Say (1828) considered that the history of economic thought is characterized by the progressive correction of erroneous ideas, until the discovery of true laws governing the economy, which will allow it to reach a state of permanent world peace. His “Law of Market” is, therefore, fundamental since it demonstrates the superiority of the market system, free from state interventionism. Here, economists played a key social role to promote peace by informing public opinion of its true interests, thereby eroding popular support for military adventures initiated by governments. Nevertheless, one condition for the spreading of a peaceful state of mind through the population is that the political system be sufficiently representative to reflect the ‘popular will.’ Marginalists shared the same conception of the role played by economic knowledge and aimed at building an economic science on the model of natural sciences, following a hypothetico-deductive methodology. Thus, Walras (1907) sought to find the scientific laws governing the economy. He considered that the economist had first to work on pure political economy, then social political economy and eventually applied political economy. Denouncing the “rantings” of protectionists or colonialists, Walras wanted to propose new ideal and new dogmas, which should represent an alternative to the opposition between individualism and communism or between liberalism and socialism. Thus, he stated that the search for universal peace underlies his entire scientific project, with world peace as the ultimate achievement of economic science.

² Marx and Engels emphasize that true peace can only be reached when the socialist mode of production will replace capitalism, since this is the *sine qua non* condition to suppress antagonisms on which all kinds of conflicts grow.

The idea that public opinion needs to be educated in favor of peace had many other defenders in the 19th century. One can quote Passy, a key figure of the French peace movement and founder of the International League for Peace in 1867 as well as the Society for the Arbitration between Nations in 1870. In his writings, Passy particularly insists on the need for spreading “peaceful education,” in a perpetual action to gain, step-by-step, public opinion worldwide with the idea of the need for peace. He received the Nobel Peace Prize in 1901, at the same time as Dunant.

Pacifism as a spin-off of the capitalist system: Veblen and the institutionalist school

Neoclassical economists in the 19th century wanted to impose their discipline as a science, which led them to ban political issues from their field of analysis. Neoclassical modeling describes a simplified economic reality, with no exogenous shocks. Consequently, there were very few economic studies focusing on defense issues. A notable exception can be found in the institutionalist school. Above all, Thorstein Veblen was the first economist to devote a whole book to the question of peace: *An inquiry into the nature of peace and the terms of its perpetuation* (1917). Peace and militarism issues were already largely tackled in Veblen's previous book, *Imperial Germany and the industrial revolution* (1915).

Veblen developed an evolutionary theory of the warlike dynastic state moving towards the more peaceful modern state with a possible return to the dynastic state. Contrary to Marx, Veblen did not have a deterministic approach. Whereas he mentioned the possible exacerbation of militarism in industrial countries, he considered that progress in world peace could be sustainable.

Veblen explained that institutions affect states of mind, thus determining social evolutions. Conversely, changes in perception linked to the spreading of new ideas would induce institutional and social changes. Veblen presented human relations as being affected by both force and the predatory instinct. War has played a central part in the evolution of societies, operating in a process of selection among institutions. This is an essential element of social change, just as the various economic measures established in the name of national security. War and trade have always been in interaction: therefore the expansion of trade does not guarantee international peace *per se*.

Veblen, however, stated that societies tend to become increasingly peaceful. He proposed two “types” of society, the dynastic and the modern one. In each society there would remain a competition between commercial and dynastic interests. In Anglo-Saxon countries (in particular the US and the UK), the dynastic society was replaced by the modern one, but in other countries, the dynastic type was dominant. Veblen took Germany as an example of a dynastic state, characterized by a delayed process of economic and political modernization and the inheritance from feudal times of a specifically warlike state of mind, maintained by the practice of war. The difficulty experienced by Germany to impose itself as an independent nation also explains the survival of the dominant characteristics of the feudal state in that country. On the other hand, England went through a period of relative peace since the 18th century, which enabled her to promote the “arts of peace” rather than those of war.

In a modern society, Veblen believed peace is the normal situation; autocracy would be replaced by a representative government and individual initiative would be respected. Material concerns are predominant and military expenditures tend to be reduced to a minimum level sufficient to ensure defense. An additional factor driving modern societies towards

pacifism is the increasing sophistication of military technologies, which makes war more and more destructive and impersonal, as well as less able to favor social cohesion. Other expenditures increase, in particular ostentatious or sport-related expenditures. Sport expenses were, just as military expenditure, believed to be a necessary waste, which diverted the energy and attention of the population and maintained a relative equality in the standards of living, which was favorable to the cohesion of the population.

Veblen was a critic of capitalism, considering that it evolves towards a crisis because of its institutional stalemates. Due to its social importance the capitalist class monopolizes technological or productivity profits generated by the whole society. This domination of the “absentee owners” disturbs both consumption and production and thus weakens initiatives and industrial innovations. If workers do not revolt against this system, it is notably because of their identification with the nation: nationalism and patriotism are states of mind inherited from feudal times, which favour wars. Governments in modern societies are consequently induced to maintain a certain level of militarism to reinforce the system. Thus, military and commercial conflicts still concern so-called “modern” states. The danger, however, is that such a policy may strengthen “dynastic instincts” hidden inside the social institutions. This can be only temporary, in the case of a war for example; but it may also lead to the coming into power of the military class. However, Veblen is not deterministic. He also evokes another scenario, which he favours. Institutional blocs related to the absentee owners can be solved by the setup of a new system: the society could evolve to a technocracy, dominated by the elite composed of economists and engineers. The society would then be peaceful, since the designation of an external enemy will be no longer necessary to maintain the society’s cohesion. His ideas are close to those of Saint Simon's in France.

The future of international peace thus depends, according to Veblen, on the conflicting relations within each society between the dynastic warlike tendencies and the modern peaceful tendencies. Even if he does not exclude the relapse into conflicts, Veblen affirmed that modernity will dominate in the majority of countries and therefore lead to international peace. The liberalization of industry and trade would result in the improvement of living conditions and accelerate the modernization of society.

Veblen also proposed the creation of a “League of Neutral Countries” to facilitate trade liberalization as well as to abolish preferential rates inside colonial empires, thus discouraging colonial conquests. Veblen’s theory has a specific place in the history of economic thought, since it relies on economics, sociology and history simultaneously. A connection may be established with Joseph Schumpeter's works, in particular *Capitalism, Socialism and Democracy* (1942). Schumpeter treated the pacifism of the capitalist bourgeoisie as opposed to the warlike spirit of feudalism; and he explained that capitalism’s progress has an institutional consequence: the destruction of protective classes that support the system, and in particular the military class. The bourgeoisie is basically “rationalist and anti-heroic” and its disinterest for political issues increases the risk of the coming into power of a charismatic military leader, who would win the population to his cause. But his forecast is rather that capitalism should evolve towards an increasingly bureaucratic state capitalism model, very close to socialism, because of growing interventionism that tends to suppress the entrepreneurial spirit. This progressive weakening of the capitalist spirit due to the rise of economic interventionism is also an idea present in Werner Sombart’s analyses (1913).

2. Economists' criticisms of militarism

Economists' criticisms of militarism are based, since their origins, on arguments which remain relevant today. Thus, the liberal analysis presents the perpetuation of a high level of military expenditures as resulting from a misunderstanding about the general interest, or even from a capture of the state by particular interests. This idea has been developed beyond the liberal school, leading to criticism of political institutions governing capitalism. Since the 1960s, the development of economic techniques has favored deeper studies of the defense sector. Most of them have then highlighted the negative economic impacts of military expenditures. The most important studies on these issues have been developed in the United States.

Militarism as a consequence of the perverted state system

The liberal criticism of militarism rests on economic arguments, which have been developed as early as the 18th century. Wars are perceived as a waste of financial and human resources, as well as a loss of revenues. Thus, Smith (1776) treated soldiers like unproductive workers and J.B. Say treated them like destructive ones. Ricardo, Say and later Pigou highlighted the negative effects of debt-funded war, where debt induces a heavy burden on the national economy when the conflict is over.

As for the analysis of the causes of conflicts, the liberal school has largely developed the idea of a state subjected to the influence of vested interests linked with militarism. Thus, Smith denounced commercial protectionism, so often a source of war, such as military expeditions and colonialism. His criticism rests in particular on the idea that the state faces pressures from merchants and industrialists, leading it to support particular interests instead of the general interest. He then condemns colonialism because of the cost of conquests and of maintaining sufficient military forces to guarantee peace in empires.

Similar ideas were developed in other liberal economists' works. For example, Pareto (1897) denounced the cost of wars carried out by governments, which finance them with a tax increase even though most taxpayers do not draw any benefit from such conflicts. According to him, the excess of military expenditures is explained by the megalomania of the dominant classes and the government's exploitation of external threat to ensure the cohesion of the society and divert popular attention away from the embezzlements of leaders. There is thus a mutual action between the military, gaining specific privileges, and the government, enabling it to stay in power.

Later an alternative critique was developed through the concept of the military-industrial complex. In 1961 President Eisenhower first used this concept to denounce the growing influence of services and the defense industry in the United States and the risk that it weakens democracy. This concept focuses on the strong autonomy of the military sector, helping a narrow coalition of the interests between all defense stakeholders seeking to increase military expenditures.

This idea was largely developed by Galbraith (1973, 1992). Galbraith noted that arms industries and the Department of Defense pursue common goals of growth and technical innovation in a "bureaucratic symbiosis," depriving citizens of any initiative. Underlining the excessive and unfounded character of the USSR threat, Galbraith explained why its use by the members of the military establishment helped keep a high level of military expenditures in the United States and other Western industrialized countries. The fact that the end of the Cold War was not followed by significant large-scale and permanent disarmament shows the autonomy

of the military sector. Arms exports and military technologies continue to be largely financed by governments. The economists' critique of militarism is thus directly related to the flaws in political institutions. The link between the military and the political sphere is more than ever topical, with today's polemics concerning American foreign policy. One example is Stiglitz's papers and book that criticize the high cost of the Iraq war for American taxpayers (Stiglitz and Bilmes, 2008).

Empirical analysis of the negative impacts of military expenditures on growth

Defense economics has become an autonomous field of study thanks to the introduction of modeling, statistics and econometrics, notably used for the analysis of the economic consequences of military expenditures. Until the 1960s, economists limited their analysis to the assertion of their unproductiveness. They did not consider that defense budget could exert an autonomous economic role and influence economic policy. Theoretical convictions and deductive analysis served as diagnosis, in the absence of empirical studies. A pioneering contribution establishing the economics of defense was published by Hitch and McKean (1960). This book presented all military problems as economic problems in the efficient allocation and use of scarce resources. There was no economic analysis of peace.³

Since the 1970s, when economic crisis raised doubts about the sustainability of growth in Western economies, many economic studies have dealt with the economic consequences of high defense budgets in industrialized countries, while the international arms race was accelerating technological competition. Defense economics then realized great development, and liberal pacifists found new justifications for the development of arguments in favor of disarmament. Economic studies on the military sector multiplied, in particular within the United Nations Organization and more precisely UNIDIR (1984, 1992). Such research demonstrated that public funds would be better employed in health and education sectors than in defense. The arms race was seen as constituting a waste of resources and thus a barrier to economic growth. These analyses used the concepts and instruments of the Neoclassical or Keynesian theories. Their results were heterogeneous and generated numerous controversies, in particular starting from Emile Benoit's seminal study (1978) that showed a positive relation between militarization and economic development in less developed countries. The validity of macroeconomic models used by all these studies has often been questioned, because of difficulties concerning the selection of data on international comparisons, the choice of temporal horizon, the variables and the econometric methods used.

Economists wishing to highlight the negative impact of defense expenditures largely used neo-Keynesian macroeconomic models. Among the first major studies, was Leontief and Duchin (1983)'s, studying several scenarios of increase or reduction in consumer goods per capita according to the levels of military expenditures in various countries. This large macroeconomic study showed *inter alia* that military expenditures do not exert a significant effect in favour of economic growth. Another study by Deger and Sen (1983) tested a model of three simultaneous equations, representing the interactions between growth, investment and defense for fifty developing countries. Their results showed that the growth of the military sector led to a decrease in the economic growth rate. Biswas and Ram (1986) reached a similar conclusion,

³ The development of defense economics was recognised in the creation of a new specialist research journal entitled *Defence Economics*, launched in 1990. In 1995, this journal was re-named *Defence and Peace Economics* to reflect the post-Cold War security changes and the increasing focus on disarmament, conversion and peace issues. For a review of defense economics, see Hartley (2007) ; and a survey of peace economics, see Anderton and Carter (2007).

as well as Faini *et al.* (1984) and Georgiou and Smith (1983). A review of studies in the field concluded "...that the net impact of defense on growth is negative, but small" (Sandler and Hartley, 1995, p220).

Economists have also studied the crowding-out effect of military expenditures on other public expenditures to counter the arguments of military Keynesianism. Samuelson (1984) thus explained that civil public expenditures are more favorable to economic growth than military ones, which exert a neutral multiplier effect. Russett (1970) showed that there is a substitution effect between military and social expenditures in the United States. Berthélemy, Herrera and Sen (1995) showed a negative crowding-out effect between defense and education expenditures with a large negative effect on economic growth.⁴

The debate on the economic consequences of military expenditures remains important in the post-Cold war period. The success of the American economy in the 1990s seemed to reinforce the idea of positive technological spin-offs from the military sector; but other analyses have showed the negative effect of rising American defense budgets in terms of debt, the external deficit and inflation.

3. Economists' proposals in favor of international peace

Calls for reductions in military expenditures are part of economic thought since the origins of liberalism. They are often associated with the idea of an expected end of militarism thanks to the rise of the industrial spirit. During the 19th century, many economists have made more or less realistic proposals in favor of international institutions for a peaceful settlement of disputes, opening the way to world disarmament. These ideas are particularly present in the works of the French "utopian socialists" as well as in the liberal school. After the Second World War, economists' pacifism has been expressing through more scientific research, in particular with economic studies undertaken by UNIDIR.

Before the First World War: from Utopia to practice

In France during the 19th century, many utopian projects defined universal peace as a crucial objective. One recurring idea was that nations should develop institutions for the peaceful settlement of disputes. The idea of a European federation which would dominate the world and impose its model was a main field of research. Thus, Saint-Simon (1814) explained that progressives' domination of industrialists would be bound to favor disarmament and international peace, under European domination. He proposed the control of all European nations in a European Parliament, with the arbitration of conflicts between countries as its key function. War within such a confederation would be avoided thanks to the full activity of its populations. Saint-Simon imagined a Franco-British alliance with a common Parliament, a common currency, free trade – all conditions which would guarantee a state of peace favorable to economic development.

The European civilization was presented by Utopians as superior to all other civilizations and destined to expand worldwide, for the sake of humankind. Fourier (1846) also developed a project calling for the unification of mankind, as a result of the conquest of the world by an enlightened (French) despot. Perpetual peace should then appear and France would be able to spread her superior laws first in Europe and then on the entire planet. Fourier's economic analyses are weak, but his intellectual influence was important. In particular, he

⁴ A more specific test of crowding-out was undertaken for UK defence R&D where no evidence was found of a simple linear long-run relationship between defence and civil R&D spending: Buck, *et al* (1993).

directly inspires Considérant and Pecqueur. In his writings, Pecqueur (1842a, 1842b) recommended the installation of international courts for the settlement of interstate disputes. Thanks to the application of controlled liberalism, social progress should lead to the creation of a European federation. A Common Market should then be set up, free from all prohibitions and commercial restrictions. A federal Congress would take charge of foreign policy, notably military alliances and colonialism.

Numerous economists have proposed the creation of international organizations to settle conflicts. One can mention Blanc (1839), who imagined the creation of a High Confederate Court to regulate conflicts between member states. Cabet (1848), a proponent of Communism, also recommended a Confederation of the people, with general disarmament, both military and commercial. As regards the liberal school, de Molinari (1898) analyzed the negative impact of the military spending on industrial societies and the necessity of an international institution for the settlement of conflicts.

These projects were partly reinforced with the creation of the League of Nations in 1920. Some economists, in particular Keynes, placed great hope in the peaceful settlement of disputes thanks to international economic sanctions, hopes of which were ultimately thwarted. Economists' calls for disarmament have been particularly frequent before the First World War, especially within the liberal school. The free trade issue was then closely associated with international peace. Without much concern about methodology and scientific rigour, these economists transformed economics into an apologia (i.e. into a non-scientific defense of their liberal "religion"). With his faith in the existence of a divine law regulating a "universal harmony," Bastiat (1862) did not doubt that the worldwide spread of free trade would work in favor of a universal and permanent peace. Like J.B. Say, he recommended the end of the colonial system, the replacement of offensive foreign policies by a defensive strategy with the reduction of military budgets and a diminished use of militia, that would decrease tax rates and allow increases in consumption. He even proposed a total and immediate disarmament of France: this would make her able to lead a true revolution, which would spread the idea of democracy in the world.

More pragmatic, Passy (1904) proposed a European customs union (underlining the trend to association as one of the laws of history), while being opposed to defensive tariffs against American and Japanese trade. According to him, Europe must undertake an important disarmament, which would both release resources for productive activities and pacify the relations between European countries. Passy denounced not only the cost of war, but also that of armed peace. He also denied the idea that civil industry needs the impulse of technologies developed in the military sector. Keynes accused these liberal pacifist economists, and in particular Angell (1913), of having disserved their country by denying the reality of threats to national security and maintaining their calls to peace until the eve of the First World War.

The Peace Movement before the First World War

The pacifist movement was particularly active during the 19th century, with the creation of many peace societies, in particular in Great Britain and United States. This movement for non-violence was influenced by the Protestant religion⁵. The American Peace Society was

⁵ Prior to the Protestant Reformation, the Catholic Church supported the views of St Thomas' Aquinas who justified the use of arms to protect innocent life from attack (the just war theory). The Protestant Reformation gave rise to a variety of new Christian sects, including the historic peace churches. Prominent amongst these were the Religious Society of Friends (Quakers).

created in 1828, on the initiative of William Ladd, who defended the principle of a "Congress and High Court of Nations." Another pioneer institution of the pacifist movement, the London Peace Society (first called The Society for the Promotion of Universal and Permanent Peace), was founded in 1816. This society has worked actively in favor of pacifist ideals, in particular at the time Henry Richard, who defended international arbitration was its secretary. This idea of international arbitration to guarantee international peace had another defender in the person of Richard Cobden, who also proposed a mutual arms reduction in Europe.

The peace movement also developed in France and in Switzerland. The « Ligue internationale et permanente de la paix » (International and permanent league of peace) was created in 1867 in Paris by Passy, and he received the Nobel Peace Prize in 1901 along with Henry Dunant. This league was a reaction to the threat of another Franco-Prussian war. Passy's project was to preserve peace through international arbitration. It competed with the « Ligue Internationale de la paix et de la liberté » (International league of peace and freedom) founded by Charles Lemonnier. This league pursued much more radical goals, with the denunciation of the militarism in the non-republican systems and a call for the formation of a United States of Europe. It held a Congress in Geneva in 1867.

Five International peace congresses were held in Europe from 1843 to 1851. The first one is historically the first international congress following from a private initiative. Some concrete achievements did emerge from them. In 1889 Passy and Randal Cremer brought together 96 members of Parliaments from nine countries to form the Parliamentary Union, intended for the peaceful settlement off conflicts between nations. Later, the international Hague Conventions of 1899 and 1907 asserted the principle of Pacific Settlement of International Disputes, with the creation in 1899 of the International Court of Arbitration, the predecessor of the Permanent Court of Arbitration. The League of Nations created in 1919 gave birth in 1922 to the Permanent Court of International Justice, predecessor to the International Court of Justice in the Hague. The League of Nations aimed at promoting disarmament and preventing war through negotiation and international sanctions. Its failure to prevent aggression by the Axis powers during the 1930s substantially weakened the pacifist movement.

Economists for Peace since the End of the Second World War

During the Cold War, the peace movement has spread into many fields, including science, medicine, and other fields. In economics, the debate has focused on the opportunity cost of military expenditures. The Soviet-U.S. arms race was criticized by many famous economists, including Arrow, Eisner, Galbraith, Klein, Solow, and Tobin who formed ECAAR (Economists Against Arms Race), now called Economists for Peace and Security (EPS). The economic analyses of the arms race started with the model of Richardson (1960). He published the first outlines of his model in 1939, hoping it could help governments to become aware of the dangerous character of an unstable arms race. His model was made up of three equations representing respectively political, strategic and economic factors. It described the armament processes in two rival countries in a process of action-reaction, where the economic variables played a stabilizing effect. Several improvements were made thereafter to this model, as in Brito and Intriligator (1974).

Other economic studies have criticized the waste of resources on arms instead of on poverty reduction. Some have underlined the potential economic benefit of world disarmament, using large-scale international macroeconomic models. An example was the

World Model of Leontief and Duchin for the analysis of the impact of disarmament of the industrialized countries, with transfer of the saved sums towards developing countries. With the end of the Cold War, however, disarmament proved to be a complex process, and a UNIDIR study of the economics of disarmament suggested replacing the concept of “peace dividend” by one of “disarmament as an investment process” involving short-run costs and long-run benefits (UNIDIR, 1993). Disarmament leads to costs in the form of unemployment or under-employment of labour, capital and other resources arising from the re-allocation of resources from military to civilian production. Such re-allocation takes time and can be costly (we do not live in a world of magic wand economics where resources can be re-allocated instantly and costlessly). As a result, the economic dividends of disarmament and peace are likely to be small in the short-run. However, in the long-run, disarmament leads to significant and worthwhile benefits through peace itself and through the greater output of civil goods and services as resources are re-allocated from the military-industrial complex to the civilian sector.

Conclusion

In this article, we try to emphasize that peace could and should become a research issue *per se* for economists. It is true that, as shown here, many leading economists emphasized that peace can result from market mechanisms and that it provides the best conditions for the efficient allocation of productive resources. They conclude that economic agents ought to avoid conflicts if they are rational.

Nevertheless, denouncing war and its economic consequences is not enough. In most economic research, peace remains a result or a pre-condition for economic efficiency. It does not attain the status of a full economic issue. This situation cannot be considered as satisfactory for two main reasons. First, history demonstrates that economic mechanisms, in particular having a market economy is a necessary condition for peace, but it is not sufficient. The *doux commerce* helps reduce political and social tensions between nations by improving mutual understanding and economic interdependence. As Montesquieu emphasized two centuries ago, "commerce softens and polishes the manners of men." However, conflicts can have economic and non-economic grounds that can overcome the economic rationale in favor of peace. The "reciprocal utility" promoted by Montesquieu through trade is sometimes not enough to prevent conflicts. This topic suggests a major area for economic research, in the same direction as the economics of terrorism for instance. We do not really understand the economic causes of conflicts, except for the most obvious, such as conflicts over natural resources. By improving our understanding of such causes, it would be possible to propose policies that are real alternatives to armament and military spending. Second, peace cannot be considered only as a result or an exogenous factor. It is very unsatisfactory to define it as the absence of conflicts or war: this is how defense policy can be defined, not peace. This latter requires an *active* policy, for it is far from certain that peace will always emerge from given economic conditions. If we truly want peace, then we cannot escape from investing in it!

As an example, consider the economics of conflict which is at the opposite end of the spectrum from peace. The economic analysis of conflict is in sharp contrast to neo-classical economics. Capitalist economies are characterized by markets allowing voluntary trade and exchange based on the price mechanism as an allocative device with improved economic welfare reflected in a greater output of goods and services. In contrast, conflict uses military force to re-allocate resources, to destroy factors of production (e.g. deaths and injuries to military and civilian

personnel) and to destroy markets leading to chaos and disequilibrium (compared with market equilibria).

There are three areas for further research suggested here: preventing war; stopping conflicts; and curing the roots of conflict. First, wars can be prevented. This is perhaps the field in which economists have invested most heavily. Nevertheless the focus has been mainly on military expenditures, that is, the preparation for and prevention of war. One should consider peace as a global public good, following the research launched by Inge Kaul and the UNDP in the early 2000s (Kaul *et al.*, 2003). Managing such a global public good requires credible international institutions, in particular, those that are able to implement peace against potential belligerents. This goes beyond burden sharing and fiscal federalism, and can make use of both game theory and contract theory. It also recognizes that there are gaps in international institutions for achieving beneficial international collective action (Sandler and Hartley, 2001). Second, when conflicts start, restoring peace requires military means as well as economic ones. Unfortunately it seems not possible to deny the utility of force (Smith, 2006); but it is crucial to focus spending on the adequate means to maintain and preserve peace. Peace-keeping and peace-restoring remain understudied in economics (Solomon, 2007; Solomon and Berkok, 2006). However, one cannot expect to attain a situation of peace without investing in the means to sustain it. Economists can demonstrate here the flaws of current approaches, especially the insufficient funding of UN operations and gaps in international institutions for enforcing peace. Third, peace can never be sustainable if the roots of conflicts (including terrorism) are not eradicated. In fact, this is perhaps the biggest mistake made by defense-minded decision-makers. Ending a conflict and destroying the means of violence are not sufficient to prevent a resumption of the conflict if the reasons why a given war has started remain. This leads to a broader analysis between war and its economic roots. It is crucial to suppress the economic imbalances or inequities to have a sustainable peace. Here, economic analysis can help decision-makers re-allocate public spending to focus on the most relevant issues, not on those which seem to have the most immediate results.

Peace must become a core field of economic research attracting far more academic economists. The field needs to offer incentives and rewards through research funding, conference and publication opportunities and promotion prospects. Many questions remain unsolved, mainly because they have not yet been identified because of a lack of their investigation. Military spending has reached its highest levels ever in the current century, and their consequences have caught most of the attention. Issues include the continued threats to peace and to the future of civilization from weapons of mass destruction (nuclear, biological and chemical), their proliferation and use by 'rogue states' and terrorist groups. Whether military spending increases or decreases, one should wish that peace would receive the attention it deserves from economists in forthcoming years. This is required if humanity is to avoid continued spending so much for war and so little for peace.

References

- Anderton, C. H. and Carter, J.R. (2007), 'A survey of peace economics', in Sandler, T and Hartley, K (eds), *Handbook of Defense Economics*, volume 2, Elsevier, Amsterdam.
- Angell N. (1913), *The Great Illusion*, New York and London, G. P. Putnam's Sons.
- Bastiat F. (1862), *Le libre-échange*, dans *Œuvres complètes*, Tome 2, Paris, Guillaumin et Cie.
- Benoit, E. (1978), Growth and defence in developing countries, *Economic Development and Cultural Change* (26), January, 271-280.
- Berthelemy, J.C., Herrera, R. and Sen, S. (1995), 'Military Expenditure and Economic Growth: An Endogenous Growth Perspective', *Economics of Planning* (28), 205-233.
- Biswas, B., Ram R. (1986), 'Military Expenditures and Economic Growth in Less Developed Countries: An Augmented Model and Further Evidence', *Economic Change and Cultural Development* (34), 361-372.
- Blanc L. (1839), *L'organisation du travail*, Paris, Bureau de la Société de l'Industrie Fraternelle.
- Boulding, K (1973) : 'The impact of Defense Spending on the U.S. Economy' in Udis, B. (ed.), *The economic consequences of Reduced Military Spending*, Lexington, Mass, Lexington Books.
- Buck, D, Hartley, K and Hooper, N (1993). Defence research and development, crowding-out and the peace dividend, *Defence Economics*, 4,2, 161-178.
- Brito, D.L. and Intriligator, M.D (1974). 'Uncertainty and the stability of the arms race', *Annals of Economic and Social Measurement*, 3, 1,279-92.
- Cabet E. (1848), *Voyage en Icarie*, Paris, Bureau du Populaire.
- Coulomb F. (2004), *Economic theories of peace and war*, New York and London, Routledge.
- Coulomb F. and Fontanel J. (2003), 'War, peace and economics', in Galbraith J.K. (ed.), *Economics of peace and security*, EOLSS (Encyclopedia of Life Support System), www.eolss.net
- Coulomb F., Fontanel J. (2003), 'Disarmament, a century of economic thought', *Defence and Peace Economics*, Special issue edited by J. Brauer, 14 (3), 193-208.
- Deger S., Sen S. (1983), 'Military expenditure, spin-off and economic development', in *Journal of Development Economics* (13), 67-83.
- Faini, R., Annez, P., Taylor, L. (1984), 'Defence spending, Economic structure and growth: evidence among countries and over time', *Economic Development and Cultural Change*, Vol. 32, n°3, April.
- Fourier C. (1846), *Oeuvres complètes*, Paris, Librairie sociétaire, Troisième édition.
- Fukuyama F. (1993), *The end of history and the last man*, Penguin, London.
- Galbraith J.K. (1973), *Economics and the Public Purpose*, Boston, Houghton Mifflin Company.
- Galbraith J.K. (1992), *The culture of contentment*, Boston, Houghton Mifflin Company.
- Georgiou G., Smith R. (1983), 'Assessing the effect of military expenditure on OECD countries', *Arms Control* (4), pp 3-15
- Hartley, K (2007). Defense economics: achievements and challenges, *The Economics of Peace and Security Journal*, 2, 1, 45-50.
- Intriligator, M. (1996), 'The peace dividend: myth or reality?' in Gleditsch N.P., Berjkholt O, Cappelen A. (eds.), *The peace dividend*, Amsterdam, New York, Oxford, North-Holland, 1-13.
- Hitch C.J., McKean R.N. (Eds.) (1960), *The Economics of Defense in the Nuclear Age*, Cambridge, Mass., Harvard University Press.
- Isard, W. and Anderton, C.H. (1992) A survey of the peace economics literature. In *Economics of Arms Reduction and the Peace Process*. Edited by W. Isard and C.H. Anderton, Elsevier Science Publishers.
- Leontief, W., Duchin, F. (1983), *Military spending: Facts and Arms Worldwide implications and Future Outlook*, Oxford University Press, Oxford.

- Marx K. (1852), *New York Daily Tribune*, August 25th.
- Marx K. (1853), *New York Daily Tribune*, February 18th.
- Mill J.S. (1909 [1848]), *Principles of Political Economy with some of their Applications to Social Philosophy*, London, Longmans, Green and Co, ed. Ashley W.J., 7th edition.
- Mirabeau (Marquis de) (1760), *L'ami des hommes, ou Traité de la population*, Chrétien Hérold Libraire, Hambourg.
- Molinari G. de (1898), *Grandeur et décadence de la guerre*, Paris, Guillaumin et Cie.
- Passy F. (ed.) (1904), *La paix et l'enseignement pacifiste. Leçons professées à l'École des hautes études sociales*, Félix Alcan Editeur, Paris.
- Pareto V. (1897), « L'état actuel de l'Italie », in *Libre Echangisme, Protectionisme et socialisme*, Recueil d'articles, Librairie Droz, Genève, 1992, 277-295.
- Pecqueur C. (1842a), *De la paix, de son principe et de sa réalisation*, Paris, Capelle.
- et Pecqueur C. (1842b), *Des armées dans leurs rapports avec l'industrie, la morale et la liberté*, Paris, Capelle.
- Richardson, L. F. (1960), *Arms and insecurity - A mathematical study of the causes and origins of war*, Chicago, The Boxwood Press, Pittsburgh and Quadrangle Books, Inc.
- Russett, B. (1970), *What price vigilance? The burden of national defense*, Yale University Press, New Haven.
- Saint-Simon (1868 [1814]), 'De la réorganisation de la société européenne ou de la nécessité et des moyens de rassembler les peuples de l'Europe en un seul corps politique en conservant à chacun son indépendance nationale', dans *œuvres de Saint-Simon et d'Enfantin*, Paris, Dentu.
- Samuelson P., Nordhaus W. (1989), *Economics*, 13th ed., McGraw Hill.
- Sandler, T and Hartley, K (1995), *The Economics of Defense*, Cambridge, Cambridge University Press.
- Sandler, T and Hartley, K (2001). The economics of alliances : The lessons for collective action, *Journal of Economic Literature*, XXXIX, 3, 869-896.
- Say J.B. (1996, [1828]). *Cours d'économie politique*. Paris, Flammarion.
- Schumpeter J.A. (1942), *Capitalism, Socialism and Democracy*. New York: Harper & Row.
- Smith, A. (1976, [1776]), *An inquiry into the Nature and Causes of the Wealth of Nations*, Cannan E. (ed.), University of Chicago Press, Chicago.
- Smith, R. (2006) *The Utility of Force, The Art of War in the Modern World*. London: Penguin Books.
- Solomon, B (2007), 'The political economy of peacekeeping', in Sandler, T and Hartley, K (eds). *Handbook of Defense Economics*, volume 2, Elsevier, Amsterdam.
- Solomon, B and Berkok, U., eds, (2006), Canadian Perspectives on Peacekeeping, *Defence and Peace Economics*, Special Issue, 17, 5, 393-485.
- Sombart W. (1913). *Guerre et capitalisme*. Payot, Paris.
- Stiglitz, J and Blimes, Linda (2008). *The Three Trillion Dollar War*, Penguin Allen Lane, London.
- United Nations (1981), *Study on the Relationship Between Disarmament and Development: Report of the Secretary-General*, document A/36/356 October, 5th.
- UNIDIR, (1984), *Établissement d'un fonds international du désarmement pour le développement*, New York, United Nations, December.
- UNIDIR (1992), *Economic Aspects of Disarmament*, New York, United Nations.
- Veblen T. (1964 [1917]), *An inquiry into the nature of peace and the terms of its perpetuation*, New York, Augustus M. Kelley.
- Veblen T. (1964 [1915]), *Imperial Germany and the industrial revolution*, New York, Augustus M. Kelley.
- Walras L. (1987 [1907]), *La paix par la justice sociale et le libre-échange*, in *Mélanges d'économie sociale*, volume VII, Economica, Paris.

