Business Cycle and War: A Literature Review and Evaluation

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Abstract. Academic researches on the relationship between business cycle and war are particularly rich, all of which can be divided into two major categories. One is the relationship between economic rise and war, and the other is the relationship between economic recession and war. Through the simple description and comparison of the two types of standpoints, the author divides economic upturn into recovery phase and expansion phase, and economic recession into recession phase and crisis phase, all of which have motivations as well as conditions enabling wars to break out. Therefore, the outbreak of war shall never be simply attributed to either economic rise or recession.

Keywords: economic rise; economic recession; war.

1. Introduction

War is one of the significant topics in the realm of international relations. Generations of international relation scholars have been trying to identify the origin of war, while economy is widely recognized as an critical factor influencing the outbreak of war. Some of these scholars, such as Bruce Russett, E. M. Bernstein, A. L. Macfie, and Geoffrey Blainey, focus on the connection between business cycle and war. However, scholars find it especially difficult to reach an accord on the relationship between the specific stages of business cycle and the outbreak of war. Some argue that most wars arise during periods of economic prosperity, while others refute that a depressed economy renders states more inclined to wage foreign wars. [1] Although scholars have done a lot of researches on the relationship between business cycle and war, there are still some issues that can be explored in depth. This paper will first compare the views of two different scholars, and then combine with the macro-economic theory to further conclude the relationship between business cycle and war.

2. Economic Recession and War

Scholars, such as Bruce Russett, C. W. Ostrom, and B. L. Job, believes that wars often arise during economic recessions. Their argument is that the problems caused by the economic recession have contributed to the outbreak of war, so countries are more likely to launch foreign wars in economic recession. These scholars usually analyze the relationship between economic recession and war at the level of political leadership and state.

At the level of political leaders, the downward pressure brought by economic recession has forced them to find ways out. As the economy slumps and unemployment rises, people's income decreases and living standards fall. Under such circumstance, people tend to be dissatisfied with the government in power, leading to a decline in public support. The huge turnout in the US election of 1932, after the Great Depression, reflected Americans' dissatisfaction with President Herbert Hoover. In this case, a strong and aggressive foreign policy would help to increase the domestic support of the political leaders , which is essential in a democratic regime. In the realm political science, this is called the Rally 'round the flag effect[2], which means “increased short-run popular support of the President of the United States during periods of international crisis or war”.[3] War, in other words, can serve as a tool for the leadership to shift domestic tensions. C. W. Ostrom, and B. L. Job discover in the study of the United States that "as the state of the economy worsens, the overall propensity of the President to use force will increase." [4] It can be seen that during economic recession of the United States the leadership is more likely to wage war. Even in autocratic states without elections, a weak economy can spark internal unrest that threatens the power of political leadership. In Argentina, for instance, mass strikes followed severe economic stagflation in the 1980s. Aiming to regain public support, the military government president Leopoldo Galtieri waged war on the Malvinas islands (also named as the Falkland Islands by Britain) and succeeded in diverting domestic contradictions. Based on this

view, the leadership tends to wage foreign wars to gain political support during economic recession, so wars often occur in economic recession.

At the national level, the national economy is also in dilemma during economic recession. Under such a predicament, some countries would attempt to revive their economies by waging war, which might objectively facilitate the national economy. First, Keynes argues that the cyclical economic crisis of capitalist countries stems from the deficiency of aggregate demand. Based on this understanding, the key to recovery from depression is to stimulate aggregate demand, and foreign wars may be an effective way to accomplish this. E. m. Bernstein argues that "the increased employment and income in the war industries will lead to a greater demand for many types of consumption goods, and provide a stimulus for greater investment. With labor and raw materials available for expanded production, an industrial boom is possible". [5] Therefore, it can be seen that war boosts domestic demand for goods, thus expanding production and potentially bringing economic prosperity. Secondly, dramatic elevation in government expenditure usually stimulate economic growth. This is because with the Government expenditure multiplier, each dollar of Government expenditure can bring more than one dollar of growth in GDP. An analysis of data from 44 developing countries between 1950 and 1965 by Emile Benoit, an American economist, suggests that military expenditure overall stimulate economic growth. During war, government would significantly increase military expenditure, which, according to Benoit's analysis, could bring certain benefits to the economy. Thirdly, wars can sometimes expand the oversea market for domestic commodities and provide access to strategic resources. According to Keynes's theory, economic recession is caused by inadequate aggregate demand. With limited domestic market demand, expanding overseas markets may be an effective way to increase aggregate demand, and war is a viable way to expand overseas markets. The two opium wars, for example, opened up vast Chinese market for Great Britain. In this way, war might be an effective way to help the country out of the economic crisis.

To sum up, foreign wars provide a possible way out for the leadership and national economy in predicament. With political and economic difficulties, countries are more likely to wage foreign wars. That is to say that wars often occur during economic recession.

3. Economic Rise and War

Although foreign wars may provide some benefits for countries in recession, some scholars, such as A. L. Macfie, Geoffrey Blainey, and Vladimir Lenin, contradicts that wars still occur mostly during economic rise. Among them, some emphasizes that only a booming economy can support a foreign war, while others' argument is that it takes time to prepare wars. In addition, there are also those who claimed that the origin of the outbreak of war is the competition between monopoly capital during economic rise.

Some scholars attempt to find evidence by comparing data, the most representative among which was A. L. Macfie. He found out that historically wars tended to occur during periods of economic recovery. When Macfie compared the twelve wars Britain engaged in 1853-1914 and the domestic unemployment rate in the same period, he found out that all of these wars broke out in the period of economic recovery. Accordingly, he concluded that wars often occur during economic recovery. [6] Macfie explained this phenomenon: "The most economic and political leaders are then too focused on their countries' internal troubles to attend seriously to foreign adventures. But as the pa recovers, The earlier feelings of Osaka still linger, finally bursting out toward the peak of the cycle at a time when the leaders are becoming anxious about their ability to maintain prosperity". [7]In other words, the psychological influence of economic depression last longer than its substantial economic effects. Therefore, as the country becomes more inclined to start foreign wars due to the negative emotions during the depression, the economic recovery gives the country the material conditions for starting wars, namely "economic upturns are not the actual cause of war, but a factor that enables wars to occur." [8] As a result, wars often occur during recovery after economic recession.

Another scholar, Geoffrey Blainey, held a similar point of view, arguing that sufficient resources are prerequisites to wage war. Therefore, an economy in recession is unable to engage in foreign war.

Geoffrey Blainey applied historical evidence to validate his standpoint: "Blainey cites this as a major factor in preventing Austria from attempting to recapture Silesia in 1749 and for delaying the Japanese night of Chesapeake in 1873." [9] It can be seen that the economic downturn in history has repeatedly curbed the outbreak of foreign wars, so war is unlikely to occur in economic recession. On the other hand, after the decision to start the war, the process of preparing war also takes time - the government needs to build up its armaments and formulate its battle plan. Bruce Russett summarized this as "preparations for war take time." [10] Blainey's point was that although the cause of war is economic recession, this influence will turn into the support of required resources for actual wars and prepare time. So wars tend to occur during recovery after economic recession.

In his analysis on imperialism, Vladimir Lenin focused on the origin of the wars, claiming that competition between monopoly capital in economic prosperity is the source of wars. "According to Lenin, the falling rate of profit, magnified during economic crisis, leads to increases in concentration of capital, and hence the degree of monopolization (1926: 17-18). The competitive export of capital, abetted and protected by competing states serving their capitalists' interests, is for Lenin the primary impetus to imperialist wars. Thus we might expect imperialist wars to occur shortly after the trough of a recession, when the monopolies have digested their acquisitions and begun a new wave of foreign expansion."[11] Lenin argued that the Marginal Revenue, which has fallen in the later stages of capitalist development, has reached the lowest point in economic recession, which accelerates the generation of monopoly capital. During the subsequent economic recovery, competition between monopoly capitals gradually intensifies, and eventually promotes the outbreak of imperialist wars. Compared with Macfie and Blainey, Lenin had different assumptions of the fundamental causes of war , but they all came to the same conclusion that wars often occur in economic rise.

That way, wars should occur more in economic rise than recession. For one thing, a depressed economy cannot meet the economic prerequisites for war, and the process of preparation takes time. Second, the underlying cause of war may be competition for monopoly capital rather than economic depression. Based on the above views, the economic rise is the foundation and cause for the outbreak of war, so wars often occur in the economic rise period.

4. War Often Occurs in Economic Rise or Economic Recession?

While the two sides share seemingly conflicting views, with one arguing that wars often occur during economic recession and the other opposing, these views are essentially interlinked. In fact, most of the two sides have reached a consensus that stresses the political and economic benefits of war and that these benefits can affect the outbreak of war. Based on this consensus, the economic root of the outbreak of war is recession, and the rise or prosperity of the economy gives the country the prerequisite for war.

Through the comparison of the two views, it can be found that both sides are too vague in the description of the concept of business cycle. According to economists such as Joseph Schumpeter, the business cycle is divided into four phases: expansion, crisis, recession, recovery. [12] Although there are discords in the division and naming of business cycle, it is certain that they are not simply divided into two stages of rise and recession. However, as mentioned above, scholars who discussed the relationship between business cycle and war often failed to divide the business cycle into four stages in detail to analyze the relationship.

First, war can occur at any stage of expansion, crisis, recession, recovery, so it is unrealistic to assume that wars occur at any particular stage of the business cycle. On the one hand, although the domestic economic problems in the crisis/recession/depression period break out and become prominent in a short time, in fact, such challenge exists at all stages of the business cycle. When countries cannot manage to solve these problems through conventional approaches, including fiscal and monetary policies, they may resort to military expansion to achieve their goals, a theory known as Lateral Pressure. [13] Under such circumstances, even countries in the period of economic expansion are facing downward pressure on the economy and may try to solve the problem through expansion. On the other hand, although the resources required for foreign wars are huge for countries

in economic depression, the decision to wage wars depends largely on the consideration of the gain and loss of wars. Even during depression, governments can raise funding for war by issuing bonds. Argentina, for example, was mired in economic stagflation before the war on the Malvinas islands (also known as the Falkland islands in the UK). In fact, many governments would dramatically increase their expenditure to stimulate the economy during the recession, and economically war is the same as these policies, so the claim that a depressed economy cannot support a war is unfounded. In addition, during the crisis period of the business cycle, which is the early stage of the economic downturn, despite the economic crisis and potential depression, the country still retains the ability to start wars based on its economic and military power. Based on the above understanding, war has the conditions and reasons for its outbreak in all stages of the business cycle.

Second, the economic origin for the outbreak of war is downward pressure on the economy rather than optimism or competition for monopoly capital, which may exist during economic recession or economic prosperity. This is due to a fact that during economic prosperity, people are also worried about a potential economic recession. Blainey pointed out that wars often occur in the economic upturn, which is caused by the optimism in people's mind [14], that is, the confidence to prevail. This interpretation linking optimism and war ignores the strength contrast between the warring parties. Not all wars are equally comprehensive, and there have always been wars of unequal strength. In such a war, one of the parties tends to have an absolute advantage, so the expectation of the outcome of the war is not directly related to the economic situation of the country. Optimism is not a major factor leading to war, but may somewhat serve as stimulation. In addition, Lenin attributed the war to competition between monopoly capital. This theory may seem plausible, but its scope of application is obviously too narrow. Lenin's theory of imperialism is only applicable to developed capitalist countries in the late stage of the development capitalism, but in reality, many wars take place among developing countries whose economies are still at their beginning stages. Therefore, the theory centered on competition among monopoly capital cannot explain most foreign wars. Moreover, even wars that occur during periods of economic expansion are likely to result from the potential expectation of economic recession, the "limits of growth" [15] faced during prosperity -- a potential deficiency of market demand. So the downward pressure on the economy is the cause of war.

Third, the business cycle may be related with the intensity, instead of the outbreak, of the war. Scholars who supported the first two views did not pay attention to the underlying relationship between business cycle and the intensity of war. Some scholars, such as Nikolai Kondratieff and Joshua Goldstein, believes that the business cycle is not directly related to the outbreak of war, but the outbreak of war during the economic upswing appears to be more intense and persistent. In their analysis of the business cycle and war, Kondratieff and Goldstein discovered that the most dramatic and deadly wars occurred during periods of economic upswing. This finding may provide some clues on the relationship between war and the business cycle. Although the relationship between the outbreak of war and the business cycle is unclear, the scale of the war is likely to be influenced by the exact phase of the business cycle in which the belligerents are engaged. Such a phenomenon might make sense, since countries in economic upturn have better fiscal capacity, making them more likely to wage large-scale wars. Moreover, such relationship may also stem from the optimism pointed out by Blainey. While optimism may not directly lead to wars, it may have an impact on the choice of rivals. This is because optimism about national strength and the outcome of the war may drive countries to choose stronger rivals. The resulting war is likely to be far more massive and bloody. Nevertheless, more research is needed to specifically reveal this relationship.

From this point of view, it is not clear whether there is a direct causal relationship between the outbreak of war and the business cycle, but the existence of periodic economic crises in capitalist countries renders war a tool to promote expansionary economic policies. The economic performance of the war is the expansion of government expenditure and possession of overseas resources and markets, which is in some ways consistent with the goal of expansionary fiscal policy. Therefore, war may be used by governments as a political means to stimulate the economy, although the relationship between the use of such means and the specific stages of business cycle remains to be explored.

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