

Book Review

Arms, War and Terrorism in the Global Economy Today: Economic Analyses and Civilian Alternatives, Wolfram Elsner, editor (New Brunswick, NJ: Transaction Publishers, 2007), 275 pages.

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Paul Virilio believes that modern societies have moved through civil society and the welfare state and have now reached a new stage, triggered by the creation of the nuclear bomb, which he calls “Pure War”. This stage of society is one where the purpose of the State and the productive assets of society, including its people, are directed towards the logistics of war. Wolfram Elsner, Professor of Economics, Structural Research and Economic Policy at the University of Bremen, Germany (and who co-taught the Seminar on Economic Theory and Modeling at the New School for Social Research in the Fall 2007), has edited a new book dealing with this transformation after the Cold War. Elsner states in the Introduction and Overview (itself a worthwhile read for those interested in a summary of current research surrounding peace issues) that the purpose of *Arms, War and Terrorism in the Global Economy Today* is to bridge what he sees as the gap between research on globalization, conflict, the “new wars” and empire, on the one hand, and that of economic theory, arms production, financial markets, and the macro- and sectoral implications of military spending, on the other. The book also proposes “civilian alternatives from an ‘economically enlightened’ perspective”. In summary *Arms, War and Terrorism in the Global Economy Today* is an ambitious attempt to “fill a gap” in the flurry of literature inspired by September 11, 2001 and the US intervention in Iraq from the perspective of heterodox and cutting-edge mainstream economics.

The book collects 12 papers from three different seminars and conferences held in Greece during 2004 sponsored by the Economists for Peace and Security (EPS), Economists Allied for Arms Reduction (ECAAR), and the European Association for Evolutionary Political Economy (EAEPE) and is held together by Elsner’s

thesis that the post-Cold War world has become less just, peaceful, lawful and secure under the U.S. “mono-polar international power structure” (p. 1). “Arms production and the disposal of arms of all kinds in all corners of the world have not decreased but increased, conflicts about natural resources, labour force and production sites, and sales markets have not reduced, and war and pre-emptive intervention, with or without the UN, even have become an allegedly legitimate way of defending the superpower’s and its following powers’ interest and perceived security” (p. 1).

The first of five sections is ‘Economics and Conflict, War and Terrorism’ and contains two papers which attempt to contextualize the world economy and the (political) international institutions created during the Cold War with that of the global economy today. Michael D. Intrilligator writes of the dangers of nuclear proliferation and that the concept of *global security* needs to replace that of *national security* in order to capture the fact the global security is an international public good. He calls for acknowledgement that the age of ‘superpowers’ is over and that new arrangements within the UN are needed to recognize this fact. Fanny Coulomb, Lilliane Bensahel and Jacques Fontanel write that *economic competition* (which can create ‘win-win’ endgames) should not be confused with *economic war*, and that the latter term might be due “partially from the search for new antagonisms” (p. 39) after the fall of the USSR. The authors use the 1915 work of N. Bukharin, *Imperialism and World Economy*, to introduce the concept of State-Capitalism, and how economic war (trade barriers, et al.) degenerates into military conflict. Using examples from Veblen, L. Thurow, Schumpeter, J.K Galbraith, and Albert Hirshman the authors examine theories on the intersection of the civilian economy, stages of economic development and democracy to conclude that “extensive use of the concept of economic war is not necessarily judicious” (p. 57). Inter-State conflicts cost both sides whereas economic competition strengthens the Nation. The authors suggest that “regionalization-liberalization” seems “more credible” than a reorganization of the world economy into “big conflicting regional blocks, leading a relentless economic war” (p. 57).

The second section, ‘Military Spending and Arm Exports-The Macroeconomic and Sectoral Pictures’, contains two papers using quantitative analysis to evaluate the economics of military spending. Jurgen Brauer uses macroeconomic accounts data to compare the budget of the US military (the national defense budget in

appropriations and authorization bills before Congress) as reported in the press versus actual expenditures based on National Income and Product Accounts (NIPA) and finds that the news media, and thus the information received by the people of the US, is under-reporting the actual expenditures by 25%, or, 33% when interest payments are included. Brauer also compares and contrasts various military reporting standards (NIPA, NATO, Office of Management and Budget (OMB)) to give the reader a picture of the *process* of military accounting and the security purchased by investment in military human and physical capital and finds that even before 9/11 “economists argued that the US military expenditure had reached the point of diminishing returns with adverse effects on the economy” (p. 76). Gulay Gunluk-Senesen builds an input-output (I-O) model in an attempt to establish a methodology to measure “the economic value of arms” and finds, like Brauer, that differing measurement schema provides an under-evaluation of the costs of inputs due to the non-harmonization between ISIC (for production) and SITC (for trade) accounting standards. Both authors lay the groundwork for further analysis for improving the macro-measurements of the military in economies, however both authors are missing the onward costs of veteran’s benefits (for example as estimated for the Iraq ‘conflict’ in Joseph Stiglitz and Linda Blimes’ recent *The Three Billion Dollar War*).

Part three in the book is on the arms industry itself. J. Paul, Dunne, Maria Garcia Alonso, Paul Levine and Ron P. Smith start their paper with a narrative of the evolution of the arms industry beginning with the Cold War and show that “world military expenditures and arms exports peaked in the middle 1980s, fell gradually at first with improving East-West relations, then fell rapidly with the disintegration of the Soviet Union” (p. 97). The authors then use econometric analysis to show that an increasingly ‘high-tech’ military after the Cold War and the increase in R&D expenditures has led to a consolidation in the US arms industry, though less so than in comparable industries (commercial aerospace and pharmaceuticals). The authors suggest this bodes for further consolidation and that this is likely to “raise some difficult political issues as countries face powerful international arms monopolies” (p. 118). Luc Mampaey and Claude Serfati offer a history of the US financial market’s relationship with the military in a section called ‘Finance Moves into Armaments,’ and show that the mergers and acquisitions were encouraged both by the finance industry and the military. The stock market performance of the

military contractors was lackluster until 9/11 but by 2003 the top 15 defense contractors were majority-owned by institutional investors. The authors then expand their analysis to include what this author calls the *State-security complex*, the spending under the Department of Homeland Security, and show that stock market prices for military and security carry a growth premium not warranted by financial fundamentals, a growth premium that sharply increased with the invasion of Iraq in 2002.

The fourth section of *Arms, War and Terrorism in the Global Economy* deals with what Elsner has labeled the “Macro-Regional Case of the Greek-Turkish Conflict and the ‘Greater Middle East’” and for this reason is perhaps the weakest in the book, except for those of course interested in this region. The first two papers analyze the military tensions between Greece and Turkey. Andrew Michael gives the historical account of the impasse over Cyprus, specifically over the presence of the Turkish military in Cyprus. He describes the internal struggle over the military’s role in Turkish “economic, social, cultural, foreign and political affairs” (pages. 155-156) and states “the question that needs to be considered is whether these reasons [for the Turkish military’s presence on Cyprus] are still significant, honest, or justifiable given Cyprus’ accession to the EU and the new sociopolitical climate that has emerged” (p. 158). Michael also cites several studies which have shown that Turkish military expenditures have negatively effected the county’s economic growth and “contributed to Turkey’s indebtedness” (p. 162).

Christos Kollias and Susana-Maria Paleologou show that both Greece and Turkey, in contrast to most other nations after the Cold War, have increased their military share in the economy and that their “defense burden” is the highest amongst NATO and EU nations. The authors create a “tension index” to “see whether it is possible to trace and establish a perception behavior linkage in the case of defense spending” (p. 177). The index is based on Greek and Turkish military expenditures between 1985 and 2003 and Turkish violations of Greek airspace for the same period. The authors find that despite an improvement in rhetoric between the two countries (i.e. Greek support of Turkey’s EU ascendancy) Greek military expenditures is captured significantly by Turkey airspace violations. Kollias and Paleologou believe that as long as “strategic differences exist between the two countries, both will continue in the future to allocate substantial resources to defense thus depriving themselves and their peoples from the possible benefits of a

peace dividend” (p. 178). Galip Isen uses social theory and epistemology to create a critique of the Broader Middle East and North Africa Initiative (BMENAI) which came out of the 2004 G8 summit. He states that the initiative is “designer geography” (p. 205) in its calls for democratization in the region and states that it is “just another ‘practical’ response to political exigency” (p. 189). The initiative “sustains the primacy of force as a (false) modifier and unifier, while culture is supposed to serve as an ‘after-combat’ weapon” (p. 205). Finally, he quotes Jacques Barzun, “to replace by fiat one set of forms with another thought up by some improver, no matter how intelligent, ends in disaster” (p. 205).

The final section of the book is entitled ‘Problems of Terrorism and Perspectives on a More Peaceful Development’ and contains three papers, the most interesting to this author is by Wolfram Elsner entitled “Heterodox Economics and Radical Non-Intervention: Theses,” and offers a call to “do no harm” (p. 262). I will quote at length (p. 262),

One might say, “normal” imperialism is back, operating at a higher level. Against this background, any power-based, violent or military intervention is incapable of solving any problem (even if it appears capable of doing so). Any imported or exported solution is, and cannot help but be, more disastrous in the long run than any endogenously learned solution, however incomplete. Violent interventionism may force adaptation in the short run, but will impede adaptability in the long run (Gernot Grabher/David Stark), since it destroys the basis of real experience, local or national cultural learning, learned trust, openness to change willingness and inclinations to innovate.

Heterodox economics attempts to factor-in cultural and historical context into economic decision making and Elsner states that he is arguing from the heterodox economics concepts “of inter-regional cultural diversity and historical time” (p. 261).

The longest paper in the book, covering 50 pages, is Clark B. Abt’s “Countering Global Terrorist Use of Biological and Nuclear Weapons by Civil Means.” Abt gives many examples over time of military force and the unforeseen psychological effects on civilian population. He states that “prevention of WMD terrorist attacks on cities by pacification of terrorist intentions or retaliatory deterrence seems impossible in the current situation” and argues that civilian measures of reducing the damage caused by terrorist attacks is the best action today, “deterrence of biological weapons mass attacks might be gained by demonstrating a capacity to

greatly limit their damage” (p. 217). The author believes that deterrence of nuclear terrorism is harder, and long-term diplomacy of reducing the possibility of ‘loose’ nuclear devices provides the first line of defense. In the interim he recommends second and third-line defenses, including “decentralizing of the larger container ports into many smaller ones and remoting them from population centers, and the same for civil government functions” (p. 218). Decentralizing the ports, Abt believes, would allow 100% inspection of imports (this author disagrees and believes, just as with illegal immigrants, that 100% coverage is not possible and massive State-mandated movement of shipping and government infrastructures is an actual cost greater than the expected benefit). The author makes a strong argument that public health biodefenses and civil defense planning in the event of nuclear terrorism are “politically more attractive and unifying and less divisive, and cheaper, faster and more humane than purely military defenses (such as pre-emptive bombardment offenses)” (p 219). Abt also believes that nuclear arms control is more political feasible than disarmament in the long run and that one civilian preventative measure would be to assist North Korea and Iran with non-nuclear energy sources.

Abt provides a range of estimates of costs from bioterrorist and nuclear terrorist attacks in several categories including, deaths, property damage, and trade disruption and compares these with civil defense costs based on inadequate and improved defense. The author provides ample support for his estimates, including the costs incurred during the 2002 Los Angeles Port Strike and the Capital Hill smallpox cleanup, in addition to detailed industry analysis of the global nuclear materiel industry (drawn mostly from Graham Allison’s *Nuclear Terrorism*) and from his own work on biological preparedness.

The final paper by Lucy Webster is an analysis and critique of the current UN system as it has been used (or not used) to prevent crimes against humanity and recommends new modes of UN action to prevent these crimes, using the hypotheticals of earlier interventions in Kosovo and East Timor (sic) as an example. The author still has hope for the UN system and believes that an evolutionary approach to policy for interventions is the solution, “In fact international humanitarian law and peace are congruent, but the only forms of international intervention that would be legitimate have not yet been tried. This relates to the lack of creative evolutionary approaches to social science and policy”

(p. 265). The author proposes specific ‘best-practices’ criteria under which international humanitarian action should be exercised, including just cause, use of force only under testable objectives and proportionality, and a high probability of achieving a positive humanitarian outcome and impact of future norms. “The most benign form of intervention in defense of human rights would be to send UN Marshalls to apprehend individuals who commit crimes against humanity, war crimes or genocide. This could be done with almost no violence if there were strong convictions within the nation concerned that that these crimes should be stopped and prevented in the future” (p. 272). The author, rightly or wrongly, believes that the UN can be used as counterforce against empire. “Empires depend upon authoritarian decisions imposed from above with military force. The value of such force can be replaced with effective law-based action implemented by the people and by the United Nations” (p. 272).

Arms, War and Terrorism in the Global Economy Today: Economic Analyses and Civilian Alternatives is a highly readable, timely, and more often than not robust collection of diverse papers on the world we face today. Part history lesson, part economic analysis, part political and social science and half normative theory science, half positive science, this book is an excellent primer on the status of ‘peace economics’ and should be of interest to heterodox economists and those wanting (needing) to know more about the dangers and opportunities that lay ahead for all of us.

References

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Joseph E. Stiglitz and Linda J. Blimes, *The Three Billion Dollar War: The True Cost of the Iraq Conflict* (New York: Norton, 2008).

Paul Virilio and Sylvère Lotringer, *Pure War*, translated by Mark Polizzoti (New York: Columbia University, Semiotext(e) imprint, 1983)

The impact of terrorism and war is always negative for the economy, and physical destruction is a large reason why. Productive resources that might have generated valuable goods and services are destroyed, while other resources are almost invariably diverted from other productive uses to bolster the military and defense. Not all insurance companies payout in the event of international terrorism or foreign wars, so the impact is likely less than you might first expect. Nevertheless, terrorism is a risky business for everyone, and insurance companies hate risk as much as anyone else. As economist and historian Robert Higgs demonstrated in his book "Crisis and Leviathan," many government controls stay in place long after military campaigns end. Chapter in Wolfram Elsner (ed), Arms, War, and Terrorism in the Global Economy Today - Economic Analyses and Civilian Alternatives. Transaction Publishers, New Brunswick (NJ, US) and LIT, Zurich.. Dunne, J. Paul (1995) "The Defence Industrial Base", Chapter 14 in Keith Hartley and Todd Sandler (eds), Handbook in Defense Economics, Elsevier, pp. 592-623. Dunne, J. Paul (2006) "Sector Futures: Defence", Report for Cambridge Econometrics, 2006: European Monitoring Centre on Change website, a project of the European Foundation for the Improvement of Living and Working Conditions. <http://www.emc> Increase in military expenditures, the multiplication of wars, new generations of sophisticated weapons, and increased interest for defense stocks at the financial markets, indicate that a new type of relation between defense and economy has set in. The papers presented here investigate on what economics has to say on conflict, war, and terrorism today, a selection of sophisticated economic analyses of the theoretical and applied industrial, macroeconomic, fiscal-policy, financial market, regional, and alternative policies dimensions. @inproceedings{Elsner2007ArmsWA, title={Arms, War, and Terrorism in the Global Economy Today : Economic Analyses and Civilian Alternatives}, author={Wolfram Elsner}, year={2007} }. Wolfram Elsner.