

The Uneasy Relationship Between Economics and Security

BY ALEXANDER FERGUSON

The most publicly discussed link between economics and security is the relationship between economic performance and power. The underpinnings for this relationship come from the philosophical approach that sees political power stemming from economic power. Espoused at least since the 17th century by English Civil War philosopher James Harrington,¹ these ideas saw their most well known expression in the philosophy of Karl Marx, who saw economic change driving political change. If economic structures determined politics then the link with security is clear. Carl von Clausewitz's likened war to other areas of conflict within developed societies, such as commerce and politics: "It is a conflict of great interests which is settled by bloodshed, and only in that is it different from others."²

That economic performance can determine military power seems at first glance a given: the stronger the economy, the greater the military power; and the weaker the economy, the weaker the military power. Two examples from the last century illustrate the point: the U.S. defeat of Hitler's Germany and the collapse of the Soviet Union.

In the wishful thinking of Hermann Goering, Nazi Germany's Air Marshall and war economy czar, the United States was not much of a military threat as its economy in 1941 was capable of producing little more than refrigerators and razor blades. He estimated U.S. aircraft production at only one third of what it actually produced in the first year of war.³ Goering and Adolf Hitler over-estimated Germany's potential economic performance and under-estimated that of its opponents. The United States quickly ramped up production and became the so-called "arsenal of democracy", arming its allies while giving its own forces an overwhelming advantage in weaponry and supplies.

Ronald Reagan may have depicted an evil empire that threatened the world, but the Soviet Union was by the 1980s in deep economic trouble. Shackled by central planning, burdened by

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huge inefficiencies, suffering revenue declines as resource prices plumbed new depths, the Soviet economy was at most a third⁴ of the size of the U.S. economy and supported a bigger population in which life expectancy was declining and child mortality rising.⁵ As Soviet Foreign Minister Eduard Shevardnadze noted, the Soviet Union could no longer afford the Cold War: “By remaining stuck in the old positions, we would never stop the arms race, which was bleeding our already anemic country.”⁶ The Soviet economy ailed at a time of big advances in computerization and industrial productivity that left the Communist world behind. This threatened Soviet military power because Western superiority manifested itself in the development of whole weapons systems that outclassed anything the Communist world could produce.

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Some argue that an appreciation of the linkage between economic performance and power has long been fundamental for U.S. leaders. Alexander Hamilton, the first U.S. Treasury Secretary, urged President George Washington to “cherish credit as a means of strength and security.”⁷ It was this link that Republican presidential candidate Mitt Romney raised in his third debate with President Barack Obama. “In order to be able to fulfill our role in the world, America must be strong,” Romney said. “America must lead, and for that to happen, we have to strengthen our economy here at home.”⁸ Romney noted that Admiral Michael Mullen, Chairman of the Joint Chiefs of Staff, had described the U.S. debt burden as “the single

biggest threat” to U.S. security and that its enemies had noticed America’s economic problems. “How long can a government with a \$16 trillion foreign debt remain a world power?” Iranian President Mahmoud Ahmadinejad asked. “The Americans have injected their paper wealth into the world economy and today the aftermaths and negative effects of their pseudo-wealth have plagued them.”⁹

But the relationship between economics and security is not as obvious as these statements imply – and that is particularly true in today’s economic and security context. The greater complexity in the relationship between economics and security has occurred in recent years as power has become more diffuse. New powers have emerged since the end of the Cold War, with developing countries in recent years accounting for more than half of global economic growth. New security threats – terror networks and nuclear-armed rogue states – have emerged to replace the big power, state-on-state conflicts of the last century.

Economic strength may afford military strength, as the example above of World War Two shows, when industrial output can bring victory in a war of attrition between states. But military power is not totally dependent on economic success. The lack of economic power can be compensated for through the willingness to take casualties, especially against a foe who lacks the same willingness.

North Vietnam’s economy was reputedly so woefully developed that the United States air force had trouble finding enough targets to bomb. Supplied by Russian and Chinese allies and willing to suffer colossal casualties, North Vietnam fielded conventional forces to challenge U.S. and South Vietnamese troops as well as supplying an insurgency by the southern-based Viet Cong. The United States clearly had superior

economic and military power. But the North still prevailed in overcoming the South.

The relatively recent phenomena of second or third rate powers acquiring nuclear weapons and the risk of sharing them with terrorists has further changed the relationship between economic and military power. If countries are willing to ignore the welfare of their citizens, then they can pose major military threats despite poor economic performance. North Korea has an economy that has to import food to prevent starvation. Yet it threatens the world with a nuclear program. Iran's economy has buckled under the weight of sanctions. Yet it persists with a nuclear program and support of terrorism that poses a global threat. Pakistan was vanquished on the battlefield by India in the 1970s but now challenges South Asia's behemoth through its possession of nuclear arms and covert support for insurgents.

Military power can persist amid economic decline. The Soviet Union, despite its economic woes, remained a military threat right up until its 1991 break-up. Some argue that its demise shows how U.S. supremacy in the military and economic spheres forced the Soviet Union into a race it could not win. The arms race of the 1980s, argued U.S. Senator Richard Lugar, drove the Soviet Union "to the wall economically in an unsuccessful attempt to match the United States militarily."¹⁰ Rebutting this thesis, George Kennan said, "no great country has that sort of influence on the internal developments of any other one."¹¹ Others have pointed out that Soviet defense spending was already a huge burden on the economy and it did not increase in response to the Reagan arms build-up. Nor was defense spending a major factor in the Soviet economy's collapse.¹² It is therefore unclear whether the U.S. arms build-up was the deciding factor in the fall of the Soviet Union, with bungled reforms by Soviet leader Mikhail Gorbachev

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competing as a major cause for the Communist empire's unraveling.

Even if U.S. dominance in security and economics deterred the Soviet Union, it is no guarantee against asymmetric threats. These threats can come from actors that are militarily and economically insignificant. The 9/11 attacks on New York and Washington cost Al Qaeda between \$400,000-\$500,000 to execute,¹³ but they cost the U.S. economy trillions of dollars if one includes the Afghanistan and Iraq wars as part of the response.¹⁴ The economic and security superiority of the United States has enabled it to seriously degrade Al Qaeda, deploying drones and special operations to decapitate its leadership. But the threat remains a significant one. U.S. President Barack Obama's hosting of the 2010 Nuclear Security Summit in Washington, D.C., focused primarily on the security of nuclear material in an effort to counter the threat of nuclear terrorism.

Economic success does not bring lock-step dominance in security. China may be the world's second largest economy and is predicted to overtake the United States within the foreseeable future to become the world's biggest economy. But it is a long way from challenging the United States militarily. Germany and Japan are among the world's top five economies. For historical reasons, they have not pursued prominence in the security field even though they have economies that could support this ambition.

Germany and Japan have focused their global influence in the so-called "soft power" fields. These include trade, development, ideas,



Dod photo by Staff Sgt. Suzanne M. Jenkins, U.S. Air Force (released)

Staff Sgt. Samantha Yanez (center), of the 746th Expeditionary Airlift Squadron, carries a package from a U.S. Central Air Force's C-130 as part of a humanitarian relief mission to Kerman, Iran, on December 28, 2003.

diplomacy, culture and institutions. If economic performance and power are assessed, then this is mostly in terms of hard power. But wars, and therefore the need for hard power, have been on a historic downtrend for decades and soft power was seen in the ascendant already at the end of the Cold War.¹⁵

U.S. economic problems are seen as taking a toll on a broader swathe of American influence than just security, including many spheres of so-called “soft power”. This is affecting the ability of the United States to project power in many dimensions. “The United States will lose its

identity on the global stage if it loses its economic dynamism,” said Former World Bank President Robert B. Zoellick. “Therefore, the United States must address the fundamentals of its economic strength – because that power touches every dimension of influence – from markets and innovation, to ideas and international politics, to military strength and security.”¹⁶

The increasing complexity of the relationship between economics and security means that issues of economics, finance, energy, trade, climate change, and security – to name but a few – are closely intertwined with implications for

domestic politics and international relations. Two examples from today's headlines illustrate the point: the Euro crisis and the reshaping of U.S. energy supplies.

The Euro crisis registered barely a mention in the U.S. election campaign even though it has huge implications for major U.S. allies. The architects of European integration had hoped that a currency union would lay the foundations for political union. Yet the currency union's strains are causing political and social tensions that threaten the whole edifice of European unity. European initiatives in the economic-security area have foundered amid the persistent crisis. The collapse in October 2012 of the BAE-EADS defense deal, which could have formed a European-wide arms group, is not just the failure of yet another corporate merger. The deal was being watched closely as a test of European resolve to remain an actor in global defense. There are fears that its failure will cause further tensions between France, Germany, and Britain.¹⁷

The prediction by the International Energy Agency that the United States can be "almost self-sufficient in energy, in net terms, by 2035,"¹⁸ has wider implications than just the cost for Americans of heating their homes and fueling their cars. The U.S. military footprint in the Middle East is at stake. In this era of budget cuts, there will be pressure to scale down the U.S. military presence. At the same time, U.S. policymakers will have to remember that oil supplies also fuel the economies of Asia and that the sea-lanes to these economic powerhouses will need protecting. This could not only affect the relationship with China, but also allies such as Japan and South Korea.

Economic Blind Spots

The discipline of economics has a patchy record in strengthening security. Having generally shied

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away from explaining conflict, there began in the 1990s a proliferation of economic models of conflict in parallel with a wider expansion of economics into the social sciences.¹⁹ A primary example was the so-called "greed vs. grievance" work by economists Paul Collier and Anke Hoeffler. Investigating the causes of civil wars from 1960-1999, they argued that access to primary commodity resources and a large diaspora were more significant in causing conflict than grievances triggered by ethnic and religious divisions, political repression and inequality.²⁰ A specific criticism of Collier's later work by economist William Easterly and others is that the data collected does not back up his conclusions and confuses causation with correlation.²¹

A general criticism of economic theories of conflict is that economists forget that they are dealing with human beings, no doubt because human behavior is often unpredictable and perplexing. Human nature, as theologian Reinhold Niebuhr observed, is so complex that it supports any hypothesis on man's character and therefore too on what motivates him to war and acts of violence.²²

Keynes identified the problem of unpredictability when he drew the distinction between measurable risk and irreducible uncertainty. Too much of the economic theory of conflict presumes to measure risks that are in fact uncertainties because they often involve choices by individuals. As C. Cramer states in his critique of economic models of conflict: "... I argue that rational choice theories of conflict typically lay waste to specificity and contingency, that they sack the social and that even in their individualism

they violate the complexity of individual motivation, razing the individual (and key groups) down to monolithic maximizing agents."²³

The complexity of human decision-making is acknowledged in the World Bank's World Development Report 2011: Conflict, Security, and Development. The report represented a significant attempt by the world's leading development institution to integrate economics with security. World Bank President Zoellick gave the impetus for the report through his belief in "securing development", reflecting his concern that development experts and military planners must do more to work together in order to succeed in fragile and conflict-affected states. The report places people at the center of how to tackle repeat bouts of violence in developing countries. It argues, "that strengthening legitimate institutions and governance to provide citizen security, justice, and jobs is crucial to break cycles of violence."²⁴

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But the economic advice given by the World Bank and others to developing countries has not always been effective in preventing outbreaks of violence. Often, governments have deliberately ignored it because the changes recommended would threaten power structures.

One problem is that economic theory has emphasized getting the fundamentals right while the specifics of what is happening in an economy are less noticed. This is understandable. The fundamentals are important. Economic growth is seen as fundamental to achieving prosperous and stable societies. Poverty reduction usually occurs

with economic growth as the rising tide that lifts all boats. This belief is reflected, for example, in the sensible tenets of the so-called "Washington Consensus" of economist John Williamson,²⁵ and in the Growth Report led by Nobel Laureate Michael Spence.²⁶ Yet the lesson from recent events in the Middle East and North Africa is that getting the fundamentals right is not enough.

In Tunisia, for example, economists praised the country's economic performance. The World Bank's 2010 country brief bemoaned high unemployment but reported "Tunisia has made remarkable progress on equitable growth, fighting poverty and achieving good social indicators." According to World Bank measures, Tunisia had scored better than many other countries in the region on competitiveness even though the business environment was plagued with corruption.²⁷ The report refrained from saying anything about the repressive political system and the widespread corruption that put the ruling family in charge of lucrative businesses. As Financial Times journalist Roula Khalaf noted, the brief looked surreal when read later in light of the revolution that soon followed.²⁸

The fact was that much of the progress being made by Tunisia and other countries in the region was on paper alone. Governments signed up for reforms yet often failed to implement them. Governments in the region ignored – and in Egypt, stopped circulation of – an earlier World Bank report that pointed out the urgency of creating more jobs to respond to a youth bulge, and citing nepotism as a major constraint to opportunities. Egypt had a team of ministers under strong man Hosni Mubarak that was widely praised by western donors. It pushed through privatization and other reforms but Egypt remained a society where university graduates became waiters unless they had the right connections. Tunisia's national economic progress masked large regional

differences; with the coastal cities growing while the interior stagnated.

It was in the stagnating interior of Tunisia where street seller Mohamed Bouazizi set himself on fire after being harassed by police. All he wanted to do was to earn a living. Yet the police working for the corrupt regime would not even let him do that. His death sparked a revolution in Tunisia and across the Arab world that no one had anticipated.

Bouazizi's death spoke volumes about the lack of opportunity in an economy once lauded by France and other western governments. Tunisia's economic growth may have been fine. But the numbers ignored bigger problems. This economic growth was not inclusive enough. It did not give enough opportunity to people in Tunisia's interior, to the young, and to women. The country's governance problems, with the corrupt regime handing out jobs and businesses to its family and cronies, stifled opportunity.

The crisis in the Middle East and North Africa revealed a major disconnect between economics and security caused by a blind spot in the economics profession. According to the economic models, the countries in the region were enjoying economic growth and should have been stable societies. But the lesson is that while economies grow, this growth can hide huge inequalities and marginalized communities that harbor grievances waiting to explode. An older name for the discipline of economics was "political economy". Ignoring the "political" in "political economy" has serious consequences.

Security and Development

How can economists better contribute to understanding security issues? One area is in anticipating the problems caused by security for the economy and being aware of the interconnections between

international donors to warn of the impending consequences and to suggest strategies to cope with them

the two. This has the potential to strengthen security and promote economic activity.

In Afghanistan, the World Bank team raised an issue in 2011 that few had given thought to as they prepared for the 2014 withdrawal of foreign troops: would the Afghan economy be able to provide for the country after the foreigners left? This was no an idle question. Without a viable economy, there would be little hope of Afghanistan ever paying for its own police and military; little prospect of its government becoming legitimate in the eyes of its people through providing services; and little chance of providing the jobs and opportunities to draw recruits away from the insurgency.²⁹

Boosted by military spending flowing in to construction and services as well as by a strong harvest, the Afghan economy is forecast to grow at around 10 percent in 2012 compared to 7.3 percent the year before.³⁰ But this progress could come undone with an abrupt withdrawal of military spending and donor support. Military spending was estimated from 2010 to 2011 at more than \$100 billion, while spending on aid could have been as high as \$15.4 billion compared to an economy worth around \$16.3 billion.³¹

Anticipating that the drawdown would hurt most in construction and services, particularly transportation, distribution and security, the World Bank team reached out to the military and international donors to warn of the impending consequences and to suggest strategies to cope with them.

Their first recommendation was that militaries and donors should do more to increase spending within Afghanistan. Much of the

military and other aid was spent outside the country. They urged shifting more funding to local contractors and suppliers to bring spending to Afghanistan and to employ more Afghans. Even with a decline in military spending, this could soften the effect significantly.³²

A second recommendation was to channel more aid through the Afghan government. Only 15 percent of aid went through the government's budget. Putting more aid through the budget was another way to raise the share of contracts won by local businesses. This was not an easy argument to make, given Afghanistan's poor reputation for governance and corruption. In arguing for this step, the World Bank also worked with the Finance Ministry to build capacity within the Afghan government, including rigorous anti-corruption safeguards.³³

A third recommendation was to get the Afghans to pay for more themselves. The World Bank said that reforms by the Afghan government could increase domestic revenue by 16 percent a year, growing to around 13 percent of GDP by 2019. These reforms included progress in customs reforms, a new value-added tax in 2014 and collection of mining revenue.³⁴

A final recommendation was to do more to promote the private sector so that it could become a more significant provider of jobs and tax revenue. Afghanistan ranks near the bottom in the World Bank's Doing Business report, which measures the ease of doing business across the globe. Apart from security and corruption, businesses in Afghanistan must contend with expensive and unreliable power, no proper land registration system and weak legal structures. With private investment to help fund exploration, improve capacity and build appropriate infrastructure, mining, oil and gas could boost the country's economic development. Agriculture can also be improved. More

investment will be needed in irrigation and across the production chain to get produce to domestic and foreign markets.³⁵

These recommendations were discussed at international meetings on Afghanistan in Bonn, Chicago and Tokyo and have become part of the planning for the country's future after foreign troops withdraw.

They show how economics – when used to anticipate problems caused by security – can play a key role in helping bolster security. The road ahead though, for Afghanistan, is likely to be a difficult one even if these measures are fully implemented.

Conclusion

There is still a long way to go before economics is successfully integrated with security.

In its National Security Strategy, the Obama administration has said that it focuses on "a commitment to renew our economy, which serves as the well-spring of American power."³⁶ The State Department's chief economist has said that the administration has moved to fully integrate economics into the national security framework.³⁷ This may be happening at the State Department. But it has to happen across all the pillars of government for it to have a real effect. In particular, lawmakers and the White House need to understand that confrontations over the debt ceiling or fiscal cliff influence U.S. power globally from "hard" to "soft" power.

There is now a greater need than ever for economists to understand how to support security. The global financial crisis has shown that economics based on mathematical assumptions can be a poor way to understand reality. Banks relied on risk models that were abruptly junked when markets collapsed. Economists have to get their fingernails dirty in understanding what

is really going on in an economy. They need to understand that an economy is made up of people making millions of individual decisions. The economic fundamentals are important but they are not enough. Indicators of inclusiveness, openness, transparency, and opportunity in a society can be more important guides to stability and security.

Conflict in our era has shifted from state-on-state violence to intra-state conflict, much of it in developing countries. It is in these states that understanding the interplay between economics and security can make huge differences. Economists should do more to anticipate problems caused by security. Military planners need to take more account of the economic effects of their actions. More needs to be invested in bringing economic and security planning together. The economic and security problems of fragile and conflict affected states may seem insignificant to many in developed countries. But they can become home to anyone from terrorists to drug gangs to pirates that threaten global security. They can spawn killer diseases with world reach or contribute to global climate change when illegal logging denudes forests.

The relationship between economics and security has become more complex since the end of the Cold War. This greater complexity has revealed shortcomings in our understanding of the interplay between the two. These are shortcomings we ignore at our peril. **PRISM**

Notes

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