CHAPTER 1

What Does Finance Want?

Is your money that good?
—*Bob Dylan*

Bankers dread war. More precisely, financial communities within states favor cautious national security strategies and are acutely averse to war and to policies that risk war. This general rule holds across time and place, in a wide variety of political and economic settings. This chapter explains why finance has these preferences. The chapters that follow probe and evaluate this argument, and consider its implications for contemporary international politics. The short answer is: finance wants macroeconomic stability. Because war is largely incompatible with macroeconomic stability, the financial community is especially leery of risking armed conflict. This disposition is an important influence in contemporary international relations and will remain so, especially for as long as financial globalization endures.

The principal argument of this book is that the caution of finance and its strong aversion to war are virtually universal traits; they are extraordinarily remarkable regularities that provide scholars of international relations with an important analytical tool for understanding world politics. The preferences of finance, especially since they are not felt with equal force in all states, affect the balance of power between states and influence the pattern of international conflict. Additionally, illustrating how the macroeconomic policy predilections of finance forge its foreign policy preferences enhances our understanding of the security strategies and choices that states embrace, by providing insights into how the definition of the national interest, and how best to advance that interest, is debated and contested by actors within societies.

For many inquiries, it would seem (and it often is) inappropriate to lump together a potentially diverse group of actors with occasionally divergent interests under the heading of finance. However, while acknowledging this, I argue that finance—meaning banks, the financial services sector, insurance companies, attendant financial institutions, various exchange markets (especially for currencies, bonds, and equities), and their allies and affiliates in government (almost always central banks and usually treasury departments)—share a deeply held set of preferences regarding the basic domestic macroeconomic environment in which they operate. Thus only two claims are in effect here: these actors share a basic disposition regarding the management of the economy, and this disposition, this package of policy preferences, represents strongly held first principles that reflect the fundamental material and institutional interests of the parties concerned. I do not assume that members of the financial community are in agreement on other issues; nor do I argue that finance acts in concert to advance its shared interests.

This basic disposition of the financial community is common across disparate countries and consistent over long periods of time. Finance, above all else, wishes to operate in a macroeconomic environment conducive to its interests. In a phrase, the ideal playing field is one of "macroeconomic stability."[1] In practice, this means low inflation and, just as important, policies designed to keep inflation low, robust and predictable real interest rates, stability in and maintenance of the value of the exchange rate and unfettered access to international financial centers abroad, balanced government budgets, modest government spending, low rates of taxation, and small and clearly sustainable levels of government debt.

War and Monetary Disorder

The problem for finance is that war, and even policies that risk war, tends to undermine each and every one of these core preferences. War almost always results in inflation and the erosion of monetary discipline, gyrations in real interests (with negative real rates common as inflation outpaces nominal increases), exchange rate depreciation and instability, interruptions in international financial flows, and huge increases in government spending, partly offset by increased taxes but typically resulting in unbalanced budgets facilitated by expanding government debt and monetization (printing more money to pay the bills).

In the history of the United States, wartime inflation has been as American as apple pie. Indeed, militarized macroeconomic mayhem predates the establishment of the republic. Massachusetts racked up large debts and liberally issued paper money during King William's War (1689–97) and Queen Anne's War (1702–13). During the Seven Years' (French and

[1] As one astute reader pointed out, both "macroeconomic" and "stability" are used imprecisely here. There are many key macroeconomic variables, such as output, growth, and employment, which are not of paramount concern to the financial community. Also, an annual inflation rate of 40 percent would technically be more stable than rates that bounced around from 1 to 5 percent each year, yet finance would prefer the latter outcome. Thus the phrase "macroeconomic stability" should be understood simply as shorthand for the package of policy preferences and outcomes described here.

Indian) War many of the colonies resorted to the issue of paper notes to meet expenses, but even those that faithfully retained hard currency standards experienced wartime inflation. These difficulties, acutely felt at the time, proved to be but a warm-up for the collapse in the value of the Continental Currency during the Revolutionary War, which led to the once-common idiom "not worth a Continental."[2] Since independence, the American way of financing war has typically been to divide the effort between new debt, money creation, and some increases in taxes. A common consequence of this has been inflation and "debt that ultimately yielded large, negative returns to bond holders." Runaway inflation from the issue of greenbacks in the North and Confederate notes in the South during the Civil War is well established in American lore; but it was the War of 1812 that led to the first issue of circulating treasury notes, and the economic management of that conflict caused "very near[ly] a financial breakdown." In its wars of the twentieth century, America did not flirt as intimately with financial ruin, but the United States nevertheless emerged from its international conflicts carrying a legacy of inflation, larger government, and increased public debt.[3]

These wartime consequences and burdens do not pass unnoticed by the financial community. The costs and financial management of the Vietnam War weakened the dollar both at home, in the form of increased inflation, and abroad, by undermining the gold-dollar link at the foundation of the Bretton Woods international monetary regime (which collapsed in 1971). Even radical critics of U.S. foreign policy acknowledge that by 1968 the American financial community was very alarmed by the economic consequences of the war. Public statements by leading officers of major U.S. banks in a variety of venues linked the war with the problems of inflation,

[2] Robert J. Schiller, "The Invention of Inflation-Indexed Bonds in Early America" (NBER Working Paper 10183, December 2003), pp. 5–7, 11; Elmus Wicker, "Colonial Monetary Standards Contrasted: Evidence from the Seven Years' War," *Journal of Economic History* 45:4 (December 1985), pp. 872, 874, 876; Willard C. Fischer, "The Tabular Standard in Massachusetts History," *Quarterly Journal of Economics* 27:3 (May 1913).

[3] Lee E. Ohanian, *The Macroeconomic Effects of War Finance in the United States: Taxes, Inflation and Deficit Finance* (New York: Garland, 1998), pp. 3, 8 (quote), 12, 14, 62–63; Donald H. Kagin, "Monetary Aspects of the Treasury Notes of the War of 1812," *Journal of Economic History* 44:1 (March 1984), pp. 69, 77, 85–86; Charles J. Bullock, "Financing the War," *Quarterly Journal of Economics* 31:3 (May 1917), p. 360 (quote), 362, 366; Hugh Rockoff, "Price and Wage Controls in Four Wartime Periods," *Journal of Economic History* 41:2 (June 1981), pp. 381, 386; Arthur A. Stein, *The Nation at War* (Baltimore: Johns Hopkins University Press, 1978), pp. 57, 77; James L. Clayton, "The Fiscal Cost of the Cold War to the United States: The First 25 Years, 1947–1971," *Western Political Quarterly* 25:3 (September 1972), p. 389; George A. Lincoln, *Economics of National Security: Managing America's Resources for Defense* (New York: Prentice Hall, 1954), pp. 419, 421–22; Milton Friedman, "Price, Income, and Monetary Changes in Three Wartime Periods," *American Economic Review* 42:2 (May 1952), pp. 615, 618.

international monetary disorder, and attacks on the dollar; Federal Reserve chair William McChesney Martin warned that the management of the war economy had led to "an intolerable budget deficit and an intolerable deficit in our balance of payments."[4] While increasing dissent regarding the war could be heard from other members of the business community, it was finance whose interests felt the burdens of the war most directly and acutely.

What is remarkable about the American experience with wartime monetary upheaval is that it represents the rule, not the exception, across time and place. The association of war with macroeconomic instability is an enduring historical regularity, especially in the nineteenth and twentieth centuries, but with clear antecedents that stretch back throughout recorded history.[5]

From ancient times, debt, debasement (reducing the precious-metal content of coins in order to stretch the state's purchasing power), and even early experiments with paper currency and its debauchment were common features of war as money-starved governments resorted to what-

[4] Robert Buzzanco, "What Happened to the New Left? Toward a Radical Reading of American Foreign Relations," *Diplomatic History* 23:4 (Fall 1999), pp. 593–94, 595 (Martin quote); Helmut Kramer and Helfried Bauer, "Imperialism, Intervention Capacity, and Foreign Policy Making: On the Political Economy of the US Intervention in Indochina," *Journal of Peace Research* 9:4 (1972), pp. 291–92, 294; postrevisionist scholarship also describes the "intertwined . . . problems of the balance of payments, the Vietnam War, and the strength of dollar"; see Robert M. Collins, "The Economic Crisis of 1968 and the Waning of the 'American Century,' " *The American Historical Review* 101:2 (April 1996), pp. 401, 406 (quote), 415; Kevin Boyle, "The Price of Peace: Vietnam, the Pound, and the Crisis of American Empire," *Diplomatic History* 27:1 (January 2003), p. 71, and Francis J. Gavin, *Gold, Dollars and Power: The Politics of International Monetary Relations, 1958–1971* (Chapel Hill: University of North Carolina Press, 2004). See also Lawrence Klein, "The Role of War in the Maintenance of American Economic Prosperity," *Proceedings of the American Philosophical Society* 115:6 (December 1971), pp. 507–8, 511–12, 516.

[5] On the general relationship between war and macroeconomic distress, see R. Anton Braun and Ellen R. McGrattan, "The Macroeconomics of War and Peace," in *NBER Macroeconomics Annual 1993* (Cambridge, MA: MIT Press, 1993); Earl J. Hamilton, "The Role of War in Modern Inflation," *Journal of Economic History* 37:1 (March 1977); David Hackett Fischer, *The Great Wave: Price Revolutions and the Rhythm of History* (New York: Oxford University Press, 1996); Robert J. Barro, "Government Spending, Interest Rates, Prices and Budget Deficits in the United Kingdom, 1701–1918," *Journal of Monetary Economics* 20 (1987); Daniel K. Benjamin and Lewis A. Kochin, "War, Prices and Interest Rates: A Martial Solution to Gibson's Paradox," in Michael D. Bordo and Anna J. Schwartz (eds.), *A Retrospective on the Classical Gold Standard* (Chicago: University of Chicago Press, 1984); Herschel I. Grossman, "The Political Economy of War Debts and Inflation" (NBER Working Paper 2743, October 1988); Willard L. Thorp, "Postwar Depressions," *American Economic Review* 30:5 (February 1941); Henry Oliver, "War and Inflation Since 1790 in England, France, Germany and the United States," *American Economic Review* 30:5 (February 1941).

ever techniques they could call upon or invent to support their armies in the field. The Peloponnesian War forced Athens to debase its coins due to the "stress of the war and its consequences." (Arthur Burns compared the monetary disorder of that time to the terrible inflationary consequences of the First World War.) Some fifteen hundred years later, the stability of the unshakable Byzantine gold coin was lost to the financial strains of war; on the other side of the world, in the twelfth century, the Song dynasty in China resorted to paper currency to meet its mounting wartime expenditures; a century after that, the occupation of South China (with the fall of the Southern Song) was financed by a tenfold increase in the issue of paper money. The European wars of the late Middle Ages and the Renaissance, generally across the Continent but most notably involving Britain and France, were often long and expensive affairs that also led to considerable monetary disorder.[6]

In more modern times, especially with the more common use of paper currency and innovative forms of state finance, the relationship between war and macroeconomic distress became even more intimate. The Napoleonic Wars challenged state treasuries across the Continent: Spain borrowed heavily, expanded the issue of paper currency dramatically, and was left to wrestle with the consequences of inflation and depreciation. Even Britain, which avoided Spain's financial blunders, was forced to break with gold and borrow money to fight and endure its own inflationary episode. Ironically, France, having previously shredded its credibility as an international borrower as a result of the hyperinflation of the assignats that financed the French Revolution, suffered relatively less macroeconomic distress, though at the cost of a dramatic increase in domestic

[6] Arthur Burns, *Money and Monetary Policy in Early Times* (New York: Augustus M. Kelley, 1965 [1927]), pp. 377 (quote), 378, 365–66, 385, 392, 406; see also Thomas Figueira, *The Power of Money: Coinage and the Politics of the Athenian Empire* (Philadelphia: University of Pennsylvania Press, 1998), pp. 496–98, 508–11; Costas Kaplanis, "The Debasement of the 'Dollar of the Middle Ages,' " *Journal of Economic History* 63:3 (September 2003), pp. 768, 782, 795; Richard von Glahn, *Fountain of Fortune: Money and Monetary Policy in China, 1000–1700* (Berkeley: University of California Press, 1996), pp. 51, 60–61; Nathan Sussman, "Debasements, Royal Revenues, and Inflation in France during the Hundred Years' War, 1415–1422," *Journal of Economic History* 53:1 (March 1993), p. 45; Akira Motomura, "The Best and Worst of Currencies: Seigniorage and Currency Policy in Spain, 1597–1650," *Journal of Economic History* 54:1 (March 1994), pp. 105–6, 110, 117–18; Richard A. Kleer, " 'The Ruine of Their Diana': Lowndes, Locke, and the Bankers," *History of Political Economy* 36:3 (Fall 2004), pp. 533, 535; Harry A. Miskimin, *Money and Power in Fifteenth-Century France* (New Haven: Yale University Press, 1984), pp. 54–60; Carl Wennerland, "The Death Penalty as Monetary Policy: The Practice and Punishment of Monetary Crime, 1690–1830," *History of Political Economy* 36:1 (2004), pp. 134, 150.

taxation, including the introduction of an income tax.[7] Other wars left similar results. To help pay for the Crimean War, the Ottoman Empire expanded the production of the paper *kaime*, which in short order lost half of its value and generated considerable popular discontent. Throughout the second half of the nineteenth century, neighboring Greece suffered crisis-related spikes in defense expenditures that generated budget deficits, monetization, and inflation—its 1897 war with Turkey was financed by paper money creation and a further surge in inflation.[8]

Russia's troubled monetary history was deeply intertwined with its military adventures. From the late eighteenth century, Russia's ambitions as a great power brought about increased taxation but still did not raise enough revenue to avoid chronic budget deficits, financed by expanded emissions of paper money and foreign loans. Monetary instability accompanied the first Turkish war and the wars with Sweden, Poland, and Persia (and Turkey again) that followed. Contrapositively, the currency reform of 1839–43 was possible only after a decade of peace; this was washed away by the flood of rubles printed to finance the Crimean War (the money supply doubled during the conflict). The subsequent monetary rehabilitation of 1868–75 was set back by the military spending, monetization, inflation, and indebtedness caused by the war with Turkey in 1877–78, a pattern that was repeated during the Russo-Japanese War. As one scholar of Russian macroeconomic history concluded, "The [monetary] expansions of 1853–57, 1877–78, and 1905 resulted from budget deficits due to heavy expenditures for the Crimean, Balkan, and Japanese Wars, respectively."[9]

[7] Earl J. Hamilton, "War and Inflation in Spain, 1780–1800," *Quarterly Journal of Economics* 59:1 (November 1944), pp. 36, 53, 55, 57; Michael D. Bordo and Eugene N. White, "A Tale of Two Currencies: British and French Finance during the Napoleonic Wars," *Journal of Economic History* 51:2 (June 1991), pp. 303–4, 309–10, 314–15; Thomas J. Sargent and François R. Velde, "Macroeconomic Features of the French Revolution," *Journal of Political Economy* 103:3 (June 1995), pp. 474–518.

[8] Sevket Pamuk, "The Evolution of Financial Institutions in the Ottoman Empire, 1600–1914," *Financial History Review* 11:1 (2004), pp. 18, 25–26; Sevket Pamuk, *A Monetary History of the Ottoman Empire* (Cambridge: Cambridge University Press, 2000), pp. 142, 211, 214; Christopher Clay, *Gold for the Sultan: Western Bankers and Ottoman Finance, 1856–1881* (London: I. B. Tauris, 2000), pp. 47–49; Haim Gerber and Nachum T. Gross, "Inflation or Deflation in Nineteenth-Century Syria and Palestine," *Journal of Economic History* 40:2 (June 1980), p. 353; Sophia Lazaretou, "Monetary and Fiscal Policies in Greece, 1833–1914," *Journal of European Economic History* 22:2 (Fall 1993), pp. 291–92, 297–98.

[9] Olga Crisp, "Russian Financial Policy and the Gold Standard at the End of the Nineteenth Century," *The Economic History Review*, n.s., 6:2 (1953), pp. 156–57; Haim Barkai, "The Macro-Economics of Tsarist Russia in the Industrialization Era: Monetary Developments, the Balance of Payments, and the Gold Standard," *Journal of Economic History* 33:2 (June 1973), pp. 344, 345 (quote), 354, 357; William C. Fuller, *Strategy and Power in Russia, 1600–1914* (New York: Free Press, 1998), pp. 100–102, 269, 338–39, 405.

And, of course, no discussion of the macroeconomic consequences of war could be complete without reference to World War I, which overturned the preferences of finance one by one as if working its way methodically down a list—widespread suspension of convertibility, the disruption of international finance, ever greater government expenditures and accumulations of debt, more and more taxation, and finally an increasingly desperate expansion of the money supply when all other options were exhausted, leading to the complete collapse of the domestic and international European monetary order—which then contributed considerably to the crises of the interwar years.[10]

These pathologies have by no means been limited to the United States or to Europe and its periphery. South America's wars (more common before the remarkable long peace of the twentieth century, a puzzle worthy of further attention) visited the same macroeconomic consequences on their participants. War between Argentina and Brazil in the 1820s brought about a "monetary cataclysm" in Argentina; the Brazilian real lost half of its value. The real fared even worse during the War of the Triple Alliance (1864–70); while all of the combatants struggled with wartime inflation and Paraguay was left bankrupt and in ruins, Brazil, even in victory, faced the music of a fivefold increase in its money supply, generated to fight the war. The Pacific War (1879–83) caused monetization, inflation, depreciation, and a burdensome debt in Chile, and even more dramatic "intense monetary instability" in Peru, where inflation approached 800 percent.[11]

[10] T. Balderston, "War Finance and Inflation in Britain and Germany, 1914–1918," *Economic History Review*, n.s., 42:2 (May 1989), pp. 223, 237; Pierro Sraffa, "Monetary Inflation in Italy During and after the War," *Cambridge Journal of Economics* 17 (1993 [1920]), pp. 10–11, 14, 18–20; Boris Bakhmeteff, "War and Finance in Russia," *Annals of the American Academy of Political and Social Science* 75 (January 1918), pp. 192–93, 196–98; E. Dana Durand, "Currency Inflation in Eastern Europe with Special Reference to Poland," *American Economic Review* 13:4 (December 1923), pp. 593, 597; Hamilton, "The Role of War," p. 17; John Maynard Keynes, *The Economic Consequences of the Peace* (London: Macmillan, 1971 [1919]), pp. 148–57.

[11] Miguel Angel Centeno, *Blood and Debt: War and the Nation State in Latin America* (University Park: Penn State University Press, 2002), p. 132 (quote); I. Grinfeld, "Monetary Experiences of the Argentine Republic," *Political Science Quarterly* 25:1 (March 1910), pp. 110, 112–14; F. J. McLynn, "Consequences for Argentina of the War of the Triple Alliance 1865–1870," *The Americas* 41:1 (July 1984), pp. 89, 92; Norman T. Strauss, "Brazil after the Paraguay War: Six Years of Conflict, 1870–6," *Journal of Latin American Studies* 10:1 (May 1978), pp. 23, 35; Diego Abente, "Foreign Capital, Economic Elites and the State in Paraguay during the Liberal Republic (1870–1936)," *Journal of Latin American Studies* 21:1 (February 1989), p. 62; Vera Blinn Reber, "The Demographics of Paraguay: A Reinterpretation of the Great War, 1864–70," *Hispanic American Historical Review* 68:2 (May 1988), p. 316; Paul Gootenberg, "Carneros y Chuno: Price Levels in Nineteenth-Century Peru," *Hispanic American Historical Review* 70:1 (February 1990), pp. 6, 32 (quote); see

In every part of the world, and up to the present day, the song remains the same. Almost invariably, wherever and whenever there has been war, money has come under pressure, as seen in countless examples. Even Meiji Japan's successful wars of the 1890s and 1900s disrupted the country's finances and caused macroeconomic distress. China's unhappy decade of war after 1937 saw inflation jump to 27, 51, and 181 percent in the first three years of the fighting and then remained in triple digits. The financial economy was paralyzed; with negative real interest rates, banks were increasingly unwilling to engage in the business of lending.[12] In Korea the money supply doubled in 1951 and again in 1952; rampant wartime inflation was a problem throughout the peninsula. War rattled India's macroeconomic stability in the 1960s, and the Iran-Iraq War of the 1980s had similarly predictable effects. In the 1990s war between Armenia and Azerbaijan ensured the descent of both countries' currencies into hyperinflation.[13] History provides fewer messages with more clarity: war is an open invitation to macroeconomic disorder.

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also pp. 28, 30 for Peruvian inflation caused by other nineteenth-century wars; Thomas F. O'Brien Jr., "Chilean Elites and Foreign Investors: Chilean Nitrate Policy, 1880–82," *Journal of Latin American Studies* 11:1 (May 1989), pp. 106–7, 111–12, 115, 118; Guillermo Subercaseaux, *Monetary and Banking Policy of Chile* (Oxford: Clarendon Press, 1922), pp. 92, 94, 199 (note also the civil war inflation of 1891 and defense spending increases due to border tensions with Argentina, disrupting plans for monetary reform in 1894, 1895, and 1898, pp. 101–2, 110, 133); see also Frank W. Fetter, *Monetary Inflation in Chile* (Princeton: Princeton University Press, 1931), pp. 32, 43.

[12] Hugh T. Patrick, "External Equilibrium and Internal Convertibility: Financial Policy in Meiji Japan," *Journal of Economic History* 25:2 (June 1965), pp. 198, 204; Guenther Stein, "Japanese State Finance," *Pacific Affairs* 10:4 (December 1937), pp. 393–95, 397; Choh-Ming Li, "Inflation in Wartime China," *Review of Economics and Statistics* 27:1 (February 1945), pp. 23, 27, 32; Andrew Chung Huang, "The Inflation in China," *Quarterly Journal of Economics* 62:4 (August 1948), pp. 563, 568–69, 572; Frank M. Tamaga, "China's Postwar Finances," *Pacific Affairs* 81:2 (June 1945), pp. 120, 122–24; Colin D. Campbell and Gordon C. Tullock, "Hyperinflation in China, 1937–49," *Journal of Political Economy* 62:3 (June 1954), pp. 237–39.

[13] Colin Campbell and Gordon Tullock, "Some Little-Understood Aspects of Korea's Monetary and Fiscal Systems," *American Economic Review* 47:3 (June 1957), pp. 336, 338–39; Youngil Lin, "Foreign Influence on the Economic Change in Korea: A Survey," *Journal of Asian Studies* 28:1 (November 1968), pp. 90–91, 92–93; Rahul Mukherji, "India's Aborted Liberalization—1966," *Pacific Affairs* 73:3 (Autumn 2000), pp. 376, 379; David Denoon, *Devaluation under Pressure: India, Indonesia, Ghana* (Cambridge, MA: MIT Press, 1986), p. 41; Abbas Alnasrawi, *The Economy of Iraq* (Westport, CT: Greenwood Press, 1994), pp. 80–81, 88, 98–99, and Thierry Gongora, "War Making and State Power in the Contemporary Middle East," *International Journal of Middle East Studies* 29:3 (August 1997), pp. 325, 327; Suzanne Godenberg, *Pride of Small Nations: The Caucasus and Post-Soviet Disorder* (London: Zed Books, 1994), pp. 73, 79, 270; Anders Åslund et al., "How to Stabilize: Lessons from Post-Communist Countries," *Brookings Papers on Economic Activity* 1 (1996), pp. 225, 232. For an illustration from Africa, see Ben Naanen, "Economy within an Economy: The Manilla Currency, Exchange Rate Instability and Social

The Argument

The principal argument of this book is that because of the macroeconomic consequences of war, financial communities within countries will be among the most cautious elements when it comes to waging war or supporting foreign policies that risk war. Note that this is an *indirect* argument: finance is cautious about risking war because of war's economic consequences, not because of any inherent preferences about the particular international controversy in question or attitudes about the legitimacy of competing claims in a given international conflict. Rather, the financial community's aversion to armed conflict is a residual of its basic disposition in favor of macroeconomic stability. This is also a *relative* argument—the claim is not that finance always opposes war, but rather that, as a general rule, finance will be among the most cautious and reluctant to risk and initiate war.[14]

The aversion of finance to war has been noted by many others in the past, especially in the more distant past. The "mere hint" of international friction has been held responsible for unsettling money markets; French premier Jean-Baptiste Villèle (who served as his own finance minister) neatly captured the foundation of these sentiments in 1827, when, reluctant to celebrate the conclusion of a modest and successful military operation, he noted tersely, "Cannon fire is bad for good money." The interests of insurance companies are perhaps even more transparent in this regard. "War brings ruin," one advocate stated plainly. "The business of insurance is naturally allied with the forces that make for peace." Almost a century ago prominent financial observer Alexander Noyes explained that not only is the banking community inherently trepidant about war—as a "general rule . . . capital is slow to rush into war excitement"—but, further, no other actors in society were "fitted by instinct, training, disposition, and opportunity to insist that the government go slow in committing the country to a program of war." Years later, Karl Polanyi would assert that *haute finance* acted purposefully to prevent war from breaking out between Europe's great powers; he held that these efforts were crucial in facilitating the long peace of the nineteenth century.[15]

Conditions in South-Eastern Nigeria, 1900–48," *Journal of African History* 34:3 (1993), pp. 437, 442, 445.

[14] This construction (relative as opposed to absolute caution) does not undermine the falsifiability of the argument; however, as discussed later, it does influence the basis upon which the argument could be falsified.

[15] Hartley Withers, *The Meaning of Money* (London: Smith, Elder, 1909), p. 155 (first quote); André Jardin and André-Jean Tudesq, *Restoration and Reaction, 1815–1848* (Cambridge: Cambridge University Press, 1983), p. 69 (Villèle quote); David Starr Jordan, "War, Business and Insurance," *The Scientific Monthly* 1:2 (November 1915), p. 175 (quotes);

Despite the fact that these observations, and others like them, have been expressed in the past, there has been no systematic investigation into the proposition of the caution of finance on the road to war. Such an investigation is the purpose of this book. If financial caution is indeed a broad and general empirical regularity, then this book will contribute to an understanding of the behavior of states in world politics and of international relations more generally. Moreover, this finding generates an additional implication that I discuss in the concluding chapter: that the behavior of international financial markets can discourage states from embarking on the path toward war. The logic is as follows: if war unnerves finance, and if international financial markets reflect the cumulative sentiments of uncoordinated market actors, then finance (figuratively) will withdraw from, or at least be especially wary of, those states that seem to be approaching the precipice of armed conflict. The greater the significance of international finance, the more important this factor should be. By raising the opportunity costs that states face when considering a resort to arms, financial globalization can serve, ceteris paribus, to inhibit war; crucially, however, states will vary considerably in their sensitivity to such pressures. Thus, while the argument of this book is principally that bankers within states are more likely than others to favor appeasement, it also introduces the implication that international relations will at times be affected by the pressures states feel to appease the bankers.

No Theory of War: A Partial Equilibrium Approach

In the context of the discipline of international relations, this book is at the same time ambitious and modest in its reach. It is ambitious with regard to its strong claims of generalizability regarding financial caution across time and place—this proposition approaches a lawlike statement. On the other hand, it is comparatively modest in terms of expectations about what this argument can tell us about the specific behavior of states and about particular outcomes in international politics. The findings of this book are rich with implications for understanding state behavior and world politics, including the prospects for U.S. power, the implications of the rise of China, and the vulnerability of weak states to insurgent groups

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Alexander D. Noyes, "International Arbitration and International Finance," *Journal of Political Economy* 30:3 (March 1912), pp. 256, 261 (quotes); Karl Polanyi, *The Great Transformation: The Political and Economic Origins of Our Time* (Boston: Beacon Press, 1957 [1944]), pp. 9–11, 14. See also Jacob Viner, "The Economic Problem," in George B. de Huszar (ed.), *New Perspectives on Peace* (Chicago: University of Chicago Press, 1944), pp. 89–90, 96–98; Lionel Robbins, *The Economic Causes of War* (New York: Macmillan, 1940), p. 58; and Roberto Rigobon, "The Effects of War Risk on U.S. Financial Markets" (NBER Working Paper 9609, April 2003), pp. 2, 11.

(these and other issues are explored in the conclusion). But it nevertheless holds a circumscribed view of what scholarship in international relations can hope to offer in terms of prediction.

In particular, this book has no theory of war. That is, I make no predictions about when war will occur. This requires some brief elaboration and justification because predicting war, with a greater or lesser emphasis on qualifying conditions, is explicitly or implicitly the ambition of an enormous body of literature in international relations, from all theoretical orientations and methodological approaches.[16] However, the position I adopt here is that from a practical standpoint, war is essentially not a predictable phenomenon.

There are three principal reasons why I am deeply skeptical of the enterprise of "predicting war" and thus why I avoid conditioning my analysis around such an approach in this book. First and most fundamentally is the enormous degree of complexity intrinsic to the causes of war, which involves a large number of explanatory variables, of which some are quite mercurial and idiosyncratic (the personal attributes of leaders is the most obvious example of this), and of which many are intricately interdependent rather than independent variables. Second is the lack of stability of these behavioral relationships over time, by which I mean that exactly the same set of circumstances that led to war in one period might not cause war in another, due to any number of factors, such as learning or a change in the normative environment. Third is the heterogeneity of the "dependent variable," that is, war. The U.S. invasion of Panama in 1989, China's attack on Vietnam in 1979, Great Britain's declaration of war on Germany in 1939, and Chile's decision to take on Bolivia and Peru in 1879 were all decisions by states to go to war, but in each case "war" had a very different meaning, purpose, and implication. In the business of "predicting war," lumping these cases together is problematic because it is likely that the paths to these different decisions followed distinct causal logics, but separating them out reduces for each category the number of

[16] See, for example, D. Scott Bennett and Allan C. Stam, *The Behavioral Origins of War* (Ann Arbor: University of Michigan Press, 2004), and Stephen Van Evera, *Causes of War: Power and the Roots of Conflict* (Ithaca: Cornell University Press, 1999). Bennett and Stam are very much in the business of prediction (see, for example, p. 157), although they are very attentive to the challenges and pitfalls of such an enterprise (see esp. chapter 2, "Comparative Hypothesis Testing and Some Limits to Knowledge," and pp. 165–66 on the challenge of generalizability). Van Evera is near the other end of the spectrum but nevertheless explores five principal hypotheses, in order to "apply them to explain history, infer policy predictions, and predict the future" (p. 3). Both works, it should be emphasized, are appropriately cautious; Bennett and Stam conclude, "There is no single story of war" and "In many ways we are as uncertain about the causes and likely timing of any individual war today as we were in 1942" (p. 201). Van Evera's strongest predictive claim is a negative one; in the "total absence" of his five factors, "war rarely occurs" (p. 255).

cases of an already rare phenomenon and opens a Pandora's box of controversies about definitions and classifications.

An example from economics illustrates further the formidable barriers to prediction in international relations. Even in the microeconomic field of consumer choice, where fewer and more pristine independent variables are at work and an enormous universe of data is available for study, and where it can be comfortably assumed that behavioral relationships are stable (such as elasticities of income and demand and the market sensitivity of complements and substitutes), "prediction" nevertheless refers to the average behavioral response of a large population making similar choices and not to predictions about the behavior of any one specific individual, which can vary broadly. This is perfectly satisfactory for consumer theory. Yet in international relations, the ultimate goal of the enterprise is capturing that markedly more elusive *individual* behavior (the behavior of a particular state) as opposed to the behavior of a hypothetical "average state"; thus, compared with consumer choice theory, predicting war and peace is a dramatically more ambitious enterprise in a vastly more challenging analytical setting.[17]

Even in economics, no less an authority than Alfred Marshall, who very much saw economics as a science, was profoundly skeptical of prediction, and this informed his approach to the discipline. Marshall nicely elucidated the problem of contingency in undermining the possibility of all but the most limited efforts at prediction:

> Prediction in economics must be hypothetical. Show an uninterrupted game at chess to an expert and he will be bold indeed if he prophesies its future stages. If either side make one move ever so little different from what he expected, all the following moves will be altered; and after two or three moves more the whole face of the game will have become different.[18]

[17] On the challenge of complexity in international relations, and in particular with reference to the challenges of predicting the behavior of individual states, see Charles P. Kindleberger, "A Monetary Economist on Power Politics," *World Politics* 6:4 (July 1954), pp. 509–10, and Kindleberger, "Scientific International Politics," *World Politics* 11:1 (October 1958), p. 86; see also Jonathan Kirshner, "Rationalist Explanations for War?" *Security Studies* 10:1 (Autumn 2000), pp. 143–50.

[18] Alfred Marshall, "Fragments," in A. C. Pigou (ed.), *Memorials of Alfred Marshall* (London: Macmillan, 1925), p. 360 (quote); Alfred Marshall, *Principles of Economics*, 8th ed. (London: Macmillan, 1920), esp. book I, chapter 3, "Economic Generalizations or Laws," pp. 30–33. On the limits to prediction in economics, see also Frank H. Knight, " 'What Is Truth' in Economics?" *Journal of Political Economy* 48:1 (February 1940), pp. 29–31, and Andrew Rutten, "But It Will Never Be Science, Either," *Journal of Economic History* 40:1 (March 1980), pp. 139, 141–42. As it turns out, Marshall was no slouch in the business of predicting war: "I shall not live to see our next war with Germany; but you

These types of challenges are, if anything, more applicable to and less surmountable in the study of international relations and suggest that efforts should be redirected away from this goal. But this movement away from prediction is not as radical a turn as it might appear. It is not a retreat from—indeed it is wholly consistent with—rationalism, causality, generalizability, and falsifiability. One prominent international relations theorist, for example, renounced the goal of prediction—"We must give up the hope that a theory of international politics can have either the explanatory or the predictive power of a 'hard' science"—yet at the same time retained a vehement commitment to science.[19] This book eschews prediction in a similar spirit.

To draw on an analogy from economic theory once again, the approach here can be considered a "partial equilibrium" analysis. This approach, associated most famously with Alfred Marshall and his legacy in microeconomics, is the investigation of the behavioral properties of the price of one good, assuming the prices of all other goods are held constant, as opposed to a "general equilibrium" approach that aims to solve simultaneously for all prices in the economy at one time.[20] Transposing back to international relations, a "general equilibrium" perspective can be seen as one that seeks to predict war, while the partial equilibrium approach adopted here seeks to study and understand the behavioral properties of a particular variable in isolation.

This method of inquiry is greatly influenced by the work of Charles Kindleberger, who adapted the concept of partial equilibrium for studies of what he dubbed "historical economics." Kindleberger argued that "there is not one all purpose economic theory or model that illuminates economic history," emphasizing instead economics as a "toolbox" in which the practical economist is armed with a large set of theories (such as the law of one price, or Gresham's law) that are applicable to and provide insights into a variety of settings. Historical economics is an exercise in developing, honing (and possibly circumscribing or discarding) those tools, in particular by considering "how general are economic theo-

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will, I expect"; Marshall to John Maynard Keynes, February 21, 1915, reprinted in Pigou, *Memorials*, p. 482.

[19] Morton A. Kaplan, "Problems of Theory Building and Theory Confirmation in International Politics," *World Politics* 14:1 (October 1961), pp. 6, 8, 11, 20 (quote), 21, 23–24; Morton A. Kaplan, "The New Great Debate: Traditionalism vs. Science in International Relations," *World Politics* 19:1 (October 1966), esp. pp. 1, 3, 12, 16, 19–20.

[20] Alfred Marshall, "Distribution and Exchange," *Economic Journal* 8 (March 1898), pp. 37–38, 40, 47–48; Alfred Marshall, *Principles*, pp. 36, 131, 366, 369; Alfred Marshall, "The Present Position of Economics (1895)," reprinted in Pigou, *Memorials*, p. 168; George Stigler, "The Place of Marshall's *Principles* in the Development of Economics," in John K. Whitaker (ed.), *Centenary Essays on Alfred Marshall* (Cambridge: Cambridge University Press, 1990), p. 5.

rems or laws, how well they fit case 2 if it is evident that they fit case 1 neatly."[21] Following Kindleberger, this book considers the preferences of the financial community in a variety of prewar settings in order to evaluate the "political theorem" of financial caution proposed here and to gain insight into its implications and behavioral characteristics.

Given this approach, evidence to falsify the thesis of this book would be found at the level of partial equilibrium (the preferences of finance) rather than at the level of general equilibrium (the occurrence of war). Since this is not a theory of war, variation in the pattern of armed conflict would neither support nor undermine the argument. Rather, contrary evidence would be found in instances where the financial community was among the most aggressive voices in society in prewar debates—those urging war or policies that risk or invite war. A modest number of such contrary examples could be considered exceptions to the general rule (and possibly even enhance our understanding of the factors that condition financial caution); however, if such instances were relatively common, they would provide powerful evidence against my central claim.

Appeasing Bankers in International Relations Theory

The argument of this book does not fit neatly into any of the main analytical perspectives of international relations theory. Because of this it is worthwhile to briefly consider the relationship between the appeasing bankers thesis and the principal approaches to the discipline. The purpose of this short discussion is not to rehearse, advance, or debate various controversies in the practice of international relations theory, but rather (as with the earlier discussion of prediction) to situate for the reader the argument of this book in order to clarify its objectives and help establish the criteria by which its contributions can be evaluated.

This book stands in obvious disagreement with much of the critical and Marxist-oriented literature on the causes of imperialism and war. In

[21] Charles P. Kindleberger, *Economic Laws and Economic History* (Cambridge: Cambridge University Press, 1989), pp. ix (quote), x, 127, 193; Charles P. Kindleberger, *Historical Economics: Art or Science?* (Berkeley: University of California Press, 1990), pp. 7, 9 ("toolbox"); Charles P. Kindleberger, *The Life of an Economist: An Autobiography* (Cambridge: Basil Blackwell, 1991), p. 194 (quote); see also Kindleberger, "Comparative Economic History," in Kindleberger (ed.), *Economic Response: Comparative Studies in Trade, Finance and Growth* (Cambridge, MA: Harvard University Press, 1978), p. 3, and Kindleberger, "Scientific International Politics," pp. 83–84. Kindleberger also explicitly rejects prediction and elaborates further that "historical economics, as I view it, believes in partial equilibrium . . . and looks for patterns of uniformity but is wary of insisting on identity" (*Historical Economics*, p. 4). On the role of economic history in honing economic theory more generally, see Donald N. McClosky, "Does the Past Have Useful Economics?" *Journal of Economic Literature* 14:2 (June 1976), esp. pp. 448–53, "Better Economic Theory."

particular, it holds the opposite perspective from John A. Hobson in his very influential work on imperialism. Hobson was not a Marxist, but his work shaped an important strand of neo-Marxist thought in this area, especially as articulated by Lenin, who was also greatly influenced by the distinct but complementary work of Rudolph Hilferding (and to a lesser extent by many others, including Rosa Luxembourg). Hobson's arguments are particularly noteworthy here because of his explicit emphasis on finance in particular as opposed to capitalism more generally (whereas increasingly in later generations of these arguments, finance, while still often exceptional, is intertwined with a consortium of capitalist interests). For Hobson, however (and for the argument of this book as well, if with very different implications), finance stands apart from the balance of the business community. Contra the appeasing bankers thesis, Hobson held that the "special interest of the financier" was the source of "war, militarism, and a 'spirited foreign policy,' " all of which derived from the need to secure private markets abroad that could serve as outlets for surplus capital. Hilferding reached similar conclusions, arguing that "finance capital needs [the] state . . . to pursue an expansionist policy and the annexation of new colonies."[22]

Hobson's arguments (and other writings in this vein) have been sharply criticized, and those challenges are especially damaging with regard to the evidence pertaining to the specific claims advanced by Hobson and others.[23] While acknowledging these shortcomings, the spirit of these argu-

[22] John A. Hobson, *Imperialism: A Study* (New York: James Pott & Company, 1902), pp. 56, 63 (quote), 66, chapter 6 ("The Economic Taproot of Imperialism"), 113 (quote), 380, 382–83; V. I. Lenin, *Imperialism: The Highest Stage of Capitalism* (New York: International Publishers, 1939 [1917]), pp. 15, 31, 47, 78–79, 84, 102–4; Keith Griffin and John Gurley, "Radical Analyses of Imperialism, the Third World, and the Transition to Socialism: A Survey Article," *Journal of Economic Literature* 23:3 (September 1985), pp. 1092, 1096–97; E. M. Winslow, "Marxian, Liberal and Sociological Theories of Imperialism," *Journal of Political Economy* 39:6 (December 1931), pp. 723–24, 726–28. Hilferding derived his conclusions from his efforts to establish a Marxist theory of money. Rudolph Hilferding, *Finance Capital: A Study on the Latest Phase of Capitalist Development* (ed. Tom Bottomore) (London: Routledge, Keegan and Paul, 1981 [1910]), pp. 311, 314, 317–18, 322–23, 330, 334 (quote), 335, 366. See also Harold James, "Rudolf Hilferding and the Application of the Political Economy of the Second International," *The Historical Journal* 24:4 (1981), esp. pp. 857, 868; and Wolfgang J. Mommsen, *Theories of Imperialism* (trans. P. S. Falla) (New York: Random House, 1980), pp. 17, 36–38, 41–43, 47.

[23] P. J. Cain, *Hobson and Imperialism: Radicalism, New Liberalism, and Finance, 1887–1938* (Oxford: Oxford University Press, 2002), esp. pp. 122–24, 235, 277–81; see also William Langer, "A Critique of Imperialism," *Foreign Affairs* 14 (1935–36), 102–19; D. K. Fieldhouse, "Imperialism: An Historical Revision," *Economic History Review*, n.s., 14:2 (1961), pp. 187–209; Benjamin J. Cohen, *The Question of Imperialism* (New York: Basic Books, 1973), pp. 44, 46, 58, 63–66; John R. Oneal and Frances Oneal, "Hegemony, Imperialism, and the Profitability of Foreign Investments," *International Organization* 42:2 (1988), pp. 347–73.

ments, however, still finds support among some scholars.[24] This book clashes with "financial imperialism" arguments more generally at the level of expectations about the preferences and motivations of finance and reaches the opposite conclusions about their implications for international relations.

Not only does the appeasing bankers thesis reverse Marxist expectations about finance and war, it also traffics in variables typically associated with liberal theory: the narrow interests of actors within societies and the role and consequences of market forces.[25] But despite these notable affinities, other departures from liberalism, regarding the national interest, the ambiguous role of "peaceful finance," and interdependence, disaffect the approach adopted here from important elements of liberal theory.

Of paramount importance is the role of the national interest. Stephen Krasner adroitly distinguished liberalism from statism on this basic foundation. For the former, "an inescapable implication of their position is that government policy is a reflection of whatever groups have power in society," but for the latter, "the objectives sought by the state cannot be reduced to some summation of private desires."[26] This approach, which reduces the national interest to some combination of particular interests, remains at the heart of contemporary liberal theory.[27] The perspective here takes as its point of departure the idealized statist conception of the national interest (albeit with some qualification, as discussed later).

A second important departure from liberalism concerns the tendency of liberal theory to suggest that the peaceful instincts it attributes to capitalists (or at least to merchants) is normatively a good thing. From the perspective of this book, this is not necessarily the case. Without advocat-

[24] See, for example, Gregory P. Nowell, "Imperialism and the Era of Falling Prices," *Journal of Post-Keynesian Economics* 25:2 (Winter 2002–3), pp. 317, 320, 325.

[25] On liberalism, see Andrew Moravcsik, "Taking Preferences Seriously: A Liberal Theory of International Politics," *International Organization* 51:4 (Autumn 1997), pp. 513–53.

[26] Stephen Krasner, *Defending the National Interest* (Princeton: Princeton University Press, 1978), pp. 30, 5–6 (quotes); see also pp. 10–12, 28, 36.

[27] See, for example, Gary Becker, "A Theory of Competition among Pressure Groups for Political Influence," *Quarterly Journal of Economics* 98:3 (August 1983), pp. 371–400; Peter Trubowitz, *Defining the National Interest: Conflict and Change in American Foreign Policy* (Chicago: University of Chicago Press, 1997); Benjamin O. Fordham, "Economic Interests, Party, and Ideology in Early Cold War Era U.S. Foreign Policy," *International Organization* 52:2 (Spring 1998), pp. 359–96; Jeffry Frieden, "Sectoral Conflict and Foreign Economic Policy, 1914–1940," *International Organization* 42:1 (Winter 1988), pp. 59–90. Additive of particular interests but with a greater emphasis on contingency are Peter Gourevitch, *Politics in Hard Times: Comparative Responses to International Economic Crises* (Ithaca: Cornell University Press, 1986), and Ronald Rogowski, *Commerce and Coalitions: How Trade Affects Domestic Political Alignments* (Princeton: Princeton University Press, 1989).

ing "war" as an abstract concept, there may nevertheless be times when an assertive foreign policy, or even the resort to arms, is in a state's best interest and is even proper. Yet even in these cases, finance will be reluctant to fight. The principal argument of this book is not that finance is "right" about foreign policy but rather, motivated by concerns for the domestic macroeconomic consequences, that finance seeks to avoid war. Sometimes that caution will be "wrong," undermine the national interest, and even threaten the security of the nation.

Finally, on questions of war and peace, liberal theory tends to lump finance with other capitalist or commercial interests, while this book is in the business of considering what is distinct and exceptional about the financial community.[28] This matters, for example, with regard to the relationship between interstate interdependence and war—an association that has been an important element of liberal theory but is held at arm's length by the analysis here.[29] Certainly, from a partial equilibrium perspective, the deductive logic of the liberal case is plausible (all other things held constant, increased levels of interdependence between two states will create a net disincentive for war between them). However, with my central emphasis on the indirect consequences of actors' macroeconomic preferences, as well as my self-conscious abstention from predicting war, the approach here is orthogonal to and agnostic regarding the relationship between interstate interdependence and war.[30] Beyond that, the emphasis on finance here actually suggests a modest and implicit challenge to liberal arguments based on the presumed pacific influences of capitalism and commerce.[31] The financial community has a strong and general interest

[28] It is common in analyses of foreign policy debates from various analytical perspectives to lump together the elements of a "free trade coalition"; see, for example, Steven E. Lobell, *The Challenge of Hegemony: Grand Strategy, Trade and Domestic Politics* (Ann Arbor: University of Michigan Press, 2003), pp. 21–23. However, the preferences of the financial community are often different from those of other business groups. See, for example, David E. Kaun, "War and Wall Street: The Impact of Military Conflict on Investor Attitudes," *Cambridge Journal of Economics* 14 (1990), pp. 439–40.

[29] Robert Keohane and Joseph Nye, *Power and Interdependence: World Politics in Transition* (Boston: Little, Brown, 1977); Moravcsik, "Taking Preferences Seriously," pp. 520–21, 528–30.

[30] On this issue, see Edward Mansfield and Brian Pollins, *Economic Interdependence and International Conflict: New Perspectives on an Enduring Debate* (Ann Arbor: University of Michigan Press, 2003); Gerald Schneider, Katherine Barbieri, and Nils Peter Gleditsch, *Globalization and Armed Conflict* (Lantham, MD: Roman and Littlefield, 2003); and Charles P. Kindleberger, *Foreign Trade and the National Economy* (New Haven: Yale University Press, 1962).

[31] See, for example, Joseph Schumpeter, "The Sociology of Imperialisms," in Richard Swedberg (ed.), *Joseph A. Schumpeter: The Economics and Sociology of Capitalism* (Princeton: Princeton University Press, 1991), and Christopher Way, *Manchester Revisited: Economic Interdependence and Conflict* (Ithaca: Cornell University Press, forthcoming).

in the preservation of peace. But there is no similar unambiguous and general compelling interest for capitalists, businesspeople, or even those engaged in international trade to fear war. While individual capitalists, businesspeople, or traders might find their narrow interests undermined by their home country's participation in a particular war, there is no reason why the interests of such actors would necessarily be harmed by any armed conflict in general; indeed, there are a good many wars in which particular elements of the business and commercial community might stand to gain handsomely. Thus, the bedrock foundations of financial caution contrast with and call attention to the absence of such a primordial disposition in business and commerce (although elements of these groups might be strongly opposed to particular conflicts). Moreover, this suggests (although it is not in the scope of this book to explore) that if the preferences of the financial community are withdrawn from the mix, the remaining influences of capitalism and commerce on war generally might be less apparent and instead more fluid, indeterminate, and contingent.

This book also has affinities with realism, most obviously with its baseline conception of world politics: states are the principal actors, and they pursue their security and self-interests in ways that are shaped by the context of anarchy and conditioned by the possibility of war (the prospects for which can vary considerably due to the intensity of the security dilemma and other factors).[32] However, this book also departs from realist orthodoxy, with two large steps away from characteristics that are common to many theories derived in a realist tradition: the primacy of structure (or systemic-level) analysis and the inviolability of a unique national interest.

Systemic-level analysis has captured the imagination of most realist thinkers, although one need not imply the other. Structural variables in international relations—the distribution of power between states and changes to the distribution of that power over time—are attractive, as they are parsimonious and generalizable. And for the analysis of international relations, they are important for understanding the environment in which states act.[33] Nevertheless, this book places much less emphasis on systemic-level analysis. Although valuable, and not to be dispensed with,

[32] The literature on realism is enormous and alive with active controversy. For an overview of the rich variety of theories in the realist tradition, see Michael W. Doyle, *Ways of War and Peace: Realism, Liberalism and Socialism* (New York: Norton, 1997), part 1.

[33] Kenneth Waltz, *Theory of International Politics* (New York: Addison-Wesley, 1979); Robert Gilpin, *War and Change in World Politics* (Cambridge: Cambridge University Press, 1981). Waltz's static approach aims to operate solely at the level of the system; Gilpin's dynamic theory is also systemic in terms of the framework of the theory, but his analysis ranges freely across all levels of analysis.

structural variables are largely indeterminate in explaining world politics.[34] As theories inspired by a microeconomic analogy of choice under market scarcity aver, the international system does indeed impose constraints on the states that constitute it in a way analogous to the manner in which the range of choices presented to consumers and firms is expressed by market forces that derive from the collective behavior of all participants but that are beyond the control of any particular actor. But even in the pristine world of microeconomics, with similar firms seeking singular goals (maximizing profits or market share), the deterministic implications of systemic market pressure (once again, on the "average" actor) are dependent on very strict assumptions of "perfect competition"—an environment characterized by a very large set of small actors that have no market power but instead are "price takers." As the idealized assumption of perfect competition is relaxed, market forces remain vital but individual choices become increasingly central to explaining behavior. In particular, large firms in oligopolistic settings, while certainly not unconstrained by market forces, nevertheless enjoy considerable discretion as to how they pursue their goals.

In international relations that range of freedom is at least an order of magnitude greater. States in world politics are much more like large oligopolists than small firms under perfect competition, and this is especially true for great powers whose behavior attracts the lion's share of the attention in international relations theory. Further, despite their common attributes, states are less similar to each other than are firms of the same industry, and despite a common desire for survival, states are more likely than firms to also harbor a broader range of goals selected from a larger set of possibilities. And even in the pursuit of the most narrow, common goal—survival—states will respond less predictably to the pressures of anarchy than firms will to market forces, because they can. Firms that make mistakes are more likely to be selected out of the system than states are when they pursue suboptimal national security strategies, due to the fact that, as Adam Smith observed, "there is a great deal of ruin in a nation."[35]

Structure thus informs importantly the environment in which all states act, but in that context all states, and especially great powers, enjoy considerable discretion with regard to how they pursue their goals and what sacrifices they make in the face of constraints. This is again the case with the essentially "structural" variable featured in this book—less salient in

[34] For a good discussion of this, see Joseph Nye, "Neorealism and Neoliberalism," *World Politics* 40:2 (January 1988), esp. pp. 235, 242, 245. My thinking on these issues has benefited greatly from exchanges at the National Intelligence Council's workshops, "Strategic Responses to American Preeminence," hosted by John Ikenberry.

[35] John Rae, *Life of Adam Smith* (London: Macmillan, 1895), p. 343.

most of the chapters but considered more closely in the concluding chapter: the degree of global financial integration. As mentioned earlier, given the preferences of the financial community, those preferences, as "expressed" by international market forces, act as a systemic disincentive to the initiation of war to an extent directly related to the relative size and significance of global financial markets (and to the relative importance of access to international finance to the state in question). While not a purely structural variable (as the degree of general openness or closure is the product of states' choices), the general level of global capital mobility reflects the choices of a few big states, and those choices are reinforcing; thus, as a practical matter, the large majority of states are presented with a common systemic pressure (the level of global capital mobility) over which they have little if any control.[36]

Financial globalization, as a systemic constraint, should not be conflated with interstate interdependence.[37] Additionally, in keeping with the partial equilibrium approach of this book, the observation that states face a common external pressure that raises (or lowers) uniformly the costs of pursuing policies that deviate from the preferences of the financial community is not deterministic. States always retain the ability to pursue policies at odds with international markets (and if they so choose, to restrict their own interactions with such markets). The point here is simply that those choices come with costs: the direct costs imposed by the consequences of international market reaction, and the opportunity costs of international financial options foreclosed.[38] These costs vary proportion-

[36] States, of course, can impose their own capital controls; the variable in question refers to the external environment. On capital mobility as a systemic constraint, see David Andrews, "Capital Mobility and State Autonomy: Toward a Structural Theory of International Monetary Relations," *International Studies Quarterly* 38 (1994), pp. 193–218. Andrews makes the case that capital mobility can be treated as a structural variable; on technical grounds, this is debatable; state choice fundamentally shapes the extent of capital mobility (though it may indeed be very difficult to recapture those forces once liberated), but states cannot choose, for example, the distribution of power between them. However, the contributions of Andrews's article stand regardless of this definitional issue.

[37] Interdependence refers to relations between two states, and theories of interdependence and war consider how these relations affect the prospects for war between them. Financial globalization is a general, systemic force that affects each state individually, and it affects each state's general calculations about the costs and benefits of war and ambitious national security strategies. Intense economic interdependence between two states can occur in the absence of globalized finance; states' national security strategies can be very sensitive to globalized finance unrelated to a particular bilateral economic relationship.

[38] The logic regarding the opportunity costs of disregarding the preferences of international finance is similar to the analysis of the opportunity costs of economic closure in Jeffry Frieden and Ronald Rogowski's "The Impact of the International Economy on National Economies: An Analytical Overview," in Robert Keohane and Helen Milner (eds.), *Internationalization and Domestic Politics* (Cambridge: Cambridge University Press, 1996), pp. 32–33.

ately with the extent of international financial integration and the relative size of international financial markets; thus in periods of "globalized finance," the costs of making the choice to deviate from the financial orthodoxy are relatively high. As discussed in the concluding chapter, international relations will be affected by the fact that particular states will be more or less sensitive to these costs.

This book also departs from the realist mainstream, and here the stakes are somewhat higher (as one can engage in broadly "realist" analysis without insisting on the primacy of structural variables in explaining behavior) by probing the concept of the "national interest." While I have rejected the liberal vision of a pluralist national interest in favor of the perspective that states as actors enjoy considerable autonomy and pursue broadly defined national interests, I emphasize that the national interest is malleable and contested, rather than always self-evident or unique.[39]

Realists have emphasized the tension between the national interest and economic interests, principally in considering the need to make departures from policies that maximize wealth and short-run economic growth in the name of national security.[40] But they have been less attentive to the contestation of the national interest and to the ways in which domestic economic conflicts can throw off-key the pursuit of the national interest. Anarchy does impose real (and dangerous) proscriptions against many policies states might choose. Nevertheless, there remains a plausible range of foreign policy orientations, quite distinct from one another, which could arguably be defined as "the national interest"—and various actors within societies will have distinct visions of what the national interest is and how it can best be served. These conflicts and competing visions are a central part of the analyses that follow.

The concept of a contested national interest has a constructivist flavor; moreover, when dealing with monetary politics, the role of ideology, not simply reducible to interests, always lurks in the background.[41] The

[39] On the centrality of the national interest for the realist tradition, see Hans Morgenthau, *In Defense of the National Interest* (New York: Knopf, 1951); George F. Kennan, *American Diplomacy, 1900–1950* (Chicago: University of Chicago Press, 1951); and Krasner, *Defending the National Interest*, p. 53.

[40] Jacob Viner, "Power versus Plenty as Objectives of Foreign Policy in the Seventeenth and Eighteenth Centuries," *World Politics* 1:1 (October 1948), esp. pp. 5, 10, 17; Robert Gilpin, "The Politics of Transnational Relations," *International Organization* 25:3 (Summer 1971), pp. 410, 403–4, 409; Michael Mastanduno, "Economics and Security in Statecraft and Scholarship," *International Organization* 52:4 (Autumn 1998), pp. 827, 842–43, 848; Jonathan Kirshner, "The Political Economy of Realism," in Michael Mastanduno and Ethan Kapstein (eds.), *Unipolar Politics: Realism and State Strategies after the Cold War* (New York: Columbia University Press, 1999).

[41] See, for example, Kathleen McNamara, *The Currency of Ideas: Monetary Politics in the European Union* (Ithaca: Cornell University Press, 1998); Jonathan Kirshner, "Ex-

preferences of finance are more than just beliefs; they are also held as an ideology. And the extent to which this ideology is in or out of favor *outside* the financial community, something that is not readily accounted for by liberal or realist approaches, matters greatly. However, the materialist roots of the argument here also cut against the grain of much that is central to the constructivist enterprise, such as culture, norms, and identity.[42]

Thus while the approach here has affinities with attributes of realism, liberalism, and constructivism, it also diverges from each and is an exemplar of none. Informed by the partial equilibrium approach championed by Kindleberger, this book is neither designed nor well suited to contribute to debates between dueling paradigms (beyond its contradiction of related Marxist theories) but is rather an example of what Katzenstein and Sil have dubbed "analytical eclecticism," and as such it "defies analytical capture by any one paradigm."[43] It can be situated with those works from a variety of perspectives that seek to explain the behavior of states by focusing on domestic groups and political competition between them,

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plaining Choices about Money: Disentangling Power, Ideas, and Conflict," in Jonathan Kirshner (ed.), *Monetary Orders: Ambiguous Economics, Ubiquitous Politics* (Ithaca: Cornell University Press, 2003); Eric Helleiner, *The Making of National Money: Territorial Currencies in Historical Perspective* (Ithaca: Cornell University Press, 2003); Jacqueline Best, *The Limits of Transparency: Ambiguity and the History of International Finance* (Ithaca: Cornell University Press, 2005); Robert M. Fishman and Anthony M. Messina (eds.), *Year of the Euro: The Cultural, Social and Political Import of Europe's Common Currency* (Notre Dame: University of Notre Dame Press, 2006).

[42] For an excellent entrée into the burgeoning constructivist literature, see Peter Katzenstein (ed.), *The Culture of National Security: Norms and Identity in World Politics* (New York: Columbia University Press, 1996). On the malleability of the national interest, rooted in identity politics, norms, and culture, see Martha Finnemore, *National Interests in International Society* (Ithaca: Cornell University Press, 1996); Henry Nau, *At Home Abroad: Identity and Power in American Foreign Policy* (Ithaca: Cornell University Press, 2002); Rawi Abdelal, *National Purpose in the World Economy* (Ithaca: Cornell University Press, 2001); Peter Katzenstein, *Cultural Norms and National Security: Police and Military in Postwar Japan* (Ithaca: Cornell University Press, 1998).

[43] Peter Katzenstein and Rudra Sil, "Rethinking Asian Security: A Case for Analytical Eclecticism," in J. J. Suh, Peter Katzenstein, and Allen Carlson (eds.), *Rethinking Security in East Asia: Identity, Power, and Efficiency* (Stanford: Stanford University Press, 2004); Peter Katzenstein and Nobuo Okawara, "Japan, Asia-Pacific Security, and the Case for Analytic Eclecticism," *International Security* 26:3 (Winter 2001–2), p. 154 (quote); Rudra Sil, "Problems Chasing Methods or Methods Chasing Problems? Research Communities, Constrained Pluralism, and the Role of Eclecticism," in Ian Shapiro, Rogers M. Smith, and Tarek E. Masoud (eds.), *Problems and Methods in the Study of Politics* (Cambridge: Cambridge University Press, 2004); Samuel M. Makinda, "International Society and Eclecticism in International Relations Theory," *Cooperation and Conflict* 35:2 (2000), pp. 205–16; see also Stephen M. Walt, "International Relations: One World, Many Theories," *Foreign Policy* 110 (spring 1998), pp. 30, 34, 44.

and on the tensions that can exist between the pursuit of particular interests and the national interest.[44]

Evaluating the Argument

As mentioned earlier, evidence to support (or to undermine) the argument of this book will be found in the positioning of the financial community within societies in pre-war settings. Relative financial caution is consistent with the argument; episodes where finance is among those leading the charge toward war is powerful evidence against it. In this final section of this chapter, I discuss the logic behind the selection of the cases chosen for close scrutiny. First of all, the universe of potential cases is limited to prewar settings; that is, cases where war was discussed as a possibility and did occur.[45] Limiting potential cases to prewar settings ensures that we are indeed looking at pre*war* preferences, instances where we know for a fact that the risk of war was genuine because war did indeed occur. In theory the behavior of finance (and other actors) in crisis situations where war seemed likely but was ultimately avoided could also conceivably offer attractive insights. But such cases would too easily get bogged down in debates about how likely war actually was, or whether various actors were strategically posturing in these debates with the assumption that war would not occur. Limiting potential prewar settings to actual prewar settings sweeps aside these unnecessary controversies. (This methodological choice does risk giving the superficial impression that finance never gets what it wants. But as the cases make clear, this is simply not so.)[46]

[44] For examples of this type of work, see Benjamin Cohen, *In Whose Interest? International Banking and American Foreign Policy* (New Haven: Yale University Press, 1986); Rawi Abdelal and Jonathan Kirshner, "Strategy, Economic Relations and the Definition of National Interests," *Security Studies* 9:1/2 (1999–2000), pp. 119–56; Eckhart Kehr, "Anglophobia and Weltpolitik," in *Economic Interest, Militarism, and Foreign Policy* (Berkeley: University of California Press, 1977); Richard Rosecrance and Arthur Stein (eds.), *The Domestic Bases of Grand Strategy* (Ithaca: Cornell University Press, 1993); Steven E. Lobell, "War Is Politics: Offensive Realism, Domestic Politics and Security Strategies," *Security Studies* 12:2 (Winter 2002–3), pp. 165–96; Stephen David, *Choosing Sides: Alignment and Realignment in the Third World* (Baltimore: Johns Hopkins University Press, 1991); Jack Snyder, *Myths of Empire: Domestic Politics and International Ambition* (Ithaca: Cornell University Press, 1991).

[45] This does not raise the problem of sampling on the dependent variable, because the dependent variable in question is not the occurrence of war but the preferences of finance (and the positioning of the financial community within the prewar debate).

[46] Not surprisingly, finance sometimes wins and sometimes loses, and often it salvages something in defeat. As described in the chapters that follow, Japanese financiers got their way on foreign policy throughout the 1920s; France's problem was not that finance lost but

In the context of prewar settings, three additional attributes for possible cases are especially appealing. First, to test, as best as possible, the appeasing bankers hypothesis, the investigator should not know the preferences of the financial community regarding the prospects for war and peace in a particular case before embarking on the research. Second, recalling that the partial equilibrium approach of this book seeks to understand the behavior and contingent characteristics of the variable in question, each case has potentially more to offer the entire enterprise if it represents a relatively distinct setting. A heterogeneous set of cases promises to expand the range of conditions under which the behavior of the bankers can be evaluated; additionally, if we find that the preferences of finance are singularly consistent in diverse environments, this would provide further support for the main argument. Third, each case should bring something unique (and analytically valuable) to the table.

The cases in the chapters that follow meet these criteria extremely well. I avoided some cases because they failed to meet these criteria, even though they fit the argument remarkably well. In particular, this book avoids the entire pre–World War I setting, as well as the case of Britain in the interwar period. These prominent omissions merit brief attention here to quickly illustrate that they are entirely consistent with the argument of this book and to explain the basis of the decision not to consider them as full-blown case studies.

The behavior of financial communities within states in the period leading up to World War I fits precisely the argument of this book. Especially with regard to Great Britain, this will not come as a surprise to most readers. Paul Kennedy famously observed the fundamental tension between "strategy and finance" in this period and the incompatibility of the City of London's position as the world's financial hub with the prospects for confrontation and war with Germany.[47] It is worth noting, however, that if anything, this conventional wisdom understates the dread (and shock) with which the City viewed the approach and outbreak of war on the Continent and the extent to which finance hoped that Britain might

that it won so many battles in the interwar period. British finance won the day time and time again in the 1950s, 1960s and 1970s, so much so that finance-induced defense cuts came close to preventing the British from even attempting to retake the Falklands. Finally, and of course, in the universe of cases where war approached but did not occur, the preferences of finance likely contributed to some of those outcomes.

[47] Paul Kennedy, "Strategy *versus* Finance in Twentieth-Century Britain," *International History Review* 3:1 (1981), pp. 44–61; see also Paul Kennedy, *The Realities behind Diplomacy: Background Influences on British External Policy, 1865–1900* (London: Fontana, 1981), pp. 27, 68, 128, 137; David French, *British Economic Planning, 1905–1915* (London: George Allen and Unwin, 1982), pp. 13–14, 53, 67, 70, 91; Aaron Friedberg, *The Weary Titan: Britain and the Experience of Relative Decline, 1895–1905* (Princeton: Princeton University Press, 1988), pp. 89, 92–93, 99.

stay out of the conflict. Moreover, when push came to shove, with the breakdown of international payments that accompanied the outbreak of war, many of the City's leading commercial banks acted ignobly, covering their own positions and contributing to a financial crisis in Britain that was diffused only by cooler heads that prevailed at the Bank of England and the Treasury. As Keynes described at the time, with the outbreak of war, "the City was a very sick man, dazed and feverish, called in to prescribe for his own case," with the result that many of the captains of finance were "too much overwhelmed by the dangers, to which they saw their own fortunes and good names exposed, to have much wits left for the public interest and public safety."[48]

The reaction of the British financial community to the war was of a kind with the reaction of financial communities elsewhere, as belligerents suspended the convertibility of their currencies, markets panicked, and bankers were left scrambling to cover their positions in the wake of the unraveling of the intricate web of international financial flows. New York City's *Bankers Magazine* saw in the war "widespread disaster" for credit and banking and warned that "our own land, though suffering least of all, shall not be exempt" from the consequences. The very distinct perspective of the financial community on war was summarized in a subsequent editorial: "Among the countless brood of evils born of war few transcend unsound 'money' in their capacity to inflict injury upon the human race."[49] In Germany, bankers (while more prepared for the conflict than their British counterparts), on questions of war and peace, were also positioned within society as would be anticipated by this theory. The German financial community was, like its counterparts elsewhere, wary of uncertain adventurism and alarmed by the prospect of war and the threat

[48] Eyre Crowe of the Foreign Office wrote of "panic in the city," in a memo sent to Foreign Secretary Edward Grey on July 31, reprinted in G. D. Gooch and H. Temperley (eds.), *British Documents on the Origins of the War, 1898–1914* (London: HMSO, 1926–1938), vol. 11, *The Outbreak of War*, p. 228; see also the similar assessment of Chancellor of the Exchequer Lloyd George, *War Memoirs of David Lloyd George*, vol. 1, *1914–1915* (Boston: Little, Brown, 1933), p. 68; David Kynaston, *The City of London*, vol. 2, *Golden Years* (London: Chatto and Windus, 1995), pp. 600–611; "The Great Crisis," *Bankers Magazine* (*London*) 98 (September 1914), pp. 318 ("disastrous"), 321–22, 331, 337 ("catastrophe"); John Maynard Keynes, "War and the Financial System, August 1914," *The Economic Journal* 24 (September 1914), pp. 461, 464, 471–73, 484 (quotes); see also Keynes, "The City of London and the Bank of England," *Quarterly Journal of Economics* 29:1 (November 1914), pp. 48–71.

[49] "The Situation," *Bankers Magazine* 89:3 (September 1914), pp. 211 (quote), 212 (quote); "Unsound Expedients Generated by War," *Bankers Magazine* 89:4 (October 1914), p. 377 (quote). See also Jon Lawrence, Martin Dean, and Jean-Mouis Robert, "The Outbreak of War and the Urban Economy: Paris, Berlin, and London in 1914," *Economic History Review*, n.s., (August 1992), pp. 564–93.

of macroeconomic disruptions and instability. The relative caution of German finance was well known and often a source of frustration to the government. (Even Gerson Bleichröder, Bismarck's personal financial wizard, was known to fear war due to its financial consequences.) The approach of the Great War did little to alter this basic disposition. During the Agadir Crisis of 1911, it was widely believed that the German bankers tied the hands of their government in response to the financial distress exacerbated by the confrontation in 1911; this claim was almost certainly overstated, but it does accurately reflect the relative caution of the German financial community compared with other, more bellicose elements of German society in the years leading up to the war.[50] According to Kennedy, "Perhaps the most persistent economic lobby for good Anglo-German relations were the financial circles in the City of London and their equivalents in Frankfurt, Berlin and Hamburg." The relative political weakness of the financial community (and other elements in society wary of conflict) has been cited by others as a contributing cause of German aggressiveness in this era.[51]

Nevertheless, despite its fit to the theory, World War I is not chosen as a case for close study in this book, for two reasons. First and foremost, it would not offer a relatively pure test of the principal hypothesis, given the well-known preferences of finance in this setting. Second, a focus on the First World War would invite distraction and confusion over the issue of the relationship between interstate interdependence and war, which is not the focus of this book. While remaining aloof from this debate, it is relevant to note here that although the Great War is often used to ridicule the prophets of peaceful interdependence, Norman Angell and Ivan Bloch advocated rather than predicted peace, on the grounds that modern war

[50] See the reports prepared by Francis Oppenheimer, Britain's commercial attaché in Germany; reprinted in Gooch and Temperley, *British Documents*; "The German Financial Crisis" October 21, 1911, vol. 7, *The Agadir Crisis*, pp. 796–805, and "Germany's Financial Position," vol. 11, *The Outbreak of War*, pp. 205–7; M. Chase Going, "German War Finance," *Journal of Political Economy* 24:6 (June 1916), pp. 516–18, 542; Fritz Stern, *Gold and Iron: Bismarck, Bleichröder and the Building of the German Empire* (New York: Vintage, 1979 [1977]), pp. 68, 72, 308, 417, 429; Eckart Kehr, *Economic Interest, Militarism, and Foreign Policy: Essays on German Economic History* (Berkeley: University of California Press, 1977), pp. 7, 40, 70, 83–84; Gregor Schollegen (ed.), *Escape into War? The Foreign Policy of Imperial Germany* (New York: St. Martin's Press, 1990), p. 10; Fritz Fischer, *War of Illusions* (New York: Norton, 1975), pp. 22, 24, 121, 137, 199–201, 203, 357–60, 520–21; Niall Ferguson, *Paper and Iron: Hamburg Business and German Politics in the Era of Inflation, 1897–1927* (New York: Cambridge University Press, 1995), pp. 29, 91, 94, 99, 113–18.

[51] Paul Kennedy, *The Rise of the Anglo-German Antagonism, 1860–1914* (Boston: Allen and Unwin, 1980), pp. 47–48, 302 (quote), 303–5, 435–37, 459; Paul Papayoanou, "Interdependence, Institutions and the Balance of Power: Britain, Germany, and World War I," *International Security* 20:4 (Spring 1996), pp. 70–71.

was no longer a rational method by which states could hope to gain in an economic sense. Included in those arguments were accurate assessments regarding the costly financial disruptions that would (and did) accompany any such conflict.[52]

The position of British finance before World War II was also not chosen as a case for similar reasons (and also in support of the goals in case selection of heterogeneity across countries and periods and of analytical novelty). The struggles of the Treasury to manage Britain's fragile interwar finances and the pressure this placed on defense expenditures are well known, as is the great sensitivity of government to the need to maintain financial confidence as an integral component of British power. This imposed even greater restraint on government borrowing and spending and thus inhibited rearmament. As one study concluded, "The decision to limit defense expenditure . . . had its roots in economic assumptions shared by the Treasury and the financial community." These concerns regarding the spending, borrowing, and inflationary implications of an arms race with Germany for sound finance in Britain contributed to the policy of appeasement. Indeed, for Polanyi, "England's military unpreparedness was mainly a result of her adherence to gold standard economics."[53]

Not only did the City of London strongly favor the appeasement of Germany—and continued to do so right until the start of the war—the bankers directly participated in that aspect of the strategy known as "economic appeasement." Less infamous in history than its political counterpart, economic appeasement was an effort by the City, the Treasury, and the Bank of England to keep Germany integrated with the international financial system by granting one-sided economic concessions. The key-

[52] Norman Angell, *The Great Illusion: A Study of the Relation of Military Power in Nations to Their Economic and Social Advantage* (New York: G. P. Putnam and Sons, 1910), see esp. chapter 3, "The Great Illusion"; also pp. vi, 52 (on the consequences of "complex financial interdependence" for the costs and benefits of war), 54–56, 59–61, 372; Ivan S. Bloch, *Is War Now Impossible?* (Aldershot, England: Gregg Revivals, 1991 [1899]), pp. xlv, lxxix, 114, 347; see also Howard Weinrith, "Norman Angell and the Great Illusion: An Episode in Pre-1914 Pacifism," *The Historical Journal* 17:3 (September 1974), pp. 551, 556–57, 564, 568–59.

[53] Robert Shay, *British Rearmament in the Thirties: Politics and Profits* (Princeton: Princeton University Press, 1977), pp. 3–4, 23–26, 46–47, 75–78, 136–47, 159–62, 282–83, 288 (quote); G. C. Peden, *The Treasury and British Public Policy, 1906–1959* (New York: Oxford University Press, 2000), pp. 286, 288, 291, 298; Gustav Schmidt, *The Politics and Economics of Appeasement: British Foreign Policy in the 1930s* (New York: Berg, 1986), pp. 32, 347–56, 383–84; R.A.C. Parker, "Economics, Rearmament and Foreign Policy: The United Kingdom before 1939—a Preliminary Study," *Journal of Contemporary History* 10:4 (October 1975), pp. 637–69, 645; Bernd Jürgen Wendt, " 'Economic Appeasement': A Crisis Strategy," in Wolfgang Mommsen and Lothar Kettenacker (eds.), *The Fascist Challenge and the Policy of Appeasement* (London: George Allen and Unwin, 1983), pp. 161, 169; Polanyi, *The Great Transformation*, p. 246.

stone of this enterprise was the "standstill agreements," the provision by British banks of short-term credits to Germany in order to finance trade that would otherwise have been frozen by the standstill agreement of 1931. Economic appeasement was also aimed at empowering the German "moderates," such as the enigmatic president of the Reichsbank, Hjalmar Schacht, who had previously resigned as finance minister in part due to his concerns for the inflationary consequences of excessive defense spending. But the resolute commitment of the City to avoid war with Germany outlived any reasonable hope that the strategy was working. Despite coming under increased criticism from members of Parliament, the standstill agreements were renewed every year through 1938—and negotiations for their extension took place in May 1939—by which point Schacht had been removed.[54]

British finance was thus not only a leading advocate of appeasement but also, in both private and public capacities, an important practitioner of economic appeasement, which both reflected and reinforced its strong preference to avoid war at virtually all cost. Despite the fit of this case to the theory, it does not receive closer attention here; it has been ably and extensively studied elsewhere, and the case has relatively little to offer in terms of variation across countries, periods, and analytical themes.

In contrast, the cases that follow feature all of the attributes that I enumerated as ideal for evaluating the claims of this book. The United States before the Spanish-American War offers an excellent opportunity to compare the appeasing bankers hypothesis with Marxist arguments, since both Hobson and Lenin cited the war specifically as a supporting example. The relatively low military risks of the war for the United States also provide the opportunity to separate out a baseline disposition of "aversion to war" from "prudence" derived from concerns about the risks of military defeat. And the nature of the American economy at the time also makes it especially easy to isolate the preferences of the financial community. Japan in the interwar period presents a distinct setting and, with two specific turning points in its external ambition, provides an outstanding proving ground for the principal hypothesis of the book. The different choices of the 1920s and 1930s more generally also illustrate how various

[54] Scott Newton, *Profits of Peace: The Political Economy of Anglo-German Appeasement* (Oxford: Clarendon Press, 1996), pp. 58, 62, 65–66, 91, 93; Neil Forbes, "London Banks, the German Standstill Agreements, and 'Economic Appeasement' in the 1930s," *Economic History Review*, 2nd ser., 40:4 (1987), pp. 573, 583–84, 585–86; C. A. MacDonald, "Economic Appeasement and the German 'Moderates,' 1937–1939," *Past and Present* 56 (August 1972), pp. 105–8, 115, 121, 128; David Kynaston, *The City of London*, vol. 3, *Illusions of Gold, 1914–1945* (London: Chatto and Windus, 1999), pp. 441–46, 450–53; Paul Einzig, *Appeasement before, during, and after the War* (London: Macmillan, 1942), pp. 9–10, 15, 22, 76–77, 83.

actors within Japan had distinct visions of the national interest and how these very different conceptions were reflected in preferences about economic policy. France before World War II brings still further variation in terms of its political-economic setting. This case is also especially important in illustrating how the preferences of finance can be suboptimal, contributing to an overly cautious national security strategy.[55] The United States from the early cold war through the Korean War confronts the argument with a "hard case," given the economic, ideational, and international political setting of the time. The combination of dollar hegemony, postwar Keynesianism, and the early cold war suggests an extraordinarily permissive financial environment that would be uncharacteristically conducive to the financial community's supporting a more assertive national security posture. I chose British finance during the Falklands War as a potentially contrary case, designed to press against the limits of the argument; there were very good reasons why finance should have supported this war. Embedded in that chapter (chapter 6) as a "shadow case" is a consideration of the politics of the war in Argentina. The Falklands crisis is also especially attractive in that it presents a virtually unique laboratorylike setting: the crisis was long enough to allow for lengthy and vigorous debate, but short enough so that unlike any of the other cases, it was the single dominant political discussion in Britain and Argentina for the duration of the confrontation.

In sum, collectively the chapters that follow evaluate the principal hypothesis of this book (that of financial caution), illustrate the contestation of the national interest through the lens of the preferences of the financial community on the question of war, and highlight the costs and constraints often imposed by financial market forces. Chapter 7 ties these strands together to consider how and why this matters. It revisits the attributes of financial caution as a variable in international relations theory and explores the role of international financial markets as a systemic influence on the use of force. Drawing on theoretical arguments and informed by the insights the cases offer, the concluding chapter also enumerates the domestic, international, and ideological factors that contribute to the rela-

[55] Unlike all the other cases, interwar France does not offer a pure test of the principal hypothesis of the book. Prior to this book I was aware of the salience of French monetary orthodoxy in the interwar period, and although I had not previously explored the preferences of the French financial community before the Second World War, I was familiar with arguments that the fragility of the franc inhibited the assertiveness of France in responding to the rising German threat, in particular to the remilitarization of the Rhineland in 1936. (Jonathan Kirshner, *Currency and Coercion: The Political Economy of International Monetary Power* [Princeton: Princeton University Press, 1995], pp. 92–93.) However, given the other very attractive features of the case, and many other pure "tests" offered in all the other chapters, I made the decision that there was much to be gained by including the case.

tive influence of finance across different countries and periods. This in turn informs a discussion of the implications of appeasing bankers for contemporary international politics—the influence of the preferences of domestic financial interests and the role of financial globalization in shaping the capabilities, interests, and proclivities of the United States and China and in empowering and inhibiting other actors in world politics, from large states to transnational terrorist organizations.