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# *International Relations: A Perspective Based on Politics, Economics and Systems*



## **INTERNATIONAL RELATIONS AND THE CHALLENGE OF THE NEW MILLENNIUM**

MORE THAN ANYTHING ELSE THE NEW MILLENNIUM SHOULD ENCOURAGE THE FIELD OF INTERNATIONAL RELATIONS TO TAKE A LOOK AT ITS TRENDS IN THINKING AND ASK WHETHER THEY SEEM APPROPRIATE IN LIGHT OF DEVELOPMENTS IN THE OUTSIDE WORLD. A recent and prominent exposition offers a succinct and decisive answer — Steve Smith (2004), in a presidential address to the International Studies Association, says ‘no’. Smith points to several problems with academe which, in his view, contribute more to reinforcing the world order led by the United States (US) than truly explaining and evaluating it. In particular, according to Smith (2004) International Relations needs to become more inclusive in its frame of reference, with rational choice being viewed as one of several models of individual action as opposed to the “true way”. A closely connected point pertains to how key components in the study of International Relations are linked to each other (Smith 2004):

*rational choice theory treats identities and interests as given, and never inquires into how these come about. As such it buys into a political economy of the possessive individual, itself a creation of 17th Century social contract theorists such as Hobbes and Locke. It takes the relationship between economics and politics as given, whereas in fact they were always taught as political economy until the 19th Century.*

This effective separation of economics from politics, in turn, produces a presumably value-free social science, which Smith sees as having a HIDDEN normative basis, namely, one that: (a) favours the *status quo*, most notably as manifested by US leadership in a system that is committed to democracy and capitalism; and (b) tends to divert attention away from conflicts other than interstate wars that meet standard behavioural definitions. Put simply, a focus on states and an assumption of rational choice among them, according to Smith, serves to narrow International Relations, diminish its relevance and contribute to the likelihood of extra-systemic shocks — such as 11 September — purveyed by those represent-

ing the multitudes excluded from elite discourse.

This article develops a system-oriented perspective on International Relations. The basic goal is to respond to Smith's (2004) PROFOUND REASSESSMENT OF INTERNATIONAL RELATIONS BY REVIEWING POLITICAL AND ECONOMIC PERSPECTIVES AND SHOWING HOW, WHEN BROUGHT TOGETHER IN A SYSTEM-ORIENTED APPROACH, THE RESULTING ANALYSIS CAN ADDRESS KEY PROBLEMS SUCH AS WAR IN A WAY THAT IS BOTH RIGOROUS AND NORMATIVELY AWARE. In other words, there is nothing to prevent a more unified political economy that acknowledges the possibility of more than one normative point of view and comparison among them. This political economy, in a departure from Smith's (2004) outlook, can serve as an arbiter among normative positions. Its inherent rigor and falsifiability permit competing arguments to be presented with significantly greater clarity and precision than would otherwise be available. The range of successful application of economic principles to disciplines such as sociology, history, ecology and others suggests that, while not able to solve all problems, it is the most promising and versatile intellectual approach available.<sup>1</sup>

With respect to the overall mission of this special issue of the *Journal of International Relations and Development*, the focus of the present exposition is on how International Relations theory is related to the various practices of world politics, most notably war. This work begins with an overall view of the state of International Relations as a field of study that needs to move in the direction of a system-oriented approach to enhance its empirical and normative relevance. Interdisciplinarity can work to the advantage of International Relations through the unification of the political and economic

approaches under the banner of system-level thinking. An example of this recommended direction in practice is the use of a graphical approach derived from economics to address political issues within a system-oriented approach.

This article continues in four additional sections. The next section focuses on how political and economic analyses need to be integrated in order to address the complexity of the social world through a system-oriented approach. This is followed by a section pertaining to rational choice as the micro-foundation for political economy as a field of study that can meet the challenge of complexity. The section after that uses a disarmingly simple example to bring out the complex nature of the political economy of war. The final section offers some conclusions and future directions for research.

## COMPLEXITY: ECONOMICS, POLITICS AND SYSTEMS

INTERNATIONAL RELATIONS AS A FIELD INCLUDES A VAST RANGE OF SUBJECT MATTER, BUT PRIDE OF PLACE IS PRESERVED FOR THE STUDY OF WAR. In this section, the problem of war is used to provide a context for a discussion of politics and economics as related to development of an inclusive, system-oriented approach that recognizes complexity as the norm.

Wars are part of the human condition. While not an intrinsic aspect of human nature, they ARE endogenous within a highly complex system of social evolution. Wars are as different as the respective social structures from which they arise. The motivations, causes, conducts and consequences of war are heterogeneous symptoms of diverse social SYNDROMES. The Civil War in the US, the World Wars, ethnic conflicts raging all the way from East Los Angeles to Baghdad,

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the Napoleonic Wars, the Cold War — to name only a few — should not be regarded as balls in an urn to be drawn as random samples for analysis from a homogeneous population of conflicts. The tendency in International Relations is to focus on INTERSTATE war above all else, most notably in research designs that attempt to sort out cause and effect by comparison with cases of lower-level conflict such as crises or disputes (James 2002; Smith 2004).

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Quasi-paradigmatic compilation and statistical analysis of interstate dyads in the study of conflict processes during the last decade is a case in point (James 2002). History instead suggests that these complex social processes are time-dependent, frequently irreversible, often irregular and occasionally chaotic. For example, a dynamic model of international conflict shows that even a small number of variables linked together by eminently plausible relations are sufficient to generate an irregular, non-repeating process of cooperation and conflict between just two states (Wolfson, Puri and Martelli 1992).

What, then, can economics say about the causes of war and other conflicts, international or otherwise? Commerce, in the normal course of events, is not likely to generate such disturbing realizations. The term “normal” in this context is understood to mean secure property rights and the absence of perverse income effects or information breakdown. The reason for this inherent stability is in the law of diminishing returns for production and consumption.<sup>2</sup> In other words, the law of supply and demand ensures that economic relations, with boundary conditions in place as described a moment ago, will enjoy relatively high stability and predictability.

Add political motivations to that mix and the stability of the system is put into jeopardy. If the desire for hegemony appears in the utility functions of states

— if such functions exist (Arrow 1952) — the constraining frontier becomes less predictable. (A utility function refers to a stable set of preferences that serve as the basis for conventional, rational choice.<sup>3</sup>) Ultimately, the potential for hegemonic power depends on the RELATIVE military and civilian production possibilities of states, most notably the great powers (Doran 1991; 2000). A menu of realizations is the result, ranging from stability (mostly when economic parameters dominate) to complex repeating patterns, and ultimately to time-dependent HISTORY (Wolfson, Puri and Martelli 1992). For example, the role of the individual, whether at the extremes with Nelson Mandela *versus* Adolf Hitler or somewhere in between, will have implications for whether foreign policy actions remain continuous in pursuit of various goals, which could include hegemony or a great many other things.

While a simulated history can be generated, the historical record itself is always a retrospective series of singular events. The same set of cases, however selected, can support a wide range of generalizations (Stiles 2004:xv). Academics and policy-makers, if they attempt to work from general propositions such as realism or liberalism (James 2002), therefore do violence to the unique, time-dependent, complex disequilibrium of irreversible reality. While patterns exist, they are not always linear or even stable in the way that is purveyed by economic models when the subject turns to politico-economic conflict. For example, an assassination, such as the one that served as the immediate trigger to World War I, automatically forecloses certain paths of continuity through the permanent removal of an actor from the system.

This study will assess approaches to the conflict syndrome as described above. These approaches are neither mutually

exclusive nor identical, respectively, POLITICS, ECONOMICS AND SYSTEMS. Politics deals with combinations of forces, actions or characteristics in the process of allocating values. Economics is about rational choice from limited alternatives. (The meaning of the term “rational” is clarified in due course.) A system orientation is much less precise than the other two approaches. The political and economic approaches are defined by content, their *explananda* of interest and perhaps also choice of the main *explanans*, while the system approach is an epistemological lens. The latter approach accepts the complexity of social organizations, but views them as conjunctures of dynamic processes of economics and politics. Thus the systems approach is consistent with admonitions from Smith (2004) about the need to link politics and economics to avert potential irrelevance on the part of the models that are created.

As will become apparent, it is useful to think of theories in the topological sense as FUNCTIONS or mappings from a domain of data to a range of predictions or inferences (Wolfson 1995). Functions apply only to a specified domain and range of definition. Since it is impossible to include everything in the domain, it is equally likely that the range will not cover the entire universe of possible experience. Hence theoretical reasoning should be acknowledged explicitly as partial truth by specifying the domain and range. Movement toward political economy, as opposed to a separate consideration of politics and economics, will emerge as the most promising in terms of the domain and range that can be covered.

## RATIONAL CHOICE

RATIONAL CHOICE IS THE MICRO-FOUNDATION OF THE SCIENCE OF ECONOM-

ICS. All rational choice models are applications or extensions of the neoclassical microeconomics that originated with Jevons (1870) and became codified by Marshall (1927) two decades later. Such models are styled as economic in nature and can be applied to either International Relations or other substantive fields of study.<sup>4</sup> The operative word for choice is “OR”; decisions are made between this item OR that one. Purchasing, investment, trade and other forms of economic behaviour show this property.

Political models, by contrast, are concerned with interacting forces in the national and international arenas that sum up or multiply to produce outcomes that redistribute resources in some way. The Axis powers in World War II consisted principally of Germany, Italy AND Japan opposed by the US, United Kingdom (UK) AND Union of Soviet Socialist Republics (USSR), among others in the United Nations (UN). Thus “AND” is the key word for politics. (Domestic politics in a democracy, of course, is more analogous to economic choice because of the relatively stable system of social relations that exists. Thus voting, for example, takes the form of an “OR” proposition.) All political decision-making in some way involves coalitions, even if simply to avoid being in one (Riker 1962).

For the system-oriented approach, the key word is “ALSO”. For example, the G-7 states are wealthy but ALSO exhibit the conjunction of democratic, market-oriented, capitalistic traits evolved mostly in the North Atlantic basin in the late eighteenth century. Thus the system-oriented approach, from the outset, encourages thinking in terms of political economy *vis-à-vis* conflict, as opposed to isolated reflection and subsequent theorizing about either economic or political dimensions.

Economics supposes that a utility function exists in the minds of decision-

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makers that records which combination of consumer goods, power, votes, output, profit, progeny or other things is BETTER THAN some other combination. Note that the normative element, called for explicitly by Smith (2004), is built in as a component of basic economic analysis — even if, for the most part, it goes unrecognised. The idea of acquisitiveness or *HOMO ECONOMICUS*, as opposed to an ascetic disposition, surely introduces a normative foundation to any subsequent application of economic analysis. This creates a falsifiable edifice and endows economic analysis with a fundamentally scientific character that rival disciplinary approaches are hard pressed to match.

Components of utility, such as those listed a moment ago, are constrained by resource or institutional factors. Optimisation is carried out subject to these constraints. If resources are employed fully then that constraint is effective, so the economic agent must choose this or that combination of the available alternatives. Optimising in fact amounts to incorporating the constraints into the utility function. For example, national leaders must trade off “guns *versus* butter” in reaction to the evolving perception of threat(s) from the international system. This, in turn, conveys the essence of budgetary politics: how can satisfactory levels of national defence AND personal well-being among citizens be procured, if at all, given the existing resource constraints? One answer might be to reduce the cost of national security by joining an alliance, whereas another might be to reduce taxes in the hope that the resulting improved productivity would produce more resources for distribution to both major purposes in the next time interval. Thus one resource allocation OR another must be chosen and implemented for the economy as a whole.

Economic behaviour is equivalent to the existence of a utility function as

described above. Since choice is the central question for economics, the components of the utility function are substitutes (*i.e.*, cats and dogs) for one another if the consuming of one lowers the marginal utility of consuming the other. The components become complements (*e.g.*, bread and butter) if consuming one increases the marginal utility of consuming the other. The preferred rates of substitution between and among food, drink and other commodities is a function of personal taste and, at the margins, survival-induced realities. The domain of definition for economics, therefore, is bounded by considerations that amount to the existence of a utility function. Four considerations are relevant.

First, irrelevance of ordering is essential. Utility functions are equations of state, so the condition of the individual at any point is independent of the path taken to reach the current condition.<sup>5</sup> The important thing about history for economics, in short, is that it is over. This assertion, of course, already abstracts away from the international system in which the order of the occurrence of events can matter a great deal. Consider, for example, how 7 December 1941 is a date so easily remembered in the US. Had the Japanese been attacked first by the United States rather than the reverse (and especially by surprise) — leaving aside how the steady economic pressure by the US in the months leading up to the war should be viewed — the political dimensions of the Pacific war and its prosecution would have been altered significantly. For example, public opinion in the US alone would have been a factor that played a different role during the war and perhaps one that would be hard to anticipate even from a vantage point over half a century into the future.

Persistence is the second consideration for the domain of economics. Utility

(and production) functions must persist over time if they are not to be completely protected hypotheses. (If these functions can be altered by choice, then an infinite regress of changes becomes possible.) Economics is limited by the extent to which attitudes underlying utility are invariant. The domain of economics is bounded by cultural, biological and natural forces outside the range of the subject and within the realm of politics. From a system-oriented perspective, then, the scientific value of an economic model depends upon at least short-term stability for utility functions expressed in terms of preference orderings. Political change can be expected to alter preferences, but the latter must have some inherent degree of stability in order to make the analysis of change a useful vocation. One example might be the excluded world in Smith's (2004) frame of reference, that is, those left in poverty and without a voice in the system managed by the US. Until fundamental changes occur, such actors can be expected to persist in their disdain for what is perceived, at least, as a US-imposed order of extreme inequality and unfairness.

Third, the domain of definition for utility functions must be connected. There must be no finite sized holes, discontinuities or catastrophes in the domain of economics. Economics is on weak ground when it faces radical social upheavals, revolutionary regime changes, great wars, massive redistribution of wealth, changes in property rights, environmental disasters and major market failures. Such events are capable of bringing about discontinuous changes in attitudes toward consumption and saving for the future, work *versus* leisure, risk acceptance and aversion, and the perceived values of natural resources compared to consumption (Wolfson 1992). A sad and salient example is 11 September 2001,

which changed, at least for the foreseeable future, the perceived utility from expenditures on measures to enhance national security within the US. Creation of Homeland Security as a new government bureau, along with massive expenditures on wars against Afghanistan and Iraq, would have been inconceivable without the events of that terrible day. Without a crisis of the first magnitude, no sitting president would have been able to move such an enormous amount of resources away from other areas and toward national security. In sum, the events of 11 September had the effect of shifting the overall trade-off between security and other goods in favour of the former among the mass public. In a very short time, relatively stable preferences about the structure of national spending changed dramatically and with at least some degree of subsequent stability.

Fourth, and the last of the considerations related to the domain of economics, is aggregation. Strictly speaking, a utility function refers to one individual. Yet in any reasonable application of economic reasoning to public affairs it also must apply to aggregates of people. The difficulty is that, in a majority rule polity, the process of aggregation introduces anomalies and inconsistencies with underlying individual patterns of preferences. The market aggregation of preference orderings is conducted on the basis of one dollar, one vote, and the political process in democratic societies by one person, one vote (Arrow 1952; also see Mueller 1989). Yet the question of "AND" remains one of the most important ones for politics: How do various regimes respond (or try not to respond) to the combination of individual desires to formulate and implement national policy? Is there a pathology in that choice? In sum, economics must cope with social aggregation and its models must be made flexible enough to cope with complications, created by poli-

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tics, which are sure to arise in real historical cases as opposed to classroom blackboards.

Within its domain of definition, economics sheds light on the forces that unite and divide countries. Under competitive conditions and secure property rights, commerce co-ordinates activities and reconciles differences. This is an essential element of the increasingly prominent idea of a neo-Kantian peace based on democracy, economic interdependence and international organisations (Russett and Oneal 2001). Outside of that secure world, however, economic interests may engender violence to transfer assets as in the Persian Gulf Wars, establish monopoly power as illustrated by the history of colonialism, or acquire rents as in the former Soviet bloc or in many less developed countries. In the complex international system, economics cannot be separated from politics which, in turn, must admit to some normative foundation. While the normative value of efficiency may be challenged, any alternative point of view would already be on the defensive for one simple reason: in a world of scarcity, what, in principle, is the appeal of WASTE?

Some international conflicts derive from macroeconomic rivalries that characterised the deflationary period between the two World Wars and that appear either to threaten again or even be in progress *via* (a) intense conflict within and about the World Trade Organization and (b) actors that continue to challenge the US-led world order. Keynes' (1936) classic exposition explained these recessions in terms of the irrational behaviour of individuals: dysfunctional propensities to consume; honorific fixation with liquid cash; illusory insistence on nominal rather than real wages; and unstable investors responding to their "animal spirits". All of this led ultimately to the madness of military war as an extension of "beggar my

neighbour" international economic strife as states played a zero-sum game for an export surplus (Wolfson 1990). Whatever the evidence for this line of reasoning, the experience that it attempts to rationalise reveals that not all coherent systems facilitate the world's utility or even its survival. In other words, when carried to an extreme, self-interest can produce a world that is neither efficient nor desirable on even its own grounds.

All of the preceding analysis in the section builds to the natural conclusion that a system-oriented approach is needed to bring politics and economics together into a more effective whole. Any given aspect of the international system will include economic, but ALSO political components, and *vice versa*. The point of departure in studying a given problem may focus on either its political or economic dimensions, but the full story is not told until both are given proper scrutiny and related to each other.

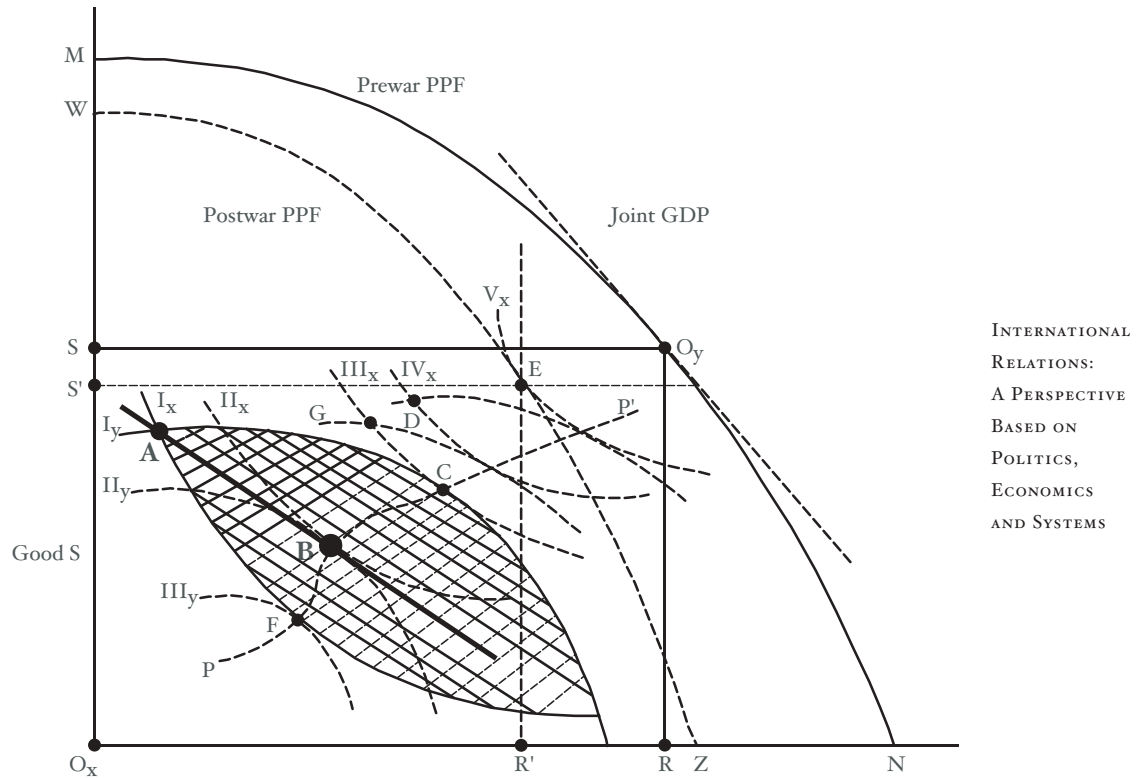
## THE POLITICAL ECONOMY OF WAR

CONSIDER ONCE AGAIN THE SOURCES OF CONFLICT IN A RATIONAL AND FULL EMPLOYMENT WORLD: IS WAR ALWAYS A MISTAKE IN SUCH AN IDEALISED SYSTEM? Put differently, can reasoned argument, good communication, or popular democratic government always avert conflict? As will become apparent, even in a simplified world it is hard to rule out war because of the complex interactions between and among political and economic variables. The discussion that follows might be seen as building, at least in part, on another insightful point from Smith (2004), namely, 'while death in state-to-state armed conflict is part of International Relations, death by economics, or by the market is not.'

Imagine two unitary and rational countries, X and Y, illustrated in Figure 1.<sup>6</sup>

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FIGURE 1: SOURCES OF INTERNATIONAL CONFLICT AND COOPERATION



Their utility functions depend only on the goods they themselves consume. Contrary to notions of rivalry built into realist conceptions of rational actors (Waltz 1979; Guzzini 1998; Vasquez 1998; James 2002; Harrison 2003), they do not care about the utility of the other.<sup>7</sup> X and Y, furthermore, are moved neither by norms of love and cultural affinity nor by envy, lust for power and ethnic hatred. Thus it would be difficult to imagine a situation with less apparent potential for conflict.

States X and Y possess resources that permit them to produce goods R and S. Then the maximum outputs of R and S by both countries together are given by their joint production possibility frontier (PPF), shown as the curve MN in Figure 1. In other words, these points are regarded

as Pareto Optimal, that is, fully efficient.<sup>8</sup> If these products are traded under perfect competition on the world market, the joint output will be at  $O_y$ ; it will be valued as their joint gross domestic product (GDP) by a revenue line tangent to the PPF at that point with a slope equal to the relative price of R and S in the international market. Thus, from the perspective of economics  $O_y$  might be regarded as an ideal point for X and Y. But this is just where the story begins.

How then is the joint GDP to be distributed between States X and Y? The joint product can be analysed for further possibilities in Figure 1 by a Bowley-Edgeworth Box.<sup>9</sup> To begin, X and Y initially could divide their joint product at point A, measured from the respective origins at  $O_x$  and  $O_y$ . This division, of



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course, introduces the political realm *via* bargaining skill, commitment and like matters. As a result, complications mount and there is no guarantee that X and Y will settle on point A for any length of time. Indifference curves representing the loci of equal utility with combinations of R and S then can be drawn from the respective origins. (All points along such a curve are equal in utility to each other for a given participant.) Indifference curves through A may be designated as  $I_x$  and  $I_y$ , respectively. While X and Y are indifferent to movements along these curves, a higher level of satisfaction can be reached if they can rearrange their consumption anywhere in the shaded region. Either or both could be on higher indifference curves without the other moving to a lower level of satisfaction. If they proceed in this manner by trade, bargaining or threat, the size of the shaded region subtended by successive agreements shrinks until it converges to points of mutual tangency of the indifference curves, like F, B or C. The curve FBC is the core of this economy and is a subset of the Pareto Optimal contract PP' curve of mutual tangencies that extends over the entire box.

The power of the market to resolve differences between countries is illustrated by the possibility of reaching the shrinking core by trade. If X and Y are small countries embedded in a perfect international market, they are able to exchange goods at world prices along AB (parallel to the tangency at  $O_y$ ). They reach the core at B where their respective indifference curves  $II_x$  and  $II_y$  are mutually tangent.<sup>10</sup> This process of incremental movement and stable relations might reflect the experiences of, say, Belgium with Luxemburg, or any other relatively small dyad within the contemporary European Union.

While such exchange is mutually beneficial, the underlying point of the exam-

ple is the LIMIT to peaceful gain through the market mechanism. Unfortunately, there remains a great deal of room for conflict. The only way for X to be better off than the optimal trade point B is to transfer some of Y's resources to itself either by threat or coercion, including violence. X and Y might even be very poor countries that have little or no international monopolistic bargaining power and are limited by the resources they presently control. These states certainly are better off with trade than without it, but that still might not amount to a very high level of *per capita* GDP. They still might be better off if they could capture resources whose value to them exceeded the cost of that effort. In other words, in the language of the contemporary study of international conflict processes, "not all dyads are created equal."

Gains from war to perfectly competitive price takers in the world market are easy to visualise even with damage to the common capacity to produce. Even allowing for the fact that resources are destroyed by war and reduce the joint possibility frontier from MN to WZ, X, for example, could be made much better off by war. Then, at world prices, the war-damaged countries would produce R' and S' rather than R and S. In other words, the inferior curve WZ creates the smaller box bounded by points S', E, R' and  $O_x$ . In the extreme case of complete certainty of winning a war and the transferability of Y's resources to itself, X would reach point E (*i.e.*, where it has all of the resources); it could do this either by war or a threat of war that would induce Y to transfer all but an infinitesimal amount less of its resources. At E, X would be at utility level  $V_x$ , that is, along an indifference curve that is HIGHER than it could achieve by peaceful trade, even if it no longer can trade further with country Y. If only some of Y's resources were captured,

the gains might not be as great, but even if X ends up at a point like D after war damage, it would have reached indifference level  $IV_x$ .

For example, Saddam Hussein might have regarded the occupation of Kuwait as resembling the case just described. It might have been very believable to Hussein that gains from predation would exceed the value of subsequent exchange with another relatively underdeveloped, oil producing state with an extremely skewed income distribution. While economic gain might not have been Hussein's only motivation for the occupation of Kuwait in 1990, it certainly would not have impeded his thoughts moving in that direction.

Predatory gain needs to be examined in greater detail than is possible here. We know something about non-traded goods, but what about the *DIVISION* between transferable and non-transferable resources? While aggregate GDP can be re-divided as suggested, post-war economies might produce and consume very differently without a homogeneous production function and transfers. In other words, political change through the mechanism of war could alter the entire domain and range of economics for the future.

The foregoing story may explain the motivation for conflict, but whether tensions erupt into warfare depends on strategic issues, highly sensitive to the protocol of moves between the parties involved. In an idealised case of perfect information and binding agreements, a celebrated theorem from Coase (1960) suggests that states would arrive at a Pareto Optimal solution without lost resources by bargaining rather than war. Whether they actually do depends on circumstances determining the game between them and the postulated sequence of bargaining moves (Tarar 2001). Outcomes may include games of threat such

as the Chamberlain-Hitler agreement at Munich and its dreadful sequel in World War II. While the playing out of such a case might be consistent with Coase's theorem, it is hardly appealing from a normative point of view, whether one is a Czechoslovakian citizen in 1938 or an observer in the twenty-first century. Further, games of asymmetric and imperfect competition — perhaps the norm rather than the exception in world politics — are subject to the use of coercion, war and certainly less than Pareto Optimal outcomes.

Ironically, states embedded in a perfect market have no way other than predatory conflict to improve their GDP beyond the market value of present resources (Hall and Hall 1998). States possessing a degree of monopoly power in their international trade have other options and face a larger opportunity cost to military predation. X might be able to offer an all-or-nothing bargain to Y and thereby drive Y to an equilibrium infinitesimally better than its initial utility level  $I_y$  at C, that is, prior to trade. A point very close to C is Pareto Optimal, to be sure, but X would have obtained all of the gains from trade. Clearly X would be indifferent between C and any certainty-equivalent outcome of predatory conflict along  $I_y$ , such as one in which the PPF would shrink, leaving the joint output at G. Since Y is better off at C than at G, it can be expected to accept X's all-or-nothing bargaining offer, although politics might intervene to complicate things further if economic well being AND nationalism both factor into Y's decision-making. To be sure, if X could do better than G by predatory war, it would substitute military conquest for monopolistic exploitation, but the capacity to achieve indifference level  $III_x$  is the opportunity cost of actual conflict and reduces its attractiveness and likelihood. If the recoverable

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booty from war were at a point like G (or lower), X would prefer to bargain for less than a complete all-or-nothing outcome rather than fight.

Alternatively, X might be a country with a degree of monopoly and thus able to set a price for its goods with respect to a collective group of buyers designated by Y. The price that X might charge is designed to achieve its own highest indifference curve consistent with the willingness of Y to buy various amounts at alternative prices. The locus of Y's tangency points with alternative prices is its "offer curve". Since Y can refuse to buy anything at all, its offer curve lies entirely within the shaded region of the figure. This form of exploitation results in a smaller gain to X than an all-or-nothing bargain. Consequently, it implies a reduced opportunity cost of war. Of course, structural considerations might force Y and perhaps many other states like it to buy after all, if economic exchange AND relative power come into play.

For example, what if X is the US and the commodity is access to loans from the World Bank? While no violence might be involved in a direct sense, this would seem to be an example of the kind of event that Smith (2004) identifies as relatively neglected by International Relations as a field when it comes to studying conflict. Thus the present stage of the example depicted by Figure 1 shows how an analysis based on political economy and relying upon the concept of rational choice is capable of bringing out normatively interesting issues in a rigorous way.

Interactions between economic motivation and war are bound to be complex. For small, primary product producing states who sell their raw output in a highly competitive world market, quarrels over resources are likely to be frequent and often unsatisfying because of an inherent inability to change the basic

terms of trade (Wolfson, James and Solberg 1998). For monopolists, the opportunity cost of war created by dependable gains from peaceful exploitation is greater so the likelihood of wars to conquer resources correspondingly is reduced. At the same time, war may break out among monopolists themselves to control exploitable markets rather than resources. Some might regard this as the fundamental explanation for the evolution of imperialism among the great powers in the Westphalian system.

Sadly, it is clear that, if war has an opportunity cost, so does peace. Norms of peaceful behaviour may have beneficial external effects in lowering the cost of protecting property rights. Self-imposed and unenforceable contracts are constantly in danger of lapsing into a game of common inhibition against the choice of violent redistribution of wealth and market power *versus* acceptance of the *status quo*. Against this inhibition must be considered motivations for predatory and monopolistic war as a simple consequence of economic maximizing behaviour. Peace-loving countries (and groups within countries) should be willing to pay for it. The question is, how much?

Economics matters because the preservation of peace is in large part a matter of solving the economic problems of states and thereby raising the opportunity cost of war (Elliott 1998) — a point that would seem consistent with Smith's (2004) normative emphasis. As Kenneth Boulding once said in a moment of exasperation with the formalism that had overtaken his colleagues, "I got into economics to save the world." Yet economics cannot tell the story of war and peace (or even lesser events) without politics. The example conveyed by Figure 1 reveals that a system-oriented analysis based on political economy and guided by rational choice is needed to deal with even a super-

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ficially simple situation of exchange involving just two states and two commodities. The analysis at each stage of the example serves as a reminder that ALSO is the operative word in a system-oriented analysis — additional factors and greater complexity are the norm rather than exception as such expositions unfold.

## CONCLUSIONS AND FUTURE DIRECTIONS

THIS ARTICLE RESPONDS TO SMITH'S (2004) PROFOUND CRITICISM OF THE FIELD OF INTERNATIONAL RELATIONS AS LACKING IN NORMATIVE RELEVANCE. A system-oriented approach, incorporating political economy and based on rational choice, is put forward as the most promising alternative to the relatively unsatisfying state of the field as described by Smith. Rational choice provides the micro-foundations for this political economy and provides a basis for a rigorous discussion of normative issues. The political economy of war shows how analysis based on rational choice can identify dimensions that are relevant to normative analysis but perhaps difficult to perceive otherwise. In sum, this study reveals that a system-oriented approach that incorporates interdisciplinarity, most notably in terms of politics and economics, can go a long way in producing International Relations theory that is both empirically and normatively valuable.

Further research based on a system-oriented approach should probe more deeply into the cases of war discussed at various points in the narrative, with some emphasis on selecting representative instances for comparison with each other. Among the normatively interesting issues that deserve further study are the following:

1. Why does the Coase Theorem, a centrepiece of economic modelling, seem

to fail so often at the international level? In particular, why are there wars and not just peaceful transfers of property rights?

2. How do conflicts of interest within states possibly translate into interstate wars?

3. What are the incentives for (non)elected officials to initiate wars?

Empirical answers to such questions might culminate in a normative discussion that evaluates policy options in a rigorous way, guided by concepts made available through the science of economics and incorporated in a vision of political economy that offers a comprehensive, system-oriented approach toward the issues.

## NOTES:

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1 The most creative and normatively relevant application of economic principles to problems ranging from public institutions to transitional states appears in Sandler (2001).

2 Topologically, stability derives from the convex curvature of the surfaces over which economic agents operate. This convexity generates counteracting forces to trajectories headed toward extremes and tends toward a unique, interior, dynamic stable equilibrium. Economic agents, so to speak, are like balls in a cup attracted by downward gravitational forces. The balls roll around to a point of rest at the bottom even if they bump into each other a bit in the process.

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3 For example, one basic property of a utility function within economic analysis is transitivity. For example, if option A is preferred to B, and B to C, then A is preferred to C.

4 This is true in spite of the fact some of the most prominent and lasting expositions of economic theory have analysed behavioural models that treat rational choice as one possible pattern of human action (Veblen 1912; Keynes 1936; Leontief 1951).

5 Economists, however, do model the endogeneity of preferences and habit formation (Sandler 2001).

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6 The exposition that follows is based in part on Wolfson, James and Solberg (1998:168-72).

7 The most authoritative treatment of realism in terms of its image of human nature appears in Freyberg-Inan (2004).

8 Sandler (2001:141) defines Pareto Optimality, one of the most fundamental concepts in economic analysis, as a situation in which 'it would be impossible to improve the well-being of one individual without harm-

ing at least one other individual.' In other words, as a normative criterion, Pareto Optimality, with all other things being equal, emphasizes efficiency over criteria that would favour redistribution. The particular distribution that results at any given time, of course, still can be criticized in terms of its underlying justice (Sen 1970; Wolfson, James and Solberg 1998).

9 This Box refers to a set of points within which exchange takes place between two agents with two commodities. The participants are at zero points (*i.e.*, where each, respectively, has nothing) at the lower left and upper right corners. Points within the box refer to different, unique distributions of the two commodities, which vary in quantity along the respective vertical and horizontal axes. This type of graphic analysis is a standard way of depicting how iterations of exchange can be used to reach some kind of ultimate equilibrium point.

10 At that point X and Y are indifferent between exchange with each other or the external world market.

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