

COMMITTEE IV
A Critical Assessment of
the Achievements of the
Economic Approach

DRAFT - 10/15/87
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COMMENT ON COLEMAN: THE ECONOMIC APPROACH TO SOCIOLOGY

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DISCUSSION PAPER

on

James S. Coleman's

THE ECONOMIC APPROACH TO SOCIOLOGY

The Sixteenth International Conference on the Unity of the Sciences
Atlanta, Georgia November 26-29, 1987

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Comment on Bernholz: The Economic Approach to International Relations

According to Bernholz (1987, p. 1) the economic approach "usually employs the assumption of rational actors with unchanging preferences, trying to reach their ends given certain environmental, institutional and resource restrictions". While I agree with Bernholz on the promise of such an approach, I wish to underline from the beginning that "the principle of rationality, unless accompanied by extensive empirical research to identify the correct auxiliary assumptions, has little power to make valid predictions about political phenomena" (Simon 1985, p. 293). Of course, the explanatory value of an economic or rational action approach also largely depends on auxiliary assumptions. While Bernholz (1987) does not explicitly commit himself to Simon's just quoted view, I think that he is in broad agreement with it for a number of reasons. First, in a recently published book Bernholz (1985) focused on these auxiliary assumptions and historical circumstances, while his conference paper concentrates on rational action and formal modeling. Of course, these two types of inquiry are not substitutes. Instead they compliment each other. Second, several times Bernholz (1987) admits difficulties in applying the notion of rational action. Third, even within his current conference contribution Bernholz mentions some of the most important auxiliary assumptions. Since these auxiliary assumptions are more familiar to the specialist on

international relations than to economists and other social scientists who follow their example in rigorous modeling, since I believe these auxiliary assumptions to be an absolutely essential part of the exercise of applying the economic approach to international politics, I want to reiterate and thereby underline some of them:

Rational decision-makers try to realize their goals under constraints. The most important constraint throughout history has been the anarchical character of the international system (Aron, 1966; Bernholz, 1985, 1987; Herz, 1950; Waltz, 1979; Weede, 1975). So far, not even the invention and deployment of nuclear weapons has changed this essential characteristic of the system. Given technical capabilities of states to wage war against each other and an absence of an effective authority that might impose peace upon even the most powerful states, rational decision-makers have to prepare for war or to face the prospects of surrender and abdication. Like Bernholz, most writers on international relations assume that decision-makers value sovereignty and security. If some of them don't, their states are likely to become buffer zones, client-states, or divided between more aggressive states. In the 'realist' tradition, there is a causal claim running from anarchical international systems to security dilemmas and then to the preparation and occurrence of war. It is important to note that security dilemmas force rational decision-makers to prepare for deterrence or defense as long as they stand a reasonable chance to prevail, although the collectivity of nations suffers from the investment in the means of destruction. Similarly, rational decision-makers may even initiate war and conquest, in order to add to their resource base and to avoid

being conquered by more expansive adversaries (Kaplan, 1957; Bueno de Mesquita, 1981).

In my view, the economic approach is compatible with these old-fashioned 'realist' insights. Moreover, an economic approach may demonstrate that the structure of the situation in international security affairs is just a special application of the social dilemma (Tullock, 1974). Whether you analyze social dilemmas in large groups according to Olson's (1965) 'Logic of Collective Action' or as two-actor prisoner's dilemma games, you arrive at the dismal conclusion that collectivities of self-interested rational actors often produce results that may be called 'irrational' from the point of view of the collectivity (Rapoport, 1964).

As Bernholz (1987) elaborates, the consequences of international anarchy are not equally dismal under all circumstances. He specifically mentions situations like repeated prisoner's dilemma games with indefinite duration and preponderance of power as conceivable mitigating circumstances. Following Olson (1965), one might add that small groups find it easier to cooperate than large groups. Of course, this is related to differences in transaction costs as well as to the visibility and effectiveness of individual contributions to the procurement of public goods in groups of different size. Bernholz's (1987) point about the conceivable benefits of preponderance is a special case of Olson's 'privileged group' or his 'exploitation of the great by the small'.

While I cannot find the following argument in Bernholz's paper, I think that it is linked to a point made in Bernholz's (1985, p. 9)

book. In international economic relationships mitigating circumstances are more likely to be found than in international security affairs. In international trade or investment, it is not necessary that all states agree on some procedure. Quite often bilateral agreements or subgroup agreements create major benefits for those who participate in them. By contrast, bilateral agreements of former adversaries to disarm may achieve little more than to make them an easy prey for third parties. It is my contention that subgroup or partial or local cooperation is much more often useful in international economic affairs than in security affairs.

There is another important difference between international economic and security affairs. In so far as economic conflicts of interest constitute prisoner's dilemma type situations at all -- in my view, they often do not -- it is reasonable to argue that, at least, there is some expectation of many repetitive transactions. Again, I contend that this mitigating circumstance typically does not apply to international security affairs. There, major foreign policy reversals and lost wars endanger the office-holding of decision-makers, the legitimacy of the regime and ultimately even of the state itself (Weber, 1964; Collins, 1986). Of course, economic problems may also put the fate of office-holders at risk. But success or failure in economic policies is usually not lumpy. Growth, inflation, unemployment, budget deficits or balances of payment usually improve or deteriorate by small incremental amounts. By contrast, you either avoid the escalation of some national security crisis to war, or you do not. You either win a war or you do not. Even a protracted military stalemate is usually much worse than slowly sagging growth rates, a little bit more inflation, slowly increasing unemployment or balance of payment problems.

From the point of view of office-holding decision-makers, serious or war-prone international rivalries may look much more similar to single-play prisoner's dilemma than to an iterative game. If you accept this line of argument, you are no longer amazed by the obvious intractability of international security affairs. It is conceivable -- and in my view, it is even true -- that technically more sophisticated arguments, such as those derived from iterated prisoner's dilemma games, are sometimes more misleading than more simple-minded arguments derived from single-play prisoner's dilemmas. Here, the issue at dispute is not rational action or the economic approach to human behavior, but auxiliary assumptions about the essential characteristics of the situation which decision-makers face. Depending on your auxiliary assumptions you may arrive at incompatible and contrasting analyses of national security issues and the corresponding policy implications, while still adhering to the economic approach.

Though all anarchical international systems burden decision-makers with the security dilemma and risks of war, they face specific constraints depending on the polarity of the international system. Polarity itself is defined by the number of essential, viable, or defensible actors. Bernholz (1985, 1987) distinguishes between multipolar systems with more than eight essential actors, balance of power systems with three to seven essential actors, bipolar and hegemonic systems. In his view, multipolar systems tend to be transformed into balance of power systems by war and successive eliminations of actors. All states or decision-makers face incentives to expand by conquest in order to avoid being conquered by others. There is no reason to preserve your victims as viable states and potential future allies, because there

still is an ample supply of potential allies against your enemies. In balance of power systems, however, you might depend on an alliance with your current enemy in order to contain or fight a future enemy. That is why wars and war aims should be limited, why balance of power systems have endured for centuries¹. In bipolar systems, there is again no reason to restrict expansive desires. Therefore, bipolar systems should not last long. In the companion book to this conference paper, Bernholz (1985) has provided historical evidence to support these claims.

There is a lively debate about the consequences of bipolar and balance of power systems in the literature (Kaplan, 1957; Deutsch and Singer, 1964; Waltz, 1964, 1979; Singer, Bremer, and Stuckey, 1972). Where stability is attributed to balance of power systems, the argument is broadly similar to Bernholz's (1985, 1987). In addition, the diffusion of decision-maker's attention in balance of power systems on many other states and the uncertainty about who shall fight with or against whom in case of lateral escalation are sometimes mentioned as stabilizing features of balance of power or multipolar systems. On the other hand, stability is sometimes attributed to bipolar systems, because of structural clarity and less room for misunderstandings or even because of the outright irrelevance of alliances. Moreover, stability and the reduced risk of major wars in bipolar systems is often specifically explained by nuclear deterrence. In his paper, Bernholz (1987) himself has pointed out that nuclear weapons might stabilize the contemporary bipolar system despite of the instability of this type of system throughout most of history.

1 In contrast to Bernholz (1985, 1987) most writers and researchers do not distinguish between balance of power systems and multipolarity. So, there is little research either to confirm or to challenge Bernholz's view.

Except for his treatment of first and second strike capabilities (see also Schelling, 1966, for a superb analysis), Bernholz does not analyze deterrence in much detail. Since I have done some work on the topic myself, I want to fill the gap. There are empirical studies (Bueno de Mesquita and Riker, 1982; Weede, 1975, 1983) which demonstrate that nuclear deterrence has reduced the risk of war wherever there is some perceived risk of escalation to nuclear war. This prohibits fighting between American allies and Soviet clients. Of course, there are also some empirical studies which call the peace-maintaining qualities of deterrence into question (in particular: Russett, 1963; Huth and Russett, 1984, 1988). In my view, the superficial contradiction between results can be overcome, if we distinguish between conventional and nuclear deterrence, between general and immediate deterrence. The latter distinction (Morgan, 1977) might need some elaboration. Where general deterrence applies, war is believed to be 'unthinkable'. Where immediate deterrence applies, general deterrence has already broken down and the task has become to dissuade the opponent from executing concrete military plans in the immediate future or present. In my reading of the evidence, nuclear deterrence works better than conventional deterrence, and general deterrence works better than immediate deterrence. From an economic or rational action perspective, these differences may be explained by damage differentials between nuclear and conventional campaigns and by the difference in incentives to strike first under conditions of general or immediate deterrence. A major reason behind the shortcomings of conventional deterrence is that taking the initiative seems strongly correlated with battlefield success at the beginning of military campaigns (Betts, 1985).

Bernholz (1987, p. 23) ends his paper with a question about deterrence. He asks whether it is reasonable to assume that the victim of a nuclear attack actually retaliates. As Morgan (1977) has elaborated, this is not at all certain. Rational decision-makers in the target state may regard surrender after receiving a counterforce strike as a lesser evil than retaliation, if their civilian society is still viable and if their reduced forces are no longer capable of retaliation against hardened military targets. Countercity strikes would invite retaliation in kind and thereby spell doom for the victim of a counterforce first strike. Therefore, surrender might become the lesser evil. While this dilemma already exists at the level of deterrence between nuclear powers, it gets worse, if we consider extended deterrence and commitments to allies. In the context of our current discussion the main problem is that the consistent application of rational action assumptions in isolation may well point to the anticipation of some future breakdown of nuclear deterrence. In order to explain why war between nuclear powers has so far been avoided, why even extended deterrence seems to work, we may need to add another assumption about decision-makers and their behavior, whether you call it risk-aversion or prudence (see Weede, 1985, for more detail).

Arms races result from the security dilemma and are often believed to contribute to the risk of war. Bernholz (1987, p. 19-21) introduces a formal model and refers to some other modelling efforts. What I miss in his paper and in the literature quoted is an empirical analysis of the relationship between arms races and the outbreak of war. Recently, Wallace (1979, 1982) has forcefully argued that arms races do increase

the risk of war. From such a result it is not a big step to regard arms races per se rather than adversary powers, like the Soviet Union, as the major threat and to recommend so much caution in Western arms procurement that deterrence itself might become undermined. There are two complimentary ways to correct such misleading ideas about arms races and war. You may challenge the validity of the linkage between arms races and war, as has successfully been done by Diehl (1983) and Weede (1980). Or, you may apply some economic reasoning, as Tullock (1974) did in an intellectual preventive strike. Instead of postulating a rather mindless sequence of actions and reactions, you may consider the effects of less military effort by one side on the other one. If A reduces his effort, B may well calculate that hegemony is feasible after all and double his efforts to gain preponderance. There is a similar phenomenon in economics. Lower prices usually increase demand.

From filling a gap in Bernholz's (1987) treatment of international relations I should return to a discussion of his propositions. Constraints on national decision-makers result not only from anarchy or the polarity of the system or the requisites of maintaining a credible deterrence posture, but from geography. In his conference paper Bernholz mentions Boulding's (1962) 'loss of strength' gradient, according to which military power declines with distance from the territorial base of the power-wielder. In his book, although not in his paper, Bernholz (1985) analyzes another and equally important phenomenon. It is easier to expand from a peripheral than from a central location in an international system. The traditional European balance of power system has been overcome by two powers who enjoyed the benefits of a peripheral location, i.e. America and Russia. By contrast,

the central powers of Austria-Hungary and Germany have been fragmented. This fits with Collins' (1986, p. 168) even more radical affirmation of the impact of geopolitics: "States which are physically peripheral to others ... have an advantage over those which have potential enemies on more than one border." Collins continues to observe "the tendency of interior states caught between several marchlands to fragment over long periods of time ..."

At first sight, geopolitics might look removed from economic reasoning. It is not necessarily. For the costs of expansion depend on a state's location within a configuration of other political units of unequal military capabilities. Economic and strategic men respond to costs and opportunities. Some of these costs and opportunities are geopolitical. In my view, geopolitical constraints belong to the most powerful ones which decision-makers face and neglect only at their peril. Following Collins (1986, p. 186 ff.) one may even argue that currently the Soviet Union is burdened with the unfavorable central location in the international system. The Soviet Union got into this position because of the fragmentation of Germany and the elimination of Germany as a major military power after World War II, and because of the rise of East Asia.

Having covered some 'environmental' constraints which decision-makers always face, I want to proceed to a discussion of domestic institutions which also constrain them. Actually, the economic approach has been most successfully applied at analyzing institutional constraints or public choice. So far, I have argued, as if nation-states were unitary

actors with consistent and stable preferences, capable of mobilizing national resources as their decision-maker or -makers saw fit. Some researchers in world politics explicitly make this set of assumptions (Bueno de Mesquita, 1981). Fortunately, Bernholz (1985, 1987) does not assume away problems related to the domestic order. The domestic order influences both the growth of national resources, i.e., it affects the development of resource constraints over time, and it affects the availability of existing resources for foreign policy or national security purposes. In order to simplify the discussion of institutional characteristics of nations, I follow Bernholz (1987) in merely contrasting Western type democracies and market economies on the one hand and more centralized (or authoritarian or even totalitarian) economic and political systems on the other hand. In the former set of states decision-makers face rationally ignorant voters, who are ordinarily rather unwilling to grant resources for investment in defensive or deterrent capabilities. This puts democracies at some disadvantage in arms races. Bernholz's (1985, 1987) argument may be regarded as a specific application of Olson's (1965) 'Logic of Collective Action', according to which large groups find it difficult to procure collective goods without coercing their members. By definition, democracies are not coercive towards their citizens.

But the constraints which Western decision-makers face in extracting resources for purposes of military power politics are somewhat mitigated by the more dynamic and innovative character of Western market economies. If Western societies could maintain efficient and competitive economies instead of regressing into 'rent-seeking societies' (Buchanan, Tollison, and Tullock, 1980), the superiority of market

economies over central planning might outweigh the greater difficulty of allocating resources for defense in democracies compared to authoritarian systems of government. Unfortunately, interest groups and the welfare state seem to progressively retard innovation and growth in Western economies (Bernholz, 1977, 1982, 1986; Olson, 1982; Weede 1986).

My comments on Bernholz (1987) have reiterated and thereby underlined some of his points. But I have also shifted the emphasis in a number of respects. First, I have neglected the formal modeling, because I believe that the fruitfulness of the economic approach depends very much on auxiliary assumptions and empirical analysis. If you take Bernholz's (1985, 1987) book and conference paper together, it is balanced in this respect. Since the paper stresses formal modeling at the expense of empirical analysis, I have attempted to provide some balance in my comments by focusing on auxiliary assumptions and a few empirical issues. Second, I have shifted the emphasis in giving more weight to environmental, systemic, or geopolitical constraints, and relatively less weight to other problems, because I believe that the roots of the most urgent and most permanent problems of international politics are to be found here. Third, I have shifted the emphasis towards current political issues. In general, my comment should be regarded as a supplement to Bernholz's work and not as a challenge to it.

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