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# THE ECONOMIC DIMENSIONS OF STRATEGY

by

MICHAEL L. BROWN

The term strategy means many things to many people. To the military purist, it continues to mean, as it did to Clausewitz, "the use of engagements for the object of the war."<sup>1</sup> To others, however, the simple equation of strategic matters with military matters no longer provides an adequate definition. As the international system becomes more and more complex, and the distinction between war and peace increasingly blurred, even the strongest nations have to use all of their resources, not just their military capabilities, to protect their vital interests. For these reasons, it has become necessary to develop a more expansive concept of strategy that includes not only the military, but other dimensions as well.

In order to distinguish between traditional military notions of strategy and the more expansive integrated concept, the latter is generally called national strategy. The most widely cited definition of this term is that provided by the Joint Chiefs of Staff. They call it "the art and science of developing and using the political, economic, and psychological powers of a nation, together with its armed forces, during peace and war, to secure national objectives."<sup>2</sup> Although this definition provides a sound basis for the formulation of national strategy, American policymakers often have been unable to integrate the economic dimension in particular into a coherent strategic framework.

The fundamental problem has been a failure to think about economic policies in strategic terms. With respect to the Soviet Union, for example, during the decade of the

1970s the United States tried to use economic instrumentalities to simultaneously foster political cooperation, control the rate of Jewish emigration, slow the pace of economic and military modernization, and punish the Soviets for their interference in Poland and for their invasion of Afghanistan. While economic tools may have been able to make a substantial contribution to the ends desired in some of these instances, the net effect of trying to accomplish them simultaneously and with uncoordinated and inconsistent policies was simply to confuse the Soviets as to our strategic aims.

In order to begin thinking about economic policies in strategic terms, it is necessary to understand how and under what conditions economic policies can contribute to strategic ends. In general, economic policies can serve strategic ends in five ways: to enhance regional stability, to achieve leverage over the policies of other countries, to increase the capabilities of allies, to reduce the capabilities of adversaries, and to engage in signaling. Using historical examples, this article will show how and under what conditions economic policies can be used to achieve these objectives. The final section will present some simple guidelines for the use of economic instruments in achieving strategic ends.

## FREE TRADE AND INTERNATIONAL STABILITY

Ever since Adam Smith, scholars have posited the existence of a link between free trade on the one hand, and international

peace and understanding on the other. Policymakers, too, have adopted this view. Cordell Hull, Secretary of State from 1933 to 1944, believed strongly that

unhampered trade dovetailed with peace; high tariffs, trade barriers, and unfair economic competition, with war . . . [if] we could get a freer flow of trade—freer in the sense of fewer discriminations and obstructions— . . . we might have a reasonable chance of lasting peace.<sup>3</sup>

Hull was not alone in this view, for it is frequently cited as one of the major lessons learned from the 1930s.<sup>4</sup> Indeed, it would not be inaccurate to cite free trade as the economic dimension, and support for the United Nations as the political dimension, of America's 1944 plans for its postwar strategy.

Because the Soviet Union refused to open its borders and participate in a free trade regime, by 1946 it became clear to American policymakers that the approach had failed to work in a worldwide context. Nevertheless, these same policymakers were still convinced that the theory underlying the link between free trade and international peace was a valid one. The Soviet refusal to participate in the postwar economic system simply forced scholars and statesmen to realize that essential to the establishment of a free trade regime was a certain degree of political concord among the participating states. Since agreement on basic political principles did exist in Western Europe in the aftermath of World War II, American policymakers reasoned that free trade might serve to reduce the risks of conflict among the principal European countries.

The Schumann Plan for the establishment of the European Coal and Steel Community (ECSC) offered the United States an opportunity to encourage the formation of a free trade regime to enhance regional cooperation and stability. Although US policymakers realized that if the organization were successful the American share of the European market would shrink, they determined that the political advantages of a unified Europe would outweigh these costs.

More important, they reasoned that the integration of the German economy with those of other European countries would reduce the apprehension with which these nations viewed the FRG and would hasten the day when Germany was accepted back into the family of nations. This was an important strategic consideration to the United States, which was advocating the integration of German troops into the defense of Western Europe.

Today's policymakers still accept the link between free trade and peace. In 1983 Ronald Reagan noted,

I've been around long enough to remember that we [adopted protective measures] once before in this century, something called Smoot-Hawley. We lived through a nightmare. World trade fell by 60 percent, contributing to . . . the political turmoil that led to World War II.<sup>5</sup>

Even so, American policymakers appear to have forgotten the lessons of the ECSC. If political stability and regional cooperation is in America's interests, and in most areas of the world it certainly is, then it would seem appropriate for the United States to assist in the development of regional free trade associations. Yet, while the United States has offered pro forma encouragement to the establishment of regional economic organizations, it has not followed through and offered diplomatic and economic incentives that could have made them a reality. In this vein, the United States has failed to realize

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the enormous strategic benefits that could have accrued as a result of their formation.

### LEVERAGE

The exercise of leverage is a second way in which economic tools can serve strategic ends. In a general sense, leverage can be divided into two categories, positive and negative. Positive leverage, the granting or offering of rewards, can be an effective instrument of policy, particularly when the offering country wants to develop or maintain a long-term positive relationship with the target.<sup>6</sup> One of the prime examples of the utility of positive leverage occurred during the Camp David negotiations in 1978. In these talks the United States achieved a degree of influence which it might not otherwise have had by offering economic assistance to both Egypt and Israel. Unfortunately, unlike attempts to exert negative leverage, positive leverage costs money. The Camp David Accords cost the United States nearly five billion dollars annually. Principally for this reason, there are few other recent instances in which the United States has tried to employ this type of influence.

Negative leverage can come in one of two forms, explicit and implicit. An attempt to exercise explicit leverage exists when one nation either overtly threatens to impose economic sanctions, or physically does so, against the target of the influence attempt. Unfortunately for advocates of sanctions, it is becoming increasingly evident that because nations against which sanctions are imposed can generally find other countries with which to trade, and because the external economic attack frequently fuses together the body politic, sanctions as a coercive instrument seldom succeed.<sup>7</sup> Still, because target governments and populations are not always sure of their ability to thwart the economic restrictions, the explicit *threat* of sanctions has proven successful in a number of instances.<sup>8</sup> The more successful form of economic leverage, however, would seem to be implicit in nature.

It was this type of leverage that formed the mainstay of German economic strategy in

the years immediately preceding World War II.<sup>9</sup> Indeed, it has been argued that this type of leverage has been the principal method by which the United States has dealt with Latin America over the years. If, for example, a South or Central American government leaned too far to the left, it was generally understood in these countries that Washington would react strongly, and that the recalcitrant government would suffer the same fate as that of Salvador Allende in Chile. Note that when implicit influence exists there is no need for verbal threats; the relationship is simply understood.

Another interesting aspect of implicit leverage is that while periodically it may be necessary to impose sanctions in order to demonstrate the power relationship, too many demonstrations can prove counterproductive, for if the target countries see that sanctions can be beaten, then the implicit threat is no longer useful. In this vein, it is arguable that the economic restrictions imposed as an element of America's human rights campaign in the late 1970s succeeded only in demonstrating how difficult it was for the United States to hurt intractable allies economically.

A number of scholars and policymakers have suggested that the United States attempt to develop a relationship of implicit influence with the Soviet Union. While Samuel Huntington is frequently given credit for formulating the outline of such a policy,<sup>10</sup> that is only because scholars have misunderstood Henry Kissinger's proposal for the development of a "seamless web" between the Soviet Union and the West. Attempts to portray the Kissingerian approach as just another version of containment are fundamentally flawed, for they fail to realize that he was trying to implement a strategy of "restraint," where the Soviets themselves would control their impulses for adventurism for fear of losing the benefits of Western trade.<sup>11</sup> To be sure, no economic leverage can dissuade the Soviets from pursuing activities they consider to be in their vital interests, but it might, in some cases, be able to deter them from pursuing what they otherwise would see as little- or no-cost targets of opportunity.

Whether this approach would have been successful in the 1970s is unknowable, for like most other economic approaches, it requires time to be effective—time to establish trading relationships and time for each side to understand where leverage can work and where it cannot. Unfortunately, Kissinger's approach was not given sufficient time. Before even the first strand of the web was spun, the Jackson-Vanik Amendment, by tying most favored nation trading status for the Soviet Union to specific levels of Jewish emigration, ended the experiment.

### ECONOMIC POLICIES AND CAPABILITIES

While the United States has failed to use economic tools to encourage regional stability, and has only sporadically engaged in attempts to achieve leverage, American policymakers constantly use economic instruments to increase the strategic capabilities of allies. Although military aid is the most obvious way of accomplishing this task, economic aid can be useful in two other ways. First, by giving a friendly country the wherewithal to provide essential domestic services, the donor can release resources for other programs, including those required for national defense. While the ratio of dollar given to dollar spent on military programs may make this a less efficient technique than military aid for improving an ally's military capabilities, there may be domestic and international constraints which make it the preferred alternative, as in the case of El Salvador.

There is a second way in which economic policies can contribute to an ally's capabilities. One of the greatest threats facing many Third World countries is not invasion from its neighbors, but the danger of revolution from within. Because of America's interest in regional stability, these situations are frequently inimical to the United States' strategic objectives. Moreover, as Americans have learned time and again, these insurgencies, once begun, are difficult to control. It would seem that in these cases an ounce of prevention is worth far more

than a pound of cure. Economic policies can form the mainstay of that prevention.

It is often argued that through foreign aid and trade subsidy programs the standard of living in less-developed countries can be raised to the point where the individual citizen is no longer vulnerable to the promises of revolutionary ideologies. Once again the best example comes from Europe. In 1947-48 the European economies were falling apart; only the bare necessities of life were available, and even these cost dearly. Communist parties throughout Europe were taking advantage of the situation and making promises of a Shangri-la that would exist if only they were brought to power. The United States saw the political situation as critical. Fortunately, American policymakers correctly perceived the root cause as economic and adopted what may have been the strategic coup of the century, the Marshall Plan.

The Plan proved successful for three reasons. First, it was given sufficient time and resources to work. By dedicating 17 billion dollars, nearly 2.75 percent of GNP over four years, the United States clearly dedicated sufficient resources. By contrast, foreign aid to all countries amounted to 9.3 billion dollars, just 0.28 percent of GNP, in 1983. Moreover, throughout the 1950s, American policymakers pursued economic reconstruction with single-minded determination, allowing no other goals to interfere with it. Even after the end of the official aid, the United States continued to do everything in its power to foster economic growth in Europe. Finally, the policy of economic reconstruction was integrated with other elements of strategy; diplomatic initiatives were adopted and military policies were pursued which encouraged European economic growth while protecting the affected countries from Soviet intrusions.

During the 1960s, as revolutions sprang up throughout South America, the United States decided to try the same approach on that continent in the much-vaunted Alliance for Progress. The program as conceived was a sound one. It was to provide 20 billion dollars spread over a ten-year period to develop both the agricultural and industrial

bases of Latin American countries. Unfortunately, a blue-ribbon commission formed by President Kennedy, orienting on the dollar cost rather than the potential strategic gains, did not agree. They argued, "For the present . . . we are convinced that reductions are in order in present military and economic assistance programs."<sup>12</sup> The resulting cut in foreign aid effectively gutted the Alliance for Progress and similar programs around the world. Indeed, in 1962 the entire American foreign aid budget was only 3.8 billion dollars, representing a smaller commitment of GNP than had any foreign aid budget since 1947. Moreover, once it became evident that the affected Latin American countries were going to be able to control their domestic insurgencies with armed force, the impetus behind the program virtually disintegrated. Significantly, however, the causes underlying the instability were not addressed. In sum, the Alliance for Progress failed both because insufficient resources were dedicated to it and because it was not given enough time to work.

It was not until insurgency in El Salvador threatened the existence of that government, and stability in Central America more generally, that this approach once again attracted followers. President Reagan's Caribbean Basin Initiative was clearly designed to improve the standard of living in the region and thereby to remove the attractiveness of insurgent promises. Yet, while the Caribbean Basin Initiative is certainly a step in the right direction, American policymakers appear to have learned little from history. First, the program does not provide nearly enough assistance. Trade and investment incentives must be supplemented by significant amounts of aid before the economic problems of the region, and of the individual peasant, can begin to be addressed. Second, although it appears as if the Administration expects to reap the results of the program in the next few years, it is doubtful that any political results will be realized in the short term. Indeed, at the current rate of investment, it may be well into the next decade that any noticeable results are

achieved, assuming the program lasts that long. As the European experiment should have taught, for the Caribbean Basin Initiative and similar programs to bear fruit, they must become a part of American strategy over the long haul.

### THE ECONOMICS OF DENIAL

Besides increasing an ally's strength, economic policies can also be used to deny certain capabilities to an adversary. In one approach, that of economic warfare, the object is to wage war on the adversary's economy by refusing to take part in any kind of trade and by encouraging allies to do the same. The enemy is then forced to dedicate to the civilian sector resources he might otherwise have had available for military purposes.

Obviously, economic warfare is most appropriate in time of war. Between 1947 and 1949, however, this strategy became increasingly popular, particularly in the United States, as the preferred method of dealing with the Soviet Union. Scholars differ as to the success of this policy. Some argue that the embargo was counterproductive because it forced the Soviets to produce their own goods and develop their own technologies, and because it pushed the nations of Eastern Europe further into Soviet arms.<sup>13</sup> Others suggest that while it did not destroy the Soviet Union, it did slow the pace of Soviet economic and military development and thus should be considered at least partially successful.<sup>14</sup>

Whatever the effectiveness of this approach, by the late 1960s the economic warfare strategy was becoming increasingly irrelevant. The technological and economic gap between the United States and other industrialized countries was shrinking. At the same time, these other countries began to perceive their national interests, and the threat the Soviet Union posed to those interests, somewhat differently than did the United States. Many of them saw real advantages to be gained by drawing closer to Moscow. Finally, all Western countries, the

United States included, began to rely more and more on international trade for continued economic growth. Governments could not ignore internal political pressures to seek markets in the East.

Attempts to adopt economic warfare policies during the early years of the Reagan Administration confronted all these difficulties. In 1982, when the United States tried to halt construction on the Yamal Pipeline by refusing to allow American firms to support the project, the government found that most of the necessary technology was available in Europe. At first the Administration responded by trying to dissuade the Europeans from selling the requisite technology and equipment to the Soviet Union. Unfortunately, the countries involved in the project thought it was in their national interest to do so. When Washington tried to apply extraterritorial jurisdiction to halt the use of technology licensed from American firms, the Europeans were outraged, pointing out that companies operating on their territory were subject to their jurisdiction. Overall, the incident created significant tensions between the United States and its allies. The primary lesson to be learned is that economic warfare is not, at present, a practical economic strategy with respect to the Soviet Union.

A second stratagem that can reduce the capabilities of an adversary is a strategic embargo. The intent of this approach is not even to try to reap the indirect advantages that might accrue from waging war on the target's economy, but to deny the opponent's military establishment the direct technological advantages that might otherwise be available from international trade. While nearly every Western country agrees in principle with this approach, the difficulty has been in defining exactly what constitutes military technology.

To date the United States has favored a broad definition of military technology and correspondingly tight restrictions on all high-tech products. Most Europeans, on the other hand, advocate a narrower interpretation of the term and believe that American proposals

unjustly interfere with free trade. The differences between the US and European positions have sometimes spilled over into the political arena and caused serious divisions among the allies. Although in a technical sense the Americans may be correct in believing that a great deal of Western technology finds its way into the military sector of the Soviet economy, it is absolutely critical that US policymakers realize that the question has broad strategic ramifications not only for East-West relations, but for West-West relations as well. Just as in the formulation of military strategy, there are times when the differing points of view among allies must take precedence over what even the most powerful member of the alliance would otherwise want.

### ECONOMICS FOR SIGNALING

While symbols and gestures are frequently dismissed as unimportant or trivial, they are in fact critical to the practice of foreign policy.<sup>15</sup> It is through these actions that states communicate their vital interests and their desires to other members of the international system. If successful, these signals can serve purposes out of all proportion to their costs.

Sometimes, however, mere statements and diplomatic notes do not effectively convey the seriousness of the sender. In these cases the medium becomes the message. For example, had President Carter merely expressed his feelings on the Soviet invasion of Afghanistan in the United Nations, the message would have been that the United States was only moderately concerned. Because he accompanied this kind of protest with economic and military measures, however, it became clear to the Soviets that the United States considered the Soviet action a serious threat. Economic sanctions are a particularly effective medium for the communication of signals because they actually do harm to the imposing country. They in effect say, "We are so concerned about the situation that we are willing to harm ourselves to indicate our seriousness."

Economic measures can be useful signaling devices in at least three ways. First, they can be used to send signals to allies. When Britain imposed sanctions on Southern Rhodesia, for example, the United States followed suit not because it thought the sanctions would force a change in the Rhodesian government, but because the Americans thought it important to demonstrate their solidarity with the British. In another example, Australia and Canada both imposed a grain embargo on the Soviet Union in 1980, not because they thought the sanctions would force the Soviets out of Afghanistan, but because the United States had asked them to take that step. One only has to recall how upset the American government became when France and Germany balked at following the US lead in the high technology arena to realize the importance of sanctions as signals to allies.

Sanctions also can be imposed to affect the attitudes and perceptions of potential adversaries. When sanctions are applied against one country for a specific policy or set of policies, the message to other countries is that they too can become the object of sanctions if they adopt similar practices. This was clearly one of the major purposes underlying the American sanctions against Argentina over its human rights policies. While there was certainly some hope that the United States could coerce the Argentines, equally as important was the desire to communicate to the rest of the world that the United States was serious about its human rights campaign.

Finally, the signal sent by economic sanctions can obviously be directed at the country against which the sanctions are imposed. While sometimes they are employed simply to demonstrate disapproval, as were those imposed by the United States against Uganda's Idi Amin in 1978, they can also be used to demonstrate the credibility of specific warnings. They are particularly useful in this context for at least two reasons. First, because sanctions impose a physical cost on the target, there is little prospect that the message can be shrugged off or ignored as easily as a verbal protest. And, again,

because economic actions levy a burden on the imposer as well as the target, they provide concrete evidence of just how seriously the issue at hand is being taken.

The quintessential example of such a use of sanctions occurred in the case of the 1980 American grain embargo. While some authors continue to believe that the United States was trying to coerce the Soviets into withdrawing from Afghanistan, this was clearly not the case. Indeed, President Carter remarked when he discussed the restrictions with members of Congress, "We anticipate that this withholding of grain to the Soviet Union will not force them to withdraw . . . . We understood this from the beginning."<sup>16</sup> Rather, the intention of the sanctions was to tell the Soviet leadership that "further aggression by you will result in the possible exercise of additional power by the United States . . . above and beyond economic and political actions."<sup>17</sup>

#### SOME PRINCIPLES OF ECONOMIC STRATEGY

The specific economic policies necessary to accomplish any of these tasks will vary from category to category, and from case to case. Nevertheless, there do appear to be a few guiding principles that can increase the probability of success.

The first principle is the need for *adequate resources*. Whether the strategic purpose is denying capabilities to an adversary, for example, or increasing the capabilities of an ally, it is essential to dedicate resources sufficient to the task. In a strategic embargo this principle will demand the establishment of an organization with enough manpower to monitor and police the export controls. It may also require the expenditure of public funds to offset the losses suffered by the affected industries in order to prevent pressure from special interest groups to lift the controls. As far as increasing the capabilities of an ally is concerned, recall that the Marshall Plan required 17 billion dollars spread over four years to achieve its purpose, and that the original designs for the Alliance for Progress called for 20 billion dollars over



ten years. There is no doubt that the use of economic policies to achieve strategic ends is not cheap, but national security never is.

The second principle is the need for *sufficient time*. By tradition and by the nature of their political institutions, Americans tend to be impatient and shortsighted. Economic policies designed to serve strategic ends cut against this grain, for they frequently take years to bear fruit. Indeed, depending on the level of resources committed, they could take decades. Moreover, even when these economic programs do begin to make a difference in the strategic environment, it is not always immediately apparent. How does one tell in the short term, for example, when regional stability has increased, or when an adversary's capabilities are less than they would have been in a free trade regime? Economic policies designed to serve strategic ends must be given sufficient time to work; they must be part of a long-term strategy, not a short-term quick fix.

*Integration* is the third principle. Recall that the Marshall Plan in particular was integrated with other elements of strategy. The military presence which prevented Soviet intrusions, the political coordination and negotiations, and the psychological preparations both at home and in Europe were direct contributors to the American success. The signals Jimmy Carter sent when he imposed the grain embargo, formally organized the Rapid Deployment Joint Task Force, and initiated a far-reaching propaganda campaign in the Middle East were all complementary and designed to send one set of strategic signals to the Soviet Union. It is doubtful that either the Marshall Plan or the grain embargo would have been successful if the economic aspects had been employed alone, but by integrating the economic aspects with the military, political, and psychological dimensions of strategy, both accomplished the purposes for which they were intended.

The final principle of the economic dimension of strategy is *consistency*. Because the use of economic instruments can seem to be so simple and so dramatic, policymakers sometimes use them for tactical rather than

strategic reasons. Unfortunately, such a use of economic tools can obscure and degrade the effectiveness of the overall strategy. The myriad of economic policies the United States has pursued with respect to the Soviet Union provides only one example of how confusion among both allies and adversaries can result. Economic policies must be consistent with one another so that the strategic purpose is not obscured.

In an age in which threats to American security seem to increase daily, it is essential that the United States pursue a coherent and coordinated national strategy. Moreover, because our principal advantage over our major adversaries lies in America's economic strength and vitality, it is imperative that the economic dimension be thoroughly integrated into the overall strategic approach. This article represents an attempt to provide a general framework suggesting how and under what conditions economic instruments can make a positive contribution to the achievement of national objectives. If we continue to employ these instruments haphazardly and without regard for the historical evidence, they will serve only to confuse our adversaries as well as our allies. If we employ them intelligently, however, they will make a positive contribution to our national security.

#### NOTES

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6. Maurice Mountain, "The Continuing Complexities of Technology Transfer," in *National Security and Technology Transfer: The Strategic Dimensions of East-West Trade* (Boulder, Colo: Westview Press, 1983), p. 18.

7. Any number of studies have this as their principal conclusion. See, for example, Donald Losman, *International Economic Sanctions* (Albuquerque, N.M.: Univ. of New Mexico Press, 1979), p. 124; and Johan Galtung, "On the

Effects of International Economic Sanctions with Examples from the Case of Rhodesia," *World Politics*, 19 (April 1967), 409.

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13. See, for example, Gunnar Adler-Karlsson, *Western Economic Warfare 1947-1967: A Case Study in Foreign*

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14. Although not the most authoritative, perhaps the most outspoken works in this vein are Arnaud de Borchgrave and Michael Ledeen, "Selling Russia the Rope," *New Republic*, 13 December 1980, pp. 13-14; and Carl Gershman, "Selling Them the Rope," *Commentary*, 67 (April 1979), 34-45.

15. For more on this point see Robert Jervis, *The Logic of Images in International Politics* (Princeton, N.J.: Princeton Univ. Press, 1979), especially pp. 7-10.

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17. Jimmy Carter, "American Society of Newspaper Editors: Remarks at a Question and Answer Session at the Society's Annual Convention, April 10, 1980," *Ibid.*, I, 643.

