

# Causes of War

## **Trade and War**

January 20, 2015

# Today's Agenda

- 1. The theory of comparative advantage.**
- 2. Privateering, bargaining, and war.**

The theory of

# Comparative Advantage

or: why trade should prevent war

# Outline of the Argument

- 1. All states are better off if they trade.**
- 2. States at war don't trade.**
- 3. Therefore, loss of trade raises the cost of war.**



## 1. Gains from Trade

- Theory by David Ricardo
- Trade is *Pareto optimal*
  - Every country is worse off without it
- Countries should specialize in their comparative advantage



# 1. Gains from Trade

## Example I: Burritos and Big Macs

- **United States**
  - 2 hours per burrito
  - 1 hour per Big Mac
- **Mexico**
  - 1 hour per burrito
  - 2 hours per Big Mac
- **Each country wants to consume 10 of each**





# 1. Gains from Trade

## Example I: Burritos and Big Macs

**Under autarky, each country spends 30 hours of labor.**

**With specialization and trade:**

- US spends 20 hours to make 20 Big Macs**
- Mexico spends 20 hours to make 20 burritos**
- Save 10 hours each**





# 1. Gains from Trade

## Example II: Maple Syrup and Moose Pelts

- **United States**
  - 2 hours per maple syrup
  - 3 hours per moose pelt
- **Canada**
  - 1 hour per maple syrup
  - Half hour per moose pelt





# 1. Gains from Trade

## Example II: Maple Syrup and Moose Pelts

### Under autarky:

- US spends 50 hours
- Canada spends 15 hours

### With specialization and trade:

- US spends 40 hours to make 20 maple syrup
- Canada spends 10 hours to make 20 moose pelt



# 1. Gains from Trade

**Trade makes all countries better off under a wide set of circumstances.**



## 2. No Trading while Fighting

**Why wouldn't states at war with each other trade with each other?**

## 2. No Trading while Fighting

There Are Exceptions

**"The Dutch, once they had broken in to a rival system, were usually prepared to share the spoils with anyone, even their mortal enemies, so long as they could make a profit from it."**

**— Howard (p. 46)**



### 3. Trade Inhibits War

**States lose the gains from trade when they go to war.**

**The gains effectively become part of the cost of war.**

### 3. Trade Inhibits War

**Suppose each country gains  $g$  from free trade.**

**Payoffs of negotiated settlement:**

$$x \qquad 1 - x$$

**Expected payoff of war (reservation value):**

$$p - c - g \qquad 1 - p - c - g$$



Privateering,  
**bargaining, and war**

# Privateering

**Howard describes the rise of *privateers*, ships authorized to raid the merchant ships of other countries.**

# The Puzzle of Privateering

**The problem facing vessels at sea looks like a typical bargaining problem.**

**So why do they resort to force?**



**Two armed vessels meet in the high seas.**

**Why don't they make a deal?**





# Is Privateering War?

**Remember Clausewitz: "War is thus an act of force to compel our enemy to do our will."**

**And: "War is merely the continuation of policy by other means."**





## For Next Time

- **Read Findlay and O'Rourke 2007, "World Trade 1650–1780" (download from Blackboard)**
- **Matthew to present on Gartzke 2007, "The Capitalist Peace"**



# Image Sources

- Thomas Phillips, portrait of David Ricardo: [Wikimedia Commons](#)
- Burrito: [Flickr](#) user SweetOnVeg
- Moose: Doug Brown, via [Flickr](#)
- Ángel Cortellini y Sánchez, "Antonio Barceló, con su jabeque correo, rechaza a dos galeotas argelinas (1738)": [Wikimedia Commons](#)
- Ambrose-Louis Garneray, "Abordage du Triton par le Corsaire le Hasard": [Wikimedia Commons](#)