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An Examination of the Effects of Trade on Peace and War

I. Introduction

Economists have long advocated for free trade due to the significant economic benefits for all nations engaged in free and open international trade policies. Trade is commonly seen by economists as a method for improving the economic well-being of nations due to its expansion of the division of labor, along with the expansion of new markets for both imports and exports. Certainly these are hallmarked benefits of free trade and are excellent arguments in favor of increasing trade between countries. However there is more to the benefits of free trade beyond the economic benefits provided to the societies participating in trade. Another major benefit to open world trade is the increase in instances of peaceful relations between these nations and peoples engaging in this global trade system. For obvious reasons, peace is a desirable state of the world to live in because of its preservation of life. Furthermore, peace allows people to advance and expand their economies, further increasing the economic benefits. However, it is important to note that free trade is not a perfect method to achieve peace. Other factors may help to bring about a peaceful state. Furthermore there could be other motivations a leader or nation may put over benefits from trade that would cause them to go to war in spite of conducting free trade. The point being made is that, on average, free trade will increase the likelihood of peace between the trading partners. The question raised is how does free trade contribute to creating a situation of peace amongst those trading. First, conducting free trade will raise the costs of peoples going to war with each other. These costs are pronounced in two different forms. The first are economic costs, resulting from direct harm to the economy and society as a result of a war. Additionally war results in harm to the domestic economy of a nation. This will encourage government to not go to war in order to protect their domestic economy. Also, this risk to a domestic economy could push private interests against war, and keep pressure on government to prevent or end war. Lastly there are connections established between societies as a result of signal acquisition and long term trade partnerships. In order to successfully trade with other peoples, entrepreneurs generally needs to adopt part of their culture to signal trustworthiness and allow for a proper established connection. These signals both contribute to private interests turning against war, as well as establishing deeper connections between trading partners. Coupled with long term trade partnerships that also provide deeper connections, both socially and economically, the connections established through trade reduce the likeliness of war. Free trade correlates with peaceful relations between nations because it raises the costs of going to war, increases risks to domestic industry from war, turning public interests against war, and creates integral connections between societies.

II. Costs of War

While operating under free trade policies the costs of a nation going to war will increase to a level that could deter aggressive action. An examination of this notion should start by looking at a comparative case of the costs of trade versus the costs of war. Assuming the situation in both cases is the acquisition of either natural resources or produced goods, the method of trade outperforms that of war. Warfare requires a significant amount of materials directed towards the war effort in order to simply begin the war. Rothbard notes that "...large quantities of resources must be shifted from the peace-time production of consumers' goods to the production of military goods" (Rothbard 1950). Since these war materials are shifted out of peacetime production, the ability to meet preferences will be hindered. Resources will become scarcer as they are directed away from consumer based goods towards war goods. These war materials generally have only one available use, which is to fight the war. A civilian cannot use a tank for farming or construction purposes. As a result, materials will be wasted and scarce goods will be removed from any legitimate benefit to the population. Comparing this with trade, it will only cost the money or materials that the other party requires in order to gain what is desired. Regardless of what must be given up in order to obtain some other good, the cost of losing it will be less than the cost of having to produce a massive war machine in order to obtain the good through warfare. Trade is a far more efficient method to acquire materials, and entering a war in acquisition of resources is significantly costlier.

In addition to the costs of attempting to conquer and extract resources, war requires severe risks. Engaging in war does not guarantee that desired resources will be obtained. There is no assurance for an aggressive nation that they will be able to successfully conquer and extract the resources from the country they are attacking. Fight in a "...war [that] is depicted as a costly lottery, the uncertainty about its outcome persists even in complete information settings" (Bas and Schub 2014). Therefore the outcome of a war is by no means a certainty. Going to war does not guarantee victory, so attempting to acquire resources through war will be risky. The resources and money directed towards the war effort are an uncertain payment with the hope of a positive future payout. Therefore, the costs incurred in going to war will not guarantee an outcome favorable to the aggressive nation. If the war is lost, not only were a significant amount of resources directed away from more beneficial and efficient uses, but they were essentially thrown away at a loss since successful conquest and extraction did not occur. This results in a total loss to the nation engaging in war. Trade is a significantly more likely secure method of acquiring desired goods from another nation. Certainly there is not a perfect guarantee that desire to trade will result in trade occuring; there is still uncertainty with regard to trade. However it is easier to simply increase offers for desired goods than to increase war production. Trade makes a better gamble than war since it is far more likely to result in achieving the desired ends.

As stated above, producing war materials would shift productive capacities and resources away from the preferences of the population. This situation would result in an overall decline in living standards for the population in the country engaged in war. To quote Rothbard again: "...mobilization for war inevitably involves hardships for the populace, and lowered standards of living for the duration of the war effort" (Rothbard 1950). This is the expected outcome on population from shifting production to the war effort. They will have fewer available resources to produce what they desire, which will require them to give up ends that occur lower on their preference ranking. During a time of peace the total direction of materials to non-war production would allow people to secure a greater number of their preferences. However with the advent of the war, they will lose the ability to fulfill all these needs. The ongoing war will shift production away from non-war production. As a result of less production in these areas, supply will decline, without any or much of a decline in the demand for these goods. This shift will lead to an increase in prices for these goods not used in the war, which have seen decreased focus because of the war. Further harm to the livings standards of the population will come out of this. These price increases will result in lost purchasing power, allowing for fewer purchases of goods even if there is no loss of money or purchasing power elsewise. However, as is discussed below, this will not be the case, and the situation will only be worsened by government financing of the war. This will decline their material wealth, thereby lowering their overall standard of living. The alteration of the production structure to assist in war production will drop the living standards of the population, from both decreased production and increased prices.

In addition the effects on resources and living standards the issue of risks to life and property is an additional concern with warfare. This risk could manifest itself in three different ways, all leading to similar outcomes. First, the military could be insufficient in providing proper protection of borders, and result in an invasion from the attacked nation. If the military cannot keep the war out of their own country, then their population will face harm as a result of their government going to war. Second, if the war is being fought close enough to the native land, attacks from bombers, rockets, or even artillery could be within range to strike the homeland. In this case, even if the actual fighting stays outside of the country, the population could still be in danger from the war. The concern does not exist only in the form of state-to-state military activity. The population of the country one's government is at war with could cause harm as well. This would happen in the form of terrorist attacks in alignment with the blowback theory of terrorism. Even if one country is significantly more powerful than the other, and a significant distance away, there is no certainty that the population is safe from harm as a result of the war. In all three instances there would be harm to the people as a result of the war. Both trade and wars tend to be most common with neighboring nations. Therefore, these risks of military attacks on the population are a significant risk that come with the advent of war. This further exemplifies the importance of free trade, especially with neighboring countries. The breakdown of trade that could lead to war would be far more costly if the situation occurs with a neighboring country. It goes without saying any damage to life or property is harmful to the well-being of the individual affected. War would be harmful to those within the country at war regardless of which country it might be. These potential costs provide a significant factor to encourage governments to maintain trade relations that will help to prevent war.

In addition to the costs of war are those resulting from war financing. Wars can be financed in three separate ways, all of which distort the economy and increase the harm caused by war. The three methods of war financing are taxation, inflation, and debt. Taxation directly draws money from the populace and redirects it into the funding of war. Through this method, people either lose the ability to purchase as much as they would desire, or have to alter their allocation of money. Which one of these will occur depends on the preferences of the individual who is affected by taxation. In the first outcome, people have less money as a result of new and increased taxes, and therefore cannot make the same level of purchases as before, and will have their overall wealth reduced. They will spend less on consumption, saving, and investment. As a result they will see lower living standards than prior to the implementation of the new or increased taxes, as each possible use for money will be reduced. Also, there cannot be an argument made that these taxes would then be better allocated by the government in order to improve the economy as a whole. The tax money would be directed towards production of war materials, and carrying out the war. Use of tax money in this manner does not benefit the people who have been taxed as the money will be spent on materials to be destroyed in some other land. In no way could this possibly benefit those who were taxed to fund the war. Even money given to those producing the war materials would not make society as a whole better. However, the discussion over benefits to the war industry will be discussed later on. The other outcome from taxation would be an alteration of the allocation of spending. This includes spending on consumption, saving, and investment. The second issue is the alteration of allocation of money. People may desire to maintain their current level of spending on one of these three areas, so if they have less money overall, then they would have to cut spending elsewhere. Therefore if someone wanted to maintain current consumption levels, they would have to either save or invest less. If they wanted to maintain consistent savings, they would have to consume and invest less. This would lead to a greater damage to their overall living standards like with a consistent decline in spending. Here taxation financing can be seen as further harming the population. Less consumption leads to lower living standards, along with less material wealth. With less savings, one risks long term harm if they would happen to lose their job, or if their property or person were damaged by the war. It would be more difficult to repair their property or themselves without a better amount of savings. Harms to investment would reduce the long-term ability of people to potentially retire, moving to a better neighborhood, or other life improving methods investments can benefit. Taxation financing for a war would significantly negatively impact the population of a warring country.

As mentioned, taxation is not the only method of war financing. The government can also use monetary inflation in order to pay for the war materials it would need to conduct a war. Monetary inflation is done by the government printing money and using it to pay companies for war materials. The way monetary inflation affects the people is in their loss of purchasing power. By increasing the supply of money without any change for demand will lead to a decline in the purchasing power for all money within the economy. However since government can print the money and spend it before any knowledge of this is done, they will be able to purchase materials for cheaper prices before the market can adjust to responses of the monetary inflation. Once the market catches on to the monetary inflation, prices will increase to compensate for the lowered purchasing power in order to accommodate for the drop in the value of the money. However the money will not be evenly dispersed by the government in spending, so those who receive the money later will have the prices increase before they get the new money through increased wages. This would cause real wages to decline for the later receivers of the new money. As a result they can purchase fewer goods with the same amount of money they had prior to the monetary inflation. Like with taxation, monetary inflation decreases the purchasing power of the money in a country, resulting in declining living standards coming from war financing.

Along with taxation and inflation, the government can also use debt financing in order to provide the funds they need for the war. To raise money for the war effort, the government would either borrow money or sell bonds to pay for war materials. These new debts would create future payment obligations for the government to repay along with interest to the holders of the debt and bonds. This method of financing increases the costs to the public in two main ways. The first is the question of repayment. As aforementioned the government will need to repay the debts and bonds with interest, requiring even more money to be spent at a later time to cover the costs of debt financing. In order to pay for the obligations the government will either need to raise taxes or inflate the money supply to cover their obligations. The harmful effects of these two methods have already been covered. The other way debt financing increase costs to the public is through distortion of the capital markets. When the government calls for loans, private lenders will direct money towards funding the government's war effort. The justification for this switch is unimportant, but the fallout is important. Capital will be directed away from other areas of the economy and into government loans in order to pay for the war. This would obviously draw capital away from other areas of the economy. The alteration of the capital markets will change production structures to use less costly, and likely less efficient, capital goods in their production processes. This will lead to less production resulting from less efficient means of production. Additionally, new inventions may be held back from the inability to get proper capital funding since the capital is being drawn towards the war effort. The redirection of the capital markets towards purchasing government loans would result in a retardation of economic activity within the country at war. Debt financing of war results in damage to the economy of the nation, and leads to long-term effects that hurt economic performance. While each method of war financing harms the economy "...it matters not whether a war is paid for by borrowing, taxing, or inflating. In all three cases, resources are diverted from the productive economy of wealth creation to the destructive economy of war-fighting" (Trask 2004). As a result of switching from a situation of trade to peace, war financing will negatively impact the economy, regardless of which method is utilized. All three forms of war financing draw resources out of the productive private sector, and into the destructive public sector.

Moving beyond costs in terms of resources and finances the issue of costs to people can be addressed. War requires people to fight in it, and a war will result in loss of life by those fighting. The scale of the loss of life depends on the scale of the conflict, but regardless of the scale people will unfortunately die. Loss of life leads to costs in two separate ways. First off is the obvious death. The effect goes beyond the individual as it is extremely costly to the family of the fallen soldier as well. Loss of a parent would hurt the income earnings and ability to care for the family as a whole. The other method is the loss of productive capacities. The vast majority of those fighting, and thereby killed, in war are young men. These are generally the most productive people within a society, especially in regards to physical labor such as construction. During the course of the war, a large number of these men will be drawn out of the productive labor force in order to fight the war. This will reduce economic activity without the addition of these members of the labor force. With the death of the most productive members of a society, there will be a decrease in the overall productivity of society. So during and after the war there will be a decline in the productivity of the market due to the loss of productive members of society either to service during the war, or death after the war. This loss to individual lives as well as productive capacities both during and after the war contribute to the overall costs that come from engaging in a war.

Lastly in regards to the costs of war is the comparison between war and trade, and their beneficiaries. Trades only occur if both parties view what they are receiving as more valuable than what they are giving up at that moment, so it logically follows that during a trade, both parties are made better off since they will have an on net have an increase to their utility and value resulting from the trade. Since both parties benefit, trade offers an increase to society as a whole. However in a war, at least one party must be worse off from war. They will be harmed by the destruction within their country when the war occurs within their countries. Also as has been seen so far in this paper, even if one country dominates the actual war aspect of the conflict, they will still be worse off in other ways. As a result of these reasons in the course of a war, both countries will be worse off than prior to the war. In comparing the two situations, it becomes clear how war is a less beneficial situation to be involved in than trade. During trade, both parties are better off, but in war both parties are worse off.

III. Benefits of Free Trade

The significant amount of costs associated with going to war make a sufficient case for operating in free trade and preventing war. However there is more that free trade can do to benefit a society and work to prevent warfare. A society engaged in free trade receives significant benefits from trade. By going to war, the government will significantly harm the domestic market that will lead to severe economic hardship for the population. This situation will cause private interests to turn against war, decreasing the likeliness of going to war. Like with the numerous costs of going to war, there are numerous ways departing from free trade and entering a state of war harms domestic industry. First and foremost is the removal of a trade partner. If a country goes to war with another that it is currently involved in trade relations with trade will stop while the war occurs. By entering into this state of war, the country will lose a trade partner. **Except in the case of smuggling, it is likely all trade between the two nations will cease.** This will affect the domestic economy in two separate ways, by removing an export location for domestic businesses and removing an import source. With the removal of an export location, there will be a decrease in the available market for sellers in the economy. While it's possible to shift sales elsewhere, the available market shrinks, eliminating some competition that could help push up the price of exports. This situation could contribute to harming domestic businesses that rely on exporting goods. In addition is the loss of an export partner there will be an elimination of imports into the country from the country that has been attacked. Similarly to the issue of exports, there will be a smaller market for imports as a result of the act of war. While losing an export partner would cause export prices to fall, a loss of an import partner would cause import prices to rise. With fewer available imports, businesses cannot be as discriminatory in attempting to acquire goods or resources they need. This will drive up the price of imports, and damage the profitability of businesses who rely on imports for resources or capital goods. This loss of trade could extend beyond the country that is being engaged with in the war. Other nations friendly to the one being attacked could look to support their ally by restricting or eliminating trade with the aggressor country. This would only intensify the problems associated with losing export or import partners. By having a greater amount of trade from engaging in free trade with countries, the risks to a domestic economy would significantly rise in a state of war. As a result those businesses who rely heavily on either export or import markets. From this situation these businesses and those who rely on them for a livelihood would be more likely to lobby against war and vote for politicians who promise peaceful relations with other countries. The importance of exporting and importing that comes as a result of free trade would help push the public against war, and work to securing peaceful relations.

Connected to the troubles from losing trading partners is the potential issue of a blockade being placed against an aggressor country. If the country happens to be weaker than expected in relation to the nation it attacked, then a naval or land blockade could be laid in order to restrict trade into the country. Again the issues that arise from loss of trade partners would be an issue as a result of a blockade. However the issues would be vastly worse since instead of losing one or several trading partners, there is the potential loss of all trading partners. This would require a country to turn towards autarky, a situation that would cause a significant drop in living standards and economic performance. Without any sort of trade, domestic economic performance would be extremely damaged as a result. Any possible trade that would occur would be done through smuggling. In order to attract smugglers prices would need to rise significantly to accommodate the risks of running blockades. These rise in prices would ensure more supplies get in, but purchasing power would drop along with the price rise, resulting in a further drop in the goods the average person can acquire. If this idea is mixed in with the troubles caused by different methods of government war financing, the situation within the country would be far worse than under a state of peace. One more point in regards to smuggling is that governments tend to not allow the rise in prices to allow for smugglers to take the risks of breaking blockades. Perhaps the best example of this was the city of Antwerp in 1584. During the Spanish siege of the city the city leaders placed price controls on food. The result of "Antwerp's price controls meant that merchants would get only the same price for their goods in Antwerp as they would get for selling them elsewhere at a much lower cost and risk. Naturally, the merchants sold elsewhere" (Haislmaier 1993). The price controls set by city leaders discouraged smuggling, since the risk was not allowed to be offset by higher prices. The result was the city's surrender to Spain. Certainly this will not always be the case during wartime, but it does show that in the event of a blockade, even market mechanisms to solve the issue may be suppressed by the government and lead to further economic issues.

Building off the idea of government regulation in regards to the economy during wartime, another common aspect of government action that accompanies warfare is the control over the economy. Viewing the economy as an important part to conducting the war and producing war materials leads government to take some level of, if not total, control over the economy for the duration of the war. Government control over the economy during war can range from regulations placed on businesses to outright government direction of production during the period of the war. As Ludwig von Mises explained in *Bureaucracy* "...industrial inefficiency and corruption are the consequences of methods of· government interference with business…" (Mises 1944). These two consequence from the government's intervention in the economy further hinder the ability of the economy to perform properly when compared to the private market.

The major issue with this situation is the inefficiency of government running the economy when compared to private ownership. Government operates outside of economic calculation, and during war only concerns itself with producing what it deems necessary for the war effort. By taking control of the economy, government reduces efficient production that is a hallmark of private ownership of the means of production. As a result production will become more wasteful, causing misuse and misallocation of scarce resources that would be better handled in a private market. This will contribute to the harms to domestic industry as the productive capacities of a country will be used in a poor manner, resulting in a decline in efficiency and overall productivity. Beyond the simple inefficiency that comes with government control over the economy is also the incentive for corruption and wealth extraction. Being in control of part of the economy may encourage government officials to direct money and resources towards their own benefit. Mises explains how “[c]corruption is a regular effect of interventionism” (Mises 1963). The result of government control over the economy commonly accompanies corruption, and leads to such situations as wealth extraction. This would be especially prevalent near the end of a successful war. As the war is drawing to a close, government officials would recognize that their control over the economy may be about to end, so that they will lose possible benefits to them once the war is over. As the war draws to a close, government officials will be incentivized to extract wealth from the business they are overseeing in order to benefit themselves financially. This can cause damage to the business or industry that will negatively impact it beyond the end of the war and the end of government control. An additional issue that comes from government control over the economy is the ratchet effect. This effect is where as the government increases its power during emergencies such as wartime, any power reduction following the end of the crisis will leave its power greater than what it was prior to the crisis. This leads to greater government control over the economy than existed prior to the war. Government regulations and control over the economy have negative impacts on economic performance.

Despite the logical argument against government action benefiting business, there are still some proponents of the idea that war is good for business. There is a mild amount of truth to the claim, however only in specific circumstances. Those circumstances are if a company consistently focuses on war material production, even during peacetime. With their lines of production already directed towards producing these materials, they will not face any sort of delay in switching over their production to fit the war effort. Rather, when a war breaks out they will simply be able to produce the necessary products that the government will request in order to carry out the war. However if a company does not usually produce war materials, they will have to deal with a switch over to war based production. Even if war production during wartime can be more profitable than producing other goods, there is no guarantee that it is better than if they maintained regular production during peacetime. With producing war materials a business needs to accept the government price since they have guaranteed business and guaranteed payment from the government. With the onset of a war, government will be ordering new supplies from businesses, and there will be a steady stream of orders for the duration of the war. Additionally, there will be a guaranteed level of payment since government has the coercive apparatus to provide for funding to finance production of war materials. As aforementioned, within the context of the war this may be better than staying in normal lines of production. Due to all the earlier mentioned issues of how war impacts the economy, the non-war markets will be riskier than the war markets. This encourages a shift towards war production in order to guarantee business will continue throughout the war. In very rare cases is war good for businesses, but in most cases war makes businesses worse off than operating in peacetime.

IV. Connections between Societies

Free trade further contributes to the securing of peace by making connections between peoples that lower their desire to go to war with one another. These connections start in order to assist in trade relations, but create deeper connections that with bring people closer in different societies. These connections begin as signals to assist in making trade connections with different nations. In order to ensure repeated dealings, and that a merchant will not engage in a bad trade and leave. These signals that are costly to obtain show that there is an interest by the merchant to maintain continual relations, and not shirk on the quality of a trade. These signals come in the form mainly of learning the language, culture, or adopting the religion of the people they are trading with. By doing this they signal that they have long-term desires for business dealings.

The costliness of these signals cause businessmen to turn against going to war with people who they have spent money and time on to acquire. They would lose the benefit from acquiring this signal, causing harm to their business. The risks associated with acquiring signals incentivizes businesses to turn against war and oppose politicians who are more likely to lead them to war. However these signals go beyond the surface level of assisting in business. They could lead to deeper connections between societies that also work to prevent war. Two peoples that share a common religion are less likely to go to war with each other as they see them as brothers under their god. The same situation arises when examining language and culture. People are less likely to want to go to war with people they feel connections to through these signals. While the acquisition of these signals began as a method to improve trade, they develop into methods to discourage war as a both a protection of investment as well as bringing people closer together.

One other aspect of signals beyond the investment and connections is how it encourages business. From acquiring these signals it increases business with people whose signals have been acquired. It would be difficult to acquire dozens of different languages or multiple religions to signal to a vast variety of people to spread business around. This situation results in a significant amount of business occurring with the people whose signals have been adopted, since these signals are specific to one or a few type of people. This situation would encourage the merchants who adopted the signals to have their businesses severely tied to a specific area. If war break out with these people, virtually all business is then lost from the outbreak of a war. Since the signals are costly to adopt, it would be difficult to adopt new signals in order to shift trade to another group whose signals can be adopted. In the interim businesses would suffer, and the merchant could go out of business, eliminating any benefit to acquiring new signals. During a period of free trade then trade can be directed to whosever signals have been adopted. Since there is free trade, signals can be adopted for whomever entrepreneurs view as the best potential option to trade with. Here there is a better ability of the entrepreneur to engage in the most efficient trade possible by adopting the signals for where he anticipates the best outcome. Therefore when merchants attempt to maintain trade with these partners by preventing war, the best available trade options will be protected, making society wealthier due to entrepreneurial foresight. Any attempt to break from this trade arrangement would not only negatively affect the merchants who acquired the signals but the entire economy of the government who goes to war. Since these trades are potentially the best available, it is in a greater interest to the government to not go to war with peoples the merchants have adopted the signals of. Through the adoption of signals entrepreneurs are able to discourage the instance of war through interests within business as well as connecting societies.

V. Historical Examples

Theory is well and good in examining what logically should happen, but if in the history of trade there are no examples to back it up, the theory seems doubtful. However there are multiple examples throughout history of trade contributing to the preservation of peace, even between nations that have historically been hostile towards each other. The first historical example that can be analyzed is the United States and Great Britain from the timer period following the American Revolution through the American Civil War. Shortly following American independence Great Britain and France were engaged in another war as a result of the French Revolution. The United States was more favorable to France as a new republican government like itself, which led to tensions with Great Britain, and risked leading to another war between the two nations. However Bradford Perkins notes that John Jay was able to negotiate what would become known as Jay’s Treaty between the United States and Great

Britain which expanded trade between the two nations and established a formal peace between the two (Perkins 1955). This expansion of trade was able to keep the United States and Britain at peace throughout the war between Britain and France. Trade helped to facilitate peace between the two during what could have been a tumultuous time following shortly after independence.

Later when Thomas Jefferson was president, Jay's Treaty was not renewed which led to a decline in trade, and relations between the two worsened. This was only escalated by the Embargo Act of 1807, which completely cut tradeoff between Britain and the United States. Relations continued to decline, as during the Napoleonic Wars "Britain increased the impressment of seamen from American ships" (Perkins 1961). While the Embargo Act would eventually be repealed, trade still remained low and relations were bad. This culminated in the War of 1812 over in part due to the issue of impressment. Without as significant of a trade connection, Great Britain was not as concerned with losing America as a trading partner and could risk impressing American sailors. In part as a result of the declined trade, the War of 1812 broke out from the poor relations that could be afforded from the lack of trade.

Following the end of the War of 1812 relations returned to normal, and the United States and Great Britain returned to a state of trade that significantly benefited both countries. This came to a test in the 1860s with the outbreak of the American Civil War. Great Britain liked the idea of a weakened United States from being split, and wanted to support the Confederacy. However they relied heavily on food imports from the United States, and if they helped, or even recognized the Confederacy, they knew they would lose the trade of the United States, and it would be seen by the American government as an act of war (Eichhorn 2014). Recognizing this, Great Britain decided not to recognize or help the Confederacy. The American Civil War risked spreading to Britain, however the important trade connections that were in place prevented Britain from taking a course of action that would have led to war with the United States.

Continuing with the United States, the case of the United States and Japan prior to World War 2 can show how a breakdown in trade can lead to war. Throughout the 1930s Japan was conquering lands throughout East Asia and the Pacific. Japan recognized the United States as a threat, especially since the Philippines, an American territory, sat at their southern border in the Pacific. They feared an American attack through the Philippines, on their southern territories. However Japan maintained peace with the United States, since they relied heavily on the United States for oil that was needed for their war machine.

In July 1941 the United States cut off their oil to Japan as a result of Japan's continue spread across the region, and not leaving their occupation of China. For several months Japan tried to negotiate with the United States for the reinstatement of their oil trade, as late as November twentieth. However the United States would not reinstate oil trade unless Japan left their occupation of Manchuria. Japan could see the United States as a threat like they had for several decades, but now the United States was actively trying to get them to leave areas they had moved into. It's possible Japan expected an attack, and since the United States was no longer supplying Japan with oil it needed for its war machine, an attack would not be as costly. This led to Japan's attack on Pearl Harbor on December seventh of 1941. In this case the trade connection was maintaining peace between nations who had vastly different interests, and saw each other as threats. However once trade broke down, was quickly followed as a result.

On the other side of the world leading up to World War 2 was the trade situation in Europe. Nazi Germany wanted to achieve autarky, but realized it was impossible due to its lack of natural resources, so it was forced to trade with the rest of Europe and the world. However

Britain had created an anti-Germany trade block that reduced the possible options for Germany to trade with. As a result most of German trade came with countries in Southeastern Europe and Latin America, who were not part of Britain's trade block. The situation in Europe contributes to this discussion on trade in two ways. Firstly, Germany did not go to war with the nations that it was trading with. Germany focused most of its trade in Southeastern Europe as "German imports from five Southeastern European countries——Bulgaria, Greece, Hungary, Rumania, and Yugoslavia——rose… [and] German exports to those countries increased in the same period" (CQ 1939). The first three nations were not invaded by Hitler, but were allied states during the war. Yugoslavia generally maintained in peaceful relations, although parts of it were captured by Italy. Greece was also conquered by Italy. However in general these nations that Germany relied on for trade relations were not nations that were subject to Germany invasion like the rest of Europe.

Germany in WW2 shows how trade can work to preserve peace, but it also shows how lack of trade can lead to war. Prior to Germany's invasion of Poland in 1939, Britain and France were in an alliance with Poland. It was extremely likely that if Hitler invaded Poland, he would face war with France and Britain as well. However both were part of Britain's anti-Germany trade block, so Hitler was not reliant on them for resources. Since there was not trade, the costs to Germany of going to war with Britain and France were lower than if they had been trading with them prior to the invasion of Poland. Certainly there were other motivations for Hitler's war plans beyond Germany's economic performance, but it's not impossible to rule out that Hitler saw low costs from a lack of trade with Britain and France. Since there were no trade relations, Germany would not suffer from loss of trade if it invaded Poland. This may have contributed to Hitler's willingness to spark war with both Britain and France. So not only did trade contribute to peaceful relations with nations by Nazi Germany, it may have increased willingness to go to war with other nations.

The last example of trade contributing to peaceful relations comes from the Arab-Israeli conflict. Since the creation of the state of Israel in 1949, it had been at war with multiple Arab nations on average every five to ten years for decades. The leading nation fighting Israel was Egypt on its southern border. The last war fought between Israel and Egypt was the Yom Kippur War in 1973. By 1979 the two were entering the average span where they would be going into another war. However in 1979 Israel and Egypt signed the Camp David Accords. These accords established a lasting peace, as well as trade relations between the two that continue into the current day. While the accords were signed in 1980 "[f]normal economic relations between the two countries began in 1980" (Hassanein 2016). The two were entering into a time where, in accordance with the history of time between wars, they should have entered into another war shortly. However with the establishment of trade and peace, there has not been another war between the two nations in the thirty-eight years since the signing of the accords. Since 1980, trade between the two has grown as peace continues to last. In addition to this Israel has seen as similar pattern of peaceful relations coupled with trade with Jordan, another nation Israel had historic conflict with. Israel and Jordan established trade relations in 1995, and like with Egypt, the two have seen consistent peaceful relations ever since. There are certainly matters beyond the trade relations that contribute to peace between Israel and formerly hostile Arab neighbors, but the increased costs by trade connections cannot be ignored in helping to establish peace.

VI. Conclusion

Free trade correlates with peaceful relations between nations because it raises the costs of going to war, increases risks to domestic industry from war, turning public interests against war, and creates integral connections between societies. By increasing trade between nations, the costs that would befall them from a war are severely increased. Engaging in a war for acquisition of resources is far costlier than simply trading for the resources in both pecuniary costs and resources. Additionally it is uncertain if war can produce a desired outcome, whereas trade is almost a guarantee. War also costs the population by lowering their costs of living. Furthermore the loss to life and property resulting from the war greatly contributes to the costs borne by the population. The effects of war financing significantly raise the costs on a nation that is engaged in war rather than trade. Taxation draws money away from people and decreases the basket of goods they can purchase, as well as altering spending allocation. Inflation robs the people of their purchasing power when used to finance the war. Debt financing alters the capital structure and hinders economic growth. By fighting the war, productive citizens are drawn out of the production structure and retards economic performance. In addition there are those who die in the duration of the war, permanently impacting the productive capacity of the nation. Beyond the costs of war are the impacts on domestic industry that comes from departing from trade. First and foremost is the loss of trading partners from the nation that war has been declared on, as well as their allies that will reduce or eliminate trade. Furthermore if a blockade comes about, the domestic industry will be strangled, and government tends to work against market functions to assist the economy in blockade situations. If the government increases its regulatory and direct control over the economy, businesses will suffer due to the inefficiency of government along with the incentive to extract wealth. Any arguments made that war helps business is only relevant to permanent war industries, and other businesses will see their situation worsen during the war. Even after the war the ratchet effect will cause further harm to the domestic economy. The connections established through trade also help contribute to continued peace. This builds from signals acquired in order to secure trade connections in the first place. These signals lead to deeper connections between nations that reduce the likeliness of war breaking out amongst nations that have adopted signals to foster meaningful trade relations. The incentives created by signals to continue business relations further add to the encouragement of peace. All of this theory can be reinforced by historical examples of situations where peace came from trade relations, and how lack of trade resulted in war. The first example was the United States and Great Britain's ebb and flow of relations in the decades following the American Revolution. The United States relations with Japan leading up to Pearl Harbor also reflect the instance of trade and its breakdown contributing to peace and war respectively. Nazi Germany's trade partners leading up to the Second World War further shows the effects of trade on peace and war. Lastly the cooling of hostilities in the Arab-Israeli conflict correlated with the increase of trade also shows the benefits trade has on peace. Both economic theory and historical example emulate how free trade works towards peaceful relations, and the lack of trade increases the likeliness of warfare.

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