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TRADING WITH THE ENEMY DURING WARTIME

JACK S. LEVY AND KATHERINE BARBIERI

IN THEIR DEFENSE of the town of Grave against a siege by the Dutch and their allies in 1674, the French, concerned that the town was dangerously overstuffed with ammunition from other fortresses that were being evacuated, sold half of their gunpowder to the Dutch, who then used it to bombard the French.¹ Nearly a century later, a member of the British Parliament declared that the Dutch were “so careful to preserve the inlets of gain from obstruction, that they make no scruple of supplying their enemies . . . , and have been known to sell at night those bullets which were next day to be discharged against them.”² Americans are no strangers to this age-old tradition of trading with the enemy.³ In the first two years of the War of 1812, Americans provided approximately two-thirds of the beef rations for the British army in Canada.⁴ They also supplied the British fleet that blockaded the American coast and destroyed Washington, D.C.⁵ During the Second World War, American firms supplied oil and trucks to Nazi Germany through Switzerland, while Allied forces suffered shortages of both.⁶ The long-standing and seemingly paradoxical practice of trading with the enemy during wartime continues to the present day. As Peter Andreas concluded in his study of the clandestine political economy of the Bosnian war, “the besiegers were supplying the

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1. John A. Lynn, *The Wars of Louis XIV* (London: Longman, 1999), 122–27.

2. Richard Pares, *War and Trade in the West Indies* (London: Frank Cass, 1963), 406.

3. We use the term “trading with the enemy” to refer broadly to trade, finance, and other forms of economic cooperation between adversaries, following standard usage in state statutes on “trading with the enemy.”

4. Bradford Perkins, *Castlereagh and Adams: England and the United States, 1812–1823* (Los Angeles: University of California Press, 1964), 34.

5. Walter Ronald Copp, “Nova Scotia Trade during the War of 1812,” *Canadian Historical Review* 18 (June 1937): 141.

6. Charles Higham, *Trading with the Enemy: The Nazi-American Money Plot, 1933–1949* (New York: Barnes and Noble, 1983); Mark Aarons and John Loftus, *The Secret War against the Jews: How Western Espionage Betrayed the Jewish People* (New York: St. Martin’s Griffin, 1994).

besieged,” and “the outbreak, persistence, termination, and aftermath of the 1992–95 war cannot be explained without taking into account the critical role of smuggling practices and quasi-private criminal combatants.”⁷

As these examples suggest, trade between adversaries involves armaments and fuel, as well as food and luxury goods. It affects a military’s strategies and effectiveness, as well as the survival strategies of noncombatants caught in the crossfire. Trading with the enemy occurs during all-out wars fought for national independence or global dominance as well as during more limited military encounters.⁸ There is growing evidence to suggest that it is as common in contemporary civil wars as it has been in traditional interstate wars. One indirect indicator of the potential economic, strategic, and political importance of trading with the enemy is the significant efforts governments have taken to stop it—through statutes prohibiting the practice except under certain well-defined conditions,⁹ and through efforts to crack down on widespread violations of these statutes.

The practice of trading with the enemy is important for the study of international relations as well as for international history, and particularly for the scholarly debate about the relationship between economic interdependence and militarized conflict.¹⁰ Although liberals and realists disagree profoundly about the impact of economic interdependence on war (with liberals arguing for the pacifying effects of trade on war and realists rejecting those arguments), one thing about which liberals and realists agree is that trade and other forms of economic interchange between states will cease or significantly diminish once those states begin fighting each other. Liberals argue that, since war disrupts trade and reduces the economic benefits it confers, political leaders refrain from engaging in militarized conflict or other actions likely to lead to

7. Peter Andreas, “The Clandestine Political Economy of War and Peace in Bosnia,” *International Studies Quarterly* 48, no. 1 (March 2004): 29, 38.

8. Some have speculated that France would not have been able to fight the War of the League of Augsburg (1688–97) or the War of the Spanish Succession (1701–13) without the money and horses that the French obtained from their Dutch and German enemies in exchange for French wine. George Macaulay Trevelyan, *England under Queen Anne: Blenheim* (London: Longman’s Green, 1930), 295. These were two of the ten “general wars” in the modern great-power system in the last five centuries. Jack S. Levy, “Theories of General War,” *World Politics* 37, no. 3 (April 1985): 344–74.

9. Ludwell H. Johnson III, “The Business of War: Trading with the Enemy in English and Early American Law,” *Proceedings of the American Philosophical Society* 118, no. 5 (15 October 1974): 459–70.

10. Katherine Barbieri, “Economic Interdependence: A Path to Peace or a Source of Interstate Conflict?” *Journal of Peace Research* 33, no. 1 (February 1996): 29–49; Katherine Barbieri, *The Liberal Illusion: Does Trade Promote Peace?* (Ann Arbor: University of Michigan Press, 2002); and Bruce Russett and John R. Oneal, *Triangulating Peace: Democracy, Interdependence, and International Organizations* (New York: Norton, 2001).

war against key trading partners. Realists, who emphasize states' concerns for relative gains, argue that at least one state will conclude that trading with the enemy during wartime will benefit its adversary more than itself; fearing that trade-related gains will ultimately be converted to military power,¹¹ the state will therefore decide to terminate trade. Liberal and realist arguments about the impact of economic interdependence on war are each based on assumptions about the impact of war on economic interdependence. To the extent that these assumptions are inaccurate, theories of economic interdependence and war are flawed.¹²

Given preliminary evidence that trading with the enemy occurs with some regularity,¹³ and given the theoretical importance but paradoxical nature of this phenomenon, our primary objective in this article is to identify and analyze alternative theoretical explanations for trade between enemies. We specify the key variables and the causal paths through which those variables affect decisions that shape wartime policies regarding trade with adversaries and neutrals. We illustrate our hypothesized relationships with a wide variety of historical examples, and we explore them more fully through a detailed examination of the Crimean War (1853–56). We draw our illustrative examples from the last five centuries and include a few examples from contemporary civil wars. These broad-ranging examples reinforce our argument that the phenomenon of trading with the enemy is not confined to earlier historical periods and that it has continuing relevance in the contemporary world. Since the primary theoretical relevance of trading with the enemy involves its implications for current debates over the relationship between economic interdependence and war, we begin with a brief summary of the literature.

11. Joanne Gowa, *Allies, Adversaries, and International Trade* (Princeton: Princeton University Press, 1994).

12. The practice of trading with the enemy is important for other reasons as well. It is a manifestation of a larger class of relationships—international, domestic, and personal—that are simultaneously cooperative and conflictual. We know that a state may sometimes form an alliance for the primary purpose of controlling its ally, that allies sometimes go to war with each other, and that intimate partners sometimes engage in violence against one another. Friends sometimes fight and enemies sometimes cooperate, but the dialectic between conflict and cooperation has been undertheorized. On relationships between allies see Paul W. Schroeder, "Alliances, 1815–1945: Weapons of Power and Tools of Management," in *Systems, Stability, and Statecraft: Essays on the International History of Modern Europe*, ed. David Wetzell, Robert Jervis, and Jack S. Levy (New York: Palgrave, 2004), 195–222; and James Lee Ray, "Friends as Foes: International Conflict and Wars between Formal Allies," in *Prisoners of War?* ed. Charles S. Gochman and Alan Ned Sabrosky (Lexington: Lexington Books, 1990), 73–91.

13. Katherine Barbieri and Jack S. Levy, "Sleeping with the Enemy: The Impact of War on Trade," *Journal of Peace Research* 36, no. 4 (July 1999): 463–79.

ECONOMIC INTERDEPENDENCE AND CONFLICT: THE DEBATE

DEBATES ABOUT the relationship between economic interdependence and international conflict go back at least as far as Immanuel Kant's argument about the pacifying effects of trade, and in the last decade these debates have attracted a number of researchers dedicated to the empirical testing and theoretical refinement of related hypotheses.¹⁴ Until very recently this research program has been dominated by the debate between liberals, who argue that trade promotes peace, and realists, who argue either that trade has a negligible impact on conflict or that it may actually increase the level of international conflict.¹⁵ The main focus, however, has been on the impact of trade on conflict, with most scholars neglecting the impact of conflict on trade, which includes the phenomenon of trading with the enemy.¹⁶

Liberal international theorists advance a number of explanations as to why trade and other forms of economic interdependence promote peace, but the most prominent is the "trade disruption" or "economic opportunity cost" hypothesis. According to this hypothesis, trade generates economic benefits for those who engage in it; serious conflict, particularly war, disrupts trade and leads to a loss or reduction of the gains from trade or a deterioration in the terms of trade; and political leaders, who anticipate this result, refrain from engaging in militarized conflict or other actions likely to lead to war against key trading partners.¹⁷ Thus, the economic opportunity-cost explanation for the pacifying effects of trade on conflict is based on the

14. Immanuel Kant, "Eternal Peace," in *The Philosophy of Kant*, ed. Carl J. Friedrich (1795; New York: Modern Library, 1949), 430–76.

15. Simmons, for example, argues that the study of economic interdependence and war "has largely been stylized as a 'realist' versus 'liberal' horse race." Beth Simmons, "Pax Mercatoria and the Theory of the State," in *Economic Interdependence and International Conflict: New Perspectives on an Enduring Debate*, ed. Edward D. Mansfield and Brian M. Pollins (Ann Arbor: University of Michigan Press, 2003), 32.

16. Although most empirical studies support the liberal position, the strength of the relationships identified between trade and conflict is sensitive to measurement techniques, temporal domain, and operationalization of the dependent variable. Consequently, this debate has yet to be fully resolved. Mansfield and Pollins, *Economic Interdependence and International Conflict*; and Gerald Schneider, Katherine Barbieri, and Nils Petter Gleditsch, eds., *Globalization and Armed Conflict* (Lanham: Rowman and Littlefield, 2003).

17. Solomon W. Polachek, "Conflict and Trade," *Journal of Conflict Resolution* 24, no. 1 (March 1980): 57–78. This hypothesis needs to be qualified in two ways. First, although scholars generally focus on the impact of current trade, the key variable is expectations of future trade. Dale C. Copeland, "Economic Interdependence and War: A Theory of Trade Expectations," *Security Studies* 20, no. 4 (spring 1996): 5–41. Second, the hypothesis that the economic opportunity costs of war deter the outbreak of war is sometimes interpreted in deterministic terms, but the relationship is in fact probabilistic. Fears of the loss of the gains from trade during war do not necessarily prevent militarized conflict; instead they reduce the probability of conflict, proportionate to the magnitude of the expected economic loss.

premise that conflict significantly disrupts trade. Although this premise is certainly plausible, it is fundamentally an empirical question that has yet to be answered.

The premise that war significantly disrupts trade is also potentially problematic on theoretical grounds. Although proponents of the trade-disruption hypothesis emphasize political leaders' incentives to avoid war, they simply assume that economic deterrence works and that war will not occur; they fail to consider what would happen to trade if war broke out. If political leaders still try to maximize economic prosperity while a war is underway, they have incentives to continue trading with the enemy during the war in order to reap the benefits of the gains from trade. These incentives are reinforced by pressures from domestic groups, motivated by their own economic interests, for liberal trade policies. This logic contradicts the key causal mechanism underlying the trade-disruption hypothesis, which in turn undermines the hypothesized incentives to avoid war. This dynamic is missed by those who focus only on the impact of trade (or the opportunity costs of lost trade) on the decision between peace and war. They neglect the next stage of the game: the decision to trade or not to trade once war has broken out.

Realists agree that war has a significant negative impact on trade, but they posit a different causal mechanism. The realist emphasis on relative gains leads to the expectation that, once war breaks out, at least one of the belligerents (presumably the least dependent one) will cut off trade in order to prevent its adversary from using the gains from trade to increase its relative military or economic power.¹⁸ This argument captures the common-sense idea that, across a number of social domains, actors avoid actions that would make them stronger or richer if they expect that those actions are likely to result in even greater gains for a competitor. In an analysis of player trades between baseball teams, for example, one analyst argued that "teams that are essentially enemies do not directly deal with each other with so much at stake."¹⁹

18. Kenneth N. Waltz, *Theory of International Politics* (Reading: Addison-Wesley, 1979); and Joseph M. Grieco, *Cooperation among Nations: Europe, America, and Non-tariff Barriers to Trade* (Ithaca: Cornell University Press, 1990).

19. Jack Curry, "Red Sox Offer Bait, but Yanks Don't Bite," *New York Times*, 31 October 2003, D1. Relative gains calculations are also reflected in an analysis of New York Yankees owner George Steinbrenner's bargaining strategy with his team's star pitcher Andy Pettitte, who decided to move from the American League's Yankees to the National League's Houston Astros after the 2003 season. The analysis suggests that Steinbrenner was unwilling to respond to Pettitte's salary demands "as long as he was joining a National League team. And not the rival Red Sox." The article's title—"A Different End If the Red Sox Were Involved"—implies that Steinbrenner would have behaved much differently if the team in question had been the Red Sox, a rival and more direct competitor. Dave Anderson, "A Different End if the Red Sox Were Involved," *New York Times*, 12 December 2003, D1.

Given the theoretical implications of trading with the enemy, it is clear that this phenomenon needs to be described empirically and explained theoretically, but scholars have devoted little systematic attention to this topic. Historians have sometimes noted this phenomenon, and some have provided more detailed studies of wartime trade in specific cases.²⁰ In addition, a number of accounts have identified various forms of collaboration with Nazi Germany by neutrals and belligerents during the Second World War, but these have tended to be more journalistic than scholarly.

The phenomenon has attracted even less attention among political scientists, who have shown far more interest in the impact of economic interdependence on war and lesser forms of militarized conflict than in the impact of conflict on trade.²¹ One notable exception is Peter Liberman, who has undertaken a more rigorous examination of trading with the enemy.²² Liberman, however, has restricted his attention to trade between strategic rivals during periods of peace, when pressures on adversaries to reduce trade should be lighter than during wartime. Trade between enemies during wartime is a greater theoretical anomaly than is trade between adversaries or rivals during periods of nonwar, and the former provides much greater empirical leverage for our theoretical proposition.

Scholars have also made an effort to explore the aggregate impact of war on trade (as opposed to the impact of trade on war) through statistical analyses, in order to test the proposition that the outbreak of war significantly reduces the level of trade between wartime belligerents. Katherine Barbieri and Jack Levy examined seven dyads since 1870 and found that, although wars sometimes lead to reductions of trade between belligerents, this is not the general pattern.²³ Charles Anderton and John Carter questioned the generalizability of those results and used a similar interrupted time-series methodology to examine fourteen other major-power dyads.²⁴ They found that war generally had a disruptive effect on trade, though the effect was weaker for minor-power and mixed dyads. It is clear even from their analyses, however, that even if war reduced the level of trade between adversaries, particularly for major powers

20. Pauline Croft, "Trading with the Enemy, 1585–1604," *Historical Journal* 32, no. 2 (June 1989): 281–302; and Philip Giltner, "Trade in 'Phoney' Wartime: The Danish-German 'Maltese' Agreement of 9 October 1939," *International History Review* 19, no. 2 (May 1997): 333–46.

21. Barbieri, *The Liberal Illusion*; Russett and Oneal, *Triangulating Peace*; Mansfield and Pollins, *Economic Interdependence and International Conflict*; and Schneider, Barbieri, and Gleditsch, *Globalization and Armed Conflict*.

22. Peter Liberman, "Trading with the Enemy: Security and Relative Economic Gains," *International Security* 21, no. 1 (summer 1996): 147–75.

23. Barbieri and Levy, "Sleeping with the Enemy."

24. Charles Anderton and John R. Carter, "The Impact of War on Trade: An Interrupted Time-Series Study," *Journal of Peace Research* 38, no. 4 (July 2001): 445–57.

in the two world wars of the twentieth century, some trade continued between wartime adversaries.

Regardless of how this debate regarding the aggregate effects of war on trade is resolved, it is clear that trading with the enemy occurs frequently enough to contradict the conventional wisdom that war will systematically and significantly disrupt trade between adversaries. While work continues at the aggregate level to resolve the debate about the overall effects of war on trade, we focus here on alternative theoretical explanations for trading with the enemy. This is the first step toward the identification of the conditions under which trading with the enemy is most likely to occur and ultimately toward a more complete theory of trading with the enemy. One thing we are not able to do at this time, besides provide a general theory of trading with the enemy, is provide a definitive assessment of how much trade exists between enemies and how much impact it has on states' war efforts and economies. We can suggest some sense of this in some individual cases, but there are usually serious data limitations, so that broader generalizations about the extent of trade between enemies are beyond our reach.²⁵

The main methodological problem is that private actors and governments both have incentives to conceal and underreport the extent of their trade with enemies. Governments often prohibit trading with the enemy, so actors engaged in such trade have incentives not to report it. Similarly, governments that knowingly permit or approve of trade with an enemy that is killing its soldiers and citizens may also have incentives to keep that information from the public. These factors lead to an underestimation of the extent of trading with the enemy during wartime, and the magnitude of the measurement error is difficult to ascertain. In his analysis of trading with the enemy during the War of the League of Augsburg (1688–97), one historian wrote, "It is certain that trade with the enemy went on, but there can be little certainty as to how much, or where, or in what articles. . . . A clandestine trade can never . . . be estimated by anything like statistical methods."²⁶

THEORETICAL EXPLANATIONS FOR TRADING WITH THE ENEMY

OUR AIM HERE is to construct a number of explanations for trade between adversaries during wartime and to specify the causal mechanisms

25. It has been difficult enough for scholars to collect a standardized set of data on trade during peacetime for the period since 1870.

26. G. N. Clark, *The Dutch Alliance and the War against French Trade, 1688–1697* (Manchester: University of Manchester Press, 1923), 66–7.

involved in each. We begin with political leaders' concerns about the security implications of trading with the enemy, which are central in realist theories of economic interdependence and conflict. We include factors relating to dyadic-level relationships, system-level power distributions, and the potential economic and strategic consequences of such trade for third parties. We then turn to domestic economic and political considerations. These include the overall stability and prosperity of the economy; the government's need for tax revenues; the political pressure from key economic groups that benefit from the continuation of trade and that can exert pressure on the government; the symbolic appeals to patriotism that work against trading with the enemy; and the strength of the state and its capacity to monitor, interdict, and sanction prohibited trade. Some of these factors fit neatly into either a realist or a liberal theoretical framework, whereas other factors are prominent in both realist and liberal frameworks, and still others fit conveniently into neither.

RELATIVE GAINS

We have seen that both the liberal trade-disruption hypothesis and the realist theory of economic interdependence and conflict imply that trade between adversaries stops or diminishes significantly once trading partners are at war with each other. This is the fundamental premise underlying the trade-disruption hypothesis, and it is a direct implication of the realist emphasis on relative gains and the security externalities of trade. For realists, the extent of trade and other forms of economic cooperation between states is a function of the degree of security threat posed by the adversary. The greater the threat, the lower the level of trade. Thus, realists predict more trade between allies than between adversaries.²⁷

Lieberman developed this argument further and identified other factors that influence the degree of military threat posed by others and hence the degree of trade between states. He argued that states are more concerned with relative gains by those who are nearby, powerful, offensively armed, and hostile than by those who are distant, weak, defensively armed, and friendly, and that states are consequently more likely to trade with the latter than with the former. Lieberman applied his hypotheses to the United Kingdom and Germany from 1890 to 1914, and to the United States and Japan from 1930 to 1941. It is important for our purposes to note that, in both cases, Lieberman ended his analysis prior to the onset of war and argued that "relative gains block

27. Gowa, *Allies, Adversaries, and International Trade*.

cooperation among states only at the brink of war.”²⁸ This implies that, after the outbreak of war, relative gains concerns will lead to significant reductions in the levels of trade between wartime enemies.

Lieberman introduced a system-level variable and argued that relative gains concerns are the greatest and most likely to interfere with trade and other forms of cooperation under conditions of bipolarity.²⁹ According to his argument, each of the two leading states in a bipolar system tends to see the other as its primary adversary. Each state fears that its adversary might reap relative gains from trade between them, and for that reason they both significantly cut back on trade. Threats are more diffuse in multipolar systems, so that leaders are less concerned about any single state’s reaping relative gains from trade, more concerned about their own position with respect to the system as a whole, and more confident that, if attacked, they will have allies to aid in their defense.³⁰

Hypotheses about bipolarity, relative gains, and trade apply primarily to the two leading states in a bipolar system but not necessarily to other states, whose trade patterns might reflect traditional rivalries and the structure of the regional systems in which they operate, especially if the bipolarity of power is not accompanied by the polarization of the alliance system.³¹ In fact, Joanne Gowa and Edward Mansfield showed that, in bipolar systems, states trade with allies much more than with adversaries, but that this relationship nearly disappears in multipolar systems.³²

James Morrow focused on dyadic trade relationships and constructed a formal model to examine the conditions under which relative gains concerns impede trade between states.³³ He argued that, because states rarely spend their entire gain from trade on the military, because the remaining gains from trade leave them better off, because most traded goods have little direct military significance, and because states can increase their military allocations in response to an adversary’s attempt to exploit any gains from trade militarily,

28. Lieberman, “Trading with the Enemy,” 173.

29. *Ibid.*

30. Similarly, Snidal and Powell show that sensitivity to relative gains of any kind drops significantly when the number of players increases beyond two. Duncan Snidal, “Relative Gains and the Pattern of International Cooperation,” *American Political Science Review* 85, no. 3 (September 1991): 701–26; and Robert Powell, “Absolute and Relative Gains in International Relations Theory,” *American Political Science Review* 85, no. 4 (December 1991): 1303–20.

31. The polarity of the system in terms of the distribution of power across actors is analytically distinct from the polarization of the alliance system. For example, the cold war system was bipolar and polarized; the European system in 1914 was multipolar and polarized; and the ancient Peloponnesian system was bipolar and nonpolarized.

32. Joanne Gowa and Edward D. Mansfield, “Power Politics and International Trade,” *American Political Science Review* 87, no. 2 (June 1993): 408–20.

33. James D. Morrow, “When Do ‘Relative Gains’ Impede Trade?” *Journal of Conflict Resolution* 41, no. 1 (February 1997): 12–37.

relative gains calculations generally do not give states incentives to suspend their mutual trade. Incentives to cut off trade arise only if the benefits of trade are distributed in a highly unequal manner (so that the disadvantaged state would need to raise military allocations by an amount greater than its gains from trade, which would cut into consumption), and only if one state can divert gains from trade into usable military power before its adversary can detect and respond to those actions. Morrow concluded that “security externalities exist, but they are unlikely to be large enough to lead adversaries to suspend trade during peacetime.”³⁴

Although Morrow, like Liberman, focused on trade between rivals in peacetime, his argument does have some indirect implications for what happens to trade between belligerents during wartime.³⁵ Because military allocations are significantly higher in wartime, particularly for unlimited wars, a much less uneven distribution of the gains from trade—or at least from the trade of strategically relevant commodities—would be sufficient for one side’s increased military allocations to exceed the other’s total gains from trade. Thus Morrow’s argument implies that relative gains calculations will often lead states to cut off trade in wartime, particularly for total wars.

Some might argue that a relative-gains perspective does not imply that states will discontinue all trade with the enemy after the onset of war, but only trade in strategic goods that might be used directly to enhance their own war effort. According to this view, we would expect trade in nonstrategic goods to continue during wartime. One implication of this argument is that empirical studies bearing on realist theories of economic interdependence and war should include indicators of trade in strategic goods, rather than simply measuring the value of trade in all goods.³⁶

There are undoubtedly many instances in which trade in nonstrategic goods continues during wartime.³⁷ It is important to note, however, that trade in nonstrategic goods can also have important security externalities. It allows states to specialize, to increase their productive efficiency, to shift their resources into war-related enterprises, and thereby to enhance their economic potential

34. *Ibid.*, 31.

35. *Ibid.*; and Liberman, “Trading with the Enemy.”

36. Norrin M. Ripsman and Jean-Marc F. Blanchard, “Commercial Liberalism under Fire: Evidence from 1914 and 1936,” *Security Studies* 6, no. 2 (winter 1996/97): 4–50.

37. Great Britain continued to import wine from France during the Seven Years’ War (1755–63), in which they battled each other on three continents and on the high seas for control of the seas and world trade. James C. Riley, *The Seven Years’ War and the Old Regime in France: The Economic and Financial Toll* (Princeton: Princeton University Press, 1986), 121. In 1806, near the peak of Napoleonic expansion in Europe, the Victualling Board of the Royal Navy purchased more than twice as much brandy as rum, even though brandy came from France whereas rum came from the British West Indies. Morrow, “When Do ‘Relative Gains’ Impede Trade?” 28.

and military power.³⁸ In addition, increased exports from the sale of nonstrategic goods also generate foreign currency, which in some historical eras was enormously valuable for armies in the field, for they lived off the land and competed with rival armies for local resources.³⁹

A good example of the short-term benefits of specialization from trade in nonstrategic goods comes from the American Civil War. Northerners obtained cotton from the South in exchange for food and clothes that were desperately needed by Southern armies. By early 1864, the government in Washington had concluded that such trade was “significantly aiding the Confederate cause,” and it initiated new measures to stop illicit trade.⁴⁰

This example, along with numerous other examples of feeding the enemy and attempts by concerned political leaders to stop it,⁴¹ raises the analytical problem of how to distinguish strategic goods from others, particularly when the meaning of “strategic” may vary across space and time. An army marches on its stomach, as Napoleon once said, and foodstuffs, clothing, and other goods that contribute to an army’s tail also contribute to its teeth. During the War of the Spanish Armada (1585–1604), for example, the English supplied Spain with corn and fish, which, along with other foodstuffs, were “no innocent commodity but a vital requirement for the Spanish war effort,” necessary for both the navy in the Atlantic and the army in the low countries.⁴²

It is even more striking to find belligerent trade in the weapons of war, yet there are countless examples, contrary to realist predictions that this would be the first form of trade to be terminated in war. As we noted at the beginning of

38. Gowa, *Allies, Adversaries, and International Trade*.

39. We thank Barry Posen for suggesting this point.

40. Ludwell H. Johnson III, “Northern Profit and Profiteers: The Cotton Rings of 1864–65,” *Civil War History* 12, no. 2 (1966): 101. Similarly, some argued that the exclusion of food and medicine from the economic embargo of Iraq in the 1990s allowed Saddam Hussein to shift resources away from the provision of health care to the production of weaponry.

41. Americans fed the British army and supplied the British navy during the War of 1812, to the extent that one Republican newspaper complained, “We have been feeding and supplying the enemy, both on our coast and in Canada, ever since the war began.” Donald R. Hickey, *The War of 1812: A Forgotten Conflict* (Chicago: University of Illinois Press, 1989), 168. The Americans also supplied food to British forces that were simultaneously fighting the French in Spain. Former president Thomas Jefferson argued that “if we could by starving the British armies oblige them to withdraw from the [Iberian] Peninsula, it would be to send them here; I think that we had better feed them there for pay, than to fight them here for nothing.” Perkins, *Castlereagh and Adams*, 8.

42. Croft, “Trading with the Enemy,” 292–93. In the Seven Years’ War, British leaders decided, for political reasons, not to stop shipments of Irish beef to the French West Indies. (The British did prohibit the sale of Irish beef to France itself.) This decision had strategic implications, because beef was one of the few foodstuffs that could survive without spoiling on lengthy oceanic voyages and hence was valuable for the projection of naval power. L. M. Cullen, *An Economic History of Ireland since 1660* (London: B. T. Batsford, 1972), 56–57.

this article, the French sold the Dutch gunpowder, which the Dutch then immediately used in the bombardment of a French fortress. One analyst referred to “the well-known Dutch practice of trading with the enemy in war-time” and noted that “cannon and gunpowder were supplied with complete impartiality to allies, neutrals, and enemies.”⁴³ During the War of the Spanish Armada, in addition to the foodstuffs already mentioned, the English sold the Spanish guns, gunpowder, lead for bullets, and ropes for sailing ships. Vladimir Lenin’s famous statement that capitalists are willing to sell the rope that could be used to hang them can be taken literally as well as metaphorically, and the argument that wartime adversaries never or almost never trade in strategic goods does not hold up.

One can also find substantial levels of trade in weaponry across the front lines in contemporary civil wars.⁴⁴ In his analysis of the Bosnian war of 1992–95, Tim Judah wrote that “hundreds of millions of Deutschemarks’ worth of weaponry ammunition, fuel and goods were traded across the frontiers,” and that “the easiest way to make money around Bihać—or indeed anywhere else in the warzone—was to sell arms or fuel to the enemy.”⁴⁵ This wartime trade in armaments had a significant impact on military strategy and on the duration and outcome of certain campaigns. Trade across enemy lines played a critical role in supplying the Bosnian army during the critical siege of Sarajevo. If the Bosnian capital had fallen or been cut in half by the Serbs, the consequences for Bosnia would have been enormous, and the outcome and duration of the war would have been much different. Andreas argued that “the clandestine political economy of the Sarajevo siege is essential in explaining why this did not happen.”⁴⁶ The survival of Sarajevo provided time for the emergence of a strong Bosnian army, which not only prevented the division of that country but also shifted the military balance and undercut Serbian and Croatian hopes of an overwhelming victory. The result was to facilitate the termination of the war.

There are other explanations for the phenomenon of trading with the enemy that are consistent with a general security orientation but that emphasize factors other than relative gains. Although states’ calculations about the

43. Croft, “Trading with the Enemy,” 294.

44. Tom Naylor, *Patriots and Profiteers: On Economic Warfare, Embargo Busting, and State Sponsored Crime* (Toronto: McLelland and Stewart, 1999).

45. Tim Judah, *The Serbs: History, Myth, and the Destruction of Yugoslavia*, 2nd ed. (New Haven: Yale University Press, 2000), 242. See also United Nations Security Council Commission of Experts, *Final Report of the United Nations Commission of Experts Established Pursuant to Security Council Resolution 780 (1992)* (New York: United Nations, 1994), available at <http://www.ess.uwe.ac.uk/comexpert/ANX/>.

46. Peter Andreas, “The Clandestine Political Economy of War,” 36.

ability to conduct a war are usually based on some assessment of their own capabilities relative to those of the adversary (along with the possible contributions of allies of each), sometimes they think more in terms of their own capabilities in absolute terms. Trade with the enemy may be perceived as necessary to continue the war effort, quite independently of its effect on the dyadic balance of power.⁴⁷ For example, G. W. Randolph, the Confederate secretary of war, wrote to President Jefferson Davis in 1862 and enclosed a letter from the commissary-general. Randolph described the letter as “expressing the opinion that the Army cannot be sustained without permitting trade to some extent with Confederate ports in the possession of the enemy” and stated the alternative as “risking the starvation of our armies.”⁴⁸ Although there is no evidence that Randolph’s concerns were accompanied by an assessment of the effects of continued trade on the adversary’s capabilities, that possibility cannot be ruled out without further research. It is also possible that the secretary of war was motivated primarily by the parochial interests of his organization, which would fit a bureaucratic or organizational model.⁴⁹

Political leaders may have other incentives to allow trade with the enemy, incentives that are fully consistent with a mercantilist or economic nationalist view of economic policy as a means of advancing state interests. They may believe that the continuation of trade, along with the retention of the threat to cut off trade in the future, will help to deter the adversary from escalating the war and thus serve as an instrument of intrawar conflict management. Political leaders might calculate that, by continuing trade, they can keep the adversary economically dependent and thus maintain their own political influence.⁵⁰ Maintaining trade with the enemy might also serve as an instrument of intelligence gathering, either through contacts with existing representatives of

47. Whether, how frequently, and under what conditions states disregard an adversary’s capabilities and focus primarily on their own capabilities is an empirical question, the answer to which might be sensitive to historical context. In his analysis of warfare in the fifteenth and sixteenth centuries, Luard argued, perhaps with some exaggeration, that “it does not seem that there was ever in this age any serious attempt to calculate in advance the balance of power available on either side, and so the chance of success.” Evan Luard, *War in International Society* (New Haven: Yale University Press, 1987), 193.

48. George W. Randolph to Jefferson Davis, 30 October 1862, in U.S. War Department, *The War of the Rebellion; A Compilation of the Official Records of the Union and Confederate Armies*, 70 vols. (Washington, D.C.: U.S. Government Printing Office, 1880–1901), series 4, vol. 2, 151.

49. Graham Allison and Philip Zelikow, *Essence of Decision: Explaining the Cuban Missile Crisis*, 2nd ed. (New York: Addison Wesley Longman, 1999).

50. This is the economic variant of Schroeder’s argument that states often form alliances for the primary purpose of maintaining influence or control over the ally, rather than for defense against an external threat. Schroeder, “Alliances, 1815–1945.”

businesses operating in enemy societies or through the clandestine placement of intelligence agents.⁵¹

In the absence of a more systematic analysis of how much trade goes on between enemies in wartime, in what kinds of goods, and with what significance for the war effort and for the economy, it is difficult to reach a definitive conclusion of whether dyadic-level theories can provide a fully satisfactory explanation for the phenomenon of trading with the enemy during wartime. Evidence thus far, however, suggests that these dyadic explanations are not sufficient to account for the frequency and importance of incidents of trade between wartime adversaries that we observe in varying historical contexts. Trade in the weapons of war is particularly difficult to explain. For more complete explanations we must turn to third-party considerations and then to domestic political economy.

THIRD-PARTY CONSIDERATIONS

Some of the most compelling reasons to continue trade with the adversary in wartime can be found in fears that a cutoff of trade with the adversary will result in the loss of trade with third parties, a relative strengthening of the military potential and power of third parties, and the alienation of neutrals.⁵² The last two, and perhaps the first, can easily be incorporated into a realist framework, once relative gains are conceptualized in terms of a multi-actor system rather than a dyadic relationship.

States often have more than a single adversary, and one's enemy in a particular war may not be the greatest threat to one's long-term security or economic interests. A state that suspends trade with the enemy because it calculates that its adversary will reap relative gains that could be converted into military power or potential may deny the adversary relative gains, but at the same time it also weakens itself relative to other states in the system by forgoing the gains from trade. If the current enemy is not the primary long-term threat, and if the relative gains from trade are not expected to be decisive in determining the

51. Some have speculated that this helps to explain the number of American businessmen who maintained ties to Nazi Germany during the war, some of whom joined the American intelligence community after the war. This could be a case of intelligence promoting trade contacts during the war, though it could also be a case of trade contacts generating expertise and a link with intelligence after the war. See Kevin Philips, "The Bushes, An 'American Dynasty,'" Interview on *Morning Edition*, National Public Radio, 22 January 2004, transcript available at <http://www.npr.org/features/feature.php?wfId=1595494>.

52. For a good treatment of the impact of war on neutral countries and its consequences for the behavior of belligerent states, see Eugene Gholz and Daryl G. Press, "The Effects of Wars on Neutral Countries: Why It Doesn't Pay to Preserve the Peace," *Security Studies* 10, no. 4 (summer 2001): 1–57.

outcome of the current war, each of the belligerent states in war may have incentives to continue to trade with the other, in the anticipation that the gains from trade will improve its position relative to that of other states in the system.⁵³

Another possibility is that, in a complex war with multiple actors and shifting alliances, one actor, in a classic divide-and-conquer strategy, might sell arms to one enemy with the expectation that those arms would be used against a common enemy. There is evidence of this in the Bosnian War of 1992–95. Serbian forces provided military supplies to the Muslim politician Fikret Abdić in order to aid his battle against the 5th Corps of Bosnian Muslims. Similarly, Croatian army members sold Serbian goods to Muslims in one area, while Croats battled Muslims in other areas, and Croats in Žepče received supplies and military assistance from the Serbs.⁵⁴

States' calculations regarding third parties are not restricted to the military implications of relative gains. Fears of the economic consequences of the loss of trade to third parties may be equally important, or at least much more immediate. The costs and risks of the loss of trade to third parties increase if decision makers believe that it might be difficult to recover the lost trade after the termination of the war, if the third party is an economic rival, or especially if the third party is a current or potential military rival.

A good example is the British government's decision to allow British insurance houses to continue to insure French ships, naval as well as commercial, during the Seven Years' War (1755–62), and to pay enormous sums to replace French ships that were actively being searched and destroyed by the British navy.⁵⁵ One of the most important reasons for the continuation of this financial relationship was the British fear that the cutoff of the insurance business with the French might drive France into the hands of the Dutch.⁵⁶ This would

53. Suzanne Werner, "In Search of Security: Relative Gains and Losses in Dyadic Relations," *Journal of Peace Research* 34, no. 3 (August 1997): 289–302; and Liberman, "Trading with the Enemy," 152.

54. Judah, *The Serbs*, 246–50.

55. Pares, *War and Trade in the West Indies*, 405. The continuation of the insurance business rested not only on the British government's decision to allow it, but also on decisions by the French to stay with British insurers rather than shift their business elsewhere. The cost of British insurance was considerably less than any alternative because of the high volume of business that passed through London insurance houses, and the expected economic savings outweighed the cost of leaving French shipping dependent on a hostile state. That the French assumed that British insurers had strong business incentives to make good on any claims, and that their government would permit this, is itself a telling point. The fact that this was a global war fought on three continents for a dominant position in the global system makes trading with the enemy all the more significant.

56. Alice Claire Carter, *The Dutch Republic in Europe in the Seven Years' War* (London: Macmillan, 1971); and Pares, *War and Trade in the West Indies*, 404. The Dutch were formally neutral during the Seven Years' War, but given the structure of international trade it was a pro-French neutrality.

have affected the British economy as a whole and also the private interests of the insurance houses, particularly given the expectation that it might be very difficult to win back the lost business after the war. This issue had broader economic and strategic implications, because the Dutch were a leading economic rival that had fought three naval wars against the English in the last half of the seventeenth century.

Concerns about the loss of trade to third parties do not necessarily disappear if the third state is a friend rather than an adversary. Soon after the 1689 English declaration of war against France in the War of the League of Augsburg, a bill was introduced in the House of Commons to prohibit all trade with France. Opponents of the bill feared that if England cut off trade and the Netherlands did not, the Dutch, who had entered the war against France a year earlier, would reap an unfair economic advantage. The British voiced these concerns despite the fact that, earlier that year, England and the Netherlands had been united under a single sovereign, William III.⁵⁷

States are concerned not only with the immediate military and economic consequences of the loss of trade to third parties, but also with the diplomatic consequences, which may in turn have long-term strategic effects. States sometimes fear that by cutting off trade with the enemy they will alienate other states that are formally or informally neutral during the war. A considerable amount of trade with the enemy is conducted through third parties, and it is often difficult to terminate that trade without alienating neutrals, losing all trade with neutrals, or driving neutrals into the hands of the enemy.

A variation on this theme is that decisions not to block third-party trade with the enemy could be driven by fears that the cutoff of trade would lead to higher prices on the world market, impose a burden on third parties, and increase the likelihood of third-party intervention. This factor may have played a role in the Union's willingness to allow Southern trade in cotton during the American Civil War, and even to purchase cotton and re-export it.⁵⁸ If one state stands to benefit from nonintervention, however, presumably its adversary might have something to gain from external intervention and have incentives to provoke it if possible. Indeed, in the early years of the Civil War the Confederacy considered imposing an embargo on cotton, hoping that it would generate

57. Clark, *The Dutch Alliance and the War against French Trade*, 64. The ban on trade with France was rejected, but a few months later a formal Anglo-Dutch treaty resolved the issue and the ban was imposed.

58. Ludwell H. Johnson III, "Contraband Trade during the Last Year of the Civil War," *Mississippi Valley Historical Review* 49, no. 4 (1963): 635.

scarcity and higher prices and provoke European intervention on the side of the South.⁵⁹

Allowing trade with neutrals has important implications for direct bilateral trade with the enemy, because it becomes politically more difficult to restrict direct trade with the enemy. Leaders may calculate that, if they were to allow neutrals, but not their own citizens, to trade with the enemy, they would lose a significant amount of trade and generate an enormous amount of political opposition from influential domestic groups. The understanding that a significant amount of goods sold to neutrals could end up in enemy hands would exacerbate the resentment of domestic groups.

Alliance politics can also influence a state's decision regarding whether to cut off trade with the enemy once war is underway (or before). It is more difficult politically to ban trade with the enemy and more difficult to enforce that ban if one's ally insists on continuing that trade. The outcome of the ensuing bargaining between allies will be determined by many factors, the most important of which are the economic value of the trade to the ally, the dependence of each ally on the other for military success in war, and the value of maintaining the alliance.

The broader diplomatic and military context can also have a significant impact on decisions regarding the continuation or suspension of trade. The situation confronting England and the Netherlands in the War of the Spanish Succession against France (1701–13), for example, was complicated by the fact that, at the same time, Sweden was fighting Russia, Denmark, and other Baltic states in the Northern War (1700–1721). England and the Netherlands claimed the maritime rights of neutrals in the Northern War and thus were in no position to reject Danish and Swedish claims of neutral rights in the war against France. The English and the Dutch also wanted to avoid a break with Sweden and Denmark, from whom they had hired an army for help against France. Consequently, they permitted the Danes to trade with France except in the contraband of war, and they treated the Swedes in a similar manner.⁶⁰

Intersecting wars or rivalries also affect trading relations between belligerent states by affecting the overall patterns of trade in the global economy and therefore the economic dependence of two states on each other. In the War of 1812 the Madison administration made periodic efforts to block trade with the enemy in order to put economic pressure on the United Kingdom. Those efforts collapsed with Napoleon's defeat at Leipzig in October 1813, which

59. Marilyn McAdams Sibley, "Charles Stillman: A Case Study of Entrepreneurship on the Rio Grande, 1861–1865," *Southern Historical Quarterly* 77, no. 2 (1973): 232.

60. Trevelyan, *England under Queen Anne*, 297.

shattered the Continental System, opened up northern Europe to British trade, and ended British isolation and vulnerability to economic pressure.⁶¹

DOMESTIC POLITICAL ECONOMY

Concerns about the military, diplomatic, and economic impact on third parties of a cutoff of trade during wartime may be a significant factor contributing to the practice of trading with the enemy, but they cannot provide a complete explanation for state decisions about whether to block trade with the enemy and when to permit such trade to continue and in what kinds of goods. There are a variety of domestic conditions and processes that might lead to trading with the enemy, even under conditions when such trade runs contrary to the security interests of the state. Other domestic conditions have the opposite effect and work toward the suspension of trade.

It is important to note at this point that many of these domestic explanations are difficult to classify in terms of broader paradigms in international relations theory. Explanations of trading with the enemy that emphasize concerns about the stability of the domestic economy can in principle fit a realist/economic nationalist approach, a liberal approach, or a structural Marxist approach. Some explanations that emphasize the role of private economic interests are consistent in principle with both liberal and instrumental Marxist perspectives.⁶² We are more concerned here, however, with specifying causal arguments than with situating them in larger metatheoretical frameworks, in part because we believe that no single framework provides an adequate basis for an adequate theory of either trading with the enemy or economic interdependence and conflict.

It is important to recognize, first of all, that most international trade takes place at the intersocietal level rather than the intergovernmental level—between private actors in different countries and not between governments themselves. It is governments, however, that make decisions regarding war and peace and that impose laws and taxes that create incentives or disincentives for private actors to engage in foreign trade with specific states or in general. Thus, a theory of the relationship between economic interdependence

61. Hickey, *The War of 1812*, 172.

62. On structural and instrumental Marxism, and the difficulty of empirically distinguishing the former from realism, see Stephen D. Krasner, *Defending the National Interest* (Princeton: Princeton University Press, 1978). Beginning with Polachek ("Conflict and Trade"), most contemporary applications of liberal theory to trade and conflict have been dyadic in orientation and neglect domestic factors, but that is a feature of the applications rather than of the theory itself.

and war, which must incorporate a theory of trading with the enemy, requires a specification of how calculations and decisions of private economic actors shape (and are shaped by) the political calculations and decisions of the government. As Beth Simmons argued, a theory of economic interdependence and international conflict needs a theory of the state and its relationship to society.⁶³

In analyzing the conditions under which trade with the enemy is likely to continue during wartime, it is important to distinguish between trade that state leaders choose to tolerate or even legalize, either because of the anticipated benefits of trade or the anticipated costs of prohibiting it, and trade that continues because state leaders are either unaware of it or lack the capacity to stop it. The history of warfare provides countless examples of entrepreneurs finding ways to trade with the enemy, directly and through neutrals, despite government prohibitions.⁶⁴ In the War of the Spanish Armada, for example, both the Spanish and the English government formally prohibited most forms of trading with the enemy but proved incapable of enforcing their bans. One analyst traced this to profit-driven incentives to circumvent those prohibitions, the resourcefulness of individual profit-seekers, the inherent difficulty of monitoring and controlling isolated coastlines, and what she called the “ramshackle machinery” of the early-modern state.⁶⁵

Although individuals and businesses have always had profit-based incentives to circumvent prohibitions against trading with the enemy and have demonstrated considerable skill and ingenuity in doing so, state capacity to identify, track, and interdict illicit trade has undoubtedly grown substantially with the development of the modern state since the time of the Armada, at least for the leading states in the system. The implication is that the extent of illicit trade has been declining over time.

This is certainly a plausible hypothesis (and well worth investigating), and one that could generate additional testable implications by identifying key

63. Simmons, “Pax Mercatoria and the Theory of the State,” 31–43.

64. The anticipation of the ability of self-interested firms and groups to trade with the enemy presumably enters the government’s calculations and decisions as to whether to impose trade restrictions in the first place.

65. Croft, “Trading with the Enemy,” 296. In addition to the clandestine use of neutral ships and bribes of customs officials, English ships were renamed or conveyed to a fictitious owner; English merchants hired Frenchmen, Flemings, and Scots or Irishmen (to whom Spain had given special privileges) as their agents; and some English merchants simply adopted Spanish names. Many of the same practices were still in use by the English and the Dutch in their clandestine trade in their wars against the French a century later. French wine and brandy, for example, were shipped to Spain, put into Spanish vats for export, and accompanied by papers with a sworn declaration of their Spanish origins. Clark, *The Dutch Alliance and the War against French Trade*, 75.

periods of expansion in state capacity over time. This hypothesis needs to be qualified in two ways, however. First, we must recognize that developed states with considerable organizational capacity continue to face some constraints, so that we would not expect illicit trading with the enemy to disappear entirely. Even contemporary states cannot fully monitor trade across their long borders or coastlines or through neutral states, much less follow financial transactions in a global economy. State capacity to monitor illicit trade is more problematic during wartime, when ships and manpower are diverted to deal with more pressing military threats. A major reason Germany signed the Maltese agreement with Denmark in 1939, authorizing Danish trade with the United Kingdom (at the same time that identical goods sailing with different carriers to the United Kingdom were being sunk by German submarines), was the perception that the German navy was already overtaxed and that efforts to interrupt that trade would require the diversion of scarce naval resources and probably would not succeed in any case.⁶⁶

Second, the hypothesis about the increasing ability of states to monitor and interdict trade with the enemy, and the related hypothesis about the decline in illicit trade, does not apply to cases of weak or “failed” states in the contemporary world.⁶⁷ There is substantial evidence of a clandestine political economy of war that includes trading with the enemy across front lines, particularly in intrastate conflicts involving administratively weak states with poorly organized and undisciplined armies fighting even more poorly organized rebel groups that must rely on external sources for arms, food, and other supplies.⁶⁸ Indeed, a leading theory of civil wars traces the origins and persistence of intrastate wars to the economic agendas of individuals (military commanders, recruits, bureaucrats, and criminals).⁶⁹ If many of the participants in civil wars are groups of criminals who are driven by motives of personal greed rather

66. Giltner, “Trade in ‘Phoney’ Wartime,” 344.

67. It is important to note that hypotheses about the impact of state capacity on trading with the enemy, though discussed here under the heading of domestic political economy and quite compatible with liberal theories of state-societal relations, fit equally well within a neoclassical realist framework, which emphasizes state capacity to extract resources from society as an intervening variable between national resources and foreign policy behavior. See Fareed Zakaria, *From Wealth to Power* (Princeton: Princeton University Press, 1998). For an earlier, quantitative study of the impact of state capacity on military outcomes, see A. F. K. Organski and Jacek Kugler, “Davids and Goliaths: Predicting the Outcomes of International Wars,” *Comparative Political Studies* 11, no. 2 (July 1978): 141–80.

68. Naylor, *Patriots and Profiteers*; and Andreas, “The Clandestine Political Economy of War and Peace.”

69. Paul Collier, “Doing Well out of War: An Economic Perspective,” in *Greed and Grievance: Economic Agendas in Civil Wars*, ed. Mats Berdal and David M. Malone (Boulder: Lynne Rienner, 2000), 91–111.

than the collective good,⁷⁰ and if recruitment of armies relies heavily on resources from the war zone, it should not be surprising that armies will exploit all opportunities for profit, even across enemy lines.

Let us turn to situations in which governments are informed about trading with the enemy but choose to tolerate or even encourage it. One factor that might explain the continuation of trade with the adversary after the outbreak of war relates to the stability of the domestic economy. Political leaders may fear that the discontinuation of trade might have serious adverse consequences for the continued stability of the domestic economy, which is important for the long-term military potential and security of the state as well as for the prosperity of its people and the political fortunes of the elite in power. This motivation is reflected in the argument advanced in 1812 in the United States by Langdon Cheeves (soon to be elected speaker of the House) in support of his bill to permit the importation of most British goods. To prohibit the importation of goods, he said, “puts out one eye of your enemy but it puts out both your own. It exhausts the purse, it exhausts the spirit, and paralyzes the sword of the nation.”⁷¹

There are a number of ways in which the cessation or significant reduction of trade can harm the economy. In addition to creating shortages and increasing prices, the drop in trade may bring a decline in tax revenues, which reduces the resources governments need to finance the war effort and meet their other obligations. This was particularly important prior to the institution of the income tax in the twentieth century, when states were much more dependent on tax revenues from trade. In addition, the drop in exports can lead to a decline in foreign currency and gold reserves and create balance-of-payments problems.⁷² The cessation of trade is particularly important if the enemy is a

70. John Mueller, “The Banality of ‘Ethnic War,’” *International Security* 25, no. 1 (summer 2000): 42–70.

71. Quoted in Hickey, *The War of 1812*, 116–17. This quote seems to emphasize state security concerns and the economic foundations of security, but Cheeves’s opposition to trade restrictions in 1812 also reflected liberal republican ideology and its concern that restrictions might interfere with the liberties of the people, liberties that might not be restored easily after the end of fighting. Cheeves argued at one point that he “would rather see the objects of the war fail. . . than see the long arm of the Treasury indirectly thrust into the pocket of the citizen through the medium of a penal law.” *Ibid.*, 116. One must always ask, however, whether such appeals reflect genuine beliefs or politically useful rationalizations. Recall that the Federalists had opposed the War of 1812 on the grounds that it would result in the restriction of personal liberties, so that was a time in which an appeal to liberties would have found fertile ground.

72. An important reason the U.S. Department of the Treasury approved of the continued purchase of cotton from the South during the Civil War was because it could re-export the cotton to a rather large market abroad and in so doing help protect its dwindling gold reserves. See Johnson, “Contraband Trade,” 635.

major trading partner or the primary market for certain commodities, because that can create major economic dislocations.

Prior to the War of 1812, for example, the United States was the United Kingdom's largest foreign market, and it would have been quite costly for British leaders to allow that market to be cut off during war, particularly given the United Kingdom's isolation from the continent by the French embargo and the imposition of the Continental System during the Napoleonic wars. Consequently, British officials in Canada explicitly authorized the export of all goods to the United States except war materiel and specie. They also ordered British subjects in the maritime provinces not to molest the goods or vessels of American citizens. Most important, they decided not to blockade New England ports until the final stages of the war.⁷³

The anticipated harm to the economy of a cutoff of trade, as well as expectations regarding how quickly lost trade can be recovered after the end of war, depends not only on the structure of trade but also on the prevailing economic ideology. In the eighteenth century, for example, many British economic thinkers of the time held to the notion of "channels" of trade. In this view, once a trading partner is turned away and finds another source, it is extraordinarily difficult to lure it back. In the words of one analyst at the time, "When trade is once lost, it will be too late by a mistimed care, easily to retrieve it again, for the currents of trade, like those of waters, make themselves channels, out of which they are afterwards as hard to be diverted as rivers that have worn themselves deep within their banks."⁷⁴ This argument may have been based more on economic psychology than on sound economic principles, but it was central to the beliefs of many British writers of the time and was used to justify a wide range of dealings with the enemy, particularly in the Seven Years' War.

By the nineteenth century, liberal economic ideology had come to dominate Western thinking. That ideology contributed significantly to extremely tolerant policies on trading with the enemy during the Crimean War, particularly in the United Kingdom, and the practices of that war contributed further to the principle of the noninterference by the state in the economy. As Karl Polanyi stated, "In respect to the status of enemy aliens, the service of loans held by enemy citizens, enemy property, or the right of enemy merchantmen to leave port, the nineteenth century showed a decisive turn in favor of measures

73. Hickey, *The War of 1812*, 168; and Perkins, *Castlereagh and Adams*, 34.

74. Quoted in Pares, *War and Trade in the West Indies*, 405.

to safeguard the economic system in wartime. Only the twentieth century reversed this trend.⁷⁵

Economic ideology is the product not only of economic realities and prevailing intellectual currents, but also of the lessons that political leaders and influential thinkers learn from history,⁷⁶ and those lessons can directly affect political leaders' expectations about the consequences of both restricting and tolerating trade with the enemy, thereby shaping their decisions. The belief among German decision makers that restrictions on trade during the First World War had contributed to poor economic performance and ultimately to defeat in 1918, for example, led them to emphasize the importance of permitting neutral trade in 1939.⁷⁷

The potential harm to the economy of a cutoff of belligerent trade has important political implications as well, particularly in democratic states, in which the electoral prospects of the political leadership are generally quite dependent on the overall health of the economy. The economic effects of suspending trade may be particularly significant for specific regions, especially if those regions are quite dependent on trade in commodities that are affected by a disruption of trade. These local economic effects can have some very important political consequences. The complicity of the local population in New England with the illicit trade with the British during the War of 1812 was motivated not only by regional economic interests, but by bipartisan politics as well. New England was dominated by Federalists, who had opposed "Mr. Madison's war."⁷⁸

Political concerns over what areas and what constituencies are harmed by disrupted trade are not limited to democratic political systems. If political leaders in any state do not adjust their policies to meet local needs, they run

75. Karl Polanyi, *The Great Transformation* (Boston: Beacon, 1957), 17. Polanyi emphasized the change from the eighteenth century to the nineteenth century. He noted that in 1752, a nonwar period of rivalry with Britain before the "diplomatic revolution" aligned Britain and Prussia, Frederick the Great refused to honor the Silesian loan due to British subjects. Hershey stated that "no attempt of this sort has been made since." The nineteenth century also marked a change in the treatment of private property. As Hershey noted, "The Wars of the French Revolution furnish us with the last important examples of the confiscation of the private property of enemy subjects found in belligerent territory upon the outbreak of hostilities." Amos Shartle Hershey, *The Essentials of International Public Law and Organization*, rev. ed. (New York: Macmillan, 1927), 565–69. On neutral rights in the eighteenth century, and particularly on the changes resulting from the global wars of 1739–63, see Richard Pares, *Colonial Blockade and Neutral Rights, 1739–1763* (Philadelphia: Porcupine, 1975).

76. Robert Jervis, *Perception and Misperception in International Politics* (Princeton: Princeton University Press, 1976).

77. Giltner, "Trade in 'Phoney' Wartime," 333–34.

78. Hickey, *The War of 1812*.

the risk of having their trade restrictions circumvented by the combination of profit-seeking entrepreneurs and a local populace eager to support them. In England during the War of the Spanish Armada, “profit and old business links proved stronger than war fervour,” and “national solidarity [with respect to trading with the enemy] was rapidly undermined by regional necessity.”⁷⁹ One reason that Elizabeth I did not crack down harder on belligerent trade during the War of the Spanish Armada was her desire not to alienate Catholics who were trading with Spain. It is important to note, however, that much of the illicit trade during that war was between English Protestants and Spanish Catholics, which suggests that economic self-interest dominated religious identity.⁸⁰

Concerns over the differential regional effects of cutting off trade with the enemy may also be tied to questions of political stability. One example comes from British policy debates regarding the sale of Irish beef to their French adversary, or at least to French colonies, during the Seven Years’ War.⁸¹ Ireland was the major source of beef for France for over a decade, and the French navy in particular was quite dependent on it. The Irish were dependent on exports for most of their beef sales,⁸² and an embargo of Irish beef against the French would have cut significantly into the profits of Irish farmers and landowners, reduced tax revenues, impeded the government’s ability to finance the war, and, most important, further alienated a population that was already resentful of the British and possibly even led the Irish to look to the French for support.⁸³

These sectional, religious, and partisan considerations generate strategic implications for the behavior of adversaries. A state might attempt to increase its influence over the adversary by threatening to use trade or the disruption of trade to influence the adversary’s domestic political processes. By engaging in certain types of trade, or trading with some groups, regions, or sectors rather than others, a state might be able to undercut the economic prosperity of some areas and thus reduce their support for the government, or, alternatively, to

79. Croft, “Trading with the Enemy.”

80. There were similar pressures in Spain for “full liberty” to import goods from any country, including England. *Ibid.*, 295–96.

81. Britain had cut off Irish beef from France early in the War of the Austrian Succession a decade earlier. Cullen, *An Economic History of Ireland*, 56–57.

82. The Irish could not sell to England (or to Scotland or Wales) because of the restrictive and protectionist Cattle Laws. Cullen, *An Economic History of Ireland*, 56–57; and George O’Brien and Augustine Thomas, *The Economic History of Ireland in the Eighteenth Century* (Dublin: Maunsal, 1918), 109.

83. Similarly, one reason the Madison administration did not interfere with the illicit trade in the Champlain-Richelieu corridor in Vermont was the fear that to do so might lead to open rebellion. H. N. Muller III, “A ‘Traitorous and Diabolical Traffic’: The Commerce of the Champlain-Richelieu Corridor during the War of 1812,” *Vermont History* 44, no. 2 (1976): 86.

increase the economic prosperity of other areas. This might be particularly effective if internal opposition to the adversary's war effort is concentrated in particular regions or sectors. It might even be possible—or be perceived as possible—to increase internal dissension to the point of undermining the war effort. The government's anticipation of any weakening of support for the war effort leaves it vulnerable to the influence attempts of other states.⁸⁴

A good example here is the United Kingdom's policy of allowing trade with New England at the same time that it blockaded middle and southern American states in the War of 1812. British leaders understood that New England, as a stronghold of the antiwar Federalist party, provided the greatest opposition to the American war effort and to the Republican regime in power, and that the South provided the greatest support for the war.⁸⁵ The British hoped that by allowing trade to continue with New England,⁸⁶ they could favor those opposed to the war and to the Republican government, exacerbate internal divisions in the United States, and influence American policies by influencing its domestic balance of power.⁸⁷

The sectional politics of trading with the enemy are often related to the economic stakes of that trade for key economic sectors, along with the political influence of leading commercial and financial interests in society. To refer

84. As Hirschman argued, in each country "there exist certain powerful groups the support of which is particularly valuable to a foreign country in its power policy, the foreign country will therefore try to establish commercial relations especially with these groups, in order that their voices will be raised in its favor." Albert O. Hirschman, *National Power and the Structure of Foreign Trade* (1945; Berkeley: University of California Press, 1980), 29.

85. This is not to say that the British limited their trade to areas dominated by the Federalist party or that only Americans associated with the Federalist party engaged in such trade. Some trade continued with the southern United States as well, and Republican members of Congress from New England came to tolerate trading with the enemy because they recognized that the war had become highly unpopular among their constituents and that the imposition of additional economic costs on those constituents would be political suicide. As Hickey noted, "The trade with the enemy knew no political or social barriers." Hickey, *The War of 1812*, 171. This discussion of the political economy of opposition to the War of 1812 in the United States builds on William Mabe Jr., and Jack S. Levy, "Opposing War for Political Gain: A Comparative Study of the U.S. in the Quasi-War and the War of 1812" (paper presented at the annual meeting of the American Political Science Association, Boston, 1998).

86. New Englanders were more than happy to participate in this trade, though some complained about its illegal and immoral nature. The *Lexington Reporter*, for example, declared in 1813, "The fact is notorious that the very squadrons of the enemy now annoying our coast . . . derive their supplies from the very country which is the theatre of their atrocities." Hickey, *The War of 1812*, 171.

87. *Ibid.*, 168; and Perkins, *Castlereagh and Adams*, 34. Mahan even suggested that British leaders may have had hopes of inducing the New England states to secede from the union. Alfred Thayer Mahan, *Sea Power and Its Relations to the War of 1812*, vol. 2 (Boston: Little, Brown, 1905), 127. This was unlikely, though it is true that some Federalists who attended the Hartford Convention in December 1814 called for a position that bordered on succession if their demands for more open trade with the United Kingdom and the negotiated end of the war were not satisfied. Hickey, *The War of 1812*, chap. 10.

to two previous examples, the British decisions in the Seven Years' War to continue to allow the insurance of French naval and commercial ships and also the sale of Irish beef to French colonies derived in part from the political influence of British insurance houses and the Irish cattle industry, respectively.⁸⁸ The ability of powerful economic groups to shape foreign policies in ways that serve their own interests is central to Marxist-Leninist theories of international politics and foreign policy,⁸⁹ and it is the cornerstone of the literature on war profiteering and on the military-industrial complex.⁹⁰ Powerful economic interests are less hegemonic but far from neglected in most versions of liberal international theory, though they are neglected in the dyadic models that are common in the literature on economic interdependence and war. Liberal theory recognizes the political influence of key economic and non-economic groups in society, and the need for state leaders to bargain with those groups for their cooperation and support and for access to resources that they control.⁹¹

The access of a state to the resources of society and its bargaining power to secure those resources depend on the strength of the state relative to society. This varies over time, regime type, issue areas, and other variables. Although war introduces additional complexities, given the priority of the war effort and the symbolic politics of patriotism, the state's need to bargain with those who control key societal resources does not vanish during wartime. In the War of 1812, for example, Federalist bankers, who controlled most of the nation's liquid capital, generally did not subscribe to government war loans, and their lack of cooperation seriously interfered with the Madison administration's ability to finance the war.⁹²

Our discussion of domestic explanations for the continuation or cutoff of trade with the enemy during wartime has focused on the societal level, but governmental politics might also play a role. One factor is the relations between the executive and the legislature. Because economic and non-economic interest groups usually have a greater impact on the legislature than on the executive (at

88. Pares, *War and Trade in the West Indies*.

89. Vladimir Ilich Lenin, *Imperialism, the Highest Stage of Capitalism* (1919; New York: International Publishers, 1990); and John A. Hobson, *Imperialism, a Study* (London: G. Allen and Unwin, [1902] 1954).

90. H. C. Engelbrecht and Frank Cleary Hanighen, *Merchants of Death* (Garden City: Garden City Publishers, 1937); and Seymour Melman, *Pentagon Capitalism: The Political Economy of War* (New York: McGraw-Hill, 1970).

91. Andrew Moravcsik, "Taking Preferences Seriously: Liberalism and International Relations Theory," *International Organization* 51, no. 4 (autumn 1997): 513–53.

92. Hickey, *The War of 1812*, 167. The bankers' lack of cooperation with the government was perhaps driven more by partisan politics than by economics, as Federalists had strongly opposed the idea of war with the United Kingdom.

least in the American case), one hypothesis is that Congress would generally be more likely to support the continuation of trade with the enemy than would the president. Yet this is not always the case. During the Civil War, Abraham Lincoln, more influenced than members of Congress were by arguments from private groups and individuals who had a stake in the continuation of trade, responded to congressional prohibitions on trade with the Confederacy with executive orders that permitted certain types of trade.⁹³

At the bureaucratic level, key governmental agencies—particularly the foreign ministry, the military, and the treasury—may differ in their preferences regarding the continuation or cutoff of trade with the enemy and also in their political clout, and state trade decisions may be determined by bargaining among these agencies. The policy preferences of different agencies are presumably influenced significantly by their different organizational interests, but different worldviews and expectations may also be influential.⁹⁴ The German negotiation of the Maltese agreement with Denmark in 1939, which allowed Danish trade with the British, was supported by both Germany's navy and its Foreign Ministry, but for different and somewhat contradictory reasons. The navy anticipated a short war and was eager to secure adequate food imports in the short term. In contrast, the Foreign Ministry anticipated a long war and wanted to maintain Denmark as a pipeline to the outside world. This example shows how different agencies may agree to a policy despite rather different preferences and assumptions.⁹⁵

Finally, we should note that trading with the enemy can also result from the influence of key individuals who play a direct role in the military effort. The ability of individuals to exert such an influence varies as a function of state capacity, the nature of the war, and other variables, but it transcends particular periods. Consider two examples, one from the sixteenth century and one from the late twentieth century. The Duke of Medina Sidonia, Philip II's "captain general of the ocean sea," who happened to reap substantial peacetime revenues from the port of San Lucar, was accused of allowing enemy English and Dutch merchants extensive use of that port in the 1590s, while he was directing Spain's naval war against England and while Spain was in its thirtieth year of a land war against the Netherlands.⁹⁶ In the 1992–95

93. Johnson, "Contraband Trade," 635–37.

94. This is reminiscent of Snyder's argument about Russian decision making in 1914, when the policy preferences of different agencies were driven by different intellectual beliefs rather than by conflicting organizational interests. Jack Snyder, *The Ideology of the Offensive: Military Decisionmaking and the Disasters of 1914* (Ithaca: Cornell University Press, 1984).

95. Giltner, "Trade in 'Phoney' Wartime."

96. Croft, "Trading with the Enemy," 296.

Bosnian War, Abdić, a Muslim politician who had close ties with the Yugoslav army and military counterintelligence, gained a dominant position in the Bihać Pocket and made enormous profits among Muslims, Serbs, and Croats.⁹⁷

THE NATURE OF THE WAR

The effects of each of the above-mentioned factors on the practice of trading with the enemy may be influenced by the particular characteristics of the war in question, such as whether it is a long, short, limited, total, interstate, or civil war. The expected duration of war is particularly important, although it generates conflicting pressures. The longer the expected duration of the war, the more the adversary's relative gains early in the war are likely to have an impact on the outcome of the war, the greater political leaders' concerns about relative gains, and therefore the greater the incentives to suspend trade. On the other hand, the longer the war, the greater are the costs to the economy and to private economic interests, the greater the pressures from those interests on the government, and hence the greater the government's incentives to loosen restrictions on enemy trade. In addition, longer wars increase the difficulty of restoring the trading relationship between the two states after the termination of war, which provides further incentives for loosening restrictions.

Which of these tendencies dominates depends on whether political leaders give greater weight to security or economic concerns, and also on the trade-offs they make between costs and benefits in the short term and the long term.⁹⁸ To the extent that the pressures to maintain trade with the enemy dominate pressures for restricting such trade, there is a complicated relationship between the costs of war, the decision to initiate war, and the decision on allowing trade. The greater costs of longer wars should increase incentives for states to avoid those wars, but, if war breaks out, those costs should increase incentives to maintain trade with the enemy during the war. This would create a problem for the liberal hypothesis that trade promotes peace because of the fear that war depresses trade. The anticipation that there will be incentives to continue trade with the enemy if war occurs should reduce the economic incentives to avoid war, contrary to the basic premise.

Perhaps even more important than the duration of war is the kind of war. The political economy of trade with the enemy may be different for total

97. Judah, *The Serbs*, 192–94, 244–47.

98. International relations theorists have paid little attention to the second factor, which involves discount rates applied to the future. On the economics and psychology of “intertemporal choice,” see George Loewenstein, Daniel Read, and Roy Baumeister, eds., *Time and Decision* (New York: Russell Sage, 2003).

wars than for limited wars.⁹⁹ There is substantial evidence that total wars have a greater impact on the economy than do limited wars. Karen Rasler and William Thompson, for example, showed that the economic impact of global wars (defined as struggles for dominance in the global system) on gross national product, public expenditures, and public debt is greater than that of other interstate wars involving the great powers.¹⁰⁰ The hypothesis here is that realist concerns about relative gains, and hence incentives to restrict trading with the enemy, should be greater in total wars than in limited wars.¹⁰¹

Complications arise with respect to attempts to test these hypotheses empirically regarding the duration or scope of war. The basic problem is that decisions as to whether to cut off trade at the onset of war—and indeed whether to start the war to begin with—are based not on the duration or scope of war that we observe, but rather on leaders' expectations of the duration and scope of war based on *ex ante* information. Whether leaders anticipated actual outcomes and what probabilities they attached to them must be established empirically, independently of the outcomes, either through direct evidence of their expectations or perhaps surrogate indicators of such expectations.

We might also find variations in civil and interstate wars with respect to trade between enemies. It may even be the case that trade between enemies is more common during civil wars than during interstate wars. Adversaries in civil wars generally have more integrated economies than those in interstate wars. This means that the economic consequences of suspending trade during civil wars may be more serious than during interstate wars. It may also be the case that it is simply easier to conduct trade with an internal enemy, given that at least one side in a civil war usually does not have a well-developed state apparatus, or even a well-organized and disciplined army, and for that reason it is more difficult to monitor and stop trade with the enemy. Whether trade between enemies is more common in civil or interstate wars is an interesting question, but one beyond the scope of this article. Here, we are concerned primarily with interstate wars. The rising incidence of civil wars in the world today and the tendency for domestic adversaries to trade with each other,

99. We define "total" and "limited" for each state rather than for the dyad or the international system. A war that is limited for one state may not necessarily be limited for the other (as was the case with the Vietnam War, for example).

100. Karen A. Rasler and William R. Thompson, "War and the Economic Growth of Major Powers," *American Journal of Political Science* 29, no. 3 (August 1985): 513–38.

101. The trade-disruption hypothesis would predict that, since the anticipated loss of absolute gains from trade is significantly greater for total wars than for limited wars, there would be greater pressures to avoid war in the first place, but the implications for what happens if war nonetheless occurs are not clear.

however, suggests that we will continue to see trade between adversaries in war in the future.

UNCERTAINTY

Governments facing decisions as to whether to allow their citizens to trade with the enemy or whether to impose and enforce restrictions on such trade face enormous uncertainties about the military, economic, and political consequences of each of the strategies at their disposal. There are uncertainties about the impact (if any) of each of these strategies on the balance of power within the wartime dyad and within the larger regional or international system; on trade involving neutral states and other third parties, and its diplomatic and perhaps military repercussions; on the adversary's economy, the adversary's tolerance for economic costs, and the implications of these uncertainties for the adversary's bargaining strategy during the war; and on a state's own domestic political economy, the interests of particular regions and of politically influential groups and individuals (who themselves are uncertain about the economic impact of the loss of trade), and the political implications of each of these considerations. These uncertainties are compounded by the strategic behavior of adversaries, third parties, and domestic actors, and by the incentives of each to manipulate expectations in ways that serve its own interests.¹⁰²

Most of these military, diplomatic, economic, and political uncertainties vary over the course of a war. One consequence is that, as a war evolves, political leaders gain new information, adjust their cost-benefit calculations regarding the wisdom of allowing or restricting trading with the enemy, and alter their policies accordingly. This means that we cannot treat a decision about whether to continue or suspend trade during war as a one-shot affair. A state may start war despite its anticipation of a loss of trade from war, soon realize that it underestimated the magnitude or economic or political effects of the loss of trade, and then eliminate or reduce restrictions on trade or negotiate to end the

102. Consider the German decision to allow Denmark to continue to ship food to the United Kingdom after the German declaration of war against both states in 1939, which was based on the assumption that without the import of British feeds and fertilizers the Danish agricultural economy would not be able to supply Germany with the food that it badly needed. Giltner argued that these calculations were erroneous, that Denmark could have provided Germany with sufficient foodstuffs without the import of feed and fertilizer from the United Kingdom, that German perceptions to the contrary were due in part to deliberate strategic deception by Denmark, and that if German leaders had understood this they would not have permitted the Danish-British trade to continue. Giltner, "Trade in 'Phoney' Wartime." If this argument is correct, then Danish deception and German misperceptions were critical factors contributing to trade during wartime.

war. Decisions involving the cutoff or continuation of war are thus an iterative process, and this suggests that scholars need to examine policies regarding trading with the enemy as they evolve throughout the war (or throughout a rivalry), not just at the onset of war.

The War of 1812 provides one example. After blocking several efforts by President James Madison to cut off trade with the United Kingdom, in December 1813 Congress passed a sweeping embargo that was aimed at stopping the flow of supplies to British armies in Canada and Europe and to British fleets in American waters, tightening the nonimportation system, preventing the British from fraudulently using neutral flags, and stopping the use of ransoming as a cover for illegal trade. Although the embargo reduced trade with the enemy, it also reduced U.S. government revenues, cut into prosperity, and generated a swell of protests, particularly in New England. As a result, Congress was soon forced to pass measures to ameliorate the effects of the embargo.¹⁰³

This discussion of changing patterns of trade between adversaries over the course of a war raises the question of how political leaders respond to new information about the impact of trade restrictions (or of the absence of such) on the adversary, on themselves, and on the course of the war, and how this response affects patterns of bargaining between wartime adversaries.¹⁰⁴ The impact of new information on bargaining has been given a great deal of attention in recent research on the outbreak, conduct, and termination of war. The “bargaining model of war” starts with Geoffrey Blainey’s argument, refined by James Fearon and others, that war is inefficient, that disagreements about

103. Hickey, *The War of 1812*, 172–73. The War of the Spanish Armada (1585–1604) provides another example. Queen Elizabeth and her advisers anticipated that the impact of a war with Spain on the English economy would be tolerable, and this expectation contributed to a decision to go to war. The actual economic impact of the war was much greater than either side anticipated, however, and this led to considerable war-weariness in both England and Spain. By the end of the 1590s, Elizabeth and Philip were each “swimming against a strong-running economic tide,” and expectations and hopes that peace might bring unimpeded trade was “one of the most persuasive arguments” in favor of ending the war. Croft, “Trading with the Enemy,” 297. Although the war did not end until 1604 (which raises questions regarding the impact of economic factors relative to other variables on the termination of war), the ensuing boom in Anglo-Spanish trade has led some to argue that peace with Spain was the “single most important feature” contributing to England’s commercial expansion in the early seventeenth century. Ibid.

104. This is quite complex, because these costs are endogenous to state strategies. If political leaders allow trade with the enemy to continue, the economic opportunity costs of war will be minimized, but if they impose embargos and other economic sanctions, those costs of war will be increased. Those decisions will affect the domestic support for the war effort and for state policies regarding trading with the enemy—by key economic groups, by organized political opposition, and by the public, which may be motivated both by concerns about the economic costs of war and by the symbolic appeals of patriotism. These changing levels of domestic support in turn affect state policies with regard to trading with the enemy.

relative power are the central cause of war, and that congruent expectations about the likely outcome of war would lead to a negotiated settlement based on that outcome, avoiding the costs of war.¹⁰⁵ The course of a war reveals information about relative military strength and consequently about the likely outcome of war and hence the adversaries' relative bargaining power. This increases the likelihood of a settlement.

There is a parallel argument regarding the phenomenon of trading with the enemy.¹⁰⁶ Bargaining leverage is a function not only of the dyadic balance of power and a state's ability to generate favorable military outcomes, but also of the relative ability of each side to tolerate the costs of war. War begins with uncertainty about the latter as well as the former, and war reveals information about the economic costs of war as well as about the dyadic balance of military power. If the course of the war gradually eliminates uncertainty about both the likely military outcome of war and the economic costs of war, and about the domestic political implications of both these factors, leaders are increasingly likely to reach a settlement that ends the war. In this way, a study of the changing patterns of trading with the enemy over the course of a war could be part of an explanation of the termination of the war.

The implication is that restrictions on trading with the enemy during wartime, along with war itself, are forms of coercive bargaining. This is not just a dyadic bargaining game between two adversaries, however, but a two-level game for each side, because leaders' preferences, constraints, and information are all shaped by domestic as well as dyadic and third-party considerations.

This takes us back to our discussion of the distinction between total war and limited war, and the hypothesis that relative gains, and hence incentives to restrict trading with the enemy, take on greater importance in state decisions in total wars than in limited wars. The distinction between limited and total wars is a matter of degree, of course, with wars being more or less limited along a number of dimensions, including both the ends for which a war is fought and the means by which it is fought. A state's decision to allow certain kinds of trading with the enemy during wartime is a special case of limited war,

105. Geoffrey Blainey, *The Causes of War*, 3rd ed. (New York: Free Press, 1988); James Fearon, "Rationalist Explanations for War," *International Organization* 49, no. 3 (summer 1995): 379–414; and R. Harrison Wagner, "Bargaining and War," *American Journal of Political Science* 44, no. 3 (July 2000): 469–85.

106. This discussion builds on Jack S. Levy, "Economic Interdependence, Opportunity Costs, and Peace," in Edward D. Mansfield and Brian M. Pollins, eds., *Economic Interdependence and International Conflict: New Perspectives on an Enduring Debate* (Ann Arbor: University of Michigan Press, 2003), 127–47. See also William Reed, "Information and Economic Interdependence," *Journal of Conflict Resolution* 47, no. 1 (February 2003): 54–71.

and in particular a limitation on the means or strategies a state undertakes in wartime.¹⁰⁷

Total wars generally involve the mobilization of entire societies around the war effort, particularly in the modern era. Along with that comes the psychological mobilization of the population around the symbols of the nation, whether in mass societies or in ethnically divided societies. Such mobilization imposes additional constraints on trading with the enemy, which is often viewed as a highly unpatriotic practice. Businesses that trade with the enemy while the enemy is killing one's soldiers and citizens often generate enormous popular hostility, which increases the pressure on state leaders to restrict such activity. The strength of the norms against trading with the enemy, however, varies over time and across societies. These norms have undoubtedly increased with the development of nationalism in the nineteenth century. We might hypothesize that such norms are particularly strong when an ethnically cohesive group battles outsiders. Still, there is evidence of substantial levels of trade across the front lines in the Bosnian war and other contemporary civil wars that suggests that any such hypothesis about national or ethnic loyalty needs to be qualified.¹⁰⁸

Having identified many of the factors contributing to significant levels of trade between enemies in wartime and also to political leaders' decisions to restrict some or all kinds of trade with the enemy, let us now examine the phenomenon more fully in the case of the Crimean War.

TRADING WITH THE ENEMY IN THE CRIMEAN WAR

THE PRIMARY AIM of this case study of the Crimean War (1853–56) is to illustrate many of the alternative explanations for the phenomenon of trading with the enemy during wartime and to help refine the theoretical arguments and hypothesized causal mechanisms associated with each.¹⁰⁹ As such,

107. We thank Jack Snyder for suggesting this line of argument.

108. There is some evidence that the selling of arms to Bosnian Muslims by Serbian military commanders led to considerable resentment among Serbian soldiers and a marked drop in morale, but this did not stop the practice. Judah, *The Serbs*, 255.

109. This section builds on Jack S. Levy, "Historical Perspectives on Interdependence and Conflict," paper presented at a workshop on "New Directions on Trade and Conflict" at the annual meeting of the International Studies Association, Minneapolis, 17–21 March 1998. For a treatment of the causes of the Crimean War, see Joseph R. Gochal and Jack S. Levy, "Crisis Mismanagement or Conflict of Interests? A Case Study of the Crimean War," in *Multiple Paths to Knowledge in International Relations: Methodology in the Study of Conflict Management and Conflict Resolution*, ed. Zeev Maoz et al. (Lexington: Lexington Books, 2004), 309–42.

it serves the functions of a “plausibility probe” or “hypothesis-generating” case study.¹¹⁰

The Crimean War, which pitted the United Kingdom, France, and Turkey against Russia,¹¹¹ is a particularly useful case for our theoretical purposes. It was a major war, not a limited one, and the stakes were perceived to be enormous, particularly in the United Kingdom, where contemporaries “expected a long and global war, terrible in its scope and decisive in its outcome.”¹¹² Yet trade between wartime adversaries was quite extensive. In addition, many contemporary observers and later historians believed that the United Kingdom’s liberal economic policies during the war marked the “triumph of political economy over patriotism.” Robert Binkley, for example, argued, “Never had war been fought with more deference to the requirements of trade.”¹¹³ It was also argued that trading with the enemy had a major impact on the war effort. This is particularly important in light of the argument, suggested by some, that trading with the enemy, when it occurs, is relatively inconsequential and limited either in its magnitude or in its military, economic, or political impact, or that such trade occurs only in limited wars. This analysis of the political debates over British trade policies during the Crimean War makes it quite clear that the question of whether to restrict trade with the enemy can be enormously important and extremely contentious even in wars for the highest stakes.

This case is also useful because many of the variables identified in our earlier theoretical discussion seem to play an important role: liberal economic ideology, pressures from domestic economic interests, fears about the diplomatic consequences of the impact of trade on third parties, and dyadic relative gains concerns, among others. In fact, the policy debates in London bear a striking similarity to current theoretical debates between liberals and realists, a fact that enhances the analytical utility of those debates for our purposes. It is for this reason that we focus primarily on the Anglo-Russian economic relationship.

It is useful to place the question of trade between enemies during the Crimean War in its historical context, because the economic policies of the

110. Arend Lijphart, “Comparative Politics and the Comparative Method,” *American Political Science Review* 65, no. 3 (September 1971): 682–93; Harry Eckstein, “Case Studies and Theory in Political Science,” in *Handbook of Political Science*, vol. 7, ed. Fred Greenstein and Nelson Polsby (Reading: Addison-Wesley, 1975), 79–138; and Jack S. Levy, “Qualitative Methods in International Relations,” *Millennial Reflections on International Studies*, ed. Michael Brecher and Frank P. Harvey (Ann Arbor: University of Michigan Press, 2002), 432–54.

111. Prussia remained neutral and Austria adopted a position of armed neutrality, despite enormous pressure from the United Kingdom and France to join the war against Russia.

112. Olive Anderson, *A Liberal State at War: English Politics and Economics during the Crimean War* (New York: St. Martin’s, 1967), 1.

113. Robert C. Binkley, *Realism and Nationalism, 1852–1871* (New York: Harper and Row, 1935), 176.

British during the Crimean War were a significant departure from their policies during the Napoleonic wars and from those of the mid-nineteenth-century Anglo-Russian rivalry. British economic policies during the wars against France were quite restrictive, as trade with the enemy was regulated through Orders in Council and the granting of licenses. French policies were also restrictive, and the result was to eliminate most neutral commerce. The British financed the wars against France through a high income tax and extensive government borrowing, which led to an explosion in the national debt. The war with Napoleon was followed by an economic depression, and the war itself was regarded as an economic disaster.¹¹⁴

Although British economic policies gradually became more liberal during the first half of the nineteenth century,¹¹⁵ the strategic rivalry with Russia had a significant impact on Anglo-Russian economic relations. The trade with Turkey had become increasingly important for the United Kingdom in the second quarter of the nineteenth century, while trade with Russia, though still important, was losing its primacy. There were concerns in the United Kingdom that the industrialization of Russia would give the tsar the economic power to encroach on the United Kingdom's Turkish trade, and that growing Russian military power could give the Russians the ability to cut off the trade across Turkey to India. Given these concerns, and given Russia's vulnerability to economic pressure from the United Kingdom, Russia's largest export market, British political leaders adopted an increasingly hostile and restrictive trade policy toward Russia prior to the Crimean War.¹¹⁶ As a result, the value of British exports to Russia dropped by 43 percent between 1848 and 1852.¹¹⁷ Given

114. Anderson, *A Liberal State at War*, 186.

115. P. J. Cain, "Economics and Empire: The Metropolitan Context," in *The Oxford History of the British Empire*, vol. 3: *The Nineteenth Century*, ed. Andrew Porter (Oxford: Oxford University Press, 1999), 31–52. The liberalization of British economic policies after the war with France was also influenced by the publication of David Ricardo's *Principles of Political Economy and Taxation* in 1817 and by the success of British industry and commerce in the decades following the war, which further convinced political leaders and businessmen that open economic competition would favor the United Kingdom. In addition, there was a growing realization that industrialization and increases in population would undermine British self-sufficiency in foodstuffs, and that the United Kingdom would have to import food from Europe and the United States rather than rely on its empire. Both were powerful arguments for free trade.

116. The United Kingdom was much less dependent on Russia. Although a high percentage of British imports of bristles, flax, hemp, hides, linseed, tallow, and raw wood came from Russia, alternative sources could quickly be found. Russia did provide one-sixth of the United Kingdom's imported wheat and one-third of its imported oats, and the tsar did prohibit the export of grain from the southern areas of the Russian empire, but there was some rerouting of grain through Poland and the Baltic until that was prohibited late in 1855. John Shelton Curtiss, *Russia's Crimean War* (Durham: Duke University Press, 1979), 23–24; and Anderson, *A Liberal State at War*, 256.

117. Anderson, *A Liberal State at War*, 256.

these increasingly restrictive trade policies, it is all the more surprising that, after the outbreak of war against Russia in March 1854, both the United Kingdom and France adopted economic policies that were quite liberal by historical standards, though perhaps not quite as liberal as some have suggested.

Immediately upon declaring war on Russia (28 March 1854), the United Kingdom and France simultaneously announced that they would abide by the principle that free ships make free goods.¹¹⁸ They also agreed to refrain from seizing noncontraband neutral property on enemy ships and from issuing letters of marque to privateers.¹¹⁹ British merchants could import Russian goods as long as they had been purchased in a neutral country. Russian ships were granted six weeks of immunity from capture while they loaded at any British or colonial port before they returned to Russia. In financial matters, the British government reportedly allowed a Russian loan to be floated on the London financial market during the war.¹²⁰

These economic policies were unprecedented in their openness, and they were quite controversial in the United Kingdom. Although economic liberalism reigned supreme, and although many pushed for a continuation of laissez-faire policies during the war, others argued that the war effort was being sacrificed to the new liberal ideology and to the interests of merchants. The United Kingdom was by far the most liberal state in Europe, and the war was seen as a fundamental test of whether a liberal regime and a liberal economy had the capacity to meet the wartime needs of the state and to survive the strains of war. The clash between these competing views played out in governmental decision making regarding possible restrictions on wartime trade with the enemy, and it continues to be debated by historians.

Although many historians agree on the extent of the United Kingdom's commitment to liberal principles and its tolerance of extensive trading with the enemy during the Crimean War, they often disagree on the impact of those policies. Some argue that this trade led to a thriving economy and to "the best financed of our great wars,"¹²¹ whereas others have criticized the subordination of state security interests to economic ideology. Olive

118. The principle held that all goods (including contraband) on ships flying under a neutral flag were immune from seizure.

119. Unlike other aspects of British economic policies, there was little debate about privateering, for both material and ideological reasons. Privateering was unlikely to be effective against Russia, which had relatively little seaborne trade, and it was not regarded as consistent with the British commitments to humanitarian progress and to international law. *Ibid.*, 16.

120. Binkley, *Realism and Nationalism*, 176–77; and Leland H. Jenks, *The Migration of British Capital to 1875* (New York: Knopf, 1927). Anderson argued that the loan was never made. Anderson, *A Liberal State at War*, 186.

121. Agatha Ramm and B. H. Sumner, "The Crimean War," in *The New Cambridge Modern History*, vol. 10: *The Zenith of European Power, 1830–70*, ed. J. P. T. Bury (Cambridge: Cambridge University Press, 1960), 486; and Anderson, *A Liberal State at War*, 185–86.

Anderson—who rejected the economy-over-patriotism interpretation—conceded that “to the foreign observer the brief two years of fighting seemed to have fully justified his suspicions that a constitutional state of traders and manufacturers could never be a first-rate military power.”¹²²

It probably goes too far to say that British economic policies constituted a triumph of political economy over patriotism, because these liberal wartime economic policies were supplemented by other measures that were more restrictive. Six weeks prior to the outbreak of war, the United Kingdom prohibited the export of arms, ammunition, and military and naval stores unless accompanied by a bond from the trader certifying that the goods would not go to a Russian port or to northern or eastern Europe.

In implementing this policy of export controls, the British explicitly rejected the traditional system of allowing trade with the enemy only under a system of licenses. This shift enraged the French, who had proposed an extensive licensing system and a combined English and French Licensing Commission. British leaders opposed a system of licenses because many believed that it contributed to fraud, privilege, and monopoly, and also because that system had been tainted by the experiences of the Napoleonic wars. Licenses were perceived as being incompatible with a strict naval blockade, which was the cornerstone of British wartime trade strategy and was viewed as a necessary means of significantly reducing Russia’s import and export trade, depriving it of imports that were vital for the war effort, and destroying Russia’s merchant marine.¹²³

The export-control system was an imperfect one. Re-export from other locations was quite easy and enforcement rather difficult, and consequently there was a fair amount of smuggling and war profiteering in materiel destined for Russia.¹²⁴ In addition, Russia could find alternative sources of supply. It is important to note that Russian trade with continental neutral powers was facilitated by the railroad. By the mid-nineteenth century, a system of continental rail-based commerce was already partly developed and was a viable means for Russia to diminish the effects of a British naval embargo.¹²⁵

122. Anderson, *A Liberal State at War*, 275.

123. As one British official commented at the time, the strict naval blockade was “the chief weapon the allies have . . . to be used against the commerce of the enemy” (ibid., 253–55). The government did make some concessions on blockade policy, however, by agreeing that states could claim the right to impose a blockade only if the blockade were supported with adequate force, which eliminated the idea of a paper blockade. Binkley, *Realism and Nationalism*, 177.

124. As the government’s chief adviser on international legal matters said at the time, “if arms are allowed to be exported at all to places which trade with the enemy, they will reach him” (quoted in Anderson, *A Liberal State at War*, 250).

125. Jenks, *The Migration of British Capital*, chap. 5; and Anderson, *A Liberal State at War*, 260.

Halting trade on the railways would have been a difficult and diplomatically complicated task for the United Kingdom. It would have upset the neutral powers, particularly Austria and Prussia, whom the British wanted on the sidelines, and it would also have harmed British economic interests. British finance had played a key role in the development of the railroads and benefited from their operation. Leland Jenks noted that, in the middle of the nineteenth century, railroad contractors were “the active agents in the migration of much British capital upon the Continent,”¹²⁶ supplying the materials for the production of the emerging rail systems. These economic interests were yet another factor that British political leaders had to incorporate into their calculations about whether or not to prohibit trade with the enemy.

These conflicting pressures and British responses lead us to conclude that British wartime economic policies aimed to strike a balance between military expediency and economic prosperity in both the short term and the long term. Those policies involved an interesting mix of economic openness and economic warfare. The United Kingdom’s specific objectives were to block Russian shipping out of Russian ports; block Russian imports completely in order to weaken Russia’s military potential, but cut Russian exports only to the extent that such cuts would not impair the British economy; and avoid offending neutral powers. Given these objectives, the resulting policy included three somewhat contradictory components: (1) the control of the export of war materiel from the United Kingdom; (2) respect for the maritime rights of neutrals, including the abstention from seizing enemy property on neutral ships and from privateering; (3) the blockade of enemy ports and capture of contraband of war; and (4) the legalization of British trade with the enemy, other than the actual entry of British ships into Russian ports.¹²⁷

In formulating these policies the cabinet gave careful consideration to competing arguments. There were extensive debates about a number of critical issues: the vulnerability of Russian commerce, finance, and morale to economic pressure; the magnitude of the risk that a rigorous enforcement of a naval blockade and restriction on the trade of neutrals would antagonize third parties, particularly the United States; the feasibility of enforcing controls on trade and eliminating any evasion and fraud; and the costs to the United Kingdom’s

126. Jenks, *The Migration of British Capital*, 138.

127. Anderson, *A Liberal State at War*, 18, 248. The issue of letters of marque issued to privateers raises an interesting analytic problem for the study of trading with the enemy during wartime, because letters of marque can in principle substitute for more formal restrictions on trade with the enemy. In the Crimean War, however, the banning of such practices by both the United Kingdom and France was consistent with their other liberal wartime economic policies.

industrial and commercial economy of large-scale economic warfare against Russia.¹²⁸

Different individuals and groups within and outside government had conflicting positions on these issues. Their differences derived in part from enormous uncertainty as to the consequences of trade restrictions, for the United Kingdom as well as for Russia. British economists and others were divided on the questions of to what extent and in what specific ways the Russian economy was vulnerable to economic pressure, and how much the British economy would be hurt by any interruptions in the normal course of trade. Uncertainty about the economic and political impact of economic warfare against Russia was exacerbated by the closed and secretive nature of the tsarist economy. One British official complained, "It is very annoying that we know so little of what goes on in Russia."¹²⁹

Conflicting views about wartime economic policy were a product of the larger intellectual context within which these policy debates took place. The ideology of economic liberalism had reached its peak in the United Kingdom at this time. There was substantial acceptance of the argument that the long-term wealth of society required the free play of market forces and the noninterference of the state in the economy, and that national power was defined as much by economic strength and financial security as by military might. The financial and commercial community in particular argued that this policy of governmental noninterference and nonrestrictive trade policies should continue during wartime, and liberals in the government agreed.

The commitment to economic liberalism and the principles of free trade were reinforced, to some extent, by political ideology, given the close connection between economic and political liberalism. The dominant view among the British public was that the Crimean War was a war of principle and a just war, a war between constitutional government and despotism. It was a continuation of the struggle between national independence and universal empire that had begun with the Napoleonic wars half a century before. That struggle had continued with the revolutions of 1848, which were put down with the help of Russian military power. Especially after the failure of those revolutions, the British were quite self-conscious about the fact that they were the most representative and liberal regime in Europe. Many contemporaries as well as subsequent historians saw the war as a test not only for the United Kingdom, but also for liberal democracy, and whether a representative government could

128. *Ibid.*, 186.

129. *Ibid.*, 268.

fight and win a war against a major authoritarian power. This was a test for both economic and political liberalism.¹³⁰

It was not just the ideology of economic liberalism, but the legacy of the Napoleonic wars that had an enormous impact on the mind-sets and calculations of political and business leaders, and on political debates about the proper policies toward Russian and neutral trade. The experiences of the war with France had for decades been a central theme in British political and economic debates.¹³¹ The economic effects of the postwar depression and soaring national debt were still being felt, and their sources were still being debated. Some argued that the restrictive economic policies had contributed to victory in the war, and that the success of Napoleon's continental blockade against Russia demonstrated Russia's vulnerability to economic warfare involving a strict blockade of Russian shipping and a ban on contraband on neutral ships. The dominant view, however, was that the economic costs of restrictive economic policies (including the high income tax, extensive borrowing by the government, and control of trade through Orders in Council) had been too steep, and this added strong pressures for liberal economic policies toward enemies and neutrals during the Crimean War. Anderson argued that it was this legacy, even more than the general ideology of economic liberalism, that shaped every facet of the debate about economic policy during the Crimean War. He concluded that "it was the ghost of the Revolutionary and Napoleonic Wars which presided over British economic policies and ideas during the Crimean War."¹³²

A critically important factor underlying the United Kingdom's liberal trade policies was its fear that more restrictive policies would alienate neutrals, including Austria, Prussia, the Scandinavian states, and the United States.¹³³ British political leaders did not want to trigger reprisals from neutrals that

130. *Ibid.*, 4–11.

131. Anderson argued that historical parallels played an important role in political debates (in part because of the growing prestige of history as a moral science), that books about the French wars were extraordinarily popular in the United Kingdom, and that "the period of the Napoleonic Wars had become the most familiar chapter in English history to a very historically minded generation" (*ibid.*, 2). The hypothesis that societies are disproportionately influenced by the last big war or the last big revolution is familiar. See Jervis, *Perception and Misperception*. The idea that the prestige of the historical profession influences the weight given to the lessons of history is a novel one.

132. Anderson, *A Liberal State at War*, 188.

133. The benevolent neutrality of Denmark and Sweden was important because the use of their harbors for coaling stations was essential for the British Baltic fleet. American neutrality was even more critical, to the point that Anderson argued that, "if Britain continued to seize enemy cargo on neutral ships, she would probably find herself fighting the United States as well as Russia" (*ibid.*, 17–18). A more detailed analysis of British (and American) perceptions of their relationship would be interesting from the perspective of the democratic peace.

would drive away their own trade with third parties or suffer the domestic political repercussions from doing so. As Lord Clarendon, the British foreign secretary, remarked, the prohibition of trade with all belligerents in all contraband of war would have the result that “the Russians would get what they want just the same and the new regulation would be rigorously applied to ourselves.”¹³⁴

British leaders were also worried about broader strategic considerations involving third parties. As Anderson argued, “In the matter of war trade as in all else the neutrals ultimately called the tune.”¹³⁵ Maintaining good relations with the United States was particularly important. British calculations were nicely captured by Karl Marx, who argued that “Russia in the event of war with England bases her hopes upon eventual quarrels about the maritime rights of neutrals involving dangerous situations and pushing the United States toward Russia,” just as Russia had successfully exploited quarrels about the maritime rights of neutrals since the time of Catherine the Great and the Armed Neutrality of 1780.¹³⁶

The British did not want to alienate Prussia or Austria, each of whom they were trying to enlist in the war effort against Russia.¹³⁷ There were also practical considerations growing out of geography. With Russia’s lengthy land borders with these two powers, and with improvements in the technology of transport, particularly railways, it would have been both easy and cheap to reroute trade to Russia with little fear for the consequences. Because of these diplomatic and practical considerations, the British government continued to resist domestic pressures for all-out economic warfare against Russia, including the search of Prussian ships coming from Prussian ports or the blockade of those ports. As a result, the British were never able to prevent the Russians from importing war materiel that they badly needed, other than machinery.¹³⁸

Although the British basically set allied wartime trade policy, that policy was influenced by British-French bargaining, particularly regarding the rights of belligerents at sea. The French were less committed to the ideology of free trade, but they were concerned about the economic dislocations that would result from an interruption of direct trade with Russia and less confident

134. *Ibid.*, 124.

135. *Ibid.*, 260.

136. Karl Marx, *The Eastern Question* (1897), cited in Anderson, *A Liberal State at War*, 18.

137. The United Kingdom and France did attempt to stop trading with Russia by persuading neutrals to adopt that policy on their own. This led Denmark, Prussia, and others to issue such prohibitions in early 1855, but these bans were narrowly defined and not particularly effective. Anderson, *A Liberal State at War*, 267.

138. *Ibid.*, 260–68.

that French commercial and industrial interests would tolerate such hardships in the name of patriotism, particularly given the unpopularity of the regime. The French also recalled the consequences of the famine of 1847 and were enormously sensitive to the possibility of a shortage of grain supplies.¹³⁹ As Anderson noted, the French “were thus never prepared to weaken the enemy at the risk of economic damage to themselves.”¹⁴⁰ This reflects our earlier theoretical argument that states are concerned with absolute gains as well as with relative gains. It also reflects the argument that interalliance politics can play a significant role in shaping government policies regarding bilateral and third-party trade with the enemy.

This case also demonstrates a relationship between bilateral trade with the enemy and neutral trade with the enemy. By granting extensive maritime rights to neutrals, British decision makers were effectively forced to grant direct trade with the enemy. If they allowed neutrals but not their own citizens to trade with the enemy, they would lose a significant amount of trade to the neutrals and generate an enormous amount of political opposition from influential domestic groups. As the president of the English Board of Trade argued, “The moment that the trade of neutrals with the enemy is recognized, the justification for prohibiting it to our own subjects is gone.”¹⁴¹

Our aim has been to describe British and French wartime economic policies and to suggest some of the primary factors leading to the restriction or tolerance of trade with their Russian adversary, both directly and through neutrals. We have not tried to evaluate the effectiveness of those policies. Still, it is useful to note Anderson’s conclusion that the attempt to control exports was a secondary and largely ineffective means of weakening Russian productive capacity. The United Kingdom relied more on the navy to enforce a direct blockade and to capture enemy shipping and contraband of war. Anderson wrote that “naval attacks on economic objectives, especially on government stockpiles in the Sea of Azov, were probably as decisive as all the Allies’ efforts at economic warfare—and Russia’s vast internal problems and her final diplomatic isolation were certainly far more important than either.”¹⁴²

Finally, we should note that, although British and French concessions over maritime rights were designed as temporary and specifically for the Crimean War, they were embodied as a permanent part of international law in the Declaration of Paris in March 1856, which formally ended the state of hostilities.

139. French openness extended to the point of inviting Russia to participate in the Exposition of Industry and the Arts while the war was in progress. Binkley, *Realism and Nationalism*, 176.

140. Anderson, *A Liberal State at War*, 254.

141. *Ibid.*

142. *Ibid.*, 249–51, quotation at 270–71.

The declaration asserted the principles that free ships make free goods, that noncontraband neutral property on enemy ships was immune from capture, that no letters of marque should be issued to privateers, and that for a blockade to be legally binding a blockade had to be effective and not just a “paper blockade.”¹⁴³

THEORETICAL IMPLICATIONS

CONTRARY TO the implications of the leading approaches to the study of economic interdependence and war, there is substantial evidence that trade between adversaries sometimes continues during wartime. That evidence comes from statistical studies, which produce mixed results, and it is reinforced by the varied historical illustrations and the more detailed case study that we have conducted in this essay. We have demonstrated that trading with the enemy sometimes involves strategic goods and armaments as well as luxury goods and other nonstrategic items. Moreover, we have suggested that the sale of armaments to the enemy can sometimes have important military consequences, as illustrated by the failure of the Serb siege of Sarajevo in the 1992–95 Bosnian war. Thus, trading with an enemy can have an important impact on the war effort as well as on the economy.

Some might argue that the practice of trading with the enemy may have been common in earlier historical eras, but that it has rapidly diminished in frequency and significance over time, particularly by the beginning of the twentieth century. A number of causal factors might be advanced in support of such an argument: the substantial growth of the state and its increasing ability to monitor and control the activities of economic groups within society;¹⁴⁴ the rise of nationalism, democracy, and strong popular norms against abetting the enemy; the institution of the income tax and reduced dependence on

143. This declaration also provided for the free navigation of the Danube and the neutrality of the Black Sea. In addition, the Crimean War had an impact on the treatment of enemy merchantmen found in a belligerent port at the beginning of hostilities: they should not be confiscated or sequestered. As noted in the report of the American delegation to the Hague Conference of 1907, “The uninterrupted practice of belligerent Powers since the outbreak of the Crimean war has been to allow enemy vessels in their ports at the outbreak of hostilities, to depart on their return voyage.” This principle was modified slightly at the 1907 Hague Conference. Gerhard von Glahn, *Law among Nations*, 3rd ed. (New York: Macmillan, 1976), 636–38; Binkley, *Realism and Nationalism*, 177; and Hershey, *The Essentials of International Public Law and Organization*, 569–71.

144. Whether the ability of the state to monitor trade with the enemy has increased more than the ability of individuals and firms to develop new methods of circumventing government attempts to stop that trade is another question.

trade-related revenues; and the emergence of total warfare and the subordination of all other concerns to military victory. It is probably true that the extent of trading with the enemy in wars involving advanced industrialized states has diminished over time, though there is substantial evidence that such trade has not disappeared altogether.¹⁴⁵ It would be incorrect, however, to assume that trade between enemies is a thing of the past.

As suggested by our references to the Bosnian war, as well as by more detailed studies by Judah and Andreas,¹⁴⁶ it is clear that the phenomenon of trading with the enemy during wartime is not just a historical curiosity, but a phenomenon that continues to the present day. In fact, it is quite possible that the frequency of trading with the enemy and its economic, military, and political impact may be greater in civil wars, which dominate contemporary warfare, than it was in the great-power wars of earlier times. This, however, is an empirical question that requires much further research.

Our study suggests that political leaders take the issue of trading with the enemy very seriously. They believe that the issue of enemy trade affects important economic, strategic, and domestic political interests. They also engage in intense policy debates about whether or not to prohibit trade directly with the enemy and between the enemy and neutrals, and in what kinds of goods and through what means, and they often go to great lengths in an attempt to eliminate the practice. These actions are themselves important indicators of the importance of trading with the enemy.

Although it is clear that enemy states often trade with each other during wartime, it is far more difficult to assess the precise frequency of trading with the enemy, the magnitude of that trade, and its military and economic impact. Recent statistical studies have begun systematic explorations of the question of whether, in the aggregate, war is usually associated with the elimination or serious reduction of trade between adversaries, but that question is far from settled.¹⁴⁷ Regardless of how this empirical debate is resolved, it is clear that trading with the enemy occurs frequently enough to warrant an investigation

145. We know that German political leaders allowed Denmark to continue to ship food to the United Kingdom even after the German declaration of war against both states (Giltner, "Trade in 'Phoney' Wartime"), and that, six days after the Japanese attack on Pearl Harbor, a U.S. presidential edict created legislation for the granting of licensing arrangements for trading with the enemy. Not all trading with the enemy was conducted within these legalized boundaries, however. There are countless examples of American firms doing business in strategic goods with Nazi Germany. The Ford Motor Company, for example, sold trucks to Nazi forces in occupied France. Higham, *Trading with the Enemy*; and Aarons and Loftus, *The Secret War against the Jews*.

146. Judah, *The Serbs*; and Andreas, "The Clandestine Political Economy of War."

147. Barbieri and Levy, "Sleeping with the Enemy"; and Anderton and Carter, "The Impact of War on Trade."

of the conditions under which it occurs, the type and magnitude of trade that takes place, the types of actors that engage in such activities, and with what military, economic, and political impact.

Our identification of alternative theoretical explanations for the phenomenon of trading with the enemy during wartime, along with our case study of the Crimean War, suggests a number of potentially relevant factors, which include elements from both realist and liberal theories of economic interdependence and war. These factors include the security implications of relative gains and losses at the systemic as well as the dyadic level, and also of the alienation of neutrals resulting from interference with trade between neutrals and the enemy; the impact of the continuation or suspension of belligerent or neutral trade on the economic prosperity and possibly the political stability of the country as a whole or of particular regions; the dependence of state leaders on tax revenues from trade and from the cooperation of key commercial and financial interests to finance the war effort, and on the political support of the public and key economic and identity groups to sustain the war; the capacity of the state to eliminate or limit illicit trade by profit seekers supported by willing publics; and the economic ideologies and historical experiences that shape the mind-sets through which these various factors are evaluated.

It is not possible, on the basis of our historical illustrations, to evaluate the relative importance of these various factors that influence the decisions of political leaders regarding the restriction or tolerance of trade with the enemy. Our selection of illustrative examples has been extensive in its temporal coverage but is not based on a scientific sample. Our aim has not been to establish relative frequencies or to test hypotheses, but instead to demonstrate that trading with the enemy has occurred in a variety of historical contexts during the last five centuries. We have shown that each of the above-mentioned variables has played an important role at certain times, but our data do not permit more general theoretical statements about the relative importance of these variables.

We are particularly limited in discussing factors that inhibit trading with the enemy, because we have selected most of our examples from instances where trading with the enemy actually occurred. Where inhibiting factors dominated, we would not observe trading with the enemy. That is, if realist relative-gains concerns were pervasive during wars, we would observe wars without trading with the enemy. Similarly, if liberal concerns about the economic opportunity costs of war dominated during periods of crisis, political leaders would make a determined effort to avoid wars, and we would witness trade between adversaries without war. These considerations make it imperative, in any broader comparative study, to select cases that include not only wars characterized by

trading with the enemy, but also wars without such trade, as well as crises between trading partners that do and do not escalate to war.

The Crimean War is a useful case for our theoretical purposes because it was a major war in which British political leaders engaged in deep deliberation on the issue of whether and to what extent they should tolerate trading with the enemy and between the enemy and neutral states. It allows us to observe the perceptions of leaders as well as the role of objective factors. It is clear from this case that factors associated with both liberal and realist theories played a significant role, resulting in a balanced strategy of allowing some kinds of trade but not others. Contributing to economic openness were fears of the loss of trade from war and the general harm to the economy, bolstered by the dominance of liberal economic ideology and the lessons learned from the economic consequences of the wars against France a generation before. Fears of the impact on neutrals of any attempt to interrupt third-party trade, and the diplomatic and strategic consequences of such efforts, were additional factors pushing for economic openness. At the same time, British political leaders were quite sensitive to realist relative-gains considerations, and to the need to keep strategic goods out of Russian hands. They attempted to accomplish that goal both by policies prohibiting strategic trade and by a strict naval blockade.

Other variables that were important in other wars were less critical in the Crimean War, at least for British policy. Although the monitoring and enforcement of legalized trading with the enemy was not perfect, and although there were some domestic pressures from parochial and regional interests, those pressures had a relatively small impact, as British political leaders were driven for the most part by considerations about what mix of policies best served the national strategic and economic interests of the country. The key trade-offs were not between national interests and the domestic political interests of British decision-makers, but instead between state economic and strategic interests over the short term and the long term. This pattern runs counter to some of our historical illustrations, which suggested that the parochial interests of politicians and key domestic groups sometimes have a significant impact. Which patterns are more common, and under what conditions, is an important question for future research, which would be furthered by a comparative study of a larger number of carefully selected cases.

This study of trading with the enemy has important implications for more comprehensive theories of economic interdependence and militarized international conflict. Those theories focus primarily on the impact of trade on conflict, but in doing so make important assumptions about what happens to trade after the outbreak of war. In particular, both the liberal trade-disruption hypothesis and the realist relative-gains hypothesis imply that trade and other

forms of economic interdependence should drop significantly once trading partners are at war with each other. Preliminary evidence that this is not always the case forces us to rethink existing theories of trade and war. The impact of trade on conflict continues to be a productive line of research, but it needs to be supplemented by a series of studies that explore some of the broader implications of those hypotheses for what happens to trade if peace fails and war breaks out. Expanding the range of the implications of our theories, and then exploring their empirical accuracy, would provide enormous leverage for testing our theories. The phenomenon of trading with the enemy is of interest in itself, but it also serves as a vehicle for further developing and testing broader theories of economic interdependence and war.