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Systemic effects of economic interdependence and the militarisation of diplomacy: 1914 and beyond

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ABSTRACT

Empirical research generally supports the dyadic-level trade-promotes-peace hypothesis, while demonstrating that the relationship is weaker, more complex, and more conditional than liberal theory suggests. We shift to the system level and examine a neglected path to conflict in economically interdependent systems. In the great power competition for support among smaller states, a great power at a competitive disadvantage in economic instruments of influence may be incentivised to adopt more militarised strategies. We illustrate our argument with case studies of Austro-Hungarian and Russian influence strategies before the First World War and of Prussian strategies among German states before the Franco-Prussian War.

Keywords Economic interdependence; economic coercion; militarisation; great power competition; First World War

Montesquieu's argument that 'peace is the natural effect of trade' remains a key pillar of contemporary liberal international relations theory.¹ Realists, following Rousseau, counter that 'interdependence breeds not accommodation and harmony, but suspicion and incompatibility', increasing rather than decreasing the likelihood of conflict and war.² After centuries of philosophical debate, several decades of empirical studies have generally supported the trade-promotes-peace hypothesis while demonstrating that the relationship is considerably weaker, more complex, and more conditional than liberal theory suggests.³ This research program has contributed enormously to our

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¹Charles de Montesquieu, *The Spirit of the Laws*. Trans. Anne M. Cohler, Basia C. Miller, and Harold Stone (Cambridge: Cambridge UP 1989) I, Bk. 20, chap. 1).

²Stanley Hoffmann, 'Rousseau on War and Peace', *American Political Science Review* 57/2 (1963), 321.

³For useful reviews see Edward D. Mansfield and Brian M. Pollins, 'The Study of Interdependence and Conflict: Recent Advances, Open Questions, and Directions for Future Research', *Journal of Conflict Resolution* 45/6 (December 2001), 834–59; 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; and Dale C. Copeland, *Economic Interdependence and War* (Princeton, NJ: Princeton University Press 2015) chap. 1.

understanding of the relationship between economic interdependence and conflict, but the vast majority of empirical studies focus on the dyadic level, and many assume a rough parity in terms of capabilities for either signaling or coercion.⁴ They neglect the dynamics of strategic interaction in a system of states characterized by both economic interdependence and asymmetries in economic and military power.⁵ This study explores the implications of interdependence and power asymmetries for great power relations with weaker third-party states.

When economic interdependence is high, great power competition for influence among medium and smaller powers is shaped by relative advantages in trade, finance, and other economic instruments of policy, along with legal institutions and economic norms that regulate behavior. Some great powers derive substantial leverage from their positions in the global economic system as well as from the sheer scale of economic resources at their disposal, as illustrated by Britain in the pre-1914 system and by other states in other systems. Not only does their position generate coercive capabilities, but these great powers also employ carrots such as market access, foreign direct investment (FDI), and technology transfers, to influence other states. Great powers at a competitive disadvantage often cannot compete with rivals in providing economic benefits sought by third states. When their economic influence attempts fail, they are sometimes tempted to turn to militarised influence strategies against third states to exploit their relative military power. This can lead to an escalation in conflict with the third state, which can draw in rival great powers. This path does not lead inevitably to war, but it fosters conditions that make war a more likely outcome of an economically interdependent system. The economically disadvantaged great power need not be militarily stronger than its primary great power rival, only militarily stronger than the third state it wants to influence.⁶ Our argument is captured

⁴Important exceptions include: Joanne Gowa and Edward D. Mansfield, 'Power Politics and International Trade', *American Political Science Review* 87/2 (1993), 408–420; Edward Mansfield, *Power, Trade, and War* (Princeton: Princeton UP 1994); Eugene Gholz and Daryl G. Press, 'The Effects of Wars on Neutral Countries: Why It Doesn't Pay to Preserve the Peace', *Security Studies* 10/4 (2010), 1–57; Brandon J. Kinne, 'Does Third-Party Trade Reduce Conflict? Credible Signaling Versus Opportunity Costs', *Conflict Management and Peace Science* 31/1 (2014), 28–48; Allan Dafoe and Nina Kelsey, 'Observing the Capitalist Peace: Examining Market-Mediated Signaling and Other Mechanisms', *Journal of Peace Research* 51/5 (2014), 619–33; Copeland, *Economic Interdependence and War*; Henry Farrell and Abraham L. Newman, 'Weaponized Interdependence: How Global Economic Networks Shape State Coercion', *International Security* 44/1 (2019), 42–79.

⁵Economic interdependence refers to a relationship between two or more actors that are mutually (but not necessarily symmetrically) dependent on each other for goods, capital, or services.

⁶As Robert O. Keohane and Joseph S. Nye argue in their analysis of complex interdependence, 'movement from one power resource to a more effective, but more costly resource, will be most likely where there is a substantial incongruity between the distribution of power resources on one dimension and those on another.' Keohane and Nye, Jr, *Power and Interdependence: World Politics in Transition* (Glenview, IL: Scott, Foresman 1977), 17.

by Lieven's interpretation of the militarisation of Russian behavior on the eve of the First World War: 'Bereft of [economic] weapons, the Russians were forced to utter military threats.'⁷

The First World War poses a problem for the interdependence-promotes-peace hypothesis, in that an enormously destructive world war emerged from a system of historically unprecedented levels of economic interdependence.⁸ That historical system raises another puzzle as well: how to explain the move from an economically interdependent system that restrained militarised great power rivalry for several decades to a system that promoted militarised diplomacy. Generally, scholars have emphasised either the peaceful dimensions of economic interdependence and attributed the origins of the war to causes that lay beyond the economic sphere (e.g., arms races), or they have underlined how economic interdependence generated commercial competition and exacerbated security dilemmas.⁹ The path set out in this article – the move of the economically disadvantaged great power to deploy military threats and force against third states – identifies through an analysis of decision-making how this shift takes place within an economically interdependent system.

This path to conflict escalation differs from the familiar realist argument in which asymmetrical interdependence between two states creates conditions that might tempt the economically stronger and less dependent state to exploit its advantages in the terms of trade and make coercive demands of its adversary, which can escalate to more violent conflict.¹⁰ U.S. economic coercion of Japan, which precipitated Japan's attack on the United States in 1941, is a classic example.¹¹ We do not dispute the importance of this causal path to war within a dyad, but argue that it does not capture the more complex causal mechanisms operating in some systemic contexts.

We focus on the system level and argue that a great power at a competitive disadvantage with respect to other great powers in trade or finance may have incentives to use military levers of power against weaker states in the system. This pattern has some points of overlap with Copeland's 'dynamic

⁷Dominic Lieven, *Towards the Flame: Empire, War and the End of Tsarist Russia* (London: Allen Lane 2015), 77.

⁸Patrick J. McDonald and Kevin Sweeney, 'The Achilles' Heel of Liberal IR Theory? Globalization and Conflict in the Pre-World War I Era', *World Politics* 59/3 (2007), 370–403. For a counterargument see Erik Gartzke and Yonatan Lupu, 'Trading on Preconceptions: Why World War I Was Not a Failure of Economic Interdependence', *International Security* 36/4 (2012), 115–150.

⁹Richard Findlay and Kevin O'Rourke, *Power and Plenty. Trade, War, and the World Economy in the Second Millennium* (Princeton: Princeton UP 2007), xxiv–xxv; Charles Maier, 'Leviathan 2.0', in Emily Rosenberg (ed.), *A World Connecting* (Cambridge MA: Belknap 2012), 203–04, 213, 229–30; and William Mulligan and Jack S. Levy, 'Rethinking Power Politics in an Interdependent World, 1871–1914', *Journal of Interdisciplinary History* 49/4 (Spring 2019), 611–40.

¹⁰Albert O. Hirschman, *National Power and the Structure of Foreign Trade* (Berkeley: University of California Press [1945] 1980).

¹¹Roberto Bonfatti and Kevin Hjortshøj O'Rourke, 'Growth, Import Dependence, and War', *Economic Journal* 128/614 (2018), 2222–57.

realist' argument that great powers concerned about their future access to the markets and raw materials necessary for their long-term economic growth and military potential may resort to the threat or use of force against third parties.¹² More recently Farrell and Newman have argued that globalisation has led to an asymmetric economic network that has enabled key states in the network to 'weaponize interdependence' for influence on a range of political issues by denying adversaries access to the network and leveraging its unique access to information.¹³ If economically most powerful states can weaponise interdependence, they will have fewer incentives to turn to military force. In contrast, our analysis centres on the economically disadvantaged great powers, whose leaders see military threats and force as a means to escape the constraints of economic interdependence on their capacity to influence third states. Britain had the capacity to weaponize interdependence before 1914, but leaders in London proved reluctant to exploit fully the advantages of being the world's financial hub. In contrast, leaders in other capitals escalated the crisis in 1914 and, as we will see, had already moved to militarise diplomacy in the years before the war.

We develop our argument and illustrate it through three case studies, taken from periods of deepening economic interdependence and intensifying great power rivalries in Europe. We identify shifts towards militarisation strategies after setbacks in the game of economic influence. After the anti-Habsburg turn in Serbian policy following the coup d'état in 1903, and again after Serbian gains in the first months of the Balkan Wars in 1912, Austro-Hungarian leaders attempted to manage the Serbian threat by incorporating Serbia into a customs union. Only when those negotiations failed did Austria-Hungary turn to a more militarised policy toward Serbia. Similarly, only after Russia's failed attempts at economic diplomacy to counter Germany's growing influence in the Ottoman Empire did Russian leaders adopt more militarised means to compete for influence in the Ottoman Empire. In each case, this turn towards a more militarised policy exacerbated tensions and contributed to the outbreak of a general war. To illustrate the applicability of the argument beyond the era of the First World War, we also examine Prussia's behavior in the late 1860s, which came at the end of a period of European international relations characterised by increasing trade and more frequent war. Turning away from militarised foreign policy after victory over Austria in 1866, Minister-President Bismarck hoped that Prussian competitive advantages in trade would generate political support in the Zollverein (Customs Union) for the integration of south German states with the North German

¹²Copeland, *Economic Interdependence and War*.

¹³Farrell and Newman, 'Weaponized Interdependence', 56.

Confederation. When the Customs Union elections of 1868 failed to give Bismarck the political support he needed, he returned toward a military strategy, contemplating war against France, to complete German unification.

Our effort to develop an alternative path to war under conditions of economic interdependence and to explore its plausibility in several historical cases is an exercise in hypothesis construction, not hypothesis testing, which would require a larger set of cases and more systematic research design. We make no attempt to assess the causal weight of economic interdependence relative to that of other variables on the outbreak of the First World War, or to assess the validity of the argument that the Great War is the 'Achilles' heel' of economic liberalism.¹⁴ Our aims best fit the category of 'proof of concept.'¹⁵ To put our argument in context, we begin with a brief review of theories of economic interdependence, peace, and conflict, highlighting underlying causal mechanisms.

Theories of economic interdependence and international conflict

Most 19th century liberals agreed with John Stuart Mill that 'the great extent and rapid increase of international trade ... [is] the principal guarantee of the peace of the world ...'.¹⁶ They rejected the earlier mercantilist belief that international economic relations constituted a zero-sum game among states, and argued instead that trade based on specialisation and comparative advantage benefited all states, enhancing prosperity and creating incentives for states to avoid trade-disrupting wars. Tariffs and other interference with market mechanisms reduced economic prosperity and consequently increased tensions and international conflict. As industrialisation and commercial integration progressed, Richard Cobden, Mill, and others extended the argument by contending that the increased diffusion and mobility of production left industrial economies less dependent on territory and increasingly dependent on factors more easily acquired through trade than through conquest. Ivan Bloch and Norman Angell broadened the argument further by incorporating the financial components of interdependence. The globalisation of commerce and finance, along with increasingly destructive military technology, made war too costly, insufficiently beneficial, and consequently no longer rational for advanced industrial economies.¹⁷ The argument that

¹⁴McDonald and Sweeney, 'Achilles' Heel of Liberal IR Theory?'

¹⁵On types of case studies see John Gerring, *Case Study Research* (Cambridge: Cambridge University Press 2007); and Jack S. Levy, 'Case Studies: Types, Designs, and Logics of Inference', *Conflict Management and Peace Science* 25/1 (Spring 2008), 1–18.

¹⁶John Stuart Mill, *Principles of Political Economy, with Some of Their Applications to Social Philosophy* (New York: Longmans Green, [1848] 1909), 582

¹⁷Ivan Stanislavovich Bloch, *The Future of War in Its Technical, Economic, and Political Relations: Is War Now Impossible?* (New York: Doubleday & McClure 1899); Norman Angell, *The Great Illusion. A Study of the Relation of Military Power in Nations to Their Economic and Social Advantages* (London: Heinemann 1910).

trade and the geographical diffusion of capital and production constituted a more efficient strategy than war for the accumulation of wealth soon became a cornerstone of liberal economic thought.¹⁸

A different strand of the liberal argument, dating back to Montesquieu, focused on how capitalism altered the basis of domestic politics to produce elites that favored trade and sought to avoid war.¹⁹ Joseph Schumpeter developed this argument in the context of the First World War, arguing that material disincentives for war were reinforced by pressures from domestic interests and by a transformation of cultural attitudes towards 'economic rationalism' and an 'unwarlike disposition'.²⁰

Some realists acknowledge that economic interdependence can have a pacifying effect, but argue that the magnitude of that effect is small relative to that of strategic considerations.²¹ Mearsheimer, for example, concedes that economic interdependence can 'tip the balance away from war' if there is a substantial risk of high economic costs, but argues that this does not alter the logic of power politics in which security trumps economics.²² Other realists argue that interdependence exacerbates conflict, in part by generating new issues of contention.²³ Asymmetrical interdependence is particularly destabilising. It enhances the bargaining power of the least dependent state and creates incentives to use its economic advantages to make increasing demands of its more dependent trading partner.²⁴ These demands, on a range of issues and often accompanied by highly coercive threats, can lead to retaliatory actions, conflict spirals, and war.²⁵

Copeland emphasises a different mechanism in his 'dynamic realist theory' of interdependence and war. His 'trade expectations theory' correctly focuses not on current levels of trade but on expectations of future trade. He argues that great powers adopt worst-case fears about future trade or access to strategic goods upon which their power and security depend, prefer 'to control what they depend on or to lessen the extent of their dependency', and respond by building power projection capabilities.²⁶ This can trigger a

¹⁸Richard Rosecrance, *The Rise of the Trading State: Conquest and Commerce in the Modern World* (New York: Basic Books 1986); and Stephen Brooks, *Producing Security: Multinational Corporations, Globalization, and the Changing Calculus of Conflict* (Princeton: Princeton UP 2005).

¹⁹Mark Hülling, *Montesquieu and the Old Regime* (Berkeley: University of California Press 1976).

²⁰Joseph A. Schumpeter, *Imperialism and Social Classes* (Oxford: Oxford University Press [1919] 1951).

²¹Barry Buzan, 'Economic Structure and International Security: The Limits of the Liberal Case', *International Organization*, 38/4 (1984), 597–624; Norrin M. Ripsman, and Jean-Marc F. Blanchard, 'Commercial Liberalism under Fire: Evidence from 1914 and 1936', *Security Studies* 6/2 (1996/7), 4–50.

²²John Mearsheimer, *Great Delusion: Liberal Dreams and International Realities* (New Haven: Yale UP 2018) ch. 7.

²³Alexander Hamilton, 'No. 6', in Alexander Hamilton, James Madison, and John Jay (eds.), *The Federalist Papers* (New York: New American Library [1787] 1961), 57.

²⁴Hirschman, *National Power*; Keohane and Nye, *Power*, 1977; Katherine Barbieri, *The Liberal Illusion: Does Trade Promote Peace?* (Ann Arbor: University of Michigan Press 2002)

²⁵Marxist-Leninists make a similar argument about the effects of dominance and dependence, see Bernard Semmel, *Marxism and the Science of War* (Oxford: Oxford UP 1981).

²⁶Copeland, *Economic Interdependence*; and Kenneth N. Waltz, *Theory of International Politics* (Reading, MA: Addison-Wesley 1979), 22.

'trade security dilemma' and conflict spiral.²⁷ Whereas some realist arguments give more emphasis to the potential vulnerabilities and risks associated with trade than to the contributions of trade to the economic foundations of military power,²⁸ and thus under-predict levels of trade between great power rivals, Copeland strikes a balance between the two positions.

Quantitative studies of trade and conflict initially aimed to resolve the liberal-realist debate. They focused on the net or aggregate effects of trade, particularly on the discrepancy between Russett and Oneal's findings in support of commercial liberalism and Barbieri's findings that contradicted it.²⁹ The statistical findings are sensitive to how interdependence and conflict/cooperation are operationalised and to the spatial/temporal domains and control variables used in the analysis,³⁰ but they generally support the trade-promotes-peace hypothesis, while demonstrating that the relationship is relatively weak, conditional, and extraordinarily complex. These findings have led researchers to shift attention from the net effects of trade to the conditions under which trade leads toward or away from peace and cooperation, the endogeneity problems created by the reciprocal relationship between trade and conflict,³¹ and the causal mechanisms driving these relationships. Scholars have also broadened conceptions of the independent variable to include capital market integration and monetary policy coordination, direct foreign investment, and the domestic institutions and economic norms of capitalism.³² Intra-liberal debates have arisen about the causal mechanisms underlying the trade-promotes-peace hypothesis and about whether the near absence of war between democracies reflects a 'capitalist peace' or a 'democratic peace'.

²⁷Thus realists often reject the liberal argument that trade is always more efficient than military force in enhancing wealth, even in the industrial era. Peter Liberman, *Does Conquest Pay? The Exploitation of Occupied Industrial Societies* (Princeton, NJ: Princeton University Press 1996).

²⁸Samuel P. Huntington, 'Why International Primacy Matters', *International Security* 17/4 (1993), 68–83; and Gowa and Mansfield, 'Power Politics'.

²⁹Solomon Polachek, 'Conflict and Trade', *Journal of Conflict Resolution* 24/1 (1980), 55–78; Bruce Russett, and John R. Oneal, *Triangulating Peace: Democracy, Interdependence, and International Organization* (New York: W.W. Norton 2001); Barbieri, *Liberal Illusion*. 'Commercial liberalism' refers to the trade-promotes-peace hypothesis. 'Economic liberalism' goes beyond trade to incorporate finance, monetary policy integration, production, labor market mobility, and other economic dimensions of interdependence. Joseph S. Nye, 'Neorealism and Neoliberalism', *World Politics* 40/2 (1988), 235–251.

³⁰Katherine Barbieri, Omar M.G. Keshk, and Brian M. Pollins, 'Trading data: evaluating our assumptions and coding rules', *Conflict Management and Peace Science* 26/5 (2009), 471–91.

³¹Omar M. G. Keshk, Brian M. Pollins, and Rafael Reuveny, 'Trade Still Follows The Flag: The Primary of Politics in a Simultaneous Equation Model of Interdependence and Armed Conflict', *Journal of Politics* 66/4 (2004), 1155–1179; Katherine Barbieri and Jack S. Levy, 'Sleeping with the Enemy: The Impact of War on Trade', *Journal of Peace Research* 36/4 (1999), 463–79.

³²Erik Gartzke, Quan Li, and Charles Boehmer, 'Investing in the Peace: Economic Interdependence and International Conflict', *International Organization* 55/2 (2001), 391–438; Erik Gartzke, 'The Capitalist Peace', *American Journal of Political Science* 51/1 (2007), 166–191; Brooks, *Producing Security*; Patrick J. McDonald, *The Invisible Hand of Peace: Capitalism, the War Machine, and International Relations Theory* (New York: Cambridge UP 2009); and Michael Mousseau, 'The Social Market Roots of the Democratic Peace', *International Security* 33/4 (2009), 52–86.

The most influential explanation of the trade-promotes-peace relationship is the 'economic opportunity cost' model. The comparative advantages of trade and other forms of economic interdependence generate economic benefits for both trading partners. Fears that war or the anticipation of war would disrupt trade and reduce or eliminate the benefits of trade constrain political leaders from taking actions they fear might lead to militarised conflict.³³ Domestic political interests that benefit from trade use their influence to promote the cooperative policies that favour trade.³⁴

Although the predictions of the economic opportunity cost model are generally (if weakly) consistent with the statistical evidence at the aggregate level, the model suffers from an analytic problem. It posits that individual states' incentives to avoid war will lead to peaceful outcomes, but fails to incorporate a mechanism that explains how monadic incentives lead through strategic interaction to dyadic outcomes. If two adversaries each fear that dispute escalation and war would result in the loss of the gains from trade, they may each make concessions to avoid war. Alternatively, one or both adversaries may adopt a hard-line bargaining strategy in an attempt to test the adversary's resolve and exploit its fears of war, which can trigger a conflict spiral and lead to war.³⁵ In the absence of more information – about images of the enemy and beliefs about optimum bargaining strategies, risk orientation, and domestic pressures – whether the outcome is mutual concessions or crisis escalation is theoretically indeterminate.³⁶

Some have responded to the absence of strategic interaction in standard economic opportunity cost models by developing a 'signaling model' of economic interdependence and peace.³⁷ The model posits that economic interdependence increases the range of policy instruments – including trade, finance, and direct foreign investment – by which states can credibly signal their resolve and demonstrate their commitment in a crisis, and do so at less cost and risk of escalation than with threats of military force. Because economic sanctions are costly to the initiator as well as to the target, only states that are highly resolved will be willing to incur those costs, and consequently economic sanctions send a 'costly signal' of a state's resolve in a dispute.³⁸ The adversary understands this logic, resulting in a reduction in uncertainty

³³Polachek, 'Conflict and trade'; Russett and Oneal, *Triangulating Peace*.

³⁴Steven E. Lobell, 'Politics and National Security: The Battles for Britain', *Conflict Management and Peace Science* 21/4 (2004), 269–286; Etel Solingen, 'Domestic Coalitions, Internationalization, and War: Then and Now', *International Security* 39/1 (2014), 44–70.

³⁵Gartzke, Li, and Boehmer, 'Investing in the Peace', 400.

³⁶James D. Morrow, 'How Could Trade Affect Conflict', *Journal of Peace Research* 36/4 (1999), 481–89.

³⁷Gartzke, Li, and Boehmer, 'Investing in the Peace'; James D. Morrow, 'Assessing the Role of Trade as a Source of Costly Signals', in Edward D. Mansfield and Brian M. Pollins (eds.), *Economic Interdependence*, 89–95; Dafoe and Kelsey, 'Observing the Capitalist Peace'.

³⁸Demonstrating resolve by imposing economic sanctions, which hurts the coercer as well as the target and hence sends a costly and therefore credible signal, is less likely to escalate than demonstrating resolve through military threats.

about adversary intentions and consequently a reduction in the likelihood of a war by miscalculation. In the signaling model, markets promote peace through an informational mechanism based on the credible communication of resolve and commitment, not through a mechanism based on fears of losing the gains of trade because of war.

This is not the place to critique the economic opportunity cost and signaling models of economic interdependence and peace,³⁹ but it is worth mentioning some issues are directly related to this study's themes of the systemic dimensions of interdependence and the implications of asymmetric interdependence. First, the standard dyadic perspective of opportunity costs model neglects the impact of system factors, particularly the availability of alternative trading partners. The economic impact of the loss of trade with wartime enemy is minimized if the state can quickly and fully redirect that trade to another state. Second, the opportunity cost and signaling models each neglect the systemic distribution of power and patterns of alliances and rivalries. The problem is that pacifying effects of interdependence at the dyadic level do not always operate at the system level, and may even increase the likelihood of conflict. Take one example. If states B and C have a conflictual relationship, trade between A and B may increase conflict between C and A, especially if trade with A increases B's military power. American trade with Britain in the First World War contributed significantly to growing hostility and eventually war between Germany and the United States.⁴⁰

Asymmetrical interdependence presents another problem for signaling models, which implicitly assume that interdependence is symmetric, giving both sides economic instruments for sending costly signals of resolve. Most signaling models require symmetry in the form of a balance of imports and exports between two countries, and a comparable importance of trade to each state's economy. Morrow notes that if there are asymmetries in exports and imports, 'it is not clear how such asymmetries affect the costly-signaling argument.'⁴¹ One of the few empirical studies of the signaling model demonstrates that asymmetries in interstate monetary relations lead to an increase, not a decrease, in international conflict.⁴² Gartzke and Westerwinter find that asymmetry diminishes the conflict-reducing tendencies of trade. They offer one possible theoretical explanation. In an asymmetric economic relationship, the less dependent state's economic sanctions impose few costs on itself (because of its lack of dependency) but substantial costs on the more

³⁹David J. Lektzian and Christopher M. Sprecher, 'Sanctions, Signals, and Militarized Conflict', *American Journal of Political Science* 51/2 (2007), 415–31; Kinne, 'Credible signaling'; Copeland, *Economic Interdependence*, 25.

⁴⁰Charles Seymour, *American Neutrality, 1914–1917* (New Haven: Yale University Press 1935). On the importance for historians of analysing the effects of the international system, see Joseph A. Maiolo, 'Systems and Boundaries in International History', *International History Review* 40/3 (2018), 580.

⁴¹Morrow, 'Role of Trade', 93.

⁴²Gartzke, Li, and Boehmer, 'Investing in the Peace'.

dependent target. Coercion works but not because of costly signaling. The problem is reversed for the more dependent state, whose sanctions are costly to send and hence credible, but are too weak to coerce its less dependent adversary. Credible signaling requires the imposition of costs on both sender and target. Gartzke and Westerwinter summarise the problem of signaling under conditions of asymmetrical interdependence: 'One side can coerce but not inform, while the other can inform but not coerce.'⁴³

Historical applications

We begin with two cases in the 1912–14 period, one involving Austria-Hungary and one involving Russia. This was a time of historically unprecedented levels of economic interdependence – not only in trade, but also in capital flows and labour mobility – and known as the 'First Era of Globalisation'.⁴⁴ The depth and complexity of economic interdependence expanded the use of commercial levers to pursue strategic interests. As Kurt Riezler, adviser to German Chancellor Bethmann Hollweg, noted, interdependence of societies produced new contexts for the exercise of power: 'In a certain sense, nations (Völker) have changed from hard bodies into porous masses, which penetrate into and overlap with one another. This development does not only have cosmopolitan consequences in the sense of the mixing of materials. Nations do not only fight each other at their borders and militarily, but around the globe, far and near. Everywhere, goods, capital, and ideas fight against each other.'⁴⁵ This understanding was far-removed from the liberal visions of Cobden, Mill, and others. Certain states, particularly Britain, France, and Germany, had a competitive advantage in this game of economic influence.

We focus on how leaders in two great powers at a disadvantage, Austria-Hungary and Russia, turned to a more militarised assertion of state interests in the Balkans and Ottoman Empire, respectively, after failing to secure diplomatic influence through commercial means. We then turn to Prussia's failed bid for political influence in the southern German states through the Customs Union Parliament in the late 1860s. Though Prussia was not weak in economic

⁴³Erik Gartzke and Oliver Westerwinter, 'The complex structure of commercial peace contrasting trade interdependence, asymmetry, and multipolarity', *Journal of Peace Research* 53/3 (2016), 325–343.

⁴⁴Carl Strikwerda, 'The Troubled Origins of European Economic Integration: International Iron and Steel and Labor Migration in the Era of World War I', *American Historical Review* 98/4 (1993), 1107; Findlay and O'Rourke, *Power and Plenty*; Michael D. Bordo, Alan M. Taylor, and Jeffrey G. Williamson, eds, *Globalization in Historical Perspective* (Chicago: University of Chicago Press 2003); Rosenberg, *World Connecting*; William Mulligan, *The Origins of the First World War*, 2nd ed. (Cambridge: Cambridge University Press 2017) ch. 5.

⁴⁵J. J. Ruedorffer, *Grundzüge der Weltpolitik in der Gegenwart* (Stuttgart, 1916), 27–30.

terms relative to other great powers, this case provides a good example of limitations in the effectiveness of economic diplomacy leading to the militarisation of foreign policy.

Austria-Hungary's failed bid for a Balkan customs union

Habsburg-Serbian relations were nested within a wider and denser set of relations that provided the state with fewer economic and military resources, Serbia, with alternative markets, sources of capital, and military support. Competition between French and German banking consortia in the Balkans, the expansion of German and Italian trade, and the growth of export markets for agricultural produce in urban centres in central and western Europe altered the economic conditions for Serbian foreign and security policy. Following the coup d'état in 1903, Serbian politics took an anti-Habsburg turn, undermining Austria-Hungary's influence in the Balkans and even beginning to challenge the integrity of the Habsburg empire. After coming to power in 1906, Habsburg Foreign Minister Alois von Aehrenthal intended to pursue a conservative foreign policy in cooperation with Russia, and to manage the Serbian challenge with economic measures, including trade agreements and railway projects that would make Serbia dependent on Austria-Hungary.⁴⁶

Aehrenthal made no progress in cooperation over railway construction, while the Austro-Serbian 'Pig War' (1906–09), which affected Serbia's largest export product, worsened commercial relations between the two states. Relations deteriorated in 1908, after the Austro-Hungarian annexation of Bosnia and Herzegovina, two provinces with a large ethnic Serbian population and formally under Ottoman sovereignty but occupied by Habsburg troops since 1878. A customs union between Austria-Hungary and Serbia remained a topic of discussion amongst the Habsburg political elite, but Aehrenthal harboured little hope of concluding an agreement, owing to internal Hungarian opposition and the diversification of Serbia's external commercial relations following the 'Pig War'.⁴⁷

During the 1912–13 Balkan Wars, leaders in Vienna became increasingly concerned about Serbia's attraction to South Slav subjects within the Habsburg Empire. Aehrenthal's successor, Leopold von Berchtold, concluded that Austria-Hungary risked disintegration if it did not halt the growing power of the Serbian state. In late October 1912, he put the idea of a customs union

⁴⁶Konzept der Instruktion für Forgách anlässlich seines Amtsantrittes in Belgrad, in Solomon Wank (ed.), *Aus dem Nachlass Aehrenthal. Briefe und Dokumente zur österreichischen-ungarischen Innen- und Aussenpolitik 1885–1912* (Graz: Böhlau 1994), vol. 2, 517–20; and Joseph M. Baernreither, *Fragmente eines politischen Tagebuches. Die Südslawische Frage und Österreich-Ungarn vor dem Weltkrieg* (Berlin: Verlag für Kulturpolitik 1928), 74.

⁴⁷*Ibid.*, 106.

back on the agenda as a means to manage threats to the empire's security. Identifying Serbia as the main threat, he argued that 'The Monarchy can no longer be satisfied with nice words and promises. A closer economic association, which also holds many advantages for Serbia, would create a community of interests, which could secure a peaceful co-existence for a long time. The closer the association that is formed, the easier it will be for Serbia to count on goodwill on our part for its enlargement.'⁴⁸ Berchtold's proposal for a Customs Union lacked detail, but it aimed to tie Serbia to Austria-Hungary economically, to limit Serbia's commercial alternatives, and to blunt its political challenge. The denial of a port on the Adriatic coast for Serbia, one of the central diplomatic issues in the Balkan Wars, was another critical part of Berchtold's plan to limit alternative markets for Serbian commerce.

Conrad von Hötzendorf, soon to be reappointed as Chief of the General Staff, also recognised the value of binding the Balkan states to Austria-Hungary. On 28 October, he suggested that Austria-Hungary could head a Balkan League or at the least form 'a single customs and trade area.' By cooperating with the Balkan Slav states, Austria-Hungary could win influence and secure its hinterland in case of a war against Russia.⁴⁹ In view of Conrad's longstanding enthusiasm for preventive war, his advocacy of a commercial solution to the empire's Serbian policy demonstrates how economic interdependence offered new solutions to old security dilemmas.

Discussion in the business pages of the Viennese press concentrated on the economic benefits of closer trading relations and the competition with firms from other European powers. Representatives from the textile industry, for example, highlighted the defensive purposes of securing continued access to markets in the former European territory of the Ottoman empire. Julius Reich, a glass manufacturer and patron of the arts, called for a most favoured nation clause and security of transit for Serbian goods through Habsburg territory. Business representatives were acutely aware of the political implications of a new commercial relationship with the Balkan states and often framed it in imperial terms. Reich argued that Austro-Hungarian businesses needed a 'sphere of activity', as other European powers had partitioned the world. Ludwig Strotz, a textile manufacturer, referred to securing a 'place in the sun', a nod to Kaiser William II's slogan for German imperial expansion.⁵⁰

Between late October and early December 1912, Berchtold pursued a commercial agreement with Serbia. Yet from the outset its evident purpose – to integrate Serbia into an Austro-Hungarian economic sphere – made it

⁴⁸Berchtold, Konzept, 30 October 1912, in *ÖUA*, vol. 4, 727–9.

⁴⁹Franz Conrad von Hötzendorf, *Aus meiner Dienstzeit* (Vienna: Rikola Verlag 1921), vol. 2, 315–19.

⁵⁰'Erwartungen der Österreichischen Industrie nach dem Friedensschluß', *Neue Freie Presse*, 1 November 1912, 18; 'Die Neuordnung der Handelsbeziehungen zu Serbien', *Neue Freie Presse*, 10 November 1912, 19.

unappealing to the leaders in Belgrade, who were celebrating military victory and seeking to increase their capacity for an independent foreign policy. On 8 November Berchtold made a broad-brush offer to Belgrade. In return for a customs union, he would allow Serbian expansion in the Sandjak region and Old Serbia. Closer economic relations, he claimed, served as a guarantee of a 'lasting friendly, neighbourly relationship.' Serbia, however, could only access the Adriatic through Bosnia, Habsburg territory, and Berchtold argued that the nationality principle championed by the Balkan states meant Serbia could not take any territory in Albania.⁵¹ In early November Berchtold approached the Austrian liberal, Joseph Redlich, asking him to go to Belgrade to discuss a possible commercial agreement. 'We cannot see the relationship to Serbia purely as an economic one,' Redlich recorded in his diary; 'it is also a question of the external position of the whole monarchy.'⁵²

Even before Redlich set out for Belgrade, Serbian diplomats had indicated they would reject the offer. They saw its obvious political purpose and pointed to the poor trade relations between the two states in recent years. The Finance Minister, Paču, called the proposal a 'declaration of permanent economic dependency.'⁵³ Great powers have been able to leverage their dominance in commercial relations to achieve political and security aims, but in this instance the smaller state was able to thwart the designs of its more powerful neighbour.⁵⁴ Belgrade was in a position to reject the offer, due to the density and variety of Serbia's foreign commercial relations within the interdependent system and the receding economic influence of Austria-Hungary after 1906. Serbia raised loans on the Paris money markets, diversified its trading partners in Europe, and set up commercial agencies across the eastern Mediterranean. Austria-Hungary accounted for 68% of Serbian trade between 1900 and 1906. This declined to a 32% share between 1907 and 1912, while Germany increased its share of Serbian trade to 27%.⁵⁵ Serbia was able to rely on other governments to object to tighter commercial bonds between Serbia and Austria-Hungary.⁵⁶ Neither Germany nor Italy, Austria-Hungary's other ally, was willing to accept Habsburg economic primacy in the Balkans, as this cut across their own economic interests.

⁵¹Berchtold to Belgrade, 8 November 1912, *ÖUA*, 798–9.

⁵²Diary entry, 2 November 1912, in Fritz Fellner, ed., *Schicksalsjahre Österreichs 1908–1919. Das politische Tagebuch Josef Redlichs* (Vienna: Böhlau 1953), vol. 1, 168; Baernreither, *Fragmente*, 1928, 170–74.

⁵³*Ibid.*, 169–78.

⁵⁴Hirschman, *National Power*, drew heavily on the example of German economic influence in the Balkans in the 1930s; Stephen G. Gross, *Export Empire. German Soft Power in Southeastern Europe, 1890–1945* (Cambridge: Cambridge UP, 2015).

⁵⁵<http://ricardo.medialab.sciences-po.fr/#/country>. RICardo (Research on International Commerce) is a database of international trade in the 19th and 20th centuries. See also Gaston Gravier, 'L'émancipation économique de la Serbie', *Bulletin de la Société de Géographie commerciale de Paris* 33/6 (June 1911), 419.

⁵⁶Bericht aus Rom, 19 November 1912, *ÖUA*, 935–6.

Serbian Prime Minister Pasić continued to negotiate throughout November 1912, but he wanted to buy time for Serbian armies to capture as much territory as possible before the great powers stepped in to mediate in the war.⁵⁷

By early December the failure of Berchtold's commercial policy was clear. The move towards a militarised foreign policy followed apace. On 5 December Franz Josef ordered 27,000 troops towards the border with Serbia. Two days later, Archduke Franz Ferdinand, the heir to the throne, forced Auffenberg to resign as Minister of War on the grounds that he was too passive. On the same day, Conrad, sacked a year earlier for his efforts to initiate a preventive war against Italy, was re-appointed chief of general staff. On 14 December, Conrad wrote to the emperor, arguing that war against Serbia was inevitable and must be undertaken immediately.⁵⁸ His sharp turn away from commercial instruments to a strategy of preventive war illustrated the radical shift in Vienna's approach to Serbia. Long before the July 1914 crisis, Austria-Hungary had already issued ultimatums, backed by the threat of military force, to Serbia in March and October 1913.⁵⁹ Although Berchtold still hoped to avoid war, he now adopted the more familiar instruments of diplomacy, developing relations with other Balkan states, notably Bulgaria, to hem in Serbia. The Habsburg turn towards a militarised foreign policy reflected Vienna's receding economic influence, the growth and diversity of French and German economic interests in the region, and the political obstacle of convincing Serbian elites and popular opinion that Austria-Hungary and Serbia shared common interests.⁶⁰

Russia and the Ottoman Empire

A similar pattern developed in Russian foreign policy from 1913 to early 1914, following a series of setbacks to Russian interests in the Ottoman Empire. Since the late eighteenth century, successive generations of Russian leaders recognised the strategic importance of the Ottoman Empire, particularly the Turkish Straits. Russia had fought several wars against the Ottomans in the

⁵⁷Franz-Josef Kos, *Die politischen und wirtschaftlichen Interessen Österreich-Ungarns und Deutschlands in Südosteuropa 1912/13. Die Adria-Hafen-, die Saloniki- und die Kavallafrage* (Vienna: Böhlau 1996), 70–83.

⁵⁸Conrad, *Dienstzeit*, 380–82.

⁵⁹On the Balkan Wars see Dominik Geppert, William Mulligan, and Andreas Rose (eds.), *The Wars before the Great War: Conflict and International Politics before the Outbreak of the First World War* (Cambridge: Cambridge University Press 2015). For an explanation of how the Balkan crises but not the 1914 July Crisis were resolved peacefully, despite occurring under similar conditions, see Jack S. Levy and William Mulligan, 'Why 1914 and Not Before? A Comparative Study of the July Crisis and Its Precursors', *Security Studies* 30/2 (2021), 213–44.

⁶⁰Christopher Clark, *The Sleepwalkers: How Europe Went to War in 1914* (New York: HarperCollins 2012), 110–15; Samuel R. Williamson, 'Leopold Count Berchtold: The Man Who Could Have Prevented the Great War', in Günter Bischof, Fritz Plasser, and Peter Berger (eds.), *From Empire to Republic: Post-World War I Austria* (New Orleans: University of New Orleans Press, 2010), 24–51.

nineteenth century. The Ottoman Empire was also the subject of intense imperial rivalries between the great powers. These rivalries were sometimes conducted with military force – the British occupation of Egypt and the Italian invasion of Libya, for example – but great powers also used commercial firms, expert missions, and religious and national minorities to carve out spheres of influence in the Ottoman Empire.

The importance of the Straits for Russia's agricultural economy increased significantly at the end of the nineteenth century. From the 1870s to the 1910s, grain exports increased by 50%, making Russia the world's leading exporter of grain. The vast majority of Russian grain exports, and in fact well over 40% of Russia's total exports, passed through the Black Sea and the Straits. Russian exports through the Straits, expected to continue to grow in the coming years, were particularly important for maintaining a favourable balance of trade. Foreign earnings were essential for the purchase of manufactured goods upon which Russia's industrialisation, economic development, and great power status depended.⁶¹ Russia's economic vulnerability was demonstrated by brief closure of the Straits in 1912 during the Italo-Ottoman War, resulting in a one-third decline in the volume of Black Sea exports for the year, and again by restrictions on commerce during the Balkan Wars. Russian export revenue declined by 30% from 1911 to 1913.⁶²

Although the Ottoman Empire, and the Straits in particular, had become increasingly important in Russian foreign policy by the eve of the First World War, Russian influence in the Ottoman Empire was clearly ebbing. Russia's relative disadvantage in commercial power vis-à-vis other great powers manifested itself in the German military mission under Liman von Sanders, the terms of the Armenian reform settlement, and the failure of Russia to get a seat on the Ottoman Debt Council, which represented European bondholders and set fiscal goals for the Ottoman state. Russian Foreign Minister Sazonov attributed these setbacks to several factors, including internal divisions within the Triple Entente and Russia's inability to bring economic pressure to bear on the Ottoman Empire. Russia could only bring commercial pressure to bear indirectly by pressing its ally France and entente partner Britain to use their commercial levers to influence the Ottoman Empire.⁶³ During the crisis over the German military mission, Sazonov had urged the

⁶¹Ronald P. Bobroff, *Roads to Glory: Late Imperial Russia and the Turkish Straits* (London: I.B. Tauris 2006), 4–5; and Lieven, *Towards the Flame*, 74–75, 286–87.

⁶²Sean McMeekin, *The Russian Origins of the First World War* (Cambridge MA: Belknap 2011), 29.

⁶³Izvol'ski to Sazonov, 24 April 1913, *Livre Noir*, vol. 2, 72–5. On Russia's financial and political relationships with France and Britain, see Jennifer Siegel, *For Peace and Money: French and British Finance in the Service of the Tsars and Commissars* (Oxford, Oxford UP, 2014), who notes that debtors have significant levers in financial relationships, but in 1913/4, Russian leaders were unable to use any such levers; William Mulligan, '“We Can't Be More Russian than the Russians”: British Policy During the Liman von Sanders Crisis, 1913–1914', *Diplomacy & Statecraft* 17/2 (2006), 261–82.

French government to apply financial pressure through French banks on the Ottoman government, but French leaders were unwilling to compel banks to withdraw from planned loans to the Ottoman Empire, fearing that such actions risked undermining existing investments and ceding the field to German banks.

Russia's failure to exert effective economic pressure on the Ottoman Empire took place in the context of the different structures of the Russian and German economies and the resulting patterns of their integration into the world economy. Russia and Germany each accounted for 6% of Ottoman foreign trade, but these figures understate the significance of German exports, including advanced technology and military equipment, the leading role of German engineers in infrastructure projects, and the vastly greater size of German banks' loans to the Ottoman empire. Russia could not compete in the game of economic influence. Russian exports were not competitive, Russian labor productivity was less than half of Germany's, and Russia lacked surplus capital to loan or invest in foreign countries.

In mid-January 1914, a special conference attended by Sazonov, Kokovtsov (Finance Minister), Sukhomlinov (Chief of the General Staff), Grigorivitsch (Navy Minister), and Zhilinski (Army Minister) discussed Russian options. Before the meeting Sazonov set out various strategies for influencing the Ottoman Empire. These included a financial boycott, the seizure of territory in Asia Minor, and cooperation with Britain and France. The seizure of territory and other military measures risked war. British and French support for financial measures was also problematic. Sazonov noted that the French government did not have complete control over its banks' lending policies, and Kokovtsov added that any financial boycott posed risks to existing French investments.⁶⁴ The discussions revealed that Russia lacked the economic resources to exert significant pressure on the Ottoman Empire. Dependency on its entente partners to restrict loans to the Ottoman Empire did not provide Russia with an effective means to pursue its interests. Just as Austro-Hungarian political interests diverged from German economic interests in the Balkans, so too did Russian interests differ from those of France and Britain. And just as Serbia's diversification of its commercial relationships reduced Austro-Hungarian leverage, the Ottoman Empire was able to play off German and French banks to reduce its dependency on a particular great power bloc.

During the conference, Sazonov argued that if financial pressures proved inadequate Russia would have to exert 'direct influence' on the Ottoman Empire – meaning military measures. Kokovtsov warned that military

⁶⁴Journal einer Sonderkonferenz, 14 January 1913, in M. Pokrovski, *Drei Konferenzen. Zur Vorgeschichte des Krieges* (Redaktion Russische Korrespondenz 1920), 32–45.

measures could lead to war, with disastrous consequences for Russia.⁶⁵ By the time of the next meeting of political and military leaders on 21 February, the Tsar had dismissed Kokovtsov due to his 'peace at any price' reputation, reflecting a shift towards a more assertive Russian foreign policy.⁶⁶ Russian leaders' primary aims were not to plan for war, for which they were not ready, but to exert pressure on the Ottoman Empire and to be prepared to secure Russian interests in the event the Empire collapsed in a general European war.⁶⁷ At the February conference, Sazonov won support for measures to strengthen Russian military and naval capacity in the Black Sea and Caucasus as a means of exerting pressure on the Ottoman Empire. These included preparations for amphibious operations, for improving railway connections to Russian ports on the Black Sea, and to developing the Black Sea fleet. Although military leaders, including Zhilinski and Danilov, warned against diverting military resources from Russia's western front to the Caucasus, Sazonov won the navy's approval for his plans.⁶⁸

The Liman von Sanders crisis provided strong evidence of Russia's lack of effective economic instruments in foreign policy, a competitive disadvantage with respect to Germany that is evident in its subsequent failure to provide a loan to Bulgaria and to gain the influence that was expected to follow. Talk of economic levers of power subsided, and Russian leaders concluded that they, unlike some of their counterparts in other great powers, had no alternative but to rely on military power and coercive threats to secure its interests.⁶⁹

In addition to the February conference, there were other signs of growing Russian assertiveness and public demonstrations of increasing militarisation and confidence in military readiness. In March 1914, a 'press war' broke out, as German and Russian newspapers ran articles charging the other country with aggressive plans and asserting their own military preparedness. The tardy efforts by the Russian government to deny charges of belligerence reflected their move to a more assertive military stance.⁷⁰ Lacking economic levers, Russian leaders sought to capitalise on perceived advantages, underpinning the empire's growing military power and potential, notably, its demographic resources.⁷¹ In June 1914 the Duma voted to fund the large armaments program, approved by Nicholas II in October 1913. This 'Great Programme' would significantly increase

⁶⁵*Ibid.*, 38.

⁶⁶Lieven, *Towards the Flame*, ch. 6.

⁶⁷On Russia's lack of readiness for war see Jack S. Levy and William Mulligan, 'Shifting Power, Preventive Logic and the Response of the Target: Germany, Russia, and the First World War', *Journal of Strategic Studies* 40/5 (2017), 742–746.

⁶⁸Journal der Sonderkonferenz, 22 February 1914, in Pokrovski (ed.), *Drei Konferenzen*, 46–67.

⁶⁹*Ibid.*

⁷⁰David Stevenson, *Armaments and the Coming of the First World War* (Oxford: Oxford UP 1996), 350–52.

⁷¹Lieven, *Towards the Flame*, 77.

military manpower and accelerate the speed of mobilisation. Russia's armaments programme before 1914 significantly increased German fears and pressure from the German military and others for preventive war.⁷²

Prussia in the late 1860s: Bismarck and the Customs Union Parliament

In the evolution of Bismarck's strategy for the unification of Germany in the late 1860s, the ineffectiveness of Prussian economic diplomacy led him to contemplate a war against France. This case differs from others, however, in that the competition for influence took place within the German states system, not the larger great power system, and in economic terms Prussia was the strongest of the German states. Yet Bismarck failed in his attempt to turn that economic influence into promoting German political unification. A key turning point was the elections to the Customs Union Parliament in February and March 1868, when voters in the three southern German states – Bavaria, Baden, and Württemberg – elected representatives to the Customs Union Parliament. These elections, a test of popular German strength, proved a setback for Bismarck and for German nationalists. In Bavaria, German nationalists won 21 of 48 seats, five fewer than the Patriot Party, which strongly supported Bavarian independence. In Baden, German nationalists won 8 out of 14 seats but marginally lost the popular vote. Baden was seen as the state most favorable towards integration with the Prussian-dominated North German Confederation, so these results compounded the disappointment provoked by the Bavarian elections. The election in Württemberg completed the rout of pro-Prussian forces, which won just a single seat.⁷³

These elections marked a blow for Bismarck, who had aimed to use the Customs Union Parliament to build support for the integration of south German states with the North German Confederation. Following the failure of this strategy of exploiting Prussian economic preponderance in the Customs Union to advance Prussian aims in Germany, the use of military force and a war against France to complete German unification became increasingly prominent in Bismarck's thinking.⁷⁴

⁷²Peter Gattrell, *Government, Industry, and Rearmament in Russia, 1900–1914. The Last Argument of Tsarism* (Cambridge: Cambridge UP 1994), 132–34; Lukas Grawe, *Deutsche Feindaufklärung vor dem Ersten Weltkrieg: Informationen und Einschätzungen des deutschen Generalstabes zu den Armeen Frankreichs und Russlands 1904–1914* (Paderborn: Ferdinand Schöningh Verlag 2017); Jack S. Levy, 'The Sources of Preventive Logic in German Decision-Making in 1914', in Jack S. Levy and John A. Vasquez (eds.), *The Outbreak of the First World War: Structure, Politics, and Decision-Making* (Cambridge: Cambridge University Press 2014), 139–66.

⁷³Otto Pflanze, *Bismarck and the Development of Germany. The Period of Unification, 1815–1871, vol 1: The Period of Unification, 1815–1871* (Princeton: Princeton UP 1963), 397–99.

⁷⁴Bismarck's leading biographers have noted this shift in Bismarck's approach to the unification of Germany: Lothar Gall *Bismarck. The White Revolutionary, vol. 1, 1815–1871* (London: Unwin Hyman 1986), 340–42; Pflanze, *Bismarck*, 395–403; Ernst Engelberg, *Bismarck. Urpreuße und Reichsgründer* (East Berlin, Siedler Verlag 1985), 675–94; Jonathan Steinberg, *Bismarck. A Life* (Oxford: Oxford UP 2011), 276, mentions general dismay as progress towards unity stalled in 1868 and 1869. For an alternative interpretation of the impact of the elections on Bismarck's thinking, see Otto Becker, *Bismarck's Ringen um Deutschlands Gestaltung* (Heidelberg, Quelle & Meyer 1958), 563–97.

Amidst these electoral drubbings, Bismarck set out his thoughts about two paths towards unification. On 28 February 1868, he wrote to Flemming, the Prussian envoy to Baden. 'To achieve with one blow a homogenous structure for Germany is only possible in the event of war. Aside from this eventuality, which we neither foresee nor precipitate, the process will have to go through one or more transitional stages. Much can happen to shorten these, if one does not shy away from holding on to every useful element and making use of them for our final aim.' The dispatch set out a functional model of German unification. The Customs Union Parliament, facing the practical issues of facilitating commercial activity across the different German states, would ignore the doctrinaire abstractions of nationalism. As the dominant state within the Customs Union, Prussia could exploit the Parliament to set the agenda on rules governing economic integration. In turn, by resolving common economic challenges, the Customs Union would demonstrate the benefits of political integration. This was a long-term process and Bismarck added, in his own hand, a comment at the end of the dispatch. 'In Baden, they have to free themselves from the illusion that, without war, the merging is doable in weeks, through some kind of diplomatic stroke. One has to get used to working towards the future. The fruits of national unity cannot make the same progress towards maturity in the cool temperatures of a year of peace as was possible in the heat of battle of 1866.'⁷⁵

What to make of this dispatch and more broadly Bismarck's strategic thinking in the context of the Customs Union Parliament elections of 1868? As historians have long pointed out, Bismarck had a subtle and flexible approach to achieving his (and Prussia's) interests. Subsequently reflecting on his approach, Bismarck said that 'Many paths led to my goal. I had to try them all, one after the other, the most dangerous at the end. It was not my way to be single-handed in political action.'⁷⁶ Beyond indicating a well-founded caution about the risks of any war, this says little about why Bismarck would prefer, at any given time, one path over another. He claimed to be wary of forcing history, yet his management of the Hohenzollern candidature to the Spanish throne – the issue over France and the North German Confederation came to war in 1870 – was highly choreographed.

In his path towards considering war, the elections to the Customs Union Parliament proved a significant turning point. Bismarck's readiness to use the Customs Union to achieve Prussian political aims reflected past experiences and other German states' economic reliance on Prussia. The Zollverein was never simply a vehicle for Prussian interests, but in critical disputes with Austria in the early 1850s and again a decade later, Prussia exploited its

⁷⁵Erlaß an den Gesandten in Karlsruhe Grafen von Fleming, 28 February 1868 in *Bismarck. Die Gesammelte Werke. Politische Schriften*, vol. 6A, Friedrich Thimme (ed.) (Berlin: Otto Stollberg Verlag 1930), 284–6.

⁷⁶Pflanze, *Bismarck*, 90–91.

economic influence within the Customs Union to exclude Austria from a common German commercial space.⁷⁷ However, common commercial interests did not prevent south German states fighting against Prussia in 1866, when they sided with Austria. Following this war, Bismarck used the threat of dissolving the Customs Union to force the south German states to agree to establish a Customs Union Parliament. In the face of particularist opposition, south German leaders bent to the weight of Prussian economic preponderance and agreed in June 1867 to the new parliament. Although southern German leaders managed to limit the competence of the parliament, Bismarck believed that that economic, institutional, and legal integration through the Customs Union would bring about German unity.⁷⁸

Instead, these elections demonstrated the limits of Bismarck's strategy of unification based on Prussian economic power. Karl von Spitzemberg, the Württemberg envoy to Berlin, reported the irritation in the Prussian press. 'Their resentment is therefore great,' he noted, 'and in all circles a feeling of disappointment is noticeable. They must renounce the hopes, which they had placed in the Customs Union parliament and do so reluctantly.'⁷⁹ French diplomats greeted the results enthusiastically, noting a 'significant failure' for Prussia and German nationalists that demonstrated the 'chasm' between north and south Germany.⁸⁰

The failure of Bismarck's Customs Union strategy begged the question of alternatives. Bismarck was too sophisticated a diplomat to shift immediately from a 'policy of absorption' (in the words of Prince Napoleon, son of the Emperor) of the southern German states to a strategy bent on war against France as a means of securing German unity and knocking out the most significant European opposition to unification. Nonetheless, in the weeks following the elections, Bismarck's preoccupation with a war against France grew more pronounced.⁸¹ As the Customs Union route faded, Bismarck bolstered military cooperation with the south German states. They had already signed 'offensive and defensive' alliances after the war in 1866, reinforced by accelerating the Prussianisation of southern German forces, from compulsory military service to military doctrine. Bismarck placed greater emphasis on military integration after the setback in the Customs Union

⁷⁷Florian Ploeckl, 'The Zollverein and the Sequence of a Customs Union', *Australian Economic History Review* 55/3 (2015), 277–300.

⁷⁸Pflanze, *Bismarck*, 383–95; Engelberg, *Urpreuße*, 678.

⁷⁹Werthern to Bismarck, 15 February 1868, in *Die Auswärtige Politik Preußens 1858–1871* (Oldenbourg: Verlag Gerhard Stolling 1936), 3rd Abteilung, vol. 9, 704–5; Flemming to Bismarck, 26 February 1868, 733; Karl von Spitzemberg to Berlin, 30 March 1868, 820–1.

⁸⁰Rothon to Moustier, 20 February 1868, in *Les origines diplomatiques de la guerre de 1870–1871, recueil de documents* (Paris: Imprimerie nationale, 1927), vol. 20, 418–21; Benedetti to Moustier, 28 February 1868, 446–9.

⁸¹Erlaß an Reuß, 16 February 1868, 262–3; Erlaß an von der Goltz, 26 February 1868, 280–2; Erlaß an von der Goltz, 21 March 1868, 315–6; Erlaß to von der Goltz, 11 April 1868, 340–2; Erlaß to Werthern, 15 May 1868, 387–8 in *Gesammelte Werke*.

Parliament elections.⁸² Far from waiting patiently for the stars to align, Bismarck constantly sought to remake the constellation, to mold circumstances in ways favorable to his own objectives.

In a dispatch to the Prussian mission in Karlsruhe, on 25 March 1868 days after the final south German elections results, Bismarck unfolded two models of German unification. He set out the functional model of integration, defending the complex institutional patchwork of individual states, the North German Confederation, the Customs Union, and the possible addition of a southern German Confederation. 'But we make the trouble bearable,' he wrote, 'by the thought that it will spare us a violent change and that the material needs and cultural aspiration of the German people will gradually fill the formen of this mechanism with life and will transform into an organic structure.' He then argued that 'force can be useful against a resistance, which can be broken in one blow, but cannot be justified against a resistance, which must be permanently held down.' Bismarck was referring to south German particularism. Yet at the end of the dispatch, prepared by an official in the Foreign Ministry, Bismarck added in his own hand the following sentence: 'If, notwithstanding the free choice of Bavaria, the aim [of German unity] cannot be achieved without conflict with France, we must be prepared to undergo this at the time.'⁸³ By the summer of 1868, Bismarck no longer believed that the Customs Union route to unification was a realistic option. The elections in February and March marked a turning point in his thinking, away from a reliance on Prussian economic power and towards a readiness to contemplate a war against France. Bismarck was too astute to rule anything in or out, but the shift in his strategic thinking took place against the backdrop of the evident limits of Prussian economic power. Napoleon III blundered and miscalculated in the summer of 1870, but the shift in Bismarck's thinking in 1868 provided the strategic context for the growing emphasis on military force in Berlin and Paris in the two years before war started.

Conclusion

The growing literature on the relationship between economic interdependence and international cooperation/conflict focuses primarily on the dyadic level of analysis. It neglects the consequences of interdependence for great power competition for influence among weaker states in the international system. In systems with high levels of economic interdependence, some great powers nearly always have competitive advantages over others in the use of economic instruments to influence third states, given that the powers are generally at different stages of economic development and vary in the

⁸²Pflanze, *Bismarck*, 371, 406–11.

⁸³Erlaß an Neumann, 25 March 1868, in *Gesammelte Werke*, 328–30.

domestic political and legal institutions that facilitate market exchange. Those with fewer and less effective economic instruments of policy are less able to compete with their economically stronger rivals for influence among medium and smaller powers. Bereft of these economic levers of powers, these great powers may be tempted to turn to more militarised influence strategies following the failure of economic diplomacy.

This hypothesised path to conflict differs from standard realist arguments, usually framed at the dyadic level, that under conditions of asymmetric interdependence the less dependent state in a dyad may have incentives to use its economic advantages to coerce the more dependent state, which can lead to tensions, conflict escalation, and war. These arguments emphasise coercion by the strong within a dyad. Our system-level argument emphasises great powers with relatively limited commercial and financial instruments of influence turning to the threat and use of military force against weaker states, usually after the failure of economic diplomacy. The result in each scenario may be conflict escalation, but the mechanism is different. We do not deny the tendency toward economic coercion by the strong within a dyad, and we make no claims in this study about which path to conflict escalation and war is more frequent. Nor do we claim that these paths to conflict are powerful enough or frequent enough to counteract the pacifying forces of economic liberalism and generate an overall tendency for asymmetrical interdependence to increase the frequency of conflict in the system. These questions are worth exploring further. Our focus here has been on identifying a neglected causal path and demonstrating its importance in several historical cases.

We illustrate this alternative path to conflict in economically interdependent international systems by examining the cases of Austria-Hungary and of Russia in the 1912–14 period and of Prussia in the 1860s. Austro-Hungarian leaders' preferred strategy for dealing with Serbia was to incorporate Serbia within a Balkan customs union that Austria-Hungary would dominate. When that strategy failed, Vienna increasingly turned to military instruments. Similarly, Russian leaders hoped to achieve their historic goal of influence in the Ottoman Empire, and in the Turkish Straits in particular, through economic statecraft. When that strategy failed, they moved in a more militarised direction. We also examined the case of Prussia in the late 1860s. While not economically weak within Germany, Prussia still faced limits in unifying Germany through Prussian economic influence in the Customs Union Parliament. When those limits became clear, Bismarck moved toward a strategy based on military force.

This study is primarily an exercise in hypothesis construction. We explore the plausibility of our hypothesised causal mechanisms and demonstrate their relevance in a few important historical cases. This analysis raises the question of the generalisability of our argument to other historical cases. One recent case worthy of further exploration from this perspective is Russian

military action in Ukraine and the annexation of Crimea, as the different positions of Russia, the United States, and the EU in the global economy shaped the relative effectiveness of their economic instruments of influence. A more important research goal, in terms of theory development, is to ascertain how frequently and under what conditions great powers at a competitive disadvantage in economic tools of influence resort to militarised strategies. Scholars can explore this question through both quantitative and qualitative methodologies. States well situated in networks of interdependence can utilise their positions to weaponise their advantages, but one neglected consequence of interdependence is that it can incentivise others less well situated to resort to military posturing, threats, and even force. Debates about the consequences of economic interdependence for peace and security need to move beyond the dyadic level and include systemic effects, particularly the role of third-party states.

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