

Assessing the study on continental war and conflicts and its impact on booming industries worldwide

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Abstract

One of the perennial questions in the scientific study of war is how war affects the economy. The authors examine the influence that the political developments within three war regions had on global financial markets (CAC, Dow Jones, FTSE) from 1990 to 2000. They embed a rational expectation framework within commercial liberalism, a theoretical strand that tries to assess the interrelationship between war and economic exchanges. Time-series analyses account for the effects that the conflict between Israel and the Palestinians, the first confrontation of a U.S.-led alliance against Iraq, and the wars fought in Ex-Yugoslavia exerted. Using daily stock market data, the authors show that the conflicts affected the interactions at the core financial markets in the Western world negatively, if they had any systematic influence at all. They argue that these results lend some support to the rational expectations version of commercial liberalism. One of the perennial questions in the scientific study of war is how war affects the economy. The authors examine the influence that the political developments within three war regions had on global financial markets (CAC, Dow Jones, FTSE) from 1990 to 2000. They embed a rational expectation framework within commercial liberalism, a theoretical strand that tries to assess the interrelationship between war and economic exchanges. Time-series analyses account for the effects that the conflict between Israel and the Palestinians, the first confrontation of a U.S.-led alliance against Iraq, and the wars fought in Ex-Yugoslavia exerted. Using daily stock market data, the authors show that the conflicts affected the interactions at the core financial markets in the Western world negatively, if they had any systematic influence at all. They argue that these results lend some support to the rational expectations version of commercial liberalism.

CHAPTER I

1.1 INTRODUCTION

The results confirm a rapidly worsening outlook for the world economy, underpinned by rising food, fuel and fertilizer prices, heightened financial volatility, sustainable development divestment, complex global supply chain reconfigurations and mounting trade costs. This rapidly evolving situation is alarming for developing countries, and especially for African and least developed countries, some of which are particularly exposed to the war in Ukraine and its effect on trade costs, commodity prices and financial markets. The risk of civil unrest, food shortages and inflation-induced recessions cannot be discounted, particularly given the fragile state of the global economy and the developing world as a result of the COVID-19 (coronavirus disease) pandemic.

1.2 HOW SENSITIVE ARE MARKETS TO ARMED CONFLICT?

The second war launched by the “coalition of the willing” against the Iraqi regime of Saddam Hussein in March 2003 has heightened the public debate on the social and economic consequences of war. The empirical problem of this debate is that almost no reliable figures exist on key economic activities in war-affected societies. This makes it easy for both the proponents and the opponents of a war to downplay or exaggerate the human and, in the context of this article, economic costs of combat. Unfortunately, major social scientific theories of war are no great help in solving this dispute either. While Marxists expect in the tradition of Rudolf Hilferding, Rosa Luxemburg, and Lenin that the capitalist world economy profits from a major war (Schneider and Troeger 2006), both realism and liberalism have speculated intensively over the causal arrow going from trade to conflict rather than the one pointing in the opposite direction. As Barbieri and Levy (1999, 2001, 2003) note, the two leading paradigms in international relations research only cursorily mention the alleged causal path leading from war to economic activities and especially trade. The two contending approaches converge, however, at least in the conjecture that economic exchange will suffer from warfare (Barbieri and Levy 1999, 2001, 2003). Yet, this interpretation does not hold for all realist work. Some contributions, which draw on the concept of “relative gains,” also let us expect that increasing tensions between belligerents might not affect their trade ties severely. As Morrow (1997) holds, even trade with military goods can be equilibrium behaviour in a situation of mutual distrust. This prediction receives some support in the comparative case studies of Barbieri and Levy. They show for some dyads that war did not lead to a significant drop in the amount of traded goods and services between the warring parties. The skeptical work on the influence of conflict on economic activities is in considerable contrast to the liberal worldview. Generations of economists have reiterated the claim originally advocated by Montesquieu and Kant that war will disrupt trade. Commenting on the situation before World War I, Keynes ([1919] 1971, 1-7) described how “insane delusion and reckless self-regard” let Germany destroy the “nearly complete” internationalization of social and economic life that was present in Europe before 1914. This hypothesis is the reverse side of commercial liberalism, a school of thought that mainly advocates the peace-through-trade conjecture. Although it is not completely obvious why the opposite relationship of less-trade-through-war should automatically hold, only limited theoretical and empirical work in support of the disruption thesis exists. The articles by Anderton and Carter (2001a, 2001b, 2003) belong to these exceptions. They reject the claim by Barbieri and Levy (1999, 2001, 2003) that war does often not affect trade between the belligerents in a significant fashion. The studies by Anderton and Carter have, however, not yet completely settled the controversy over the economic consequences of war. The two liberals followed the lead of Barbieri and

Levy and did not examine their claims on a random sample of dyads. We advance in this article the claim that the liberal view is most often right but that we can also make some exceptions to this rule. Li and Sacko (2002) show in this vein that the attributes of a conflict, and most notably whether it comes as a surprise, make a difference. Demonstrating that unexpected onsets of armed conflict affect the bilateral level of trade negatively, they lend partial support to the liberal point of view. In our view, examinations of the disruption thesis that use trade levels as an outcome measure are, however, only limitedly able to test commercial liberalism. Trade, which is just one indicator of economic activities, might not be ideal to account for the market responses to international political events. Trade relationships can, for instance, not be reversed as easily as capital investments. The “stickiness” of trade consequently biases examinations in favor of the null hypothesis. Our evaluation of the disruption thesis therefore concentrates on how stock markets react to war. Financial market data often lend considerable support to the liberal case. Distinguishing between two periods of British stock market reactions to World War II, Chappel and Eldridge (2000, 491) employ a time-series framework to demonstrate the considerable inefficiency that hampers a war economy. Their results tentatively suggest a psychological foundation for divergent responses to war that possibly reflects “the despair caused by the loss of much of Europe and Scandinavia in the early sub-period, followed by a renewed hope later on.” In one of their pioneering articles on the outbreak of World War I, Holsti and North (1966) regress the daily prices of securities at various markets on the intensity of hostilities. Using the stock markets of two neutral countries as controls, they conclude “that the virtual collapse of prices during July 1914 was directly related to rising international tensions” (Holsti and North 1966, 182). In another early study, Russett and Hanson (1975) come to similar results and note the negative reactions of private investors in the United States to the prolonged war in Vietnam and Korea. Their detailed analysis at the firm level does also not lend support to the Marxist hypothesis that the military industrial complex uniformly profits from war. They note that the reactions to events during the Vietnam War were “almost random” reactions in the period before the Tet escalation. After this turning point, there is a fairly consistent apparent approval of communist conciliatory moves and disapproval of communist escalations of the war (Russett and Hanson 1975, 166). A further problem of extant work on the disruption thesis is that it does not differentiate between the effects that war has on different industries. Even though these findings cannot be easily generalized, the negative reactions of some particularly sensitive sectors to political violence are well known. Fleischer and Buccola (2002) show, for instance, that the demand of foreign tourists for Israeli hotels significantly reacts to terrorist attacks. Neumayer (2004) reports that terrorism, war, and human rights violations harm tourism. This negative impact is especially pronounced for destinations that can easily be substituted. Similarly, Rigobon and Sack (2003) demonstrate that the increased risk of the second U.S.-led war against Iraq has negatively affected key financial variables. While the dollar, equity prices, and treasury yields declined and the spread of corporate yields widened, oil prices soared. Yet, the impact was not uniformly negative since the escalation that finally resulted in a military campaign did not affect the price of gold or the liquidity premium on the on-the-run ten-year treasury note. The analysis of a future traded on an online betting exchange, dubbed “Saddam Securities,” also shows that an increasing probability of war has lowered the stock markets around the world in the wake of the second war of the U.S.-led forces against Iraq (Leigh, Wolfers, and Zitzewitz 2003). These negative effects are larger for countries that are highly integrated into the world economy and that depend heavily on oil imports. Although we expect the liberal argument to be, on average, right, there are therefore

ample reasons to suspect that the effect of war on economic activities is not always negative. The first source for our skepticism is the obvious distributive effect of war. While both the export and import sectors suffer from increasing hostilities, a tax-financed military sector can profit even in a situation of growing global integration (Schneider and Schulze 2003, 2005). Stocks of arms manufacturers will thus typically experience a boost in times of growing tensions, as Brandes (1997) and many others have shown. Similarly, the prospect of an impending war affects the gold and energy sectors negatively. The second objection against the standard version of commercial liberalism is the occurrence of stock market rallies during the course of combat. We focus in this article on this seemingly cynical behavior while we analyze the distributional consequences of international crises in a companion article (Schneider and Troeger 2006).

A war-induced stock market rally typically implies that the use of military force propels international traders to buy stocks instead of alternatives such as gold or government bonds. We investigate whether positive reactions to an escalation are the exception rather than the norm. Although such rallies are, at first sight, morally objectionable, they make perfect sense from an informational point of view. Standard finance theory can account for positive market reactions to war through a rational expectation model.²² In this view, the prospect of a major diplomatic or armed contest creates uncertainty over the economic costs that can be attributed to the different war and peace scenarios that the international finance community develops. If the market expects a long war, traders will sell stocks and escape into less risky alternatives. A negative collective belief about the possible course of action thus reduces the aggregate value of the stock market, while the expectation of a positive development increases the attractiveness of stocks.

On many occasions, market reactions will, however, be minimal. Obstfeld and Rogoff (1996, 25-7) show that the reactions of the global financial markets to the RussoJapanese war were limited. According to them, traders were able to predict the winner of the conflict fairly easily. We believe, therefore, that stock market rallies will only happen if an economy is greatly affected by the political developments of the region in which the war takes place. It should also be noted that war rallies are short-term events. The market recovers at least some of the losses that the uncertainty of the escalation preceding the military campaign incurred. A case in point is again the Gulf War of 1991, where the main markets lost in value after Iraq's invasion of Kuwait but recovered some of these losses during the military campaign of the United States and its allies. We expect that war rallies occur in situations where an intensification of conflict can be seen as a sign of resolve rather than despair. From an informational point of view, investors can perceive an escalation as a signal that their worst fears will not materialize and that the economic costs of war are smaller than they thought in their most pessimistic scenario. Inversely, conciliatory moves might not always remove the suspicion of some investors that these gestures are neither sincere nor credible and will be followed by more confrontation later on. This will most likely happen in conflicts in which a defender tries to prevent an opponent from escalating a conflict further through costly deterring moves.

We choose the confrontation between Iraq and the U.S.-led alliance, the wars in Ex-Yugoslavia, and the conflict between Israel and the Palestinians to assess how an intensification of the hostility level affects the aggregate value of the stock market. We select these three conflicts because they all have continued for more than three years and engaged the United States, the European Union, or some of its member states in a significant way, be it in the role of the intervening force or as a mediator. These three conflicts, however, affect the world economy in different ways. We expect that especially the hostilities in Iraq and, to a lesser

extent, the ones between Israel and the Palestinians or Ex-Yugoslavia should be of importance to traders. Another difference between these conflicts is the extent to which the Western powers influenced the confrontation. While the United States and Britain were the leading members of the multilateral forces engaged against Saddam Hussein and, at least after some years of Western contemplation, also against Slobodan Milosevic, they could at best indirectly affect the hostilities between Israel and the Palestinians. This means, in other words, that only an increasing level of hostility in the Gulf Region and, to some extent, in Ex-Yugoslavia could be interpreted by the markets as a sign of resolve. We also anticipate differences across markets. As the firms listed on the various global stock indices differ significantly, we can expect that the impact of political events varies across competing financial centers. We believe that the closeness of a market to a conflict region is mainly responsible for these possible divergences. As investors trading on nearby markets fear a conflict to spread to other markets, they will have a reduced tendency to react positively to increased confrontation. The opposite is the case for far-away markets, where investors are inclined to evaluate how the war affects the domestic economy. One indication that the market suffers under politically induced uncertainty is a larger volatility of the indices during an international crisis. Although traders might anticipate some international events and adapt their behavior to them, a considerable amount of uncertainty still surrounds international crises. This is why the severity of an event should have a direct impact on the stock market indices. This obviously only holds as long as a crisis is important enough to affect the stock market. This impact largely refers to sectors or firms whose income is affected by a development in a war region and whose stocks are traded within a particular market. Yet not all war events will have the same consequence. We expect that especially severe conflictive events that cannot be easily forecasted will raise the volatility of the stock prizes. Bombings and extraordinarily massive conflictive events fall under this category. This is again in line with our rational expectation framework. As the theory of finance suggests, only surprising events should ex post affect financial markets. Highly escalatory moves are often timed in a way that makes them unforeseeable

1.3 Severe conflictive events have a negative impact on the industries and increase the market volatility.

Decisive action, be it military or nonmilitary, can alter the beliefs about different crisis scenarios. If an action promises a quick and relatively painless resolution of the conflict, markets will respond positively. Cooperative events will typically stir the optimism of traders while conflictive events incite them to sell stocks. Yet cooperative events do not necessarily build trust at the stock market. According to the same logic, conflictive events can lead to a stock market rally if the confrontation makes a more

1.4 Research problem

This study intends to understand the life and culture in a colonial town during a World War. An attempt is necessary to examine the everyday life of the people in the city scape of Kozhikode during the First World War. The research study is an attempt to find out people's attitude towards the War recruitment and other activities during the War and how it changed the society in Malabar. The study also attempts to explore War time rumours, political consciousness, print culture etc., in the city scape of

Malabar. The colonial government undertook the duty of constructing pro-British feeling in the city surroundings and cautioned the people about the threat of German forces. The ordinary people were seriously affected by the closing down of Basel Mission shops, industries, schools and hospitals with the commencement of the War. All these shaped the life in the cityscape which played a determinant role in shaping the post-World War life not only in Kozhikode but in the whole of Malabar. This study became very important when the World is living under the threat of globalization War and diseases. The result of the study would help experts to take preventive measures in the cityscape before the outbreak of such holocausts.

CHAPTER 2

2.1 Review of Literature

There are numerous secondary literature discussing the impacts of war on growing industries. Apart from historians, the history of the First World War is examined by various writers, archival records, newspapers, gazetteers, pamphlets, administrative records, research thesis etc. All these attempt to tell the history of the World War in various ways. Along with these, few interviews were also conducted to collect data from scholars and activists. Various books and research articles were also used to have an understanding of the research problem identified. Newspapers and gazetteers are used as primary sources and books and other literature are used as secondary sources.

The War-Lecturer's Handbook is an original source material which talks about the participation of people in the War. This book deals with Indian soldiers who received Victoria Cross during the War. The War Lecturers were trained teachers deployed in the colonies to preach pro-British news in the town and village spaces. It acted as a handbook for these trained preachers. V. I. Lenin's *Imperialism is the Highest Stage of Capitalism* is a theoretical work on the question of imperialism and the World War. This 10-book deals with the question of capitalist competition for capturing resources and markets in the World. Lenin points out that the competition would lead to a global war between the imperialist nations and it was the high stage of capitalism. Similarly, M. Prabath Patnaik's *New Imperialism* also explores the severe competition in the market and the birth of the First World War.

2.2 RESEARCH DESIGN

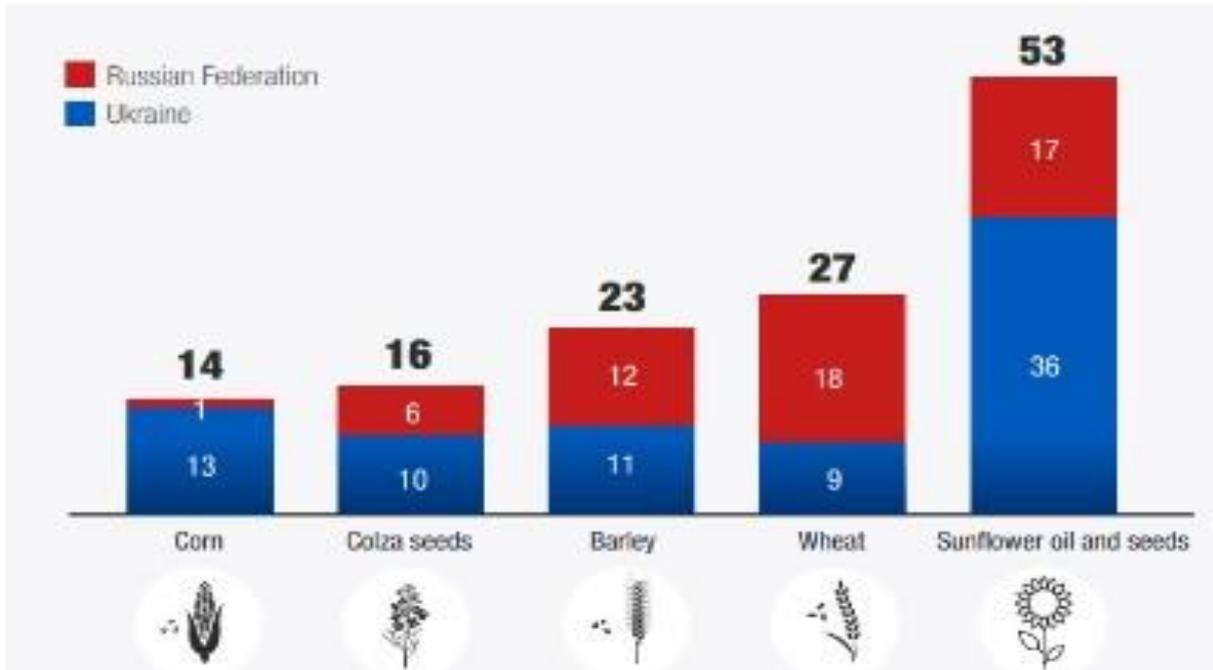
This article advances a rational expectation approach to explain the ups and downs of the international stock markets as a partial consequence of armed conflict. We also examine how the volatility of the stock markets reacts to particularly significant events within these confrontations. This suggests, from a purely theoretical perspective, a unifying statistical model that allows us to estimate the effects of political developments on the mean and the volatility of the stock market. It also seems, from a methodological point of view, to be adequate that we calculate a variance equation in addition to the mean equation. The reason for this is that our application focuses on the

daily aggregate value of some key stock market indices. High-frequency data of this sort are especially volatile over time and have a time-dependent variance. As it is well known, time dependency of the error variance violates one of the basic Gauss-Markov assumptions for linear regressions and renders the estimation of ordinary least squares (OLS) models inefficient.

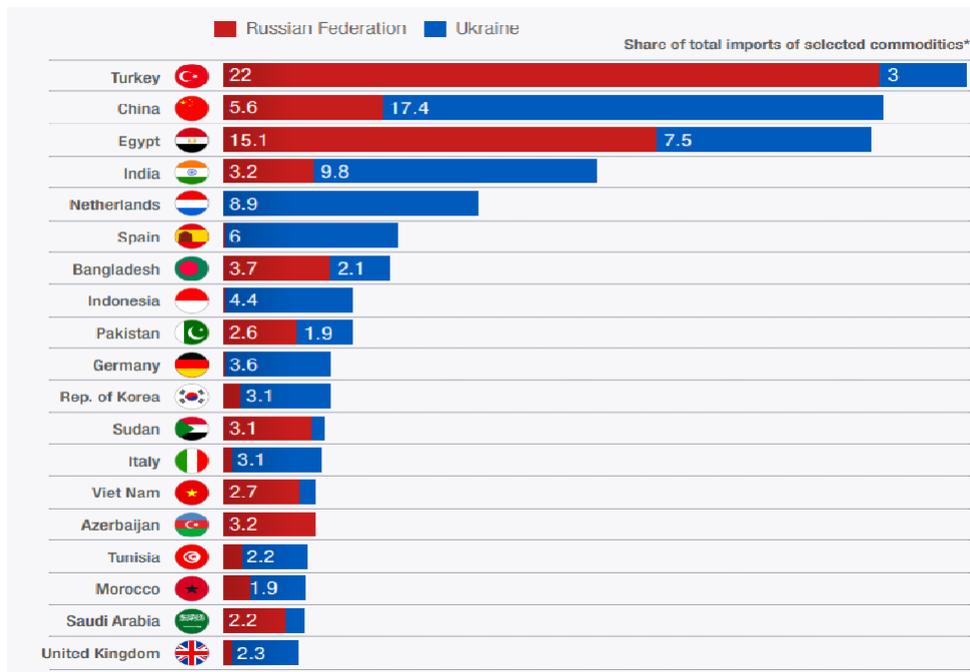
We thus have to employ a statistical model in which the variance of the dependent variable is analyzed with respect to its time dependency and substantive explanatory variables. The standard approach used for such a purpose is the GARCH modeling technique. This time-series framework, in which the acronym stands for “generalized autoregressive conditional heteroskedasticity” (Bollerslev 1986), extends the autoregressive conditional heteroskedasticity (ARCH) framework of Engle (1982). Although ARCH and GARCH models have only found some applications in political science (e.g., Beck 1983), they are the workhorse technique in financial econometrics. The basic philosophy of the ARCH/GARCH models is that present realizations of a time series depend on past information and that the error variance is not constant but varies over time.³³ This assumption is based on the observation that timeseries volatility comes in clusters and that periods of high volatility are followed by periods of low volatility. This means, in our context, that important international events in period t increase the effect of other international events in the subsequent periods $t + 1$, $t + 2$, and so on. We can represent the development of a stock market through the information F_t available at period t containing the process X_t and all past realizations in X_t . The most important assumption is that the stochastic error term ϵ_t is only considered to be centered and uncorrelated. The standard ARCH model also assumes that the conditional variance of ϵ_t is a linear function of lagged quadratic errors. To render the estimation efficient, the basic ARCH model just controls away the time dependency of the error variance. The explanatory setting of this article, however, requires us to explain the variance through past errors and a set of exogenous factors. GARCH models also suppose a symmetric effect of positive and negative errors on the volatility of the series. This assumption would, however, be problematic in the present analysis. As we have stated in the fourth hypothesis, negative events should increase the volatility of stock markets more dramatically than positive events. The reason for this divergence is that conflict is much more difficult to forecast than cooperation, especially if the former interaction mode takes the form of terrorist attacks or other actions in which surprise is a constitutive element. To allow for asymmetric responses in the variance, two modifications of the GARCH model have been suggested: the first alternative, the so-called T-GARCH model, was introduced independently by Zakoian (1994) and Glosten, Jagannathan, and Runkle (1994). Another possible solution is the E-GARCH approach, which was developed by Nelson (1991). We use both types of asymmetric models to analyze the impact of positive and negative shocks on the variance to assess therobustness of the estimation result.

Food items and countries exposed to supply shocks





In 2021, 1.5 million ocean containers of cargo were shipped by rail west from China to Europe. If the volumes currently going by container rail were added to the Asia– Europe ocean freight demand, this would mean a 5 to 8 per cent increase in an already congested trade route.



CHAPTER 3

3.1 RESEARCH OBJECTIVE

Industry and War. The impact of America's wars on industrial production has varied dramatically, depending on the particular war and the stage of industrial development. The key economic fact about the American Revolutionary War is how little it affected industrial production. Since the Continental army never exceeded 20,000 men, its material demands were comparatively small. Because a majority of Americans had no strong preference as to the outcome, major sacrifices were not to be expected, and little time was spent in actual combat. The southern plantation economy was of course disrupted, but exports still remained substantial. Although the government built armories, nevertheless, about 60 percent of U.S. gunpowder was imported. The Revolutionary War did retard the development of the iron industry, and the gross domestic product (GDP)—which at this time can only be very crudely estimated—probably declined somewhat during and immediately following that war. Of somewhat greater significance was the impact of the War of 1812. British blockades of U.S. ports almost dried up American exports. This also meant that foreigners could not trade with the United States—hence encouraging import substitutes, especially textiles. Some see this development as the first faint beginnings of industrialization in America.

The impact of the Civil War on industrial growth has been much studied. Traditionally (that is, in major studies of the topic from the 1920s to the 1950s), the Civil War was seen as a spur to industrialization. Charles and Mary Beard as well as Louis Hacker took this position, arguing that by destroying the Southern slaveocracy, the Civil War shifted the balance of political power to the industrial North, and the Northern Republicans passed laws that stimulated industrialization. In a classic article in 1961, Thomas Cochran argued that the rate of real growth in value added in U.S. manufacturing actually slowed during the Civil War decade. Pig iron and bituminous coal production—key elements in the manufacturing process—also declined or showed little growth during the war years. Railroad track growth rates were retarded, immigration declined, bank loans dropped, construction slowed. Nor did freeing the slaves help industrialization because former slaves largely became

3.2 FORMULATE AN ANALYSIS PLAN

Other writers have emphasized the continuity of industrial development prior to and after the Civil War. Factory building and mechanized transportation were continuous and rapid, both before the war and after. Industrial “takeoff” was well underway before the war started, Walt Rostow has argued, and industrial profits during the war largely lagged behind price increases. Real wages fell about 20 percent during the war. Government borrowing certainly drove up interest rates, as public debt rose from \$65 million in 1860 to \$2,678 million in 1865. In short, Cochran's position that the Civil War actually retarded industrial growth has become the dominant one, but it needs to be modified by the less quantifiable view that changes wrought by the rise of the Republican Party probably did enhance the “capitalist spirit,” and certainly a host of Supreme Court decisions over the next three decades favored industrialists over labor and farmers and legitimized a high protective tariff.

World War I marked the transfer of world economic leadership from Europe, and especially Great Britain, to the United States, and quickly proved a boon to U.S. industrial economy. Early on, America became the arsenal as well as the granary for the Allied powers. To achieve this end, the government quickly seized control of the economy and passed laws to fix prices, shifted plants to war needs, established minimum wages and maximum hours, and imposed controls on foreign commerce. By 1918, the government had absolute control over industrial raw materials, the railway system had been nationalized, and marginal mines had been brought into production. Estimates of the growth of GDP during wartime are controversial, ranging from 5 to 18 percent, but by 1920 the high levels of wartime employment in manufacturing had been reached again, thus preparing the nation for a period of prosperity. Finally, World

World War I changed America's role in the world economy from a debtor nation to a creditor nation, and clearly established the United States as the foremost industrial nation in the world. World War II solved the problem of the Great Depression, the greatest economic calamity America has ever faced. Even before the attack on Pearl Harbor, unemployment and industrial sluggishness had almost vanished in the wave of increased defense spending, and by 1945 the real GDP per capita had almost doubled from its prewar base. Expenditures of the War Department rose from \$2 billion in 1939 to \$80 billion in 1945. The impact of industrial war spending was most dramatic in the Far West, and especially California, which became the fulcrum for the naval war against Japan. By the end of the war, California was the center of the aircraft industry and Los Angeles had risen from a film industry city to a center of shipyards and aircraft plants. In fact, World War II really set the stage for the West to become the fastest-growing region in America since 1945. Overall, by 1944 the United States had indeed become the “arsenal of democracy,” outproducing both Germany and Japan almost twofold, boasting the world's largest navy and air force and one of the world's largest armies.

The War Production Board controlled all raw materials and finished goods, both military and civilian, and the Office of War Mobilization and Reconversion served as an umpire over conflicting claims of government agencies. Under their guidance unemployment fell to 1 percent by 1944; industrial employment for blacks and other minorities jumped dramatically; and about half of all new civilian jobs were filled by women. Almost half of all men over the age of sixty-five were in the workforce during that war, compared to 2 percent in the 1990s. The war also saw a tremendous increase in union membership, but union leaders had to accept modest wage increases and agree to a “no-strike” pledge. A government freeze on prices, wages, salaries, and rents made inflation less of a problem than in World War I, but these controls were widely resented and a black market of troubling proportions emerged.

3.3 ANALYZE SAMPLE DATA

Great advances in technology and scientific research were achieved through war expenditures—most notably jet engines, rocket propulsion, plastics and other synthetics, and television and radar. Many if not all of these products would have come about anyway, but World War II certainly speeded their development. Medical breakthroughs, including sulfa drugs, penicillin, and quinine, were also a consequence of the war. Most obviously, nuclear energy, with all its positive and negative consequences, was a direct result of the development of the atomic bomb.

World War II industrial mobilization was paid for by taxes and borrowing in about equal proportions. The national debt rose from \$41 billion in 1941 to \$271 billion in 1946, or 114 percent of GDP. It has never been paid off, although it has been paid down to 52 percent of GDP (which includes nonwar debt as well). Few have questioned the value of this investment. The war also altered fundamentally our attitude toward government, making Keynesian fiscal policy the preferred approach to industrial development. With the passage of the Employment Act (1946), the federal government became responsible for maximum industrial development, employment, and purchasing power. Consequently, the public has come to expect full employment and an ever-growing economy.

The cost and consequences of the Cold War, including the Korean and Vietnam conflicts, for industrial development have been substantial. Defense purchases as a percent of GDP reached 14 percent at the peak of the Korean War and 10 percent during the Vietnam War. During the Reagan defense buildup of the 1980s, military purchases peaked at 7 percent, and by the mid-1990s they were still in the 4 percent range. In the 1950s and 1960s, defense spending represented about one-half of all federal government outlays; in the 1970s and 1980s, it fell to about 25 percent; and by the mid-1990s, the figure had fallen to about 15 percent, not because defense expenditures plummeted but because social spending rose dramatically. This military spending created powerful vested interest groups, sometimes referred to as the military-industrial complex. Aerospace, electronics, shipbuilding, and computer industries benefited

substantially from defense spending during these years, as did the interstate highway system and higher education. The great majority of America's largest corporations, however, derived only a small portion of their revenues from defense spending in this period, and the so-called "military-industrial complex" was and is only one of numerous and powerful interest groups with conflicting goals in the American system. Nor has defense spending had much influence on the stock market, which in recent years has boomed as defense has declined relative to other outlays.

Defense infusions into the American industrial base since 1950 correlate closely with the prevalence of fear of an external threat to

U.S. security, principally from the former Soviet Union. Looking back, the level of fear was not irrational, and careful studies of congressional voting patterns in heavily defense-oriented districts show that the representatives in these districts were not more hawkish than those with little defense spending. On the contrary, big spenders in both parties tended to be those who were in Congress the longest. During the 1990s, defense spending has tended to be highly concentrated by industry, with major impacts in ordnance, aircraft, and shipbuilding. Less than 100 companies dominated the market, most of them middle-sized corporations, and there has been little turnover and few failures for these businesses. Nor has there been much spillover to the private economy. The geographic impact industrially has tended to concentrate in a handful of states, notably California, Texas, and Massachusetts. At its last peak, in 1967, defense spending represented about 10 percent of U.S. industrial output and employed about 7.5 million workers. At that time, about one in every five scientists and engineers in private industry were employed in defense industries. By 1995, defense outlays amounted to \$272 billion, which was 18 percent of federal expenditures and 3.9 percent of GDP. Of this, about \$110 billion was in military prime contracts to industry, employing 800,000 civilians, about half of whom lived in the South.

America's response to World War II was the most extraordinary mobilization of an idle economy in the history of the world. During the war 17 million new civilian jobs were created, industrial productivity increased by 96 percent, and corporate profits after taxes doubled. The government expenditures helped bring about the business recovery that had eluded the New Deal. War needs directly consumed over one-third of the output of industry, but the expanded productivity ensured a remarkable supply of consumer goods to the people as well. America was the only that saw an expansion of consumer goods despite wartime rationing. BY 1944, as a result of wage increases and overtime pay, real weekly wages before taxes in manufacturing were 50 percent higher than in 1939. The war also created entire new technologies, industries, and associated human skills.

The war brought full employment and a fairer distribution of income. Blacks and women entered the workforce for the first time. Wages increased; so did savings. The war brought the consolidation of union strength and far-reaching changes in agricultural life. Housing conditions were better than they had been before.

In addition, because the mobilization included the ideological argument that the war was being fought for the interests of common men and women, social solidarity extended far beyond the foxholes. Public opinion held that the veterans should not return jobless to a country without opportunity and education. That led to the GI Bill, which helped lay the foundation for the remarkable postwar

expansion that followed. The war also made us more of a middle- class society than we had been before.

It is no exaggeration to say that America won the war abroad and the peace at home at the same time. No doubt the historical conditions of America's economic surge during World War II were singular. But we have much to learn from that achievement as we face our troubles today.

Historians, economists, and politicians have long wondered why this remarkable social and economic mobilization of latent human and physical resources required a war. The answer, I think, is partly ideological. World War II provided the ideological breakthrough that finally allowed the U.S. government to surmount the Great Depression. Despite the New Deal, even President Roosevelt had been constrained from intervening massively enough to stimulate a full recovery. By 1938 he had lost his working majority in Congress, and a conservative coalition was back, stifling the New Deal programs. When the economy had begun to bounce back, FDR pulled back on government spending to balance the budget, which contributed to the recession of 1938. The war was like a wave coming over that conservative coalition; the old ideological constraints collapsed and government outlays powered a recovery.

For a time the government became the purchaser of one-half of all the goods produced by the American people. A magnificent and little-appreciated fact, however, is that even though the government intervened far more deeply than in World War I by imposing wage and price controls and surtaxes, raising funds through war bonds, rationing goods, and compelling industries to work for war production FDR negotiated a sense of partnership rather than simply imposing the government's will.

The stereotype of FDR as a regulation-lover flies in the face of experience in the 1940s, when Roosevelt ended his cold war with business. Wartime planning was far more corporatist than New Deal planning, with far less class warfare. Eleanor Roosevelt was still much more anti-business than Franklin, and was often furious at him. After 1940, antitrust enforcement virtually shut down. Liberals were upset that ALCOA was a big, bad monopoly. But, as Secretary of War Stimson observed, "I'd rather have more sinful aluminum now than good aluminum too late for the war." Nevertheless, the government did finance a competitor in Reynolds Aluminum, which helped to motivate ALCOA to produce aluminum and gave the government a second supplier.

Despite the entente with business, FDR was still willing to go forward on the employment of blacks and women, in part because he believed that full productivity and wartime morale required it. He also continued to advance trade unionism. He did insist, for example, that Ford Motor Company live up to its responsibilities under the Wagner Act. When Ford refused, Roosevelt cancelled a lucrative government contract. This helped to produce the momentum for the big Ford strike in the spring of 1941 that brought the first union into Ford. But on other regulatory issues FDR compromised. A government that depended on these businesses to mobilize during the war could not be slapping them with antitrust suits at the same time.

Basically, Roosevelt made the decision that he had to mobilize the proprietors of the mines, the factories, and the shops. He realized Congress could provide the money, but it could not build the planes, design the tanks, or assemble the weapons. Without the cooperation of industry, massive production would never get off the ground. So the challenge was to bring the proprietors of the nation's chief economic assets into the defense effort as active participants. He recognized also that private business could not find all the capital required for the expansion of the plants nor take the risk that the end of the war would leave them

with no orders and excess capacity. So the federal government, through the Reconstruction Finance Corporation, advanced the necessary money to expand the factories, often leasing them to industry. The government developed new sources of supply for raw materials and created quick mass transportation. The government also went into the business of producing synthetic rubber and aluminum, as well as other emerging industries, and helped stimulate new technologies.

Contrary to the stereotype of a wartime "command economy," there was a remarkable entrepreneurial spirit in sharp contrast to the situation in Germany or in socialist, centrally planned economies. Roosevelt brought in dozens of top business executives as "dollar-a-year" men to help run the government commissions so that businesses didn't feel the government was simply telling them what to do. He allowed business to realize profits. He used government to create markets and to help business set up new plants and equipment, which business often leased and later bought cheaply after the war.

It is hard for us to imagine today how such an entrepreneurial spirit could co-exist with war mobilization, but one did. One reason, of course, was the opportunity to profit, though the wartime tax on excess profits prevented the kind of windfalls made during World War

I. More fundamentally, a spirit developed within each business enterprise to produce better than its competitors to serve the country. In his fireside chats, Roosevelt explained to the people over and over again why their productive genius had to be mobilized to win the war. Buoyed by the strong morale the president fostered, business and labor worked together to get the "E-for-excellence" citations that he spread around. It was not just producing more than your competitor, it was producing more than you did the previous quarter, and the quarter before that.

For instance, Henry Kaiser's shipyards were able to get the production time for Liberty Ships down from 365 days to 92, 62, and, finally, to one day. Overall, the economy grew at a rate of 11 or 12 percent annually throughout the war.

Air Corps aces would visit the factories; the pilot would tell the workers that it wasn't the pilots who were heroic, it was their planes. The war production posters emphasized that factories and GI's were one continuous front, a theme that Roosevelt also struck in his speeches. The people understood from the start that America's dominant contribution to the war would be its production. When he was being urged by his military advisers to function more as an economic czar, Roosevelt rejected that role. The military was constantly urging him to institute compulsory national service, in which people had either to enlist or work in one of the military plants to which the government would assign them. Roosevelt successfully resisted that idea throughout the war, on the theory that, somehow, the momentum of democracy would be sufficient: If the jobs were out there, people would put their mattresses on top of their cars and go to where the jobs were. He had this extraordinary vision of the highways filled with people going south, going west. In one fireside chat, he advised people to get maps. And the Hammond company in New York sold out their entire stock of 2,000 maps in a single morning. Even though the mobilization was chaotic and there were sometimes too many people in some places and too few people in other places, it worked. And America still produced more than any other country without the regimented manpower that some in the military wanted.

Roosevelt resisted and delayed most of the decisions that concentrated government power. For example, in the spring of 1942, when there was a rudimentary system of wage and price control, Harold Smith, his

budget director, declared it was time for comprehensive controls. But the president was worried that it was adding up to an overly regimented economy, and he rejected the proposal.

In sum, one almost totally forgotten lesson of the war is that deep government involvement doesn't have to mean a command economy. Despite the mobilization, large segments of the economy were unaffected by the controls. No one was told where to move or work. Production for the government was still freely entered into by producers and government in a contractual arrangement; and business argued about those contracts all the time. Private property remained predominant throughout the country and still there were profits. In the World War II experience, the things we revere about capitalism the parts that spur energy, efficiency, and entrepreneurial skill were still in place. What the war did was tap that energy, not constrain it.

In the early years of the war, Roosevelt consciously pursued a conversion program to shift industry to a wartime footing. Lingerie factories began making camouflage netting, baby carriages became field hospital food carts. Lipstick cases became bomb cases, beer cans went to hand grenades, adding machines to automatic pistols, and vacuum cleaners to gas mask parts. Behind these shifts was planning; someone had to perceive the similarity between lipstick cases and cartridges. Though FDR delayed converting large consumer industries, such as autos, as long as possible, there was a clear and deliberate plan. After the war, reconversion to civilian industry, mostly carried out after FDR's death in April 1945, occurred more abruptly. But it was not without a measure of planning.

To an important degree, the Cold War served as an economic stimulus as World War II did in the early 1940s. But the Cold War has now ended, and there is not even a shred of a conversion policy. And one of the dominant lessons of World War II is that unless there is a plan for conversion or reconversion, people are subject to the whims of the free market.

Wartime conversion was not without hardships, but most of them resulted from too little planning, not too much. In 1942, after delaying, the government finally had to force the automobile industry to convert their plants to the manufacture of planes. Four hundred thousand automobile workers were thrown out on the streets until that conversion could take place. All the auto dealers and salespersons were suddenly out of jobs. Eleanor Roosevelt had an altercation with General Motors Chairman William Knudsen because he had been unwilling to accept a plan a year earlier. What made it finally work was the recognition that there had to be a plan, that the government was behind the plan, and the plan had public support. In 1992, despite all the talk about it, there is no collective effort to plan for the aftermath of the Cold War.

World War II produced remarkable social gains. At war production plants, attempts to boost morale such as holding more softball games, and building additional canteens and health clubs also fostered a sense of community. The logic of mobilization produced a logic of social advance.

Eleanor Roosevelt, in particular, was successful in arguing that a fully productive work force requires everyone's talents, blacks and women alike; and if women are to work in the factories, their children require day care. She proved that absentee rates were high in the factories because worried women were going home to care for their children. She got restaurants to prepare hot meals so women could bring home hot dinners. The productivity rates soared as a result of these measures.

When Henry Kaiser built his big shipyard in California, the government paid for a twenty-four-hour child care center. It was a state-of-the-art facility with the best nursery school teachers, because it was seen as a

pioneering test of early education. Workers on every shift could bring their children. If they worked at night they could bring their children to sleep. If they worked the day shift their children received an education that they had never had before. The children²⁸, especially those from lower class families, showed enormous gains. But when the war ended, all the centers were shut down. The day after the bomb was dropped on Hiroshima, the teachers got their dismissal notices.

The war broke down the long resistance to women working outside the home. In the 1930s, because of the scarcity of jobs, many states actually passed laws barring married women from working if their husbands had a job. In the Kelsey-Hayes strike of 1941, the United Auto Workers went on strike over the hiring of women for men's jobs, for fear that it would lower the wage scale. Eventually, as women were needed to fill vacancies, the UAW grasped that the answer was obviously equal pay for equal work. Unfortunately, that momentum also dissipated with the end of full employment at the end of the war.

The several facets of the wartime economy worked in tandem. The war was financed by a combination of taxes and bonds, but FDR's control of the Federal Reserve guaranteed that interest rates would stay low. Wage and price control and rationing made sure that full employment and shortages did not create inflation or hoarding as a side effect. Public investment provided the capital that the factories needed. A labor-business entente assured the absence of disruptive strikes. It was all of a piece. Government was a source of full employment, macroeconomic recovery, technological breakthrough, worker training, reindustrialization, and a good deal of incidental social progress.

Can we obtain the same benefits today, without a war? In retrospect, the war economy seems as if it were all neatly planned, and somehow inevitable. But, of course, Roosevelt was the great improviser. Some of what occurred during the war has no peacetime counterpart the rationing, the ten million men in uniform. But much of it does. For example, we could have a great deal more public investment in technology, infrastructure, and training. We do not want or need wage and price controls, but to achieve the same restraint we could certainly have what economists call an incomes policy, tying wages to real productivity increases. We could have an excess profits tax. And if they had day care centers in war production plants in 1942, we can certainly have them today. With industry short of capital, and the banking system reeling, a new Reconstruction Finance Corporation would also be sensible.

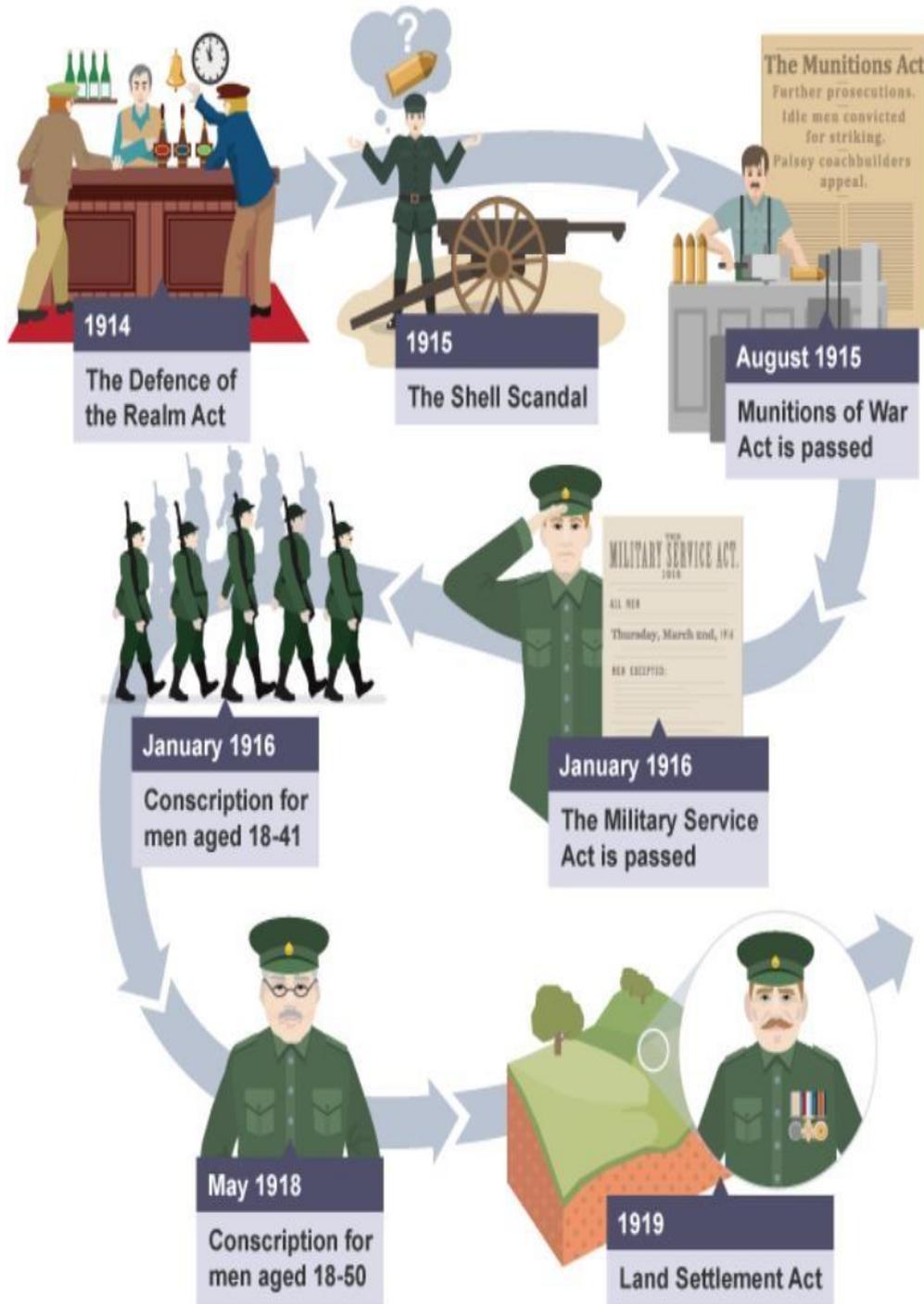
Fifty years ago, the common desire to win the war and the feeling of revenge against the Japanese and the Nazis created a national sense of community. The first task today is to define the common problem facing the nation that requires an overarching vision.

Absent a war, the task of leadership is to create an understanding in the people of our competitive economic position in the world today. Leaders must remind the public that we still have the resources and the talent, but we must reorganize ourselves and the relationship between the government and the people just as we did during World War II.

Throughout our nation's history, there have been critical moments when the government's relationship to private enterprise had to change, allowing both economic expansion and the flourishing of democracy. Now is one of those times. The World War II experience shows just how bold that effort has to be.

CHAPTER 4

4.1 Domestic impact of war - industry and economy



4.2 RESEARCH METHODOLOGY

Effects of war on industry

Coal, iron, steel and textiles were all vital for war. Without a constant supply of coal, Britain's rail network and the Royal Navy would not be able to function. Without iron and steel the munitions and engineering industries could not produce the bullets, explosive shells, artillery, barbed wire, tanks and ships needed to fight the war. The naval race before the outbreak of war had already saved the shipyards. When war did break out the main shipyards on the Clyde were taken over by the Royal Navy to produce more warships.

However there was a great decline in Scotland's industries after World War One as the demand for these materials lessened.

Munitions and government control The Shell Scandal

By 1915, the failure of British forces to break the deadlock of the Western Front was being blamed on poor quality artillery shells.

The 'Shell Scandal' developed into a more general concern about the supply of munitions.

The government was very worried that any disruption in Scotland's heavy industries might affect the supply of shells and bullets to the Western Front.

The Munitions of War Act

In 1915, the Government passed the Munitions of War Act, preventing munitions workers from resigning and moving to a new job without their employer's consent. This recognised that the country's economy had become a war economy, aimed at increasing production and reducing disruption.

In summary, Scotland's traditional industries were vital to the war effort and if those industries were disrupted, Britain ran the risk of losing the war. However, the demand for increasing production led to

4.3

4.4 SAMPLE DESIGN

Threat of strike action

In 1915, the government had already given in to the rent strikers and the factory workers who had come out in support, but now the government took a harder line.

The Munitions of War Act made strikes in industries supporting the war effort illegal.

In 1916 the Clyde Workers Committee was involved in a strike at the Beardmore forge in Parkhead, which spread to other factories. The government had four leaders of the CWC arrested under the Defence of the Real Act. The men were court-martialled and deported to Edinburgh.

New technology and unemployment

The introduction of new technology and production methods such as automatic machinery and assembly lines did improve output during the war but also threatened jobs.

After the war, the slump in international trade, the fall in orders for new ships and the adoption of new production methods combined to worsen the problems of Scottish heavy industries.

During the 1920s, employment in Scottish shipbuilding fell by 90 per cent. In the face of foreign competition, over half of Scotland's iron furnaces were dismantled by 1927 and the coal industry employed one-third fewer people in the 1920s than before the war.

4.5 SCALE RELIABILITY

Industry and agriculture in wartime Scotland
Jute production in Dundee

The jute industry, based in Dundee, collapsed after the war and thousands of people lost their jobs. Jute is a plant grown mostly in Bangladesh, which at the time was part of India and the British Empire. The raw jute fibres were exported to Dundee and made into sacking cloth. However, before the war, some Dundee businessmen had started to develop the jute industry in Calcutta (now Kolkata) in India, cutting out Dundee's part in the business.

During the war, demand for jute soared as the need for sandbags increased and the industry was protected by a government ban on jute products being processed in Calcutta.

After the war the ban was lifted, and businessmen moved production to Calcutta again where it was cheaper to produce jute. As world jute prices fell along with demand for jute products, Dundee suffered.

Farming in wartime Britain

The war effort required both sufficient food for people and fodder for animals. Britain depended on tens of thousands of horses for transportation, not only within Britain but also on the Western Front. When war broke out, Britain was not producing enough to feed its population.

CHAPTER 5

5.1 DATA ANALYSIS AND FINDINGS

In 1914 Britain produced 40 per cent of the food it consumed - enough to last for only three days per week. The other days depended on imported meat from Argentina, mutton and dairy produce from Australia and New Zealand and wheat from the USA and Canada.

Farming before the war

Before the war, farmers in Britain faced hard times as public demand for cheap food led to an increasing reliance on foreign imports. When war broke out these imports were threatened by Germany's U-boat campaign which sought to starve Britain into submission.

By October 1915, when Germany called off her first U-boat campaign, 900,000 tons of British shipping had been sunk. British production, therefore, became more important.

At first, farmers profited from the increased demand. For example, in 1917 the government bought all wool sheared from sheep in Britain to produce uniforms and army blankets.

At the same time, the wages of skilled ploughmen and shepherds doubled. During the war years many farmers made money from rising demand for food and animals.

The main problems for farms were the loss of men to the army and also the loss of many horses, as they too were taken for military service.

These problems were overcome by increasing use of machinery such as early tractors. Women, boys, older men and even prisoners of war and conscientious objectors also replaced the men who had joined the army.

Threat to Britain's food supplies

British merchant shipping

The real threat to Britain's food supplies and its ability to continue the war effort came in 1916 when a new campaign of 'unrestricted submarine warfare' began.

By August 1917, 1,500,000 tons of British merchant shipping had been sunk. At one stage only four days' supply of sugar remained and a few weeks' worth of wheat flour. The shortage of many forms of food led to long queues at the shops and rapidly rising prices.

In Britain various measures were taken to prevent starvation. In December 1917 compulsory rationing was introduced.

The aim of rationing was to conserve food supplies, ensure fair distribution and control rising prices caused by food becoming more scarce.

Rationing in wartime Scotland

Rationing was in force throughout Scotland by April 1918. Sugar was the first to be rationed and this was later followed by butcher meat.

By the end of the war almost all foods were subject to price control by the government.

Town councils were encouraged to allocate patches of land to townspeople to grow vegetables. The government also began an propaganda campaign to reduce waste and produce more food.

British farmers were paid subsidies to plough up pasture land and plant crops such as potatoes and wheat which were rich in carbohydrates and therefore, energy.

As a result of these measures, Britain was never faced with food shortages on the same scale as Germany, where in the winter of 1917-1918 over 500,000 German civilians died of starvation.

Fishing in wartime Scotland

When war broke out, Scotland's east coast fishing industry faced hard times.

Initially the North Sea was almost totally closed to fishing, although when food supplies became scarce restrictions on fishing were lifted.

However, by this point many boats and crews were serving as support to the Royal Navy.

In 1918, the fishing industry faced rising fuel costs and needed to repair and re-equip boats after war service.

Although the fishing industry did recover, traditional export markets in Germany, Eastern Europe and Russia were lost due to revolution and post-war changes.

Land issues in the Highlands and Islands

The Crofters Act of 1886 ended the Highland Clearances and meant that crofters could not be suddenly evicted from land they rented from the landowner. However, poverty and shortage of good quality land meant that protests and discontent continued in the Highlands.

When the war ended, many soldiers from the Highlands and Islands returned home with the firm belief that they had been promised land as a reward for fighting for their country. When this land was not given to them fast enough, many began land raids.

Land raids involved men occupying land they believed they had a right to work on, without the current landowner's permission. Returning soldiers simply 'squatted' on land throughout the Highlands.

Some cited an old law which they claimed gave them the right to the land if they could build a wooden shelter and a hearth on which they could make a fire.

CHAPTER 6

6.1 CONCLUSION

In response, the government passed the Land Settlement Act of 1919. It stated that land would be made available for men who had served in the war.

This left the problem of how to obtain enough land to provide. For the Act to be successful, land would have to be purchased from the current owners but the government could not afford to do this.

Land raids continued and the government was in a difficult position. It was too expensive to meet the demands of the ex-servicemen and to punish the land raiders would be very unpopular. However, to do nothing about land raiders would undermine the authority of the government.

By the end of the 1920s the problem of land ownership, overcrowding and poverty had still not been resolved in the Highlands. Many saw emigration as the only option.

Post-war emigration

In the period between the two World Wars, Scotland had the highest emigration rate of any European country. Many Scots saw emigration as an escape from unemployment and poverty in the Highlands, and also from the depressed industrial areas of central Scotland.

The Empire Settlement Act of 1922 provided the first large-scale government assisted migration programme.

It was intended to boost the rural populations of Canada and other parts of the British Empire. Subsidies were paid to emigrants who agreed to work the land for a certain period of time. The Canadian government actively encouraged emigration from Scotland by promoting their country. Full-time agents encouraged emigration to Canada from offices in Glasgow and Inverness. The 1931 census showed a drop in Scotland's population for the first time since official records began in 1801. The economy might contribute to the mollifying

rhetoric that some political leaders use in the wake of war to downplay

the consequences of the impending militarized conflict. Nordhaus (2002, 51) recently wrote in this vein that “while historians have documented the many miscalculations involved in war, little has been written on faulty economic forecasts.” Most studies conclude that the aggregate economic consequences of armed conflict are considerable. A research team headed by Cranna (1994, 197) concludes, based on the detailed analysis of seven cases, that “the impact of conflict on human lives, economic development and the environment is devastating.” Even optimists maintain that the costs of war typically only vanish within a period of two decades (Organski and Kugler 1977). Recent comparative evidence suggests that the rapid expansion of output that one can observe for the economic development of the United States during World War II is only typical for wars that were fought on foreign soil. As Caplan (2002) notes, the consequences of domestic war on economic growth are negative. Yet, these assessments seemingly contradict the indifference or even cheerfulness with which international markets sometimes react to the escalation of armed conflicts. Cases in point are the wars that U.S.- led alliances fought against the Iraqi regime of Saddam Hussein. While the Dow Jones index plunged 6.31 percent following the invasion of Kuwait by Iraqi troops in 1990, it gained 17 percent in the first four weeks of Operation Desert Storm (Foster and Earle 2003).¹ The initial stock market reaction to the second war against Iraq was equally positive, with a plus of around 2 percent at the main European Stock markets. The stock market war rally was, however, quickly followed by a period of increased volatility of the main indices when the invasion encountered some fierce resistance. This study attempts to account for the divergent reactions of the most important financial markets to militarized conflict. We demonstrate that the impact of political events on the financial markets of some of the largest economies largely depends on two factors: (1) the severity of conflictive events and (2) the degree to which economic agents could anticipate both cooperative and conflictive events. Our analysis refines a popular strand in liberal thinking: commercial liberalism. Proponents of this view maintain that international markets are sensitive toward international events and that economic agents abhor war because it endangers mutually profitable exchanges. Markets should, in this perspective, immediately sanction armed conflicts through a quick negative response. This hypothesis is insofar problematic as it expects a uniformly negative effect of war on stock markets. The standard version of commercial liberalism does especially not take into account that economic agents build up competing expectations about the possible development of a militarized confrontation. While it

is reasonable to anticipate negative effects of the average conflictive act, markets might respond positively to certain violent episodes within a war because they signal that the worst is over or that the damage might not be as great as originally expected. Hence, international markets evaluate the costs of various conflict scenarios. They only react to an escalation in an upbeat manner as long as the anticipated costs of this move are considerably smaller than the originally expected costs. To explain the divergent market reactions, we develop a rational expectations argument on the relationship between political events and the world economy. We test our refined version of commercial liberalism in a comparative analysis of the degree to which three major indices (Dow Jones [New York], FTSE [London], CAC [Paris]) reflect international events during a period of ten years. We rely on modifications of a standard model in financial econometrics—the GARCH (1,1) model—to examine the degree to which the day-to-day trading in these stock markets reflects cooperative and conflictive events within three prominent conflict regions: the confrontation between Iraq and the United Nations and some of its member states following the invasion in Kuwait, the conflict between Israel and the Palestinians, and the civil wars in Ex-Yugoslavia. To make the long-lasting confrontations comparable, we relied on the Goldstein (1992) scale to code the conflictive and cooperative events within these conflicts. The statistical tests show that the international markets do not generally respond to the ups and downs of the three conflicts. The Gulf War and its aftermath also provide some support for the thesis that markets can react positively to intensified conflict in the short run because the display and use of force reduces the uncertainty of the traders over the future development of a crisis. We integrate the possibility of “war rallies” into our refined version of commercial liberalism. This article is structured as follows: we first discuss the theoretical literature on the impact of war on economic activities. Next, we develop a refined liberal argument and present our research design. The empirical evidence we present is both descriptive and inferential. We conclude with a summary of the findings and a comparison of our general results with the impact that war has on financial markets within war-torn societies and on individual firms and sectors.

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