Economics is fundamentally about human behaviour—it is about choices in a world of resource constraints. It is about rationality and maximising welfare, and the gains of trade and co-operation. This would seem to put it at odds with war—a zero-sum game—which is about the worst aspects of human interaction and the costs of violent competition. War is difficult to square with rationality, but nations have passions as well as interests (Offer 1989). Of course we assume that war is counter-productive and futile from an economic point of view—it is even irrational. But when Azar Gat (2006) set out to unravel the ‘riddle of war’, he found that on the contrary—war is not an irrational act of passion or about the emotional acts of the battlefield. Rather, war is often fundamentally about economics, welfare maximisation and resulting aggression from a competition for resources. As Keynes (1919) argued, the great events of history are often due to secular changes in the growth of population and other fundamental economic variables. Yet these factors can escape attention from contemporary observers owing to their gradual character. The causes of war are too easily attributed to ‘the follies of statesmen or the fanaticism of atheists’ (Keynes 1919: 15). Economics offers one perspective on war—an important one in analysing and understanding conflict. Its explanatory approach puts less emphasis on accidents of history or the actions of prominent actors—instead it stresses the role of markets, the importance of resources, the conditions which predispose nations and peoples to war. While economic factors are important, they require human agency—economic factors do not declare war on their own (Offer 1989).1

1 An edited volume by Garfinkel and Skaperdas (2012) examines how the tools of economics can be fruitfully used to advance understanding of conflict and also how explicitly incorporating conflict into economic analysis can add substantively to understanding of observed economic phenomena.
While inter-state warfare is much less common, violent internal conflict still affects those areas which have not been integrated into the global economy.\textsuperscript{2} Factors such as ‘need, creed and greed’ are all important sources of conflict increasingly found in the developing world; civil wars, rebellions, etc. are strongly related to limited state capacities, weak institutions and low opportunity cost of fighting (Collier & Hoeffler 2004). Therefore conflict is strongly linked to development and the establishment of credible and strong institutions. Greed or economic motivations tend to be more significant in sustaining, prolonging and transforming conflict. Wars over natural resources happen but this is not a consistent cause of conflict, although resources may help to finance conflict (Woodrow Wilson International Centre for Scholars 2001).

War is economics by other means, as Hirshleifer (2001) puts it, ‘there are two main methods of making a living… the way of production and exchange versus the way of predation and conflict’ (Hirshleifer 2001: 1). This rather mercantilist view of the world regards military power as both a means and an end of economic activity—wars can be fought for economic advantage, while economic policy puts in place the means of war—for power and plenty (O’Rourke & Finlay 2007).

This chapter proceeds as follows. Section 1 looks at the rationality of war and examines if war can have economic benefits. Section 2 then considers the costs of war and discusses how these can be difficult to estimate. The costs and benefits help explain the decision to go to war. Section 3 analyses the short and long term legacies of war in terms of institutional change, economic ideas and social policies. The final section asks, if given the changes in the global economy, do economic factors make war impossible or at least irrational from an economic point of view?

1. Is War Rational? Can War Improve the Economy?

Economics predicates whether war will occur as wars are based on a calculation of the costs and benefits, the incentives and the risks. Though throughout history, the costs have proved rather difficult to assess a priori—with benefits often being over-estimated and costs underestimated. Gunderson (1974) examined the origins of the American Civil War and estimated the expected utility of Southern secession from the

\textsuperscript{2} Counting all countries and years since 1950, the average yearly prevalence of civil conflict is about 7\%, with a peak of more than 12\% in 1991 and 1992 (Besely & Persson 2008).