

Panel 3: What aspects of economics and political economy should be taught in courses on strategy? Do the material or methods differ for civilian vs. military audiences? What material is most critical? How can it be introduced to students who may have limited background in econ?

Jonathan Kirshner.

The sharp distinction between political economy and security studies is anachronistic. Unnaturally bifurcated by the Cold War. In order to understand, we need to return to “normal.” Yet the discipline is bifurcated.

- What aspects of economics should be taught in strategy courses, and what material is most critical? What if there have been no prerequisites in econ?
 - Power ultimately flows from some sort of economic base. (Why we talk about China more than we did 20 years ago). Cf. [Gilpin, *War and Change in International Politics*](#), Hirschman 1948, ___ 1856. "Productive capacity is the base of power" ([A.O. Hirschman, *National Power and Structure of Foreign Trade*](#)).
 - Relationship between economics and politics. (e.g., Marshall Plan)
 - Econ can transform the perceived interest of states. Consider the ways in which states develop *through* economic discourse, which transforms political relations. It's the *politics* that matter, not the force. The force *influences* politics. E.g., will South Korea tilt towards China?
 - Resiliency of market influences. For the uninitiated, consider the extraordinary power and resiliency of markets, and democracy's responsiveness to markets.
- How to introduce to neophytes? Different for Military vs Civilian students?
 - Focus on toolkits. Resist the quantitative hijacking of the economic discipline.
 - Economics is a set of theories and a way of thinking.
 - Students of strategy need to know about *opportunity cost*; *constrained choice*; *optimal choice* from econ 101; these aren't new (1890).
 - If you're going to teach strategy, you're required to think about *power and purpose*. e.g. US didn't abandon TPP, it was the manifestation of domestic politics. cf. Kirshner 1999: the greatest threat to the US is the atrophy of its domestic national vitality. the US-led international order is over. We must understand *purpose*. Athenian power collapsed from within. Greatest threats are found in our domestic politics. It is incumbent upon us to look within.

Mark Blyth. Brown University

- Angrynomics, forthcoming.
- Need to teach students how to think *economically*. How you do this depends on how much time you have.
- Full semester.
 - Compare UK and Us economies in 18th and 19th centuries. Read [Alexander Gerschenkron, *Economic Backwardness in Historical Perspective: A Book of Essays* \(1962\)](#). Use as a prism to talk about progress, the agents in the system, and how the system changes the agents. We learn that we are tumbling along--without reversion to the mean.

- Think about the compression of consumption (e.g. the growth model of Mao 15 year compression of 35 yr model of German). Germany and Japan had to catch up in 35 and 25 years, setting stage for world war. Later USSR and PRC fail because they push economic development too fast. (China post-Mao caught up in 15 years, but through cheap labor and environmental destruction). Consumption economies take longer. Recommend using historical case studies.
- Half-semester.
 - What makes the global economy run? See money and power website. Consider fundamental questions such as making promises credible: gold standard, Bretton woods (US was 60% global finance and 50% trade) and leads to Dollar; then neoliberal globalization (and its failure 2008) and now what. How to organize money, how do you solve the international credibility problem and prevent getting ripped up.
- One week. National accounts and balance of payments. Exporter/ importer countries. Walter _____. Intruder Capital showed him the importance of national accounts and balance of payments. Boring, but you just have to understand a balance sheets. For China to export all it does, someone has to create a deficit. Sterling is quasi-reserve currency status. Why: history, in London, etc. Britain has been running a structural deficit. But with Brexit could catastrophically devalue the Pound.
- Climate change. Everyone has to think about it. Scholars like cycles but this doesn't conform. OECD Paris brought globalization, flexible labor markets; last week, the OECD held a crisis call on *How to avert systemic collapse*. Serious problems with French industry. India. 10% of electricity consumption.

Jeremy Friedman. Harvard Business School.

- War generally considered irrational in large part because of economics. Since 2015, he has seen a reversal in perspective and a growing interest in geopolitics. Big change in 2015-19.
- HBS has to assume little background in economics with its students. Currently [Business, Government, and the International Economy \(BGIE\)](#) is a required course from 1970 fd.
 - Previously, of 50 cases, 35 cases were on Japan. Trying to teach political economy.
 - The baseline learning outcome: We want students able to read *WSJ* and *Economist* and to understand policymakers.
 - Want them to have a working theory of macroeconomics — and to understand the institutions that drive it.
 - We teach the basic ideas of Keynes, Milton Friedman, from the Great Depression 1929 to the Great Recession 2008, Quantitative easing, why/how exchange rates matter, and balance of payments (a religious artifact of HBS) , importance of BRICS and central banking (e.g. contrast developed nations with a place like Nigeria: informal banking...can't collect taxes, and thus can't build roads and schools)
- Recommended topics
 - Macroeconomics and institutions that make macro policy
 - Exchange rates
 - Balance of payments case study (e.g., Iceland)

- History of institutions and policies
- Developing countries
- Systemic problems (climate change, hegemony, regulation, post-Bretton Woods era).

David Rezvani. Dartmouth College.

- Read Thomas Schelling
- Still a place for economics in grand strategy
- Important to integrate perspectives of Russia and China
- Recommended topics
 - Emergence of US as superpower. How/why did we become a superpower? Consider the historical strengths of our nation (e.g. fiscal federalism, importance of British history of American and the introduction of rule of law; impact of defense budget (total, and % of GDP)).
 - Defense spending
 - Fiscal funding policy
- Bretton Woods system and alternatives. Bretton Woods and impact on leadership role in the WTO/IMF. Our actions are adding fuel to the fire of rising challenges such as RCEP, the Asia Infrastructure Investment Bank as an alternative to IMF.
 - Need to ask, why did protectionists like Hamilton welcome free-trade? Why was US willing to forgive loans to the European allies post-WW2. Marshall Plan and its logic, and the Treaty of Rome which establishes the EEC. Why US pushed the idea of European economic integration.
 - Case studies (e.g., Marshall Plan leading to EEC then EU, TPP)
 - Energy independence.
- Discuss what the TPP is (without US in it). What is the logic behind it? Do students agree/disagree?
- Introduces his course on strategy with [WR Mead, *Special Providence*](#). == Great for discussion. Offers multiple models of US foreign policy (Hamiltonian, Jacksonian, Wilsonian, Jeffersonian), but he mandates that students don't use them in their research papers.
- Fundamental text, [Thomas Schelling, *Strategy of Conflict*](#). Essential ideas of strategy; doesn't seem like economics. pp.47-51
 - ordinary bargaining situation
 - a deterrent threat
 - a promise
 - an extortionate threat
- Engagements-Restraint/Retrenchment. Flexible Integration v Isolation. Containment v rollback. Michael Fuchs: US needs no grand strategy — argues "Grand strategists are trying to win the Kennan sweepstakes" (Anthony Lake). Set up the debate
- Consider utility of domain-specific grand strategies. Obama's = Don't Do Stupid Stuff as it applies to foreign occupation, energy security, environmental diplomacy, cyber security, Russia, China. Not just about America interests.
- Concept of fungibility...of oil, economic

Q&A

- It was noted that at the War College, we already have a syllabus, and we don't know how to do this without blowing up the course. Does Marshall Plan and TPP constitute the minimum we should teach? Several responded that these are essential.
- It was suggested that we could consider a scalable course. HBS and other institutions devise curricula that can run from two hours to a week long. But in all cases students first need to first understand how the US economy works before you understand how it interacts with other economies.
- It was noted that we have to consider what we want students to take away from any strategy course and its economic components – e.g., the facts of Marshall Plan or *what it represents* (the latter!)/ Facts vs Ideas. Consider the problem of capital flight. It led to collapse of European investment. But if you tell the Marshall Plan story it's usually about largesse. It's a different story. Money matters. As others noted, the Marshall Plan and TPP were seminal mechanisms to transform world order and benefit the U.S. Mono-causality makes us stupid, one participant noted.
- A contrary voice suggested that the Plan was an extraordinarily important political phenomenon, but not as an economic phenomenon. Ask students to consider America-First strategy as opposite to Marshall Plan strategy. In class one could do an examination of TPP from both parties. There was a debate about the value of economic history (and historians).
- [Ikenberry, *Liberal Leviathan*](#) was recommended for several of these issues. Also China's entrance into the WTO in 2001, and Obama's strategy on TPP. Need to focus on institutional and strategic relevance, not just the case study.
- At a war college, we often examine economies under stress. Thucydides waging politically tense economic diplomacy under THE Megarian Decree, and it led to war.. 1991 Gulf War, Powell offered plan for economic sanctions. But such little economic expertise to advise to CJCS and the impacts. We look at the World Wars and how economies were a factor (e.g. [Avner Offer, *The First World War: An Agrarian Interpretation*](#)) — tradeoffs and movement from free trade, the rise of German economy, strategic deterioration.
- How does econ dovetail with strategy? Levers of power? Is there a separate language to economics? A logic or mindset? Gilpin highlighted the question, what's more important money or bullets? "Gold may not always get you the good soldiers, but soldiers can get you the gold." [Ikenberry: *After Victory*](#) was recommended.
- The post-war world order is over. [Gilpin, *War and Change in World Politics*](#) is required reading. Economic literacy is about theories, not techniques. Most of the most important ideas are conceptual, not technical/quantitative.

A. Friedman. At HBS, we have debated whether should we use graphs to teach economics? Do we draw supply-and-demand curves? For a long time, no. But graphs can be *efficient* ways of expressing mathematical concepts.

Read Blyth's first book, [*Great Transformations: Economic Ideas and Institutional Change in the Twentieth Century \(2002\)*](#) and Kirshner, [*American Power after the Financial Crisis \(2014\)*](#). Need to think about the consequences of the management of the global financial crisis. See Mark Blyth You Tube.

"Finance is a gun; politics is knowing when to pull the trigger."

There was a discussion about the use of graphs. This Krugman opinion might be useful. ["In Defense of Funny Diagrams \(Wonkish\)."](#)