
Appeasement: Can It Work?

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Appeasement: Can It Work?

By JACK HIRSHLEIFER*

At Munich in 1938 Adolf Hitler insisted on cession of the Sudetenland (German-populated territories within Czechoslovakia) to Germany, as the price of peace. Although the demanded transfer would destroy the military viability of Czechoslovakia, for the leaders of Britain and France it seemed possible that sacrificing their Czechoslovak ally might actually achieve genuine peace.

I. Policy at Munich: A Matter of Perceptions

Consider the Western powers (Britain plus France) on the one side, and Germany on the other side, as unified decision-makers. The Western powers have the first move: their strategy options are Appear (A) (i.e., agree to the dismemberment of Czechoslovakia) or Oppose (O). After observing that choice, Germany's options are War (W) or Peace (P).

For the Western leaders, avoiding war was their first (lexicographically prior) consideration, preference for Oppose over Appear being secondary. Their payoff rankings can be taken to be (higher numbers indicating more desired outcomes): 4, Oppose, Peace; 3, Appear, Peace; 2, Oppose, War; 1, Appear, War.

At the heart of the policy debate were different perceptions about German preferences.¹ Some Western leaders appeared to believe that Germany was really "peace-loving"—if not quite in the lexicographic sense, then at least to the extent of preferring peace given any Western action. If so, her preferences might have

been: 4, Appear, Peace; 3, Appear, War; 2, Oppose, Peace; 1, Oppose, War. Matrix 1 puts the respective preferences together in standard form. The rational choice for the Western powers, having the first move, is Oppose. Germany then chooses Peace. Thus the subgame-perfect equilibrium (SGPE) strategy-pair is Oppose, Peace with payoffs 4 for the Western powers and 2 for Germany. The crucial point is that there is no need to appease Germany, because she prefers peace anyway.

The opposite view was that Germany's truculence was no mask, but rather a reflection of deep-seated aggressiveness (i.e., regardless of the western strategy choice, Germany preferred war). The revised combined payoffs are shown in Matrix 2. Despite the reversal in hypothetical German attitudes, the rational move for the Western powers remains the same: Oppose! True, now Germany responds with War, but she was going to make war anyway. The SGPE is now the strategy-pair Oppose, War with payoffs 2, 2. (This situation is a Prisoners' Dilemma.)

Thus, regardless of whether Germany was really peace-loving or really aggressive, it might seem, appeasement was a mistake. Then is appeasement never rational? To see how it might become so, more nuanced assumptions are needed. A German spokesman might have put the case this way: "Our policy seems aggressive only because we rightly object to an unfair status quo. But we are *appeasable*. Give us what we ask for and we will become peace-loving." In fact Hitler promised, "The Sudetenland is the last territorial claim I have to make on Europe" (26 September 1938). Had Germany really been appeasable, the revised combined payoffs are as shown in Matrix 3.

By this view, "peace-lovingness" was a kind of superior good for Germany. A dissatisfied Germany would prefer war; a satisfied Germany would turn toward peace. With the Western powers still having the first move, their rational

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¹ Taking Germany as a single unified decision-maker, I do not attempt to distinguish here between Hitler's personal attitudes and their reflection in German national policy.

MATRIX 1—GERMANY IS PEACE-LOVING

	P	W
A	3,4	1,3
O	4,2	2,1

MATRIX 2—GERMANY IS AGGRESSIVE

	P	W
A	3,3	1,4
O	4,1	2,2

MATRIX 3—GERMANY IS APPEASABLE

	P	W
A	3,4	1,3
O	4,1	2,2

MATRIX 4—GERMANY IS BLUFFING

	P	W
A	3,3	1,4
O	4,2	2,1

choice is now indeed Appease, to which Germany responds with Peace. The SGPE is the strategy-pair Appease, Peace with payoffs 3, 4.²

A fourth “bluff” pattern can also be distinguished. Germany might have been ready to attack upon any show of weakness, yet ready to back down if resolutely opposed. If so, failure to call her bluff would lead to the worst of all possible worlds: German diplomatic victory at Munich would very likely convert her merely feigned willingness to fight now into real willingness to make war later on. (As proved to be the case.) The combined payoffs are tabulated in Matrix 4. The SGPE is the strategy-pair Oppose, Peace with payoffs 4, 2.

In the event, the British and French leaders acted on the “Germany is appeasable” hypothesis. Given his way at Munich, Hitler almost immediately demonstrated bad faith by initiat-

ing new demands, now upon Poland. At that point the Western powers appear to have decided that appeasement had been a mistake.³

Granted that Germany was not peace-loving or even appeasable, the question remains: Was Germany simply *aggressive* as in Matrix 2 or did she fit the *bluff* pattern of Matrix 4? Both of these perceptions dictated non-appeasement but otherwise had quite different implications for strategic planning. If Germany was simply aggressive, war was inevitable in any case. But if she was only bluffing, as some opponents of appeasement argued, a tough Western policy might have maintained the peace. We now know, of course, that Hitler’s Germany was determined upon aggression.

II. Disentangling Preferences and Opportunities

In the preceding section the actors were sometimes described as “preferring” one strategy to another. That was somewhat loose language. Strategies do not enter directly into utility functions; they are only means toward more ultimate ends. Underlying rational choice of a strategy are two distinct elements: (i) *preferences* in the proper narrower sense, defined not over strategies, but over the ultimate alternative states of the world; and (ii) *opportunities* for bringing these different configurations about. Furthermore, apart from whatever the actual preferences and opportunities might have been, the decision-makers’ *perceptions* thereof (and how they read their opponent’s perceptions as well, and so on ad infinitum) also played a crucial role.

In Figures 1 and 2 the indifference curves represent possible German attitudes, on axes Y_G (German real income) versus Y_W (Western real income). I am using “income” here in a very broad sense, going beyond merely pecuniary considerations to incorporate elements such as territorial integrity, avoiding casualties, and maintaining national honor and prestige. In both diagrams, German preferences are *hostile*, meaning that Germany regards Western income

² In a repeated game a player, regardless of his true preferences, might find it profitable to cultivate a *reputation* for being hostile yet appeasable. But in the interests of simplicity, a one-time game is assumed here.

³ Yet, A. J. P. Taylor (1961) indicates, up to the last minute the Western leadership would have been very willing to strike a deal with Hitler at the expense of Poland. But public opinion in Britain and France had swung decisively against appeasement.

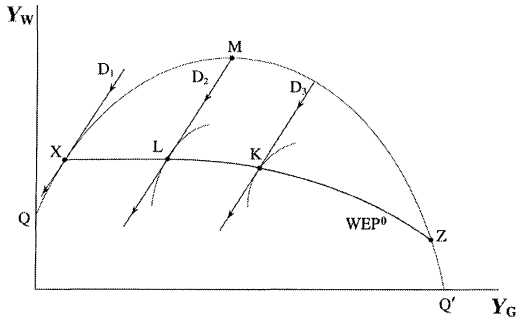


FIGURE 1. APPEASEMENT DOES NOT WORK

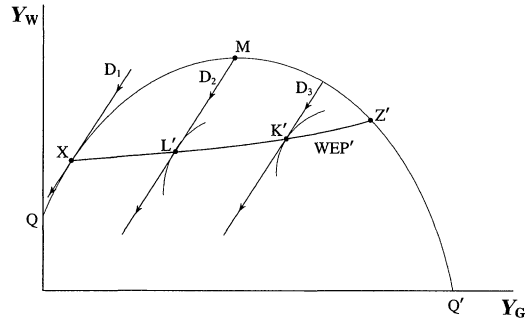


FIGURE 2. APPEASEMENT MAY WORK

Y_W as a bad rather than a good.⁴ The difference lies in Germany’s possible “appeasability.”

Moving into the sphere of opportunities, in both diagrams the curve QQ' bounds the joint peacetime opportunity set, the incomes available to Germany and the Western powers in the absence of hostilities. In each diagram the “deprivation curves” D_1, D_2, \dots are intended to indicate Germany’s military opportunities (her capacity to impose costs upon the Western allies through military aggression). The crucial point is that, in the view of the Western leaders, any such effort would have entailed substantial sacrifice for Germany herself. For graphical convenience here, these “deprivation curves” are drawn as lines of 45° slope: by sacrificing her own income Y_G , Germany can reduce Y_W dollar-for-dollar.

This interpretation of German opportunities accords with the perceptions held by Western decision-makers that, in the event of war, both sides would suffer. These perceptions were of course quite correct, objectively speaking. They were also probably correct as an interpretation of German beliefs at Munich. (Although Hitler anticipated a “profitable” war later on, he was not ready to go to war in 1938.) His policy evidently was to take whatever was offered at Munich, and thereby improve Germany’s strategic situation for an intended war in the near future.⁵

⁴ The Nazi “master race” doctrine was inherently malevolent toward non-Germans.

⁵ To his advisers, Hitler later complained he had been “cheated” at Munich of the war he had wanted. But that afterthought can hardly be taken seriously. Munich was an enormous success for German diplomacy. For differing

Returning to German preferences, the tangencies in the diagrams define alternative wealth expansion paths WEP^0 and WEP' . In Figure 1, WEP^0 has negative slope. A reduction of Western income (Y_W with a negative sign) is a *superior good* for Germany. (A richer Germany would devote more of her wealth to penalizing her opponents.) In contrast, the positive slope of WEP' in Figure 2 indicates that such a reduction of Y_W is an *inferior good* for Germany. “Appeasability” turns upon this distinction.

As for the Western powers, for simplicity I take their preferences as neutral with regard to German income. They aim only to reach the highest possible level of own-income Y_W .

As in the analysis of the previous section, the Western powers are assumed to have the first move, meaning they can choose any point within the opportunity frontier QQ' . The degree to which they are willing to increase German income Y_G , even at possible sacrifice to themselves, corresponds to their willingness to “appease.” That willingness is not a direct result of Western preferences, which by assumption are merely neutral, but of Western concern about Germany’s response to their opening move. In that response, Germany chooses whether or not to exercise her belligerent “deprivation” option by moving along the relevant D_i line. If indeed the contemplated war would be costly to both sides, a Germany motivated only by Y_G considerations would not actually exercise the deprivation option. Her threat to make war would not be credible. It was her hostile preferences that

views, compare Taylor (1961) and Gerhard L. Weinberg (1994).

provided the motivation needed to lend credibility to Hitler's threats.⁶

For the Western powers with their merely neutral preferences, point M is the "ideal" income combination along QQ' in both diagrams. However, choosing point M would lead to Germany's punishing them by a deprivation move, ending up at point L or L' on the respective wealth expansion paths. In Figure 1, therefore, the best first-move choice for the Western powers along QQ' is point X, where Germany is too poor to devote resources to deprivation activity. Western income Y_W is also low, of course. (This SGPE is a continuized version of the earlier analysis which indicated that appeasement is not a generally wise strategy in the face of an opponent who is unqualifiedly aggressive.)

In Figure 2 everything is just as before, except that here the wealth expansion path WEP' is positively sloped. Germany remains hostile (i.e., Y_W remains a bad for her rather than a good), but decreasingly so as Y_G rises. She is "appeasable." Now the best first-move choice for the Western powers is point Z'. Germany makes no deprivation response, so the SGPE will be at the high- Y_G intersection of QQ' and the (positively sloped) wealth expansion path.

These considerations can be summarized as follows:

PROPOSITION 1. *If the opponent's preferences are hostile and non-appeasable, the best strategy is to keep her so poor that she cannot afford to engage in deprivation. If the opponent is hostile but appeasable, the best strategy is to make her so affluent that she will no longer desire to exercise her deprivation option.*

A few further comments:

- (i) Although the appeasable and non-appeasable outcomes cannot be compared in utility terms for Germany (since different German preference functions are involved), non-appeasable hostility, measured in terms of national well-being, represents costly self-indulgence.

⁶ On how attitudes and passions can serve as guarantors of threats and promises, see Hirshleifer (1987) and Robert Frank (1988).

- (ii) In contrast, on that standard, appeasable hostility can be highly advantageous. So long as it remains appeasable, the stronger the hostility, the greater will be the material reward.
- (iii) The profitability of appeasable hostility evidently depends also upon the effectiveness of the deprivation threat.
- (iv) Productive opportunities also influence how profitable appeasability can be. Holding preferences unchanged, a shrinkage of the productive opportunity set might eliminate any intersection between the wealth expansion path and the productive opportunity frontier QQ' . If so, Germany never becomes rich enough to afford indulging her hostility at all.
- (v) When an appeasement policy is rationally adopted, no wasteful fighting actually takes place. This is obviously efficient in income terms. It is efficient in the Pareto sense as well, since no mutually preferred income vector is attainable.

III. Further Discussion and Summary of the Argument

Game-theory matrices are defined over *strategies*. But strategy payoffs are a compound of (a) *preferences* for the attainable possible states of the world, and (b) *opportunities* for bringing them about. Also crucially involved are (c) the *perceptions* on each side. All of these elements were involved in the failure of appeasement at Munich.

At Munich in 1938 the Western decision-makers believed, quite correctly, that the impending war would be mutually costly. As of 1938 Hitler agreed. However, the Western leaders failed to appreciate that Hitler, incorrectly, believed Germany would very shortly thereafter be able to conduct a profitable war. Had the Western leaders realized that Hitler envisaged his opportunities in this way, appeasement was an obvious error, since it served only to strengthen Germany for the ultimate contest. Thus, the disagreement within the Western camp was misguided to begin with, turning as it did exclusively upon the question of German preferences.

Given that Germany was hostile, that hostility might still have been either a "superior

good" or an "inferior good" in the German utility function. It appears that the former was true: a richer and stronger Germany would probably have been increasingly inclined to express her hostile preferences in warlike behavior. Thus, appeasement on the part of the Western powers involved two levels of miscalculation: first, as to how Germany perceived her opportunities to engage in a profitable war; and second, as to German preferences. Only if Germany had appreciated that war would be costly to her, and if her hostility had been an inferior good abating with benefits received, would appeasement have been a correct policy.

Appeasement therefore does not require that the opponent be nice or peace-loving. Germany's hostility guaranteed execution of (what the Western leaders regarded as) an otherwise incredible threat: that she would respond to opposition with a "deprivation" action costly to herself.

The answer to the question "Can appeasement work?" is therefore yes—even against an opponent with intensely hostile preferences. There are a number of necessary conditions, however. First, the enemy's capacity to punish (the "deprivation opportunity") must be sufficiently effective to be worth forestalling. Second, the opponent must realize that inflicting such punishment would be costly to herself as well as to her target. Finally, and I have mainly emphasized this subtler point, her hostility must be an inferior good (i.e., it must abate somewhat

as she becomes richer or more powerful). If these conditions hold, it pays to make such an enemy affluent enough to eliminate the motivation to express her hostility in punitive behavior. However, if she is not "appeasable" in this way, that is, if hostility is a normal superior good for her, the policy should be the reverse: impoverishing one's enemy will limit her capacity to engage in punitive behavior.

Although the Western powers erred in believing that Germany's hostility was appeasable, they were correct that Germany would not be able to exercise her punishment opportunity without undue cost to herself. The war occurred because the German leaders, though skillfully playing upon Western misperceptions of their intentions, were themselves mistaken about their military opportunities.

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