States Don’t Make Decisions; People Do

Fundamentally, as the building blocks diagram in figure 1.1 illustrates, human decision making resides at the base of our analysis. To be sure, there exists a complex web of institutions and incentives that may affect the outcome of a policy. The president works with the legislative and judicial branches of government in a U.S.-style democracy. The president also works with the private sector, interest groups, and the diplomatic community. The dictator works within his own system, perhaps affording him some advantages but also imposing limits upon his power. For example, the dictator must earn the loyalty of his generals and secret police leaders. Each person involved in this world—each actor—faces limited resources and must make decisions. Statecraft, the art of leading a country, happens at this precise point. One can influence the actions of a country by influencing the leaders. By influencing the actions of the country, we achieve our goal. Sound policy starts with an understanding of the individual.

We begin with a theory of human nature. From this, we will build toward a theory of statecraft. If we assume that within each person resides the same basic and unmalleable nature, we will have one variable...
identified that will apply to every country in the world. In particular, we will focus on one observable manifestation of human nature: the propensity to trade. Individuals trade to maximize our welfare, and we make decisions based on varying conditions of scarcity.

At the core of men, women, and children, no matter where or when in history they have lived, resides the same propensity: “to truck, barter, and trade one thing for another.” From this assertion made by Adam Smith in 1759 emerged what we call economic science—a science of decision making.

People do not need to understand economic science in order to know that they trade and that they maximize. Apples fell from trees before Newton described gravity; the reality of gravity requires no theory in order to operate. But a scientist wishing to test hypotheses related to gravity needs to know the theory. Similarly the policy analyst must have a theory in order to test hypotheses of policy making. And while it is true that you may have learned to play billiards years before your first physics class, you learned by trial and error, and maybe you lost a few dollars.

Enumerating a catalogue of policies and the debate that surrounds the use of each would prove modestly interesting but ultimately not very helpful to policy makers. The value of studying these policies comes, instead, from understanding how to enact meaningful policies and evaluate their effectiveness. We first need to know who the players are and under what circumstances they are making decisions in order to intelligently assess sanctions, trade, finance, and aid, among many other tools of foreign policy.

Imagine a world with only two countries, A and B. They are not at war and, in fact, cooperate on many issues. They also compete economically. I am the democratically elected head of state leading country A, and you are the totalitarian dictator ruling country B (see figure 1.2). How can I get you to do something or stop you from doing something? What tools do I have to influence this sphere that comprises our two countries?

Figure 1.2