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COMMENTARIES

Coming to Terms with the Capitalist Peace

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Capitalism has long been maligned as a cause of war, so when Stuart Bremer undertook what was probably the first systematic look at capitalism and war at the dyadic level he was surprised to find that nations with advanced economies were less likely than others to fight each other (1992:334–336). Most attention to Bremer’s article, however, was placed on his observation that democracy was a more powerful force for peace than power preponderance—a result which quickly eclipsed his finding that capitalism was a more powerful force for peace than democracy. After a few more articles confirmed the democratic peace after controlling for development, consideration of development seemed to vanish from conflict studies. This disappearance was reasonable at the time, given the dearth of theory for a capitalist peace.

Now times have changed. By my count there exists at least four theories of capitalist peace, all backed with some evidence, and the capitalist peace may have overturned the democratic one. I believe the roots of the capitalist peace can be traced to Erich Weede’s insights, built on classical economic theory, on how trade and free markets can cause development and peace (1996), which he dubbed the “capitalist peace” (2005). Separate from this research program, I developed a theory of how a market-intensive economy can cause peace and successfully predicted the economic conditionality to the democratic peace (Mousseau 2000). About the same time, Erik Gartzke, Quan Li, and Charles Boehmer (2001) linked financial openness with peace and, after that, Patrick McDonald (2007; 2009) linked size of government with peace.

In this essay, I seek to highlight what I think are important issues in the emerging capitalist peace research program. I begin by discussing the meaning of “capitalism” and its relationship with development, trade, and markets. I then review the relationship of the capitalist peace with the democratic peace, discuss various issues in research design, and assess the comparative efficacy of the competing capitalist peace theories. Along the way I identify what I think are promising steps in the road ahead.

A FREE MARKET CAPITALIST PEACE?

Several capitalist peace theories assume that “capitalism” means free markets, which in turn cause economic development. In this way, free markets or trade may account for the peace among nations with advanced economies. While these linkages are made explicit by some (Weede 1996), they are sometimes only implied by others. Gartzke and Hewitt in this issue (2010), for instance, use free markets to explain why “the most prosperous, developed nations appear largely satisfied with the global status quo” (p. 121).

I believe that only in classical economic theory are free markets thought to cause development. So I obtained the data and examined the hypothesis. It appears the classical liberals are wrong: measured with logged GDP per capita, development correlates with the proportion of GDP in foreign trade at only 0.08, with openness to foreign capital (Gartzke et al. 2001) at only 0.14, and with size of government (McDonald 2007) negatively at -0.13 . At the dyadic level, trade correlates with development at only 0.26 (Mousseau, Hegre, and Oneal 2003:283).

It is hard to overstate the importance of these observations for grasping the capitalist peace. While the disjuncture of trade and free markets with development should not be construed as evidence against any of the free market models, it seems they are not equipped to account for the phenomenon many think they account: the apparent peace among nations with advanced economies.

A SOCIAL MARKET CAPITALIST PEACE?

By most definitions, “capitalism” is not about free markets but rather the degree to which an economy consists of actors linked in a market. In my work I give importance to the fact that actors linked in a market exchange their wares in free and voluntary contracts. Nations with poorer economies have fewer exchanges than others, and in some economies many exchanges occur that are not capitalistic but based instead on coercion or gift exchanges maintained with reciprocity (Polanyi 1957[1944]).

In a series of studies I have shown how capitalist nations can have common interests and be in a permanent peace (Mousseau 2000; 2009). This happens because citizens dependent on a market have greater opportunities in larger and wealthier markets compared with smaller and poorer ones. They thus have direct interests in their governments promoting growth in the market and in sustaining (or increasing) the size of the market by ardently protecting (or promoting abroad) free choice in contracting. Since markets can not function in anarchy and no one can automatically trust the contractual commitments of strangers, citizens also demand their governments competently enforce contracts and the rule of law—at home and abroad. War

can not happen within or between capitalist nations because it requires the harming of others, and everyone is always better off when others in the market are richer, not poorer (even among states that do not directly trade). Thus, rather than fight, capitalist nations engage in intense levels of cooperation specifically aimed at promoting each other's markets. They also have common interests in preserving the sanctimony of international law as the vital backbone of the global marketplace. Empirical support for this thesis is robust: nations with contract intensive economies engage in high levels of mutual cooperation (Mousseau 2002), have common foreign policy preferences (Mousseau 2003) and, as far as the data inform us, have never had a single fatality in a militarized confrontation (Mousseau 2009).

Economic norms theory clearly predicts a capitalist peace, but it says nothing about free markets. A contract by definition must be voluntary without coercion, but this does not mean its terms can not be regulated by the state. A capitalist economy by definition consists of profit-maximizing actors, but this does not mean these actors can not demand their states promote market growth with heavy spending. In contrast to the free market capitalist peace variables discussed above, contract intensive economy correlates with development highly at 0.64.¹ It follows that a capitalist peace should not be automatically equated with interstate trade, free markets, or limited government.

DOES A CAPITALIST PEACE TRUMP THE DEMOCRATIC PEACE?

A capitalist peace and a democratic peace are not necessarily mutually exclusive, but to the extent that capitalism and democracy are related, a capitalist peace may supersede the democratic one. Gartzke (2007) reports that capital openness makes the democratic peace insignificant, but a subsequent reexamination of this claim shows it to be a consequence of several design errors (Dafoe 2009). My own work, however, indicates that the capitalist peace does overturn the democratic peace (Mousseau 2009). This means the tentative state of evidence today is that the capitalist peace effectively accounts for the democratic peace. Clearly, the imperative next task for scholars is to vigorously reexamine this challenge to the democratic peace.

NEED FOR MORE CUMULATIVE RESEARCH DESIGNS

Some analyses of the capitalist peace are not fully persuasive because they are not effectively integrated into the larger scientific venture or have relied

¹Data on the contacting intensity of nations can be obtained at <http://home.ku.edu.tr/~mmousseau/> under "Economic Norms Data."

on insufficient research designs. For instance, McDonald, in this issue (2010), failed to consider Gartzke et al.'s (2001) capital openness variable or my own contract intensive economy variable; Gartzke and Hewitt, in this issue (2010), failed to consider contract intensive economy or McDonald's size of government; and in a prior study I (2009) overlooked the size of government. To make progress we all must make greater efforts at testing our variables in the presence of their competitors—or explain why consideration of a competing variable does not fit the study at hand.

I also worry about analyses of militarized interstate disputes that make a distinction of initiators from targets. McDonald (2010) uses a directed-dyad design that appears to equate side A in a militarized dispute as the side making the demand or having started the conflict. But as the creators of these data made clear: "The state or states on Side A should not be interpreted to be the states that 'started' the conflict, or that are responsible for the conflict" (Ghosn, Palmer, and Bremer 2004:138–139). He also reports analyses at the monadic or country level. Monadic tests are greatly inferior to dyadic ones in controlling for external threats and opportunities to fight.

I am also weary of control variables that lack theory. I do not understand how a regression can have substantial meaning without guidance on whether each control variable is likely to be confounding (may partly explain the independent variable) or intervening (may be partly explained by the independent variable). Particularly worrisome is when a control variable that lacks a stated purpose correlates with the independent variable. Studies by Gartzke and colleagues (Gartzke 2007; Gartzke and Hewitt 2010) include a control for foreign policy agreement ("preferences") but offer no theory for it. There is theory and confirming evidence that predicts common preferences as well as peace as consequences of contract intensive economy (Mousseau 2003). It thus seems to me that controlling for preferences in an examination of peace among nations is similar to controlling for chemotherapy in an examination of deaths from cancer: the relationship will be significant and may cause other variables (democracy; smoking) to be insignificant, but without guidance the results can not be persuasive.

NEED TO COMPARE THE THEORIES

Ultimately, theory is needed to discern whether a third variable is confounding or intervening (Blalock 1979:474). We therefore must continuously integrate our empirical tests with updated assessments of our theories. There is a general consensus on several dimensions of consequence in comparing theories: predictive and explanatory power, strength and quantity of anomalies, and internal coherence. On internal coherence, the capital openness model (Gartzke et al. 2001) stands on comparatively solid ground because it

has been worked through formally; though an absence of formalization does not mean a theory is incoherent.

Of the capitalist peace theories, the greatest distinction in explanatory power is between those that are generally limited to explaining militarized conflict and those that cast a wider net in modeling foreign policy interests. Two capitalist peace theories start with the bargaining model: the capital openness model (Gartzke et al. 2001) depends on successful signaling that reduces bluffing and thus the information problem; McDonald's model (2010) depends on size of government as solving the commitment problem. Bluffing does not occur, and commitments are not needed, among actors with common interests. These models thus apply only to situations where actors have competing interests and are not equipped to account for variance in interests or motives to fight among nations. Most arguments for how trade interdependence can cause peace rely on the assumption that trading is cheaper than fighting—nothing here that I can see about varying interests.

I believe only my own capitalist peace theory clearly explicates interests: leaders of states with contract intensive economies are constrained by voters to promote economic growth and secure markets abroad, and thus have common interests in protecting and enhancing the global market by maintaining the supremacy of international law and order. Beyond interests, this model offers novel accounts for Islamist terror (Mousseau 2002–2003), the origins of liberal democratic values and institutions, social trust, economic growth and development, the legitimacy of the rule of law, and the formation of the Westphalian interstate system (Mousseau 2009). I believe there are few clear-cut claims of added explanatory power by other capitalist peace theories, though I may be in error here. I encourage greater efforts to explicitly identify the explanatory scope of all theories, as knowledge of this power is vital in assessing their promise.

More important than explanation is an ability to predict, and all the models can claim some success in accounting for some variance in war and peace among nations—though a more-conclusive verdict must await a head-to-head contest where all variables confront each other directly. Beyond this, it seems most models have generated few nontrivial and novel predictions that have been subsequently confirmed. I believe the primary exception is my own economic norms model, which successfully predicted the economic conditionality to democratic peace (Mousseau 2000; Mousseau et al. 2003), cooperation (Mousseau 2002), and common interests (Mousseau 2003).

On critical anomalies, further work along the lines taken by John Mueller in this issue (2010) is sorely needed. Mueller is correct in pointing out that the Nazi occupation of most of Europe was profitable—suggesting a problem for liberal approaches that assume peace is always more profitable than war. He also points out that the advanced nations engaged in

imperialism and fought each other in two world wars. But whether these conflicts pose a challenge to the capitalist peace depends on what we mean by “capitalism.” Future studies should examine the size of government (McDonald 2009) and capital openness (Gartzke et al. 2001) of these nations at these times. There is no need to explore the contract intensity of these nations (my own thesis): while large portions of both Germany’s and Japan’s industrial economies were privately owned, the commanding heights of these economies were linked not by markets but by state bureaucrats, and most laborers were slaves in fact or practice; and during their periods of expansion the imperial nations did not have contract intensive economies as evidenced with emigration rates, which indicate weak opportunities in their domestic markets (Mousseau 2009:74).

John Mueller (2010) is also correct that any theory that depends on wealth being a universal dominant goal stands on weak grounds. In politics, actors often pursue goals other than wealth, the infamous case being Hitler’s costly effort to exterminate Europe’s Jews, who were also a very cheap source of labor. Nevertheless, I believe only two capitalist peace theories are stricken by this critique: the capital openness (Gartzke et al. 2001) and classical liberal (Weede 1996) models, as both seem to require wealth to be a dominant goal. The government size model (McDonald 2010) is based on credible commitments rather than signaling, and I believe only signaling requires actors to share the same goals so they can correctly read each other’s intentions and costs through signals. My own economic norms model goes further and explicates variance in goals: nations with contract intensive economies are predicted to give more importance to market growth than other nations, and be more likely to have citizenries who believe that wealth is best achieved through trade rather than war. In this way, this theory identifies how popular ideas regarding war and peace can change over time, which Mueller rightly emphasizes, and how some countries can come to decide that trading is better than fighting (Rosecrance 1986).

THE CAPITALIST PEACE: A TANTALIZING RESEARCH BET

While the democratic peace has been in the spotlight over the past generation, the capitalist peace may prove to be the more powerful and useful observation. This is not only because the capitalist peace may supplant the democratic one: it is because the capitalist peace implies a more practical set of policy recommendations for achieving global peace and security. While the democratic peace suggests the amorphous and potentially conflict-inducing policy of promoting democratization abroad, the capitalist peace suggests—depending on which capitalist peace theory, if any, is the right one—the promotion of freer markets (Weede 1996; Gartzke et al. 2001;

MacDonald 2007) or increased regulation, redistribution, and spending to create full employment economies (Mousseau 2000; 2009). It is thus important to know the power of the capitalist peace, and which explanation for it is most persuasive. To do this correctly we must rely not on what feels right, but on the comparative predictive and explanatory power, and intensity of anomalies, of the competing theories. Whichever direction the evidence leads us, there seems little doubt that the capitalist peace offers a most tantalizing research bet.

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Capitalist Influences and Peace

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Toynbee argues that the forces of industrialism should have prevented war in the nineteenth century (Toynbee 1939). Instead the universal forces of industrialism got poured into nationalistic bottles. Tariffs went up, imperial acquisition recommenced, and the stage was set for world war. Of course, Toynbee was not entirely correct about the analytical influence of industry. The Industrial Revolution made it possible to “make” things, rather than to “take” things. But if you take territory, you get a greater labor force and a greater ability to make things. You also get raw materials which industrialism needs. Finally, industrialism gives you weapons which, at least at first blush seem to make the waging of wars easier and more efficient, with quicker decision times. So machines alone do not prevent war. Industrialism does not in this sense increase interdependence between states, and it may even make states less dependent on one another.

Karl Deutsch contended that as previous agricultural states industrialized, they would import less and certainly would need fewer industrial products from the outside world. Thus trade over GDP ratios could be expected to fall, reducing overall interdependence. This was in fact true. In Europe, the ratios in 1914 were lower than the ratios for 1870. High ratios were not achieved again until the 1950s (Deutsch and Eckstein 1961). Another factor was the growth of intra-industrial trade. In the nineteenth century, commerce was largely between agricultural and industrial economies which traded food for manufactures. After 1950, trade was primarily in industrial products, and agricultural commodities lost their previous value in the terms of trade (Nurkse 1958). But rapidly