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# The Social Market Roots of Democratic Peace

Michael Mousseau

One of the most important achievements in the study of international security has been the arrival and broad acceptance of the “democratic peace,” that is, the statistically significant absence of war between democracies. This discovery has produced a broader acceptance of domestic factors in the study of international conflict. It has also influenced public policy: since the early 1990s, U.S. policymakers have widely embraced democracy as a cause of peace.

The extent to which scholars and practitioners can be convinced that democracy causes peace, however, depends on how confident they are in explaining it. Numerous studies have identified democracy as a cause of democratic peace, but none have yielded much meaningful, clear-cut, and nontrivial predictive power—achievements that lie at the heart of scientifically identifying causality. On the contrary, it appears increasingly likely that existing explanations for how democracy causes peace may be incomplete. Several studies have shown that the impact of democracy on peace may depend on the level of economic development.<sup>1</sup> No compelling challenges to these findings have been offered, and some scholars who once confirmed the democratic peace now acknowledge the role played by economic conditionality.<sup>2</sup> It follows that

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1. Håvard Hegre, “Development and the Liberal Peace: What Does It Take to Be a Trading State?” *Journal of Peace Research*, Vol. 37, No. 1 (January 2000), pp. 5–30; Michael Mousseau, “Market Prosperity, Democratic Consolidation, and Democratic Peace,” *Journal of Conflict Resolution*, Vol. 44, No. 4 (August 2000), pp. 472–507; Michael Mousseau, Håvard Hegre, and John R. Oneal, “How the Wealth of Nations Conditions the Liberal Peace,” *European Journal of International Relations*, Vol. 9, No. 2 (June 2003), pp. 277–314; Mark Souva, “Institutional Similarity and Interstate Conflict,” *International Interactions*, Vol. 30, No. 3 (July–September 2004), pp. 263–280; Michael Mousseau, “Comparing New Theory with Prior Beliefs: Market Civilization and the Democratic Peace,” *Conflict Management and Peace Science*, Vol. 22, No. 1 (Spring 2005), pp. 63–77; and Kathryn Furlong, Nils Petter Gleditsch, and Håvard Hegre, “Geographic Opportunity and Neomalthusian Willingness: Boundaries, Shared Rivers, and Conflict,” *International Interactions*, Vol. 32, No. 1 (January–March 2006), p. 97.

2. Mousseau, Hegre, and Oneal, “How the Wealth of Nations Conditions the Liberal Peace”; Furlong, Gleditsch, and Hegre, “Geographic Opportunity and Neomalthusian Willingness,” p. 97; and Nils Petter Gleditsch, “The Liberal Moment Fifteen Years On,” *International Studies Quarterly*, Vol. 52, No. 4 (December 2008), p. 712.

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democracy, alone, may not be the cause of the peace. Instead, some factor related to economic development either causes the peace or qualifies the impact of democracy on peace.

This article advances the understanding of the democratic peace by demonstrating how a particular kind of economic development, contract-intensive development, appears to account for this peace. The economic conditionality of the democratic peace was originally predicted by economic norms theory, which identifies how liberal values may be rooted in the decisionmaking heuristics of a social market economy—that is, one where most people have the opportunity to choose, as individuals in the market, their sources of income and where to spend it.<sup>3</sup> In this economy, sometimes called “advanced capitalism,” individuals habitually trust strangers in making contracts and depend on the state to enforce them impartially. They learn to prefer free choice and the equal application of law, and they expect their government to behave accordingly in foreign affairs. As a consequence, contract-intensive societies tend to agree on the preservation of the Westphalian order of sovereign states and the primacy of international law over power politics, and they are in natural alliance against any entity—state or nonstate—that seeks to challenge this order.

This study demonstrates that from 1961 to 2001 not a single fatal conflict occurred among nations with contract-intensive economies. In contrast, democracies without contract-intensive economies engaged each other in several fatal conflicts during this period, about the number to be expected if democracy in states without a contracting economy has no impact on foreign policy. These results are highly robust after consideration of many competing causes, few of which have any significant impact on war and peace once the role of the contract-intensive economy variable is considered. The existence of this variable, in contrast, has the strongest impact of all nontrivial variables normally observed in studies of international conflict.

Several implications follow from this study. First, this research supports the claims of some critics of the democratic peace who have long argued that a third variable may cause both democracy and peace:<sup>4</sup> that variable is a

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3. Mousseau, “Market Prosperity, Democratic Consolidation, and Democratic Peace.”

4. Scott Gates, Torbjørn Knutsen, and Jonathon W. Moses, “Democracy and Peace: A More Skeptical View,” *Journal of Peace Research*, Vol. 33, No. 1 (February 1996), pp. 1–10; William R. Thompson, “Democracy and Peace: Putting the Cart before the Horse?” *International Organization*, Vol. 50, No. 1 (Winter 1996), pp. 141–174; and Patrick James, Eric Solberg, and Murray Wolfson, “An Identified Systemic Model of the Democracy-Peace Nexus,” *Defence and Peace Economics*, Vol. 10, No. 1 (February 1999), pp. 1–37. For a reaction to James, Solberg, and Wolfson, see John R. Oneal and Bruce Russett, “Comment: Why ‘An Identified Systemic Model of the Democracy-Peace Nexus’ Does Not Persuade,” *Defence and Peace Economics*, Vol. 11, No. 1 (January 2000), pp. 197–214. Other stud-

contract-intensive economy. Second, although challenging the role of democracy as a cause of democratic peace, this study shows that a zone of peace does exist among democratic nations, but it is one that appears to be caused by economic rather than governing institutions. Third, whether or not shared democracy contributes to international peace is an important issue because U.S. leaders' belief in this proposition has influenced their conduct of foreign policy. President Bill Clinton, for example, supported the United States' "democratic enlargement" policy because he believed that "democracies don't attack each other."<sup>5</sup> His successor, George W. Bush, explained that his administration promoted democracy because "democracies don't go to war with each other."<sup>6</sup> President Barack Obama has asserted that "we benefit from the expansion of democracy" because democracies are "the nations with which we share our deepest values."<sup>7</sup> Although support for democracy may be good for a variety of reasons, this article presents compelling evidence that the promotion of peace among nations is not one of them.

The article is organized as follows. First, I review the emergence of the democratic peace literature and the evidence linking this peace to economic development. Next, I present several explanations for the role of economic conditionality. I draw out the implications of economic norms theory for explaining stable democracy and peace among nations. After discussing the test conditions, reporting the results, and exploring alternative explanations, I offer a case study of the economic peace involving Greece and Turkey to illustrate the usefulness of the theory. I conclude with several policy implications that follow from the analysis.

### *The Democratic Peace and Economic Development*

Two pioneers in the study of the democratic peace were Dean Babst in the 1960s and Rudolph Rummel in the 1970s.<sup>8</sup> Key articles by Michael Doyle and

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ies that seek to account for simultaneity or cross-sectional and temporal dependencies report that the democratic peace, though statistically significant, may lack a substantial degree of explanatory power. See Karen Rasler and William R. Thompson, *Puzzles of the Democratic Peace: Theory, Geopolitics, and the Transformation of World Politics* (New York: Palgrave, 2005); and Michael D. Ward, Randolph M. Siverson, and Xun Cao, "Disputes, Democracies, and Dependencies: A Reexamination of the Kantian Peace," *American Journal of Political Science*, Vol. 51, No. 3 (June 2007), pp. 583–601.

5. "Democracies and War: The Politics of Peace," *Economist*, April 1, 1995, pp. 17–18.

6. Fraser Cameron, *U.S. Foreign Policy after the Cold War: Global Hegemon or Reluctant Sheriff?* 2d ed. (London: Routledge, 2005), p. 190.

7. "Q&A: Obama on Foreign Policy," *Washington Post*, March 2, 2008.

8. Dean V. Babst, "Elected Governments: A Force for Peace," *Wisconsin Sociologist*, Vol. 3 (1964),

Jack Levy brought increased attention to the concept.<sup>9</sup> By the early 1990s, a large number of highly rigorous studies had widely confirmed the proposition that democracies do not go war with each other.<sup>10</sup>

There are two primary sources of continuing skepticism, however. First, because most explanations for the democratic peace were created after it was first observed—the primary exception being Immanuel Kant in 1795<sup>11</sup>—empirical confirmation for any of them can come only with the observation of novel empirical facts.<sup>12</sup> To my knowledge, there are few confirmed, clear-cut, nontrivial, and novel facts that have been explicitly deduced from any explanation for the democratic peace. The closest candidate is the war-winning hypothesis, an expectation deduced from several accounts. The weight of the evidence is mixed as to whether democracies tend to win their wars.<sup>13</sup>

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pp. 9–14; and Rudolph J. Rummel, *Understanding Conflict and War*, Vol. 4: *War, Power, and Peace* (Thousand Oaks, Calif.: Sage, 1979).

9. Michael W. Doyle, “Kant, Liberal Legacies, and Foreign Affairs, Part 1,” *Philosophy and Public Affairs*, Vol. 12, No. 3 (Summer 1983), pp. 205–235; and Michael W. Doyle, “Kant, Liberal Legacies, and Foreign Affairs, Part 2,” *Philosophy and Public Affairs*, Vol. 12, No. 4 (Autumn 1983), pp. 323–353. See also Michael W. Doyle, “Liberalism and World Politics,” *American Political Science Review*, Vol. 80, No. 4 (December 1989), pp. 1151–1169; and Jack S. Levy, “Domestic Politics and War,” *Journal of Interdisciplinary History*, Vol. 18, No. 4 (Spring 1988), pp. 653–673.

10. A partial list includes Zeev Maoz and Nasrin Abdolali, “Regime Types and International Conflict, 1816–1976,” *Journal of Conflict Resolution*, Vol. 33, No. 1 (March 1989), pp. 3–35; T. Clifton Morgan and Sally Howard Campbell, “Domestic Structure, Decisional Constraints, and War: So Why Kant Democracies Fight?” *Journal of Conflict Resolution*, Vol. 35, No. 2 (June 1991), pp. 187–211; Zeev Maoz and Bruce Russett, “Alliance, Contiguity, Wealth, and Political Stability: Is the Lack of Conflict among Democracies a Statistical Artifact?” *International Interactions*, Vol. 17, No. 3 (February 1992), pp. 245–267; Stuart A. Bremer, “Dangerous Dyads: Conditions Affecting the Likelihood of Interstate War, 1816–1965,” *Journal of Conflict Resolution*, Vol. 36, No. 2 (June 1992), pp. 309–341; Nils Petter Gleditsch, “Democracy and Peace,” *Journal of Peace Research*, Vol. 29, No. 4 (November 1992), pp. 369–376; Erich Weede, “Some Simple Calculations on Democracy and War Involvement,” *Journal of Peace Research*, Vol. 29, No. 4 (November 1992), pp. 377–383; and James Lee Ray, “Wars between Democracies: Rare, or Nonexistent?” *International Interactions*, Vol. 18, No. 3 (February 1993), pp. 251–276. More recent research suggests that the democratic peace may result from these states having fewer territorial militarized interstate disputes than other states. See Douglas M. Gibler, “Bordering on Peace: Democracy, Territorial Issues, and Conflict,” *International Studies Quarterly*, Vol. 51, No. 3 (September 2007), pp. 509–532. See also Sara McLaughlin Mitchell and Brandon D. Prins, “Beyond Territorial Contiguity: Issues at Stake in Democratic Militarized Interstate Disputes,” *International Studies Quarterly*, Vol. 43, No. 1 (March 1999), pp. 169–183; and Patrick James, Johann Park, and Seung-Whan Choi, “Democracy and Conflict Management: Territorial Claims in the Western Hemisphere Revisited,” *International Studies Quarterly*, Vol. 50, No. 4 (December 2006), pp. 803–818. Militarized conflict over territory is a key factor in escalation to war. See Paul D. Senese and John A. Vasquez, *The Steps to War: An Empirical Study* (Princeton, N.J.: Princeton University Press, 2008).

11. Immanuel Kant, *Perpetual Peace*, trans. and ed. Lewis White Beck (New York: Bobbs-Merrill, 1982 [1795]).

12. Karl R. Popper, *The Logic of Scientific Discovery* (New York: Routledge, 1992 [1959]).

13. Michael C. Desch, “Democracy and Victory: Why Regime Type Hardly Matters,” *International Security*, Vol. 27, No. 2 (Fall 2002), pp. 5–47; Michael C. Desch, “Democracy and Victory: Fair Fights or Food Fights?” *International Security*, Vol. 28, No. 1 (Summer 2003), pp. 180–194; and Rasler and

Second, the finding that the democratic peace may be conditioned on some level of economic development indicates that democracy, alone, is probably not an independent cause of the peace. The most compelling study in this regard appeared in 2003, when several scholars came together to examine their contending expectations.<sup>14</sup> The following four hypotheses were tested: (1) the democratic peace holds firm without any conditions; (2) the democratic peace is conditioned by economic development;<sup>15</sup> (3) the democratic peace is conditioned by trade;<sup>16</sup> and (4) the interaction of trade and development accounts for the democratic peace.<sup>17</sup> The test failed to support hypotheses (1), (3), and (4), and robustly reconfirmed hypothesis (2). Most other studies that have examined the role of economic conditionality have confirmed it, including those of some scholars who had once supported the democratic peace thesis.<sup>18</sup>

Some scholars have responded to this finding by stressing that the level of economic development at which democracy becomes significant is low enough that, at least in recent years, most democracies are included among

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Thompson, *Puzzles of the Democratic Peace*. Defenders of the proposition include David A. Lake, "Fair Fights? Evaluating Theories of Democracy and Victory," *International Security*, Vol. 28, No. 1 (Summer 2003), pp. 154–167; and Dan Reiter and Allan C. Stam, "Understanding Victory: Why Political Institutions Matter," *International Security*, Vol. 28, No. 1 (Summer 2003), pp. 168–179.

14. Mousseau, Hegre, and Oneal, "How the Wealth of Nations Conditions the Liberal Peace."

15. Mousseau, "Market Prosperity, Democratic Consolidation, and Democratic Peace."

16. Christopher F. Gelpi and Joseph M. Grieco, "Democracy, Interdependence, and the Sources of the Liberal Peace," *Journal of Peace Research*, Vol. 45, No. 1 (January 2008), pp. 17–36.

17. Hegre, "Development and the Liberal Peace."

18. Souva, "Institutional Similarity and Interstate Conflict"; and Furlong, Gleditsch, and Hegre, "Geographic Opportunity and Neomalthusian Willingness," p. 97. To my knowledge, the primary exception is Erik Gartzke, "The Capitalist Peace," *American Journal of Political Science*, Vol. 51, No. 1 (January 2007), pp. 182–183. Unfortunately, Gartzke did not report his regression that refutes the economic conditionality, and his model is unclear. It seems, though, that this model probably contains endogenous terms. Two other studies claim evidence against the economic conditionality argument, but their evidence does not support their claims. Mark Souva and Brandon Prins state, "We can safely reject Mousseau's (2000) claim that the democratic peace is limited to the developed world." See Souva and Prins, "The Liberal Peace Revisited: The Role of Democracy, Dependence, and Development in Militarized Interstate Dispute Initiation, 1950–1999," *International Interactions*, Vol. 32, No. 2 (April–June 2006), p. 196. The authors tested whether developed democracies are more peaceful than other states (the monadic hypothesis), not whether they are more peaceful with each other than other states (the dyadic hypothesis). In fact, the hypothesis as I have deduced and reported it has always been dyadic, never monadic. Christopher Gelpi and Joseph Grieco report that "contrary to Mousseau, Oneal, and Hegre [sic] (2003), we did not find that challenger economic development [in interaction with challenger democracy] reduced the incidence of dispute initiation." Gelpi and Grieco, "Democracy, Interdependence, and the Sources of the Liberal Peace," p. 30. The authors made the same error as Souva and Prins: they tested the monadic hypothesis of whether developed democracies are less likely than other states to be on side A in militarized disputes. I never made this deduction, at least in part because as defined by the Militarized Interstate Dispute data set the authors used (see below), side A can be—and often is—the aggressor or revisionist side of a dispute.

those nations that do not engage in war with each other.<sup>19</sup> But in a previous study, I argued that the exact level at which democracy becomes significant is not important, for two reasons. First, the question probably cannot be answered to everyone's satisfaction. The precise level is highly sensitive to the researcher's choice of control variables, sample, and measure of economic development.<sup>20</sup> Second, without theory, the predicted level of development at which democracy becomes significant poses the danger of the fallacy of induction. Scholars can be much more confident in predictions grounded in theories with established predictive and explanatory power. Not only have all theories of democracy acting alone in causing the peace been unable to produce compelling novel facts, but the economic conditionality of this peace strongly suggests that all of these theories are, at best, incomplete. The issue is not the level of economic development at which democracy becomes a significant force for peace: it is how development causes the peace.

### *Economic Conditionality and Economic Norms Theory*

Following the first report of the economic conditionality of the democratic peace, several studies sought to explain it. Azar Gat offered a list of factors potentially associated with what he calls economic "modernization," including industrialization, which has delinked territory from the production of wealth, and a cultural "feminization" of men caused by urbanization and the service economy.<sup>21</sup> Erik Gartzke argued that openness of markets may be the cause of the economic peace: nations with freer capital markets are more dependent than others on international investors, who are likely to divest from a country about to engage in war. Policymakers first recognize which nations have free capital markets and which do not, and then give greater credibility to threats made by those with freer capital markets than those with controlled ones. In theory, this can cause countries with freer capital markets to be more peaceful than others. The role of development in the democratic peace is based, presumably, on the assumption that development and capital openness are related.<sup>22</sup>

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19. John R. Oneal and Bruce Russett, "Rule of Three, Let It Be? When More Really Is Better," *Conflict Management and Peace Science*, Vol. 22, No. 4 (Winter 2005), p. 306.

20. Mousseau, "Market Prosperity, Democratic Consolidation, and Democratic Peace," pp. 492–496.

21. Azar Gat, "The Democratic Peace Theory Reframed: The Impact of Modernity," *World Politics*, Vol. 58, No. 1 (October 2005), pp. 73–100.

22. Gartzke, "The Capitalist Peace." See also Erik Gartzke, "Economic Freedom and Peace," in

My explanation for the economic peace integrates two long-standing findings in social science.<sup>23</sup> First, research in economics and sociology has established the notion of bounded rationality: that is, individuals economize on the costs of decisionmaking by forming cognitive habits—heuristics—for situations they repeatedly encounter.<sup>24</sup> Second, studies in economic history and sociology have documented that dependency on ties with friends and families—clientelism—often constitutes significant portions of trade and services in middle- and lower-income countries.<sup>25</sup> It follows that divergent everyday routines of individuals in clientelist and contract-intensive societies should give rise to divergent decisionmaking heuristics. In a previous study, I showed how these divergent heuristics can affect political culture and institutions.<sup>26</sup>

In clientelist economies, individuals depend on group leaders, called “patrons,” who promote loyalty by providing economic and physical security in the form of gifts. To obtain these gifts, clients learn to habitually signal their willingness to abide by all of their patron’s commands with alacrity. When clientelist societies face rapid change and leadership is fluid, political entrepreneurs offer themselves as new group patrons. To increase the demand for security, these political entrepreneurs promote fear of outsiders. This may explain why societies in civil anarchy or in transition between clientelism and advanced capitalism—when high unemployment rates often coexist with clientelist traditions in large cities—tend to give rise to extremist dogmas that fit in-group worldviews, such as nationalist, Marxist, fascist, and militant Islamist ideologies.<sup>27</sup>

In contract-intensive societies, in contrast, making contracts with strangers promotes loyalty not to patrons but to a state that enforces these contracts with

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James D. Gwartney and Robert Lawson, eds., with Gartzke, *Economic Freedom of the World: 2005 Annual Report* (Washington, D.C.: Cato Institute, 2005), chap. 2.

23. Mousseau, “Market Prosperity, Democratic Consolidation, and Democratic Peace,” pp. 476–482.

24. Herbert A. Simon, “A Behavioral Model of Rational Choice,” *Quarterly Journal of Economics*, Vol. 69, No. 1 (February 1955), pp. 99–118.

25. Karl Polanyi, *The Great Transformation: The Political and Economic Origins of Our Time* (Boston: Houghton Mifflin, 2001 [1944]); Janet L. Abu-Lughod, *Before European Hegemony: The World System, A.D. 1250–1350* (New York: Oxford University Press, 1989); and Luis Roniger and Ayşe Güneş-Ayata, eds., *Democracy, Clientelism, and Civil Society* (Boulder, Colo.: Lynne Rienner, 1994).

26. Mousseau, “Market Prosperity, Democratic Consolidation, and Democratic Peace.”

27. For the application of economic norms theory to Islamist terrorism, see Michael Mousseau, “Market Civilization and Its Clash with Terror,” *International Security*, Vol. 27, No. 3 (Winter 2002/03), pp. 5–29. For confirmation of the role of urban poverty in grassroots approval of Islamist terrorism, see Michael Mousseau, “Testing the Root Causes of Islamist Terror,” unpublished manuscript, Koç University, 2009.

impartiality and equal application of the rule of law. Because bigger markets offer more contracting opportunities than smaller ones, and because contracts cannot be arranged unless all parties explicitly state their preferences, individuals habitually perceive it as in their interest to respect the preferences and rights of strangers. Compared with voters in clientelist-integrated societies, voters in contract-intensive societies are more likely to support candidates for office who stress individual freedoms, at home and abroad, and who advocate government transparency and equal enforcement of the law.

Discussion of the causes of a nation's transition from a clientelist to a contract-intensive economy is largely beyond the scope of economic norms theory. Exogenous factors include those that make the benefits of trusting strangers in the market greater than the benefits of personalized ties. The theory identifies political factors as the primary cause of economic changes because a contract-intensive economy cannot exist unless government authorities make the decision to enforce contracts with impartiality. But this decision does not guarantee a contract-intensive economy: geographic factors, such as poor harbors or an absence of neighbors with contract-intensive economies, can constrain markets.<sup>28</sup> There is also a likely feedback loop from an emerging market culture to greater opportunities in the market. As increasing numbers of individuals decide to accept the risk of contracting with strangers—as a society approaches the “tipping point”<sup>29</sup>—the division of labor must grow increasingly complex. This in turn enhances opportunities in the market, causing more individuals to accept the risk of trusting strangers and their states.

The shift in loyalty from group leaders to impartial states is not monotonic, however. A contract-intensive economy can collapse for a variety of reasons, as the nascent capitalist and quasi-liberal political cultures of Classical Athens and Renaissance Italy did after defeats in foreign wars. In the modern era, the feedback loop seems to have started anew in Holland in the fifteenth century (possibly triggered by climate change), and was soon entered into by its neighbors with good harbors: England, northern France, northwestern Germany, and Scandinavia. Over time, contract norms reached more deeply into these societies. By the eighteenth century, however, in only two societies were

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28. This is a key distinction from new institutional economics, which considers state protection of property sufficient for reducing transaction costs and promoting economic growth. See Douglass C. North, “Understanding Economic Change,” in Joan M. Nelson, Charles Tilly, and Lee Walker, eds., *Transforming Post-Communist Political Economies* (Washington, D.C.: National Academy Press, 1997), pp. 13–18. Economic norms theory considers property rights a subset of state respect for contracts.

29. Thomas C. Schelling, *Micromotives and Macrobehavior* (New York: W.W. Norton, 1978).

these norms in all likelihood highly institutionalized: possibly Switzerland and almost certainly the northern colonies of British North America, led foremost by the Massachusetts Bay Colony.<sup>30</sup>

By extrapolating from economic history and global migration patterns (because emigration can inversely reflect the level of opportunities in the market), I was able to determine that by the early twentieth century contract-intensive economies were highly institutionalized in all of the previously mentioned regions, as well as in the settler communities of the American West, Australia, Canada, and New Zealand. But between World Wars I and II, global economic troubles stalled the diffusion of contracting, causing it to decline in northwestern Germany when hyperinflation wiped out the middle class. Drawing on data discussed below, I found that by the 1960s contract norms were institutionalized throughout much of West Germany, rural France, the southern United States, and northern Italy, as well as Austria, Finland, and Japan.<sup>31</sup> By the end of the Cold War, much of the rest of Italy, as well as Portugal, Singapore, South Africa, South Korea, Spain, and Taiwan seemed to have reached the tipping point. Since the end of the Cold War, the peoples of Argentina, Chile, the Czech Republic, Greece, Hungary, Malaysia, Poland, and Slovenia may have reached it as well.

A broad range of research documents the crucial role of economic norms in influencing political and social phenomena. Karl Polanyi's book *The Great Transformation* highlights the transition from clientelist to contractual modes of exchange in Europe from the sixteenth to twentieth centuries.<sup>32</sup> Studies in anthropology and archaeology document how economic conditions influence political and institutional preferences.<sup>33</sup> As predicted by economic norms theory, there exists a correlation between high income and contracting and between low income and clientelism. Experimental studies have confirmed sizable differences in the way individuals from low- and high-income countries react in tests involving economic preferences.<sup>34</sup> Studies in comparative politics have confirmed a strong linkage between economic development and stable, liberal

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30. Gordon S. Wood, *The Creation of the American Republic, 1776–1787* (Chapel Hill: University of North Carolina Press, 1998).

31. For the southern states of the United States, see Joseph E. Luders, *The Civil Rights Movement and the Logic of Social Change* (Cambridge: Cambridge University Press, forthcoming).

32. Polanyi, *The Great Transformation*.

33. Marvin Harris, *Cultural Materialism: The Struggle for a Science of Culture* (New York: Random House, 1979); and Maxine L. Margolis, "Introduction to the Updated Edition," in Marvin Harris, *The Rise of Anthropological Theory: A History of Theories of Culture*, updated ed. (Walnut Creek, Calif.: AltaMira, 2001), pp. vii–xiii.

34. Karl Sigmund, Ernst Fehr, and Martin A. Nowak, "The Economics of Fair Play," *Scientific American*, Vol. 286, No. 1 (January 2002), pp. 82–87.

democracy.<sup>35</sup> Survey and case studies in sociology and economics have linked in-group norms with collectivist preferences, and economic development with individualist preferences and higher levels of trust among strangers.<sup>36</sup>

The contract-intensive economy represents only one form of economic development. In the twentieth century, noncapitalist forms of development included fascism, communism, and petro-clientelism. Nations with these forms of development included totalitarian states (command economies—e.g., the Soviet Union), bureaucratic clientelist states (where authorities distributed wealth with an eye toward promoting and maintaining loyalty—e.g., Saudi Arabia), and “hybrid” states involving a mix of clientelism and totalitarianism (e.g., Nazi Germany). To test whether individuals in contract-intensive, higher-income economies think differently from those in other higher-income economies, I obtained data on levels of trust in nations from the World Values Survey project.<sup>37</sup> Recall that contract-intensive economies are thought to foster the expectation that strangers will fulfill their contractual commitments, so a crucial prediction of economic norms theory is that, comparatively speaking, nations with contract-intensive economies should tend to have higher levels of impersonal trust than other nations. There are forty-four countries in 1997 with data on all variables. I regressed trust on gross domestic product (logged) and contract-intensive economy (see measure below). The result confirms this expectation: the contract-intensive economy variable, not higher income per se, is associated with higher levels of trust in nations.<sup>38</sup>

Both economic norms theory and classical liberal theory focus on the role of markets. But their assumptions and implications differ. Classical liberalism assumes that Adam Smith’s “propensity to truck, barter, and exchange” is in-

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35. Carles Boix and Susan C. Stokes, “Endogenous Democratization,” *World Politics*, Vol. 55, No. 4 (July 2003), pp. 517–549

36. Ferdinand Tönnies, *Community and Society* [*Gemeinschaft und Gesellschaft*], trans. and ed. Charles Loomis (East Lansing: Michigan State University Press, 1957); Emile Durkheim, *The Division of Labour in Society*, trans. George Simpson (Glencoe, Ill.: Free Press, 1933); Polanyi, *The Great Transformation*; Abu-Lughod, *Before European Hegemony*; and Ronald Inglehart and Wayne E. Baker, “Modernization, Cultural Change, and the Persistence of Traditional Values,” *American Sociological Review*, Vol. 65, No. 1 (February 2000), pp. 19–52.

37. Ronald Inglehart, *World Values Surveys and European Values Surveys, 1981–1984, 1990–1993, and 1995–1997* [computer file] (Ann Arbor: Institute for Social Research, University of Michigan, 2000), ICPSR version. Question 27 asks respondents, “Generally speaking, would you say that most people can be trusted or that you can’t be too careful in dealing with people?” Data are weighted to make the national samples comparable. Data for Argentina, Chile, China, and Nigeria were excluded because the samples surveyed in these countries were not representative of national populations. *Ibid.*, pp. 5–10.

38. The coefficients, with standard errors in parentheses, are contract-intensive economy 0.11(0.06), GDP(logged) 0.03(0.03), and intercept –0.08.

grained in human nature, and that freer markets (less state regulation and more foreign trade) promote economic development.<sup>39</sup> Economic norms theory suggests that the propensity to truck, barter, and exchange is learned from the sustained presence of market-based opportunities, and that these opportunities have geographic and political origins. In this way, economic norms theory identifies the origins and popularity of classical liberal and social contract theories in the sustained presence of market-based opportunities. When contracting in the market becomes the way of life, people begin to think of it as natural and conceive of democratic governance too as a “social” contract or as embedded in “natural” law.<sup>40</sup> Economic norms theory thus offers an explanation for why the classical liberal, social contract, and natural law traditions emerged when and where they did: in the areas of northwestern Europe that were developing contract-intensive economies in the seventeenth and eighteenth centuries. In fact, in contrast to what classical liberalism advocates claim, heavy state regulation of the economy may well be a prerequisite for countries to build and sustain a social market economy. Examples include the Scandinavian countries that have both contract-intensive economies and extensive state redistribution and regulation policies.

### *Contract Norms and Peace among Nations*

Economic norms theory predicts that the leaders of contract-intensive nations will be less likely than other leaders to visibly challenge the sovereign rights of other states. This is because the modern interstate system is itself based on contract norms of legal equality: the Protestant Reformation was the consequence of the initial rise of contract norms in northwestern Europe in the sixteenth century; and the Treaty of Westphalia, which settled the Thirty Years’ War in 1648, institutionalized these norms across nations.<sup>41</sup> Leaders of contract-intensive nations thus tend to view the continuation of the

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39. Robert S. Duplessis, *Transitions to Capitalism in Early Modern Europe* (Cambridge: Cambridge University Press, 1997), p. 7.

40. Economic norms theory is thus both an empirical theory and a critical theory as identified by Robert Cox. See Cox, “Social Forces, States, and World Orders: Beyond International Relations Theory,” *Millennium: Journal of International Studies*, Vol. 10, No. 2 (June 1981), pp. 128–137.

41. In the seventeenth century, the Treaty of Westphalia was widely considered a product of Protestant values. See Adam Watson, *The Evolution of International Society: A Comparative Historical Analysis* (London: Routledge, 1992), p. 188. The Protestant states were far more likely than the Catholic states to have had a rise in contracting in the century prior to the Thirty Years’ War. See Michael Mousseau, “Globalization, Markets, and Democracy: An Anthropological Linkage,” in Mehdi Mozaffari, ed., *Globalization and Civilizations* (London: Routledge, 2002), pp. 97–124.

Westphalian system of legally equal sovereign states, and the supremacy of international law over brute power politics, as consistent with the values and interests of their domestic populations.

At first glance, economic norms theory may seem to imply the monadic expectation that contract-intensive nations should be less likely than other nations to engage in militarized conflict. But nothing in this theory suggests this to be true: rather, it is how they perceive their interests that makes contract-intensive nations different from other nations. Because contract-intensive nations consider the preservation of the Westphalian order to be in their interest, they may engage in wars with non-contract-intensive nations that challenge this order: for example, they may oppose states that threaten other states for economic gain in ways that violate international law. Economic norms theory predicts instead two hypotheses, one dyadic and one conditionally monadic. The dyadic hypothesis predicts a peace among contract-intensive nations; the monadic hypothesis predicts that contract-intensive nations, which are almost always highly democratic, will refrain from fighting other democratic nations.

Starting with the dyadic hypothesis, the theory predicts that contract-intensive nations not only will be at peace with each other but are in a natural alliance. The alliance is the result of their fundamental agreement across a range of global issues and their consequent tendency to be on the same side in militarized confrontations.<sup>42</sup> When the comparatively rare militarized dispute does occur between two contract-intensive nations, they are more likely than others to settle short of deadly force because their domestic audiences—and domestic opposition leaders—are more likely than their counterparts in non-contract-intensive nations to accept resolution through legal arbitration.

The monadic hypothesis is conditioned by democracy. Recall that economic norms theory identifies how a contract-intensive economy can cause a population to value liberal democratic government. It follows that voters in contract-intensive democracies expect their leaders to refrain from fighting other democracies, regardless of the latter's actions or economic conditions. This expectation accords with Spencer Weart's view that liberal ideology causes

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42. Expectations are confirmed in Michael Mousseau, "An Economic Limitation to the Zone of Democratic Peace and Cooperation," *International Interactions*, Vol. 28, No. 2 (January 2002), pp. 137–164; and in Michael Mousseau, "The Nexus of Market Society, Liberal Preferences, and Democratic Peace: Interdisciplinary Theory and Evidence," *International Studies Quarterly*, Vol. 47, No. 4 (December 2003), pp. 483–511.

democratic nations to refrain from attacking other democratic nations.<sup>43</sup> The key difference between Weart's thesis and mine is that I predict that liberal ideology originates in contract-intensive economies, and thus only contract-intensive democracies—not other democracies—are so constrained. In this way, economic norms theory offers an explanation for why the promotion of human rights and democracy abroad appears on the agendas of contract-intensive democracies, but seemingly not on those of democracies that lack contract-intensive economies, or nations with other kinds of political systems. If this monadic thesis is correct, then democratic dyads where at least one state has a contract-intensive economy will be peaceful. Tests that do not control for this pattern would yield misleading results.

### *Constructing the Test Conditions*

To test my hypotheses, I closely followed the analytic procedures used in a previous study.<sup>44</sup> I included all fatal militarized disputes and wars as identified in the Correlates of War Militarized Interstate Dispute data set over the years 1961 to 2001.<sup>45</sup> I made one modeling change to this previous study by

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43. Spencer R. Weart, *Never at War: Why Democracies Will Not Fight One Another* (New Haven, Conn.: Yale University Press, 1998).

44. Mousseau, Hegre, and Oneal, "How the Wealth of Nations Conditions the Liberal Peace." I converted the national-level variables for democracy and development to the dyadic level by counting only the level of the state with the lower level, denoted by adding the subscript "L." See William J. Dixon, "Democracy and the Management of International Conflict," *Journal of Conflict Resolution*, Vol. 37, No. 1 (March 1993), p. 51. The only operational differences from the above-mentioned study are the use of updated data where available, the use of the original (rather than logged) measure of intercapital distance (and the division of this number by 1,000 for presentation purposes), and the setting of distance to zero for bordering dyads. Preliminary analyses show that these changes yield the higher log-likelihood values and thus superior models. Most of the data were retrieved using the *EUGene* data generation program, ver. 3.1.213. D. Scott Bennett and Allan C. Stam, "EUGene: A Conceptual Manual," *International Interactions*, Vol. 26, No. 2 (January 2000), pp. 179–204. Democracy data are from Monty G. Marshall and Keith Jagers, *Polity IV Project: Political Regime Characteristics and Transitions, 1800–2002, Dataset Users' Manual* (University Park: Center for International Development and Conflict Management, University of Maryland, 2003), ver. e. Gross domestic product data are from the Expanded Trade and GDP Data, ver. 4.1. See Kristian Skrede Gleditsch, "Expanded Trade and GDP Data," *Journal of Conflict Resolution*, Vol. 46, No. 5 (October 2002), pp. 712–725. Capability data are explained in J. David Singer, "Reconstructing the Correlates of War Dataset on Material Capabilities of States, 1816–1985," *International Interactions*, Vol. 14, No. 2 (May 1988), pp. 115–132. Contiguity data are from Douglas M. Stinnett, Jaroslav Tir, Paul F. Diehl, Philip Schafer, and Charles Gochman, "The Correlates of War (COW) Project Direct Contiguity Data, Version 3.0," *Conflict Management and Peace Science*, Vol. 19, No. 2 (Summer 2002), pp. 59–67, ver. 3.1. The variable "Brevity of Peace" controls for time dependence. See Arvid Raknerud and Håvard Hegre, "The Hazard of War: Reassessing the Evidence for the Democratic Peace," *Journal of Peace Research*, Vol. 34, No. 4 (November 1997), pp. 385–404.

45. The 1961 to 2001 period was determined by the availability of contracting data (see below), after lagging it one year behind the dependent variable to control for endogeneity. The Correlates of

controlling for the development level of the more developed state in the dyad and its interaction with geographic distance.<sup>46</sup>

To my knowledge, two sources of direct contracting data across nations are available: investments in stocks and bonds and life insurance policies. Of all economic sectors to gauge, economic securities and life insurance are probably the most informative because it is the essential need for economic security that compels individuals to form loyalties to patrons or liberal states. Unfortunately, national-level data on stocks and bonds include foreign investment, and foreign investment does not reflect a society's norms. Life insurance contracts, however, are not affected in this way. These contracts should also serve as an accurate indicator of contracting heuristics because, in predominantly clientelist societies, individuals normally protect their families in the event of death through ties with friends and extended families, as children inherit the debts of their parents as well as the favors owed them. In this type of society, few individuals are likely to trust strangers and the state enough to place their family's welfare in an insurance contract; prevailing heuristics prevent most from even considering it. In societies where contracting is highly institutionalized, in contrast, comparatively few will have the personalized ties that are sufficiently strong and reliable that they will place their family's security in them; comparatively larger numbers will act on prevailing heuristics and trust their family's welfare to strangers in the form of life insurance contracts.<sup>47</sup>

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War Militarized Interstate Dispute data are described in Faten Ghosn, Glenn Palmer, and Stuart A. Bremer, "The MID3 Data Set, 1993–2001: Procedures, Coding Rules, and Description," *Conflict Management and Peace Science*, Vol. 21, No. 2 (January 2004), pp. 133–154. I obtained the Dyadic Militarized Interstate Disputes Dataset, ver. 1.1 (*EUGene* corrected version dyadmid602), to identify those dyadic disputes where the states confronted each other directly, rather than indirectly through collaborators. See Zeev Maoz, "Dyadic Militarized Interstate Disputes Dataset (version 1.0)," <http://psfaculty.ucdavis.edu/zmaoz/dyadmid.html>. Following standard procedure, I excluded from analyses ongoing disputes, included joiners, and considered the most serious dispute for dyad-years with multiple disputes.

46. This control is essential because wealthier countries—whether or not they have contract-intensive economies and regardless of their size—are likelier than other nations to have economic interests beyond their immediate borders and the capability to pursue these interests. For further discussion of the importance of controlling for development in geographically distant dyads, see Mousseau, "Comparing New Theory with Prior Beliefs," pp. 68–69; and Gartzke, "The Capitalist Peace," p. 175. I call the variable, which is logged GDP,  $\text{Development}_H$  (the subscript "H" stands for "higher").

47. One potential indirect indicator of contracting is employment rates, which should reflect the level of opportunity in the marketplace. Unfortunately, employment data are notoriously unreliable across nations and time. Another such indicator is contract-intensive money (CIM), which is designed to gauge the security of contract and property rights. See Christopher Clague, Philip Keefer, Stephen Knack, and Mancur Olson, "Contract-Intensive Money: Contract Enforcement, Property Rights, and Economic Performance," *Journal of Economic Growth*, Vol. 4, No. 2 (June 1999), pp. 185–211. My aim, however, is to gauge the intensity of contracting, not contract and property

I gathered cross-national data on active life insurance contracts collected under the auspices of the World Bank from 1960 to 2000.<sup>48</sup> Only sixty-five nations are included in the data, however, and many of these only after 1978. It is possible, however, to expand the data to most countries for this period by adopting a binary threshold and assuming that missing data reflect zero contract norms. This assumption follows from economic norms theory: contract-intensive societies are comparatively reliable providers of economic data because contracts must be enforced, and enforcement requires written records. States that promote markets also have an interest in collecting data on contractual transactions, so that they can monitor and promote contractual economic activity as well as tax it. In contrast, recording and tallying clientelist transactions are difficult tasks because they are framed as favors, which is why much more economic data exist on contract-intensive societies than on others, past and present. For instance, we know that in the eleventh and twelfth centuries, merchants in Cairo engaged in extensive contracting with merchants in Spain, North Africa, the Levant, and even India, because many of these contracts were later discovered in a repository of Old Cairo called the Geniza.<sup>49</sup>

The insurance data are most comprehensive for the years 1979 to 2000, so I identified the contract-intensive nations as those with existing insurance policies above the median level over this period. Additional tests show that the choice of threshold has no effect on the results. I also obtained identical results, unreported, using the original continuous data with missing values treated as missing.<sup>50</sup>

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rights. Because contracts are frequently arranged without the exchange of currency, CIM cannot be a reliable gauge of contract intensity in a nation.

48. Thorsten Beck and Ian Webb, "Economic, Demographic, and Institutional Determinants of Life Insurance Consumption across Countries," *World Bank Economic Review*, Vol. 17, No. 1 (June 2003), pp. 51–88. I gauge active life insurance protection in constant U.S. dollars per capita using the LIFEDEER variable. To my knowledge, this variable has been used in conflict studies only once before. See Michael Mousseau and Demet Yalçın Mousseau, "The Contracting Roots of Human Rights," *Journal of Peace Research*, Vol. 45, No. 3 (May 2008), pp. 327–344.

49. Abu-Lughod, *Before European Hegemony*, pp. 22–23.

50. As a further check of the assumption that missing data reflect a non-contract-intensive economy, I obtained an alternative indicator of contracting that combines per capita private consumption and investment from the Penn World Tables (PWT). See Alan Heston, Robert Summers, and Bettina Aten, *Penn World Table*, ver. 6.2 (Philadelphia: Center for International Comparisons of Production, Income, and Prices, University of Pennsylvania, 2006). The PWT data do not directly gauge contracting per se but are heavily biased toward it for reasons discussed above; they correlate highly with the contract-intensive economy variable at 0.74 and 0.77, respectively. The check yields strong support for the assumption: in the year 2000, only one country with missing contract data, Mauritius, had a combined PWT level even remotely close to the contract-intensive median. Without further study, one cannot be sure of the economic status of this country, so I set it to missing. I considered as contract-intensive only those nations that crossed and remained above the me-

Table 1. Contract-Intensive Economy (CIE), Democracy, and the Onset of Militarized Interstate Conflict, 1961 to 2001

Variables	Fatal Disputes			Wars		
	Model 1	Model 2	Model 3	Model 3	Model 4	Model 4
Democracy <sub>I</sub>	-0.10 (0.02)***	-0.03 (0.02) †	-0.15 (0.04)***	-0.15 (0.04)***	-0.03 (0.04) †	-0.03 (0.04) †
Both states CIE	—	-0.20 (0.04)***	—	—	-0.30 (0.08)***	-0.30 (0.08)***
Democracy <sub>I</sub> x One state CIE	—	-0.88 (0.30)**	—	—	-1.46 (0.59)*	-1.46 (0.59)*
One state CIE	—	-0.22 (0.06)***	—	—	-0.40 (0.11)***	-0.40 (0.11)***
Capability ratio <sub>Logged</sub>	-0.21 (0.06)***	0.94 (0.26)***	-0.40 (0.11)***	-0.40 (0.11)***	1.27 (0.40)**	1.27 (0.40)**
Major power	1.00 (0.27)***	1.52 (0.26)***	1.45 (0.39)***	1.45 (0.39)***	0.80 (0.41)	0.80 (0.41)
Contiguity	1.48 (0.26)***	1.52 (0.26)***	0.74 (0.41)	0.74 (0.41)	1.81 (0.43)***	1.81 (0.43)***
Distance	-3.39 (0.44)***	-3.41 (0.47)***	-2.97 (0.63)***	-2.97 (0.63)***	-3.04 (0.70)***	-3.04 (0.70)***
Brevity of peace	3.22 (0.23)***	3.14 (0.22)***	1.85 (0.44)***	1.85 (0.44)***	1.81 (0.43)***	1.81 (0.43)***
Development <sub>H</sub>	-0.28 (0.11)*	-0.35 (0.11)**	-0.19 (0.18)	-0.19 (0.18)	-0.33 (0.19)	-0.33 (0.19)
Distance x Development <sub>H</sub>	0.34 (0.04)***	0.34 (0.05)***	0.29 (0.06)***	0.29 (0.06)***	0.30 (0.07)***	0.30 (0.07)***
Intercept	-4.94 (1.02)***	-3.88 (1.02)***	-6.52 (1.83)***	-6.52 (1.83)***	-4.61 (1.86)*	-4.61 (1.86)*
Pseudo log-likelihood	-1857	-1827	-567	-567	-557	-557
Pseudo R <sup>2</sup>	0.31	0.32	0.14	0.14	0.15	0.15
Observations	286,999	276,133	286,893	286,893	276,027	276,027
Clusters	12,179	11,994	12,179	12,179	11,994	11,994

Standard errors, corrected for clustering by dyad, appear in parentheses.

\*  $p < 0.05$ ; \*\*  $p < 0.01$ ; \*\*\*  $p < 0.001$

† Variable predicts peace perfectly and 10,866 observations, containing 185 clusters, not used.

*Analyses of Domestic Economy, Democracy, and War*

Model 1 in table 1 confirms the findings of previous studies regarding the relationship between democracy and fatal militarized disputes from 1961 to 2001. The coefficient for Democracy<sub>L</sub> (−0.10) is negative and highly significant, confirming the expectation of democratic peace when the presence or absence of contract-intensive economy is not considered. The performance of most of the control variables is similar to that found in these earlier studies.<sup>51</sup>

To test the dyadic hypothesis that contract-intensive nations refrain from engaging in militarized disputes with each other, I constructed a binary indicator for both states having contract-intensive economies, which I call “Both States CIE.” As can be seen in table 1, the test yields a startling result: the Both States CIE variable must be dropped from the estimate because it predicts peace perfectly; that is, in the sample from 1961 to 2001, no fatal militarized disputes occurred between two nations with contract-intensive economies. A bivariate chi-square test indicates that this peace cannot be reasonably attributed to chance ( $p < 0.001$ ). In contrast, with the binary measure “Both Coherent Democracies,” as defined by Edward Mansfield and Jack Snyder,<sup>52</sup> ten fatal militarized disputes took place between democratic nations that lacked contract-intensive economies. A bivariate chi-square test suggests that this is about the expected number if democracy in countries without a contract-intensive economy does not cause peace among nations ( $p < 0.715$ ).

To test the monadic hypothesis, I distinguished democratic dyads where one state has a contract-intensive economy from those where neither state has one by including the variable “One State CIE” and its interaction with

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dian threshold. Five countries had missing data prior to 1979 but had contract-intensive economies from this year forward. For prior years I included these countries as contract-intensive if they had PWT values above the contract-intensive median in 1979; otherwise the data were set to missing. I also set the contract-intensive data to missing for cases where the PWT data are missing, because in these cases the measure of contract-intensive economy could not be independently verified. The resulting measure allows for the examination of 79 percent of dyads one could otherwise observe. I report summary statistics and correlations of all variables with the primary independent variable in appendix A.

51. Regarding the added controls for geographic distance and development, the positive coefficient for Distance  $\times$  Development<sub>H</sub> (0.34) confirms that in geographically distant dyads, economic development in one state significantly increases the probability of fatal conflict. The negative coefficient for Development<sub>H</sub> (−0.28) shows that development does not have this conflict-inducing effect among states with a shared border.

52. That is, with “democracy” defined as both states scoring greater than six on the Polity2 index of the Polity VI Project. See Edward D. Mansfield and Jack Snyder, *Electing to Fight: Why Emerging Democracies Go to War* (Cambridge, Mass.: MIT Press, 2005), pp. 72–80.

Democracy<sub>L</sub>. As can be seen in model 2 in table 1, the coefficient for the interactive term Democracy<sub>L</sub> × One State CIE (−0.20) is negative and significant. This confirms the supplemental monadic hypothesis of a conditional relationship between contract-intensive economy and democracy. Because the coefficients for constituent terms (Democracy<sub>L</sub>) in interactive models are meaningful only for cases where the other constituent term (One State CIE) equals zero, the coefficient for Democracy<sub>L</sub> (−0.03) in model 2 confirms the results of the bivariate chi-square tests: in countries without a contract-intensive economy, democracy does not cause peace among nations.<sup>53</sup>

Models 3 and 4 in table 1 repeat the analyses for the onset of war, defined by convention as militarized interstate disputes that include more than 999 battle deaths. The coefficient for Democracy<sub>L</sub> (−0.15) in model 3 is negative and highly significant. This confirms the findings of previous studies regarding the relationship between democracy and war from 1961 to 2001. In model 4 all cases where Both States CIE equals one are excluded because this variable predicts peace perfectly. A bivariate chi-square test indicates that this absence of war among contract-intensive nations is probably not the result of chance ( $p < 0.10$ ). In contrast, the data yield two wars among coherent democracies where both lacked contract-intensive economies over the sample period: Cyprus and Turkey in 1974 and the Kargil war fought between India and Pakistan starting in 1993 (this dispute continued to 1999 when it reached the war level while both countries were still democratic). A chi-square test indicates that this is approximately the number to be expected if democracy without a contract-intensive economy does not prevent wars among nations ( $p < 0.857$ ).<sup>54</sup>

The remaining coefficients in model 4 are substantially identical to the results for fatal militarized interstate disputes in model 2. The coefficient for

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53. For more on interpreting interaction terms, see Robert J. Friedrich, "In Defense of Multiplicative Terms in Multiple Regression Equations," *American Journal of Political Science*, Vol. 26, No. 4 (November 1982), pp. 797–833; and Bear F. Braumoeller, "Hypothesis Testing and Multiplicative Interaction Terms," *International Organization*, Vol. 58, No. 4 (Fall 2004), pp. 807–820. Although the results in model 2 cannot be generalized to cases where both states have contract-intensive economies (because these cases have been dropped due to perfect prediction), it is not necessary to draw such a generalization when testing the monadic hypothesis.

54. A closer look reveals that the Cyprus-Turkey case was not an interdemocratic war, given that the democratic government of Cyprus was overthrown five days before the war began. This is a mishap of the annually aggregated data. One should be weary of excluding this case, however, unless any interdemocratic wars that are not counted due to the annually aggregated data are excluded. Still, even if this case is dropped, the number of interdemocratic wars (one) is approximately the number to be expected if democracy without a contract-intensive economy does not prevent wars among nations ( $p < 0.401$ ).

Democracy<sub>L</sub> × One State CIE (−0.30) confirms the supplemental monadic hypothesis of a conditional relationship between a contract-intensive economy and democracy at the war level; the coefficient for Democracy<sub>L</sub> (−0.03) confirms that democracy without a contract-intensive economy does not cause peace among nations. Identical results also appear, for fatal militarized disputes and wars, using the dyadic dummy variable for Both Coherent Democracies.

One possible explanation for the insignificance of democracy may be that there are too few cases of democracies without contract-intensive economies. The data, however, do not support this conclusion. Economic norms theory predicts that a contract-intensive economy will cause and stabilize democracy: it is thus no surprise that 88 percent of contract-intensive nation-years from 1960 to 2000 are also coherently democratic.<sup>55</sup> But non-contract-intensive nations can experiment with democratic government for a host of reasons, and 49 percent of coherent democratic nation-years do not have contract-intensive economies during this period. Because there are about as many democratic nation-years without contract-intensive economies as there are with them, a dearth of non-contract-intensive democratic cases cannot explain the insignificance of the democratic peace.

Could the causal arrow point in the opposite direction, with democracy the ultimate cause of contract-intensive economies and peace? The evidence does not support this conclusion. Correlations among independent variables are not calculated in the results of multivariate regressions: coefficients show only the effect of each variable after the potential effects of the others are excluded. If democracy was a direct cause of both contract-intensive economy and peace, then there would be some variance remaining, after its moderate correlation with contract-intensive economy is excluded, that links democracy directly with peace.<sup>56</sup> The insignificance of the Democracy<sub>L</sub> coefficients in models 2 and 4 in table 1 indicates that no such direct effect exists. In addition, the scholarly consensus is that higher income per capita, which correlates with the contract-intensive economy variable, is far more likely to cause democracy

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55. The 12 percent of contract-intensive nation-years without coherent democratic government are almost all countries that transitioned to contract-intensive economies during the sample period and, within a decade, became democratic or reached the last year of the sample. There are only two countries whose transition years from contract-intensive economy to democracy were longer than a decade: South Korea (sixteen years) and South Africa (twenty-three years). Only one country, Singapore, defies the perfect correlation, with time lag, of contract-intensive transition and democratic transition as predicted by economic norms theory.

56. Hubert M. Blalock, *Social Statistics*, 2d ed. (New York: McGraw-Hill, 1979), pp. 473–474.

than democracy is to cause development.<sup>57</sup> Still, the analysis here is not designed to test for reverse causation, though performance of such a test would be a valuable addition to the literature.

Robustness tests indicate that in analyses of wars, democracy remains highly insignificant under any examined circumstance. In analyses of fatal disputes, on the other hand, the removal of some control variables can cause democracy to reach significance at the 0.10 level, which is the lowest threshold statisticians normally assign significance. Further tests show that democracy is not significant with the removal of all control variables.<sup>58</sup> Nor does democracy become significant under any circumstance when observing only bordering nations. This suggests that if peace exists among non-bordering democracies, it is because non-contract-intensive democracies usually have weak economies and thus refrain from fighting each other because they do not have the capability to do so.

The results in table 1 support both aspects of the economic peace: the dyadic unconditional peace and the supplemental monadic peace conditioned by democracy. These patterns conform with the economic norms expectation that a contract-intensive economy promotes liberal values and consolidated liberal democracy. Common preferences and interests cause foreign policy agreement and peace among contract-intensive nations, whereas liberal ideology causes contract-intensive democracies to refrain from using force against other democracies, including those without contract-intensive economies. Democracies that lack contract-intensive economies, on the other hand, have no such constraints and do not perceive common interests within the Westphalian order; thus they tend to fight each other about as often as other nations do.

Further calculations indicate that a contract-intensive economy is a powerful force for peace. I could not directly estimate the substantive impact of Both States CIE because it predicts peace perfectly, so I reestimated model 2 after combining the dyadic and monadic measures into a single “super” variable: “One or Both States CIE.” I then included the product of this variable and Both Coherent Democracies to identify cases where both states are democracies and at least one has a contract-intensive economy. The results—unreported for rea-

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57. “Development” in these studies means mostly capitalist, or contract-intensive, development. See Ross E. Burkhardt and Michael S. Lewis-Beck, “Comparative Democracy: The Economic Development Thesis,” *American Political Science Review*, Vol. 88, No. 4 (December 1994), pp. 903–910.

58. The removal of all control variables may offer the more compelling test. See James Lee Ray, “Explaining Interstate Conflict and War: What Should Be Controlled For?” *Conflict Management and Peace Science*, Vol. 20, No. 2 (Fall 2003), pp. 1–31.

sons of space—indicate that, among bordering democracies, a change from neither to one or both states with a contract-intensive economy causes a 97 percent reduction in the probability of fatal dispute onset. None of the remaining variables has an impact of this magnitude.<sup>59</sup>

### *Exploration of Alternative Explanations*

This section examines the possibility that the results discussed above may be explained by variables that I have excluded thus far because economic norms theory predicts that they are at least partly caused by the contract-intensive economy variable. Because correlations among independent variables are not credited to any variable in a multivariate regression, economic norms theory predicts that inclusion of the variables below will reduce the impact of the contract-intensive economy variable. Therefore, this section cannot serve as a test of economic norms theory. Instead, it departs from the theory and examines the possibility that competing theories may account for the results discussed above.

Economic norms theory identifies contract norms as a cause of economic development. It is also likely, however, that wealthier individuals are better positioned than poorer ones to engage in contracts. To ensure that the results of model 2 in table 1 are not a function of wealth, I added a control for economic development (see model 1 in table 2). The coefficients for the contract-intensive economy variables hold firmly, and the coefficient for Development<sub>it</sub> (0.05) is not significant. This means that the results of this study cannot be attributed to the fact that contract-intensive nations tend to be wealthier than other nations.<sup>60</sup>

Economic norms theory predicts that individuals in contract-intensive societies will be more likely than individuals in other societies to seek profitable contracts wherever they may find them. Because the nature of governance in contract-intensive nations is expected to reflect the contractualist worldview that good government abets the private pursuit of wealth, it predicts that governments of contract-intensive nations will be more likely than others to encourage foreign trade.

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59. For the continuous variables, I assessed the impacts of a change from the lowest to highest deciles.

60. Further tests, unreported for reasons of space, confirm that the interaction of development with democracy also is not significant once the contract-intensive variables are considered. This is consistent with economic norms theory, which predicted the interaction of development with democracy in the first place only as a proxy measure for contract-intensive economy. See Mousseau, "Market Prosperity, Democratic Consolidation, and Democratic Peace," p. 486.

Table 2. Testing Alternative Explanations for the Economic Peace<sup>†</sup>

Variables	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6
Democracy <sub>L</sub>	-0.03 0.02	-0.02 0.02	-0.03 0.02	-0.03 0.02	0.01 0.02	0.02 0.02
Democracy <sub>L</sub> x One state CIE	-0.20*** 0.04	-0.20*** 0.04	-0.20*** 0.04	-0.20*** 0.04	-0.16** 0.05	-0.27*** 0.06
One state CIE	-0.85** 0.30	-0.90** 0.30	-0.88** 0.31	-0.83** 0.30	-0.51 0.42	-1.47** 0.53
Development <sub>L</sub>	0.05 0.09	—	—	—	—	—
Trade interdependence <sub>L</sub>	—	-0.59 0.41	—	—	—	—
Democratic maturity <sub>L</sub>	—	—	-0.09 0.17	—	—	—
Alliance	—	—	—	0.16 0.17	—	—
Service economy <sub>L</sub>	—	—	—	—	0.01 0.01	—
Capital openness <sub>L</sub>	—	—	—	—	—	-0.15** 0.05
Capability ratio <sub>L</sub>	-0.21***	-0.23***	-0.22***	-0.21***	-0.04	-0.15
Major power	0.94***	0.96***	0.94***	0.94***	0.65	0.84*
Contiguity	1.52***	1.56***	1.53***	1.49***	1.39***	1.37***
Distance	-3.42***	-3.43***	-3.41***	-3.40***	-3.68***	-3.78***
Brevity of peace	3.14***	3.13***	3.14***	3.17***	2.90***	3.13***
Development <sub>H</sub>	-0.38**	-0.33**	-0.35**	-0.36**	-0.83***	-0.35**
Distance x Development <sub>H</sub>	0.34***	0.34***	0.34***	0.34***	0.35***	0.37***
Intercept	-3.98***	-3.94***	-3.88***	-3.86***	-0.58	-3.12*
Pseudo log-likelihood	-1827	-1826	-1827	-1827	-725	-834
Pseudo R <sup>2</sup>	0.32	0.32	0.32	0.32	0.35	0.35
Observations	276,133	276,133	276,133	276,133	184,093	145584
Clusters	11,994	11,994	11,994	11,994	9,853	8,393

Standard errors, corrected for clustering by country and in second row of each cell, are not reported for control variables to save space.

\*  $p < 0.05$ ; \*\*  $p < 0.01$ ; \*\*\*  $p < 0.001$

<sup>†</sup>CIE stands for "contract-intensive economy." All models include the variable Both States CIE, which predicts peace perfectly and causes the elimination of up to 10,866 observations where this variable equals 1.

Trade per capita is not the same as trade interdependence (trade/gross domestic product), however, and economic norms theory does not predict trade interdependence per se. But contract-intensive nations prefer law over brute force, and thus they are more likely to prefer trade over imperialism in foreign economic policy.<sup>61</sup> Richard Rosecrance has argued that the decision to trade rather than to fight is a key factor in explaining peace among trading nations.<sup>62</sup> Economic norms theory thus complements Rosecrance's insights, and the contract-intensive economy variable can potentially account for the pacifying role of trade interdependence in international relations. But the reverse is also possible: trade interdependence may account for peace among contract-intensive nations. This is the view of economic liberals: interstate trade promotes market development, democracy, and peace.<sup>63</sup>

As can be seen in model 2 in table 2, the coefficient for Trade Interdependence ( $-0.59$ ) is not significant. It thus appears that contracting is the more likely cause of both trade interdependence and peace among nations. Still, caution must be exercised: the trade variable is close to significant, and this regression model was not designed for resolving this issue. Also, scholars have not settled on how best to gauge trade interdependency.<sup>64</sup> Further examination of the impact of trade in conflict is thus warranted.

Some explanations for the democratic peace suggest that only democracies with mature or consolidated institutions might be peaceful. In addition, mature democracies may promote contract-intensive economies, suggesting the potential reversal of causation. In model 3 in table 2 the coefficient for Democratic Maturity<sub>L</sub> ( $-0.09$ ) is not significant.<sup>65</sup> It thus appears that even mature, consolidated democracies are not more peaceful with each other than

61. During Europe's period of colonial/imperial expansion, contract norms and values—though influential in political thought for many in the middle classes—were not deeply embedded in the imperialist societies. This is supported by evidence involving emigration rates, which indicates the inverse of the level of opportunity the poorest have on the market. Colonial expansion all but ended around the turn of the century, and French emigration peaked in 1889; Belgian in 1903, and the British Isles in 1913. See Walter F. Willcox, ed., *International Migrations*, Vol. 1: *Statistics* (New York: National Bureau of Economic Research, 1929), pp. 97–109.

62. Richard Rosecrance, *The Rise of the Trading State: Commerce and Conquest in the Modern World* (New York: Basic Books, 1986).

63. For a coherent explication of these classical liberal directions of causation, see Erich Weede, *Economic Development, Social Order, and World* (Boulder, Colo.: Lynne Rienner, 1996); and Erich Weede, *Balance of Power, Globalization, and the Capitalist Peace* (Potsdam: Liberal, 2005).

64. Mousseau, Hegre, and Oneal, "How the Wealth of Nations Conditions the Liberal Peace," p. 303. The trade data observed here are from Gleditsch, "Expanded Trade and GDP Data."

65. I calculated Democratic Maturity<sub>Younger</sub> as the product of Both Coherent Democracy and the age in years of the younger democracy (using the "Durable" variable in the Polity IV data set, logged +1).

other nations. Rather, a contract-intensive economy is the more likely cause of both democratic maturity and the prevailing peace.

Economic norms theory predicts that contract-intensive nations will perceive common security interests in the primacy of international law over power politics, causing them to form alliances. Common interests can develop for other reasons, however, and it is possible that alliances may account for the economic peace.<sup>66</sup> In model 4 in table 2, the coefficient for Alliance (0.16) is not significant. The evidence thus favors the conclusion that contract-intensive economy partially accounts for the existence of both alliances and peace.

As discussed above, Gat has offered several explanations for the peace among developed democratic nations.<sup>67</sup> Most of these are broad and unfalsifiable, but he does offer urbanization and size of the service sector as variables, which he suggests make individuals less accustomed to the suffering of war and therefore opposed to it. But a service economy may be a function of contract norms, which encourage the commodification of services as well as of labor and capital. I gauge the variable Service Economy as the proportion of gross domestic product in the service sectors.<sup>68</sup> In model 5 in table 2, the coefficient (0.01) is not significant. Analyses of urbanization show that dyads where both states are highly urbanized are significantly more likely than other dyads to engage in fatal disputes. Neither urbanization nor a service economy is thus a likely explanation for the economic peace.

Also discussed above, Gartzke argues that free capital markets might explain the developed democratic peace. But these markets could be caused by contract norms, as states promote foreign trade and financial markets diffuse within, as well as across, international borders. Model 6 in table 2 reports the results using Gartzke's measure.<sup>69</sup> The coefficient for Capital Openness<sub>L</sub> (-0.15) is negative and significant, and coefficients for the contract-intensive economy variable also hold firmly. This suggests that, even if there is some causality stemming from the contract-intensive economy variable, free capital markets have an independent impact on the onset of fatal disputes. In short, the data support both Gartzke's theory and economic norms theory. This result is reasonable, as the theories do not contain incompatible assumptions and are

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66. For how alliances may account for the democratic peace, see Henry S. Farber and Joanne Gowa, "Politics and Peace," *International Security*, Vol. 20, No. 2 (Fall 1995), pp. 123–146. Alliance data are from Douglas M. Gibler and Meredith Reid Sarkees, "Measuring Alliances: The Correlates of War Formal Interstate Alliance Dataset, 1816–2000," *Journal of Peace Research*, Vol. 41, No. 2 (March 2004), pp. 211–222.

67. Gat, "The Democratic Peace Theory Reframed."

68. Data are from the *World Development Indicators* (Washington, D.C.: World Bank, 2004).

69. Gartzke, "The Capitalist Peace."

not mutually exclusive.<sup>70</sup> Further tests show that contract-intensive economy is the far stronger variable, with an impact about twice that of capital openness. Subsequent tests for war onsets produced identical results for all variables except Capital Openness<sub>L</sub>, which is not significant at the war level.

### *The Greek-Turkish Case*

An examination of a case study of recent changes in Greece's economy and its relations with its neighbor Turkey illustrates how economic norms affect the domestic and foreign politics of nations. I chose this case because both countries have experienced many years of "coherent" democracy as defined above: Greece since 1975, with eighty-four years of democracy previously; and Turkey since 1983, with twenty-five years of democracy previously.<sup>71</sup> Nevertheless, from 1960 to 2000, twenty militarized interstate disputes occurred between the two countries, five of which resulted in fatalities. If economic norms theory is correct, these tensions were a function of nationalist and xenophobic attitudes of voters on both sides. In 1990 Greece transitioned from a clientelist to a contract-intensive economy. This offers a direct opportunity to test the economic norms expectation that Greece's transition to a contract-intensive economy should have been followed by substantial moderation and rationalization of Greek domestic and foreign politics, including Greece's relations with Turkey.

As discussed earlier, an increase in the use of contracts is thought to have political and geographic root causes. For Greece, the political roots stem from a desire to join the European Community (EC) and the role played by the EC in giving politicians an "excuse" to make institutional changes, such as the equitable enforcement of banking and trade laws, which favors the transition to a market economy. Geographically, Greece's entry into the EC was followed by a substantial increase in foreign investment into the country from 1980 to 1995.<sup>72</sup> Starting in 1986, the rate of growth in life insurance contracting in Greece increased dramatically; it crossed the global median into contract-intensive status in 1990. Still, in the year 2000 Greece's level of per capita life insurance

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70. Of course, other theories can also account for the significance of capital openness. Rudolph Rummel has long emphasized economic "freedom" as a cause of peace. See Rummel, *War, Power, and Peace*.

71. For these figures, I rely on data from Marshall and Jagers, *Polity IV Project*.

72. Gerassimos Karabelias, "Twenty Years of Civil-Military Relations in Postdictatorship Greece, 1975-95: Steps toward the Consolidation of Democracy," *Mediterranean Quarterly*, Vol. 10, No. 2 (Spring 1999), pp. 78-79.

contracting was only one-twenty-fifth that of the contract-intensive standard-bearers Japan, Switzerland, and the United Kingdom.

Most observers agree that the mid-1990s was a turning point in Greek politics. Before then, the two main parties, the Panhellenic Socialist Movement (PASOK) and New Democracy (ND), were primarily agents of bureaucratic clientelism. As economic norms theory would expect, both parties were highly personalist and centered on charismatic leaders prone to populist and ideological bombast.<sup>73</sup> Interparty relations were tense and based on opposing social identities and systems of patronage.<sup>74</sup> The rule of law was weak,<sup>75</sup> and distrust of the state ran deep<sup>76</sup>; in addition, the people identified with “the political parties rather than governments.”<sup>77</sup>

In foreign policy there was an “exclusivist notion of ‘Greekness.’”<sup>78</sup> In the 1980s and early 1990s, PASOK won elections with the xenophobic, anticapitalist, anti-American, and anti-European rhetoric of its populist leader, Andreas Papandreou. In 1976 Greece confronted Turkey on issues in the Aegean over which the International Court of Justice later ruled the Greeks had no case. When a similar issue arose in 1987, Prime Minister Papandreou asserted that it was time to “teach the Turks a hard lesson.”<sup>79</sup> The two countries came close to war in 1976, 1987, and 1996.<sup>80</sup> Although during this period Greek and Turkish leaders made frequent attempts to resolve their differences, “these initiatives were not sustainable in the face of an adverse political climate, limited social contacts, high level of biases, and sensationalist press.”<sup>81</sup>

The watershed moment in Greek politics came in 1996, when Papandreou died and PASOK elected Costas Simitis to replace him. The gulf separating the two leaders was vast. Simitis was elected largely on the platform of

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73. Kevin Featherstone, “Introduction: ‘Modernisation’ and the Structural Constraints of Greek Politics,” *West European Politics*, Vol. 28, No. 2 (March 2005), p. 229. See also Karabelias, “Twenty Years of Civil-Military Relations in Postdictatorship Greece.”

74. *Ibid.*

75. Pavlos Eleftheriadis, “Constitutional Reform and the Rule of Law in Greece,” *West European Politics*, Vol. 28, No. 2 (March 2005), pp. 317–334.

76. Featherstone, “Introduction,” p. 230. See also Karabelias, “Twenty Years of Civil-Military Relations in Postdictatorship Greece.”

77. Karabelias, “Twenty Years of Civil-Military Relations in Postdictatorship Greece,” p. 76. See also Featherstone, “Introduction,” p. 229.

78. Featherstone, “Introduction,” p. 230.

79. Quoted in Marcia Christoff Kurop, “Greece and Turkey: Can They Mend Fences?” *Foreign Affairs*, Vol. 77, No. 1 (January/February 1998), p. 10.

80. Neophytos G. Loizides, “Greek-Turkish Dilemmas and the Cyprus-EU Accession Process,” *Security Dialogue*, Vol. 33, No. 4 (December 2002), pp. 429–442.

81. Ziya Önis and Şuhnaz Yılmaz, “Greek-Turkish Rapprochement: Rhetoric or Reality?” *Political Science Quarterly*, Vol. 123, No. 1 (Spring 2008), p. 128.

*Eksynchronismos* (modernization). In the words of Kevin Featherstone, “Simitis and his supporters advocated a greater separation of party from the state” and a break from the “bureaucratic clientelism of the recent past.” Whereas Papandreou “exercised a dominant authority over his party,” Simitis was “more managerial and technocratic.”<sup>82</sup>

As economic norms theory would expect, PASOK’s choice of a reformer reflected deep-seated changes in Greece’s political culture. The opposition ND also moved to the center, with the nationalist posturing and ideological bravado of both parties largely disappearing from Greece’s political discourse.<sup>83</sup> A “cultural shift” occurred,<sup>84</sup> as the new rhetoric of reform struck a strong chord with the electorate, which increasingly viewed the leaders of the country’s old-style politics as “dinosaurs.”<sup>85</sup> Voters began to distance themselves from Greece’s political parties; legal institutions became more central to everyday life; and a “new sense of security changed the way ordinary citizens viewed public life.”<sup>86</sup> Reflecting an increased respect for the rule of law, the two leading parties agreed on new protections for individual rights in the constitution.<sup>87</sup> Still, a minority continued to vocalize opposition to what many Greeks called Greece’s growing “Europeanization,” led by Archbishop Christodoulos.

Both leading parties also backed fundamental changes in Greece’s foreign policy.<sup>88</sup> For Europe, the country that was once viewed as the “black sheep” of European foreign policy had evolved into a more consensual partner.<sup>89</sup> Prior to the late 1990s, Greece maintained an uncompromising approach in its relations with Albania, Bulgaria, and Macedonia, and was widely viewed in Europe as the “bully of the Balkans.” In the late 1990s, however, a more cooperative attitude emerged, and Greece’s relations with these countries greatly improved.<sup>90</sup> This realignment with other contract-intensive countries following Greece’s own transition to a contract-intensive economy, and its more cooperative attitude toward other democracies, accords with expectations of economic norms theory.

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82. Featherstone, “Introduction,” pp. 226–228.

83. Eleftheriadis, “Constitutional Reform and the Rule of Law in Greece,” p. 317. See also Kurop, “Greece and Turkey,” p. 7; and Featherstone, “Introduction.”

84. Featherstone, “Introduction,” p. 334.

85. *Ibid.*, p. 228.

86. Eleftheriadis, “Constitutional Reform and the Rule of Law in Greece,” pp. 317–318. See also Featherstone, “Introduction,” p. 224.

87. Eleftheriadis, “Constitutional Reform and the Rule of Law in Greece.”

88. Kurop, “Greece and Turkey,” p. 8; and Featherstone, “Introduction,” p. 237.

89. Featherstone, “Introduction,” p. 224; and Kurop, “Greece and Turkey,” pp. 7–8.

90. Kurop, “Greece and Turkey,” pp. 7–8.

Greece's foreign policy toward Turkey also underwent fundamental change in the late 1990s.<sup>91</sup> Reflecting a change in Greek attitudes, foreign minister Theodoros Pangalos—considered a hard-liner—asserted that “we Greeks must get over the old knee-jerk reaction that if something is bad for Turkey it is good for us.”<sup>92</sup> The most significant change occurred in 1999, when Greece moved from perennial obstructer to supporter of Turkey's membership bid to join the European Union (EU). In all likelihood, this move was not strategic but an outcome of deep-seated shifts in Greeks' perceptions of their national interest.<sup>93</sup> Greek scholars and think tanks have stressed that it is in Greece's interest to have Turkey in the EU as a partner.<sup>94</sup> From 2000 to 2004, Greece and Turkey signed twenty-five major agreements; from 1970 to 2000 there were none.<sup>95</sup> It must be recalled, however, that fundamental differences remain over the division of Cyprus and exploitation of the Aegean seabed.<sup>96</sup>

Resolution of the deeper issues in Greek-Turkish relations would also require change in how Turkish leaders perceive their interests. Unlike Greece, Turkey has not transitioned to a contract-intensive economy. If economic norms theory is correct, then Turkish politics should appear similar to Greek politics before Greece's transition; this would include strong party loyalties, intense identity issues, and fear of outsiders in the country's political discourse. In foreign policy, compromise should be difficult, as opposition parties seeking to garner the nationalist identity seize any reason to criticize the government for “giving in” to outsiders.

Most observers agree that the above description characterizes Turkish politics today. There is no significant liberal party concerned with individual rights, equal enforcement of the law, or transparency in government. The left is characterized as favoring the elite-led modernization project, which increasingly includes “an intensifying nationalism with an underlying xenophobia”; the right emphasizes communitarian religious identity and social conserva-

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91. Önis and Yilmaz, “Greek-Turkish Rapprochement,” p. 126.

92. Kurop, “Greece and Turkey,” p. 8.

93. Önis and Yilmaz, “Greek-Turkish Rapprochement,” p. 136. See also Kevin Featherstone and George A. Kazamias, eds., *Europeanization and the Southern Periphery* (London: Frank Cass, 2001).

94. The Hellenic Foundation for European and Foreign Policy reflects the new wave of Greek foreign policy scholars and think tanks emphasizing common interests with Turkey. See Theodore Couloumbis, “The Future of Greek-Turkish Rapprochement,” seminar in International Relations Department, Koç University, Istanbul, February 2000.

95. Önis and Yilmaz, “Greek-Turkish Rapprochement,” pp. 130–131.

96. Cyprus is an issue between Greece and Turkey, but this review of the Greek and Turkish economies and their politics should not be extrapolated to the Greek and Turkish communities in Cyprus.

tism.<sup>97</sup> Turkey's national identity includes a strong ethnoreligious dimension, and communitarianism remains a prominent feature: it continues to be a criminal offense to insult Turkishness. The political parties are weakly institutionalized and headed by strong, charismatic leaders who compete over state rents with ideological and populist appeals. Voters identify with parties, and the parties offer competing images of national identity.<sup>98</sup>

Although Turkey has contributed in many ways to the rapprochement with Greece, domestic core values continue to place constraints on further progress. For instance, Turkey could grant more religious freedom to its Orthodox community.<sup>99</sup> But with the international community, Turks feel that they can rely only on themselves, and the EU concern over Turkey's human rights record is widely viewed "as part of a design to undermine Turkish national unity."<sup>100</sup> Engagement with Greece is considered risky for any incumbent government because it tends "to generate widespread nationalist sentiments."<sup>101</sup> The opposition can easily brand concessions, even if mutual, as giving in to outsiders and contrary to Turkish interests. Public opinion surveys in Turkey show that there continue to be very low levels of trust in the society, and "popular sentiment towards Greeks tends to be quite negative."<sup>102</sup>

Turkey may have engaged with Greece in part due to the "earthquake diplomacy" that occurred after the catastrophic earthquake that struck Turkey in August 1999.<sup>103</sup> Consistent with the economic norms expectation of a new universalism in Greek identity, many Greek individuals, nongovernmental organizations, and local authorities, in addition to the Greek government, offered substantial help to the Turks in their time of need. This opened a temporary window of good feeling toward Greece in Turkey that allowed Ankara to sign a number of confidence-building measures with Athens.

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97. See İlder Turan, "Unstable Stability: Turkish Politics at the Crossroads?" *International Affairs*, Vol. 83, No. 2 (March 2007), p. 329 n. 16.

98. Ibid. For the role of clientelism in Turkish politics, see Demet Yalçın Mousseau, "Democracy, Human Rights, and Market Development in Turkey: Are They Related?" *Government and Opposition*, Vol. 41, No. 2 (Spring 2006), pp. 298–326.

99. Önis and Yılmaz, "Greek-Turkish Rapprochement," pp. 146–147.

100. Turan, "Unstable Stability," p. 337.

101. Önis and Yılmaz, "Greek-Turkish Rapprochement," p. 147. See also Turan, "Unstable Stability," p. 338.

102. Önis and Yılmaz, "Greek-Turkish Rapprochement," p. 140. See Ali Çarakoğlu and Kemal Kirişçi, "The View from Turkey: Perceptions of Greeks and Greek-Turkish Rapprochement by the Turkish Public," *Turkish Studies*, Vol. 5, No. 1 (Spring 2004), pp. 111–153.

103. Niels Kadritzke, "Forgetting a Remembered History: Greece's Earthquake Diplomacy," trans. Barbara Wilson, *Le Monde diplomatique*, June 2000.

An alternative explanation for the improvement in Greek-Turkish relations might be the constraining and moderating role of the EU. It is true that Turkey's constructive responses to Greek initiatives have been at least partly aimed at satisfying EU conditions for full membership. For instance, after refusing for decades to allow an international solution to the Cyprus dispute, Ankara acquiesced after the EU made doing so a condition of Turkey's candidacy. In this way, the carrot of the EU acts as political cover for Turkish politicians, just as the EC once did for Greek politicians, offering leaders an "excuse" for "giving in" to the foreigners. Given Greece's full membership in the EU since 1981, however, EU incentives do not offer a satisfying account for the changes in Greek politics and foreign policy in the 1990s.

Recognition of the EC's role in Greece's transition to a contract-intensive economy suggests some promise for a more stable peace between Greece and Turkey in the years ahead. Like Greece in the 1980s, after Turkey became an official EU candidate, it experienced an explosion of foreign direct investment.<sup>104</sup> In the 1990s Turkey also experienced a rise in per capita life insurance contracting. If the rate of growth of the 1990s continues, the country will pass the contract-intensive threshold in the year 2019. If the time lag for political change after the economic transition in Turkey is the same as it was in Greece (seven years), significant moderation and individualization of Turkey's political culture may occur around 2026. If the EU continues to act as an incentive for institutionalizing the market and as a source of foreign investment, Turkey's change could come sooner.<sup>105</sup> Economic norms theory would predict that when this happens, all of Turkey's security-related issues with Greece will be positively and permanently settled; the enduring rivalry will end; and fatal militarized confrontations in this dyad will be a thing of the past.

### *Conclusion*

Many policymakers and scholars of international relations believe that the promotion of democracy abroad will enhance global order and the security of the United States and its allies. Yet since the terrorist attacks on New York and

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104. Turan, "Unstable Stability," p. 320.

105. For more on how the EU can promote political liberalization in Turkey, see Demet Yalçın Mousseau, "Turkey and the EU: The Importance of Markets," *Survival*, Vol. 48, No. 3 (October 2006), pp. 97–108.

Washington on September 11, 2001, efforts to promote democracy as part of U.S. grand strategy in the Muslim Middle East only increased the influence of anti-U.S. factions in the region, including in Egypt, Lebanon, and the Palestinian territories. This study challenges the strategic assumptions of U.S. policymakers by showing that democracy is not a likely cause of peace among nations. Rather, domestic economic conditions appear to be the main factor in promoting peace. Scholars have erroneously linked democracies with peace because most contract-intensive nations are democratic. But this study showed that about half of all democratic nations lack contract-intensive economies, and these democratic countries are not peaceful. Indeed, all the potential exceptions to the democratic peace—such as the Spanish-American War, the Continuation War of Finland against the Allies during World War II, and the Kargil war between India and Pakistan—are easily accounted for in this study because in each of these wars the democracy on at least one of the sides lacked a contract-intensive economy.

This article examined the implications of economic norms theory, which integrates the insights of bounded rationality with research by economic historians to show how voter preferences for democracy and respect for individual rights and equal protection under the law may be rooted in the conditions unique to social market economies, where individuals trust both strangers in making contracts and a state that enforces them with impartiality. In many middle- and low-income countries, in contrast, high structural unemployment encourages dependence on the patronage of friends and family. This dependency can promote the heuristics of identifying and trusting in-groups and their leaders, and distrusting strangers from out-groups and state institutions.

The study traced the path of causation from economic norms to interstate peace across levels of analysis and methodologies and found that contract-intensive societies are associated with higher levels of trust. It is not this trust, however, that causes peace among contract-intensive nations: peace is the result of a fundamental agreement among voters and elites in these countries on the Westphalian order of sovereign states, including the primacy of international law over power politics and imperialist bullying. This agreement emerges from the heuristics of their common economic way of life. Leaders of states with contract-intensive economies thus perceive common security interests in defending the global status quo and are in natural alliance against any state or nonstate entity that seeks to challenge it.

Although democracies are not inherently peaceful, there is a conditional role for democracy in the economic peace: Because contract-intensive economy

promotes the heuristics that value individual freedom and equitable government, most contract-intensive nations have liberal democratic governments. Valuing democracy, voters and elites in contract-intensive democracies tend to value the promotion of individual rights and democracy abroad. They therefore restrain themselves from fighting other countries perceived as democratic, regardless of their economic or foreign policy behavior. These patterns were confirmed in the quantitative analyses and in a case study of Greece and Turkey.

Economic norms theory does not challenge but rather complements many well-established research programs in security studies. It complements power transition theory in offering an explanation for which states will support the status quo: the contract-intensive nations are satisfied with the Westphalian status quo.<sup>106</sup> It also complements realist views that states balance threats,<sup>107</sup> or interests,<sup>108</sup> because it offers an explanation for how states may determine enemies (and thus against whom to balance), and why some states have common interests (and thus with whom to ally). For instance, the major powers of France, Germany, Japan, the United Kingdom, and the United States are allied; China and Russia are outside this group. This split may be due to divergent perceptions of national interests as affected by domestic economic norms and related mind-sets. The majority of major powers have contract-intensive economies whose leaders, and many voters, have common perceived interests in Westphalian law and order. Leaders in China and Russia, in contrast, guided by the in-group clientelist mind-set, are less likely to perceive an interest in law and order than in whatever can materially benefit their domestic elites, who must be continuously enticed with state rents. With their predominantly clientelist economies, these leaders have an interest in portraying all outsiders as threatening, a tactic that helps to maintain the in-group/out-group distinctions that prop up the loyalty of their populations.

Several policy implications follow from this analysis. First, if the contract-intensive powers wish to enhance their security, the most promising strategy is

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106. Identifying what makes some states satisfied and others not is one major inconsistency in the long, influential history of power transition theory. See Jacek Kluger and Douglas Lemke, "The Power Transition Research Program: Assessing Theoretical and Empirical Advances," in Manus Midlarsky, ed., *Handbook of War Studies II* (Ann Arbor: University of Michigan Press, 2003), pp. 129–163; and Douglas Lemke, *Regions of War and Peace* (Cambridge: Cambridge University Press, 2002).

107. Stephen M. Walt, *The Origins of Alliances* (Ithaca, N.Y.: Cornell University Press, 1987).

108. Randall L. Schweller, "Bandwagoning for Profit: Bringing the Revisionist State Back In," *International Security*, Vol. 19, No. 1 (Summer 1994), pp. 72–107.

to encourage other countries to pursue a contract-intensive economy. Real democracy and shared liberal values emerge from the social market economy, which exists when a solid majority in a society is freed from subservience to group leaders because it can obtain economic security from strangers in the market with their contracts enforced by the state.

Second, several factors—including direct data on contracting—indicate that while China's economy has become increasingly contract-intensive, it is still far behind the contract-intensive countries. The implication is that China must be seen as an unreliable partner for now, but one that is likely to be a full partner at some point in the future. The task is to avoid upsetting the direction in which China is moving. This means avoiding confronting its leaders in ways that may cause them to change direction. If China stays on its current path, it will one day be a truly law-abiding, pro-human rights, liberal democratic state enjoying peaceful relations with the contract-intensive major powers. It is at this point that the vexing issues of Taiwan and Tibet will be settled amicably.

Russia, on the other hand, is far more worrisome. Data on life insurance contracts for Russia are lacking, but other indicators—including data on private consumption and investment relative to standard of living—indicate that this country has become increasingly clientelist since the late 1990s. This may be caused by the combination of weak contract norms (a legacy of communist rule) and the rising price of oil. The state now controls vast amounts of income in oil rents, and a new elite has emerged that, like the oil sheiks of the Persian Gulf, distributes oil rents with partiality in return for loyalty. As long as the export of oil remains lucrative, Russia's new clientelist elites are likely to stay in power. Policymakers may therefore want to refrain from criticizing the state of democracy in Russia, as this helps its leaders convince ordinary Russians that the West is an out-group intent on harming them. Instead, the contract-intensive powers should firmly defend the Westphalian order, but should do so quietly to encourage a soft rather than hard form of nationalism in Russia, just as they tolerated illiberal democracy and the soft nationalism propagated by the ruling elites in Greece, Mexico, Turkey, and other countries during the second half of the twentieth century.

Future research should aim to (1) devise and explore other possible causes for the results observed here, (2) test the possibility that there may yet be a smaller but direct role for democracy in conflict, and (3) look for reverse causality from democracy to contract-intensive economy. Meantime, the weight of the evidence indicates that the divide between the contract-intensive and non-contract-intensive major powers will define great power relations for at least

the coming decade. To confront this challenge, policymakers should replace support for democracy with the promotion of global economies development. In the same way the United States subsidized market-based employment in Germany, Japan, and other regions during the Cold War, and liberalized these political cultures, the contract-intensive powers today have the means to underwrite the transition to contract-intensive economies for many societies across the globe. Just as the U.S. Cold War strategy of containment was fundamentally about avoiding war while defending the Westphalian order, the winning strategy today for addressing the challenges posed by China and Russia, preserving Westphalia, and securing their citizens from terror is for the contract-intensive powers to drop their instinctive idealism and promote instead global economic opportunity.

Appendix. Summary Statistics and Data Sources of Independent Variables, and Their Correlations with Both States Contract-intensive Economy (CIE)

Variable	Mean	Standard Deviation	Minimum	Maximum	Correlation with Both States CIE
Both states CIE	0.04	0.19	0	1	1.00
One state CIE	0.32	0.47	0	1	-0.11
Democracy <sub>L</sub>	-3.70	6.17	-10	10	0.40
Capability ratio <sub>Logged</sub>	1.93	1.43	0	8.7	-0.02
Major power	0.08	0.27	0	1	0.17
Contiguity	0.04	0.19	0	1	0.12
Inter-capital distance	4.74	2.74	0	12.3	-0.05
Brevity of Peace	0.14	0.21	0	1	-0.08
Development <sub>H</sub>	8.80	0.91	6.1	10.7	0.20
Development <sub>L</sub>	7.56	0.86	5.6	10.2	0.42
Trade interdependence <sub>L</sub>	0.03	0.22	0	13.6	0.39
Democratic maturity <sub>L</sub>	0.28	0.84	0	5.0	0.56
Alliance	0.07	0.26	0	1	0.13
Service economy <sub>L</sub>	42.34	10.33	10.8	77.7	0.27
Capital openness <sub>L</sub>	2.86	1.65	0	8	0.28

*N* = 286,999 for all but two variables: Service Economy<sub>L</sub> (190,705) and Capital Openness<sub>L</sub> (150,712).