

The End of War

Michael Mousseau

How a Robust Marketplace and Liberal Hegemony Are Leading to Perpetual World Peace

Is war becoming obsolete? There is wide agreement among scholars that war has been in sharp decline since the defeat of the Axis powers in 1945, even as there is little agreement as to its cause.¹ Realists reject the idea that this trend will continue, citing states' concerns with the "security dilemma": that is, in anarchy states must assume that any state that can attack will; therefore, power equals threat, and changes in relative power result in conflict and war.² Discussing the rise of China, Graham Allison calls this condition "Thucydides's Trap," a reference to the ancient Greek's claim that Sparta's fear of Athens' growing power led to the Peloponnesian War.³

This article argues that there is no Thucydides Trap in international politics. Rather, the world is moving rapidly toward permanent peace, possibly in our lifetime. Drawing on economic norms theory,⁴ I show that what sometimes appears to be a Thucydides Trap may instead be a function of factors strictly internal to states and that these factors vary among them. In brief, leaders of states with advanced market-oriented economies have foremost interests in the principle of self-determination for all states, large and small, as the foundation for a robust global marketplace. War among these states, even making preparations for war, is not possible, because they are in a natural alliance

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1. John Mueller, "War Has Almost Ceased to Exist: An Assessment," *Political Science Quarterly*, Vol. 124, No. 2 (Summer 2009), pp. 297–321, doi.org/10.1002/j.1538-165X.2009.tb00650.x; and Nils Petter Gleditsch, "The Decline of War: The Main Issues," *International Studies Review*, Vol. 15, No. 3 (September 2013), p. 399, doi.org/10.1111/misr.12031.

2. John J. Mearsheimer, *The Tragedy of Great Power Politics* (New York: W.W. Norton, 2014); and Patrick James, *Scientific Progress: Structural Realism Reconsidered* (Columbus: Ohio State University Press, 2002).

3. Graham Allison, *Destined for War: Can America and China Escape Thucydides's Trap?* (Boston: Houghton Mifflin Harcourt, 2017). See also Mearsheimer, *The Tragedy of Great Power Politics*, pp. 360–411.

4. Michael Mousseau, "Capitalist Development and Civil War," *International Studies Quarterly*, Vol. 56, No. 3 (September 2012), pp. 407–483, doi.org/10.1111/j.1468-2478.2012.00734.x.

to preserve and protect the global order. In contrast, leaders of states with weak internal markets have little interest in the global marketplace; they pursue wealth not through commerce, but through wars of expansion and demands for tribute. For these states, power equals threat, and therefore they tend to balance against the power of all states. Fearing stronger states, however, minor powers with weak internal markets tend to constrain their expansionist inclinations and, for security reasons, bandwagon with the relatively benign market-oriented powers.

I argue that this liberal global hierarchy is unwittingly but systematically buttressing states' embrace of market norms and values that, if left uninterrupted, is likely to culminate in permanent world peace, perhaps even something close to harmony. My argument challenges the realist assertion that great powers are engaged in a timeless competition over global leadership, because hegemony cannot exist among great powers with weak markets; these inherently expansionist states live in constant fear and therefore normally balance against the strongest state and its allies.⁵ Hegemony can exist only among market-oriented powers, because only they care about global order. Yet, there can be no competition for leadership among market powers, because they always agree with the goal of their strongest member (currently the United States) to preserve and protect the global order based on the principle of self-determination. If another commercial power, such as a rising China, were to overtake the United States, the world would take little notice, because the new leading power would largely agree with the global rules promoted and enforced by its predecessor. Vladimir Putin's Russia, on the other hand, seeks to create chaos around the world. Most other powers, having market-oriented economies, continue to abide by the hegemony of the United States despite its relative economic decline since the end of World War II.⁶

To support my theory that domestic factors determine states' alignment decisions, I analyze the voting preferences of members of the United Nations General Assembly from 1946 to 2010. I find that states with weak internal markets tend to disagree with the foreign policy preferences of the largest market

5. Hegemonic realist theories, defined broadly, include power transition theory, long-cycle theory, and hegemonic stability theory. On power transition theory, see Jonathan M. DiCicco and Jack S. Levy, "The Power Transition Research Program: A Lakatosian Analysis," in Colin Elman and Miriam Fendius Elman, eds., *Progress in International Relations Theory: Appraising the Field* (Cambridge, Mass.: MIT Press, 2003), pp. 109–158. On long-cycle theory, see William R. Thompson, *On Global War: Historical-Structural Approaches to World Politics* (Columbia: University of South Carolina Press, 1988). And on hegemonic stability theory, see Robert Gilpin, *War and Change in World Politics* (Cambridge: Cambridge University Press, 1999).

6. On U.S. "soft power," see Joseph S. Nye Jr., "Soft Power," *Foreign Policy*, No. 80 (Autumn 1990), pp. 153–171, doi.org/10.2307/1148580.

power (i.e., the United States), but more so if they are major powers or have stronger rather than weaker military and economic capabilities. The power of states with robust internal markets, in contrast, appears to have no effect on their foreign policy preferences, as market-oriented states align with the market leader regardless of their power status or capabilities. I corroborate that this pattern may be a consequence of states' interest in the global market order by finding that states with higher levels of exports per capita are more likely than other states to have preferences aligned with those of the United States; those with lower levels of exports are more likely to have interests that do not align with the United States, but again more so if they are stronger rather than weaker.

Liberal scholars of international politics have long offered explanations for why the incidence of war may decline, generally beginning with the assumption that although the security dilemma exists, it can be overcome with the help of factors external to states.⁷ Neoliberal institutionalists treat states as like units and international organization as an external condition.⁸ Trade interdependence is dyadic and thus an external condition.⁹ Democracy is an internal factor, but theories of democratic peace have an external dimension: peace is the result of the expectations of states' behavior informed by the images that leaders create of each other's regime types.¹⁰ In contrast, I show that the security dilemma may not exist at all and how peace can emerge in anarchy with states pursuing their interests determined entirely by internal factors.¹¹

7. On the security dilemma in liberal thinking, see John Gerard Ruggie, *Constructing the World Polity: Essays on International Institutionalization* (London: Routledge, 1998).

8. Robert O. Keohane and Lisa L. Martin, "Institutional Theory as a Research Program," in Elman and Elman, *Progress in International Relations Theory*, pp. 71–108; and G. John Ikenberry, *After Victory: Institutions, Strategic Restraint, and the Rebuilding of Order after Major Wars* (Princeton, N.J.: Princeton University Press, 2000).

9. Solomon William Polachek, "Conflict and Trade," *Journal of Conflict Resolution*, Vol. 24, No. 1 (March 1980), pp. 55–78, doi.org/10.1177/002200278002400103.

10. See, for instance, Bruce Bueno de Mesquita et al., "Testing Novel Implications from the Selectorate Theory of War," *World Politics*, Vol. 56, No. 3 (April 2004), pp. 363–388, doi.org/10.1353/wp.2004.0017. Interstate images of regime type also play a role in some institutional theories. See Ikenberry, *After Victory*, pp. 164–165.

11. Constructivists highlight the value of modeling national interests, sometimes called "preferences," but do so from an assumed intersubjective structure existing among states, not internal structures. See Alexander Wendt, *Social Theory of International Politics* (New York: Cambridge University Press, 1999). On the value of modeling national preferences, see Keohane and Martin, "Institutional Theory as a Research Program." On how beliefs can matter in foreign policy decisionmaking, see Robert Jervis, *Perception and Misperception in International Politics*, new ed. (Princeton, N.J.: Princeton University Press, 2017). In showing how national interests can be shaped by factors strictly internal to states, economic norms theory is a liberal theory of international relations according to the framework developed in Andrew Moravcsik, "Taking Preferences Seriously: A Liberal Theory of International Politics," *International Organization*, Vol. 51, No. 4 (Autumn 1997), pp. 513–553, doi.org/10.1162/002081897550447.

I begin by explaining how a robust internal market can affect a society's values and institutions. Next, I discuss how a state's internal values and institutions can influence its foreign policy interests. After identifying the market-oriented states, I describe the hegemony of market states and argue that its power may be reaching the point where it cannot be seriously challenged. After reporting the results of my tests of the theory, I explain why hegemonic war cannot happen and how market hegemony, by bolstering states' internal markets, is causing the decline of war. I follow this with discussions of the security implications of China's rise for the global market order and why predictions of the demise of the liberal order are greatly exaggerated. I conclude with a few thoughts on some of the implications of my argument, including how the world is on a centuries-long trajectory of profound change toward permanent peace.

Internal Factors That Affect National Interests

How do internal factors influence states' foreign policy interests? In the mid-nineteenth century Sir Henry Maine, considered the first to use comparative method in social science, identified two kinds of societies in history, one "status" and the other "contractus."¹² In previous work, I identified the essential difference between these societies as the degree to which individuals are dependent on making contracts with strangers in the marketplace.¹³ Retail and spot trades take place almost everywhere; in non-self-enforcing markets, however, transactions require third-party enforcement.

In status societies, individuals normally acquire securities not in the marketplace in the form of mortgages or life insurance, but through various networks, including families, tribes, clans, unions, parties, and criminal gangs. In contractualist societies, individuals normally obtain securities, including incomes and financial securities, through contracts with strangers in a market. In status societies, prices are inequitable, determined by the status of the parties involved in the exchange; in contractualist societies, prices are equitable, determined by the forces of supply and demand in the marketplace.¹⁴

Drawing on Maine's insight, Max Weber suggested that the causal arrow

12. Henry Sumner Maine, *Ancient Law: Its Connection to the History of Early Society* (London: J.M. Dent & Sons, 1917), first published in 1861. The famed discourses of Ferdinand Tönnies, Émile Durkheim, and Max Weber all centered on this core insight by Maine.

13. See Mousseau, "Capitalist Development and Civil War." Having stumbled upon Maine's work only recently, I previously used the terms "contractualist" and "clientelist."

14. I frequently use the term "marketplace" rather than "market" to dissuade readers from inferring the term "free market." As discussed below, this article does not discuss free markets or draw on economic liberal-laissez faire assumptions in any way. That prices can be affected by sup-

points from society to economy. In contrast, in economic norms theory, the arrow points in the opposite direction, with the economy and society additionally engaged in a feedback loop. In a status economy, economic success depends on one's skills in negotiating the politics of the network and gaining the attention of patrons, who distribute network benefits according to rank, loyalty, and service. Individuals have an economic interest in abiding by the commands of network leaders with alacrity. Where there is a government, individuals have an interest in their network leaders winning elections or otherwise gaining power. In this way, status economic norms produce a habit of mind—or mental model—that values loyalty, hierarchy, and conformity to the collective.¹⁵

In contractualist economies, economic success depends on one's ability to navigate a marketplace populated by strangers. Because individuals can obtain better prices for their labor, skills, and widgets in freer, larger, and wealthier societies than they can in less free, smaller, and poorer ones, contractualist economic norms produce a mental model that values universal freedom (to engage in contracts), equity (equality in contract law, so that strangers can trust contractual commitments), equal protection of property rights (so that the state's commitment to impartially enforcing contracts can be trusted), and an ever growing economy (for increased opportunity in the marketplace).

In this manner, contractualist economies are positive-sum systems of social and economic integration, because they create an interest among all the system's members in the freedom and welfare of everyone else in the marketplace. In status economies, in contrast, it is not obvious why individuals would value the freedom, equity, property rights, and welfare of strangers.

Another key distinction between status and contractualist economies involves the role of the state. In status economies, states are unnecessary: economic and social ties reinforce each other, so a society's stability and security are maintained by the obligations of individuals within community networks. Where a state exists, it is usually at the service of the networks that control it. Therefore, status states are rentier states, corrupted by patronage. Individuals in networks not linked to the state have an interest in evading it, so status states are not only corrupted but also weak.

A contractualist economy, in contrast, requires a state. Third-party enforce-

ply and demand does not imply a natural price mechanism, as public policies can affect supply and demand.

15. For the key text highlighting the importance of understanding the formation of mental models, meaning how individuals form their worldviews, values, and institutions from interpersonal relationships, see Douglass C. North, *Institutions, Institutional Change, and Economic Performance* (Cambridge: Cambridge University Press, 1990).

ment of contracts is costly. Individuals therefore demand an organization that can enforce contracts and provide equal protection in the marketplace.¹⁶ These requirements give rise to a mental model that values a state that is not only impartial and highly capable, but also democratic, because elections are the most intuitive means for maintaining pressure on the state to steadfastly promote economic growth, provide unyielding equal protection, and act impartially in enforcing contracts.

In this way, the democratic rule of law, once it has been legitimated by a contractualist economy, consolidates itself and the market. Perpetually pressed to maintain a highly inclusive marketplace, elected leaders in contractualist societies do whatever they can to promote their economies. Historically, pro-market state strategies have included spending on infrastructure, education, and the military, as well as regulations, countercyclical fiscal policies, state business subsidies, and social welfare programs.¹⁷ These efforts, in turn, help to keep the marketplace profitable for everyone, particularly those in the labor force who are at the greatest risk of unemployment; thus, they have the effect of preserving the societal consensus on contractualist values and interests, including continued economic growth and respect for the democratic rule of law.

In this manner, a shift toward a contractualist economy creates a highly stable, positive feedback loop, in which the state's contractualist economy and the democratic rule of law become locked in. This lock-in effect is not caused by democracy, however, as democracy by itself does not reliably create a contractualist economy; in part this is because in status societies that are democratic, elected leaders can distribute state rents to supporters with partiality rather than subsidize growth in the marketplace with impartiality. This in turn explains why in states with weak markets, the rule of law is also typically weak, unless the state is highly repressive.¹⁸

16. The importance of an impartial state for a non-self-enforcing market is highlighted in *ibid.*

17. On the essential role of the state in economic development, see Ha-Joon Chang, *Globalisation, Economic Development, and the Role of the State* (London: Zed, 2003). For corroboration that states with advanced market-oriented economies are more likely than others to have governments that intervene to promote their economies, see Ted Robert Gurr, Keith Jagers, and Will H. Moore, "The Transformation of the Western State: The Growth of Democracy, Autocracy, and State Power since 1800," *Studies in Comparative International Development*, Vol. 25, No. 1 (March 1990), pp. 73–108, doi.org/10.1007/BF02716906.

18. The argument here is thus the opposite of the view that democracy promotes economic growth, as argued in Daron Acemoglu and James A. Robinson, *Why States Fail: The Origins of Power, Prosperity, and Poverty* (New York: Crown, 2012). It is also different from the thesis of North and colleagues, who offer a path-dependent framework, not a theory, for how the rule of law can emerge. See Douglass C. North, John Joseph Wallis, and Barry R. Weingast, *Violence and Social Orders: A Conceptual Framework for Interpreting Recorded Human History* (New York: Cambridge University Press, 2009). For corroboration that democracy in a status society can promote clientelist rent-seeking, see Jan H. Pierskalla and Audrey Sacks, "Personnel Politics: Elections, Clientelistic

In these ways, the economy is embedded in society.¹⁹ For most individuals in contractualist societies, it must seem as though the market order is natural and that all human beings care foremost about an impartial democratic state and economic growth. Yet, in status societies, it must seem as though the status order is natural and that all human beings care foremost about their networks and about their leaders as they engage in unrelenting struggles over the distribution of resources. As I argue here, however, neither the status nor the contractualist order is natural: each has been shown historically to accommodate human nature. Economic norms theory is therefore ontologically outside the liberal or classical liberal tradition that follows from Adam Smith's assumption of individuals' natural propensity to barter, because the theory models variance in the propensity to barter; nor is there an assumption of a "natural" price mechanism or self-regulating market. Yet, the theory is also ontologically outside Karl Polanyi's famed anti-liberal thesis, which assumes that status hierarchies are the natural order.²⁰ Nor does my argument entail the normative assumption that one order is superior to the other or that societies are fated to move from a status to a contractualist economy, as originally expressed by Maine and largely assumed in both classical and mainstream Western social thought.

For reasons of clarification, I argue that a contractualist economy is best called a "social" market rather than a "free" market, not only because economic norms theory rejects the natural propensity to barter, but also because governments of contractualist societies are highly interventionist, because they are under constant pressure from the public to maintain a highly inclusive marketplace, particularly as regards labor. The "social-market" label applies to the social democracies of Scandinavia as well as to the supposed freer-market democracies such as Switzerland and the United States.²¹

How do societies change? Economic norms theory makes no monotonic or teleological assumptions, so societies can change from contractualist to status and vice versa. The theory treats economic change as largely exogenous, though states often promote and subsidize their marketplaces, as China has

Competition, and Teacher Hiring in Indonesia," *British Journal of Political Science*, published ahead of print, February 1, 2019, doi.org/10.1017/S0007123418000601.

19. The classic discussion on the embeddedness of economy and society is offered in Karl Polanyi, *The Great Transformation: The Political and Economic Origins of Our Time* (Boston: Beacon, 1957). For a more recent discussion, see Ruggie, *Constructing the World Polity*.

20. Polanyi, *The Great Transformation*, pp. 42–47.

21. The primary exception is the United States before the Great Depression of the 1930s, as high demand for labor occurred naturally by geographic fortune rather than by state intervention. This can explain the supposed American "exceptionalism" frequently espoused in Western theories of political development.

done vigorously in recent decades. Market decline can foster movement toward a status economy if the state fails to sustain employment opportunities in the market and younger workers who, unable to find jobs in the marketplace, are not habituated to market norms and values and learn to survive instead on networks, such as criminal gangs. Likewise, a shift from a status to a contractualist economy can be triggered whenever incomes and securities from strangers in the marketplace surpass incomes and securities available from status networks.²²

In economic norms theory, however, politics ultimately determines economics. The reason is that an influential coalition of rent-seekers can collapse a market by spoiling the credibility of the state's ability to enforce contracts or by constraining the state from sustaining a highly inclusive marketplace. Likewise, an influential coalition of those who are dependent on contracts enforced by third parties can prop up a market by pressuring the state to subsidize it, both by enforcing property rights to reduce (contractual) transaction costs and by promoting and sustaining a highly inclusive marketplace where most everyone can get better prices for their labor, skills, and widgets from strangers than they can from status-personalist ties.

Identifying Contractualist and Status States

Many contracts are self-enforcing, made by individuals who can sanction those who fail to meet their commitments. Self-enforcing contracts do not reliably trigger the causal mechanism of economic norms theory, because they do not necessarily put pressure on the state to enforce contracts. Robust financial markets provide a more reliable gauge of the intensity of contracting in a society, given that the strong intertemporal dimensions of financial contracts render them largely non-self-enforcing.²³ In previous work, I suggested that life insurance contracts are the most reliably non-self-enforcing form of financial contract, because the insurance benefit is expected only after the death of the policyholder.²⁴ High per capita contracting in life insurance also indicates a

22. This can explain why status societies with an abundance of export resource wealth, such as oil, are among the least likely to transition to democracy. See S. Erdem Aytaç, Michael Mousseau, and Ömer Faruk Örsün, "Why Some Countries Are Immune from the Resource Curse: The Role of Economic Norms," *Democratization*, Vol. 23, No. 1 (January 2016), pp. 71–92, doi.org/10.1080/13510347.2014.964216.

23. Ariel Benyishay and Roger R. Betancourt, "Civil Liberties and Economic Development," *Journal of Institutional Economics*, Vol. 6, No. 3 (September 2010), p. 286, doi.org/10.1017/S1744137410000081.

24. Mousseau, "Capitalist Development and Civil War," p. 475. Douglass North and his coauthors concur. See North, Wallis, and Weingast, *Violence and Social Orders*, p. 159.

highly inclusive marketplace, because it implies demand across society, including from the labor force. Robust markets are also characterized with consistent net-positive immigration, because, by definition, a contract-intensive economy must be highly inclusive, which is indicated when the price of labor in the marketplace is greater than that obtainable from networks. Immigrants are less likely than locals to be connected to a net-immigrant state's networks, and the quest for economic opportunity is the most basic motive for migration. Therefore, net immigration indicates that the price of labor is likely higher in the marketplace than it is in networks.²⁵

Based on life insurance contracting per capita and migration data to extrapolate prior years of missing data by country, table 1 lists all states with contractualist economies from 1776 to 2010. As the table shows, many of the states often identified as higher income, industrialized, and democratic have had contractualist economies since at least the 1960s. Therefore, these domestic attributes may be a function of the contract intensity of their economies. Also, having a contractualist economy is not merely a gauge of the typical Western democracy: France and Italy are listed as not having developed contractualist economies until several decades after World War II, and a number of non-Western and developing states—including Botswana, Chile, Malaysia, Slovakia, and Taiwan—are shown as having contractualist economies.

Table 1 yields initial corroboration of the prediction that a contractualist economy is a cause of, and consolidates, the democratic rule of law, as almost every non-democratic state in the table became democratic within eleven years of developing a contractualist economy (the only exception is Singapore), and no contractualist state in the table ever stopped being democratic.²⁶ Contractualist states that have not yet democratized do not have the positive feedback loop of democracy and economy, and therefore cannot be reliably predicted to behave like the other contractualist states. However, the near perfect prediction of democracy emerging from a contractualist economy means that there are very few years of contractualist states without democratic institutions (just 42 out of 1,463 nation-years from 1920 to 2010, or 3 percent). Accordingly, for practical purposes, I discuss the contractualist states as having the democratic feedback loop.²⁷

25. Of course, wars and other factors can also affect migrations, but historically the economic motive has been the strongest. See Timothy J. Hatton and Jeffrey G. Williamson, "International Migration and World Development: A Historical Perspective," NBER Historical Working Paper No. 41 (Cambridge, Mass.: National Bureau of Economic Research, 1992), p. 3.

26. Democracy defined with the Polity IV dataset, by convention scoring ≥ 6 on the *Polity2* measure. See Monty G. Marshall, Ted Robert Gurr, and Keith Jagers, "Polity IV Project: Political Regime Characteristics and Transitions, 1800–2012, Dataset Users' Manual" (Vienna, Va.: Center for Systemic Peace and Societal-Systems Research, 2012).

27. Most states were already democratic when they became contractualist, which is consistent

Table 1. States with Status and Contractualist Economies, 1776–2010

State	Axial Years*	State	Axial Years	State	Axial Years
United States	†–1776	Italy	<1960–1989	Trinidad	1993–2007>
Australia	†–1920	Portugal	1981–1990	Bahrain	1994–
Canada	†–1920	Singapore	1979–1994	Oman	1994–2003>
New Zealand	†–1920	Chile	1981–1996	Brazil	1995–
Netherlands	<1922–1922	Malaysia	1979–1996	Croatia	1995–
Switzerland	<1926–1926	Greece	1980–1997††	Colombia	1996–
Norway	<1930–1930	Slovenia	1992–1997	India	1996–
Sweden	<1930–1930	Czech Rep.	1993–1998	China	1997–
Great Britain	<1931–1931	Mauritius	1997–1999	El Salvador	1999–2006>
Luxembourg	<1960–1960	Botswana	<2000–2000	Qatar	1999–
Denmark	<1960–1962	Hungary	1986–2001	Estonia	2003–2008>
Germany	<1960–1963	Slovakia	1993–2002	Lebanon	2003–
Japan	<1960–1963	Poland	1991–2003	Lithuania	2003–2008>
Finland	<1960–1967	South Africa	1979–	Namibia	2003–
Belgium	<1960–1972	Venezuela	1979–1983±‡	Russia	2003–2009±‡
France	<1960–1975	Panama	1981–	Peru	2004–
Austria	<1960–1977	Mexico	1982–	Jamaica	<2005–
Ireland	††–1979	Thailand	1985–	Morocco	2006–2009>
Israel	1961–1981	Kuwait	1986–2009>	Indonesia	2007–2009>
Taiwan	1979–1983	Uruguay	1989–	Latvia	2008–2008>
Korea, Rep.	1979–1984	Argentina	1991–	Romania	2009–
Spain	1974–1987	Bulgaria	1991–2009>‡		
Cyprus	1988–1989	UAE	1992–1997>		

*Axial is the intermediate category. Unless otherwise indicated, the last year of the axial period is the first year of the contractualist economy, and states that became contractualist remained so until the end of the observation period. Nation-years unlisted have status economies, unless they have populations with fewer than 500,000 people, in which case they should be treated as missing not-at-random. Axial periods are those between \$25 and \$165 in life insurance consumption per capita, a range in the data where growth rates in life insurance contracting are, on average, higher than growth rates in the overall economy, indicating ongoing change toward a contractualist economy (during the period of data availability, no state shifted from a contractualist to a status economy). Few states are in the range from \$20 to \$200, so the exact cut-points make little difference in test results. Status economy is also indicated with missing data, as status states tend to refrain from reporting economic data to conceal rent-seeking. States with more than \$165 per capita are considered axial rather than contractualist if they have informal economic flows, which indicate status flows. Life insurance data, which span from 1960 to 2010, is gauged in constant (2005) international dollars using purchasing power parity rates to account for the fact that the needed death benefit to cover the typical household increases with the income level of an economy, eight-year moving average. Data from Thorsten Beck, Asli Demirgüç-Kunt, and Ross Levine, "Financial Institutions and Markets across Countries and over Time: The Updated Financial Development and Structure Database," *World Bank Economic Review*, Vol. 24, No. 1 (2010), pp. 77–92, doi.org/10.1093/wber/lhp016. Migration data used to extrapolate prior years of missing data by country. For details, see Michael Mousseau, "Contract Intensity of National Economies (CINE), Version Mar-2019," Harvard Dataverse, V1, doi.org/10.7910/DVN/8RPC9E.

"<" / ">" = start year / end year of axial period unknown, treated as missing-at-random.

†State had a contractualist economy from year of sovereignty.

††Start years of contractualist and axial economy unknown.

†††State may no longer have a contractualist economy after 2008. Years 2009–10 are unknown.

±Axial period ended with resumption of a status economy.

‡Axial period contains some years of a status economy.

Although the starting year of the axial periods of many of the European states in the far left column of table 1 are unknown, it is known that the first life insurance market in the modern era appeared in seventeenth-century London, when merchants, shipowners, and traders met at Lloyd's Coffee House.²⁸ The English economy at that time, as well as those of Holland and parts of France, Germany, and Scandinavia, are best described not as contractualist but as proto or axial capitalist, because their markets were not highly inclusive; many workers found better prices for their labor either by using status-personalist connections or by emigrating.²⁹ Axial capitalism can coexist with serfdom and slavery; by definition, a contractualist economy cannot, because the marketplace would not be highly inclusive. Other axial-capitalist societies in history include ancient Athens and, in all likelihood, its (near) contemporaries: Phoenicia, the ancient kingdom of Israel, the Kshatriya republics in India, and the city-states of northern China during the Warring States period.³⁰ Long-distance commerce eventually went into decline, but axial capitalism reemerged from the eleventh to thirteenth centuries with contemporaneous rises in China under the Songs, in the Arab world centered in Egypt, among the city-states of the Hanseatic League, and in Italy during its city-states period.³¹

All these axial-capitalist societies witnessed predictable changes in both their values and their institutions. Rising individualism and republican or republican-like institutions emerged in ancient Athens, the Kshatriya republics, Italy during the Renaissance, and Europe with the Enlightenment.³² In most of these cases, state systems, rather than status empires, emerged, as a desire for commerce creates an interest in trading with, rather than dominating and requiring tribute from, neighboring political units. These state systems in-

with the theory, as political institutions are predicted to transform along with economic institutions during axial transition periods, and states can democratize for a host of reasons, including pressure from the contractualist states. Also, as discussed below, states allied with the contractualist powers are more likely than others to shift from a status to an axial economy, and thus become more democratic. Besides Singapore, only Taiwan (1983–91), South Korea (1984–87), and Malaysia (1996–2007) experienced years of having contractualist economies without democracy.

28. Humbert O. Nelli, "The Earliest Insurance Contract: A New Discovery," *Journal of Risk and Insurance*, Vol. 39, No. 2 (June 1972), pp. 215–220, doi.org/10.2307/251881.

29. The term "axial" is borrowed from Karl Jaspers, who used it to describe the period from 800 B.C.E. to 600 C.E. that encompassed a rise in long-distance commerce and great philosophical change across multiple parts of the Eastern Hemisphere. See Jaspers, *Way to Wisdom: An Introduction to Philosophy* (New Haven, Conn.: Yale University Press, 1951).

30. David Graber, *Debt: The First 5,000 Years* (Brooklyn, N.Y.: Melville House, 2014), pp. 223–250.

31. Janet L. Abu-Lughod, *Before European Hegemony: The World System, A.D. 1250–1350* (New York: Oxford University Press, 1989).

32. Graber, *Debt*.

clude the present-day Westphalian system, which emerged in the seventeenth to nineteenth centuries. All these changes were limited, however, compared with the changes that take place in contractualist economies, which, by definition, require a highly inclusive marketplace. In axial capitalism, the depth of mental-model change is narrow and largely confined to the privileged, and merchants have little interest in the welfare of strangers, a large number of whom are excluded from participation in the marketplace, ensconced as they are in status networks, serfdom, or chattel slavery.

The American South before the 1950s had an axial-capitalist economy, because slaves and their descendants were largely excluded from participation in the marketplace.³³ Migration patterns corroborate this inference, as most immigrants to the United States settled in the North rather than the South, indicating that only northern states (with their contractualist economies) had a robust demand for labor; mass migration from the South to the North was also a feature of this era.³⁴

As table 1 demonstrates, no state in Europe appears to have had a robust demand for labor until after World War I, when Britain, the Netherlands, Norway, Sweden, and Switzerland all ceased being net-emigrant states. Arguably, the trigger for this change was the Great War, as four years of attrition fighting yielded a quasi experiment that demonstrated that states can successfully manage their economies, and with postwar popular pressures and fears of revolution causing many elected governments to begin seeking higher incomes for their laboring classes any way they could. These transitions were easier for Europe's smaller countries, including the Netherlands, Norway, Sweden, and Switzerland, compared with its larger ones, such as France and Germany, because smaller countries are less threatened than larger ones with rural-to-urban mass migration, which typically intensifies during transition periods. Britain had a large population but arguably managed to transition to a contractualist economy in the interwar period, while France and Germany did not, because Britain's economy was far more contract intensive before the

33. See Joseph E. Luders, *The Civil Rights Movement and the Logic of Social Change* (Cambridge: Cambridge University Press, 2009).

34. That the American South was not contractualist before the civil rights era does not mean that the United States did not have a contractualist economy from its inception (see table 1). The South is a minority region, as the Southern population, defined broadly, never constituted more than 40 percent of the total U.S. population from 1790 to 1960. States with contractualist economies can have minority regions of axial capitalism or status economy, especially federally organized states. Examples of minority regions lacking a contractualist economy in otherwise contractualist states include, until perhaps the end of the twentieth century, Northern Ireland and the southern region of Italy. Still, the United States' unique constitutional structure provisioned the antebellum slave states equal footing in the Senate and near-equal electoral votes for the president, suggesting caution in inferring U.S. domestic and foreign policy as reliably contractualist before the Civil War.

war than were those of France and Germany, as a comparison of various countries' per capita life insurance contracting in 1913 shows.³⁵

Domestic spending and market management are just two ways through which a pro-market government can promote and sustain an inclusive marketplace; another is the pursuit of foreign markets. It is this pursuit that sets the foreign policies of the contractualist states apart from the rest.

How Economic Type Affects What States Want

To understand the implications of the contractualist states' quest for foreign markets, it is first necessary to distinguish imperial trade from normal trade. Imperial trade is the imposition of unequal trade terms by the stronger side on the weaker side. Imperial trade was the leading foreign policy strategy of the European powers to achieve economic growth during their axial-capitalist periods from the seventeenth to nineteenth centuries, at least in their relations with their colonies.

Contractualist states have largely eliminated imperial trade. As a result of the feedback loop of economy and society discussed above, elected governments of contractualist societies must promote economic growth, but only in ways consistent with the contractualist values of equal protection under the law, including property rights. There is no inherent reason why elected governments of contractualist societies would not act in accordance with contractualist values and interests abroad in the same way they do at home: just as unequal terms of trade at home will in the long run impede economic growth, because in time they erode the purchasing power of an exploited domestic class or region, imperial trade abroad will in the long run impede economic growth, because it will eventually erode the purchasing power of a captured and exploited population. The aphorism "a rising tide lifts all boats" describes perfectly the belief of contractualist societies that economic growth at home requires participation in the marketplace abroad, on equal terms benefiting everyone.³⁶

35. *The World Almanac and Encyclopedia, 1916* (New York: Press Publishing Company, 1915), p. 339. These life insurance data are limited to only a few countries and cannot be meshed with the life insurance data analyzed below (which range from 1960 to 2010) because of divergence in these data sources' calculations of international currency values across space and inflation over time. The Netherlands, Norway, Sweden, and Switzerland did not fight in World War I, but this would not stop them from observing from this war that governments can successfully manage their economies.

36. The phrase is often mistakenly attributed to President John F. Kennedy but originated in a New England chamber of commerce. See Ted Sorensen, *Counselor: A Life at the Edge of History* (New York: HarperCollins, 2008), p. 227.

The contractualist preference for nondiscriminatory trade is clearly evident in the history of the United States, the oldest contractualist country in the world. Jeffrey Williamson documents the high labor costs in the United States compared with those of Europe through the eighteenth and nineteenth centuries.³⁷ Gordon Wood describes a huge increase in entrepreneurial spirit in New England in the second half of the eighteenth century.³⁸ Revolutionary leaders in the northern colonies of British North America were largely motivated by a desire not for independence but for equity with British merchants in terms of trade. This fact is demonstrated most vividly in Benjamin Franklin's 1774 peace overture, which offered to end the rebellion if Britain would grant the colonies equity in trade relations and self-determination in tax policy.³⁹ Self-determination is an essential ingredient for equity in trade relations, because the power to tax is the power to destroy. Since independence, the United States has never veered from its opposition to imperial trade and has largely refrained from imposing discriminatory trade terms on any of its possessions, both on the continent and overseas. When the opportunity finally arose with World War II, the United States gently coerced Britain, a newly transitioned contractualist power, to adopt normal trade relations throughout its empire with the signing of the Atlantic Charter in 1941. Since then, normal trade relations have been the standard for all contractualist states.⁴⁰

37. Jeffrey G. Williamson, "Globalization, Convergence, and History," *Journal of Economic History*, Vol. 56, No. 2 (June 1996), pp. 277–306, doi.org/10.1017/S0022050700016454.

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

39. James Srodes, *Franklin: The Essential Founding Father* (Washington, D.C.: Regnery, 2002), p. 253.

40. Normal trade relations, previously known as the "most favored nation" clause in treaties of international trade, means equal terms of trade and should not be confused with free trade. The United States had relatively high tariffs from 1861 to the 1930s, even as it engaged only in nondiscriminatory trade. Britain's foreign trade practices are often described as "liberal" in the nineteenth century, as Britain reduced tariffs, especially for foodstuffs, after the repeal of the Corn Laws in 1846. See, for example, Mark R. Brawley, *Liberal Leadership: Great Powers and Their Challenges in Peace and War* (Ithaca, N.Y.: Cornell University Press, 1993); and Gilpin, *War and Change in World Politics*. Britain continued to practice discriminatory trade, however, as British colonial administrators regularly granted it privileged tariff rates that other countries, such as the United States, did not have. See U.S. Department of the Treasury–Bureau of Statistics and Oscar Phelps Austin, *Colonial Administration, 1800–1900* (Washington, D.C.: Government Printing Office, 1903), pp. 2762–2765. My argument is not that trade itself causes anything, but rather that a preference for normal trade (at any tariff rate) creates an interest in a global order based on self-determination. Nineteenth-century Britain did not desire normal trade, which can be seen in its regular violation of the principle of self-determination across much of the globe, and, in the process, its procurement of privileged tariff rates and the capacity to favor its own merchants through its power to tax. See Shubhra Chakrabarti and Utsa Patnaik, eds., *Agrarian and Other Histories: Essays for Binay Bhushan Chaudhuri* (New Delhi: Tulika, 2018). Britain also regularly used force to collect debts and impose unequal terms of trade on otherwise sovereign states, such as in the Opium Wars with China and with its settlement with Turkey after World War I. See Dilek Barlas, *Etatism and Diplomacy in Turkey: Economic and Foreign Policy Strategies in an Uncertain World, 1929–1939* (Leiden, Netherlands: Brill, 1998), pp. 80–81. The United States has intervened in numerous coun-

Motivated foremost to promote exports with equal terms of trade, contractualist states have a common interest in the welfare of all states that respect the principle of self-determination and engage in normal trade, because they are better off when all members of the trade regime have strong economies. As such, any state that threatens the security of a state that practices normal trade relations and respects the global order is automatically an enemy of all contractualist states, whether or not this fact is expressed or codified. In effect, contractualist states share equal access to each other's markets; as a result, they are in a natural alliance to preserve and protect the global market order, even if no such alliance was ever intended. Further, because every member of the global trade regime is better off when they all have strong economies, contractualist states cannot be concerned about relative gains—that is, fear the rising economic power of any state that participates in the normal trade regime and respects the global order.

Because economic power is central to military power, realist theory rejects the idea that states can be unconcerned with relative gains.⁴¹ Many influential scholars of power politics recognize, however, that factors other than relative power can inform states about whether another state is a threat.⁴² Arguably, the behavior of a state says more about whether it is a threat than do its economic and military capabilities. Even John Mearsheimer, considered to be the first theorist to postulate “offensive” realism, has asserted that “the prospects for cooperation among market democracies are ‘excellent.’”⁴³ The fundamental question is why these market democracies do not appear to consider war among them even a remote possibility. Economic norms theory offers an answer: for leaders concerned about their party winning the next election, a

tries; yet, since the Civil War (at least), which ended parity for the axial South in the Senate, it has never actively sought privileged or unequal tariff rates; never intervened for the objective of procuring loan repayments (only for repayments to British banks, for security objectives, to keep the British from invading countries in default near the United States, such as the Dominican Republic); and always planned on, and always did, withdraw whenever it intervened (unless a territory was annexed, such as Hawaii and Puerto Rico). Although U.S.-appointed authorities had the power to tax during the United States' occupations of the Philippines and Puerto Rico, in both cases, this power was quickly transferred to local elected assemblies.

41. This realist view is perhaps best articulated by Mearsheimer, *The Tragedy of Great Power Politics*. On how wealth affects military power, see *ibid.*, pp. 55–82.

42. Stephen M. Walt, “Alliance Formation and the Balance of World Power,” *International Security*, Vol. 9, No. 4 (Spring 1985), p. 12, doi.org/10.2307/2538540; Thomas J. Christensen and Jack Snyder, “Chain Gangs and Passed Bucks: Predicting Alliance Patterns in Multipolarity,” *International Organization*, Vol. 44, No. 2 (Spring 1990), pp. 137–168, doi.org/10.1017/S0020818300035232; Gilpin, *War and Change in World Politics*, pp. 97–98; and William C. Wohlforth, “Realism and the End of the Cold War,” *International Security*, Vol. 19, No. 3 (Winter 1994/95), p. 109, doi.org/10.2307/2539080.

43. John J. Mearsheimer, “The False Promise of International Institutions,” *International Security*, Vol. 19, No. 3 (Winter 1994/95), p. 25, doi.org/10.2307/2539078.

short-term interest in economic growth may supersede any abstract worry over how a state that acts friendly today might behave differently tomorrow.

The contractualist alliance is not caused in any way by actual trade between states, as classical liberals suggest.⁴⁴ As discussed above, in an internal market, trade at the individual level enhances the prospects of all participants in the market: because individuals can sell more widgets in a larger, wealthier market than they can in a smaller, poorer one, any exchange by anyone in the market automatically enhances one's prospects in it. This same logic applies at the international level: country A benefits from trade between countries B and C, even if A has no direct trade with B or C, as long as A, B, and C are all equitable participants, with other countries, in a global marketplace with normal trade relations. In this way, peace and natural alliance can emerge even among states with little or no trade taking place between them.

States without contractualist economies do not reliably have interests in the global marketplace. Most contemporary noncontractualist states have status economies. Many emerged during the processes of decolonialization and quickly became rentier states, as status networks competed for control of the state's coffers. This competition explains why postcolonial governments are often extremely corrupt, with personal ties of network relationships prevailing on state authorities, and why these states frequently fail.

In status societies, there are few public goods in an economy where many individuals are concerned primarily with inter-network competition, often expressed in terms of political, religious, and ethnic identity competition. The governments of status states are thus less obligated than contractualist states to provide public goods, including security and economic growth. Instead, internal factors push these states into wars of expansion to serve the interests of supporters, with the costs of war passed on to domestic and repressed outgroups. Some status states have valuable exports, such as oil, which may foster some interest in the global marketplace. These states typically pursue their export rents in narrow ways, however.⁴⁵

Status states also have incentives to engage in never-ending foreign rivalries and ideological conflicts. Because status societies are usually divided, with

44. Classical liberals such as Adam Smith, David Ricardo, and Thomas Paine argued that international trade can promote peace between nations. See also Polachek, "Conflict and Trade."

45. For an alternative argument on how autocracy, rather than a status economy, can cause expansionary rent-seeking, see David A. Lake, "Powerful Pacifists: Democratic States and War," *American Political Science Review*, Vol. 86, No. 1 (March 1992), pp. 24–37, doi.org/10.2307/1964013. For an opportunity-cost argument on how a preference for trade can preclude a preference for conquest, rather than how both preferences can be affected by domestic economic type, as I argue, see Richard N. Rosecrance, *The Rise of the Trading State: Commerce and Conquest in the Modern World* (New York: Basic Books, 1986).

deeply embedded norms of loyalty to network leaders, such rivalries can buttress the claims of national leaders of their being eminent guardians of some larger, unifying identity, whether nationalist, ideological, or religious. Such unifying claims, backed by a perpetual fear of foreign threats, raise the value of the public good of national security. This emphasis on national security helps the government retain the loyalties of the state's military leaders and reduces the cost of repressing groups that are otherwise excluded from receiving state rents.⁴⁶

Contractualist Hegemony and Its Overwhelming Power

As discussed, at the core of the contractualist hegemony is the natural alliance of contractualist states. A secondary feature of this hegemony is a tendency for many minor powers with status economies to bandwagon with it, defined as aligning with the contractualist alliance for strategic reasons. Unlike status major powers, status minor powers face substantial constraints on their ability to act on their expansionary instincts: they are often located in neighborhoods with other status states and have reasons to fear them; they also have reasons to fear the advances of status major powers. For status minor powers, contractualist powers are more benign than status powers, which are either indifferent to their interests or busy creating chaos. Contractualist major powers are deeply interested in global order. They care about the self-determination of even minor powers that choose not to trade, because support for the self-determination of one state demonstrates the contractualist's resolve to support it for everyone. Survival with self-determination also means that a state retains the potential to participate in the global marketplace, and it fits the contractualist mind-set of equal protection for all in the marketplace.

The contractualist hegemony thus offers security to all states at little cost: to obtain favorable odds of contractualist protection, a state has only to respect the sovereignty and self-determination of other states and not ally with expansionist powers. This is a kind of "kindergarten" hegemony: its rules are benign and easily learned—no hitting or taking what belongs to others. It can explain the interstate peace in Latin America and (to a lesser extent) Africa: most of these states have status economies but control their destabilizing impulses to increase their odds of survival under the protection of the contractualist hegemony. Leaders pick fights with neighbors but rarely escalate them, because

46. Also emphasizing myths in foreign expansion, but rooted in domestic politics rather than economic type, is Jack Snyder, *Myths of Empire: Domestic Politics and International Ambition* (Ithaca, N.Y.: Cornell University Press, 1991).

they are launched largely for domestic political reasons. This can also explain why the Westphalian state system has endured: large trading powers simply want the system to survive.⁴⁷

Unlike contractualist major powers, status major powers do not get along. Driven by internal factors to force other states into submission, their alliances—whether among these powers or between them and contractualist powers—are not natural but transactional. Ultimately, status powers can be constrained only by countervailing power. As discussed below, the market hegemony has an overwhelming amount of countervailing power, for four reasons.

THE UNIVERSALISM OF CONTRACTUALIST CULTURE

The contractualist desire to trade is not rooted in, or identified with, any particular cultural, religious, or ideological path dependent on tradition or dogma. It is therefore inherently secular and potentially universal. Interested primarily in the health and welfare of the global marketplace, contractualist states want all states in the global order to have robust economies. Thus, any entity that poses a threat to the global market order, including to any law-abiding state, is automatically a threat to every contractualist state. With common security interests, contractualist states support each other, at least insofar as reliably signaling strategic if not tactical agreement with the contractualist powers whenever they act to enforce the global market order and insofar as refraining from providing succor to any state that poses a threat to this order.

An implication of the natural market alliance is that its power rests not on the capability of its strongest member, but on the combined capabilities of all its members. Contractualist minor powers contribute to the hegemony's power by participating in the global economy, agreeing with the hegemony in international bodies such as the United Nations, and sometimes making subsidiary contributions to the militarized actions of contractualist powers.

CONTRACTUALIST RESOLVE FOR GLOBAL ORDER

Unlike status powers, contractualist states not only want the Westphalian system to survive; they also want all its members to participate in institutions that

47. In this way, the theory can explain the United States' Truman Doctrine of 1947, identifying it as a more ambitious, globalized version of the Monroe Doctrine of 1823, which applied only to Latin America, as well as to the United States' participation in World War II and its leadership in the Cold War. The argument here is that contractualist states oppose states that violate international order: it does not say that contractualist states act with military force every time a state violates the rules of the global order. On the peace of Latin America, see Cameron G. Thies, "The Construction of a Latin American Interstate Culture of Rivalry," *International Interactions*, Vol. 34, No. 3 (2008), pp. 231–257, doi.org/10.1080/03050620802469872.

facilitate commerce. These include international governmental organizations (IGOs) such as the Universal Postal Union and the International Patent System, as well as a variety of international financial institutions. Respecting the principle of self-determination, contractualist states do not wage war to force states to join these institutions, but they will steadfastly oppose wars waged to seize territory or booty (e.g., the Gulf War of 1990–91) or that violate the principle of self-determination (e.g., the Cold War and, more recently, Russia's efforts to control its neighbors).

THE STRENGTH OF CONTRACTUALIST ECONOMIES

Contractualist economies are far more likely than status economies to experience economic growth and development, for five reasons. First, as discussed earlier, because governments of contractualist states are under constant pressure to increase economic growth, they normally do whatever is necessary to achieve it. Second, the individualism associated with contractualist culture is more conducive than the collectivism of status culture to free thinking. The consequent creativity, combined with the individual pursuit of happiness and the security of property rights, is more favorable to innovation than is the arbitrariness of law and social conformity of status culture.⁴⁸ Third, the internalized trust of strangers in the marketplace favors the development of advanced financial markets, which are a crucial component of economic growth and development.⁴⁹ Fourth, the individualism associated with a contractualist culture facilitates a more complex division of labor compared to the collectivism of a status culture, where individuals habitually stay within their networks. Fifth, contractualist states are more likely than status states to reap the benefits of international comparative advantage.

48. In this manner, economic norms theory explains technological advancement as a consequence, not a cause, of economic and social change. This view reverses the position of many theories and frameworks that treat technology as an exogenous cause of human events. These include various modernization theories, for example, Walt W. Rostow, *The Stages of Economic Growth* (London: Cambridge University Press, 1960); hegemonic stability theory in Gilpin, *War and Change in World Politics*; long-cycle theory in Thompson, *On Global War*; the structural theory of imperialism in Johann Galtung, "A Structural Theory of Imperialism," *Journal of Peace Research*, Vol. 8, No. 2 (1971), pp. 81–117, <https://www.jstor.org/stable/422946>; and some aspects of trade-state theory in Rosecrance, *The Rise of the Trading State*, and world systems theory in Immanuel Wallerstein, "The Rise and Future Demise of the World Capitalist System: Concepts for Comparative Analysis," *Comparative Studies in Society and History*, Vol. 16, No. 4 (September 1974), pp. 387–415, <https://www.jstor.org/stable/178015>.

49. Christopher Clague et al., "Contract-Intensive Money: Contract Enforcement, Property Rights, and Economic Performance," *Journal of Economic Growth*, Vol. 4, No. 2 (June 1999), pp. 185–211, doi.org/10.1023/A:1009854405184.

CONTRACTUALIST STATES AND VICTORY IN WAR

The fourth source of contractualist power is the capacity to prevail in war. In recent years, a number of studies have reported that democratic states tend to win their wars.⁵⁰ Some of these studies have suggested that this tendency can be explained by democratic states' propensity to (1) ally together;⁵¹ (2) try harder than non-democracies to achieve victory;⁵² (3) have political cultures that produce better leaders and promote initiative among troops;⁵³ and (4) choose to enter wars they are more likely to win.⁵⁴

As discussed above, in economic norms theory contractualist economies cause democratic governance, and no contractualist democracy has ever stopped being democratic. Yet, in this theory, democracy does not reliably produce a contractualist economy, and roughly half of all democracies have historically had status or axial economies.⁵⁵ These findings suggest that it is not democratic states with status economies that tend to win their wars. Rather, it is contractualist states, which are almost always democratic, that do so. There are six reasons to expect contractualist states to win their wars.

First, as mentioned, contractualist states tend to support each other in wars, or at minimum, they do not pose a threat to each other. This allows contractualist states to concentrate their military forces on their enemies. Status powers, in contrast, fearing that any state that can attack might, have greater reason to disperse their military power in case other states, not yet in the war, band against them. Second, as discussed above, contractualist states tend to have strong economies and, thus, are better equipped than others to win wars

50. Lake, "Powerful Pacifists"; Bueno de Mesquita et al., "Testing Novel Implications from the Selectorate Theory of War"; Alan C. Stam, *Win, Lose, or Draw: Domestic Politics and the Crucible of War* (Ann Arbor: University of Michigan Press, 1996); Dan Reiter and Allan C. Stam, *Democracies at War* (Princeton, N.J.: Princeton University Press, 2002); Dan Reiter and Allan C. Stam, "Understanding Victory: Why Political Institutions Matter," *International Security*, Vol. 28, No. 1 (Summer 2003), pp. 168–179, doi.org/10.1162/016228803322428027; and Dan Reiter and Allan C. Stam, "Correspondence: Another Skirmish in the Battle over Democracies and War," *International Security*, Vol. 34, No. 2 (Fall 2009), pp. 194–200, doi.org/10.1162/isec.2009.34.2.194. Critics include Michael C. Desch, "Democracy and Victory: Why Regime Type Hardly Matters," *International Security*, Vol. 27, No. 2 (Fall 2002), pp. 5–47, doi.org/10.1162/016228802760987815; Michael C. Desch, "Democracy and Victory: Fair Fights or Food Fights?" *International Security*, Vol. 28, No. 2 (Summer 2003), pp. 180–194, doi.org/10.1162/016228803322428036; and Alexander B. Downes, "How Smart and Tough Are Democracies? Reassessing Theories of Democratic Victory in War," *International Security*, Vol. 33, No. 4 (Spring 2009), pp. 9–51, doi.org/10.1162/isec.2009.33.4.9.

51. Lake, "Powerful Pacifists."

52. Stam, *Win, Lose, or Draw*; Reiter and Stam, *Democracies at War*; and Bueno de Mesquita et al., "Testing Novel Implications from the Selectorate Theory of War."

53. Reiter and Stam, *Democracies at War*.

54. *Ibid.*

55. See Mousseau, "Grasping the Scientific Evidence," p. 183.

of attrition and support troops in the field. Third, contractualist governments can borrow more than can other governments to fund their wars, because financiers consider them low credit risks given their histories of paying off debts, which they reliably do because enforcing contracts is fundamental not only to their credibility, but to their very existence. Fourth, the individualism and legal equality that characterize market societies render them highly innovative, traits that foster technological advancement and initiative among soldiers and civilians alike. Fifth, the contractualist's superior bureaucratic organizational capacity, a result of the rule of law and voter demands on these states to promote and sustain economic growth, produces greater logistical capacity in support of troops in the field, particularly over long distances. Sixth, the rule of law facilitates the creation of highly trained and capable military forces that are reliably loyal to their states. Leaders of status states, in contrast, have reason to fear rebellions by field commanders, whose loyalties are to networks rather than to the state. As a result, commanders are more likely to be selected for those loyalties than for their talents.

Testing the Existence of Contractualist Hegemony

For a theory to have supporting evidence, it must be able to deduce nontrivial novel facts that are corroborated upon investigation. For a theory to be compelling, it must accrue corroborated facts in multiple ways across an array of critical areas. A selected list of non-trivial facts *ex ante* predicted by economic norms theory and corroborated can now be found in the areas of international conflict, state capacity, terrorism, anti-Americanism, democratization, military coups, and civil conflict.⁵⁶ To my knowledge, every investigated theorem associated with this theory has been corroborated. Further, several of the theory's predictions are perfect: there has never been a single fatality in militarized conflict between two contractualist states;⁵⁷ no contractualist country has ever experienced a civil war, an insurgency, or widespread support for acts of

56. On state capacity, see Jason Enia, "Do Contracts Save Lives? The Relationship between Contract Intensive Economies and Natural Disaster Fatalities," *Risk, Hazards & Crisis in Public Policy*, Vol. 9, No. 1 (March 2018), pp. 60–81, doi.org/10.1002/rhc3.12130. On terrorism and anti-Americanism, see Tim Krieger and Daniel Meierrieks, "The Rise of Market-Capitalism and the Roots of Anti-American Terrorism," *Journal of Peace Research*, Vol. 52, No. 1 (January 2015), pp. 46–61, doi.org/10.1177/0022343314552940. On democratization, see Aytaç et al., "Why Some Countries Are Immune from the Resource Curse." And on military coups, see Jonathan Powell and Mwita Chacha, "Investing in Stability: Economic Interdependence, Coups d'État, and the Capitalist Peace," *Journal of Peace Research*, Vol. 53, No. 4 (July 2016), pp. 525–538, doi.org/10.1177/0022343316638588.

57. Mousseau, "Grasping the Scientific Evidence."

terror or genocide,⁵⁸ and no contractualist state has ever stopped being democratic. In fact, the dearth of militarized conflict between democratic states may be the result of the peace among the contractualist states, which are almost always democratic.⁵⁹

In this section, I test whether economic type influences a state's foreign policy alignment. The literature offers three principal ways to test global alignments: examination of members' voting preferences at the United Nations General Assembly; existence of alliance agreements; and states' membership in international organizations. Of these, United Nations voting alignment with the market leader—the United States—is best-suited for testing the predicted existence of liberal hierarchy conditioned by relative power.⁶⁰ Alliance data cannot be used to examine the hypothesis, because alliances can be transactional and thus may not reflect common interests. Alliances can also incur costs, and real friends do not have to validate their friendships in formal alliances.⁶¹ Alliance data would overlook, for instance, the predicted friendships between contractualist states that form alliance agreements and contractualist states that, as a principle, do not, such as Austria, Finland, Sweden, and Switzerland. It would also overlook the alignment of the United States with Britain in the years preceding U.S. entry into World War II. Although alliance data offer a longer temporal domain than does voting agreement, this is of little help here, because only one contractualist country—the United States—existed before 1920 (see table 1). As the theory would predict, before 1920 the lone contractualist, the United States, was largely nonaligned.

In fact, a comparison of alliance and United Nations voting agreement (both

58. Exceptions include civil wars, insurgencies, and support for acts of terror or genocide that originate in non-contractualist subregions within states with contractualist economies, such as the American South or Northern Ireland. In addition, a sociological theory cannot account for the behaviors of lone individuals or fringe groups lacking some societal support. See Mousseau, "Capitalist Development and Civil War."

59. Some scholars have voiced opposition to the evidence in the literature that a contractualist economy may explain the democratic peace, but no study has shown democracy significant with contractualist economy included in a clear-cut regression unencumbered by controversial practices. See Mousseau, "Grasping the Scientific Evidence." In a rejoinder to that article, James Lee Ray and Allan Dafoe did not defend a single controversial practice and did not report a single regression showing existence of democratic peace. See Ray and Dafoe, "Democratic Peace versus Contractualism," *Conflict Management and Peace Science*, Vol. 35, No. 2 (March 2018), pp. 193–203, doi.org/10.1177/0738894216683648.

60. On using United Nations voting to gauge agreement among nations, see Erik Gartzke, "Preferences and the Democratic Peace," *International Studies Quarterly*, Vol. 44, No. 2 (June 2000), pp. 191–212, doi.org/10.1111/0020-8833.00155.

61. See Erik Gartzke and Kristian Skrede Gleditsch, "Why Democracies May Actually Be Less Reliable Allies," *American Journal of Political Science*, Vol. 48, No. 4 (October 2004), pp. 775–795, doi.org/10.1111/j.0092-5853.2004.00101.x.

with the United States) shows that they have little meaningful correlation (Pearson's $r = 0.27$).⁶² From 1946 to 2010, the alliance measure identifies all thirty-two states in Latin America, save Cuba, as the closet allies of the United States, with an average score 2.28 standard deviations above the median, much closer than the United States' relations with its NATO allies, at only 1.29 standard deviations above the median. Pakistan measures as a greater ally of the United States than does New Zealand, and is about equal with Australia and South Korea. Although the alliance measure may be a reliable indicator of transactional alliance ties among states, it lacks face validity as a gauge of natural alliance or friendship—the predicted outcome of a contractualist economy.

Whereas formal alliance data miss informal ties of friendship, IGO membership data can overlook the strategic ties of bandwagoning by status minor powers. Contractualist states are predicted to initiate and join IGOs, especially economic ones. But although status minor powers are predicted to bandwagon, it is less clear that this should be reflected in the joining of the contractualists' IGOs. First, many contractualist IGOs are aimed at facilitating economic cooperation, and the contractualist principle of self-determination that lies at the core of the market hegemony grants all states autonomy in economic policymaking.⁶³ Second, and related, as outcomes of contractualist values, many IGOs have human rights, democratic, and economic transparency requirements. Status regimes tend to repress out-groups and conceal economic data, in order to hide their corrupt redistributions of state funds to supporting networks. As a result, status states that bandwagon with the contractualist hegemony have formidable incentives to eschew joining the contractualists' IGOs.⁶⁴

If contractualist states simply tend to agree on issues, this should be evident in their United Nations votes. If status major powers tend to balance against the contractualist hegemony but status minor powers bandwagon with it, one

62. The data come from Frank M. Häge, "Chance-Corrected Measures of Foreign Policy Similarity (FPSIM Version 2)," Harvard Dataverse, V1, <https://doi.org/10.7910/DVN/ALVXLM>. As recommended, alliance agreement is gauged using the *Kappa* variable and voting agreement is gauged using the *Piv* variable. See Frank M. Häge, "Choice or Circumstance? Adjusting Measures of Foreign Policy Similarity for Chance Agreement," *Political Analysis*, Vol. 19, No. 3 (Summer 2011), pp. 287–305, doi.org/10.1093/pan/mpr023. Alliance data are originally from Douglas M. Gibler, *International Military Alliances, 1648–2008* (Washington, D.C.: CQ Press, 2009). United Nations General Assembly voting data are originally from Erik Voeten, "Data and Analyses of Voting in the United Nations General Assembly," in Bob Reinalda, ed., *Routledge Handbook of International Organization* (London: Routledge, 2013).

63. This economic autonomy in states bandwagoning with the Western democracies for security purposes was previously observed in David A. Lake, *Hierarchy in International Relations* (Ithaca, N.Y.: Cornell University Press, 2011).

64. This can explain why cross-national data from developing countries are typically sparse.

should be able to detect greater agreement among minor powers than among major powers with this hegemony, even as the status minor powers may not agree as much as the contractualist states do with each other. Agreement with the United States at the United Nations can also tap into possible “soft balancing,” in which states can express disagreement with the hegemon in ways that would otherwise be too costly if done in formal alignment. In this way, analyses of General Assembly members’ voting agreement with the United States offer a hard test of the theory, particularly given that the General Assembly has been the primary venue for raising issues that divide developing and developed countries.⁶⁵

As model 1 in table 2 illustrates, contractualist states are more likely than others to align with the market leader (the United States) in their voting preferences at the United Nations General Assembly: contractualist major powers are 1.38 standard deviations more likely than status minor powers (represented in the intercept) to agree with the market hegemon, and contractualist minor powers are 1.03 standard deviations more likely to agree. Contractualist states do not appear to balance, because among them major power standing increases the odds of agreement with their strongest member (the United States), perhaps because of their shared responsibilities in managing the global market order. Contractualist minor powers have the same interests but less responsibility, so they are at greater liberty to free ride on issues where voting with the hegemon may incur costs.

Among status states, both balancing and bandwagoning behavior are evident. Status major powers are 0.36 standard deviations less likely than status minor powers (intercept) to agree with the market hegemon. Status minor powers are less likely than contractualist states of any kind (major or minor) to agree with the market leader, but they are more likely than status major powers to so agree. Thus, among status states, major powers are more likely to balance and minor powers are more likely bandwagon.⁶⁶

Is the cause of agreement among the contractualist states, and the role that

65. On the value of United Nations voting to gauge soft balancing among states, see T.V. Paul, “Soft Balancing in the Age of U.S. Primacy,” *International Security*, Vol. 30, No. 1 (Summer 2005), p. 47, doi.org/10.1162/0162288054894652.

66. The theory explicitly predicts that status minor powers are not friends of the contractualist states but rather bandwagon with them, meaning they agree with the market leader largely for strategic reasons. Because the theory predicts strategic voting in the United Nations, there is no need to distinguish it from genuine preference voting. Future research, however, may test the prediction that status minor powers are voting strategically (bandwagoning), whereas contractualist nations (minor and major) simply agree with the market leader. On strategic voting in the General Assembly, see David B. Carter and Randall W. Stone, “Democracy and Multilateralism: The Case of Vote Buying in the UN General Assembly,” *International Organization*, Vol. 69, No. 1 (Winter 2015), pp. 1–33, doi.org/10.1017/S0020818314000186.

Table 2. Internal Economic Type, Power Rank, and Foreign Policy Alignment with the Contractualist Hegemony¹

Model 1 Contractualist Economy, 1946–2010			Model 2 Exports of Goods and Services, 1960–2012		
Agreement with the United States	β	T	Agreement with the United States	β	T
Contractualist, major power ^{2,3}	1.38	4.98***	Exporter, major power ⁴	1.24	4.02***
Contractualist, minor power	1.04	7.98***	Exporter, minor power	0.46	3.97***
Status, major power	-0.36	-6.05***	Insular, major power	-0.52	-5.24***
Intercept	0.13	2.72***	Intercept	0.03	-0.64
R-square: 0.15 N = 7,017			R-square: 0.09 N = 5,243		

¹Ordinary least squares regression with *t*-scores calculated from standard errors corrected for clustering by state. Dependent variable, in standardized z-scores, is voting agreement with the United States in the United Nations General Assembly. United States excluded. Data obtained from Erik Voeten, “Data and Analyses of Voting in the UN General Assembly,” in Bob Reinalda, ed., *Routledge Handbook of International Organization* (London: Routledge, 2013). All data can be accessed for replication purposes in the online appendix at doi.org/10.7910/DVN/HS2N6A.

²See table 1 for the list of contractualist states. Axial periods are treated as missing.

³Major powers identified by the Correlates of War are Great Britain, France, Russia/Soviet Union, China after 1949, and, after 1990, Germany and Japan. All other states are minor powers. See Melvin Small and J. David Singer, *Resort to Arms: International and Civil Wars, 1816–1980*, 2nd ed. (Beverly Hills, Calif.: SAGE, 1982). All coefficients in both models are dummy variables.

⁴Exporter equals 0, indicating *Insular* character, if state has below-median per capita levels of exports in goods and services; 1 otherwise. Source: *World Development Indicators* (Washington, D.C.: World Bank, 2016).

****p* < 0.01, ***p* < 0.05, **p* < 0.10, two-tailed tests.

power standing plays among the status states, a consequence of the causal mechanism of varying countries’ interests in global markets (for contractualist states) and security (for status states)? Model 2 in table 2 examines the causal mechanism more directly by drawing on data on exports in goods and services. As can be seen, the same pattern holds: states with levels of exports per capita that are above the median, whether they are major powers (1.24) or minor powers (0.46), are more likely than insular minor powers (represented in the intercept) to align with the market leader. Conditioned by their power standing, insular states both balance and bandwagon: major powers are 0.52 standard deviations less likely than their minor power counterparts to agree with the market leader.

Identical results for both models also appear using the Correlates of War National Materials Capabilities Index in place of major power status. As can be

Table 3. Internal Economic Type, Capability, and Foreign Policy Alignment with the Contractualist Hegemony¹

Model 1 Contractualist Economy, 1946–2010			Model 2 Exports of Goods and Services, 1960–2012		
Agreement with the United States	β	T	Agreement with the United States	β	T
Contractualist*Capability ²	0.53	1.29	Exporter*Capability ²	0.42	0.77
Contractualist ³	0.96	7.15***	Exporter ³	0.46	3.92***
Capability ⁴	-0.08	-3.86***	Capability ⁴	-0.12	-1.83*
Intercept	0.13	2.80***	Intercept	-0.02	-0.47
R-square: 0.08			R-square: 0.08		
N = 7,017			N = 5,243		

¹See notes 1 and 2 in table 2.

²Interaction term. T -value represents the significance of capability when the other constituent term (contractualist in model 1 or exporter in model 2) equals 1, calculated as $(b1 + b3(e)) / \text{SQRT}(\text{variance}(b1) + e^2 * \text{variance}(b3) + 2 * e * \text{covariance}(b1b3))$, where $b1$ and $b2$ are the constituent terms, $b3$ is the interactive term, and e represents a particular value of $b2$. See Robert J. Friedrich, "In Defense of Multiplicative Terms in Multiple Regression Equations," *American Journal of Political Science*, Vol. 26 (1982), pp. 797–833, doi.org/10.2307/2110973. Capability is a state's percentage share of global capability as identified by the Correlates of War National Material Capabilities index, standardized by subtracting from its median value and dividing the resultant by the standard deviation of the uncentered variable. See J. David Singer, Stuart A. Bremer, and John Stuckey, "Capability Distribution, Uncertainty, and Major Power War, 1820–1965," in Bruce Russett, ed., *Peace, War, and Numbers* (Beverly Hills, Calif.: Sage, 1972).

³Standard error is conditional with capability having a value of 0, its median.

⁴Standard error is conditional with the binary measures contractualist (model 1) or exporter (model 2) having values of 0, meaning having a status (model 1) or an insular (model 2) economy.

*** $p < 0.01$, ** $p < 0.05$, * $p < 0.10$, two-tailed tests.

seen in the third row of table 3, among status (model 1) and insular (model 2) states, a one-standard-deviation increase in capability is significantly associated, respectively, with 0.08 and 0.12 standard deviation decreases in agreement. In contrast, the interaction terms in the top row indicate that among contractualist/exporting states, capability appears not to play a significant role in voting agreement with the market leader (the United States). That capability is insignificant among contractualist/exporting states (top row), but significant and negative among status/insular ones (third row), corroborates the prediction that domestic circumstances condition how power matters in international relations. A comparison of the interactive terms in the top row of table 3 with their dummy counterparts in the top row of table 2 demonstrates that there is less certainty that power gauged with capability promotes agreement among contractualist/exporting states than power gauged as major

power standing. This may be because power status reflects a contractualist state's level of responsibility in enforcing the global order, unlike the more nuanced measure of capability.⁶⁷

Why Hegemonic War Does Not Happen

Hegemonic realist theories largely predict never-ending cycles of global war and peace, caused principally by varying rates of economic growth among leading powers that trigger relative gains concerns and yield opportunities for rising powers to assert control and change the rules of the global order.⁶⁸ This section identifies four core reasons why hegemonic war, defined as a clash over global leadership, is not only unlikely in the future, but probably never happened in the past. First, if internal factors determine national interests, as I argue, then hegemony cannot exist among status major powers. Preferring disorder wherever they lack control, status powers simply are unconcerned with global rules, and thus have no interest in fighting over them. Motivated foremost to make others their subordinates and avoid being the subordinate of others, status major powers have nothing to gain and everything to lose in acquiescing to stronger states, and therefore usually balance against them.

Second, status states cannot reach the level of economic productivity per capita of contractualist states, and thus it is unlikely that any status power could overtake the combined might of the contractualist hegemony. Fortune may occasionally bestow wealth on a status or axial economy, as it did on the antebellum South, which sold cotton and tobacco in global markets, and as it

67. There is no need to include controls for income, democracy, and trade in tables 2 and 3. These factors are predicted consequences of a contractualist economy; therefore, even if their inclusion caused the coefficient for contractualist economy to weaken, the result cannot be interpreted as evidence against the theory, because the theory predicts such a weakening. See Hubert M. Blalock Jr., *Social Statistics*, 2nd ed. (New York: McGraw-Hill, 1979), pp. 468–474. Technically, the feedback loop of contractualist economy and democracy identifies democracy as a necessary condition for reliably predicting the foreign policy behavior of contractualist states, which implies the need for an interactive term of contractualism and democracy. An interactive term is not feasible, however, when one constituent term (contractualist) predicts the other (democracy) so near perfectly that it leads to extreme multicollinearity. In the data (model 1, table 2) are only twenty-nine nation-years of contractualist economy without democracy (Malaysia and Singapore, with democracy as defined above), 0.4 percent of the total. This makes the correlation of contractualist economy with an interaction term an extremely high 0.98, rendering it uninformative. As an alternative, all tests were repeated with the nation-years of contractualist non-democracy omitted, with identical results obtained. Additional tests with the data expanded by treating axial states as having contractualist economies also yield identical results.

68. As mentioned, hegemonic realist theories are defined broadly and include power transition theory, long-cycle theory, and hegemonic stability theory. On power transition theory, see DiCicco and Levy, "The Power Transition Research Program." On long-cycle theory, see Thompson, *On Global War*. And on hegemonic stability theory, see Gilpin, *War and Change in World Politics*.

does on oil-rich states today. But wealth is not economic productivity, so such states are ultimately dependent on the contractualist hegemony and can never seriously challenge it. This explains why the South lost the Civil War.

The third reason why hegemonic war resulting from changes in relative economic power is unlikely follows from the second reason: in all likelihood, only another contractualist state can surpass the market leader in economic size; and as discussed, no rising contractualist power would ever challenge a declining one. Contractualist states are uninterested in relative power (unless a state is behaving in a threatening manner), and among them, there are no substantial changes in global rules to fight about.

Fourth, even if one were to suppose that a rising contractualist power wanted to be dominant among all contractual states, such a power shift cannot happen, because these states' economies cannot substantially rise and fall relative to one another. As a result of their shared economic type and preferences for normal trade, their economies have largely converged.

The United States is the world's third most populous country. If my argument is correct that contractualist economies always have greater economic productivity per capita than other types of economies, then today only China or India (both of which have bigger populations) could possibly have economies larger than the market leader, and thus potentially pose a challenge to the contractualist hegemonic order. Of the two, China has the stronger economy. Is a clash with China on the horizon?

Why China Need Not Be Feared

The rise of China has sparked fear in some American thinkers and policymakers who believe that power equals threat and changes in relative power result in conflict and war.⁶⁹ I argue, however, that such fear is unwarranted unless China has a status economy; status powers have an interest in sowing chaos wherever they lack control, which is diametrically opposed to the contractualist preference for order and self-determination. China, however, has neither a status nor a contractualist economy, but an axial economy (see table 1). As the world's largest exporter with considerable public and private trading sectors, China possesses an economy not unlike those of ancient

69. U.S. Vice President Michael Pence has claimed that "China wants nothing less than to push the United States of America from the Western Pacific and attempt to prevent us from coming to the aid of our allies." White House, "Remarks by Vice President Pence on the Administration's Policy toward China" (Washington, D.C.: White House, October 4, 2018), <https://www.whitehouse.gov/briefings-statements/remarks-vice-president-pence-administrations-policy-toward-china>. See also Allison, *Destined for War*; and Mearsheimer, *The Tragedy of Great Power Politics*, pp. 360–411.

Athens, the Italian city-states of the Renaissance, and the European kingdoms of the Enlightenment. The elites of those societies, like China's today, embraced long-distance commerce.

Axial states can wage wars over global markets. Historical examples include the Venetian-Genoese wars of the early Italian Renaissance, the Anglo-Dutch wars of the second half of the seventeenth century, and the Anglo-French wars of the eighteenth century. These wars were fought for control of markets and maritime trade routes, not global leadership. As discussed above, elites in axial economies perceive little interest in the welfare of strangers and thus non-discriminatory trade.

The last time a leading contractualist power dealt with an axial-capitalist peer competitor was in the nineteenth century. In the decades before World War I, axial Britain was in the process of transitioning toward a contractualist economy (see table 1). In the first decade of this century, axial China was moving rapidly toward becoming a contractualist economy.⁷⁰ The parallels are uncanny: both countries wildly embraced trade, but with a mix of normal and mercantilist arrangements. Although both China today and Britain then had normal trade relations with many countries, both had, or continue to have, discriminatory relations in other spheres: just as British merchants had privileged access to the markets of many of Britain's colonies and Dominions and used military force to collect debts, China today seeks privileges for its state-owned enterprises in its internal market and abroad and imposes harsh terms on states that fail to pay their debts.⁷¹

Similarly, just like Britain a century ago, China today appears to be increasingly acting as if it has an interest in the global market order. Late-nineteenth-century Britain provided the world a trading currency by backing the pound sterling with gold, and British bankers financed projects all over the globe. Recently, China ceased undervaluing the yuan, indicating that it has an interest in the health of economies beyond its borders, and is now providing as much financing to developing countries as the World Bank.⁷²

70. China's per capita life insurance expenditure increased dramatically in the decade prior to the last year of available data (2010), reaching par with other newly contractualist nations. It is deemed axial rather than contractualist given the presence of an informal sector, which indicates the existence of status networks in an economy.

71. See Peter S. Goodman and Jane Perlez, "Money and Muscle Pave China's Way to Global Power," *New York Times*, November 25, 2018, <https://www.nytimes.com/interactive/2018/11/25/world/asia/china-world-power.html>; and White House, "Remarks by Vice President Pence on the Administration's Policy toward China." China is also said to be using mercantilist strategies to secure its energy supplies. See Jennifer Lind and Daryl G. Press, "Markets or Mercantilism? How China Secures Its Energy Supplies," *International Security*, Vol. 42, No. 4 (Spring 2018), pp. 170–204, doi.org/10.1162/isec_a_00310.

72. Kevin P. Gallagher, "China's Role as the World's Development Bank Cannot Be Ignored," Na-

Just as the United States and Britain managed to avoid serious militarized conflict, so too can the United States and China. Negotiated solutions are possible because, like Britain, China has an interest in the global market order. Despite its rise, China has become far friendlier to its neighbors and others than it was as a status power, when it fomented revolution abroad under the leadership of Mao Zedong. China has resolved most of its territorial disputes.⁷³ Largely, only its maritime disputes are ongoing, and these are not new, having originated in the pre-communist period.⁷⁴ In recent years, China has established diplomatic relations with many countries it once treated as enemies, including Indonesia, Singapore, and South Korea.⁷⁵

The theory presented here posits that axial states do not behave in a predictable manner: unlike contractualist states, they have no feedback loop that locks in pro-market governments. In addition, states transitioning to a contractualist economy typically experience severe political difficulties at home, as status and contractualist values begin to clash. As the examples of late-Meiji Japan and Nazi Germany show, emerging extremism during the economic transitions of large states, not the growth of power, poses the greatest challenge to the global market order.⁷⁶

Whereas axial Britain experienced severe class conflict, China is grappling with intense nationalism.⁷⁷ But unlike Britain, which could send its unemployed to the Dominions, China has no outlets for its many millions migrating to cities in search of jobs. Britain's leaders could ameliorate domestic conflict with nationalistic pride in its empire and foreign adventures; diversionary foreign wars are not an option for a China constrained by the contractualist hegemony.

It follows that it is not in the interests of members of the contractualist he-

tional Public Radio, October 11, 2018, <https://www.npr.org/2018/10/11/646421776/opinion-chinas-role-as-the-world-s-development-bank-cannot-be-ignored>.

73. The exceptions are China's disputes with Bhutan and India, which have been largely neutralized. M. Taylor Fravel, *Strong Borders, Secure State: Cooperation and Conflict in China's Territorial Disputes* (Princeton, N.J.: Princeton University Press, 2008), p. 126.

74. The author thanks Xiongwei Cao for pointing out this fact.

75. David Shambaugh, "China Engages Asia: Reshaping the Regional Order," *International Security*, Vol. 29, No. 3 (Winter 2004/05), pp. 64–99, doi.org/10.1162/0162288043467496.

76. The association of economic change with conflict in the modern era is well documented. Recent studies include Mark David Nieman, "Shocks and Turbulence: Globalization and the Occurrence of Civil War," *International Interactions*, Vol. 37, No. 3 (2011), pp. 263–292, doi.org/10.1080/03050629.2011.594756; and J. Tyson Chatagnier and Emanuele Castelli, "The Arc of Modernization: Economic Structure, Materialism, and the Onset of Civil Conflict," *Political Science Research and Methods*, Vol. 7, No. 2 (April 2019), doi.org/10.1017/psrm.2016.24.

77. Thomas J. Christensen, "The Advantages of an Assertive China: Responding to Beijing's Abrasive Diplomacy," *Foreign Affairs*, Vol. 90, No. 2 (March/April 2011), pp. 54–67, <https://www.foreignaffairs.com/articles/east-asia/2011-02-21/advantages-assertive-china>.

gemony to confront China or try to contain it. Such efforts would compel China's leaders to respond forcefully, which would be in the interest of the hegemonic order: if China's leaders failed to react to such efforts when they are reported in the domestic media, the pro-market leadership of the Communist Party could be replaced by a Party faction opposed to the global order. Less visible efforts at containment might not trigger such reactions, but China's leaders have staked the legitimacy of the Party on continued economic success. Therefore, any action that harms China's economy puts at risk its pro-market leadership. What happened in Germany and Japan could happen in China.⁷⁸

As with the United States' dealings with axial Britain, contractualist leaders today can seek to cajole China's leaders to adopt nondiscriminatory practices. Any effort to contain China, however, risks calamity of catastrophic proportions. The implication is as clear as it is profound: contractualist policymakers must not confuse China's pursuit of a mercantilist advantage with threat of a Thucydides Trap and act on this confusion.⁷⁹

In this way, democracy in China, if it occurs before China becomes a contractualist state, may increase the prospects for conflict, as it could cause the replacement of China's pro-market leaders with anti-market ones. My argument is thus contrary to both realist claims about the security dilemma and the liberal democratic peace notion that China can be pacified if it democratizes. As long as China's leaders continue to seek legitimacy with economic success at home, all issues involving the contractualist hegemony can be negotiated, because, like the United States and Britain a century ago, both sides have ultimate interests in the global market order.⁸⁰

The Trajectory of Peace

If my argument is correct, the world is on the cusp of tremendous change: across the globe, contractualism is overtaking status-personalism and, in so

78. As corroboration of this possibility, both Russia and Venezuela transitioned to axial economies and then returned to status economies (see table 1), and both turned from having friendly relations with the contractualist states to having antagonistic relations with them.

79. Many arguments that China has revisionist intentions often do this in part. See, for instance, "Remarks by Vice President Pence on the Administration's Policy toward China." To reiterate, the theory predicts that contractualist leaders assess the intentions of states from their behavior. There is nothing in the theory that suggests that contractualist leaders, when drawing such inferences, cannot make mistakes. In fact, the theory predicts that contractualist leaders draw faulty inferences more frequently when dealing with status and axial states compared with contractualist ones, as only the latter consistently behave in ways that contractualist leaders can intuitively understand given their own values and interests.

80. With the emergence of e-commerce companies that can act as efficient third-party enforcers of contracts, such as Ali Baba in China, the link between contractualist economies and democracy may be weakened. This possibility offers an important avenue for future research.

doing, launching an era of peace and prosperity. This conclusion is reached without any monotonic or teleological assumptions: anything that collapses the contractualist economies for a generation or two would stop or reverse this trend.⁸¹ All else being equal, the contractualist hegemony has made the odds of unit-level change from a status to a contractualist economy more likely than the reverse. At the start of the twentieth century, only the United States had a contractualist economy; by the end, at least thirty-five states were contractualist.⁸² The Westphalian system has never been as conducive to transitions to contractualist economies as it has been under the contractualist hegemony, which prohibits states from starting wars for booty, debt collection, or territory. Nor has the world ever had such widespread access to capital, mobility, and equity in trade as it has had since the contractualist hegemony made it so with the signing of the Atlantic Charter and the implementation of the Bretton Woods agreements. The number of transitions also predictably increased after the Cold War, when the contractualist hegemony emerged as largely unchallenged. In this way, system change toward contractualist hegemony within the anarchic order, rooted in unit-level change, ultimately promotes more unit-level change toward a contractualist world.

Reports of the Demise of the Liberal Order Are Greatly Exaggerated

I have argued that the liberal global order is on the rise; yet, liberal values around the world seem to be in retreat. In recent years, two contractualist states with populist governments—Hungary and Poland—have begun to embrace anti-immigrant and anti-globalization positions. In the United States, President Donald Trump appears to favor status values such as power, rank, and loyalty over contractualist values such as equity and respect for the rule of law. In foreign policy, Trump does not seem to share contractualists' opposition to Russia's efforts to sow chaos, and he sees trade in terms of winners and losers.

Reports of the demise of the liberal order, however, are greatly exaggerated. First, Hungary and Poland are newly contractualist states. The sociological nature of economic norms theory means that contractualist values should be more firmly rooted in older contractualist societies than in newer ones. This is corroborated with the natural experiment of Germany: in 1962 West Germany embraced contractualism (see table 1), but it was only after 1991 that East

81. In this way, climate change, not changes in relative power, is the greatest threat to the global order. It should also be noted that a prediction of positive change does not imply that the prediction is deduced from a functionalist assumption or normative ideal rather than causal/empirical theory.

82. Greece may have reverted to an axial economy in 2009 (see table 1).

Germany could have become contractualist, when massive investments from the Federal Republic caused incomes in the marketplace to become higher than incomes obtainable from status relationships. Today, Germany's populist movement is concentrated in the eastern part of the country and is largely non-existent in the western part,⁸³ which corroborates the expectation that some newly contractualist societies retain some of their status values even after a generation of robust opportunity in the marketplace. Deeper changes in values may not occur until generational cohorts initially socialized into status or axial economies have passed on.

Second, the electorates in most of the thirty-five contractualist states listed in table 1 in 2010 have not experienced substantial increases in populist sentiment. Italy's Five Star movement is often called populist but largely because of its anti-immigrant stance. Although an embrace of immigrants would seem consistent with contractualist values, opposition to large numbers of immigrants is arguably a rational response to what is essentially a huge external shock that has intensified in recent years. Britons voted to leave the European Union, but largely because they believed they were being treated unfairly in it. The rejection of unfair terms of trade, whether perceived correctly or not, is consistent with contractualist values.

Third, the strength of institutions far exceeds that of any one person, including the president of the United States. Liberal values and institutions are rooted in contractualist economic norms and will not disappear simply because some leaders choose not to abide by them. For instance, although Trump may want the United States to withdraw from the North Atlantic alliance, this is not a view shared by Congress and the American people. Even members of Trump's administration have often restrained him in ways consistent with contractualist values and institutions.⁸⁴

In economic norms theory, the only way the United States' contractualist values could shift to status or axial values would be through radical economic change. As mentioned above, economics is ultimately at the mercy of politics, as an influential coalition of rent-seekers could potentially collapse a contractualist economy by failing to sustain the highly inclusive marketplace or uphold the state's credibility in enforcing of contracts. In recent years, the U.S. economy has begun tilting toward rent-seekers, given the growing role of private money in electoral campaigns and the increasing sophistication of rent-

83. Anna Sauerbrey, "Why Is Eastern Germany So Far Right?" *New York Times*, October 4, 2018, <https://www.nytimes.com/2018/10/04/opinion/why-is-eastern-germany-so-far-right.html>.

84. Anonymous, "I Am Part of the Resistance inside the Trump Administration," *New York Times*, September 5, 2018, <https://www.nytimes.com/2018/09/05/opinion/trump-white-house-anonymous-resistance.html>.

seekers in masking their activities through the manipulation of public opinion, including through their concentrated ownership of media outlets. Such rentierism could precipitate a change in U.S. values if it results in a retraction of the market substantial enough that newer generations began to obtain higher wages in newfound status networks than in the marketplace.

In this way, the Trump phenomenon may reflect a pathology in U.S. governing institutions; but at least so far, it arguably has not extended to the American people. Most of Trump's supporters seem to be drawn to him not for his expressions of status values, but for his pledges to fight a "rigged" system and create well-paying jobs. Whether or not Trump means what he says, many of his supporters saw a vote for him as an act of protest against the increasing corruption occurring in the United States, a clear contractualist expression.⁸⁵ Although a collapse of the U.S. economy and transition to an axial or a status economy is always possible, the feedback loop of popular insistence on economic growth and a highly inclusive marketplace makes this unlikely. Aside from an external shock (such as nuclear war or climate devastation), such a transition could happen only if the rentiers somehow manage to remain in power long enough to institutionalize a permanently underemployed underclass.

Fourth, even if the U.S. economy were to collapse and the United States became an axial or a status power, the combined economic might of all the other contractualist countries in the world is nearly twice that of the United States. The soft power of the United States in world politics lies not in its power to persuade, but in it being the largest of the contractualist states, and in its willingness to provide the public good of global security since the collapse of the pound sterling in late 1946. If the United States withdrew from its leadership role, the remaining contractualist powers would fill the vacuum. None of them has an economy relatively large enough to enable it to act as a natural leader and principal provider of global security, but it is the temperament of these states that they can easily form an international organization to coordinate and act on their shared security interests, even if some may choose to free ride.

Fifth, current events need to be viewed within a larger context. Fernand Braudel pinpoints the rise of the modern world economy as starting around the year 1450 in northwestern Europe.⁸⁶ The first contractualist economy emerged more than two centuries ago. Since then, contractualist states have

85. The racist alt-right, which does not share the contractualist value of equal protection, remains a tiny fraction of Trump supporters.

86. Fernand Braudel, *Afterthoughts on Material Civilization and Capitalism*, trans. Patricia Ranum (Baltimore, Md.: Johns Hopkins University Press, 1979), p. 24.

confronted numerous shocks and threats to their systems, including the American Civil War, the Great Depression, two world wars, and the Cold War. The present populist mini-wave and pathologies in U.S. democracy are mere trifling episodes in a larger historical frame.

Conclusion

This article has introduced a new liberal theory of global politics and argues that global alignments are rooted in factors internal to states: status states want expansion and disorder wherever they lack control; contractualist states want universal stability and order based on the principle of self-determination for all states. As such, global patterns of war, peace, and cooperation can be explained without recourse to such external factors as trade interdependence, international institutions, interstate images, or intersubjective structure; economic norms theory can explain these patterns from states' internal conditions alone. If this argument is correct, then the relative power of states does determine the perception of threat, as realists have long maintained, but with an essential qualification: only among status states. In this way, internal conditions can explain why 2,400 years ago Sparta feared the rising power of Athens, and why today the distribution of power seems to be playing an ever reduced role in global politics.

My analyses of most states from 1946 to 2010 corroborate the prediction of a liberal global hierarchy managed by a natural alliance of states with contractualist economies. States with contractualist and export-oriented economies tend to agree on issues voted on in the United Nations General Assembly, regardless of their power status or capability, because they have common interests in a global order based on self-determination. Among states with status and insular economies, in contrast, major powers and those with greater capability are more likely to balance the contractualist hegemony, which they fear. Meanwhile, minor powers and those with less capability are more likely to bandwagon with it, which they fear less than they do the status major powers.

Additionally, the theory provides an explanation for a large number of observed facts in international politics. It can explain the decline of war. It can explain the United States' enduring soft power, and why its leadership continues utterly unchallenged by other market powers, despite its relative economic decline since the mid-twentieth century. It offers an account for why developing states with weak institutions tend to bandwagon with the Western powers,⁸⁷ and why land powers tend to provoke counterbalancing coalitions, and

87. Jack S. Levy and Michael N. Barnett, "Alliance Formation, Domestic Political Economy, and

sea powers, which tend to be trading powers, do not.⁸⁸ It can account for the democratic peace; why democracies tend to win their wars; and why the probability of war among market democracies is practically zero. It can explain how states become prosperous; how democracy consolidates; the tenacity of corruption in developing countries; why Western powers reproach their clients for their corruption,⁸⁹ and why states fail. It can explain global terrorism and anti-Americanism.⁹⁰

If the theory is right, war is becoming obsolete, and not for reasons supposed in most international relations theorizing. There is no security dilemma in international politics, as realists contend there is: relative power reliably matters only to leaders of status states, which always consider all other states enemies. Yet, the trajectory of peace is not at all caused by democracy, trade, or international institutions, as liberals maintain. As argued here, democracy, trade, and institutions are epiphenomenal. Contractualist economies are not the only explanation for these factors, but they are a cause of democratic consolidation, foreign policy preferences for equitable trade, and international organization. Leaders of contractualist states assess threats based not on their images of other states' regime types, economic types, or their capabilities, but on their behavior.

What economic norms theory cannot explain is the triggering environmental and political origins of economic change. Although the theory predicts systemic effects (contractualist hegemony) on unit-level change (national transitions toward contractualist economies), it cannot predict when and where leaders of status and axial states might seek to support the market; when and where contractualist economies will emerge; or when and where systemic effects will result in changes in the units. The theory treats economic change largely exogenously.⁹¹

Thus, the theory cannot predict what China will do in the future, because it is impossible to know whether it will become a contractualist power. The the-

Third World Security," *Jerusalem Journal of International Relations*, Vol. 14, No. 4 (December 1992), pp. 19–40.

88. Jack S. Levy and William R. Thompson, "Hegemonic Threats and Great-Power Balancing in Europe, 1495–1999," *Security Studies*, Vol. 14, No. 1 (January–March 2005), pp. 1–33, doi.org/10.1080/09636410591001465.

89. Alexander Cooley, *Great Games, Local Rules: The New Power Contest in Central Asia* (Oxford: Oxford University Press, 2012), pp. 134–148.

90. Krieger and Meierrieks, "The Rise of Market-Capitalism and the Roots of Anti-American Terrorism."

91. One exogenous factor that may promote a contractualist economy is the resolution of territorial conflict. On the territorial peace, see John A. Vasquez, "Why Do Neighbors Fight? Proximity, Interaction, or Territoriality," *Journal of Peace Research*, Vol. 32, No. 3 (August 1995), pp. 277–293, doi.org/10.1177/0022343395032003003.

ory can predict, however, that conflict with China is not inevitable, and that it can be avoided if the contractualist powers do not confuse China's mercantilist pursuits with incipient revisionism, and if they grasp that China's leadership increasingly has interests in the global market order. If China transitions to a contractualist economy—and such a prospect is likely if current trends continue—the proportion of people in the contractualist mind-set worldwide will more than double, from 16 percent to 35 percent. This would greatly increase the speed of the trajectory toward peace, as long as the planet can ecologically sustain the contractualist economies' high levels of productivity.

Russia, in contrast, is the natural enemy of the contractualist hegemony: its status economy encourages the sowing of chaos anywhere Russia lacks control, putting it in direct opposition to the contractualists' interest in order. Russia has a substantial nuclear arsenal, but this does not diminish the overwhelming might of the contractualist hegemony, because nuclear weapons can be used rationally only to deter attacks. Contractualist states do not attack states to make them contractualist, so Russia's deterrent capability has no effect on the power of this hegemony and the trajectory of peace.

Since the defeat of the Axis powers in 1945, an alliance of contractualist states has sought to impose a global order based on the principle of self-determination—a principle that applies to all states, large and small. This global order is increasing the odds of states transitioning from status to contractualist economies and reducing the odds of reverse transitions. In this way, economic norms theory supports the proposition that the world may be nearing half a millennium of change that began with the rise of axial markets in northwestern Europe around 1450. If the theory is correct, the beginning of the end of this change may have been the emergence of the contractualist hegemony in the mid-twentieth century. This article has argued that no status power could ever overtake the combined might of this hegemony. Thus, barring some dark force that brings about a collapse of the global economy, the world is now in the endgame of a five-century-long trajectory toward permanent peace and prosperity.