

# Capitalist peace or democratic peace?

Erik Gartzke

**W**ith war in the Middle East and the prospect of terrorist attacks at sites ranging from major airports to the local shopping mall, it may be appropriate to remind ourselves that much of the world is experiencing an extended period of peace. Indeed, developed countries have not fought each other since the Second World War. This peace is unusual because powerful nations are historically the most conflict-prone.

Since before the time of Thucydides, states have used wealth to acquire more territory and to dominate the affairs of their neighbours. Understanding the reasons that the powerful countries of today are less prone to dispute than their predecessors is critical to maintaining the peace and to extending its benefits more broadly.

Policies predicated on inaccurate

associations between democracy and peace, for example, seem destined to create as many problems as they solve. Classical liberal theory provides two streams of explanation for peace, one focusing on the forms and practices of government, the other on free markets and private property. The former, seen most particularly in the writings of Immanuel Kant, has received extensive attention from students of international politics in the last decade. Kant was wrong when he claimed that republics are less warlike than other forms of government. Instead, researchers have found that democracies are less likely to fight each other, while being no less ready to use force generally. This 'democratic peace' has been further proscribed by the discovery that developing democracies are just as war-prone as developing dictatorships. ▶

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Liberal political economy offers no such contradiction. Scholars such as Montesquieu, Adam Smith, Richard Cobden, Norman Angell and Richard Rosecrance have long speculated that free markets have the potential to free states from the looming prospect of recurrent warfare. Capitalism encourages co-operation among states by creating conditions that make war unappealing or unnecessary. Free markets create another venue to competition among countries, often containing minor conflicts below the level of military force. The transformation of commerce made possible by economic freedom also leads to a transformation in international affairs. Conquest becomes expensive and unprofitable. Wealth in modern economies is much harder to 'steal' through force than was the case among agricultural and early industrial societies.

This 'capitalist peace' has been slow to reach fruition but the tools and evidence are now in place to establish a firmer connection between economic freedom and reductions in conflict. I have used the Index of Economic Freedom developed by Gwartney and Lawson and multivariate statistical analysis to show that free markets appear to encourage peace. I have also evaluated several other factors often thought to influence whether states fight. Economic freedom is one of the rare factors that generally discourages conflict among nations. Democracy is desirable for many reasons but policies that encourage, or even seek to impose, representative government are unlikely to contribute directly to international peace.

Free markets, and not democracy, have a general impact on the propensity of states to resort to military violence. At best, democracy may reduce conflict only among advanced industrialized economies. Developing countries do not benefit from a democratic peace. Especially in regions dominated by autocratic governments, the intro-

duction of democracy can have little immediate impact on international co-operation.

Students of international political economy have long argued that global markets promote global amity. Mill,

by a rope that in effect creates one common destiny. Schelling shows how something of mutual value can be used strategically to manipulate a counterpart; states that share economic linkages can in fact use the economic

### *The attentions of developed nations are best directed at propagating the free-market principles and practices that lead to peace*

for example, claimed that 'It is commerce which is rapidly rendering war obsolete, by strengthening and multiplying the personal interests which are in natural opposition to it'. The problem, of course, is that Mill was wrong. Numerous wars and smaller conflicts stand between the present and the pristine optimism of nineteenth-century liberal political economists.

What did they miss? What did they understand correctly? What evidence is there that their basic vision contains insights of lasting validity?

#### **THE CAPITALIST PEACE: AN EVOLVING EXPLANATION**

The intellectual liberal tradition of economic peace beginning with Montesquieu, Mill, Adam Smith and others, and progressing through Richard Cobden, Norman Angell and Richard Rosecrance suggests a variety of ways in which capitalism can encourage peace.

Perhaps the most general explanation is that economic interdependence creates something of mutual value to countries, which then leaves states loath to fight for fear of destroying economic benefits that they prize. While this is not implausible, the explanation depends on the supposition that items of mutual value do not themselves spark or facilitate conflict.

Thomas Schelling tells a story of two mountain climbers tied together

linkages to play a game of chicken: the more valuable the linkages, the more effective and telling is the game.

If a state is reluctant to endanger the benefits of prosperous economic ties, it does not follow that peace will ensue. Other countries must be tempted to view a reluctance to fight as a vulnerability. To ensure peace, all possible participants must be unwilling to play the game of chicken or, indeed, to use military force.

Students of international relations traditionally looked to motive and opportunity (capability) to explain war. However, as murder-mystery novels and the game of *Clue*® make clear, these conditions are seldom sufficient. Individuals, groups, and countries often disagree, but usually entities with different interests find that they can negotiate bargains that avoid more costly or flamboyant behaviour.

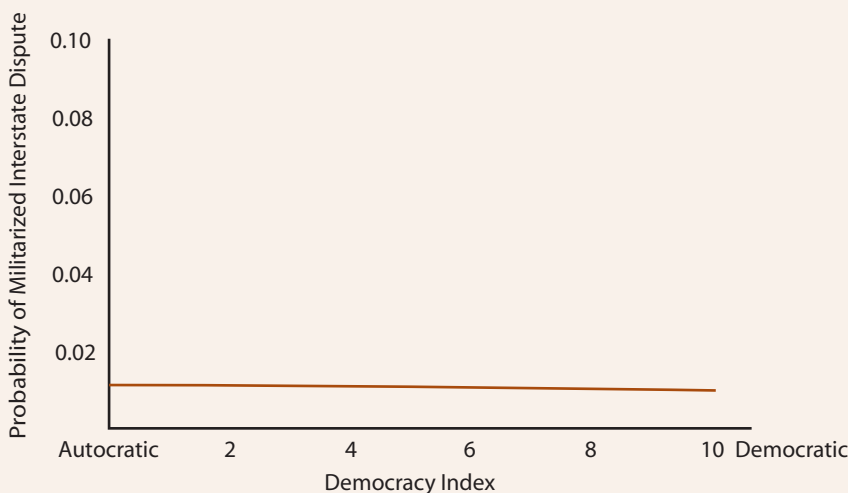
Economic freedom is important to peace for at least two reasons. First, free markets act as a sounding board for political activity. Actions that frighten markets discourage investment, drive down economic conditions domestically, and thus are likely to be avoided by local leaders. The use of force abroad is often associated with a decline in domestic investment and with outflows of capital.

To the degree that leaders are willing to make foreign policy statements that scare capital markets, and to the extent that free monetary policies are

Figure 1: Effect of Economic Freedom on Militarised Interstate Disputes



Figure 2: Effect of Democracy on Militarised Interstate Disputes



Full details for Figures 1 & 2 is available in the Economic Freedom of the World Index 2005, available at <http://www.ipa.org.au>

in place that make it difficult for the government to interfere with capital flows, the international community may be able to infer a leader's true resolve. Knowing what an opponent is willing to do makes it possible to bargain more effectively, so that resorting to violence to obtain what one side needs is less often necessary. Autonomous global markets create a venue

through which leaders can establish credibility without needing to escalate to military force.

Second, economies based on intellectual and financial capital are less dependent upon, and less interested in, occupying foreign territory. Historically, wealth was a function of arable acres. Big countries with lots of land were rich countries. Within

these societies, wealth was achieved by sidling up to the sovereign; being a friend of the king meant land, which meant power. Indeed, maintaining one's economic position was equivalent to being involved in politics.

Modern societies do not work this way. Wealth is not primarily derived from agriculture. Instead, money is made or maintained through innovative ideas and entrepreneurial spirit. Commodity prices and labour costs in developed economies have consistently trended in opposite directions. Armies of occupation are expensive and the proceeds of resource theft made possible by conquest are increasingly marginal.

### THE FUTURE OF CAPITALIST PEACE

With the foregoing in mind, it is possible to speculate about the evolution of international relations. Some implications are promising and some are not. Countries with free and prosperous economies have a good chance of maintaining and even deepening the peace that has characterized the latter half of the twentieth century. The shift toward post-industrial production has already occurred in these countries, bringing with it a reduction in the utility for war. Free-market capitalism also seems entrenched. However, maintaining the existing commercial and financial systems across relatively open borders is an ongoing concern. Protectionism can return, as it has in the past. The United States, in particular, needs to continue its leadership role in promoting global capitalism. Changes in the nature of production that discourage prosperous countries from wars of conquest may be reversed or degraded by subsequent technological, social, military, or environmental change.

At present, developed countries field effective fighting forces but find the labour-intensive activity of policing and administering conquered

territory difficult and unprofitable. Developing countries can more effectively benefit from conquest, but these countries are often unable to maintain or deploy military forces capable of winning wars. Saddam Hussein wanted Kuwait but could not keep it. The United States and its coalition allies could take Kuwait but did not want it, at least not as real estate. If resource theft again becomes expedient, as was generally the case in the past, then we will again see wealthy nations conquer and take.

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Yet, even with rising oil prices, it pays to remember that crude oil remains much cheaper by volume than the bottled water guzzled by thirsty armies of occupation. The Pentagon estimated recently that the life-cycle cost of a soldier exceeds US\$4 million. In any event, lowering the cost of occupation is only half the profit equation. Information economies will remain poor targets for territorial aggrandizement and expansion of the global information economy promotes peace.

The situation is less rosy for developing countries. While the major economic powers may have lost interest in conquest, there remains occasional enthusiasm for using force to redirect the policies or politics of developing countries. Wars will continue as long as states differ in their views about the conduct of international affairs. Warfare among developing nations will remain unaffected by the capitalist peace as long as the economies of many developing countries remain fettered by governmental control.

Similarly, economic development is required to shift emphasis from land, labour and other traditional inputs to

production and toward intellectual and financial capital, inputs that are less easily acquired through force. A problem will arise as increasing wealth and domestic political stability provides developing countries with the resources to project power beyond their nominal borders. Much of Africa and South America is partitioned according to the whims of long-dead European diplomats and existing borders do not reflect historic or current ethnic, linguistic or cultural boundaries. Economic development may lit-

erally provide the ammunition for rising conflict in the developing world. To avoid development creating a tinderbox of the southern hemisphere, it is necessary that increasing prosperity coincide with a relative decline in the value for territory and with growing dependence on global capital. The advantage of late-industrializing countries is that they may skip the most dangerous stages of industrialization.

For instance, the 'outsourcing' of services, telemarketing and software industries, while vexing to many in the developed world, helps to create economies in the developing world that are less inclined toward war. The Indo-Pakistani conflict has regularly erupted in warfare, but leaders in both countries have recently come to accept that their more open economies suffer greatly from active hostilities. The growing dependence on international capital and the declining value of disputed territory relative to technological innovation means that the impetus to make peace has increased and the value of war has declined. On Cyprus, three decades of tense peace are gradually being replaced by the recognition

that access to the knowledge economies of Europe is much more critical to prosperity than possession of orchards and pastures.

Given finite resources, the attentions of developed nations are best directed at reinforcing and propagating the free-market principles and practices that lead to peace over much of the northern hemisphere. The United States, in particular, has used its status as hegemon to champion capitalism and to encourage economic development.

In short, to achieve the goals of peace and freedom, the developed countries of the world must sponsor the extension of capitalist institutions and practices.

**CONCLUSION**

Adam Smith had the great insight two centuries ago that self-interest, unfettered by bureaucratic guidance or constraints, served the common good better than state control. Market forces act as an 'invisible hand', freeing the productive potential of human populations. Today, there is increasing evidence that an invisible hand also acts on the foreign policies of nations. Global markets offer an alternative to the revelatory mechanism of warfare, while prosperity makes some forms of aggression unprofitable.

The search for world peace has long been consumed with the need for selflessness, though altruism appears to have achieved little pacific impact in practice. Instead, it is a by-product of self-interest that has been found to yield yet another virtuous social effect. The flowering of economic freedom, what some have derisively labelled 'greed', has begun to dampen the fires of war that to many seemed perennial and inherent, a product of civilization itself.

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