

Peace through globalization and capitalism? Prospects of two liberal propositions

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The security externalities of globalization and capitalism continue to play an influential role in peace research. Typical contributions to these interrelated areas of scientific inquiry address the hope that the external openness (commercial liberalism) and the internal freedom of an economy (capitalist peace) pacify inter- as well as intrastate relations. I claim, despite the empirical support both theses have received, that they face considerable analytical hurdles. Commercial liberalism has, on a theoretical level, not yet moved much beyond the opportunity cost arguments that enlightenment philosophers have advanced more than 200 years ago. The capitalist peace research program similarly does not offer clear micro-level mechanisms on why the interactions between economic agents and political decision makers should be more peaceful in capitalist than in state-dominated economies. Drawing on the political economy literature, I argue that economic liberalism should distinguish between level- and change-effects of both globalization and capitalism and that thinking in analogies between domestic and interstate peace has prevented the field from making analytical headway. Both literatures will only profit from the advent of “big data” in the case that the field addresses the theoretical challenges upfront.

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Introduction

The publication of the 50th anniversary issue of *Journal of Peace Research* takes place in a year in which the world commemorates the centennial of World War I. Historians have attributed the “Great War” with a highly diverse set of effects, ranging from the advent of “total war” (Hobsbawm 1993) over a growing cultural tolerance for “mass killings” (Kramer 2007) to the introduction of progressive taxation (Scheve & Stasavage 2010). Although some of these bold claims are disputed, there is little doubt that the mass carnage also heralded the definitive end to what has been described as the first era of global economic integration (Williamson 2011). As it is well known, World War I also infamously dashed the optimistic forecast of Angell’s (1910) bold vision that the growing economic interdependence of the early 20th century made interstate wars unthinkable.¹

Interestingly, in its first decades of existence *Journal of Peace Research* (JPR) neither reflected on Angell’s core liberal thesis nor explored its intellectual twin, the capitalist peace proposition that Austrian economist Schumpeter (1919) had sketched at the end of World War I. On the contrary, the founding editor of the journal, Johan Galtung (1971:171), advocated in his classic “A Structural Theory of Imperialism” radical change as a means to overcome the “structural violence” that the “center” uses in its interactions with the “periphery” of the international political system: “...redistribution by taking from the have's and giving to the have-not's is not enough: the structure has to be changed”. The organization of international trade is, according to Galtung’s reinterpretation of the Hilferding-Luxemburg theory of imperialism, one of the core conflict-fostering features of the imperialist world economy.

It was only after the dissolution of the Soviet empire that contributions to JPR started to explore Angell’s and Schumpeter’s visions systematically. In 1996, editor Nils Petter Gleditsch decided to publish two empirical articles that shaped the study of the topic for the next decade in the same issue of the journal. While Oneal et al. (1996) proved to become one of the cornerstone publications within Russett & Oneal’s (1999b, 2001) Kantian research program, Barbieri’s (1996) initial contribution to the field sparked a lively debate with dozens of research articles, some of them included in a special issue on the topic (Barbieri and Schneider 1999), and several replications of both Oneal et al. (1996) and Barbieri (1996, 2002). The dispute was finally settled in 2008 when Xiang et al. (2007) demonstrated that Barbieri’s rejection of what Nye (1988) had dubbed “commercial liberalism” rested on the neglect to control for the power of the dyad members.

A second challenge to the traditional liberal research program and especially its core Democratic Peace proposition came from the literature on the Schumpeterian idea that capitalism makes states more peaceful (Weede 1995, Schneider & Gleditsch 2010). Initial contributions to this literature saw the positive effect of a capitalist organization of the economy on the chance for interstate peace initially as a qualification of other liberal conjectures. Recent contributions by Gartzke (2007) and Mousseau (2012, see also Mousseau et al. 2013), however, have extended the theoretical scope of this explanation, arguing that it supersedes the democratic peace. Unsurprisingly, this claim has found immediate criticism from Kantian peace scholars, most notably Dafoe (2011) and Dafoe and

¹ Some historians have gone as far as conceiving of the outbreak of the Great War as a malfunction of economic interdependence. Gartzke & Lupu (2012:148) reject this interpretation, arguing that the conflict “did not begin among the interdependent powers.” See also Russett & Oneal (2001: 174-177).

Russett (2013), who identified flaws in the research designs of Gartzke (2007) and Mousseau et al. (2013).

While the debate over the capitalist peace thesis is not yet settled, it has, like the commercial liberalism proposition, also been transferred to the domestic realm. Both the civil capitalist peace and the domestic politics version of commercial liberalism have received considerable empirical support (Hegre et al. 2003, Bussmann, Schneider & Wiesehomeier 2005, Barbieri & Reuveny 2005, de Soysa & Fjelde 2010) while others have qualified the liberal optimism (e.g. Bussman & Schneider 2007, Olzak 2011).

As I have surveyed the literatures on commercial liberalism and the capitalist peace elsewhere recently (Schneider 2010, Schneider & Gleditsch 2011, Schneider 2013), I will in this essay mainly focus on the challenges that the two interlinked literatures face. Focusing on economic manifestations of globalization, I will first argue that the two arguments should be seen as complements rather than as competing explanations and that capitalism and globalization necessitate each other. As the literatures on the capitalist peace and commercial liberalism explicitly or implicitly resort to opportunity cost arguments or macro-sociological reasoning, they need more solid micro-foundations and a sounder footing in the political economy literature.

I specifically contend in line with the redistributive interpretation of commercial liberalism introduced by Bussmann & Schneider (2007) that the effects of liberal policies on social cohesion need to be taken into account and that we need to distinguish between the intensity of economic liberty domestically (capitalism) and internationally (globalization) as well as the changes made in these levels. A classification of the redistributive effects that I introduce identifies in line with recent theoretical work how different parts of the society react to a liberalization of the economy and how this might affect the risk of both internal and external political violence. Although progress in both research areas covered here ultimately has to come from sounder theoretical reasoning, this essay also positively discusses the usage of network analysis and event data. I argue in particular that the field should try to profit from the arrival of “big data” (e.g. King 2011) to study the interactions between the economy and the incentives to employ political violence, but that this development needs to be accompanied by equivalent theoretical progress.

Complements rather than competitors: The theoretical status of the liberal twins

Both economic globalization and capitalism share the fate that the different ideologies attribute radically opposing effects to them. Marxist and Leninist scholars have advocated for more than 150 years that the capitalist organization of the economy and its inherent need to globalize national markets is the root cause of modern social conflict. Liberals, by contrast, expect that economic liberty and some of its key features, trade and capital account openness, are major sources of peace. These conflicting interpretations of the benefits and ills of globalization and capitalism render it necessary to define clearly how the two notions can be separated theoretically from each other and what kind of effects they are supposed to have on the risk of conflict.

To start with, I agree with McDonald (2009) that we can clearly differentiate between the capitalist and the globalization variants of the liberal peace on a conceptual level, although they are closely interlinked empirically. In his view, state ownership yields governments the financial autonomy to pursue aggressive policies. Protectionism, conversely, similarly enables a militaristic executive to trade the protectionist rents reaped by the import-competing sector for its support of an aggressive foreign policy the government wishes to pursue. This definition has the advantage that it sees economic integration and a capitalist orientation as the opposite sides of the same coin, standing for the freedom of commerce externally and internally, respectively.

Conceptualizing the two phenomena in this way implies operationally that we can measure the global economic integration of a country through trade and capital account openness and the capitalist structure of the economy through the economic freedom that the domestic agents enjoy in dealing with each other. While empirical studies of commercial liberalism have in this vein mainly focused on trade and foreign direct investment as proxies for the external openness of the economy, the capitalist peace literature has not yet come up with a standard set of indicators. This is most likely a consequence of the tendency of some scholars to define capitalism very broadly and, at least implicitly, in a functionalist manner. This wide-stretched conceptualization of the capitalist peace characterizes for instance Mousseau's (2000) "economic norms theory" which, in its most recent transformation, relies on the contract intensity of a country to measure the freedom of transaction individuals supposedly enjoy in a capitalist environment. Distinguishing between a Hayekian and a Keynesian version of capitalism, Mousseau et al. (2013: 81) argue that the government-enforced contracting of economic agents with each other "creates a direct interest in the health and welfare of everyone else in the market", rendering "war, both within and among capitalist nations, virtually unthinkable".²

The optimistic expectation of Mousseau et al. (2013) resembles Angell's (1910) vision of the peaceful effects of interdependence, according to which war is unimaginable as the benefits accruing from economic activities outweigh the utility of using political force. The continuing popularity of invoking opportunity cost arguments in support of the liberal theses becomes for instance visible in Oneal and Russett's (1999b: 5) early formulation of the Kantian research program: "Fearful of the domestic political consequences of losing the benefits of trade, policymakers avoid the use of force against states with which they engage in economically important trade."³ Nieman (2011: 282) similarly argues that "globalization decreases internal violence by raising opportunity costs of joining an insurgency group."

Even though the opportunity cost argument underlying most contributions to commercial liberalism and the capitalist peace is straightforward, it does not, in my view, offer a convincing causal

² Note that Mousseau et al. (2013) call the Hayekian model "market" capitalism and the Keynesian one "social market capitalism". This dichotomous definition is, however, partially misleading as Hayek supported the introduction of a market economy advocated by some of his fellow *ordo*-liberals under the banner "Soziale Marktwirtschaft", which can be translated as "social market economy," although he questioned the usefulness of adding the adjective "social" (see Barry (1993) for an idea history of these notions in German-speaking Europe).

³ Russett & Oneal (2001: 130) have added a domestic politics component to this line of reasoning: "If maintaining trade is important to continuing national prosperity and growth, leaders will be responsive to its beneficiaries."

mechanism (Schneider 2010, Schneider and Gleditsch 2011). To start with, I argue in line with Fearon (2008) that the effect of a growing economy on the individual propensity to rely on force is indeterminate: while the increased rents that capitalism and economic interdependence create make the usage of political violence more attractive, they also increase the chance that a potential rebel might find employment in the regular economy. The argument lacks also, at least with regard to international conflict, a clearly specified aggregation mechanism that would allow us to understand how diverging social preferences at the domestic level translate into aggressive foreign policies at the national level.⁴

A second and more fundamental analytical problem of the opportunity cost argument is, in my view, its lack of motivation for both economic activities and war, rendering the causal argument almost tautological. Because it postulates that increasing economic integration or growing welfare due to the absence of stifling market interventions diminishes the attractiveness of using political violence, becoming more aggressive in the interaction with another state or a competing internal group is an irrational act by definition. Hence, if we assume that closing an economy to foreign competition or decreasing the chance for free economic activities are costly acts, we “explain” both commercial liberalism and the capitalist peace through this (plausible) assumption and not through moves made by actors in a political game.

We need therefore to shift to an instrumental interpretation of war and other forms of political violence and explain the conditions under which governments and political groups use force *and* employ liberal economic policies. Liberal explanations of peace and war therefore have to explain cooperative and conflictive moves alike and not assume either of them away. This will, in my view, only become possible if we carefully think about the profiteers of economic openness and, consequently, if we move away from the mercantilist perspective that goes hand in hand with the usage of many explicit or implicit opportunity cost arguments.⁵

Linking capitalism and globalization to war and peace

Most economists agree that openness and free markets stimulate, at least to a certain extent, economic development. Subramanian & Wei (2007) for instance provide compelling evidence that the additional openness associated with becoming a member of the World Trade Organization increases growth, while Sadeh (2013) demonstrates that the European Monetary Union stimulated trade, and Alesina et al. (2005) show that deregulation of domestic markets spurs growth as it facilitates entry into closed markets and attracts subsequent investment of the new competitors. However, these positive level-effects stand in contrast to the adjustment costs that both an external

⁴ An earlier criticism of the opportunity cost argument is due to Gartzke, Li and Boehmer (2001); for a critique see Polachek & Xiang (2010).

⁵ Using a standard neo-classic model of trade policy making, Polachek (1980) assumed in his classic treatise governments to behave as social-welfare maximizers. This simplification allowed him to show that the demand for an aggressive foreign policy course should go down when a state intensifies its commercial ties with another nation. In other words, he implicitly expects governments to take the opportunity costs into account that harmful foreign policy decisions create. In the neo-classical perspective, the likelihood of war should thus unconditionally decrease if a state embarks on a course of foreign economic liberalization.

and internal liberalization cause. Commercial liberalism and the capitalist peace literature do not, in other words, sufficiently consider that changing levels of external and internal economic openness might endanger the liberal economic peace envisioned by Angell (1910), Schumpeter (1919) and other eminent thinkers.

Standard political economy models help us to identify the winners and losers of these political changes and how these anticipated and realized redistributions influence their attitude towards a domestic revolt or a government's decision to use force against another state. In the following, I will analyze trade and capital account liberalization as well as how domestic deregulation might influence the potential for political violence abroad and at home.

Trade liberalization: Two theoretical traditions in trade theory – the Heckscher-Ohlin and the Ricardo-Viner model – are the canonical starting point to understand the redistributive effects of trade liberalization. The former approach sees the main cleavage in trade policy making between owners of different factors, whilst the latter focuses on the division between the export and the import-competing industry.⁶ The Ricardo-Viner framework of analysis becomes valid for the study of conflict through its assumption that certain factors remain “specific” for a certain industry at least in the short run as capital and labor cannot easily move to a more profitable sector following a reduction in the tariff level or another similarly liberalizing step being taken. Melitz (2003) adds to this the observation that firms are not homogeneous. We can expect in this vein that workers in the less productive firms will be particularly opposed to liberalizing measures. In the perspective of the Heckscher-Ohlin model finally, the winners of trade liberalization are high-skilled individuals and those who belong to the abundant factor within an economy – capital in the developed, labor in the developing world.

Irrespective of the saliency of the diverse trade policy cleavages, we can expect that the risk of internal conflict increases during the period that a country embraces or at least discusses the liberal recommendation of slashing tariffs or other barriers to trade. While Bussmann & Schneider (2007) expect the risk of violence to grow in the liberalizing years, Magee and Massoud (2011) identify the turning point some years before a country satisfies the Sachs & Warner (1995) openness conditions. The conditions under which increasing trade liberalization might increase the risk of conflict are more involved. Schneider & Schulze (2003) consider the tax base effect of globalization in a price-taking (i.e. small) economy where three groups – the military, the import-competing and the export-sectors – evaluate the foreign and trade policies of the government. Their extension of the Riccardo-Viner framework to a third sector shows that growing trade can go hand in hand with more aggressive foreign policy as long as the marginal benefits of growing trade openness outweigh the marginal costs of hostile interaction with other states. The analysis implies that countries might have unilateral incentives to become more aggressive in times of increased globalization. This constellation, however, only lasts as long as the government has to pay attention to a military that is interested in a growing tax base and, as a consequence of this globalization-effect, potentially larger defense budgets.

⁶ MacDonald (2009) identifies in his pioneering work on commercial liberalism and the capitalist peace the import-competing sector as the main profiteer from protectionism, but does not motivate the preference of the government for aggressiveness through a political economy framework.

If we compare these political economy qualifications of the peace-through trade hypothesis, the limitations of drawing analogies between internal and international war become apparent. While the former sort of armed violence juxtaposes the government against a group of globalizations losers, the risk of interstate war in times of increasing economic bonds only increases if the government crucially depends on the support of the military and, up to a certain level, of the export sector.

The theoretical model underlying commercial liberalism also becomes more complicated if we disaggregate the nature of the traded goods. Dorussen's (2006) dyad-level analysis offers encompassing evidence that the positive relationship of globalization is weaker for goods that are weaker for trade in chemicals or high-technology products as well as in commodities that are more easily appropriable by force. Goenner (2010) similarly demonstrates the benefits of disaggregation and warns that the risk of bilateral conflict might increase in response to an increasing share of trade in metals in comparison to a stagnant trade in non-strategic products.

Trade in natural resources, especially oil, might also increase the risk of interstate (Colgan 2010) and civil war (Ross 2012)⁷. There are obviously several potential arguments that can be made in support of such empirical regularities. Garfinkel, Skaperdas and Syropoulos (2008: 307) develop a pertaining political economy argument of the domestic "resource curse" that considers the international market price of a domestically contested and exportable resource: "Although for importers of oil and other natural resources opening up the economy brings the regular benefits of trade and reductions in conflict, for exporters of the same resources opening the economy to trade can very well induce increased conflict costs that more than offset the familiar gains from trade." This suggests more broadly that commercial liberalism needs to consider the price of the traded resources and the effects that trade liberalization has on the income of relevant actors and their inclination to use force in the internal affairs of the state or to support aggressive foreign policies of the government.

Capital account liberalization and deregulation: The theoretical literature of how capital account liberalization affects the risk of domestic as well as international conflict is not equally well developed like the one on trade liberalization. We can, however, assume that openness on this front renders a country more attractive for foreign investors. Proponents of the globalization thesis frequently invoke a rational expectations argument why the resulting capital inflow should appease a country domestically and internationally. According to the liberal adage, investors will refrain from investing in a country that they consider to be too risky. Although this reasoning already suggests that FDI is endogenous to the factors that stabilize a country in the first place, the studies published in support of this facet of the globalization thesis do not control for it (DiGiuseppe, Barry & Frank 2012, Bussmann 2010, Bussmann & Schneider 2007).

A second pacifying effect of investment is due to the development stimulus that has been a key feature in almost all theories of economic growth. This makes it reasonable to assume in line with Alesina et al. (2005) that deregulation will at least in the long run increase collective welfare. However, globalization critics maintain that capital account liberalization and deregulation are not as innocuous. Arestis & Caner (2010: 321) show for instance that "capital account openness is

⁷ Ross (2012) relies on oil income per capita as an indicator of what he calls the "oil curse", while Colgan (2010) similarly defines countries as "petrostates" if net oil exports per year at least amount to 10% of the annual GDP.

associated with a lower income share of the poorest 20% of the population.” Furthermore, especially Stiglitz (2000, 2002, 2004) maintains that the short-term investment inflows that might follow a capital account liberalization can destabilize societies. In his view, “capital flows are markedly procyclical, exacerbating economic fluctuations, when they do not actually cause them” (Stiglitz 2000: 1079). If a liberalized economy loses the trust of the international financial community during a crisis and is confronted with a radical outflow of short-term investments, social unrest might be a likely outcome. Deregulation might equally destabilize societies. Hartzell, Hoddie & Bauer (2010: 353) find a positive impact of the entry into structural adjustment programs and argue that “the IMF-guided process of liberalization generates new losers at a rate with which a state with weakening powers is incapable of contending.” Midtgaard, Vadlamannati & de Soysa (2012), however, show that slight changes in the research design lead to completely different findings and that IMF programs might at least reduce the risk of lower-scale conflicts.

Why we need more theory and better, not necessarily more data

The typical research design for the analysis of the capitalist peace and the peace-through-globalization thesis has been for a long time the dyad or country year. It took the import of network analysis to conflict research and some other methodological advances to recognize that the “data generating process” is most often a multilateral one at least for tests of the interstate version of commercial liberalism. According to Poast (2010: 422): “...empirical scholars have widely used data suggesting otherwise: when analyzing multilateral events, they often divide the actors involved into a series of dyadic relations, thereby creating observations that disregard the dyad’s relations with outside actors.”

From a more substantive angle, dyadic or country-year tests of the globalization thesis have to resort to the highly unrealistic assumption that the trade of country A with country B cannot easily be replaced by trade with another country in case a political conflict arises. Obviously, such a bilateral interpretation of world trade contradicts the insight by Ricardo and other classic political economists that trade relationships are substitutable in a globalized world at least in the medium term. The multilateral nature of international trade also holds for unequal dyads as large states can easily disregard the commercial losses that the break-up of a trading relationship with a small partner brings about as they are able to redirect their trade to customers elsewhere. Small countries can, conversely, also search for trading partners elsewhere in the event that the relationship with large trading partner sours. The only limitation to my argument that trading partners can be exchanged and that a multilateral framework is appropriate is in considering the relationship between large countries or trading blocks. These exceptions are at the moment possibly the interactions between the bilateral relations between the European Union, the People’s Republic of China and the United States.⁸

It should be noted that the neglect to consider the multilateral nature of trade does not condemn the liberal research agenda to the dustbin. On the contrary, network analyses of commercial

⁸ The argument developed in this paragraph draws on unpublished work of the author with Günther Schulze.

liberalism political economy research have mainly confirmed the liberal hope that increasing economic interdependence pacifies states (e.g. Maoz 2009, Dorussen and Ward 2010, Kinne 2012).⁹

The need to adjust the research designs for the multilateral nature of most commercial and political relationships also holds for the capitalist peace and the domestic variant of commercial liberalism. This is especially the case in socially or ethnically fragmented countries that embark on a course of internal or external liberalization. Olzak (2011:21, italics suppressed) demonstrates empirically that diversity might intensify the violence stemming from economic integration: "...economic globalization actually raises the rate of fatalities from ethnic civil war". Wiesehomeier, Schneider and Braun (2009), conversely, consider different forms of diversity, demonstrating that the interaction of both fractionalization and polarization with liberalization reduces the risk of civil war.

The arrival of "big data" in the social sciences (e.g. King 2011) will without doubt revolutionize the study of the liberal theses in the near future. I particularly believe that the renaissance of the event data movement in conflict research (Schrodt 2012) holds particular promise in this research field as it allows conflict researchers to study the interactions between politics and economics at a much lower level of temporal and, possibly, spatial aggregation (e.g. Schneider and Troeger 2006). Quite trivially, if we assume economic decisions to affect politics and *vice versa* in the long run, as the political economy literature of violent conflict has done for decades, it should be much easier to observe economic and political reactions to them in the short run. However, the arrival of new data sources will only have a lasting impact if the proponents of the liberal theses are also willing to work hard in the theoretical identification of the situations under which commercial liberalism and the capitalist peace work and in which contexts the arguments need to be qualified.

Conclusion

The end of the Cold War has spurred the liberal hope that economic openness and economic freedom will make the world more peaceful. Even the advent of murderous transnational terrorist movements like al Qaeda has not much shattered the "liberal moment" according to which the world has become a safer place (Gleditsch 2008). However, the financial and economic crisis that a politically protected financial sector has brought over the developed world has wrecked two key liberal ideas, globalization and capitalism, to such an extent that political theorists only dare to employ them with prefixes like "after" or "post" (e.g. Cazdyn & Szeman 2011, Schweikhart 2011). The anti-globalization and anti-capitalism that we are currently witnessing should, however, not deter conflict researchers from carefully examining the claims of Angell (1910) and Schumpeter (1919) that both economic interdependence and economic freedom are major forces of peace.

I have in this essay advanced the position that we need to qualify these hopes and to explore both the pacifying effect of economic integration and economic freedom and the potentially disruptive

⁹ Note that commercial liberalism has also re-emerged strengthened from the challenge posed by Keshk, Pollins and Reuveny's (2004) simultaneous equation model showing that bilateral trade does not reduce the risk of conflict, while militarized interstate disputes decrease trade. Hegre, Oneal and Russett (2010) and Goenner (2011) resurrect the liberal hope in replications and extensions of the Keshk, Pollins & Reuveny statistical model.

consequences of the accompanying liberalization measures. Although external and internal deregulation is inevitably contentious at least in the short run, not even the severest big bang reforms need, however, to lead to political violence as the losers of pro-globalization and pro-capitalism reforms will have the possibility to voice their protests differently in politically open regimes. Hence, peace research needs to realize that political violence is often the instrument of last resort and that actors will generally prefer to invest in “cheaper” forms of protest to articulate their anger over a planned liberalization (Schneider 2013).

The recognition that the way towards a safer, freer and more integrated world will be contested implies for peace and conflict researchers the need to pay attention to the way in which liberalizing measures are implemented and whether the losers of globalization are compensated in one way or another. Interestingly, liberal researchers have only rarely examined how different facets of the liberal research program condition each other. Although governments might need to implement liberalizing economic reforms, this might not necessarily translate into a more conflictual world.

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