

Erich Weede

Capitalism, Democracy, and Peace

Introduction

The terms of the peace settlement after World War I reflected French fears of Germany and an anticipation of another Franco-German war to come. One may read World War II as a vindication of French fears, or one may regard French fears as a self-fulfilling prophecy. An important part of the peace settlement consisted of German reparations and other economic burdens. 'The economic consequences of the peace' (Keynes, 1919 [1988: especially p. 99]) led to mutual impoverishment. The Weimar Republic failed, neither World War II nor the defeat of France at its beginning were avoided.

By contrast, the peace settlement after World War II was effectively imposed by the United States in the West and by the Soviet Union in the East of Europe with an Iron Curtain running through Germany. Since the collapse of the Soviet Union and the Warsaw Pact, it is obvious that the Soviets did not succeed in exploiting their victory for their own long-run benefit. In the West, however, the United States did not pursue a policy of permanent punishment, of weakening Germany in case there should be another war between America and Germany. Instead America promoted economic growth in Western Europe, including Western Germany.¹ Marshall Plan aid to Western Europe between 1949 and 1952 has been estimated to have amounted to 4.5 percent of American GNP (Gilpin, 1987: 311). America provided not only aid, but also a market for European exports. By its support for the establishment of the European Payments Union in 1950, the United States even accepted 'discrimination against American exports' (Keohane, 1984: 145). In the early post-war period, the United States did not insist on fair trade and a level playing field. Moreover, American generosity was not confined to war allies, like Britain or France, but extended to defeated war enemies whether in Europe or in Asia, to Western Germany and Japan.

While French policy after World War I certainly did not prevent disaster a mere two decades later, while Soviet policy after World War II proved to be

unsustainable, American policies, including the Marshall Plan and non-discrimination between friends and foes of the last war, have been a spectacular success. Mueller (1994: 365, footnote 7) has made the point well: 'Germany and Japan have been converted from violent and intensely destructive enemies into prosperous friends, allies, and peaceful competitors whose perspective on the world is much the same as that of the western victors. As policies go, this may well be among the greatest triumphs of enlightened self-interest in history'.

Does this sketch of peace settlements after the two world wars provide a broader lesson for national security policy-makers? In my view, it does. Whereas post-World War I policies were obsessed with *relative gains* and an ultimately futile attempt to preserve the pecking order at the end of the great war, American grand strategy not only disregarded relative gains, but actually welcomed greater relative gains for its long-time allies as well as for its former enemies destined to become allies than for itself.² The lesson of American policies after World War II is that conceding greater relative gains *to others* may promote peace and national security. How and why?

Peace by Democracy and Capitalism

Recently, Gleditsch (1995b: 297) claimed 'that there are two strong, known regularities: Nations primarily fight proximate nations, and democracies rarely fight one another'.³ The effects of contiguity are obvious and are ultimately rooted in lack of opportunity: Poles and Finns, Mexicans and Peruvians, Portuguese and Greeks never seriously worried about each other's defence policy or war plans. The effects of democracy are less obvious. Nevertheless, they imply, for example, that democracy on both sides of the border has significantly reduced the risk of another Franco-German war, after three wars between 1870 and 1945 and almost permanent mutual suspicion and tension in the same period. Moreover, it even seems possible to define democracy and war in such a way that there never has been a war between democracies (Ray, 1995). The fact that a deterministic claim of this sort is even seriously debated itself attests to the strength of the democracy peace relationship *at the dyadic level*.

Although there is no perfect agreement among researchers, there is by now very strong evidence to support the proposition that the risk of war between democracies is extremely small, and much smaller than between other states (see, for example, Bremer, 1992; Rummel, 1983; Russett, 1993; Weede, 1992). Critics of the democratic peace argument, however, did succeed in enforcing some qualifications. First, Farber and Gowa's (1995) contention that only the post-world War II period, but not the pre-World War II period provides solid support should be conceded. In my view, this is not a very damaging concession, because there were not enough contiguous democracies to demonstrate

Capitalism, Democracy, and Peace

the effectiveness of democratic peace, i.e., not enough democratic dyads at risk of war if democracy were ineffective as a pacifier.

Second, we don't know yet exactly why there has been peace between democracies. Some (e.g. Dixon, 1993; Russett, 1993) point to normative inhibitions, others (e.g. Siverson, 1995) to constitutional or institutional constraints. Moreover, it is hard to see how democratic relationships can remain peaceful unless both sides perceive each other as democratic and therefore peaceful. Once perceptions about democracy are made part of the argument, World War I might become a problem. According to Oren's (1995) persuasive paper, American statesmen before World War I did perceive imperial Germany's political order at least as favourably as France's. If perceptions at the time enforce a coding of imperial Germany as a democracy by the standards of its era and its later American war adversary, then there is an important exception to the, peace among democracies'-rule. While I do not favour recoding imperial Germany, it should be admitted that Oren has raised legitimate and worrisome questions.

Third, democracy certainly is no panacea. The most widely accepted view might still be that democracies are about as frequently involved in wars as other regimes are (see Chan, 1984; Weede, 1984; who are criticised by Ray, 1995). If democracies are as warlike as other states are⁴, if they maintain peace only among themselves, then dyads consisting of a democracy and an autocracy should be exposed to a higher risk of war than either double democracies or double autocracies. While this implication of previous theorising and findings was underresearched for long, very recent work (Bremer, 1996; Oneal and Ray, 1996; Oneal and Russett, 1997) consistently arrives at the conclusion that democracies and autocracies find it very difficult to maintain peace with each other. There seems to be a democratic peace between democracies, something like an autocratic peace between autocracies, and an increased risk of military conflict between democracies and autocracies.

Fourth, the democratic peace proposition has to be put in a somewhat wider perspective. If contiguity is a powerful background condition of war, then it matters how and where democracy spreads. If an autocracy surrounded only by other autocracies suddenly becomes democratic, we should expect an increasing rather than a decreasing risk of war. If an autocracy surrounded only by democracies, however, turned democratic, then the risk of war should be reduced. So, the *peace dividends* of the process of democratisation should *depend on geopolitical configurations*. Tiger coat patterns of democratic and autocratic states bordering upon each other are certainly undesirable.⁵

None of the qualifications discussed above should obscure the main messages: If all great powers were ever to become democracies, then world wars which require great power participation on each side would become extremely unlikely. Therefore, 'exporting' democracy to autocracies like China is desirable (the feasibility, risks and time horizon of such a policy are discussed below).

Although it has been contended that the process of democratisation by contrast to its result promotes the danger of war (Mansfield and Snyder, 1995, 1996), this is *not* a generally accepted view (see Enterline, 1996; Oneal and Russett, 1997; Weede, 1996b; Wolf, 1996).⁶ In my reading of the evidence, the long-term peace benefits of democracy (even if restricted to inter-democratic relations) outweigh the short-run risks of regime transition towards democracy. Moreover, one should not forget the horrible costs of autocracy in the twentieth century. Autocratic governments have killed more civilians in this century than armies killed soldiers in spite of two world wars and some other protracted wars, too (Rummel, 1994). For this reason alone the stabilisation of autocracy is undesirable.

Each country has more or less solved its security dilemma, once all great powers *and all its neighbours* are democracies. Exporting democracy and supporting democracy in neighbouring countries serves the national interest, at least if democracy is promoted in peaceable ways.

If this is so, then the question is what can be done to promote democracy? What is known about the prerequisites of democracy? According to Lipset (1959, 1994), prosperity reduces class conflict and promotes compromise, thereby making civilised government and democracy viable. While the details of the relationship — for example, its linear or non-linear character or the existence and whereabouts of thresholds — have been debated and still are (Bergner, 1986; Bollen and Jackman, 1985; Burckhart and Lewis-Beck, 1994; Cutright, 1963; Huntington, 1991; Lipset, Seong and Torres, 1993; Muller, 1985; Neubauer, 1967; Przeworski and Limongi, 1997), there remains little doubt that prosperous countries stand a much better chance to become *and remain* democracies than poor ones. Conceivably, an egalitarian distribution of income also matters (Muller, 1995).⁷ If the goal of peace generates a ‘selfish’ interest in democracy among one’s neighbours and in all great powers, then the prosperity-democracy link generates another ‘selfish’ interest, an interest in the prosperity of one’s neighbours, including an interest in the prosperity of one’s enemies in the last war. Desperate economic conditions are more likely to nurture desperado politics than democratic peace.

If a rich nation borders on a poor nation that is not yet a democracy or still an unstable and poor one, then economic growth of the poor nation, even faster economic growth there than at home, may be in the security interest of the rich country. This claim is confirmed by the quantitative research discussed above linking democracy and peace (among democracies) as well as prosperity and democracy. Moreover, there is some evidence that good growth rates *directly* reduce the risk of militarised interstate disputes and war (Oneal and Ray, 1996; Oneal and Russett, 1997) in addition to the indirect effect via the promotion of democracy. This direct peace effect of economic growth, especially in the country that needs it most,⁸ is important, because otherwise the time lag between growth towards prosperity and democratisation might justify the worry

that the negative impact of disturbed dyadic power balances or even power transitions⁹ might in the short run outweigh the slow-to-come benefits of democracy. While one may still hesitate to argue that strong economic growth rates of all poor autocracies always are in the security interest of their rich and democratic neighbours, it is likely to be true in many instances that greater relative gains of one's neighbour may serve one's own national interest in war avoidance. Certainly, there are no good reason why larger countries should worry if their smaller neighbours catch up economically.

What can be done to promote prosperity in other countries? Most economists agree that free trade, open economies and export orientation increase growth rates (Balassa, 1981; Bergsten, 1996; Bhagwati, 1991: 51; Dollar, 1992; Feder, 1982; Friedman and Friedman, 1981: 31-46; Greenaway and Nam, 1988; *The Economist*, 1993; World Bank, 1983, 1987, 1991, 1993b). The German and Japanese economic performances after World War II and the more recent Asian miracle economies, like South Korea and Taiwan, illustrate the benefits of free trade.¹⁰ The beauty of free trade is that all countries gain, although not necessarily equally.¹¹ Otherwise, free trade simply would not happen. By enlarging the size of the market, international trade permits enterprises and nations to specialise according to their comparative advantage, to raise productivity, and to realise gains from trade.

Of course, free trade imposes requirements on exporters and importers. Nations must not restrict imports, nor should they bias other production incentives towards import substitutes instead of exports, nor should they attempt to exploit imperfect competition by strategic trade policies.¹² However, if these temptations are resisted, the gains for prosperity, democracy, and peace may be huge. Again it is *not only* the time-consuming causal chain running from free trade via prosperity and democracy towards peace (among democracies), but there is a direct impact of free trade on peace, too.

Until recently, I (Weede, 1996a: 158) did not yet accept a direct impact of trade on the avoidance of war. Some studies (Polachek, 1980; Gasiorowski and Polachek, 1982) did not convince me, because their dependent variable was not confined to military conflict. Other studies (Domke, 1988; Mansfield, 1994) were suggestive of a peace by trade effect, but their focus on either nations or the international system made me worry how the crucial dyadic analyses of trade and war would look like. At first, they (Barbieri, 1996a; Oneal et al., 1996) arrived at inconsistent conclusions. But in an outstanding study Barbieri (1996b) solved the puzzle and found out why results differ. In essence, analysing *all* dyads leads one to call the (direct) 'peace by trade'-proposition into question. Analysing only those dyads where contiguity or a major power in the dyad provides opportunities and reasons (such as a security dilemma or territorial disputes) for war, one supports peace by trade (Oneal et al., 1996; Oneal and Ray, 1996; Oneal and Russett, 1997). While not every observer of the debate need agree with my interpreta-

tion of this state of the debate, I feel confident to assert (admittedly against Barbieri, 1996b) that pacifying effects should be studied where they are most needed, i.e., where war promoting attributes (like contiguity or major power in dyad) have pushed up the risk of war in the first place. Therefore, I do argue that *now there is* significant support for peace by trade where it matters.¹³

The main qualification that has to be added concerns the database. Almost all of the strongest evidence in favour of peace by trade derives from the period after World War II. On the one hand, this is excusable. By and large, there are less missing data gaps in later periods for the multitude of small nation dyads than in earlier periods. On the other hand, it remains conceivable that trade promotes peace under some systemic conditions, but not under other systemic conditions. The peace by trade effect *might be* conditional rather than general. A plausible prerequisite for peace by trade might be the existence of a hegemon who promises to uphold free trade. Outside of the Communist sphere, the United States may have been such a hegemon from the late 1940s until now.

The argument for conditional instead of general peace effects of international trade has been most persuasively put by Copeland (1996: 17): 'High interdependence can be peace-inducing, as liberals maintain, as long as states expect future trade levels to be high in the future: positive expectations for future trade will lead dependent states to assign a high expected value to a continuation of peaceful trade, making war the less appealing option. If, however, a highly dependent state expects future trade to be low due to the policy decisions of the other side, then the realists are likely to be correct: the state will attach a low or even negative expected value to continued peace without trade, making war an attractive alternative if its expected value is greater than peace'. Thus, the well-documented effects of free trade on the avoidance of militarised disputes and war are most likely to survive into the future, if either a benevolent hegemon, like the United States, or a concert of trading states maintains an open trading system on a global scale so that everyone *expects* to find a market for one's exports as well as an opportunity to buy whatever raw materials one might need.

Both, trade between nations and joint democracy reduce the risk of war. Moreover, free trade and democracy reinforce each other. The effect of free trade on democracy via economic growth has been discussed and documented above already. Since businessmen from democratic nations can assume the existence of the rule of law and fairly efficient enforcement of contracts *in foreign democracies*, the transaction costs of trade between democracies should be lower than elsewhere. Therefore, trade between democracies should be higher than expected on the basis of the size, wealth or distance of economies only. At least for major powers in the 20th century, there is strong evidence to support this view (Morrow, Siverson and Tabares, 1996).

So, my reading of the historical evidence, in particular of quantitative analyses, suggests that the democratic peace actually is a component of something big-

ger: *the capitalist peace*. In essence, capitalism rests on two pillars: safe property rights and free trade within and between polities or economies. Free trade immediately reduces the risk of war. After some variable time lag, it also indirectly reduces the risk of war via growth and prosperity and via democracy. Moreover, the world has yet to witness the establishment of stable and sustainable democracy before capitalism. Thus, the global promotion of capitalism — of free trade, economic growth and after some time lag democracy — provides the best hope for a peaceable world. The Marshall Plan, and American post-war economic policies in general, succeeded because they aimed at a capitalist peace instead of a mere democratic peace. I doubt whether victor-imposed democracy in Germany or Japan would have worked for long, had the United States not also provided for free trade, economic growth, and prosperity. Moreover, the capitalist order of the North America-Western Europe-Japan triangle proved attractive enough to tempt Deng Xiaoping into creeping capitalism and Gorbachev into a policy of glasnost that ultimately undid the Soviet Union and the Communist threat.

The Price of the Capitalist Peace

Economists insist that there is no free lunch. This insight should make us look for the price that a capitalist peace exacts. In essence, there are two types of price: first, a price to be paid at home; second, a national security risk to be run. The price at home arises out of globalisation and free trade. By now, developing countries no longer deliver only raw materials and exotic agricultural products. Some of them have succeeded in manufacturing and now compete with American, European, and Japanese industries. It has been argued (Allais, 1994; *The Economist*, 1994; Kapstein, 1996; Weidenfeld and Turek, 1995; Rodrik, 1997; Wood, 1994) that trade in manufactures between rich industrial democracies on the one hand and the more successful LDCs (many of which are located in East Asia) on the other hand threatens unskilled jobs in the rich countries.¹⁴ Lower trade barriers, lower transportation and communication costs reduce the demand for the factor of production that is used intensively in imported goods, i.e., low-skilled labour in rich-country imports. Therefore, the wages of unskilled and semi-skilled labourers in such countries suffer from downward pressure. In essence, rich countries have three options in the current era of global competition. They can accept rising wage differentiation, i.e., some trend towards rising income inequality. Or, they can insist on fairly high minimum wages — whether resulting from laws or collective bargaining and strong trade unions — and accept high and rising unemployment. Or, they can reject both rising inequality and rising unemployment as incompatible with social cohesion and domestic stability and proceed to protect their unskilled and semi-skilled workers from competition by low wage exporters.

In my view, the protectionist cure (advocated by Allais, 1994) is worse than the disease and by far the worst option.¹⁵ Interference with free trade reduces the prospects of a capitalist and, ultimately, democratic peace covering ever-larger regions of the globe. Increasing the risk of international war for the sake of domestic convenience, i.e., less unemployment or less inequality, looks irresponsible and stupid to me. Moreover, it would be immoral. In essence, the West would say that a second hand car for its least privileged citizens is more important than a second meal a day for starving children in India or China. Finally, whoever undermines free trade reinforces the rent-seeking society (Buchanan, Tollison and Tullock, 1980), damages Western consumers and taxpayers and those workers who otherwise could find a better job in the expanding export-oriented sector.¹⁶ Protectionism is an attempt to stop the 'creative destruction' which according to Schumpeter (1942) drives capitalism towards ever-increasing prosperity.

If protectionism is a road we have to avoid, then the question arises whether we should accept as much unemployment as Western Europe has done or as much income inequality as America has done. Ever rising unemployment is unsustainable. Can anyone imagine how West European welfare states work after unemployment levels have doubled again and exceed 20% of the work force? In my view, rising wage differentiation and income inequality is preferable to the other options. If egalitarians cannot accept this prospect, they should console themselves with remembering that growing inequality in rich Western Europe is merely the back side of a global trend towards income equalisation. If much poorer Asians get somewhat better paid jobs at the expense of lower class Europeans, then this is a trend towards more equality *from a global perspective*. Only those who put national rights above human rights in general or who want to build socialism or the welfare state in one country or region can deny the equalisation by free trade, catch-up, and globalisation.¹⁷ Admittedly, some regions do not yet benefit, but populous East and South Asia certainly do. If about half of mankind is on the way to joining the prosperous West, this *is* good news.

Many social scientists and politicians will accept my condemnation of protectionism and at least consider my preference for American-style inequality over European-style unemployment, but still insist that most Western societies simply cannot stand a trend of rising inequality. Why not? The argument that we cannot stand it must rely either on the proposition that inequality breeds political violence or that inequality undermines democracy.¹⁸ Both arguments have been made most forcefully by Muller (1985, 1995). The evidence concerning the inequality violence link never looked robust and persuasive to me (Weede, 1989). Moreover, in joint research (Muller and Weede, 1993) we found that even with Muller's data and specification of the regression equation, income inequality increases political violence only in semi-repressive regimes, but *not in democracies*. As yet there is no robust evidence linking inequality and political violence in the democratic West. Admittedly, there is some recent work lin-

Capitalism, Democracy, and Peace

king equality and democracy. Knowing the quality of our inequality data (Weede, 1997), I am sceptical whether these findings will be confirmed in future. There simply is no solid body of quantitative studies demonstrating the negative effects of inequality at home comparable to the studies linking free trade, growth, and democracy to peace.

Moreover, the plight of Western workers in the age of global competition seems to be frequently exaggerated. In the United States bleak pictures depend on using income-based measures of poverty instead of consumption data (Eberstadt, 1996; Slesnick, 1993). It is hard to see how income-based poverty rates can do much damage to people without affecting (i.e., decreasing) their consumption. While imports from poor countries destroy some low-skill jobs, other low-skill labourers in rich countries benefit from the cheapness of the imports. In sum, the wailing about the effects of globalisation exaggerates the burden and neglects the benefits.

While the capitalist peace necessitates free trade and thereby reinforces the ‚creative destruction‘ of jobs in rich countries, while it forces us to adapt to change at home, a refusal to adapt is not in the self-interest of the West. Since the welfare state reduces necessity and willingness to adapt and thereby growth rates (Bernholz, 1986; Pempel and Williamson, 1989: 107; Weede, 1991), even its defence is not necessarily in our enlightened self-interest. What decision-makers perceived as unwelcome constraints, i.e., the necessity to respect property rights of subjects even before they became citizens, was the root cause of the European miracle or the rise of the West (Weede, 1996a). Now, as in the early modern age, we still need guardians against unwise policies. Fortunately, globalisation comes to the rescue of individuals, savers and investors from governments. Concerning the particular role of financial markets, Walter (1993: 59) has observed ‚that world financial markets are increasingly in a position to be a policeman punishing unsound policies of countries through the withdrawal of portfolio investment causing higher interest rates and/or pressure on the exchange rate‘. In a nutshell, global markets and competition may reduce the frequency and degree of government failure.

However, peace by trade or the capitalist peace may fortify potential challengers to the West. For example, one can easily imagine that this policy helps China to grow richer and stronger and thereby capable of challenging the West. Conceivably, democracy arrives too late in China to prevent some future hegemonic rivalry between China and the West. Then the capitalist neglect of relative gains, or a generous Western concession of greater relative gains to a still poor China may look unwise. *If* the capitalist peace strategy fails, we could be in deep trouble, as Betts (1993-94: 53-54) has outlined: ‚With only a bit of bad luck in the evolution of political conflict between China and the West, such high economic development would make the old Soviet threat and the more recent trade frictions with Japan seem comparatively modest challenges‘.

From a national security perspective, the capitalist peace strategy is risky. But so is any other strategy. The strategy of containment of Communism by nuclear deterrence was risky, too. Instead of peace through fear first and the collapse of Communism later, it might have led us into nuclear war. If the West begins a containment of China, or worse still: containment of Asia, strategy now, we might have to run another cold war and accept the corresponding risks. Unfortunately, Realist strategies, like containment and deterrence, cannot easily be used as a supplement to the capitalist peace — just in case that it fails. The capitalist peace at least requires that the rich and powerful stop worrying too much about relative gains.¹⁹ Realism (for example, Grieco, 1990; Lieber, 1995; Waltz, 1979), however, does worry about relative gains. One has to make up one's mind whether one wants to pacify other states by trade, prosperity and democracy, or to keep them down. Neither strategy is failsafe. But only the capitalist peace offers hope for a better world.

Although keeping others down, including giants like China or India, is incompatible with a capitalist peace strategy, a capitalist peace strategy is compatible with some ways of buying reinsurance. Ever closer political co-operation between North America and Western Europe, even the substitution of the goal of a United West for the idea of a United Europe is permissible (see Kupchan, 1996; Weede, 1995b). A hypothetical United West or Transatlantic Union would command a larger economic size than China for about a generation longer than either the United States or a United Europe on their own. Conceivably, we need a United West to provide us with the self-confidence to support a capitalist peace strategy. Moreover, there is nothing wrong with Western attempts to revive its declining (compared to rising East Asia) economies. But this implies relearning an insight, which Porter (1990: 174) has expressed so forcefully: 'Competitive advantage emerges from pressure, challenge, and adversity, rarely from an easy life'. We have to embrace globalisation, although it generates losers. Otherwise, we make our societies, i.e., the West, and peace losers.

Conclusions

Since the Marshall Plan American grand strategy in Western Europe as well as in East Asia has been a tremendous success. America has made friends and supporters out of previously hostile foes like Germany and Japan. The mechanism to achieve this miracle may be labelled the capitalist peace. The capitalist peace requires strong and rich countries to concede relatively greater economic gains to poorer countries. This 'concession' does not really require the richer countries to give up economic benefits. In essence, poorer countries — at least those well enough endowed with human capital to acquire Western technology and to work with it, and those who avoid the most foolish economic policies —

Capitalism, Democracy, and Peace

enjoy advantages of backwardness and naturally grow faster than the richer and more highly developed countries. What is required from rich countries is a commitment to free trade and the provision of market access for poor country exports. Free trade between the rich and democratic West and poorer (generally still autocratic) countries should firstly and immediately reduce the risk of war between them, secondly contribute to growth in poorer countries and thereby again reduce the risk of war, thirdly thereby help to establish the prosperity prerequisite of democracy and ultimately democracy itself which then would after some long and variable time lag again significantly reduce the risk of war between the democratic West and still poor countries that dynamically catch-up.

The capitalist peace, however, is no free lunch. The West has to adjust to the competition of low cost producers first in Asia and in future, may be, elsewhere. This competition, unless curtailed by protectionism, speeds the 'creative destruction' inherent in capitalism. It simultaneously destroys jobs (mostly low-skilled ones in the West) and provides room for new ones (usually higher skilled and better-paid jobs). This process enforces not only an upgrading of human capital, but also increasing wage differentials in the West if ever increasing European-style unemployment is to be avoided. Although there seems to be some evidence indicating increasing *income* inequality in some countries of the West, it has not yet been established that poor country competition which after all benefits poor consumers, too, has led to reduced consumption of the poor in the West. Would it be responsible to give up the promise of the capitalist peace in order to preserve an egalitarianism at home which seems unnecessary to uphold even the consumption levels of the poor in the West?

The promise of the capitalist peace is truly revolutionary. Its goal is not only to reduce the risk of war, but also to reduce the impact of power politics in general on human welfare. In a capitalist free world political criteria no longer determine one's income — neither race, nor citizenship, nor residence. Instead income depends on what one earns in a global market. The less power and coercion result in income and wealth, the less incentive there is for specialising in coercion and politics instead of the production of goods and services. If realised, the capitalist peace might promote the 'American dream' on a global scale.

There still are some roadblocks on the way. Differential growth rates between rich Western welfare states and dynamic autocracies in Asia generate conceivably dangerous power transition problems. Their management requires first Western or Atlantic Unity, and second overcoming the growth-retarding effects of institutional sclerosis (Olson, 1982) or the rent-seeking society (Buchanan, Tollison and Tullock, 1980) and the welfare state at home.²⁰ But who wants to die for protectionism, global inequity in the name of domestic equity in rich countries, the rent-seeking society, or even the welfare state?

Notes

This paper builds on my book *Economic Development, Social Order, and World Politics with special emphasis on War, Freedom, the Rise and Decline of the West, and the Future of East Asia* (Boulder, CO: Lynne Rienner 1996). Recent research, however, has enabled me to make an even more forceful case for the capitalist peace here than in the final chapter of the book where I still merely refer to a democratic peace. Previously, this paper has been presented at the First George Marshall Conference in Brussels, September 27, 1996, and at a Summer Course on International Security in Kiel, July 21, 1997 (under a different title, i.e., Conflict Resolution by Economic and Political Freedom).

1. My contrast between French and American policies after the two world wars should not be misread as a moral evaluation. There are sound Realpolitik reasons for the different treatment of Germany by France and the United States. First, France felt inferior because of numbers and threatened because of contiguity, whereas America felt superior because of numbers and wealth and safe because of distance. Second, there was no cold war after World War I, whereas the Cold War after World War II provided an incentive for the Americans to attempt reconciliation with the losers of the previous war.
2. According to Grieco (1990), states are defensive positionalists and worry that others may achieve relatively greater gains. Although he provides some evidence for his views concerning non-tariff barriers to trade, this evidence does not concern the high politics or grand strategy level of analysis. If someone pointed out that Grieco's analysis of non-tariff barriers, my analysis of the Marshall Plan or American grand strategy after World War II, and the unitary actor model of government decision-making cannot all be true, I would agree. In my view (Weede, 1996a: chapter 2, pp. 13-19), the unitary rational actor model of government deserves to be discarded first. For recent analyses of conditions under which relative gains matter, see Liberman (1996) or Matthews (1996).
3. In my view (Weede, 1996a), we know a bit more: First, great powers have always been great fighters. Second, territorial conflicts are an extremely important cause of war. Third, nuclear deterrence may establish peace through fear. Fourth, preponderance is more likely to reduce the risk of war than power parity. For evidence on the fourth point, see Kugler and Lemke (1996).
4. According to Rummel (1995), 'democracies ARE less warlike than other regimes', if warlikeness is understood in terms of the severity of war rather than in terms of frequency of involvement. In his well-documented view, democracies tended to fight less severe wars than other regimes in the 20th century. Even if warlikeness is evaluated in terms of frequency, Benoit (1996) provides some recent support for the idea that democracies are less warlike.
5. This important point has been missed by Mansfield and Snyder's studies (1995, 1996) of the effects of democratisation.
6. Mansfield and Snyder (1996) did not even answer my challenge (Weede, 1996b: 182) to report the significance of the difference between autocratisation and democratisation effects. Theoretically, it matters whether regime instability per se significantly increases the risk of war, or whether democratisation does so even more than autocratization.
7. Here, I am somewhat sceptical. It is not yet established that income inequality data are reliable enough to support any kind of firm conclusion. For some evidence about their unreliability, see Weede (1997).
8. This refers to the lower growth rate in a dyad. Future research should also investigate the effects of the growth rate in the absolutely poorer country instead of the currently more slowly growing country.

Capitalism, Democracy, and Peace

- ⁹. On the risk of war increasing effects of power balances and/or transitions, see for example Bremer (1996); Geller (1992); Kim (1992); Lemke and Werner (1996); Kugler and Lemke (1996).
- ¹⁰. Of course, I do not claim that there ever has been perfectly free trade. But rich countries, in particular the United States, provided market access for German, Japanese, Korean and Taiwanese exports after World War II. Although the economic policies of the Asian miracle economies departed from the free trade ideal, they vigorously promoted exports and competition between their exporters (World Bank, 1993b).
- ¹¹. Within countries, of course, there may be losers like enterprises who are bankrupted by foreign competitors or workers who lose their jobs. In principle, the effects of foreign competition are similar to the effects of domestic competition. There simply is no way to get the benefits of competition without the risk of bankruptcy and layoffs.
- ¹². For an easily accessible treatment of strategic trade policy see Krugman (1994).
- ¹³. How one operationalises dyadic trade seems to matter little. Oneal et al. (1996), for example, regard bilateral trade to GDP ratios as a measure of trade dependence. The higher the trade dependence of both components of the dyad, and the smaller the difference in trade dependence between them is, the higher is the beneficial trade interdependence. By contrast, Barbieri (1996a) standardises dyadic trade with respect to total trade instead of GDP. Saliency is the geometric mean of trade shares of both components of the dyad. Symmetry is maximised where trade shares are equal. And interdependence, as defined by Barbieri (1996a), is the product of saliency and symmetry. These differences of operationalisation, however, are *not* the chief culprit of different results on trade and peace reported by Oneal et al. (1996) and Barbieri (1996a).
- ¹⁴. Not everyone agrees with the quoted writers. Krugman (1996: 48, 51, 52) claims (1) that 'less skilled workers are suffering because a high-technology economy has less and less demand for their services', (2) 'fears about the economic impact of Third World competition are almost entirely unjustified', and (3) 'foreign competitors who cut prices may lower the average wage I receive, but they also raise the purchasing power of whatever I earn'. Probably, Rodrik (1997) comes closest to calling Krugman's first and second propositions into question.
- ¹⁵. Even an author who advocates less 'capitalist' policies than I do and who does not hesitate to expand the responsibilities of governments (Kapstein, 1996) agrees with this evaluation.
- ¹⁶. According to Bergsten (1996: 118) American 'export jobs pay 15 percent more than the average wage. Worker productivity at exporting firms is 20 to 40 percent higher. These firms expand employment 20 percent faster than nonexporting firms and are 10 percent less likely to fail'. Moreover, it must not be forgotten that protectionism not only reduces imports, but also reduces the export capabilities of the protectionist nation.
- ¹⁷. See Tullock (1995) for an insightful criticism of 'patriotic egalitarianism'.
- ¹⁸. I neglect another conceivable argument. Inequality (or lower class membership) might lead to crime. There seems to be surprisingly little evidence for this view (Tittle, Villemez, and Smith, 1978). Even if there were a strong relationship between inequality or poverty and crime, it would remain unwise to make the reduction of violent crime rather than the avoidance of war the top priority. War kills many more victims than criminals do. Moreover, fighting a war seems to increase violent crimes (Archer and Gartner, 1984: 86-96).
- ¹⁹. The capitalist peace may even require that one concedes greater relative gains to the other side than one demands for oneself.
- ²⁰. For empirical evidence, see Bernholz (1986), Lane and Errson (1986), and Weede (1991). On the dubious effectiveness of the welfare state in achieving its egalitarian goals, see Pampel and Williamson (1989) or Weede (1996a). For more general argument 'that recent government growth has not brought about much economic or social progress', see Tanzi and Schuknecht (1995).