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Patrick J. McDonald

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ONE

American Grand Strategy and the Liberal Peace

The United States has a long history of responding to strategic challenges and opportunities by promoting the spread of its own political and economic institutions abroad. Rooted firmly in a political culture defined by its attachment to individual freedom, this penchant often manifests itself in foreign policies supporting democratic transitions and economic liberalization around the world. Democracy and trade are trumpeted for two key reasons: states that possess liberal political and economic institutions do not go to war with each other, and they also tend to share common national interests. As democracy and commerce proliferate around the world, the United States should face fewer enemies while cultivating more political allies.

Many American political leaders over the past two centuries have reaffirmed these principles. Outlining the benefits of annexing Texas in his inaugural address, President Polk (1845) noted, “Foreign Powers do not seem to appreciate the true character of our Government . . . To enlarge its limits is to extend the dominions of peace over additional territories and increasing millions . . . While the Chief Magistrate and the popular branch of Congress are elected for short terms by the suffrages of those millions who must in their own persons bear all the burdens and miseries of war, our Government can not be otherwise than pacific.” At the Paris Peace Conference of 1919, Woodrow Wilson launched a bold and revolutionary plan to end balance-of-power politics that seemed to lead to war by creating a democratic global political order. Secretary of State Cordell Hull championed free trade in the 1930s as a device to remove the economic causes of conflict that he saw emerging as states shifted toward protectionism in Europe. The Truman administration implemented the Marshall Plan to foster economic recovery and strengthen democracy while preventing the spread of

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communism in Western Europe in the larger emerging struggle with the former Soviet Union.

This proclivity to foster the expansion of America's own political and economic institutions has only been strengthened following the implosion of the Soviet Union, which left the United States as the sole superpower in the world. Just as the American triumph over Germany and Japan created an opportunity for presidents Roosevelt and Truman to promote American interests by transforming these political systems into liberal democracies, the collapse of the Soviet Union in 1991 created another opportunity to foster the development of liberal institutions around the world. Referring to American encouragement of democratization, President Clinton's National Security Advisor Anthony Lake (1993) announced that American strategy would shift from "containment to democratic enlargement" in the wake of the Soviet collapse. Clinton defended this policy in his 1994 State of the Union address by evoking the absence of war among democracies. He stated, "Ultimately, the best strategy to ensure our security and to build a durable peace is to support the advance of democracy elsewhere. Democracies don't attack each other."

The peaceful Soviet collapse stands out as more than a chapter in the centuries-old conflict among great powers for global influence that offered another strategic opportunity for the United States to promote liberal institutions. It also marked a watershed in the struggle between governments and decentralized markets to shape the daily choices of individuals and social behavior. The collapse of the Soviet Union emphatically symbolized the defeat of socialism and political authority as a device to control economic activity. This triumph constitutes part of what Francis Fukuyama (1992) has labeled the "End of History" in which no viable alternative economic order exists besides that of free market capitalism. Similarly, Thomas Friedman (2005) describes the fall of the Berlin Wall on November 9, 1989, as the revolution of 11/9 that flattened the world by redistributing power so that economic decision making is driven by the wants of billions of individuals around the world rather than small numbers of political officials in central planning bureaucracies. Propelled by the economic revolutions of Ronald Reagan, Margaret Thatcher, and Deng Xiaoping, governments around the world have increasingly adopted neoliberal economic policies privatizing domestic industry, cutting trade barriers that insulate domestic firms from international competition, eliminating domestic price controls, and substantially reducing the size of Keynesian fiscal outlays.

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This book seeks to understand what implications these historic developments in the organization of economic activity have for stability in the international system. When the ability of governments to manipulate the forces of globalization is limited and markets play a large role in the coordination of social behavior, is the international system marked by more or less military conflict among states? Do the domestic institutions often associated with free market capitalism, namely private property and competitive market structures, cause peace?

These questions carry enormous implications for American grand strategy. The attacks on September 11, 2001 (9/11), motivated President George W. Bush to strengthen the American commitment to the liberal vision of transformation, particularly in the nascent struggle with Islamic fundamentalism. His administration made political reform a centerpiece of his strategy to remake the Middle East. In his 2004 State of the Union address, Bush declared, “As long as the Middle East remains a place of tyranny and despair and anger, it will continue to produce men and movements that threaten the safety of America and our friends. So America is pursuing a forward strategy of freedom in the Middle East . . . We have no desire to dominate, no ambitions of empire. Our aim is a democratic peace.”

Economic reform has more quietly been made the junior partner supporting the cause of liberty in the Middle East. Bush has argued that trade indirectly promotes peace by encouraging individual liberty. In a statement outlining a proposal for a free trade zone with the Middle East, President Bush (2003) observed, “Over time, the expansion of liberty throughout the world is the best guarantee of security throughout the world. Freedom is the way to peace . . . Across the globe, free markets and trade have helped defeat poverty, and taught men and women the habits of liberty. So I propose the establishment of a U.S.–Middle East free trade area within a decade, to bring the Middle East into an expanding circle of opportunity, to provide hope for the people who live in that region.” Similarly, U.S. Trade Representative Robert Zoellick chided domestic proponents of protectionism for ignoring the capacity of globalization to strengthen the forces of reform and tolerance in the Middle East. He wrote in 2004, “Economic isolationists are too short sighted to see the full mosaic of America’s interests. Their fight to defeat such trade agreements would rob the United States of one of its most powerful tools, just when we should be integrating trade and economic reforms with the struggle for democracy and tolerance that is vital to our security.”

Such references to the social virtues of markets often elicit rejoinders from those who see capitalism not for its capacity to promote economic

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opportunity and peace but instead for its tendency to concentrate wealth and expand, often rapaciously, from the economic centers of the developed world.¹ If unfettered markets raised living standards in Western societies and stimulated the fall of the Berlin Wall, they have also left many developing societies trapped in poverty and subject to the demands of a global class of capitalists and their political representatives, like the United States and the International Monetary Fund. Rather than diffusing peacefully throughout the world, the beneficiaries of capitalism have often relied on the sword to secure raw materials and outlets for surplus goods in Latin America, Africa, and the Middle East. If international trade promoted reconciliation between France and Germany during the Cold War, then it also stimulated American intervention in places like Iran, Chile, and Guatemala. Along these lines, current American attempts to transform the Middle East are not viewed for their self-proclaimed goals of promoting freedom and liberty but are instead seen as a device to secure stable access to oil. Contemporary skepticism over the benevolent effects of commerce is reinforced by the legacy of the first era of globalization, which ended in 1914. Even without accepting Leninist arguments tracing the origins of World War I to competition among European powers over the rapidly dwindling supply of colonial outlets for surplus capital, the decisions for war in July 1914 suggest that globalization failed in its most crucial test to prevent war.

REVISING THE FOUNDATIONS OF THE LIBERAL PEACE

This book challenges the intellectual foundations of a series of academic findings, known collectively as the liberal peace, which are intimately tied to this broader national debate over American foreign policy.² Perhaps the most prominent in international relations theory over the past two decades, this contemporary research program has utilized insights from such classical scholars as Adam Smith, Baron de Montesquieu, Immanuel Kant, Joseph Schumpeter, and Richard Cobden to refine and affirm two

¹ For a recent examination of this tension associated with market development see James (2006).

² For example, John M. Owen (2005, p. 122) writes of their intimate connection with the policies of George W. Bush: "... [F]ew other presidents – certainly none since Woodrow Wilson, a former president of the American Political Science Association... – have tied their foreign policies more explicitly to the work of social science. The defining act of Bush's presidency was grounded in a theory that the political scientist Jack Levy once declared was 'as close as anything we have to an empirical law in international relations,' namely that democracies do not fight each other."

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critical propositions.³ First, democratic states have created a zone of peace among themselves. Second, high levels of international commerce between states create similar effects, raising the costs of military conflict to unacceptable levels for modern economies.⁴

The relationships among democracy, international trade, and peace are more tenuous than previously thought. The capacity of democracy to promote peace is much weaker than this literature has yet to acknowledge. In addition, the capacity of commerce to constrain war is much stronger than this literature has yet to acknowledge. However, these pacific effects generated by trade depend critically on the presence of liberal economic institutions. I utilize the question of whether market-promoting institutions limit war to advance two central claims. First, liberal economic institutions – namely, the predominance of private property and competitive market structures within domestic economies – promote peace. Second, this liberal economic peace has historically been much stronger than the liberal democratic peace frequently cited by both scholars and policymakers. Together these claims carry important implications for contemporary debates over American grand strategy. They challenge the conventional wisdom about the national security benefits provided from democracy promotion and suggest instead that economic liberalization offers a more robust path to peace.

Democracy and Peace?

The democratic peace debate has extensively studied how regular and competitive elections can empower society to constrain abuses of political authority and generate peace among states. These claims linking democracy to peace generally take one of two forms.⁵ The first, which has garnered more

³ A third finding linking membership in international organizations to peace has received increasing attention. The arguments made here possess fewer implications for this research. For important contributions to this debate, see Oneal, Russett, and Davis (1998), Mansfield, Pevehouse, and Bearce (1999/2000), Mansfield and Pevehouse (2000), Russett and Oneal (2001), Bearce (2003), Boehmer, Gartzke, and Nordstrom (2004), Pevehouse and Russett (2006), and Haftel (2007).

⁴ A wide array of contemporary evidence has been accumulated supporting these respective claims. See, for example, Polachek (1980), Rummel (1983), D. Lake (1992), Bremer (1993), Maoz and Russett (1993), Mansfield (1994), Oneal and Russett (1997, 1999), Oneal, Russett, and Berbaum (2003), Owen (1997a), Russett and Oneal (2001), Schultz (2001), Huth and Allee (2002), and Rousseau (2005).

⁵ There also is a third version of the democratic peace hypothesis that examines how the number of democracies in the international system shapes the aggregate conflict outcomes in the system. For examples of this research see Gleditsch and Hegre (1997), Mitchell et al. (1999), and Gleditsch (2002).

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empirical support, is known as the *dyadic democratic peace proposition*.⁶ It restricts the capacity of democracy to promote peace to pairs of democratic states. Democratic governments are only pacific when interacting with fellow democracies. A second hypothesis, known as the *monadic version of the democratic peace hypothesis*, drops this pairing restriction. It holds that the constraints on war imposed by democracy should operate in interactions with all types of regimes in the international system, democracies and autocracies alike.

Numerous theories have been offered to explain the empirical regularities linking democracy to peace. The literature has developed around three primary variants. Two rely on the institutional qualities of democracy; the third on the normative characteristics that tend to emerge from such regimes. The first institutional explanation points to such features as regular elections; the separation of powers among an executive, legislature, and judiciary; and the rule of law within democracies as sources of peace. The process of holding regular and competitive elections increases the political costs to a leader for going to war. When the segments of society that pay the real costs of war in terms of higher taxation and death in battle are granted the means to punish the government officials by removing them from office, states use force much more cautiously. Democratic states tend to win the wars they fight, suggesting that they only fight when they expect to win (Lake 1992; Bueno de Mesquita et al. 1999, 2003; Reiter and Stam 2002). A second institutional explanation highlights how democracy increases transparency and adjusts informational asymmetries in the bargaining process between states. These traits enhance the credibility of promises to avoid the use of military force made between democracies, reduce the dangers of cheating endemic to anarchy, and increase the probability of reaching a cooperative settlement to a dispute (Fearon 1994; Smith 1998; Schultz 2001; Lipson 2003).

A third set of explanations focuses on the normative aspects of democracy (e.g., Maoz and Russett 1993; Dixon 1994; Owen 1994, 1997a; Risse-Kappen 1996; Rousseau 2005). It argues that the political culture that evolves within democracies helps to promote peace. As the norms of

⁶ The empirical support for the dyadic version of this argument is remarkably robust (e.g. Rummel 1983; Bremer 1992; Maoz and Russett 1993; Dixon 1994; Rousseau et al. 1996; Russett and Oneal 2001; Bueno de Mesquita et al. 2003; Oneal, Russett, and Berbaum 2003; Rousseau 2005). For arguments supporting the monadic version see Benoit (1996), Ray (1998), Macmillan (2003), Rousseau (2005), and Souva and Prins (2006). For critiques of the democratic peace literature see Layne (1994), Spiro (1994), Oren (1995), Gates et al. (1996), Gowa (1999), Green, Kim, and Yoon (2001), and Rosato (2003).

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conciliation, compromise, and reciprocity shape the resolution of conflicts within democracies, democratic leaders tend to adopt such procedures when negotiating with other democratic states. These norms help to facilitate peaceful dispute resolution.

Despite substantial empirical and theoretical progress, at least three important questions remain for the democratic peace research program. First, numerous scholars have pointed out that democracy, and the threat of electoral punishment in particular, often insufficiently constrains decisions for war (e.g., Gowa 1999; Mansfield and Snyder 1995, 2002a, b, 2005; Rosato 2003). For example, if a ruling political circle wishes to embrace aggressive foreign policies that heighten the risks of war, the choice to oppose such policies can be politically costly for both opposition politicians and members of society. Opposition leaders must weigh the likely consequences, both domestic and international, before going to war. If victory in war generates a policy success, opposition leaders run the risk of being cast as supporting foreign policy weakness by opposing war (Schultz 2001; Levy and Mabe 2004). Similarly, nonmyopic democratic leaders may be able to circumvent electoral constraints and attempt to check their authority by legislators. Given the costs of organizing opposition, active political opposition from society may fail to materialize as individuals choose to free-ride on the protests and threats of electoral punishment by fellow citizens (Gowa 1999). Mansfield and Snyder (2005) show that elected leaders can exploit appeals to nationalism when state institutions regulating political participation are weak, like in the early stages of a democratic transition, to pursue aggressive foreign policies. The failure of recently democratizing states to grant constitutional freedoms and civil liberties that help regulate political participation and constrain the policy outcomes produced by majoritarian institutions like elections casts doubt on their ability to join the “zone of peace” (Zakaria 1997, 2003). In part, these possibilities reflect the legacy of the French Revolution and the subsequent debate within liberal thought throughout the nineteenth century over the role played by nationalism in promoting or constraining individual liberty (Howard 1978). Even democratic leaders can exploit domestic institutional instability and public fears of insecurity to construct broad swaths of public support for war.

Second, an abundance of candidate explanations for the tendency of two democracies to avoid war with each other has failed to yield a consensus on which among these is best. New contributions in this research program have historically been motivated by this theoretical uncertainty. For example, Bueno de Mesquita et al. (1999, p. 791) write, “Although these observations

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about democracy and war are part of an important pattern, they lack a coherent explanation. Several possibilities have been put forward, but none has gained broad acceptance.” Similarly, Lipson (2003, pp. 1–2) writes, “That is exactly the question about peace among democratic states. It works well in practice, but there is considerable confusion about how it works in theory. The lack of an answer is no joke, however. Despite extensive research, all we have is a remarkable correlation. We still lack a convincing explanation about why democracies do not fight each other.”

This lack of theoretical consensus is perhaps most damaging to the research program’s central claim when confronting a critical empirical limitation that challenges most existing theoretical explanations of the democratic peace. As will be discussed in Chapter 9, the peace among democratic states does not emerge until after World War I.⁷ In both monadic and dyadic research designs, autocrats rather than democrats were more pacific before World War I. This shift in the foreign policy behavior of democracies between the nineteenth and twentieth centuries creates at least two significant problems for most claims linking democracy to peace. The first is simply a new theoretical question that needs to be answered: Why were democratic regimes aggressive in the nineteenth century? The second related problem carries important theoretical implications for most of the existing explanations of a democratic peace because they do not specify that the constraints on war created by democracy are likely to vary over time.⁸ Consequently,

⁷ Although some segments of the democratic peace literature have acknowledged this extreme shift in the relationship between regime type and war, it remains relatively understudied. While arguing that the peace among democratic states does not emerge until the post–World War II era, Gowa (1999) presents some evidence that dyads possessing two democratic states were more likely to engage in low-level military disputes than all other dyads in the period prior to World War I. Cederman (2001) attributes this “initial democratic belligerence” in the nineteenth century to colonial competition among the United States, Britain, and France. Similarly, Blank (2000) argues that the decline of imperialism allowed the democratic peace to emerge after 1945. Although finding that democracy reduced the likelihood of military disputes from 1886 to 1939, Oneal and Russett (1999) and Russett and Oneal (2001) observe that these pacific effects are weaker in the period before World War I. In a sample of politically relevant dyads, they point to the emergence of a democratic peace around 1896 and suggest that a widespread expansion of suffrage occurring around the turn of the twentieth century may account for this shift. This date shifts to 1900 when all dyad are included in the sample.

⁸ Even time-variant explanations of the democratic peace (e.g., Mitchell et al. 1999, Cederman 2001) insufficiently address this empirical anomaly because they generally begin with the expectation of the null hypothesis positing no relationship between regime type and war. In other words, this hypothesis suggests that democrats were just as likely to go to war as autocrats were in the period before the democratic peace emerged. However, the results presented in Chapter 9 contradict this null finding. Instead, democratic regimes were more likely than autocratic ones to go to war before World War I.

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if existing explanations are correct, democratic constraints on war should operate irrespective of the time period under investigation. This dramatic switching relationship between democracy and conflict after World War I thus contradicts most theories claiming that democracy promotes peace and stands out as a critical empirical anomaly yet to be explained.

Third, much of this research program has proceeded by making one of two assumptions.⁹ First, democratic institutions are assumed to be exogenous. Often reflected in assertions that political institutions are somehow more fundamental than other social institutions that regulate individual behaviour, this assumption necessarily points to the presence or absence of democracy as the best theoretical vehicle to understand the domestic causes of war and peace. Second, if democratic institutions are instead endogenous, or caused by some larger socioeconomic structure or development, it is assumed that any systematic source of variation in regime type does not simultaneously affect the conflict propensities of governments.¹⁰ The costs of such assumptions loom large in light of multiple claims within classical liberal thought and contemporary research suggesting that political freedom is nested within economic freedom. The emergence of democracy has long been traced to institutions and outcomes normally associated with liberal economic institutions, like respect for private property, the emergence of an educated middle class, and economic development (e.g., Smith 1937; Cobden 1868, 1870; Hayek 1994; Moore 1966; North and Weingast 1989; Pipes 1999; Przeworski et al. 2000; Lipset 1994; Boix 2003). For example, in one of the twentieth century's classic works of liberal thought, *The Road to Serfdom*, F. A. Hayek writes, "If 'capitalism' means here a competitive system based on free disposal over private property, it is far more important to realize that only within this system is democracy possible" (1994 [1944], pp. 77–8). This possibility suggests that the peace observed among democratic states may be caused by their tendency to possess relatively liberal market institutions rather than their embrace of open political competition in elections.

Even if liberal economic institutions are not responsible for causing the observed peace among democratic states, do they play a larger role in limiting war among states? One of the most prominent contributions to the academic literature argues that a virtuous relationship exists among democracy, commerce, membership in international organizations, and peace, in which each of these traits reinforces the others (Russett and Oneal 2001).

⁹ Weede (1995), Gartzke (1998), and Mousseau (2000), are exceptions to this.

¹⁰ For a similar critique see Thompson (1996).

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Democracy not only promotes peace, it also increases commerce among states, which in turn promotes peace. More recent research critiquing the democratic peace suggests instead that the commercial peace created by capitalism or economic development is stronger than that of democracy (Mousseau 2000; Mousseau, Hegre, and O'Neal 2003; Gartzke, Li, and Boehmer 2001; Gartzke 2007).

The possibility that the democratic peace is weaker than the commercial peace carries important implications for both the central role played by democracy promotion in American grand strategy and for the repeated tendency in policy and academic debates to conflate political and economic freedom. Throughout the Cold War, the United States was cast as engaged in a Manichaean struggle with the totalitarian Soviet Union that controlled all aspects of the political and economic lives of its citizenry. The end of this bifurcation of the world into two vastly different and opposing camps has made it easier to recognize that states often make very different institutional choices with respect to their economic and political institutions. China, for example, stands out as a critical case in which its regime has chosen to sequence political and economic reforms, opting to embrace economic integration before political openness.

The Bush Doctrine suggests that democratic and economic reforms should complement each other, at least as devices to defend American interests around the world. However, a series of recent studies by Mansfield and Snyder (1995, 2002a, b, 2005) caution against overlooking the risks associated with utilizing democracy promotion as an instrument of foreign policy in places like Iraq. They present a wide range of evidence showing that the likelihood of military conflict increases during periods of democratic transition. Similar concerns have arisen in studies of civil war and ethnic conflict (Snyder 2000; Chua 2002). Whereas stable and mature democracies are unlikely to fight each other, the process of transforming an autocratic regime into a democratic regime may be a dangerous one marked by more and not less military strife. If democratization results in a short-term increase in military conflict, American grand strategy should perhaps focus on promoting liberty through markets instead. For example, this possibility suggests that the absence of democratic reform in China may not hinder the building of cooperative ties with the United States that are capable of smoothing any global power transition between the two. Exploring this possibility first necessitates examining whether and how liberal economic institutions have historically influenced decisions for war or peace among governments.