Capitalist peace theory (CPT) has gained considerable attention in international relations theory and the conflict literature. Its proponents maintain that a capitalist organization of an economy pacifies states internally and externally. They portray CPT either as a complement to or a substitute for other liberal explanations, such as the democratic peace thesis, but disagree about the facet of capitalism that is supposed to reduce the risk of political violence. Key contributions have identified three main drivers of the capitalist peace phenomenon: the fiscal constraints that a laissez-faire regimen puts on potentially aggressive governments, the mollifying norms that a capitalist organization creates, and the increased ability of capitalist governments to signal their intentions effectively in a confrontation with an adversary. CPT should be based on a narrow definition of capitalism and should scrutinize motives and constraints of the main actors more deeply. Future contributions to the CPT literature should pay close attention to classic theories of capitalism, which all considered individual risk taking and the dramatic changes between booms and busts to be key constitutive features of this form of economic governance. Finally, empirical tests of the proposed causal mechanism should rely on data sets in which capitalists appear as actors and not as “structures.” If the literature takes these objections seriously, CPT could establish itself as central theory of peace and war in two respects: First, it could serve as an antidote to “critical” approaches on the far left or far right that see in capitalism a source of conflict rather than of peace. Second, it could become an important complement to commercial liberalism that stresses the external openness rather than the internal freedoms as an economic cause of peace and that particularly sees trade and foreign direct investment as pacifying forces.

Keywords: capitalism, economic openness, causal mechanism, economic norms, democratic peace, theory of imperialism, empirical international relations theory

Subjects: Contentious Politics and Political Violence, Governance/Political Change, International Political Economy, Political Economy, Quantitative Political Methodology, World Politics

Updated in this version
All sections of the paper, including footnotes and references, have been updated, expanded and revised.

Introduction

The notion “capitalist peace” stands for the liberal idea that free and open markets pacify intra- and interstate relations. It has attracted great scholarly attention since the end of the Cold War and has reinvigorated the study of the nexus between economics and conflict (Schneider, 2014a,
Controversial claims about the final victory of capitalism over its alternatives (Fukuyama, 1992) nurtured the hope that the economic freedom that many more citizens could enjoy after the fall of the Berlin Wall would liberate societies from the specter of war and other forms of political violence. Although anticapitalistic pamphlets (Klein, 2007; Loewenstein, 2015) regained prominence after the liberal triumphalism of the early 1990s, the optimistic expectation of a capitalist peace—firmly established in the conflict literature through Weede’s (2003) essay and the other landmark publications discussed here—shaped mainstream academic debates more profoundly than neo-Marxian or critical perspectives until the globalization backlash of the mid-2010s. The advent of populist leaders with pronounced anticapitalist rhetoric and disintegrative events such as the Brexit vote and the rise of mercantilist China have increased fears that the peaceful effects of intensive economic interactions within and between states are waning (Mansfield et al., 2021).

Initial contributions to capitalist peace theory (CPT) were mainly built on opportunity cost reasoning. According to this adage, entrepreneurs, financiers, and other businesspeople abhor the losses that war, terrorism, and other forms of political violence generate. Political leaders who are thought to be sensitive to these fears refrain from escalating internal or external conflicts to a stage where the use of force becomes unavoidable. These costs should grow the freer that entrepreneurs are to maximize their economic gain.

Opportunity costs are, however, not the only mechanism proponents of CPT to be introduced to the literature. Prominent recent explanations advance three types of arguments: First, capitalist states are better able to signal their resolve than closed economies in case of a conflict so that an escalation toward the use of violence becomes more unlikely (Gartzke, 2007; Gartzke et al., 2001). Second, economic freedom builds trust and a web of contractual relations within and between societies so that disputes can be resolved peacefully (Mousseau, 2000, 2003, 2009, 2012, 2013, 2019). Third, the presence of a large state enables governments to behave aggressively. Conversely, leaders whose aspirations are constrained to the provision of basic services do not possess such means and do not constitute a risk to peaceful interstate interactions (McDonald, 2009, 2010).

The “varieties of capitalism,” through which the capitalist peace thesis is articulated, make it difficult to establish which particular feature of the economic organization of a state renders political relationships less important and appeases them. The plethora of mechanisms that have been proposed correspond with the many forms capitalism takes in reality, ranging from exploitative Manchester capitalism to capitalist social democratic welfare states that add to the freedom of economic interaction a safety net for the less skilled and less privileged.

Critics of CPT contend that the competing explanations are often not sufficiently different from competing liberal theories (Schneider, 2014b; Schneider & Gleditsch, 2010). Proponents of alternative liberal schools of thought, “commercial liberalism” or the “democratic peace,” similarly maintain that trade, foreign direct investment, and democratic institutions are key attributes of a peaceful society. This article argues that a first qualification of CPT is that its proponents should base their approach on a narrow definition of capitalism if they strive to establish how open economies, rather than other liberal causes of peace, reduce the risk of...
political violence. Similar to McDonald (2009; see also Schneider, 2014b), the article differentiates between the internal and the external openness of an economy. While the latter refers in macroeconomic terms to trade and capital account openness, the former stresses the freedom entrepreneurs and investors enjoy in a lightly regulated economy in which the government sees its main function as the protection of property rights.

Internal economic freedom and the accompanying rule of law are, in this perspective, necessary prerequisites for a capitalist organization of the economy and differentiate it from predatory forms of state–market relations. Most capitalist economies are also what Rosecrance (1986) called “trading states.” As the example of the People’s Republic of China shows, there is, however, no perfect match between the internal and the external openness of an economy (Wagner, 2010). Therefore, this article exclusively focuses on the pacifying contribution of internal economic freedom that governments protect and encourage and disregards the security implications of rapacious forms of “capitalism.” Economies that are externally open but disregard the rule of law domestically are not sufficiently liberal to qualify as “capitalist.”

Classic definitions of capitalism stress the extent to which capital and other productive resources are owned by private people and the profits these “capitalists” try to reap. According to Weber (1958), “capitalism is identical with the pursuit of profit, and forever renewed profit, by means of continuous, rational, capitalistic enterprise” (p. 17, emphasis in the original). Current contributions to CPT do not, as indicated, rely on such a minimalist definition of capitalism, rendering it difficult to establish which facet of a country makes it more peaceful both internally and externally.¹

A second problem with the extant literature boils down to the observation that current theories do not sufficiently explore how the wealth possibly created through a capitalist organization of the economy renders political leaders reluctant to use armed force. Unless one adopts a crude Marxist approach and perceives governments to be the lackeys of the capitalist class, it is the government and not Wall Street or its functional equivalents around the world that calls the shots in this regard. The lack of proper microfoundations of the approach is all the more severe as the riches that economic openness allegedly provokes can also be used for military purposes. The relationship between development and conflict is thus indefinite (Schneider, 2014b). A third and related criticism focuses on the incomplete nature of the approach. Advocates of the CPT approach often do not differentiate between the level of economic freedom and changes toward it. This has the consequence that capitalist peace theories shy away from addressing the distributional effects created by transitions to economic openness (Bussmann & Schneider, 2007; Bussmann et al., 2005). This neglect is especially grave in light of the classic interpretations of capitalism by Marx (Kliman, 2015) and Schumpeter (1942), who both stressed risk taking and the alternation between economic expansion and contraction as defining features of capitalism. This article addresses these challenges after an introduction of the historical literature that has disputed whether capitalism is a source of conflict or of peace.
Capitalism as a Source of War or a Source of Peace

The expectation that capitalism and its correlates help bring about peace has always been controversial. Indeed, the opposite conjecture that open economies are a source of social tensions and violent conflict has exerted more influence in both practical politics and in academia. The negative view is the cornerstone of the “Theory of Imperialism” that Rudolf Hilferding (1910/1955) sketched on the basis of the Marxian theory of crises. Fellow communist thinkers Luxemburg (1923) and Lenin (1921) extended this approach and elevated it to the Marxist canon. In Hilferding’s words, capitalist profit-seeking requires the continuous extension of markets through imperialist wars: “Violent methods belong to the nature of colonial politics” (Hilferding, 1910/1955, p. 474). In Luxemburg’s conception (1923, pp. 367–368), militarism has been the principal means for the ruling class to accumulate capital and has also “played the decisive role in the conquest of the New World and the Indian spice countries.”

The radical condemnation of capitalism as a driver of oppression and conflict continued to influence academics during the Cold War, which pitted the United States, the 20th century’s archetype of a capitalist society, against the Soviet Union, its principal communist challenger. Introducing a structural version of the theory of imperialism, Galtung (1971, p. 171) called for radical change to overcome the “structural violence” that the capitalist world “center” uses in its interactions with the “periphery” of the international system: “redistribution by taking from the have’s and giving to the have-not’s is not enough: the structure has to be changed.”

Unsurprisingly, anticapitalist rhetoric also gained prominence during the Great Recession of the early 21st century. According to Canadian journalist Naomi Klein (2007, p. 426), “an economic system that requires constant growth . . . generates a steady stream of disasters all on its own, whether military, ecological or financial,” and the former French diplomat and Holocaust survivor Stéphane Hessel (2010, p. 11) bemoaned the “international dictatorship of financial markets that threatens peace and democracy” at the onset of the Great Recession. Similarly, Loewenstein (2015, pp. 9, 16) saw the world run by “unaccountable markets” and argued, without mentioning the theorists of imperialism, that “wars are often fought for the key reason of liberating new and willing markets.” Fuchs (2018, p. 784) associated the rise of populist leaders such as the 45th U.S. president with “authoritarian capitalism” and wrote: “Competition, egotism, violence and, in the final instance, physical destruction, war and imperialism are seen as natural features of the human being and as appropriate solutions for social conflict.” Right wing governments and their intellectual leaders have indeed frequently mixed anticapitalist and nativist language in their attempts to discredit the liberal world order. In an infamous speech advocating “illiberal democracy,” Hungarian Prime Minister Viktor Orbán recommended the United States to go after Wall Street: “the task for American society and the American government is to declare war on cynicism originating from the financial sector” (Tóth, 2014).

In the eyes of the various CPT approaches, such conjectures underestimate the costs of radical political change and especially of using force to enact it. Most causal mechanisms that have been developed to turn capitalism and other facets of open economies into a force of peace, rather than a warmongering culprit, stress what economists call “opportunity costs” (Schneider, 2014b). In...
the context of war and peace, these costs represent the foregone profits of entrepreneurs and investors in times of war. Opportunity cost reasoning is found in the early writings of Austrian economist Joseph Schumpeter (1918–1919, p. 3) at the end of World War I and shortly before he became, for a very brief period, Minister of Finance in the Republic of German–Austria. Setting the stage for what would become the “capitalist peace” thesis, he distanced himself sharply from the contributions by Hilferding and Luxemburg to Marxian thinking, dismissing imperialism as “the objectless disposition of a state to expand violently.” Capitalism is, in the Schumpeterian perspective, an anti-imperialist force that allows economic agents to accumulate wealth and that constrains the desire of atavistic states to start colonial wars.

During the protectionist interwar years and after the student radicalization of the 1960s, overt admiration of capitalism and its potentially beneficial consequences, most famously summarized in Schumpeter’s notion of “creative destruction,” remained quite unpopular despite Rummel’s (1983) daring libertarian interpretation of peace. It therefore took the weakening of the Soviet Empire and the new wave of globalization in the 1980s and 1990s before analysts dared to openly analyze the positive externalities of capitalism. Some of the initial contributions were inspired by rent-seeking theory, which transformed development policymaking in this period (Tullock, 1980). Condemning excessive state regulation, advocates of this liberal approach recommend internal and external economic openness as one of the key precepts of gaining economic strength. The policy recommendations culminated in the pro-austerity “Washington Consensus,” which lenders like the International Monetary Fund (IMF) officially followed from the 1970s to the end of the 2000s in their conditional financial aid packages but often did not fully implement (Kentikelenis et al., 2016).

It was also in this period that academics started to systematically explore the security implications of economic openness. Most of these contributions, with the partial exception of the encompassing argument by Weede (1995), focused on economic interdependence as a source of peace and not internal economic freedom (Barbieri & Schneider, 1999; for recent reviews see Schneider, 2014a, 2014b, 2017). This situation started to change in the 2000s when a continuation of stock market record highs seemed to prove the superiority of the loose regulatory schemes associated with capitalism over more restrictive forms of economic governance. Since the controversial era that paved the way to the Great Recession, proponents of CPT have debated why open market economies should be more peaceful internally and externally and why the proposed causal mechanisms outshine the explanatory power of other liberal research programs.

**Small States, Norms, and Signaling Capacities**

An influential literature in comparative political economy contends that there is a “variety of capitalisms” to the effect that different political arrangements shape open market economies (Hall & Soskice, 2001). Without paying attention to these contributions, CPT proponents stress specific aspects of capitalism as the ultimate economic force of peace. Three schools of thought are associated with the contributions that economists Hayek, Keynes, and Spence made to the
understanding of market economies. The causal mechanisms that have been proposed all go beyond simple opportunity cost reasoning and stress the pacifying impact of small states, capitalist norms, and enhanced signaling capacities.

The Hayekian Perspective

McDonald (2009) developed an institutional argument that drew at least partly on Friedrich Hayek’s libertarian classic *The Road to Serfdom* (1944/1971). Speaking of a Smithian “invisible hand of peace,” Hayek expected that “governments possessing access to large quantities of public property are more likely to engage in military conflict than governments overseeing more privatized economies” (p. 17). According to this logic, high public spending and extensive public property allow governments to insulate themselves from the demands of society. This fiscal cushion reduces the risk of being punished for adventurous policymaking and allows governments to pursue aggressive foreign policies or arms build-up programs for which the taxpayer ultimately has to foot the bill. Private property and the pressure from international competitors, conversely, limit the abilities of executives to chase unproductive ends. McDonald’s (2009, 2010) expectation that small states create peace echoed Hayek’s (1944/1971, p. 242) vision that “we shall all be the gainers if we can create a world fit for small states to live in.”

Weede’s (1995, 2003, 2010, 2021) and McDonald’s (2009, 2010) Hayekian contributions differed with respect to the role attributed to other liberal forces. McDonald (2009) suggested that the pacifying impact of internal economic openness dwarfs the corresponding effects of democratic political competition and trade, while Weede saw these forces as interrelated and, to some extent, as complements of each other. In Weede’s (1995, p. 524) view, “free trade promotes peace via prosperity and democracy.” Economic growth can, in his adaption of rent-seeking theories, be best achieved through the slashing of state monopolies and other instruments through which vested interests try to maximize their income. The detrimental role that special interest groups can play was identified by Tullock (1980) and others and was further developed by Olson (1993, 2000). Security can, in this perspective, be provided by what Olson calls “stationary” rather than by “roving” bandits. While the latter rulers rob everything they can get without considering the long-term implications of the predation, the former must limit their rapacity and start to provide public goods.

The Hayekian interpretations thus uncover which capitalist societies might be more peaceful. They do not, however, provide a clear motive as to why “larger states” make governments more aggressive. If fiscal constraints are loosened, executives could also use the noncapitalist riches for private consumption, as the work of Olson (2000) suggests, or for strengthening their hold on power through transfer payments. Even if governments possess a similarly sized “war chest,” the capacity to act depends on the size of the support base. The comparative study of autocracies has established that personalist rulers are unlikely to augment government spending as much as single-party or military regimes when they are under foreign pressure (Escribà-Folch, 2012).
The Keynesian Perspective

Mousseau et al. (2013a, p. 81) explicitly compared a Hayekian and a Keynesian version of the “capitalist peace.” They attributed government-enforced contracting of economic agents to the English economist and wrote that this form of state intervention “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.” Economic norms theory, which Mousseau (2000) originally introduced to the literature, distinguishes between “free markets” and “social markets.” Attributing the former to Hayek and the latter to Keynes, Mousseau et al. (2013a, p. 81) noted that “market capitalism is thus historically linked much more with the economic philosophy of John Maynard Keynes (1936), who advocated government spending to promote consumption, rather than with a small unobtrusive government that lets it rise (and fall) on its own.”

Economic norms theory adds a learning mechanism to this social-democratic interpretation of capitalism. Hence, the reciprocal nature of interactions in developed markets, where strangers are able to enter contractual relations with each other to do business together, helps citizens and consumers to develop capitalist preferences. These norms are fostered through a government that protects individual rights and enforces contracts. The “security community” that is created through these intensified and protected domestic interactions becomes internationalized through the growing trust that contract-intensive democracies have in each other. The common interests in the global market should thus translate into an international capitalist peace. In the words of Mousseau et al. (2013a, p. 81), 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.” Mousseau (2019, pp. 194–195) maintained in a sweeping overview that economic norms theory predicts “contractualist states” to preserve the status quo in the international system. This tendency explains a large number of regularities in international politics, including the decline of war, the continuing soft power hegemony of the United States, and “the probability of war among market democracies” being “practically zero.”

Mousseau (2010, p. 186) also linked his argument to Keynes’s contemporary, the Hungarian political economist Karl Polanyi (1957), whose functionalist classic The Great Transformation traced the origin of capitalism to the development of the modern state. Economic norms theory shares with other functionalist theories the feature that one particular systemic attribute (capitalist norms) is “explained” through the beneficial consequences it has for the system (peace). As they would otherwise be “suspect,” functionalist explanations are required by Little (1991, p. 102) to “be supplemented by detailed accounts of the social processes through which the needs of social and economic systems influence other social processes to elicit responses that satisfy those needs.”

If economic norms theory wants to establish itself as a key liberal explanation, two changes seem necessary. First, the version of CPT advanced by Mousseau and his coauthors needs proper microfoundations in order to escape the functionalist fallacy that a capitalist economy will more or less automatically lead to the betterment of humankind. Second, this strand of CPT should consider the controversial nature of capitalism. Since the 1860s, theorists of capitalism have continuously stressed that the road to economic freedom and promarket policymaking is paved...
with struggles between the winners and losers of the economic adjustments that are required. Economic norms theory needs to take this and the boom-and-bust nature of the object it studies into account if it aspires to become a positive theory of conflict and peace.

The Spencian Perspective

One important microlevel mechanism that limits the proper functioning of market economies is the persistence of information asymmetries. Nobel laureate Michael Spence (1973) has shown how job market applicants try to signal their qualifications in order to receive a contract. In such a situation, imperfectly informed employers will always turn down some qualified applicants and hire their underqualified competitors. Yet, the chance to obtain a good job increases with the strength of the signals that the potential employer receives.

Gartzke et al. (2001) and Morrow (1999) followed this Spencian logic and argued, based on (explicit or implicit) signaling frameworks developed in the crisis bargaining literature, that states can use economic interdependence to signal their resolve in a dispute with another state. Gartzke’s contributions to the CPT literature drew on this original analogy. He argued for instance in his programmatic article “The Capitalist Peace” that “financial or monetary integration leads dyads to be less likely to experience conflict” (Gartzke, 2007, p. 173). The chance to be successful in the interaction with another state depends, in this perspective, on how globalized the financial sectors of a country and its adversary are. To some extent, Gartzke therefore attributes the key pacifying force to one aspect of external economic openness: capital account liberalization. This implicit reduction of capitalism to one type of external economic openness, however, disregards that entrepreneurs, and not just the financial intermediaries they employ, are a crucial part of the “moneyed class” that is typically associated with capitalism.

While Gartzke and Hewitt (2010) extended this study to the analysis of interstate crises, Gartzke and Weisiger (2014) stressed the importance of development for peace. Like some of the contributions by Mousseau, most of the studies by Gartzke and colleagues tried to demonstrate how one of the key alleged consequences of capitalism—increased economic growth—supersedes the democratic peace thesis as a convincing liberal explanation of peace. In these contributions, development as well as capitalism are structural attributes. What is so far missing is the development of a model in which capitalists or other economic agents act as strategic players (Schneider, 2014a, 2014b).

All three schools of thought in the CPT literature therefore have to be commended for delineating new mechanisms through which the capitalist peace could be explained. However, none of them, with the partial exception of Gartzke et al. (2001), specifies how the relevant capitalist actors, be they entrepreneurs, bankers, or rentiers, pressurize the government to avoid using force. There is, in other words, a lack of a precise causal mechanism that motivates possible de-escalatory moves by both the government and the economic agents. What is more, none of the three approaches addresses what both Marx (Kliman, 2015) and Schumpeter (1942) have analyzed as the constitutive feature of capitalism—the perennial oscillation between recession and recovery, between boom and bust. The capitalist peace is, in a dynamic perspective, always threatened by
the disruptive fights that an economic downturn provokes or at least deepens, and struggles over which side should shoulder the adjustment burden also occur in periods of economic expansion. Bussmann et al. (2005), as well as Bussmann and Schneider (2007), argued in this vein that periods of growing economic freedom should be accompanied by an increased level of conflict. According to Alesina et al. (2005, 2019), deregulation and the austerity that goes along with it will at least in the long run increase collective welfare and decrease social conflict. De Soysa and Vadlammanati (2013) showed that moving toward free–market policies improved the human rights record of the analyzed countries. We do thus not automatically see increased repression as a consequence of increased economic integration, despite the evidence that liberalization increases the risk of civil war (Bussmann & Schneider, 2007).

Yet, deregulation and austerity increase social tensions unless fiscal or monetary tools are used to compensate the loser of the crisis or the adjustment (Genovese et al., 2016). There is growing evidence from the Great Recession that increasing economic freedom does not work in periods of contraction. Jordà and Taylor (2016, p. 220) estimated that a fiscal consolidation equal to about 1% of the GDP translated into a “GDP loss of around 3.5% over five years” and that this effect dwarfed the positive effect of equivalent deficit reductions during economic booms. Hartzell et al. (2010, p. 353) similarly argued that “the IMF–guided process of liberalization generates new losers at a rate with which a state with weakening powers is incapable of contending,” although the empirical evidence they offer in support of this conjecture is disputed.

## Empirical Tests and Their Limitations

CPT was originally established as a complement to the standard liberal theories of war and peace. Related early studies then started to use attributes of capitalist societies to qualify the liberal peace (Mousseau et al., 2003). The recent conceptualization of CPT as the superior liberal theory of peace is one of the main reasons no comparative empirical evaluation of all mechanisms exists. Most of the econometric tests are accordingly conceived as academic duels in which the empirical relevance of CPT is juxtaposed with a liberal rival such as the “democratic peace” or “commercial liberalism.”

The following sections discuss some of the empirical contributions that the three dominant understandings of CPT have made, focusing first on models of interstate conflict and then of other manifestations of political violence.

### Interstate Conflict

The CPT literature has so far mainly used standard research designs to explore the conditions under which small states, capitalist norms, or increased signaling costs help to pacify states. Gartzke (2007) and Mousseau (2013, 2018) examined post–World War II dyads, while McDonald (2009) employed a mixed methods framework with monadic and dyadic tests, as well as a number of historical case studies. The more recent quantitative tests have been relatively controversial. Dafoe (2011) demonstrated that Gartzke’s (2007) attempt to support his signaling thesis to the detriment of models of the democratic peace are not robust if one controls for the
deletion of communist countries and early observations from the analysis, refrains from using regional dummies, and models the dynamics differently, although the capitalist peace variables alone preserve their pacifying influence.

Dafoe et al. (2013) found similar faults in Mousseau’s (2013) study, noting that the key variable for economic norms theory—life insurance per capita—is imputed in more than 90% of the cases. This makes the statistical results, in their view, heavily dependent on the imputation model that has been chosen. They demonstrated that multiple imputations rather than the single imputation approach chosen by Mousseau preserve the democratic peace. In a criticism of Mousseau et al. (2013a), Dafoe and Russett (2013) found serious research design problems and warned against the continuation of “academic horse races between the same imperfect measures of historically interwoven factors” (p. 121). Imai and Lo (2021) delivered a perhaps definitive blow to such attempts to remove the democratic peace thesis to the dustbin through statistical duels that claimed victory for alternative explanations, such as the capitalist peace through traditional regression analysis. They relied on methods developed in biomedical statistics to check how robust the association between smoking and lung cancer is. The empirical analysis demonstrates that the association reported in Gartzke (2007) and Mousseau (2009, 2013, 2018) for the two versions of CPT are less robust than the support established for the relationship between democracy and the reduced risk of war. Imai and Lo (2021, p. 916) concluded “that the positive association between democracy and peace is at least five times as robust as that between smoking and lung cancer.”

Quantitative CPT studies could be improved if the analysis would take into account the manifold dependencies that exist between capitalist countries. The continued reliance on the dyad year in studies of the capitalist peace perhaps makes sense for crisis bargaining models like the ones developed by Gartzke et al. (2001). However, capitalist countries often flock together along a mixture of geographic, economic, or ideological considerations. It would be worthwhile to consider the extra-dyadic influences of capitalist clubs of nation-states with the help of network studies (Dorussen et al., 2016).

Another and perhaps more urgent desideratum is the use of disaggregated data. It is likely that, with the help of detailed time series evidence, we can properly establish that warnings by the business community preceded the choices governments made during a militarized contest. Interstate crises and the reactions of financial markets and other capitalist institutions evolve quickly so that the usage of yearly data most likely biases the estimates of the capitalist peace downwards. Trying to test the signaling cost argument of Gartzke et al. (2001), Dafoe and Kelsey (2014) studied whether capital or currency markets reacted prior to the escalation of a crisis. Their careful empirical strategy found only limited support for the key claim of the Spenceian approach that markets react prior to the government taking actions. This version of CPT does not, however, consider that markets are largely politically neutral and simply try to anticipate the costs of conflict. They might react with a rally if they anticipate the conflict to end quickly through an agreement or a shorter war than previously considered. Financial market responses to conflict are thus necessarily diverse (Bechtel & Schneider, 2010; Brune et al., 2015; Schneider & Troeger, 2006).
Other Forms of Conflict

The capitalist peace thesis has also been applied to internal conflict (de Soysa, 2016; de Soysa & Fjelde, 2010; Mousseau, 2012) and terrorism (Krieger & Meierrieks, 2015). De Soysa and Fjelde (2010) used a country-year design to show that economic freedom as measured through the Economic Freedom of the World Index reduces the risk of civil war. This data source comprises 42 variables and measures freedom along five dimensions: size of government, legal system and security of property rights, sound money, freedom to trade internationally, and regulation (Gwartney et al., 2015, p. 3). Although such an index has the advantage of capturing the regulatory aspects of capitalism more than other measures of economic freedom, such as trade openness, it remains unclear whether one single component carries the results. The attempts by Mousseau to extend the explanatory range of economic norms theory are most likely also hampered by the problems uncovered in the comments by Dafoe and Russett (2013), Dafoe et al. (2013), and Ray and Dafoe (2018). Although they employ a globalization variable as well as indicators now used by the proponents of economic norms theory, the study by Krieger and Meierrieks (2015) improved current scholarship by distinguishing level and change effects. A further necessity for scholars who try to uncover the domestic capitalist peace is the disaggregation of the welfare effects that economic freedom and liberalization measures have across relevant groups. Such a research design would also be helpful in reexamining claims that globalization fuels domestic conflict (Olzak, 2011).

What Needs to Be Done? The Future of Capitalist Peace Theory

The main expectation of CPT contributions—that a capitalist organization of the economy makes states more peaceful—is less innocuous than one would expect. First, economic openness may make countries richer, at least in the long term and under the provision that the rule of law is maintained. However, the disruptive nature of capitalist development makes the capitalist peace unstable both in the short and the long term. In a capitalist society, busts follow booms in the densely populated areas of the world almost as regularly as rain is preceded by sunshine. The inevitable return of economic contractions means that with every new recession, intensive struggles occur over who should shoulder the pain of adjustment. The creative destruction of the capitalist peace in the short run is accompanied by the destabilizing effect of economic success in the long run. Capitalist governments will be able to buy more security through acquiring arms in the periods of economic expansion. This creates the risk of quantitative and qualitative arms races and might also foster the wish in some capitalist regimes to reverse the status quo. Capitalism might thus destabilize the balance of power in international politics (Weede, 1995).

In this light, the notion of the capitalist peace does not sufficiently reflect what capitalism implies despite the recent advances in the CPT literature. The literature has clearly established that the opportunity costs of fighting might be larger in an open than in a closed economy and that capitalist states are better equipped to signal their resolve in a conflict with another state. In order to understand the relative merits of these arguments, clear, microlevel theoretical models are needed that show how these factors affect the risk of political violence in isolation and in combination with each other. We therefore need theories on how the financial and economic
communities influence decisions on war and peace and research designs that are compatible with the complexity of these relationships. The refined theoretical perspective also needs to take into account how the losers of economic openness react to promarket policies (Bussmann & Schneider, 2007). Finally, a convincing CPT would not see correlates of domestic freedom such as democracy and the rule of law as alternative explanations, but rather as another constitutive feature of an encompassing liberal theory of war and peace.

Financial and economic crises show that the international institutions that were set up in the wake of World War II to protect the liberal world are not sufficiently strong to stabilize capitalist economies. Neither the Bretton Woods institutions nor the European Union were able to prevent the capitalist system from standing at the pillory after a frenzied financial industry wreaked havoc with the economies of the “free world.” These institutions might themselves stabilize the world. There is ample evidence that demonstrates that preferential trading agreements foster peace (e.g., Hafner-Burton, 2005), and even the austerity measures associated with the structural adjustment programs of the IMF might not be as conflictual as feared (Hartzell et al., 2010; Midtgård et al., 2014). Yet, international institutions were not powerful enough to prevent economic crises from happening in the first place, and the theoretical accounts of how such crises affect international institutions remain unspecific about which institutional facet exerts a pacifying function.

The call for proper microfoundations of the capitalist peace also extends to the companions of the opportunity cost and signaling theory arguments, the Keynesian economic norms, and the Hayekian small-state approach. Contributions to the first paradigm stress the co-evolution of the promarket policies of the state and the capitalist norms citizens acquire through their contractual relations with other market players. Although such a macrosociological perspective is able to provide sweeping historical generalizations, it has not yet established theoretical foundations that help us to understand how rules affect the interaction between capitalists, the government with which they are principally dealing, and rival governments. Norms are an important factor for the explanation of many political phenomena. Yet, as the literature on iterated games and the evolution of cooperation has taught us, we cannot account for them if we do not take the accompanying enforcement rules into account (Axelrod, 1984). Norms, in other words, only affect human behavior together with a sanctioning mechanism (Coleman, 1990). As the rules in support of capitalist norms most often stem from democratic governments, attempts to demonstrate how capitalist norms supersede democracy as the proper explanation for the liberal peace are bound to fail from the start. In addition, the Hayekian perspective has to argue more convincingly why governments ruling in states with a higher level of government consumption should be more aggressive.

CPT has added a fresh and often provocative perspective to the conflict literature in recent years. However, many of the contributions do not yet rest on what philosophers of science would qualify as proper causal mechanisms. Given the double challenge from critical theorists and right-wing anticapitalism rhetoric, it is high time for CPT to advance properly how capitalism, despite its disruptive nature, is able to appease societies internally as well as externally.
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References


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Notes

1. The empirical literature does not often sufficiently differentiate between the internal and the external openness. Although they use a measure for the former (contract-intensive money in circulation, life insurance contracts) and the latter (trade, FDI), the theoretical argument of Powell and Chacha (2016) largely stressed economic interdependence, also often dubbed economic integration or globalization, as a source of peace.

2. Schumpeter shared the biographical episode with Austrian-German Marxist Rudolf Hilferding, who twice became Minister of Finance in the early Weimar Republic after rejoining the Social Democrats. Hilferding died during World War II in Gestapo custody, while Joseph Schumpeter, who had emigrated to the United States in the 1930s, became a Professor of Economics at Harvard University.

3. Mousseau et al. (2013a) depicted the Hayekian understanding of capitalism as “market” capitalism and the Keynesian one as “social market capitalism.” Note, however, that Hayek himself was an advocate of “Soziale Marktwirtschaft,” the “social market economy” model that became the synonym for the economic success of Germany after World War II. Yet, Hayek questioned the usefulness of adding the adjective “social” (Barry, 1993, discussed the intellectual history of these concepts).

4. Keynes’s magnus opum was published in February 1936.


6. Gartzke et al. (2001) also tried to show that their signaling interpretation outperforms the rival opportunity cost explanation. However, Polachek and Xiang (2010) were able to show that opportunity cost reasoning can be integrated into a signaling model.

7. Gartzke and Weisiger (2014) showed that an increasing level of worldwide development exerts a pacifying impact. Evaluations by Crescenzi and Kadera (2016) as well as Choi (2016) cast doubt on these calculations and especially the conclusion that the inclusion of development measures undermines the democratic peace.

8. Hartzell et al. (2010) tried to establish that the IMF path to liberalization increases the risk of civil war. Their findings were challenged by Midtgård et al. (2014).


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