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Håvard Hegre\*

# Development and the Liberal Peace

According to the liberal peace proposition, pairs of democratic states and pairs of states with extensive trade ties are more peaceful than other pairs of states, and democratic states are also more peaceful internally than other regime types. This article reviews the recent literature on the liberal peace, and proceeds to review the literature on how factors associated with socio-economic development are related to democratization, democratic stability, and to the risk of war. Based on this review and a set of recent empirical studies, it argues that development is a precondition for the liberal peace.

JEL codes: N40, O17.

Immanuel Kant predicted in *Zum Ewigen Frieden* (1795/1991) that the world would see an ever-expanding zone of peace and commercial interaction among free republics. This argument received renewed attention in the 1990s, as a series of studies made use of structured historical data and statistical methods to test a set of hypotheses commonly referred to as the liberal peace:<sup>1</sup>

- Pairs of democratic states are much more successful in maintaining peaceful relations than pairs that include at least one non-democratic state
- States that trade extensively with each

other will have less war than pairs of states without such relations

- Democracies are more peaceful internally than other regime types.

In this article, I review a set of studies to show that the liberal peace hypotheses have empirical support, but the finding is robust only for the developed world. Democratic states are more peaceful mainly where citizens are well-informed and able to effectively constrain governments, and where the institutions are well established and not at risk of collapse. These conditions are satisfied mostly in developed countries. States that

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1. It should be noted that the 'liberal peace' term is more commonly restricted to the first two components (e.g. Oneal & Russett, 1999b; Russett & Oneal, 2001)

trade largely in manufactured goods and have diversified economies are more likely to keep peaceful relations. This particularly applies to rich countries. It is mainly democracies with well-functioning state apparatuses, are relatively non-dependent on natural resources, and have well-established and consolidated institutions that avoid civil wars. Such democracies tend to be found in relatively well-to-do countries.

The article starts out by reviewing the literature on liberalism and the liberal peace. It then reviews a set of contributions on the relationship between development and democratization, and development and war to argue that development may be a *precondition* for the liberal peace.

## The Liberal Peace

The liberal peace may be summarized as a set of theories arguing that there is a strong tendency for domestic and international peace to follow when the large majority of individuals in a society – as contrasted to states or governments – have control over decisions in both political and economic issues. Liberals in general assume that the vast majority of individuals have self-interest in peace since they can obtain material and non-material well-being only during peace. Hence, peace may be therefore be secured if narrow groups and would-be elites can be restrained through effective political institutions.

### Liberalism

The liberal peace literature is part of a wider class of liberal writing. Central to liberalism is a focus on *individuals* as the primary actors. Liberal thinking on international relations

has always challenged two realist assumptions: The nation-state is not the only important actor in international politics (cf. Holsti, 1995: 40)<sup>2</sup>, and the question of war and peace does not dominate all other issues.

Liberal economic and political theories have been closely related since the 18th century. The liberal concern for the individual was emphasized by Adam Smith and David Ricardo in their work in economics. Kant, Paine, Bentham, James and John Stuart Mill all argued for free trade, liberty for individuals *and* for republican or democratic government.

The theoretical work by (liberal) economists (Smith, Ricardo, Samuelson) has shown that trade is a positive-sum game for most actors within the states, and that protectionism typically only benefits narrow groups that are closely related to those having political power. Hence, increasing state power through trade restrictions is against the interest of most citizens. The liberal opposition to the traditional political systems then automatically meant an opposition to their economic doctrine: ‘Mercantilism was seen to arise from the nature of aristocratic states, and therefore the political priority of liberals was to topple the interventionist, power-seeking state structures that were the legacy of the eighteenth century’ (Buzan, 1984: 600).

*Realism* is the main contenders to liberalism among theoretical approaches to international relations. Although the term ‘realists’ subsumes a wide variety of scholars, they share a set of assumptions of the conditions for international interaction (see Holsti, 1995: 36-37; Mearsheimer, 1995: 10): Realists see the mode of organization –

2. Due to its view on actors, this group of theories is also referred to as pluralism (Hollis & Smith, 1991; Viotti & Kauppi, 1987).

anarchy, or the absence of any authority above the individual, sovereign states – as the most important feature of the international system. Without such an authority, enforcement of laws and regulations is impossible. Given these structural conditions, the most basic interest of states becomes survival, since all other interests are dependent on the existence of the state. At the same time, all states have a potential to hurt or destroy each other – there exists no means to ensure survival that cannot be used for attack. This is the ‘security dilemma’: if one state increases its security, the security of other states will decrease (see, e.g., Snyder, 1984). The other states, in turn, will arm to regain their relative loss, such that in the end the first state is as insecure as at the onset. States may never be sure of each other’s intentions, in particular since occupying another state is one way to increase security. War will always be a possibility in the relationship between states. For realists, non-state actors play only subordinate parts on the world stage.

Mercantilism used to be the economic doctrine corresponding to realism, since the doctrine aims at maximizing state power. This is still reminiscent in some realist writings that emphasize relative gains versus absolute gains. (e.g., Grieco, 1988; Powell, 1991; Mosher, 2003). However, the assumption that trade is a zero-sum game has largely been abandoned.

Although realism is most well-known as a theoretical approach in international relations, it also has relevance in the study of domestic conflict. And indeed, Hobbes’ *Leviathan* (1651/1968), a core philosophical contribution for realism, was written as a defense of absolutist state power against the background of the English civil wars of the 1640s. Realism applies where groups or individuals act in the absence of a common, powerful authority. This is the situation in

the relations between most sovereign states, and also in states where the government is unable to enforce a monopoly on the use of large-scale violence.

### **The Domestic Democratic Peace**

The first component of the liberal peace is the domestic democratic peace. Democracy is often referred to as a system for peaceful resolution of conflicts, as conflicting claims by rival social groups are solved by majority votes or consensual agreements. Democracies often also guarantee a minimum set of individual rights and minority rights through the constitution, and institutionalize power-sharing mechanisms such as two-chamber parliaments, regional self-determination, etc. Democracies both allow discontent to be expressed and have mechanisms to handle it. Hence, since peaceful negotiation is feasible and less costly, armed rebellion will not be profitable. Thus, the literature that sees conflict as resulting from ‘relative deprivation’ (Gurr, 1970), clearly implies that democracies should be more peaceful internally than other regime types. If individuals are denied the political rights and the economic benefits they see themselves as entitled to, they will react with aggression and organize violent political opposition, according to this theoretical approach. We should therefore observe less civil war the more democratic countries are.

Autocracy, on the other hand, is seen as inviting revolutions in this literature. But at the same time, autocracies often have powerful mechanisms for repression (and may make use of them without losing legitimacy, in contrast to democracies). Autocracies repress not only armed uprisings, but also inhibit the formation of the organizations that protests require before they can reach the stage of armed insurgencies. Democracies will also be willing to crack down on armed

rebels if they see their demands or methods as illegitimate, but may be reluctant to deny the opposition the right to organize.

It follows from this that regimes that feature both democratic and autocratic characteristics, are partly open yet lack effective means of solving conflicts. In such political systems, repression is difficult since some organization of opposition groups and some opposition expression of discontent is allowed, but mechanisms to act on the expressed discontent are incomplete (cf. Davies 1962:7, Boswell & Dixon, 1990:543; Muller & Weede, 1990; Hegre et al., 2001). Hence, repression is ineffective at the same time as 'grievance' is not addressed. Moreover, such institutional arrangements are unstable because the institutions that make up the regime are internally inconsistent, and often reflect an underlying power struggle that may erupt in open violence. I will refer to these as inconsistent regimes.

Changes in the political institutions of a country are likely to be accompanied with a heightened risk of civil war (cf. Snyder, 2000). Relevant changes are the introduction or abolishing of elections of a parliament and/or the executive, an increase or a decrease in the degree to which the executive is accountable to the parliament or other bodies, or an increase or decrease in the share of population that is allowed to vote. Firstly, changes in a democratic direction are likely to be accompanied with reduced repression, which allows communal groups increased opportunities for mobilization. At the same time, it takes time to establish the new institutions and to make them sufficiently efficient to accommodate the kinds of accommodation typical of established democracy. Moreover, groups that increase their political influence will raise their expectations for real improvements in their living conditions, but these changes can take a long

time to realize even with the best intentions. This is likely to lead to protests, perhaps violently (Davies, 1962). The changes in the political institutions – whether in democratic or autocratic directions – by definition alters the power distribution in the system (at least in theory), which again leads to changes in the distribution of resources within the economy. This means that some gain and others lose. Losers then have an incentive to use unconstitutional means or to incite armed insurgencies to reestablish the previous status quo.

A number of studies find empirical confirmation of this 'inverted U' relationship: Muller (1985), Boswell & Dixon (1990), Muller & Weede (1990), Ellingsen (2000), Hegre et al. (2001), de Soysa (2002), and Fearon & Laitin (2003). Other studies, however, do not agree with these findings. Elbadawi & Sambanis (2002) find some support for the idea that inconsistent regimes are more civil war prone than other regime types, but conclude that the finding is not very robust. Collier & Hoeffler (2004) find no support for this hypothesis at all.

Hegre et al. (2001) and Fearon & Laitin (2003) also find that political instability in the three years previous to the year of observation doubles the risk of civil war, and Sambanis (2001) that democratic change increases the risk of revolutionary war. Elbadawi & Sambanis (2002: 18) obtain more mixed results. They conclude that recent political instability increases the risk of civil war in many models, but that the finding is sensitive to the choice of lag structure for the political system variable.

*The evidence for a domestic democratic peace might not be robust*

One explanation of the discrepancies in the results for the relationship between democracy and internal conflict is that the estimate

for the political system variables tends to become insignificant when controlling for income (GNP per capita) – as done in Collier & Hoeffler (2004) and Elbadawi & Sambanis (2002) – rather than energy consumption per capita, as done in Hegre et al. (2001).<sup>3</sup> This may not be surprising, given the strong positive correlation between income and democracy (see below). This correlation is less strong between energy consumption per capita and democracy.

There are two additional possible explanations for why we might fail to observe a robust negative and monotonic relationship between democracy and conflict, even if there ‘truly’ is one:

The first is that the *conflict variable* is too heterogeneous. If (potential) armed conflict originates in a broad social movement that seeks to redress economic or political ‘deprivation’ among a majority of the population, a democratic political system that addresses this deprivation may have a preventive effect (Gurr, 1970). However, if (potential) armed conflict originates in violent efforts by marginal but well-organized groups too forward their narrow self-interest, democratic political systems may not be able nor willing to meet these demands and cannot have a preventive effect (Collier & Hoeffler, 2002; Fearon & Laitin, 2003). On the contrary, democratic regimes’ inability to use very repressive measures may make such predation easier.

Collier (2000) and Collier & Hoeffler (2004) take this argument further by noting that grievance/deprivation conflicts have a tendency to be transformed to the second type. The conflict variables typically employed in empirical studies fail to distin-

guish between these two types. This may explain the non-robustness of the results even if the grievance/deprivation theory is correct. I will discuss Collier’s argument in more detail below.

The second is that the *democracy measure* may be too narrow. To maintain a civil peace, democracy arguably must have the following characteristics: the government is popularly accountable and constrained, citizens have a bundle of social and political rights, and the government is capable of actively affecting the societal distribution of resources, as well as of preventing abuses of one social group by another.

Most democracy data sets measure the extent to which governments are accountable and constrained (although they concentrate on ‘free and fair elections’ rather than accountability). Only Freedom House (annual) measures the extent to which citizens have social and political rights, but only imperfectly. This measure has not been used by many studies of conflict. No direct measure of capability exists, and measuring it is inherently difficult. Relevant aspects of capability are: stability (long-term credibility), consistency (absence of severe conflict over institutional design; see Gates et al., 2003a), taxing capacity, bureaucratic effectiveness, and military effectiveness. Political systems that combine democratic and autocratic features may be regarded as having low capability because of lack of consistency. The mid-range in the Polity index employed in Hegre et al. (2001) and Fearon & Laitin’s (2003) ‘Anocracy’ dummy serve as proxies for the two first aspects. The inverted-U relationship found in those studies indeed indicates that capability-as-consistency may be

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3. But note that de Soysa (2002: 412) obtains significant support for the inverted U when controlling for GDP per capita.

important. Below, I will argue that GDP per capita is a proxy for the stability and effectiveness of a political system, and also for its military effectiveness.

If citizen rights and government capability are as crucial for how democracy reduces the likelihood of conflict as the accountability aspect, we may fail to observe it with the standard measures of democracy. I will return to this below.

#### *Why there might not be any relationship*

Collier (2000) distinguishes between two motivations for organizing a militarized opposition to the government. The first is 'greed': rebels aspire to *private* wealth by capturing resources extra-legally. The other is 'grievance': rebels aspire to rid the nation – or the group of people with which they identify – of an unjust regime or to force through redistribution. Gurr's relative deprivation theory clearly assumes the latter motivation.

Collier argues that it is impossible to ask rebel leaders about their 'true' motivations. Leaders that are motivated by greed have an incentive to couch the motivations in terms of grievance rather than greed – for public relations reasons (their private interests are likely to be against the public interest within the country, and are unlikely to attract international support), and for organizational/recruitment reasons (even if recruits join the rebel army primarily for the pecuniary benefits, they will also prefer to see their activities as a fight for a common good).

How can researchers then conclude anything about the true motivations? Collier's answer is to infer motivation from patterns of observed behavior. He argues that if greed is the dominant motivation, we would expect to see more rebellions in countries where there are good opportunities for financing a rebellion: Countries in which there is an abundance of commodities that are easy to

obtain control over, and that are marketable outside the country. An abundance of young men without work and few alternative income-earning opportunities lower recruitment costs and hence increases the financial viability of the conflict.

If grievance is the dominant motivation, rebellions should primarily appear in countries with deep ethnic or religious divisions, economic inequality, lack of political rights, government economic impotence and poor growth rates. Collier & Hoeffler (2004) find that all the economic factors listed here have explanatory power. Lack of economic growth is the only grievance indicator that is associated with a high risk of internal armed conflict.

Why is the 'grievance theory' not supported? Collier (2000) points out that would-be rebels that plan to establish an army to address grievance face three important problems.

The first is a collective action problem faced by potential recruits: Justice, revenge, and relief from grievance are public goods and so subject to the problem of free-riding: Whether the government gets overthrown is not dependent on whether an individual personally joins the rebellion. Individually, his or her preferred choice would be that others fight the rebellion while he or she benefits from the justice that the rebellion achieves.

The second is a coordination problem. Rebellions have to be large to be successful. Recruits will be reluctant to join the rebel group before it has a reasonable chance of success, since defeat would mean death or imprisonment. Hence, the rebel leader will not be able to recruit before it already has recruited a minimum number.

The third is a time inconsistency or commitment problem: The rebels have to fight *before* they achieve justice, most often in the

form of overthrowing the current government. After the victory, the rebel leader has an incentive to act just like the replaced government. He has a stronger incentive to promise things than to actually deliver them. Since successful militaries have to be organized in a strict hierarchical manner, the leader of a victorious armed rebellion often has the organizational apparatus required to defend his position as head of the state even when his followers realize that the promises have been broken.

The free-rider, coordination, and time-inconsistency problem are difficult obstacles to overcome for grievance-motivated rebellions. Solutions to the free-rider problem regularly involve drawing on social capital and existing patterns of tit-for-tat behavior. Rebel groups use ethnic identities to achieve this (Gates, 2002). This possibly explains why internal wars tend to be ethnic in nature, and why extremely fractionalized countries have less civil war: If there are no sizeable ethnic groups, the recruitment pool will be too small.

An alternative way to solve the free-rider, coordination, and time-inconsistency problems is to rely on the greed of the potential recruits – offer the soldiers a salary and allow them to loot the territory they control. Such incentive structures avoid the free-rider problem because soldiers are paid as they go and immediately enjoy the benefits of rebellion; there is no coordination problem since rebellions will be able to distribute the rewards even without outright victory, and there is no time-inconsistency problem because rewards are immediate. Hence, Collier (2000) argues that greed-motivated rebellions are much more likely than grievance-motivated ones.

If grievance-motivated rebellions do emerge, they are likely to be transformed to greed-motivated ones since they in a prolonged war are forced to rely on the same

types of incentives as the greed-motivated ones. Moreover, civil war tends to alter society in ways that invite the emergence of new rebel groups and shadowy economic activities. Collier lists four opportunities for profit that are created during war: People shorten their time horizons, and become more opportunistic. This will benefit some types of firms more than others. There is an increase in criminality as resources to the police are diverted to the military or counter-insurgency activities. This also leads to capital flight – markets become disrupted, information becomes more costly and particular, and entry into trading becomes more difficult. This creates opportunities for monopolistic trade. Finally, the scope for rent-seeking predation increases for the rebels (and for the governments as they become less open to scrutiny).

The ‘liberal peace’ term is normally restricted to how trade and democracy reduces countries’ propensity to become involved in interstate militarized conflict. The domestic democratic peace is closely related, however. A basic assumption is that the vast majority of individuals have an interest in peace. This coincides with Kant’s point of departure, as discussed in the next section. In the grievance-based argument, this preference for peace requires that individuals are granted certain fundamental rights from the elites controlling the state. In the greed-based argument, only a narrow minority have an interest in the organized use of military force. In order to impose this preference for peace on the society, political institutions that constrain both the rulers and more peripheral armed groups are necessary, just as is the case in the other components of the liberal peace.

The literature on civil war is less explicit on the role of economic liberty than the literature on interstate conflict (see Section 4).

Note however, that greed-motivated rebellions always will violate the economic interests and rights of other citizens, since the appropriated resources originally belonged to them or to groups they are members of.

### The international democratic peace

The international democratic peace hypothesis has spurred an enormous amount of empirical studies since the seminal studies by Rummel (1979, 1983), Doyle (1983ab; 1986), and Maoz & Russett (1993). In this section, I will present Kant's argument as well as four modern explanations for why democracies should be peaceful in relations with each other.

#### *Kant's perpetual peace*

Kant's thinking on war between states was re-introduced to the field of international relations by Michael W. Doyle (1983ab; 1986), and has since been the primary philosophical reference for the democratic peace literature.<sup>4</sup>

Kant's vision of a *perpetual peace* is in particular found in *Zum Ewigen Frieden* (Kant, 1795/1991). Republics are peaceful since 'the consent of the citizens is required to decide whether or not war is to be declared' (p. 100):

[I]t is very natural that they will have great hesitation in embarking on so dangerous an enterprise. For this would mean calling down on themselves all the miseries of war, such as doing the fighting themselves, supplying the costs of the war from their own resources, painfully making good the ensuing devastation, and, as the crowning evil, having to take upon

themselves a burden of debt which will embitter peace itself and which can never be paid off on account of the constant threat of new wars. But under a constitution where the subject is not a citizen, and which is therefore not republican, it is the simplest thing in the world to go to war. For the head of state is not a fellow citizen, but the owner of the state, and a war will not force him to make the slightest sacrifice so far as his banquets, hunts, pleasure palaces and court festivals are concerned. He can thus decide on war, without any significant reason, as a kind of amusement, and unconcernedly leave it to the diplomatic corps (who are always ready for such purposes) to justify the war for the sake of propriety. (p. 100)

Kant's idea of a democratic peace has been the focus for a large number of studies in the past fifteen years, studies with theoretical as well as empirical focus.<sup>5</sup> Key empirical works are Doyle (1986), Bremer (1992), and Maoz & Russett (1992; 1993). Much of the present work on the liberal peace builds on the framework laid out in these articles.

Kant's argument has been expanded in the modern democratic peace literature. Four different reasons why democracies keep a separate peace may be distinguished. The first two were formulated by Maoz & Russett (1993): a normative and a structural explanation.<sup>6</sup>

#### *A normative explanation*

The normative explanation holds that 'the culture, perceptions, and practices that per-

4. Kant was by no means the first to forward these ideas, though. Enlightenment theorists such as Rousseau, Montesquieu, Paine, and Godwin all precede him in arguing that states founded on democratic principles must also be against war (Flessen, 1999: 13-17; Gates, Knutsen & Moses, 1996: 6-7).

5. See Gleditsch (1992), Chan (1997), and Gleditsch & Hegre (1997) for reviews of the literature.

6. For a critique of the normative and the structural explanations, see Rosato (2003).

mit compromise and the peaceful resolution of conflicts without the threat of violence within countries come to apply across national boundaries toward other democratic countries' (Maoz & Russett, 1993). States 'externalize' the norms guiding the domestic political processes: Democratic institutions build on norms that encourage compromise solutions and reciprocation, and norms that strictly inhibit the complete removal from political life of the loser in political contest – defeat does not mean elimination of a chance to try again. Finally, the political process is supposed to be completely non-violent.

To work, the peace-preserving mechanism of the normative explanation requires an expectation that the other state adhere to the same set of norms domestically – the international system is anarchic such that no norms or forms of behavior can be enforced 'from above'. The least restrictive norms then dominate the democratic norms, since a democratic state is not likely to adhere to norms that endanger their survival. A normative explanation does not imply that democracies are pacifist.

A related argument is that wars of conquest are normatively wrong, since they by definition are violations of the liberal principle that citizens of the (conquered) state have the right to elect their own leaders. Wars of 'liberation', and particularly wars to impose democracy on non-democratic states, are an exception, since they may be instrumental in granting such rights to the citizens of the conquered state.

#### *A structural explanation*

According to the structural explanation, democratic political leaders are required to mobilize domestic support to their international policies. Political mobilization takes time in democratic political system – decisions have to go through the legislature, the

political bureaucracies, and key interest groups. Executives are constrained by other bodies (such as parliaments) which ensure that the interests of citizens and powerful organizations are taken into account. Debate is public, such that information on the real costs of war are likely to enter the decision calculus. Shortcuts to political mobilization can only be accomplished in situations that can be appropriately described as emergencies. Democratic political leaders will be removed from office if they fail to evaluate this correctly. These institutional/structural factors slow down the decision process and helps avoiding capricious or ill-informed behavior.

Moreover, as Kant argues, citizens typically perceive costs of war to be high. Hence, they will be more reluctant to grant such support where they are able to influence foreign policy than will more narrow groups (such as aristocracies, military leaders, particular interest groups) when they have influence.

#### *A signaling explanation*

A third explanation is based on a signaling argument. An important group of theories in international relations model war as a bargaining process 'under the shadow of power' – i.e., a negotiation where the threat of the use of force is used by one or both parties to attempt to improve their bargaining position (Fearon, 1995; Gartzke, 1999; Morrow, 1999; Powell, 1996; Wagner, 2000). In these theories, the fact that we observe war is a puzzle: There will always exist a negotiated solution that is preferable to war for both sides. Why are states not able to agree to this solution 'in the shadow of power', a solution that reflects the distribution of power and willingness to use power (resolve)? Given the incentives to avoid war (war is extremely costly and risky), state leaders who disagree

on some issue could simply tell each other what they would be willing to accept rather than fight, and then choose a mutually acceptable bargain.

One answer is uncertainty about the other side's capabilities or resolve: There will always be an incentive to exaggerate own capabilities or resolve in order to improve the bargaining position. States have an incentive to misrepresent their willingness to fight in order to gain a better deal. Hence, merely telling each other what they are willing to accept is not credible.

The idea that the outcome of a negotiation is a function of the parties' resolve and capabilities poses a problem for the democratic peace argument: Structural constraints and norms against the use of force in this perspective merely increase the costs of using force, and reduces the resolve. Increasing the costs of using force for side *A* will not decrease the risk of side *B* using force, only reducing the credibility of side *A*'s threat. Reducing the credibility of the threat of using force will only serve to weaken the bargaining position of that side – the bargaining solution will simply shift in *B*'s favor to a point where *A*'s threat to use force is again credible. Increasing both sides' costs of using force will not alter the net risk of using force.

Fearon (1994) develops an alternative explanation of the democratic peace that builds on and is consistent with this framework. His point of departure is to view international crises as public events carried out in front of domestic political audiences. This fact is crucial to understanding why crises occur and how they unfold. Fearon develops a formal model to show this: At each moment in the model, a state can choose to attack, back down, or escalate the crisis further. If it backs down, its leaders suffer audience costs – backing down is often seen as a sign of unsuccessful foreign policy.

The model seeks to show how states may solve the problem of credibly signaling their resolve. International crises are a response to this dilemma, Fearon argues. States resort to risky and provocative actions (such as mobilization or deployment of troops) to signal their willingness to fight. Such behavior may not act as signals in themselves, however. If mobilization is not very costly, it may just be regarded as a bluff. Both parties have an incentive to bluff, to mobilize, and then to back down when they realize the bluff is discovered. Even if they do not want to bluff, they have an incentive to *credibly* commit themselves to a position that they will marginally prefer to war, since they cannot be sure that the adversary has the correct perception of their capabilities and their resolve. Fearon's argument is that audience costs are good commitment devices. Audience costs are the costs that a leader suffers when backing down. For example, what would happen to the approval ratings of George W. Bush in the US if he backed down from the confrontation with Iraq?

Audience costs enable states to learn about an opponent's willingness to use force in a dispute, since they may lead leaders on one or both sides to become locked into their positions and so will be unable to back down. Hence, states with relatively high audience costs are less likely to back down. At the same time, they also need a lower amount of escalation or crisis-inducing behavior to signal intentions. Democracies have higher audience costs because the public may remove leaders after policy failures. Hence, democracies may be better at signaling intentions and may more credibly commit to policies. This provides a third explanation of why democracies are better able to maintain peaceful relations than non-democracies.

*Incentives for territorial expansion*

A fourth explanation of the democratic peace is derived from Rosecrance (1986). It takes the incentives for political leaders to expand the territory they control as its point of departure.

The fundamental 'national interest' for democracies and autocracies alike is to secure survival and to increase wealth. As realists hold, ensuring survival may be the most fundamental, because without the survival of the state no other goals can be obtained. Democratic leaders should be equally willing to ensure survival of the state and the political system as are autocratic leaders. Democracies are therefore equally likely to go to war when they perceive security to be threatened. However, leaders in the two regime types differ fundamentally with respect to for whom they want to increase wealth, since democratic leaders rely on the support of a much broader constituency. This affects their choice of strategy (See Section 2 for a discussion of the strategies available to states).

An autocratic leader may benefit disproportionately from war. The prosperity of a dictator typically depends on the amount of resources that can be extracted from the economy. Beyond a threshold, increasing the tax rate will hurt the economy to such an extent that tax income will not increase. When that limit is reached, further growth in government revenues requires an expansion of the tax base. This can happen either through internal growth or through military expansion. For a dictator, it is quite certain that territorial expansion increases prosperity. The same holds if the head of the state is accountable only to a distinct minority group in the country (such as the traditional monarch was accountable to the aristocracy), in which case his/her policies are likely to maximize growth for these groups only. Since

a large share of the population does not benefit from these policies, the policies may still be very successful even if they are not reflected in improved utilization of resources, or growth in GDP per capita. At the same time, the autocratic leader is able to make groups without political power bear a disproportionate share of the costs – most notably, to risk their life in actual fighting.

The benefit of occupation is less certain for the constituency of a democracy, where the benefits to a larger extent are shared among all political actors (at least ideally). Since the benefits of occupation have to be shared between almost as many as those who have to bear the costs, the net expected utility of military conquest is much less likely to be positive. Moreover, in order to extract much from the conquered territory, the population resident there have to be denied the same political rights as the citizens of the occupying country. This may add political costs to the economic costs (Rosecrance, 1986).

Consequently, the political costs of war is much higher in democracies, as implied by the democratic peace hypothesis. Again, there are exceptions: A state may obtain their citizen's consent to risk their lives to expand the territory of the state if the acquired land is distributed to them, or if they otherwise reap economic gains from the expansion.

*Limitations of the democratic peace*

The debate on the democratic peace has directed attention to a number of possible limitations to the empirical validity of the democratic peace.

Firstly, it has often been noted that the democracies are particularly peaceful only in relation to other democracies (Small & Singer, 1976; Chan, 1984; Gleditsch & Hegre, 1997). Toward non-democratic states, they are at least as belligerent as non-democ-

racies are between themselves (however, see Rummel, 1995; Ray, 1995, and Benoit, 1996 for opposing views and Russett & Oneal, 2001: 49–50 for a discussion). Kant (1795/1991) warned against wars for liberal purposes. In recent years, ‘making the world safe for democracy’ has repeatedly been forwarded as a justification for warfare. The democratic peace itself gives fuel to this justification. If it holds, wars to overturn non-democratic regimes may hinder wars in the future. And indeed, large wars and interventions by democratic countries tend to be followed by democratizations (Kegley & Hermann, 1996; Mitchell, Gleditsch & Hegre, 1999; Gates et al., 2003b; Kadera, Crescenzi & Shannon, 2003; Christiansen, 2004; Christiansen, Gleditsch & Hegre, 2004).

Peceny, Beer & Sanchez-Terry (2003) investigate whether there is a separate ‘dictatorial peace’, but do not find such dyads to be clearly more peaceful than the mixed dyads. Werner (2000), on the other hand, find ‘politically similar’ states to be less likely to engage in conflict than non-similar states. Raknerud & Hegre (1997) find the high risk of war in dyads consisting of one democracy and one non-democracy to be to a large degree due to the tendency for democracies to become involved on the same side in multilateral wars.

Another issue is that young democracies may not behave in the same manner as consolidated ones. Mansfield & Snyder (1995, 2002) argue that the democratization process is dangerous. In addition to the time it takes for democratic institutions to become functional, the democratization process itself tends to increase the risk of war. Both new and old elites have an incentive to use

nationalist rhetoric to bolster their domestic support when institutions are fragile. At the same time, old elites are still powerful and may have an interest in an assertive foreign policy. Their empirical findings are contested, however (Ward & Gleditsch, 1998).

All of the four explanations listed above require well-functioning institutions to be effective. If the democratic institutions are not fully functional, either because they are young and unconsolidated or because they are inconsistent, democratic norms at work in the normative explanation are not likely to be fully rooted. The structural explanation explicitly requires that the institutions are effective in constraining executives that might have an interest in belligerent behavior. Likewise, in the signaling explanation, democratic leaders do not face the same audience costs in weak or new democracies as in well-developed ones. And democracies will only alter the incentives for conquests if power-dispersion is extensive. Section 3 elaborates on how economic development is related to these issues.

### Trade and interstate conflict

Kant (1795/1991) also anticipated the third component of the liberal peace: that trade between states reduces the risk of conflict between them. Although nature separates the nations, Kant argues, it also unites them. And this is where the economic aspect of the liberal peace enters Kant’s argument:<sup>7</sup> ‘For the spirit of commerce sooner or later takes hold of every people, and it cannot exist side by side with war. ... Thus states find themselves compelled to promote the noble cause of peace, though not exactly from motives of morality.’ (p. 114). Note that Kant’s argument rests on individual self-interest, not on

7. In fact, this quotation is the only reference to the ‘trade promotes peace’ thesis in *Perpetual Peace*.

idealistic moral concepts: ‘the problem of setting up a [republican] state can be solved even by a nation of devils (so long they possess understanding)’ (p. 112). For Kant’s state of nature is a state of war, just as is Hobbes’ (Kant, 1975/1991: 98).

A series of empirical studies find that states that trade extensively have a lower risk of interstate militarized conflict (see in particular Oneal & Russett, 1997, 1999ab; Russett & Oneal, 2001). A few studies find no relationship between trade and conflict (Beck, Katz & Tucker, 1998) or a positive relationship (Barbieri, 1996ab, 2002). Some of these studies are reviewed in more detail in Hegre (2000; 2004). This section reviews how modern liberal reasoning on the relationship between interdependence and peace may be divided into four categories, with partly overlapping explanations for why trade should promote peace.<sup>8</sup>

#### *Trade costs*

‘The natural effect of commerce is to bring about peace. Two nations which trade together, render themselves reciprocally dependent: if the one has an interest in buying the other has an interest in selling; and all unions are based upon mutual needs’ (Montesquieu, *De l’esprit des lois*, Book XX, ch. II, 1748, quoted in Hirschman, 1945/1980: 10).

This reciprocal dependence is usually called interdependence. Interdependence, according to Keohane & Nye (1977: 8-12), is mutual dependence between states, meaning that situations and events in one state affect other states, and vice versa. Interdependence may be cultural, technological, political, or economic. The more costs and benefits the

relationship entails, the more interdependent will the states be.

Polachek (1980, also see Polachek, Robst & Chang, 1999) investigates the impact of economic costs on the incentives for conflictive behavior in an expected utility model. In the model in Hegre (2004), the fear of trade losses reduces the incentives for the use of force through its negative effect on production and consumption. The model represents the argument that the greater the mutual dependence, the less the risk of war. It shows, however, that the relationship must be symmetrical for the trade costs to affect the military calculations of states.

#### *Territory and trade: Antithetical routes to wealth*

As Kant noted (see Section 1 above), liberals assume that trade cannot exist side by side with war. In *The Great Illusion* (1910; 1938), Norman Angell depicts territorial expansion and expansion through trade as contrasting objectives for nations. Richard Rosecrance (1986) argues that states are forced to make a choice between expanding territory or increasing trade as a basis for increasing wealth, power, and welfare. ‘To attack one’s best customers is to undermine the commercial faith and reciprocity in which exchange takes place’ (Rosecrance, 1986:13–14). Naturally, all states are concerned with territory, since nations are territorial organizations, and historically the ‘state with the greatest land mass would have the largest population, the greatest stock of natural resources, and presumably as well the largest wealth’ (1986: 6-7).

Consequently, wars of conquest are means to increasing territory, power and wealth. An

8. See McMillan (1997) and Schneider, Barbieri & Gleditsch (2003) for surveys of the literature on interdependence and conflict.

alternative route is international trade. But war and trade are antithetical routes to wealth. This view is not a contradiction or opposition to the classical ‘peace through interdependence’ hypothesis, but an extension of it:

While trading states try to improve their position and their own domestic allocation of resources, they do so within a context of accepted interdependence. They recognize that the attempt to provide every service and fulfill every function of statehood on an independent and autonomous basis is extremely inefficient, and they prefer a situation which provides for specialization and division of labor among nations. One nation’s attempt to improve its own access to products and resources, therefore, does not conflict with another state’s attempt to do the same (p. 24).

Changing their orientation from the military-political world to the trading world does not imply that trading states relieve themselves of security concerns. On the contrary, economic interdependence has to be accompanied by military interdependence: ‘Trading states will also normally form alliances as a precaution against sudden intrusion by military-political nations’ (p. 24).

Merely aggregating one state’s set of dyadic relationships does not imply that trading-state and military-political strategies are mutually exclusive at the state level. It is conceivable that states may trade peacefully with a group of states, while using expansionist strategies towards other. Rosecrance, however, argues that states tend to emphasize the same strategy towards all states (1986: 29–30). Openness of a state decreases if it engages in war or other external military engagement: militarized conflict tends to dis-

rupt trade routes with all trading partners (disruption through war actions, blockades, and the closing down of important infrastructure such as harbors). Conflicts may also disrupt production for exports in the country by diverting production from traded goods to military goods. Conflicts – even merely the expectation of them – may also discourage investment from overseas because of the heightened risk of losses resulting in lower expected returns. Moreover, in order to involve itself in an extensive bilateral trade relationship with another state, the dyadic liberal argument implies that a state needs to trust that the other will behave peacefully towards it. If a state is aggressive towards third parties, this trust may be undermined. In sum, if a state engages in a militarized conflict with one other state, it risks that trade with all other states is hurt. The converse, then, also applies: As openness increases, conflict decreases. That is, the relationship between trade and conflict is one characterized by reciprocal effects, where trade influences conflict and vice versa.

The broadness of the political constituency also affects the alternative gains from a trading-state strategy. For instance, both democracies and autocracies have business interests. Business interests generally don’t like wars since they fear a cut-off of trade with the enemy or with third parties. If business interests have access to foreign policy, they will influence the state in the direction of trading-state strategies. In democracies, it is more likely that business interests have influence over foreign policy decisions. This also implies that democracies should be more likely to choose trading-state strategies.

#### *Trade as signal*

Morrow (1999) and Gartzke, Li & Boehmer (2001) base their argument on the bargaining failure model of war. Just as political audience

costs enables democratic leaders to credibly signal their intention, market reactions may function as signaling devices. Threatening to use force is likely to induce domestic and international economic actors to seek alternative markets or suppliers, or to prefer to invest in other countries. Since high dependence on international trade or foreign investment (or opportunities for domestic investors to invest abroad) makes threats costly, such states are less likely to be misrepresenting their resolve. This reduces the danger of wars due to the miscalculation of the opponent's intentions.

#### *Trade as a channel for contact and understanding*

Another mechanism between trade and peace is that trade leads to cooperation on mutual elimination of trade restrictions (Keohane, 1984: 75-78). Such cooperation may be formalized into an international regime. According to liberal theorists, these regimes dampen conflicts in themselves. They serve as fora for negotiations, highlight the states' common interests, broaden the involved states' repertoire of non-military means of force through issue-linking, and ease the inclusion of third-party mediators to conflicts. Thus, trade helps to put into practice Kant's second and third definitive articles of a perpetual peace (cf. Section 1 above).

#### *Trade increases wealth*

Weede (1995) argues that international trade leads to peace through changes within the states: Free trade increases the wealth of countries. Greater wealth, in turn, tends to reduce class conflict and to invite domestic compromises, and consequently leads to democracy. Democracies, in turn, do not wage war with each other, according to the democratic peace thesis. This forms a strong causal chain, where trade primarily affects the

monadic (nation) level, but reinforces a dyadic effect through wealth and democracy. This causal chain is discussed at more length below.

#### *Limitations to the trade-and-conflict relationship*

Realists stress the dominance of security issues over economic issues. Not seeing this, they claim, is to ignore the fact that the international system is anarchical. As a logical consequence, then, the most important realist counter-arguments question the direction of causation in the liberal reasoning. Anticipating the costs of broken trade ties in wartime, a state will have an incentive to limit its trade with other states if it perceives the probability of war with them in the near future to be high. This is a classic realistic argument, found in Waltz (1979) and perhaps most explicitly in Copeland (1996).

Others argue that states that see each other as potential enemies avoid entering into trade relationships (cf. Gowa & Mansfield, 1993; Pollins, 1989b). Empirically, several studies indicate that the causation runs in both directions in dyadic relationships (Kim, 1998; Reuveny & Kang, 1996; 1998): To the extent that two states are interacting, the interaction is either characterized by peaceful trade or by a hostile and possibly militarized no-trade relationship. Oneal, Russett & Berbaum (2003), however, find that trade reduces conflict even when controlling for the influence of past conflict.

Realists also argue that interdependence is a double-edged sword. If a country is dependent on resources in another country, it may be tempted to secure access to the resources by occupying the other country, thereby unilaterally solving its 'dependency problem' (Copeland, 1996: 10; Liberman, 1996: 148; Mearsheimer, 1990: 45; Skaperdas & Syropoulos, 1996; Dorussen &

Hegre, 2003). A rupture of international trade may also create losses beyond the loss of the gains from trade. The economy has to readjust, it will lose productivity, and social problems may emerge from the ensuing unemployment. All in all, the country may be worse off than if the trade ties never had existed (see also Buzan, 1984: 620-621; Hirschman, 1945/1980: 26-29). This argument is especially valid if the trade relation is asymmetrical.

Another realist objection is that a liberal zone of peace requires a hegemon to blossom. According to hegemonic stability theory (see Keohane, 1984), order in world politics is typically created by a single dominant power – a hegemon. Without this hegemon, the order will collapse. The liberal peace requires adherence to the rules of a liberal international economic power. The only way this can be enforced, the argument goes, is through an economically and militarily superior power. Military power is crucial to the hegemonic stability theory, since economic issues may become military-security issues if they are crucial enough to basic national interests. ‘A hegemonic power must possess enough military power to protect the international political economy it dominates from incursion by hostile adversaries’ (Keohane, 1984: 39). In fact, the hegemonic stability theory is the systemic variant of the argument in the previous section. Just as bilateral trade requires the expectation of stable, peaceful relations between the two states, a liberal economy requires a stable, regulated system – a liberal international regime, as it is often labeled (Keohane, 1984: 49ff.) Just as domestic economic activity will be restrained if private property rights are not protected by the state, economic activity between countries will be difficult if there is no hegemon with economic and military power to enforce the rules. A liberal economy is

dependent on, as a pre-existing condition, the peace and stability it is supposed to explain (Buzan 1984: 607).

Related to this is the argument that the liberal peace is an artifact of the Cold War. The Western states have had high levels of trade and an unprecedented period of peace in the 50 years following World War II, but this cannot be seen independently of the fact that the same states were on the same side in the global contest with the Soviet Union (Farber & Gowa, 1995).

Finally, the trade and interstate conflict component of the liberal peace does not have a domestic counterpart as does the democratic peace. There seems to be no relationship between the extent to which countries trade and their risks of internal conflict, apart from the indirect effect through the fact that trade promotes economic growth and development (Hegre, Gleditsch & Gissinger, 2003; Elbadawi & Hegre, 2004).

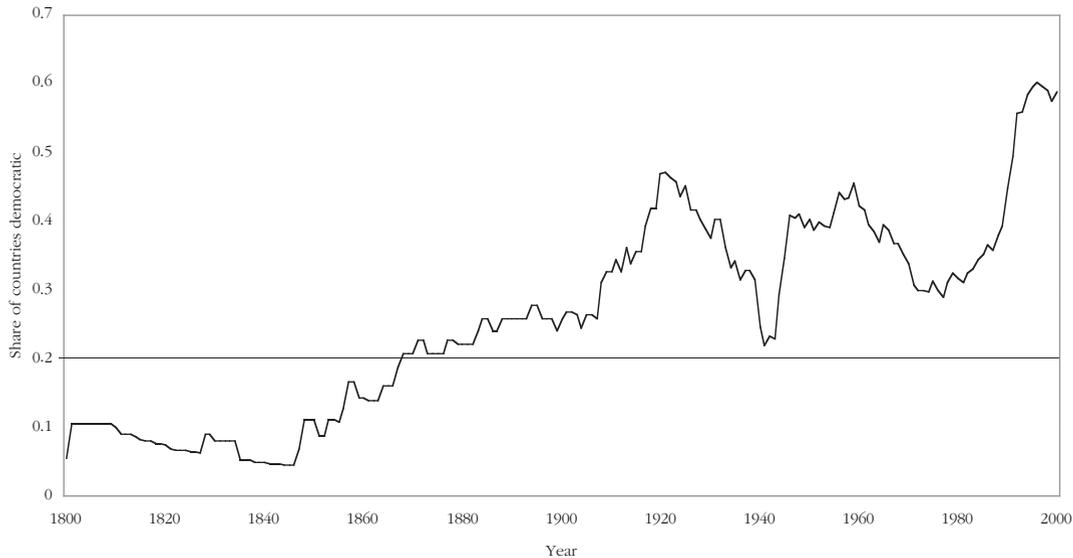
## The Role of Economic Development

This section summarizes the literature on the relationship between development and democracy, shows that several scholars have argued that development also affects the incentives for warfare, and continues to make the argument that socioeconomic development profoundly affects the liberal peace. Arguably, development is a precondition for the emergence of peaceful liberal zones.

### Development and democracy

Figure 1 shows how the proportion of the world’s countries that are democratic have changed over time. A country is coded as democratic if it scores at least 0.5 on an indicator that ranges from 0 (completely autocratic) to 1 (fully democratic). The indicator is the average of three sub-indicators that evaluate the democraticness of the

**Figure 1. Proportion of the world's countries that are democratic according to Gates et al. SIP measure, 1800-2000.**



political institutions in terms of the recruitment process for the executive, the constraints on the executive, and the extent to which the population of the country is allowed to participate in elections.

The increase in the number of democracies coincides with the spread of industrialization. This link from development to democracy is a classic finding in modernization theory – ‘the more well-to-do a nation, the greater the chances it will sustain democracy’ (Lipset, 1959: 75). These views have found support in several recent empirical studies (Burkhart and Lewis-Beck, 1994; Barro, 1996; Londregan and Poole, 1996; Vanhanen, 1997; Przeworski et al., 2000; Gates et al., 2003ab, Boix 2003).

Lipset (1959) argues that higher income and better education for ‘the lower strata’ would lead to a more compromise-oriented view of politics. Rich countries also have greater surpluses to distribute; this permits modernization through education, occupational mobility, free flow of information, and

organizational experience. Taken together, these factors encourage adaptability and compromise, tolerance, and moderation. Increased access to material assets and thus also to political resources, together with greater institutional diversity, act as preconditions for stable democracy.

Higher average income is also associated with a more diversified economy with more alternative economic opportunities. This is important for the emergence or stability of democracy, according to Lipset (1959:84): ‘loss of office is seen as meaning serious loss for major power groups, then they will be readier to resort to more drastic measures in seeking to retain or secure office’. Moreover, wealth is associated with the presence of non-governmental organizations and institutions ‘which can act as sources of countervailing power, and recruiters of participants in the political process’ (Lipset, 1959:84).

Dahl (1989:251ff.) argues that a ‘modern dynamic pluralist society’ (abbreviated MDP) is particularly favorable for the estab-

lishment and stability of democracy, partly because of the attitudes and beliefs such societies foster, and partly because such society disperses power away from any single center toward a variety of individuals, groups, associations, and organizations:

What is crucial about an MDP society is that on the one hand it inhibits the concentration of power in any single unified set of actors, and on the other it disperses power among a number of relatively independent actors. Because of their power and autonomy, the actors can resist unilateral domination, compete with one another for advantages, engage in conflict and bargaining, and pursue independent actions on their own. Characteristic of an MDP society is a dispersion of political resources, such as money, knowledge, status, and access to organizations; of strategic locations, particularly in economic, scientific, educational, and cultural affairs; and of bargaining positions, both overt and latent, in economic affairs, science, communications, education, and elsewhere. (Dahl, 1989; 252)

In addition to lacking the political resources mentioned here, poor people don't have the surplus needed to be politically active, and are more risk-averse because of their marginal income. They are more vulnerable to intimidation because a larger share of their property can be physically destroyed.

The link between development and democracy has also been explained in terms of education. Lipset (1959) notes that 'education presumably broadens men's outlooks, enables them to understand the need for norms of tolerance, restraining them from adhering to extremist and monistic doctrines, and increases their capacity to make rational electoral choices' (p. 79). In addition to

Lipset's argument for education's beneficial effect on these democratic values, a higher median education level may also stabilize democracies through making it harder for elites to exploit the political system for their own benefit: education allows a population to effectively monitor politicians' actions. To take one example: a free press is vital to a functioning democracy, but is not likely to make much of a difference if the vast majority of the population is illiterate. This potential exploitation is likely to undermine and delegitimize the democratic system in the long run, as the electorate slowly realizes how it is misused.

A high average level of education is also important for building an efficient bureaucracy, another vital component of a well-functioning democracy.

Dahl's argument quoted above applies both to income and education. It is hard to distinguish these variables: Income, education and literacy are typically correlated, and in many of the arguments discussed above it is hard to distinguish between the effects of education and those of income.

The third aspect of development – the structure of the economy – is also related to the likelihood that a country democratizes or remains either autocratic or democratic. Ross (2001) shows empirically that resource wealth is negatively correlated with the level of democracy. He puts forward three causal mechanisms that may explain this correlation:

The first he terms the 'rentier effect' (pp. 333–35): Autocratic governments use the revenues from the abundant resources to relieve social pressures that might otherwise lead to demands for greater accountability and representation, either through low taxes or no taxes at all, or use parts of the income for spending on patronage, or uses the rent-based largesse to prevent the formation of

social groups that are independent of the state, either deliberately or simply through the relative insignificance of private economic actors. The second is called the ‘repression effect’ (pp. 335–36): The resource wealth allows the governments to spend more on internal security, which allows them to effectively repress the opposition.<sup>9</sup> The third mechanism is referred to as the ‘modernization effect’ (pp. 336–): In line with the discussion above, Ross notes that economic development is associated with high levels of education, occupational specialization, and urbanization. Resource-led growth, however, may not lead to higher education levels and occupational specialization, and hence fails to increase the probability of democratization.

Ross’ argument predicts that resource-rich autocracies tend to remain stably autocratic, but also implies that resource-rich democracies are relatively unstable. This is the focus of Wantchekon (2000), who argues that destabilization often happens to resource-rich democracies. If the ability of the state to enforce the law is weak, incumbent governments have an informational advantage over the availability of rents to distribute to voters, and/or discretionary power to distribute these rents. To counter an incumbent who spends government resources in ways that maximizes his/hers electoral gains, the opposition will have an incentive to turn to illegal means such as inciting riots or staging coups to counter the incumbency advantage. This mechanism is stronger the more rents there are to distribute. Both Ross (2001) and Wantchekon (2000) report results from cross-sectional statistical studies that confirm

that there is a negative correlation between democracy and mineral resource dependence.

It is also possible to phrase this mechanism in terms of Dahl’s diffusion of power: The income from natural resources as oil and minerals typically employ very few people and generate enormous taxes. In a country where a large proportion of the income stems from such sources, power is disproportionately concentrated in the state and the few companies and the skilled labor that do the actual extraction. The lack of diffusion of power creates an unfavorable condition for democracy.

Przeworski and Limongi (1997) and Przeworski et al. (2000: 88) point out that the relationship between democracy and development may come about in two ways: either because democracies ‘may be more likely to emerge as countries develop economically, or, having been established for whatever reasons, democracies may be more likely to survive in developed countries.’ Modernization theory implies the former process – increases in literacy, income, etc. creates a ‘pressure’ for democratization, or ‘favorable conditions’ for successful democratic transitions (Dahl, 1989:239ff.). Przeworski et al. (2000) present results supporting the second of these mechanisms only.

Boix & Stokes (2002) challenge these findings, and show that when reanalyzing Przeworski et al.’s models for a longer time-frame transitions to democracy really becomes more likely when average income rises. In a formalization of Przeworski & Limongi’s intuitive explanation, they also challenge the theoretical rationale for their

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9. Ross (2001) also notes that resource wealth may exacerbate ethnic tensions if the resources are geographically concentrated in the region of a minority group which will claim the rights for the monopoly of its extraction. If so, the increased military spending might be a result of the perceived security threat rather than a means to preemptively deter the opposition. Still, increased military spending is not likely to increase the probability of democratization.

findings: If, as Przeworski & Limongi assume, a lower marginal utility of consumption at higher levels of consumption reduces the gain from winning the struggle for dictatorship, income growth both stabilizes democracy and increases the ruling factions' incentives to democratize. Boix (2003) explains this relationship in terms of asset specificity, or the mobility of capital: The mobility of capital places an upper threshold on the tax rate the median voter in a democracy will choose. With a lower expected tax, the wealthy are less likely to block democracy. Since the process of economic development is a story of a shift to more mobile capital, this explains the empirical regularity. Their model is also consistent with the observation that primary commodity-dependent countries are less likely to become and remain democratic, since primary commodities are highly country-specific assets.

### Development and civil war

As discussed above, Collier (2000), Collier & Hoeffler (2004), Collier et al. (2003), and Fearon & Laitin (2003) argue that the opportunities for organizing a rebel army is more important to explain the occurrence of civil war than the motivations people might have for rebellion. Such opportunities are typically present in countries with low income and education levels. Empirically, the link from aspects of development directly to domestic peace is one of the most robust findings in recent large-*N* studies on the determinants of civil war. The discussion of these findings can also be decomposed into the three aspects of development discussed here.

### *Opportunity costs*

Collier and Hoeffler's (2004) 'predation theory' assumes that there will always be someone who has sufficient grievances to be willing to start a rebellion against the govern-

ment. Hence, whatever the motivation, the rebellion can only be carried out if it is financially viable. Average income affects the viability through opportunity costs: The recruits of the rebel groups must be paid, and their cost is likely to be lower the lower their alternative income is. Hence, everything else equal, it is easier to maintain a rebellion in countries or regions with low average income than in richer regions.

Collier & Hoeffler support their argument by estimating a statistical model of the determinants of civil war using three proxies for alternative economic opportunities for potential recruits: GDP per capita, male secondary school enrollment, and the growth of the economy. GDP per capita captures the average income in the country, school enrollment is an alternative occupation to rebellion in the short run and promises improved income in the long run, and the growth rate indicates the amount of new income opportunities.

### *Government military capabilities*

Moreover, Collier and Hoeffler (2004) and Fearon and Laitin (2003) note that per capita income is also related to governments' military capabilities. Rich countries with a solid tax base are more able to deter rebellion than poor countries, everything else being equal. Fearon & Laitin further note that a high per capita income is associated with high financial, administrative, and police capabilities, a terrain more 'disciplined' by roads and agriculture (p. 10), and a higher level of penetration by central administration. All this favors the state's ability to counter insurgencies, and thus reduces the probability of civil war.<sup>10</sup>

Although Collier & Hoeffler use a measure of education levels – secondary schooling – as an independent variable in their analysis, they interpret it more as a proxy of oppor-

tunity costs for potential recruits than an indicator of a direct effect of education. One possible way that education might have a direct effect on the risk of armed conflict is to extend Dahl's argument that education increases the power resources that lies in the citizens themselves: In most civil wars, the civil population suffers. Ordinary citizens do not want rebel movements to operate in their neighborhood. Rebel groups typically are dependent on the civil population for food and other resources, and use their military power to obtain this. In many civil wars, citizens organize to resist this predation. However, limiting the activity of rebel movements involves a collective action problem (Fearon & Laitin, 1999). In this sense, resistance of rebel groups is analogous to the process of establishing democracy (limiting the power of the incumbent king or sovereign), which also involves a collective action problem (Weingast, 1997). Hence, it is possible that the structural changes/mechanisms that enables citizens to overcome their collective action problem with respect to limiting the sovereign (e.g. literacy, efficient means of communications, free time, sources of income that are independent of the state, property that is secure from physical destruction) are the same (or rather, related to) as those that enable them to overcome the collective action problem with respect to rebel movements. Education and literacy, then, may affect the risk of civil war directly. A high per-capita income is also likely to work in this way.

### *Structure of the economy*

In Collier & Hoeffler (2004), the structure of the economy also affects the income side of the rebel groups' finances. They argue that civil war is particularly likely in countries that have certain types of natural resource abundance, since control over such resources provides an attractive source of income for the rebel organization. This is particularly true for commodities that are located in territories a rebel group can easily defend, such as resources that are located far from the capital, e.g. tropical timber in remote regions of the country (Le Billon, 2001:569ff). The resources must also be extractable without much physical investment, since the extraction often takes place in a war zone, and preferably be easy to bring to international markets. Alluvial diamonds is an example of a commodity that satisfies the two last requirements. Natural resource dependence or abundance is also found to hamper growth (Sachs & Warner, 1995; Auty, 2001), which again is associated with conflict (de Soysa, 2000, Collier & Hoeffler, 2004).

Other types of natural resources tend to favor the government, on the other hand. Oil extraction and mining (including kimberlite diamonds), for instance, is seldom controlled by rebel groups because of the large investment typically required. Moreover, when large oil revenues or loans based on expected revenues start flowing into the state budgets, governments are often able to invest in military capabilities that will effectively deter any armed insurrection (cf. Ross, 2001).<sup>11</sup>

10. The argument is reminiscent of the discussion of realism above. Hobbes' *Leviathan*, a prime reference for realist international relations scholars, specifically argued for concentrating power in a sovereign (the Leviathan) in order to avoid the disadvantages of domestic anarchy.

11. In countries that have an abundance of this type of resources, government becomes the prize over which fighting takes place. This type of contest is modeled in Skaperdas & Syropoulos (1996) and Skaperdas (2002): They show how the availability of rent increases the intensity of conflict. They also note how that the existence of 'secure resources' – resources that cannot be appropriated – is important, and that the amount of waste or destruction in conflict reduces intensity of conflict.

Collier et al. (2003), Fearon & Laitin (2003), and Hegre et al. (2001) show how important per-capita income – which is closely related to the structural factors discussed here – is for reducing the risk of internal conflict. Moreover, Hegre (2000) shows that similar processes apply in international relations: Rosecrance's (1986) description of how development alters the incentives for choosing between a trading-states or a military-political strategy. In relations between developed countries, it is hard to make conquered territories profitable. Hence, trade is a relatively more attractive way to gain access to resources. This is analogous to the incentives for predation discussed in the internal war literature. The alternative for elites to the 'military-political strategy' – predation – is to agree with each other to secure property rights and to use the organizational capabilities they possess to make the property they control maximally profitable, just as international trade does.

#### **Development and the democratic peace**

In addition to altering states' choice between Rosecrance's two strategies in itself, the democratic peace hypothesis (Buono de Mesquita et al., 1999; Doyle, 1986; Maoz & Russett, 1993; Russett, 1993) may imply that the nature of the political regime alters how development affects this choice.

The democratic peace may also require that the states are developed: Democracy and development reinforce each others' tendencies to favor trading-state strategies. Citizens of poor countries may have more to gain from territorial expansion since the economy is land-based, implying that the democratic peace is less valid for poor countries than for rich ones. Conversely, extensive illiteracy, poor communications, and weak political institutions in under-developed countries constrain citizens' ability to use democratic

institutions to restrict rulers. Such ideas are important for the argument that developed countries are more likely to sustain democracy (Burkhart & Lewis-Beck, 1994; Lipset, 1959).

Mansfield & Snyder (1995; 1996; 2002) argue that democratization and lack of democratic consolidation at the very least diminishes the extent to which democracy constrains states' military behavior. Since democracies in low- and middle-income countries are markedly more unstable than high-income countries (Przeworski et al., 2000; Gates et al., 2003ab), this implies that the democratic peace should be strongest for high-income countries.

Finally, Mousseau (2000: 479) argues that it is the intensity in market transactions in developed society that leads to democratic consolidation, since 'if individuals in developed market economies tend to share the social and political values of exchange-based cooperation, individual choice and free will, negotiation and compromise, universal equity among individuals, and universal trust in the sanctity of contract, then individuals in developed market economies tend to share of democratic values. The same market norms are incompatible with using military force in foreign affairs (pp. 480–481). Hence, democracies founded on these norms will avoid arbitrarily using force towards other states sharing these norms. However, since market transactions are more intense in developed democracies, the democratic peace should be stronger the more developed the two states in the dyad are.

Hegre (2000), Mousseau (2000), and Mousseau, Hegre & Oneal (2003) show empirically that the democratic peace is stronger in developed dyads than in dyads with at least one non-developed state.

### Development, trade, and interstate war

Rosecrance (1986) argues that commerce is gradually replacing con-quest as a means of advancing the national interest. Well into the twentieth century, he holds, the international system was founded on the assumption that land was the major factor in both production and power. This 'obsession with land' was the major cause of war since states could improve their position by building empires or invading other nations to seize territory (1996: 48). During the twentieth century, however, mobile factors of production – capital and labor – are surpassing land in importance for productive strength. This means a relative decline in the value of land. This development coincides with increasing nationalist resistance, which increases the cost of holding an occupied territory and of extracting resources from this. This has an impact of the frequency of war, Rosecrance argues, since 'labor, capital, and information is mobile and cannot be definitely seized' (1996: 48).

This change is partly a systemic change – technological changes reducing transaction costs and the increase in nationalist resistance has gradually tipped the system-wide balance in favor of the 'trading world' at the expense of the 'military-political world'. However, economic and technological development within the individual states also change the individual orientation of the states: Referring to recent conflicts involving Bosnia, Iraq, India, and Pakistan, Rosecrance states that '[l]ess developed countries, still producing goods that are derived from land, continue to covet territory. In economies where capital, labor, and information are mobile and have risen to predominance, no land fetish remains' (1996p. 46). Industrialization, then, induces states to become more dependent on trade and less inclined to initiate wars over territorial issues. Developed states continue to be prepared to defend their existing

borders, but regard territorial expansion as to costly to pay. If Rosecrance is right, we should expect that developed states trade more and engage less in war. This hypothesis is explored and supported empirically in Hegre (2000).

Development is central for Rosecrance's argument in two respects. Firstly, the trading-state strategy is based on improving (or developing) the utilization of resources within the existing territory in order to increase wealth and power. The military-political strategy attempts to achieve growth through increasing the amount of resources available through expanding the territory, without improving the use of the resources. In this sense, development is an objective of the trading-state strategy, but not necessarily of the military-political strategy.

Secondly, development alters the incentives for choosing between the two strategies. Industrialization increases the demands for natural resources, rendering the trading state/military-political dilemma more acute. With economic expansion, the demand for resources and labor increases. Industrialization in general leads to a situation where the domestic supply of resources and labor becomes too narrow. This argument is central for Choucri & North (1975; 1989), who see industrializing to increase a state's 'lateral pressure' – the extension of a country's behavior and interests outside its territorial boundaries. Lateral pressure will manifest itself both in the form of trade or territorial expansion. Growth through development may also lead to power transitions that in turn lead to conflict (Organski & Kugler, 1980).

It is important, however, to distinguish between the process of industrializing and the status of being industrialized, to distinguish between economic growth and economic structure. Lateral pressure theory and power

transition theory both predict war to follow when a country moves from being non-industrialized to industrialized, but not after the industrialization is completed and the power and resource-access balances are reestablished. Lateral pressure theory, however, do suggest that the access to resources is relatively more important for developed, highly diversified economies than for less diversified economies. Modern trade theory increasingly focuses on economies of scale in accounting for the volume of trade, irrespective of comparative advantage (Ethier, 1995: 47–68). This access to resources can either be secured through conquest or through commerce. Industrialization may spur states to secure this access through military means (Lieberman, 1993). Moreover, industrialization increases the state's interaction capacity. This indicates that industrialization in a country may lead to either more trade or more war.

Other aspects of industrialization imply that industrialization decreases the likelihood of conflict. Industrialization tends to increase the costs of fighting wars on one's own territory: Potential aggressors will be aware that sophisticated factories and elaborate infrastructure take more time to reconstruct if damaged than do agricultural fields. Industrialization, then, should constrain leaders from initiating wars that risk being fought on own territory. Moreover, the technologically advanced weapons possessed by industrialized countries are very destructive. Aggressors, then, should be reluctant to attack such targets, as the costs of retaliation may be unbearably high.

Highly diversified economies are dependent on a wide range of imported goods and markets. The more diversified its economy, the less likely it is that a state may secure access to a significant portion of its needs through the occupation of a single state.

Industrialization and development is associated with increasing demand for resources and labor only up to a certain point. Beyond that point, further development is primarily dependent on access to capital, technology, and highly specialized knowledge. Access to these factors is much harder to gain through conquest than is the case for natural resources and labor. This implies that to the extent that industrialization really increases the amount of warfare through the mechanisms of lateral pressure, this is valid only up to a certain point.

Increased dependence on capital – foreign or domestic – also affects the expected costs of warfare. To the extent that foreign investors avoid engagements in countries that are likely to get involved in a war, this adds to the economic costs of war for industrialized countries. Domestic capital is also likely to flee the country if war breaks out. Less capital-intensive economies are less constrained by these considerations (Gartzke, Li, & Boehmer, 2001). All in all, the relative utility of conquest should decrease when the economy becomes less dependent on land and natural resources, and more dependent on capital and knowledge.

In addition, as the level of development increases, the diversity of materials used, and even the sheer magnitude of the quantities consumed and the size of the markets needed, weighs against a military strategy (Brooks, 1999). The increased diversity of inputs increases the amount of new territory needed for self-sufficiency. Development may provide the motive and means for a state to seize a particular territory from another by force, but it also increases its dependence on third parties. War hampers trade with third parties either because of political reactions or because the heightened risk resulting from conflict increases the price of traded goods. Since world conquest is an unrealistic

scenario for any state, the constraints imposed on developed states by their increased trade with a great number of other nations is apt to outweigh the prospect of gaining control over one particular territory. Supportive of this view, Hegre (2000) concludes that the pacifying impact of trade may be conditional to higher levels of development.

### **Conclusion: The Limits of the Liberal Peace**

The discussion above shows how the three components of the liberal peace theory share some important fundamental assumptions: A country or a region will benefit from a liberal peace if individual citizens are given political rights so that they can influence the country's foreign policy, and/or if individual citizens, and firms are allowed to trade freely irrespective of national borders.

The discussion also shows that the liberal peace is most likely to be observed in circumstances where it is hard to take physical control over assets or over individuals. Democracy is most likely to emerge where individuals are in a position to engage in political debate, or to vote with their feet if not allowed to cast a ballot, and in societies where those in power are economically dependent on the skills and cooperation of large segments of the society. Civil wars are most likely in countries where narrow groups have an incentive to organize armies to gain control over assets they can make profits out of. In order to be able to capture them, these assets must be capturable and preferably bound to a particular territory, and the incumbent government must be too weak to defend them. In order to be profitable, they must be either extractable without access to much capital, or the rebel group must gain control over the entire state. The same factors

dictate when states have incentives to conquer foreign territories.

Socioeconomic development crucially alters these circumstances. Increased literacy enables citizens to become informed and participate in the political process. Large numbers of educated citizens may more easily threaten to gain political concessions through strikes or threats of migration. Poor people are typically easy to intimidate since small negative changes to their income or destruction of property can have fatal consequences.

Development is also a transition from production of territory-specific, physical assets such as natural resources or agricultural commodities, to production assets that require human and financial capital. Such assets are not easily appropriable.

This has empirical implications for the liberal peace: The incentives for important components of the liberal peace: democratization, trade, and warfare all depend on the security and distribution of resources. Financial capital and human skills are intrinsically more secure factors than assets specific to a particular piece of land. Human skills are also more equally distributed than any other factors. Hence, the transition from an economy primarily based on land to one based on capital should make the liberal peace more feasible.

More importantly, all aspects of the liberal peace are clearly strongest for developed countries and pairs of countries. Rich, industrialized democracies clearly are better at maintaining a civil peace than poor, primary-commodity-dependent ones. Both trade and democracy are more effective in reducing the risk of interstate war in relations between rich or industrialized countries. Similarly, the democratic peace seems to be considerably stronger among high-income countries than among low-income countries. The argument

that the liberal peace depends on socio-economic development is supported in several systematic empirical studies, as reviewed above.

I suggest that there are several reasons for this. First, rich democracies are more consolidated and stable than poor ones (or are expected to soon become consolidated). This is largely due to the fact that the political stakes are relatively low in rich countries where elites have more attractive alternative opportunities to earn income – there is relatively more to gain from securing property rights in order to establish capital-intensive production than to seek to physically control a part of the economy. At the same time, citizens are well-educated and have an economic surplus to participate actively in the democratic process, and may hence use the democratic political system to effectively constrain elite behavior. Democracies in poor states with limited resources may also find it difficult to stave off attacks from marginal groups that may benefit from challenging the government militarily.

The reasons for the interstate components of the liberal peace are related to why development strengthens the domestic democratic peace: in relations between developed countries, there is relatively little to gain from attempting conquest of foreign territories – the territories are to a large extent valuable only as long as the citizens voluntarily agree to be productive, and as long as domestic and international investors prefer to invest there and not in other countries. For non-industrialized countries, conquest may solve countries' dependence on access to a wide range of resources and large markets. This, however, may also be obtained through trade – rich countries are more likely to pursue trading-state strategies than military-political strategies. For all pairs of countries, the extent of the trade flow also tells us some-

thing about how much a country would gain from controlling the economy of the other country. If war is generally attractive to states, they will tend to go to war with their main trading partners. Hence, trade is ineffective in reducing conflict between non-developed countries. If war is generally non-attractive, trade is effective in reducing conflict.

The explanations for why the democratic peace may be limited to developed countries are related to the ones summarized above: If low-income democracies are generally unstable, and citizens are unable to effectively constrain the elites, none of the suggested mechanisms of the democratic peace are likely to be very effective when such countries are involved. Likewise, if territorial expansion through conquest is generally attractive to a country, it may also be attractive to the citizens.

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