

CHAPTER 3

War! What Is It Good For? Not Economic Freedom (or Vice Versa)

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Introduction

Between 2009 and its invasion of Ukraine in 2022, Vladimir Putin's Russia experienced serious economic stagnation (Aron, 2023). Income growth during Putin's first two presidencies solidified his popularity, but both would face serious setbacks in the years to come. The 2008 financial crisis hit the Russian economy hard. What is more, Putin's state began to tighten its grip on the economy. As a result, both the economy and Putin's popularity began to plunge in the years following the crisis. A Soviet man who admires Stalin and pines for the days of the old USSR, Putin shifted his focus from economic progress to militarized and mobilized patriotism. His approach to the horrors of the country's Communist past is captured well in the title of David Satter's (2012) book, *It Was a Long Time Ago, and It Never Happened Anyway*.

High on his own revisionist history and ideology, Putin believed he could restore Russia to the former glory of its imperial past. The annexation of Crimea followed in 2014, with the invasion of the rest of Ukraine commencing in 2022. For Putin,

a West-oriented, free, democratic, and, eventually, stable and prosperous Ukraine was an existential threat to his regime. Sooner or later the Russians were bound to start asking: Why can't we have what our Ukrainian cousins have? He invaded Ukraine not for anything it had done, but for what it was. (Aron, 2023: 102)

The Russian experience is not unique. In this chapter, I show that low economic freedom and militarized conflict often go hand-in-hand. As Lawson, Murphy, and Mitchell show in the previous *Economic Freedom of the World* report, economic freedom in both Ukraine and Russia declined in 2022—the year of Russia's invasion of Ukraine. “It may be obvious to point out,” they wrote, “but war is very bad for economic freedom” (Lawson, Murphy, and Mitchell, 2024: 16). It could also be argued that low economic freedom is very good for war. The centralization of the economy is, to borrow from Don Lavoie (2016), the *militarization* of the economy. And militarized central planners—like those in today's Russia—are more likely to wage war on their neighbors.

Doux Commerce and the liberal peace

The French political philosopher Montesquieu expressed what is perhaps the most famous sentiment regarding the relationship between economic freedom and peace:

Commerce cures destructive prejudices, and it is an almost general rule that everywhere there are gentle mores, there is commerce and that everywhere there is commerce, there are gentle mores. Therefore, one should not be surprised if our mores are less fierce than they were formerly.... Commerce... polishes and softens barbarous mores, as we see every day.

The natural effect of commerce is to lead to peace. Two nations that trade with each other become reciprocally dependent; if one has an interest in buying, the other has an interest in selling, and all unions are founded on mutual need.... By contrast, total absence of commerce produces the banditry that Aristotle puts among the ways of acquiring. (Montesquieu, 2015: 338–339)

Others threw their support behind Montesquieu's *doux* (gentle) *commerce*. The German philosopher Immanuel Kant wrote,

The *spirit of trade* cannot coexist with war... and sooner or later this spirit dominates every people. For among all those powers (or means) that belong to a nation, financial power may be the most reliable in forcing nations to pursue the noble cause of peace[.] (Kant, 1983: 125)

In *Rights of Man*, American revolutionary Thomas Paine described commerce as

a pacific system, operating to unite mankind, by rendering nations, as well as individuals, useful to each other.... If commerce were permitted to act to the universal extent it is capable of, it would extirpate the system of war.... [Commerce] is the greatest approach towards universal civilization, that has yet been made by any means not immediately flowing from moral principles. (Paine, 1854: 167)

Steven Pinker (2011) has documented the worldwide decline in violence over the centuries in his book *The Better Angels of Our Nature*. In doing so, he provided multiple reasons for this decline, including third-party enforcement of the rule of law, female-friendly environments, increased empathy through greater literacy, urbanization, mobility, and mass media access, increased use of reason through these same mediums, and what international relations scholars refer to as the democratic or liberal peace theory. Regarding the democratic/liberal peace theory, he explained that

Democratic government is designed to resolve conflicts among citizens by consensual rule of law, and so democracies should externalize this ethic in dealing with other states. Also, every democracy knows the way every other

democracy works.... The resulting trust among democracies should nip in the bud the Hobbesian cycle in which the fear of preemptive attack on each side tempts both into launching a preemptive attack. Finally, since democratic leaders are accountable to their people, they should be less likely to initiate stupid wars that enhance their glory at the expense of their citizenries' blood and treasure. (Pinker, 2011: 278)

While Pinker found various counterexamples and “headaches” with the theory, the liberal peace theory has nonetheless enjoyed substantial scholarly support for some time.¹ But Pinker (2011) offered yet another potential cause for the decline in violence: *the capitalist peace*. Invoking some of the *doux commerce* supporters mentioned above, Pinker argued that trade openness and economic freedom largely reduce the incentives of war and violence.

Economic freedom can mitigate violence through various indirect avenues as well. Distrust, corruption, unfairness, and intolerance often erupt into violence. We could say that violence is the ultimate manifestation of these things. Undermining these less-than-desirable attitudes and behaviors can consequently undermine violence. And commercial exchange has been shown to do just that (McCloskey, 2006; Wright, 2018, 2020; Storr and Choi, 2019).

But the logic may be even more straightforward: it is simply not a good idea to harm your customers or suppliers. Such behavior is bad for business. When you rely on others to buy your product or supply your needs, rocking the relational boat becomes less preferable. This is likely why higher knowledge regarding economic interdependence correlates with support for peaceful solutions to international disputes (Tanaka, Tago, and Gleditsch, 2017; Jha and Shayo, 2019; Mansury, Kim, and Li, 2024). When you find out that your best customer is in a faraway land or that your supply chain goes through another country, bombing it into oblivion seems suboptimal. Interdependence stifles the use of force. As Christopher Blattman put it,

Interdependence doesn't eliminate the risk of war. There could still be a commitment problem, uncertainty, or unchecked leaders that push our two groups to fight. But because of entwined material interests, these forces must now overcome even more powerful incentives for compromise than usual. The gravitational pull of peace has grown stronger. (Blattman, 2022: 177)

Furthermore, when the government has less sway over the economy, seeking political favoritism or control through violence becomes less profitable. People are more likely to turn their energies toward productive rather than destructive pursuits.²

1 A classic text on the topic is Russett and Oneal (2001). For a review of the theory and evidence, see Reiter (2017).

2 On rent-seeking and regulatory capture, see, e.g., Krueger (1974); Tullock (2005); Dal Bo (2006); Tollison (2012); Mitchell (2014); Lindsey and Teles (2017); Holcombe (2018). Baumol (1990) referred to rent-seeking as “unproductive entrepreneurship.”

Perhaps more importantly, economic freedom lowers the barriers to exchange and association. This allows people who are different from one another to engage in positive-sum interactions with each other. Value for the participants is thus created through the exchange, but participants also begin to value *one another*. Partners become friends. And we tend not to fight our friends.³

Though the liberal peace theory still holds considerable weight among scholars, a wave of empirical research over the last three decades has begun to shift the consensus toward the capitalist peace theory (though the two need not be seen as exclusive to one another).⁴ Of course, academics continue to debate over *how much* trade and economic freedom contribute to peace. But liberal peace theorists now include economic interdependence as an essential element within the broader liberal peace project (e.g., O Neal and Russett, 1997; O Neal, 2003; O Neal, Russett, Berbaum, 2003; Chan, 2012; Reiter, 2017). It is “part of the glue that cements the ‘liberal peace’ together” (Gelpi and Grieco, 2008: 30).

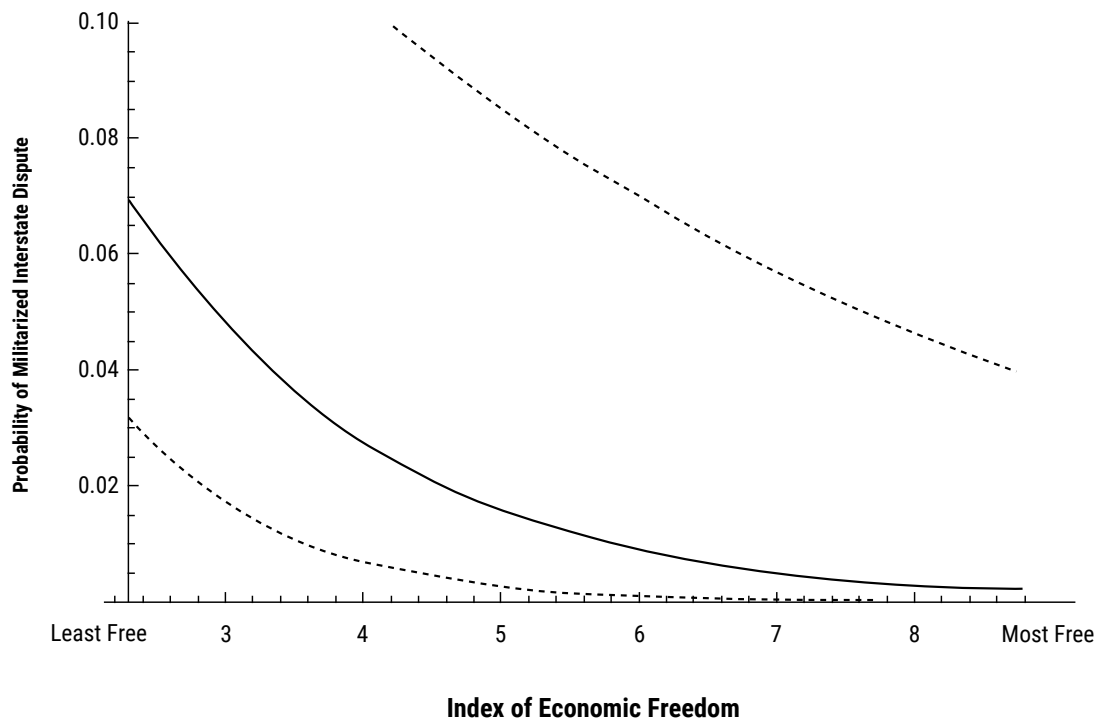
Economic Freedom of the World Index and peace

Studies of war and peace that draw specifically on the index published in *Economic Freedom of the World* (EFW) are few and far between. However, those that have offer considerable hope for the pacific nature of economic freedom. Erik Gartzke (2005) looked at economic freedom’s effect on militarized interstate disputes, which he defined as major threats or uses of force, including wars involving 1,000 battlefield deaths. Gartzke’s regressions revealed that higher levels of economic freedom predict a lower probability of militarized interstate disputes: in the years examined, the least free countries had a 7% chance of a dispute, while the freest countries had less than a 1% chance of a dispute (see figure 3.1). Analyzing a number of African countries in the period between 1985 and 2017, Okunlola, Ayetigbo, and Ajiye (2022) found that increased economic freedom reduces both external and internal conflicts. They concluded that increasing economic freedom would improve cooperation between African countries, especially through economic development and reduced poverty.

Turning to intrastate conflicts, Indra de Soysa sees predatory governments as encouraging black market activities, which ultimately invest in “rebellion-specific capital” (de

3 F.A. Hayek recognized the relationship between exchange and friendship with his preferred term *catallaxy*: “The term ‘catallactics’ was derived from the Greek verb *katallatein* (or *katallassein*) which meant, significantly, not only ‘to exchange’ but also ‘to admit into the community’ and ‘to change from enemy into friend.’ From it the adjective ‘catallactic’ has been derived to serve in the place of ‘economic’ to describe the kind of phenomena with which the science of catallactics deals. The ancient Greeks knew neither this term nor had a corresponding noun; if they had formed one it would probably have been *katallaxia*. From this we can form an English term *catallaxy* which we shall use to describe the order brought about by the mutual adjustment of many individual economies in a market. A *catallaxy* is thus the special kind of spontaneous order produced by the market through people acting within the rules of the law of property, tort and contract” (Hayek, 1976: 108–109).

4 For reviews of the capitalist peace literature, see Weede (2011, 2021) and Krieger and Meierrieks (2024).

Figure 3.1: Economic Freedom and Interstate Militarized Disputes

Source: Gartzke, 2005: 35.

Soysa & Vadlamannati, 2014; de Soysa, 2017). These shadow economies provide the lifeblood for rebel forces and the duration of civil conflicts.⁵ This is why good economic governance (i.e., free markets and private ownership) plays a far bigger role in reducing civil war than political inclusion and the reduction of group grievances associated with exclusion and discrimination (de Soysa, Finseraas, Vadlamannati, 2024).

Case in point, de Soysa found that economic freedom lowers the risk of civil violence and matters more than both per capita income and regime type.

Under conditions of fewer market distortions, thus, and fairer economic governance that reflects liberal values of free-market competition and respect for property, people seem to dissent less and states seem to repress less, lessening the trinity of means, motive, and opportunity for committing socially-costly violent conflict. (de Soysa, 2011: 294)

After analyzing data spanning 1970 through 2005, de Soysa and Hanne Fjelde (2010) discovered that higher levels of economic freedom lower the risk of civil war, more so even than democracy and good governance. This remains true after variables such as income per capita, growth rates, total population, ethnic fractionalization, and oil exportation

⁵ Economic freedom has also been shown to reduce the shadow economy. See Graeff (2024).

are controlled for. Yet, these results likely underestimate the total impact of economic freedom on civil war. Since poverty can contribute to the outbreak of war (Justino, 2012), and economic freedom promotes income growth (de Haan and Sturm, 2024; Lawson, Miozzi, and Tuszynski, 2024), its indirect effect on peace through prosperity should also be considered. When both the direct and indirect effects are taken into account, the overall impact of economic freedom on peace is potentially much larger.

In a later study, de Soysa demonstrated that countries with greater economic freedom were less likely to erupt into civil war. But even more interesting, he found that annual increases in economic freedom also lower the chance of war: “This means that year-on-year changes in a positive direction correlate with a lower probability of civil war, contrary to expectations that liberalisation could be risky for peace” (de Soysa, 2016: 13). When the effects of the EFW index’s individual components were examined, it turned out that property rights and high-quality legal institutions, sound money, and free trade were ultimately what reduced the risk of intrastate conflict. The size of government and amount of regulation had no significant effect on the risk of conflict.

John Tures (2002) drew on the KOSIMO conflict dataset and 712 country-year cases across seven cross-sectional years: 1970, 1975, 1980, 1985, 1990, 1995, and 1997. He found that the most economically free countries had only an 8.6% chance of experiencing an internal conflict, compared to 20.1% in partly free countries and 28.6% in unfree ones. For full-scale civil wars, the likelihood was 2.5% in the freest countries, versus 6% and 9.5% in partly free and unfree countries, respectively.⁶

Hall and Lawson (2009) compared the EFW index to the Institute for Economics & Peace’s Global Peace Index (GPI), which measures the level of peace within countries using various indicators related to domestic and international conflict, societal safety and security, and militarization. With a *lower* GPI score representing *more* peace, Hall and Lawson found that a two-unit *higher* EFW index score correlated with a 0.5 *lower* GPI score. Similarly, Jelloian (2023) discovered that higher levels of economic freedom corresponded with lower GPI scores and, consequently, more peace.

Civil conflicts often arise among religious and political groups. For example, violence broke out in the 1960s in Northern Ireland between nationalist Catholics and pro-British Protestants. This conflict continued until the Good Friday Agreement in 1998, though divisions still remain. Using data from the World Bank’s *Doing Business* rankings and the EFW index, Strong (2009) found a close connection between peace, economic freedom, and business-friendly environments. He looked to Northern Ireland between 1975 and 2000 as a case study, concluding that increased economic freedom, the subsequent economic boom, and the decrease in violence were interconnected.

6 Tures (2002: 535) classified countries as economically “free” with EFW scores between 7 and 10, “partly free” with scores from 5 to 6.999, and “not free” with scores below 5.

Trade and peace

While studies specifically using the EFW index may be somewhat scarce, there is no shortage of studies using a variety of market-oriented measures to test the effects of a free economy on war and violence. These studies offer further support for the peace-inducing power of economic freedom.

Take a single component of the EFW index: international trade. Frédéric Bastiat wrote that trade barriers “create isolation, isolation gives rise to hatred, hatred to war, war to invasion” (Bastiat, 2007: 296). John Stuart Mill also believed, “It is commerce which is rapidly rendering war obsolete, by strengthening and multiplying the personal interests which are in natural opposition to it” (Mill, 1848: 581–582). Trade is “the principal guarantee of peace of the world” and “the great permanent security for the uninterrupted progress of the ideas, the institutions, and the character of the human race” (Mill, 1848). Mill’s contemporary free trader Richard Cobden saw

in the Free-trade principle that which shall act on the moral world as the principle of gravitation in the universe—drawing men together, thrusting aside the antagonism of race, and creed, and language, and uniting us in the bonds of eternal peace. (Cobden, 1846)

An abundance—and I do mean *abundance*—of empirical studies have shown Bastiat, Mill, and Cobden to be correct: trade indeed reduces interstate military conflict.⁷ Other studies appear to solidify the antithetical relationship between trade and international violence. Trade reduces conflict, yes, but conflict in turn reduces trade (Anderton and Carter, 2001; Keshk, Reuveny, and Pollins, 2010; Goenner, 2011). One pair of scholars put it succinctly: “The positive relationship between economic interdependence and peaceful relationships is so well established that research now focuses on the conditions that cause variations” (Morin and Paquin, 2018: 149).

These results correspond with a study by Flaten and de Soysa (2012), which found that higher levels of economic globalization—including foreign direct investment, portfolio investment, import barriers, tariff rates, and the overall extent of trade—reduce the risk of civil war. Other scholars have come to similar conclusions. Covering the period between 1970 and 1999, Barbieri and Reuveny (2005) found that international trade, foreign direct investment, and foreign portfolio investment reduce the risk of civil war in all states observed. A recent study by Kollias and Tzeremes (2024) examined a sample of 113 countries between 1995 and 2019. They showed that economic globalization has a

⁷ See, for example, Polachek (1980, 2007); Gartzke, Li, and Boehmer (2001); Weede (2004); Gartzke (2007); Polachek and Seiglie (2007); Long (2008); Dorussen and Ward (2010); Hegre, Oneal, and Russett (2010); Polachek, Seiglie, and Xiang (2012); Kleinberg, Robinson, and French (2012); Gartzke and Hewitt (2013); Lee and Pyun (2016); Lee and Rider (2018); Ashan, Panza, and Song (2025).

significant, negative association with militarization. But when it came to democracy and militarization, no statistically significant relationship could be found.

Market economies and war

Pinker (2011: 287) was quick to remind us that “trade is just one facet of a country’s commercial spirit.” Beyond international trade and globalization, numerous studies have examined how domestic economic systems impact military conflicts. In various studies, Patrick McDonald (2007, 2009, 2010) discovered that governments with higher quantities of publicly-owned assets are more willing to engage in military conflicts.

Making a similar point, an interesting study by Candela and Geloso (2021) looked at the interactions of the 18th-century Acadian (French colonists) and the Indigenous tribe Mi’kmaq in Atlantic Canada. The Acadians had little protection or support from the state, requiring them to bear the full cost of their decisions, including raids on Mi’kmaq territory. The absence of special interest group privilege granted by the state incentivized the Acadian settlers to favor peaceful trade relations instead of violence. When you have access to a seemingly unending state budget via taxes, war does not appear as costly. However, things look different when you have to foot the bill.

Over the last two decades, political scientist Michael Mousseau has mounted an avalanche of evidence in favor of what he calls the *contractualist peace*.⁸ In his research, contract-intensive, market-oriented economies continually emerge as the arbiter of peace. Mousseau (2019b) has even controversially claimed that the democratic peace theory lacks empirical backing. Rather than the capitalist or contractualist peace being credited with the peaceful results of democracy, Mousseau has argued that it is the other way around: non-warring democracies owe their peace to their contractualist economies.

In an analysis of UN voting patterns from 1946 to 2010, Mousseau (2019a) discovered that more contractualist, export-oriented countries tend to agree on issues voted on in the United Nations General Assembly. This can account for “the decline of war” and “why the probability of war among market democracies is practically zero” (Mousseau, 2019a: 194–195). As countries become more economically dependent on trade partners, they tend to realign politically toward those partners (Kleinman, Liu, and Redding, 2024). Partners with mutual interests are going to find themselves agreeing more, disagreeing less, and seldom fighting.

Military coups and violent rebellions are also forms of civil conflict. Cebotari et al. (2024) provided certain “structural predictors” of coups, including (but not limited to)

8 For an overview of Mousseau’s work and findings, see Mousseau and Cao (2017) and Mousseau (2018). Mousseau has described contractualist economies as “social markets” rather than “free markets” since they can range from “the social democracies of Scandinavia... to the supposed freer-market democracies such as Switzerland and the United States” (2019a: 166).

low levels of development, a weak rule of law, high inequality, autocracy, and centralized power. Powell and Chacha (2016) analyzed a global sample of states from 1952 to 2007 and discovered that more open, market-oriented economies are less likely to experience coups. Perhaps surprisingly, they found the relationship between coups and democracy to be insignificant. Cox, North, and Weingast (2019) examined the frequency of coups in 125 countries between 1964 and 2005. They demonstrated that greater economic complexity and specialization have a strong deterrence effect on coups, even after controlling for GDP per capita and the level of democracy. The specialization of Adam Smith’s commercial society helps maintain political stability and peaceful transitions of power.

Mousseau used life insurance per capita (based on World Bank data) as a measurement of contractual norms, explaining that life insurance reflects institutionalized contracting since the service is only provided after the policyholder’s death. He concluded,

Analyses of armed conflict in most nations from 1961 to 2001 showed that not a single civil war, insurgency, or rebellion occurred in any nation with a market-capitalist economy. This result is highly unlikely to be the result of chance and, after controlling for every known robust variable in civil war studies, market-capitalism emerged as the most powerful explanatory factor in the field, by a large margin. (Mousseau, 2012: 481)

Ethnic and religious conflict

Civil wars are more likely to take place between different ethnic groups (Denny and Walter, 2014). In many cases, ethnic groups silo themselves off from one another, escalating distrust and hostility towards out-groups. And economic barriers play a role in this siloing. It turns out that barriers to trade entry can produce what Saumitra Jha (2018: 513) has labeled as *ethnic cronyism*: a set of “ethnic trading networks” often “based upon personal and community ties.”

Studies have also shown the destructive consequences of governments subsidizing along ethnic lines. Mousseau and Mousseau (2023) looked at 40 sub-Saharan African countries from 1946 to 2010. They found that group favoritism in government spending significantly increased the risk of ethnic violence and war. Another study analyzed 152 countries within the same time period and came to similar conclusions (Mousseau, 2023). It appears that ethnic cronyism and government privileges sow the seeds of violent conflict.

Another investigation by Mousseau (2021) of 140 countries between 1997 and 2010 found that greater global economic integration and impartiality in the rule of law reduce ethnic wars. In a similar vein, Vadlamannati, Østmoe, and de Soysa (2014) found that countries participating in International Monetary Fund (IMF) programs—which consist

of more austere public budgets and greater economic liberalization—for over five months experience improved ethnic peace.⁹

Steinberg and Saideman (2008) have shown that ethnic conflict and violence increase the more the government intervenes in the economy, from price controls to red tape. “Several individual types of state interference within the market contribute to ethnic violence,” they discovered, “and no evidence suggests that *any* government interventions in the economy contribute to ethnic peace” (Steinberg and Saideman, 2008: 250, emphasis added). Similarly, Jha (2013) examined a number of South Asian medieval ports and their level of trade. It turns out that areas involved in trade and featuring low barriers to trade entry were *one-fifth* as likely to experience religious rioting between Hindus and Muslims in the period between 1850 and 1950. During the same time period, these areas were 25 percentage points less likely to experience *any* religious rioting. Between 1950 and 1995, these same areas were still less than half as likely to experience ethnic rioting. Basuchoudhary and Shughart (2010) even found in their analysis of 118 countries between 1982 and 1997 that lower rates of expropriation and government-forced contract repudiation lead to fewer terrorist attacks in ethnically-tense societies.¹⁰

Various organizations have also acknowledged the power commerce has to reduce conflict and establish peace. For example, a World Economic Forum (2016) report included 12 case studies across the globe, ranging from Afghanistan and Bangladesh to Nigeria and Uganda. These studies suggest that trade and integrated businesses contribute to prosperity, stabilization, and peacebuilding. The report determined, “International and local businesses have a critical role to play in finding ways to minimize fragility and build resilience. A key reason... is because fragility—including conflict and crime—is bad for business” (World Economic Forum, 2016: 8). Commerce is a stabilizing force within countries, calming conflict and encouraging peace.¹¹

Conclusion

Returning to the recent aggression from Putin’s Russia, Leon Aron (2023), of the American Enterprise Institute, has observed that “hubris” is a “professional illness of long-reigning authoritarians” and

is almost always buttressed by the conviction of the moral faultlessness of one’s choices. Like most long-ruling autocrats, Putin was possessed of the belief in

9 A different analysis of the literature found that IMF programs have no predictive power regarding civil war. At the very least, these IMF programs do not cause civil war. See Midtgaard, Vadlamannati, and de Soysa (2014).

10 Other studies have found that greater trade and economic freedom reduce terrorist attacks. See Krieger and Meierrieks (2024) and Jelloian (2023). On the underlying anti-market views of terrorism, see Mousseau (2002–2003).

11 See also UN Global Compact and Religious Freedom & Business Foundation (2014), which highlighted a number of business efforts that have contributed to greater interfaith understanding and peace within countries.

his unerring knowledge of what was best for his people and of the trust in their ultimate approval and gratitude. (Aron, 2023: 110)

This “fatal conceit,” as F. A. Hayek (1988) put it, was further demonstrated in Putin’s attempts to control the economy. Case in point: Russia’s economic freedom peaked in 2017 and has declined steadily since, ranking 119th in the world by 2022 (Lawson, Murphy, and Mitchell, 2024). In the trajectory from economic control to militarized conflict, the Russian government’s conceit simply compounded one knowledge problem with another. The further loss in economic freedom since the outbreak of the Russo-Ukrainian War should not come as a surprise.

The empirical evidence in this chapter demonstrates that economic freedom can mitigate military conflict and cool tensions that arise from ethnic, political, or religious disagreements. This is because the market is a space that cultivates a culture of peace through a process that is inherently non-violent (Coyne, Romero, and Storr, 2022; Alshamy et al., 2023). Participants engage in non-violent practices of mutually beneficial exchange, developing habits and attitudes favorable towards peace. Power is restrained, making it more difficult—and thus less desirable—to achieve outcomes through violence. In a world of seemingly disparate nations, peoples, and communities, voluntary exchange can act as a thread that binds them all together; a link that can help prevent isolation, resentment, distrust, and fear from erupting into violence. It is, in essence, an extended olive branch.

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