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The Economics of Global Peace

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THE ECONOMICS OF GLOBAL PEACE

by

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INTRODUCTION

As I am writing this book¹, we are in the midst of the Russia-Ukraine war, the worst military confrontation since the Second World War. How did we get here? Can't the world do better than this? So much suffering, so many deaths, so many resources wasted, when there are still so many poor people dying of hunger around the world.

Some foreseeable dangerous trends for the future, consequence of the Russia-Ukraine war, can already be identified such as: 1) the remilitarization of Europe; 2) the possibility to lose control of the global nuclear plan, particularly in countries like Iran and North Korea, due to the heightened US-Russia confrontation; 3) Russia's isolation strengthens the Russia-China economic relation, which creates further partitions of the global economy; 4) Russia's isolation increases the dictatorial power of Putin, and increases the likelihood of future military problems in the region; 5) framing the confrontation as a fight between "freedom" and "autocracy" is the wrong approach, that will only serve to increase the ties between the so-called dictatorial autocracies.

The Russia-Ukraine war has multifactorial causes². Among them, we consider the following as the crucial ones: 1) A conflict created with the fall of the USSR because Russian speaking population and Russian economic interests remained in other ex-USSR countries. 2) Russia's long-term involvement in Ukraine's and Georgia's history. 3) Eastern Ukraine's political support of Russia. 4) The pro-Western populations in ex-USSR countries looking to become NATO members, to create a line of defense against future Russian military invasions. 5) The pro-Western populations in ex-USSR countries looking to become EU members to reduce their economic dependency on Russia. Thus, there was an acute conflict in Ukraine's relation with Russia and with the West that required solution. But the questions are: 1) Why did it result in the Russian military aggression to Ukraine? 2) Why was the conflict not managed diplomatically and in democratic terms

¹ I thank Dorothea Schael for her valuable comments on the content of this manuscript.

² See Obregon. C. 2022., *Conflict and Resolution*. Amazon.com. Also available at Researchgate.com.

– for instance, as suggested, holding elections in conflicting zones? Why, even after two previous Russian invasions to Georgia and to Ukraine in Crimea, the world could not find a diplomatic-democratic solution? And 3) Why after the fall of the USSR, the West did not help Russia and the rest of the former USSR countries to recover, integrating them to the West's economies? Why did the West isolate Russia? Why did it not accept Russia to become a NATO member in 2001, when Putin proposed it to Clinton?

The answer to the first question is that the Russian aggression is a consequence of an authoritarian military empire in Russia, with a ruthless powerful leader. And there is no doubt that the main responsibility of the war lies in Putin and the Russian government. But then: How did Putin become so powerful? Why is Russia relatively isolated from the Western economies? Why was Russia unwilling to listen to the West? Putin became very powerful because, after the failed attempt of the neo-classical economists to rescue the Russian economy in the nineties, he led the Russian economic recovery based on an inward-looking, populist old communist model, that isolated Russia and in appearance was successful. Russia was unwilling to listen to the West because of three reasons: The West did not have an orchestrated negotiating voice, the isolated Russia did not depend enough on the West's economy, and there persists an ideological battle with the West.

The answer to the second question is that it was a minor problem for the West, and the weak international institutional arrangements was incapable to negotiate peacefully the international conflicts. There were no powerful international institutions capable to intervene on time in a diplomatic negotiation.

The answer to the third question that: “the West did not help Russia's and the former USSR's recovery because of an ideological battle” must be rejected, because the Marshall Plan after the Second World War helped Nazi Germany and the Imperial Japan, with which there was also an ideological battle. The real answer is that the West followed the neoclassical model in its advice to Russia in the 1990's, and the model failed; and nobody even raised the question of the relevance of a second Marshall-like plan to help the USSR to recover, because it was not in the cards of the accepted neoclassical economic vision of the West at the time. The West did not understand the consequences of isolating Russia. Isolating a country only fosters stronger local authoritarian dictators like Putin.

If the world had had a strong integrative system – defined powerful international institutions – and another vision of global economics,

it would have understood the opportunity to help Russia and the other ex-USSR countries in their economic recovery in the 1990's. Economic integration of cultures with different ideologies is a good beginning to establish a common –even if restricted- integrative system. It happens today between the US and China and between the US and Saudi Arabia; and it happened with Germany, Italy, and Japan after the Second World War. Old enemies may become new friends and allies. However, instead of promoting an integrated global economy, the West left Russia alone, by itself. And after the crisis of the lost decade 1990-2000 Russia's economic recovery was inward-looking, with the consequence that it reinforced Russia's autocratic, imperialistic tradition, which in turn made it more difficult to achieve an effective international diplomatic solution to the real conflict happening in Georgia and Ukraine.

Power conflicts are a consequence of weak integrative systems. The collapse of the USSR destroyed its integrative system and left many unresolved real conflicts in the ex-USSR countries. The war, the people killed on both sides, and the human tragedy in Ukraine is a responsibility of Putin and of Russia; but the West's diplomacy could have done better than it did. Three times, in 2008, in 2014 and in 2022, the conflicts have had the same outcome, a military confrontation – both Russia and the West should have learnt from the first and the second experience. If good diplomacy had happened in the first two cases, the 2022 Russia-Ukraine war would not have happened. This third war will not improve the negotiating position of any of the participants. It is a lose-lose game with no winners. Russia will lose a lot. Ukraine's losses will be enormous. And the Western world will also lose. It is a tragedy that we have been unable to understand the enormous cost of not having a better developed global integrative system.

The purpose of this manuscript is to argue that the world can in fact do better. That the best path to obtain global peace is economic interdependence; and that for this, it is required to have stronger global institutions.

The economics of global peace proposes that: Economic interdependence is the key to global peace; that for the global economy to work properly, trust between the economic agents and the nations is required; that such a trust requires common, strong, global institutions – including the ones directed at expanding the global middle class; and that for these global institutions to operate properly, ideological diversity needs to be tolerated.

In the aftermath of the Second World War, peace among the main developed countries was kept due to several factors such as: the absolute

leadership of the US in the non-USSR world, and the advances in nuclear warfare technology, which transformed a potential military confrontation between the US and the USSR into the Cold War. The leadership of the US is greatly diminished due to the economic recovery of Europe and Japan and the emergence of China as an economic power. And instead of replacing the lost US leadership with stronger global institutions, the world has been weakening the functions of the ones it used to have. The IMF and the World Bank have lost global relevance in the developed world and have become more and more involved with developing countries. The WTO has become so weak lately that no serious candidate would accept being nominated to lead it. The weakness of the WHO has been appreciated with the COVID pandemic. And NATO, which was created to confront the powerful USSR and should have disappeared with its collapse, survived and now it is being used as mechanism to isolate Russia. But NATO is no longer uniquely lead by the US, and the isolation of Russia happens in the new world of relatively higher economic interdependence mainly between Russia and Europe – and therefore it's isolation has high global economic costs.

The disarray of the world's international institutions is particularly costly due the rapid increase in economic interdependence due to the ICT (Information, Communications, Technology) revolution, which has fragmented the industrial production in several developing countries, while maintaining in the developed countries the management control. Such growing global economic interdependence should have required stronger international institutions, instead they have become weaker.

Moreover, since the 2008 GFC (Global Financial Crisis) the world has experienced a new wave of nationalism, that manifested itself in the electoral winning of populist governments around the world, which promised protectionism. (The most significant of which was Donald Trump's, in the US). And it is remarkable that the Biden administration has remained protectionist on several fronts such as: 1) Its trade confrontation with China; 2) the new trading rules regarding electrical cars, for which the US is being sued by Canada and Mexico; and 3) its policy that the US government will only buy goods made in America. And unfortunately, this rising protectionism, both in the US and in the EU, happens with the World Trade Organization losing its former leading role.

Rising economic interdependence due to recent technological developments, growing protectionism to stop it, weak international institutions and the absence of a clear worldwide economic leader is not a good mix

for global peace. The First World War was a consequence of growing economic interdependence, the UK losing its previous economic leadership, and the lack of global institutions. The Second World War was a consequence of growing nationalism and protectionism. The stability of the world today is at risk, and global political leaders have shown that they do not have a clear vision of what to do. For the first time, the Russia-Ukraine war has made the risk of a nuclear war to be non-zero; and has created economic tensions that will reduce economic global trade, with the high costs in global economic productivity and global economic growth that it entails.

We argue in this manuscript that, as of today, the world does not have a proper strategy for global peace. The dominant liberal proposal, that global peace and progress will be reached by exporting political and economic freedom to all the countries of the world, is not only scientifically incorrect, but unattainable in practical terms. And the Marxist alternative to the liberal proposal is based on untenable views about the actual dynamics of human history.

It is proposed that the economics of global peace must be based on four pillars: 1) Allowing the ICT technology to display its beneficial potential through maximum possible economic interdependence. Which entails restraining economic protectionism, and a creating new reinforced WTO. 2) Stronger international institutions – including the ones directed at expanding the global middle class - capable of guaranteeing mutual trust and to serve as a forum to negotiate national economic interests. Which implies, amongst other institutions, crafting a common legal framework: including the law, the judges, and the enforcement mechanisms. 3) Ideological tolerance. Peace will not be built by imposing an ideological perspective on others. Peace must be the consequence of economic interdependence that fosters global economic growth, with trusted global institutions and ideological tolerance. 4) A global demilitarization and a nuclear control strategy that guarantees safety, and a balance of powers at a low economic cost. Since I am not an expert in the fourth pillar, in this manuscript we will mainly focus on discussing the first three.

It is argued that, due to the fast speed of the drastic changes that the ICT revolution has brought about, the global conceptual system (and its corresponding institutional arrangement) has lagged behind. Against a nationalistic background, and without proper global institutions, these drastic technological changes have generated all kind of global conflicts, such as: a global financial crisis, global crime, a global health crisis, a glob-

al climate crisis, unresolved poverty and underemployment, and wars – of which the largest since the Second World War is the one between Russia and Ukraine.

The reasons for which nationalism is here to stay for the foreseeable future are explained; but at the same time, it is asserted that the globalization in communications, lifestyles and economic production processes is already a reality due to the ICT revolution. Moreover, the advances in nuclear technology have made nuclear wars impossible, or at least awfully expensive. And fighting traditional wars involving nuclear-power countries, like Russia, is extremely risky for the world. It is in the interest of all to reduce the likelihood of a nuclear confrontation to almost zero.

Chapter one discusses economic interdependence and progress. Economists have learned since Adam Smith that economic interdependence can certainly foster economic growth, because the enlargement of the market is decisive for technological development. However, economic interdependence must be promoted with the right economic model – it must be based on using worldwide frontier technology and directed towards increasing savings and local production in developing economies. It implies a reversal in national protectionist policies in developed countries; and the compensation of losers in these countries (affected by the new trade scheme) through tax, transfers, and educational redistribution policies.

The economic interdependence must include all the countries in the world. Isolating economies only fosters local authoritarian dictatorial regimes. A worldwide economic interdependence implies involving everyone, regardless of distinct ideologies or a different level of economic development. What the Marshall Plan after the Second World War showed is that there are no economic enemies – the economic development of imperial Japan and of Nazi Germany finally made them Western allies. The strategy of a global economic interdependence implies a new look at international economic relations, in which global poverty and underdevelopment must be addressed given the potential benefits in global productivity and economic growth that they entail. In summary, what this first chapter proposes is that the first pillar of global peace is interrelated global economic progress.

Chapter two discusses the need of stronger international institutions. Information economics, game theory and institutional economics have shown theoretically that a stable unique economic equilibrium does not exist. Instead, there are multi-equilibriums, some of which may imply underemployment and underdevelopment; and many of which could be

non-Pareto optimal. This chapter discusses Keynes' global views and argues that he was right in the sense that an intentional proper global institutional arrangement is required. When one compares the consequences of the institutional arrangement of the post First World War with the ones of the post Second World War, one realizes that Keynes was visionary. As he argued in *The Economic Consequences of the Peace*, the work that made him famous, the arrangements after the First World War were inappropriate, and in retrospective they proved to be very costly for the world. Instead, the arrangements made in Bretton Woods, partially under Keynes' influence, were more adequate and produced significantly better results for the world.

In the world to come of high economic interdependence, due to the ICT revolution, stronger global institutions capable to inspire trust in global relations will be a key ingredient for peace. There has to be a commonly accepted international law, globally recognized international courts, and acknowledged enforcement mechanisms. In a purely rational world, with full information, and in which agents trusted each other, wars would not exist. Wars are basically a consequence of mutual distrust, lack of information and poor institutions. Strong global institutions will never fully resemble a rational world, but can certainly increase trust, provide information and a stable framework for international relations; and therefore, they are a key ingredient to foster peace.

Chapter three discusses the origins of ideologies, social conflict and social change, and the need of ideological tolerance. The prevalence of a unique global ideology is contrary to the evolutionary makeup of humans, it will not happen. Ideological diversity is a human reality, and the only way out to establish global peace is to foster ideological tolerance. There are already many examples of such an ideological tolerance; Saudi Arabia being an ally of the US, India being a partner with Russia, China being so economically interdependent with the West, and so on. In fact, without ideological tolerance the world's functionality would be at risk. But we emphasize the need of basing ideological tolerance on the scientifically known fact that none of the ideologies is essentially right. The economic isolation of authoritarian states is a mistake, which ends up in radical nationalisms that very often create dictators. Today the world is at a critical crossroads because the ICT revolution is rapidly globalizing the international life. And this globalization is happening within the historical reality of an international arrangement based on nations with particular interests that belong to diverse cultures with distinct ideologies. The

world's conceptual system and institutional arrangement is ill-prepared for the technological changes brought about by the ICT revolution. That is why we need to build strong international institutions capable to serve as arbitrageurs of national interests and of developing mutual trust between the nations. Global institutions capable to ensure the nations, as far as possible, that whatever is agreed will be respected – a globally accepted international law, global judges and penalty mechanisms have to be developed. But mutual trust cannot be established based upon ideological intolerance, which creates the distinction between “us” and “them”, between the “in-group” and the “out-group”. Such distinctions create mistrust and invite conflict, as several experiments and theories in social psychology have shown. To see the world as divided between humanistic democracies and non-humanistic authoritarian states is incorrect. Only 13 % of the global population lives in liberal democracies, and it is not true that the other 87% is not humanistic and must be liberated. In distinct cultures there are diverse conceptions about what human freedom means. We all should learn to be more ideologically tolerant, nobody has the final truth, and we can all learn from each other. And above all, ideological tolerance is a must if we want to stand a chance to properly manage the globalization brought about by the ICT revolution.

Finally, the conclusion discusses the likelihood that this manuscript's main thesis could be implemented. We understand that our proposal will not be accepted soon. Nationalistic interests and ideologies have predominated in human history, and they will continue to do so in the foreseeable future. However, what is new in human history is that there are critical global forces that question the viability of the nationalistic approach. Forces such as: The globalization of information, communication, office technology, lifestyles and economic production brought about by the ICT revolution; and the rise of the powerful nuclear technology. The nationalistic approach does not guarantee anymore global stability and functionality. For the functionality of the world to be supported something has to change. Our proposal must be understood as providing directional guidance for the long run, and not short-term policy recommendations; but we defend that this kind of guidance is becoming an imminent necessity for the proper functionality of the world to come.

CHAPTER ONE: ECONOMIC INTERDEPENDENCE AND PROGRESS

In this book we argue that economic interdependence generates global progress and that it is a key pillar of global peace, but it only works well if two other pillars, strong international institutions, and ideological tolerance, are also in place. In this chapter we discuss the relationship between economic interdependence and progress, leaving for the next two chapters the analysis of the other two pillars.

Adam Smith was the first to point out in *The Wealth of Nations* that a large market was key for technological development. The idea is very simple: mass-scale production simplifies the “production operations” and makes technological innovation possible. This idea was taken up later by neoclassical economists, who have argued that free trade fosters economic development. At the global level this proposal seems to work very well.

The best indicator of economic interdependence is what is known as the “trade openness index”. This index is defined as the sum of world exports and imports, divided by world GDP. The indicator is presented in Table 1.1. As can be seen, there have been two globalization waves. The first one starts in the nineteenth century, around 1820, and ends in 1913, before the First World War. The second wave starts after the Second World War, around 1950, but remarkably it does not get to the economic interdependence index level that the world had in 1913 until 1970. The second wave of globalization continues until today and has been particularly fast after 1990 due to the ICT revolution; but after the 2008 GFC it has slowed down.

TABLE 1.1. GLOBALIZATION: ECONOMIC INTERDEPENDENCE

Year	Index
1500	1.4
1600	3.4
1700	3.4
1820	5.8
1870	14.7
1890	20.7
1913	25.0
1920	19.0
1944	10.8
1950	19.9
1970	25.9
1990	38.3
2000	49.1
2008	61.0
2018	59.5
2019	58.2

Source: The Average of the index reported in <https://ourworldindata.org/grapher/globalization-over-5-centuries?time=1988>

As it can be seen in Table 1.2 the first wave of globalization implied a high annual rate of growth of GDP per capita. As the trade index goes from 5.8 in 1820 to 19 in 1920, the GDP per capita increases 103% in these one hundred years, from \$1,102 to \$2,241; at an annual growth rate of 0.7%, which was significantly higher than the 1-1500 and 1500-1820 annual rates of growth. And the second wave of globalization implied an even faster rate of economic growth of 2.25%; in only 68 years, from 1950 to 2018, the GDP per capita increased 353%, from \$2,241 to \$15,212.

TABLE 1.2. GDP PER CAPITA ANNUAL RATE OF GROWTH % GDP PER CAPITA

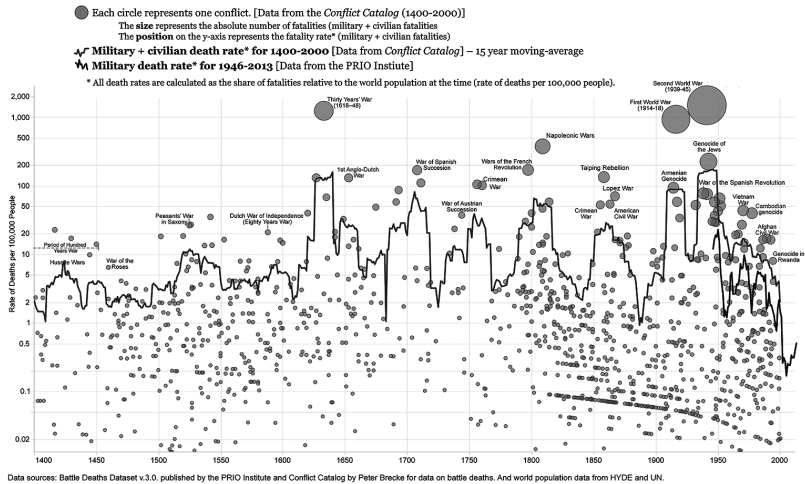
Year		Year	2011\$
1-1500	0,01	1820	1102
1500-1820	0.05	1870	1498
1820-1920	0.71	1920	2241
1920-1950	1.35	1950	3351
1950-2018	2.25	1970	5952
		1990	8222
		2010	13179
		2018	15212

Source: 1820-2018 <https://www.rug.nl/ggdc/historicaldevelopment/maddison/releases/maddison-project-database-2020>

1-1820 <https://www.rug.nl/ggdc/historicaldevelopment/maddison/releases/maddison-project-database-2010?lang=en>

The difference between the first and the second waves of globalization is not only the faster economic growth in the second wave, but also that the first wave led to the First World War. The first wave of globalization created economic progress, but the rising economic interdependence resulted in war; therefore, clearly progress does not necessarily bring peace. The First World War happened because Europe was unwilling to accommodate the rapidly rising economic power of Germany, which was due to its key participation in the second steel industrial revolution that started in 1870. Figure 1.1 shows the deaths both of civilian and military population in armed conflicts per one hundred thousand since the year 1400. As it can be appreciated, there is a sharp increase after 1913 with the start of the First World War, and a sharp decrease after 1950 with the end of the Second World War.

FIGURE 1.1. GLOBAL DEATHS IN CONFLICTS SINCE THE YEAR 1400



Source: <https://slides.ourworldindata.org/war-and-violence/#/6>

The second wave of globalization has been related to a decrease in the number of deaths in conflicts. The questions become: Why have we had this relative peace? Which are the risks of losing it? Why in addition to produce peace up to now, the second wave has generated more economic growth? The liberal thesis is that economic freedom (free markets) generates economic growth, and that political freedom (democracy) generates peace³. Is it true? We will start by answering why the second wave of globalization has generated more economic growth. And then we will discuss the liberal thesis of free markets and democracy as the solution for the world's progress and peace. We will leave for the next chapter the discussion of why we have had so much relative peace and which are the risks of losing it.

³ For the argument that democracy causes peace see: "there is enough evidence to conclude that democracy does cause peace at least between democracies, that the observed correlation between democracy and peace is not spurious". Reiter, Dan (January 25, 2017). "Is Democracy a Cause of Peace?". *Oxford Research Encyclopedia of politics*. doi:10.1093/acrefore/9780190228637.013.287. ISBN 9780190228637. Archived from the original on June 15, 2017.

WHY THE SECOND WAVE OF GLOBALIZATION PRODUCED MORE ECONOMIC GROWTH

First, let us obtain a trade productivity index to compare the two globalization waves, which is shown in Table 1.3. It is calculated by dividing the GDP per capita annual rate of growth, presented in Table 1.2, by the annual rate of growth of the economic interdependence index displayed in Table 1.1. As it can be seen, trade was significantly more productive in the second wave. Thus, in addition to Adam Smith's and the neoclassical school's thesis that trade stimulates economic growth, something else has happened that distinguished the first wave of globalization from the second.

TABLE 1.3. TRADE PRODUCTIVITY INDEX

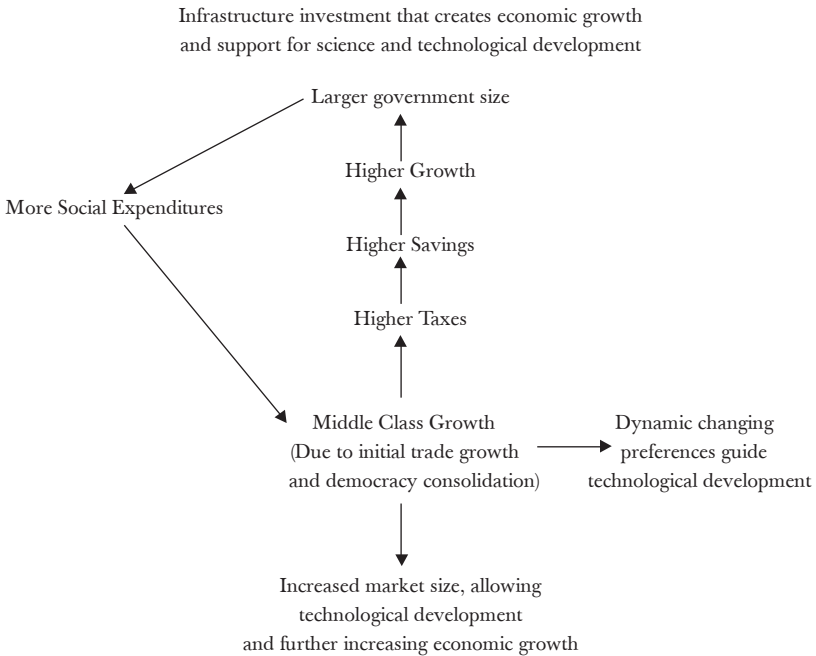
1820-1920	0.59675883
1950-2018	1.38551346

Source: Own calculations based on tables 1.1 and 1.2.

If we continue with Smith's thesis that the size of the market defines the technological possibilities of technological development, and therefore of economic growth, the question then becomes: What else increased the market size, in addition to trade? I have explored this issue in previous works, and the answer is in the growth of the middle class, which not only increases the market size, but whose dynamic preferences provide the key guideline for the world's frontier technological development⁴. Figure 1.2 shows how this economic growth process works:

⁴ See Obregon, C. 2018. *Globalization: Misguided Views*. Amazon.com. Also available at search.gate.com

FIGURE 1.2 THE MIDDLE CLASS AND ECONOMIC GROWTH



The middle class's growth was an outcome of the trade growth that generated a faster economic growth in capitalism; and it explains the success of capitalism in the long run in the Western countries. But it was particularly decisive in the second wave of globalization, due to the consolidation of the Western democracies. In other works, I have defined the middle class as the population that fulfills two conditions: it consumes goods produced with worldwide frontier technology, and has the will and capacity to challenge the high class over the political control of the country⁵. The middle class's growth or lack of it, is the key factor that differentiates the success of the Western economic model in the US after the Second World War, and the failure of the communist model in the USSR.

Let us first understand the long process by which the growth of the middle-class market was key for the development of the Western world. Due to its geographical position, and the density of its population, Europe had already had for several centuries an intense trade within a small

⁵ Obregon, C. 2018. *Globalization: Misguided Views*. Op.cit.

geographical area, and with the species trade to the East by sea and the gold trade to the West, in the XV century it consolidated its position. And it was the growth of the middle class within the Western world what consolidated a large European market. The West, contrary to previous empires that grew conquering new markets, expanded mainly due to the growth of its internal middle-class market. Table 1.4 shows the consolidation of the Western middle-class market in an economic sense. The middle-class market is defined by the GDP per capita of the region minus the GDP per capita of South Africa, which is considered basic needs consumption like food and clothes, where technological development is slower. The Western middle class (defined by Maddison as Europe 30 + Western Offshoots + Eastern Europe) represented a growing percentage of the global middle class; it goes from 32% in 1500⁶ to 91% in 1950, and then it starts to go down until 48% in 2018⁷. What happened in 1950? Mainly, that the Western middle-class market opened up to Japan, and later on to certain other Asian economies; and this fostered the rapid economic growth of a selected group of Asian countries, and the creation of their own middle class.

Due to the Marshall Plan, Japan was reconstructed after the Second World War, and it started its rapid economic growth. And when the US imposed trade restrictions on Japan, this country responded modernizing Korea, so that this country could in turn export to the US. Japan exported to Korea full industrial plants facilities, which later would export their production to the US. Together with Japan's and Korea's development, Hong Kong became modern by trading between the UK and China, and Taiwan due to the investments of the leaders of the Kuomintang, when they left China. And when the salaries increased in North Asia, Singapore (led by a Chinese minority) developed through incorporating the lower-salary South Asian countries to North Asia; this process also modernized Malaysia and Thailand. All the previously mentioned countries developed following the Asian growth model. This model consisted in exporting to

⁶ The 32% for 1500 comes from table 4.1 in Obregon, C. 2017 *Globalization Misguided Views*, available at Research Gate.com, which uses a similar but different method of calculation, and it is based on Maddison's original data – which goes until 2008; and therefore, it is not strictly comparable with the data in table 1.4 in this book, which comes from Maddison 2020 data – which starts in 1820. The results for the years of 1820 and 1950 in table 1.4 in here are however not far off from the results obtained in table 4.1 in Obregon 2017. In table 1.4 in here 1820 is 91%, while in table 4.1 in Obregon 2017 is 94%; and in table 1.4 in here 1950 is 57%, while in table 4.1 in Obregon 2017 is 53%.

⁷ 2018 is the last year of Maddison 2020 data.

the Western middle class, restricting imports, managing the exchange rate, increasing savings a lot, and promoting local investments to create “champion” companies able to compete in the international market. And recently China developed using the Asian growth model, in addition to an efficient incorporation into the ICT revolution. The economic success of certain key Asian countries, and their growing middle class, is the main reason why the share of the Western middle class went down after 1950; although there are other factors like the failure of the communist model in the Eastern European countries and the increased middle class in the Middle East, which benefited from the higher oil prices due to the growing global industrial production.

There have been only two successful economic growth models, the Western and the Asian. And it is critical to understand that the Asian growth model is a “dependent model”, which thrives by exporting to the Western middle class. Thus, the critical role played by the West in the global economic growth should not be underestimated. There have been three failed economic models: the import-substitution growth model, the communist growth model, and the neoclassical model. The first two failed mainly because of their inward-looking development, which meant that they were producing with second-class, obsolete technology that could not compete with the frontier technology being developed in the West (under the guidance of the dynamic changing preferences of the Western middle class). The success of the Asian growth model is due to the fact that it produced with worldwide frontier technology, since their development was based on exporting to the West. The case of the failure of the communist model in the USSR is particularly relevant to understand why producing with second-class, obsolete technology is so expensive in terms of the foregone sustainable long-term growth. The USSR had most of the elements that the neoclassical theories of economic growth consider essential, such as: a large market, high education, high quality labor, science, technology, learning by doing, research and development, and very high savings. And despite this, the USSR’s GDP per capita 1950-2000 grew less than Africa’s. The USSR failed, why? Because it did not trade enough with the West (where the frontier technology was being developed); and it did not have a large middle class of its own⁸. The obsolete technology was the critical difference between the USSR’s post Second World War failure and the success of the US in the same period.

⁸ Neither free local markets that could have allowed for the changing preferences of this absent middle class to guide the technology as it happened in the West.

The Asian growth model was successful because it used first-class, worldwide frontier technology to export to the West. And this shows that the Asian growth model is a dependent model, it depends on the market signals provided by the Western free middle-class markets.

Western freedom has had a fundamental role in the growth of the world economy. Economic freedom has increased global trade and allowed flexible free markets to transmit the dynamic changing preferences of the growing middle class. And political freedom and the consolidation of democracy implied the growth of a political middle class that challenges the high classes' political control of a country, votes for increases in taxes, and for a larger government size (in the twentieth century, Western governments' share in GDP increased from around ten percent to forty percent). Larger governments implied increases in infrastructure expenditures, increasing support for science and technology, and increases in social expenditures (they increased in the twentieth century from two or three percent to around twenty to twenty-five percent). The middle class's rapid changing preferences, transmitted through a free market, were the key guide for the West's technological development.

But although the Western economic model has been extremely successful, that does not mean that it can be exported to developing economies. The only successful model in developing economies, in the history of the world, is the Asian growth model. And although it is a model that depends on exporting to the West for its success, it has very particular features that clearly distinguish it from the Western model.

Table 1.4 shows that in the first wave of globalization, the Western model was the successful one. From 1820 to 1950, the West's (Western Europe + Western Offshoots + Eastern Europe) share in the global middle class GDP grew from 57% to 91%, which means that almost all the middle-class consumption capacity was in the West. In the second wave of globalization, the Asian model was very successful; East Asia's share went from 0% to 24%, and South Asia's (including Southeast Asia) went from 0% to 11%. East Asia's success 1950 – 1980 was largely due to Japan, and its success during 1990 – 2018, to China.

TABLE 1.4. REGIONAL MIDDLE CLASS GDP AS % OF GLOBAL MIDDLE CLASS GDP

	West	Asia (East)	Asia South	Latin America	Middle East	Global
1820	57	32	9	1	2	100
1920	87	5	3	5	0	100
1950	91	0	0	7	2	101
1960	88	2	0	8	2	100
1980	74	11	0	10	5	100
1990	67	17	4	8	4	100
2018	48	24	11	7	9	100

Source: Maddison 2020. Asia South includes South East Asia.

Middle Class GDP is defined by (regional GDP Per Capita minus Sub Sahara Africa GDP Per Capita)* (regional population)

Global middle class=west+Asia(East)+Asia(South)+Latin America+Middle East

FREE TRADE AND ECONOMIC PROGRESS

Liberalism argues that free trade, which promotes economic interdependence, is the source of economic progress, and the assertion is correct – free trade is critical for economic growth, but there are also other key factors to consider. The market expansion that allows technological development and fosters economic growth is not only due to free markets, it is also the consequence of a growing middle class. Besides free trade, the economic growth in the West 1950 to 2018 was due to several institutional changes, consequence of the middle-class' expansion such as democracy, larger governments, and larger social expenditures. And the world's economic growth 1950 to 2018 was also critically influenced by the success of the Asian growth model. This model, although it is based on exporting to the West's middle class, is not, as we have mentioned, a neoclassical model. In the second wave of globalization Latin America had two dominant models: the import-substitution model and the neo-classical model. The import-substitution model was temporarily a success, 1950 to 1980 this region's share in the middle-class global market increased from 7% to 10%; but since the model was based on an inward-looking, obsolete technology, it could not sustain itself, leading to the

financial crisis of the eighties, and as a consequence the share went down, in 1990 it was 8%. 1990 onwards Latin America followed the neoclassical model (particularly Mexico) and it was not successful either, so its share went down further and in 2018 it was only 7%.

The Mexican case is particularly relevant because 1990-2018 it followed the neoclassical model recommended by the Washington Consensus: free trade, free internal markets, small government and privatization of public enterprises. The model failed. Mexico's economic growth in per capita annual rate of growth 1990-2018 was 1.6 %, while South Korea's was 6.9% and China's was 14%. This means that in 2018 the GDP per capita in Mexico was 1.3 times the one of 1990, while in South Korea it was 6.9 times and in China it was 14 times⁹. Mexico's failure happened despite the fact that it had a trade agreement with the US, that linked it to the ICT revolution and the use of frontier technology; the reason of its failure is that it did not save enough and that it did not join the ICT revolution as efficiently as China did¹⁰. The neoclassical model argued that in a neoclassical economy, like Mexico's, foreign investment was going to come because of the lower salaries. Thus, theoretically, high internal savings were not required – that is why Mexico did not save enough. However, foreign investment did not go to developing economies, because of the presence of institutional barriers like the political system, the judiciary system, the infrastructure –including administrative infrastructure- and so on. Instead, due to the ICT revolution, production was fragmented in several developing countries, with central command remaining in the developed countries, and this changed everything. The “neoclassical” quality of the country to be chosen was no longer relevant, the only decisive element became the particular conditions granted by the developing country to take over the fragment of production to be made in this country: and in offering such conditions, China did a much better job than Mexico.

In terms of a look at the future, and what the proper political and economic policies are to follow both globally and in non-Western countries, it is fundamental to separate the scientific explanation of the Western economic success from the explanation provided by the ideological liberal proposal. The case of China versus Mexico is a critical example: a closed autocracy that followed the Asian growth model, versus Mexico, an electoral democracy that followed the neoclassical model. The liberal

⁹ This data comes from <https://databank.worldbank.org/source/world-development-indicators#> consulted April 11, 2022. Estimated in \$2017 constant international dollars.

¹⁰ Obregon, C. 2018. *Globalization: Misguided Views*. Op.cit.

experiment in Mexico has been a full-blown failure. Its poor economic growth has had all kind of negative consequences including the rise of crime and the surge of a populist regime. While the success of China is undeniable; its rapid economic growth has taken almost one billion people out of extreme poverty, and China has become a major player in the global economy. Moreover, China has been the key factor in the global costs reduction behind the low inflationary era that has fostered the rapid growth of the global economy in recent decades.

The neoclassical model also failed in the USSR and in Russia 1990 to 2000. In the USSR, the GDP per capita in 2000 was 25% less than in 1990, a negative annual rate of growth of 2.9%. In Russia in 2000 the GDP per capita was 15% less than in 1990, a negative annual rate of growth of 1.6%¹¹. The reason of the neoclassical failure in this case was that, as these economies opened up, their lack of competitiveness, due to the previous use of obsolete technology, surfaced. What these countries needed was a recovery program based on a second Marshall plan, not a neoclassical model.

Liberalism is not a good guide for global progress for several reasons: 1) It fails to reproduce even the Western growth model, which besides free trade and free local markets in the first wave of globalization had a large growing middle class, the advantage of the proximity of the countries in Europe, and democratic institutions already in the process of consolidation; and in the second wave of globalization, it had a more consolidated large middle class, democracy, large governments, large social expenditures, spending in infrastructure and support for science and technology, a free press and consolidated democratic institutions, particularly on the legislative and judicial side that gave institutional stability. 2) The presence of the already developed West makes it impossible for other countries to copy the West's growth model; because the global frontier technology is already defined in the West, and therefore any development with obsolete technology in the developing economies would not be able to face open trade with the West. This is, as we have mentioned, what explains the failure of both the import-substitution model and the communist model. 3) The logic of the neoclassical model is that free borders will facilitate capital going to the low-wage salary underdeveloped countries; which, given the worldwide frontier technology, would increase global productivity and maximize global product¹² – while getting rid of underdevelopment and poverty. But

¹¹ From Maddison 2020. Estimated in \$ 2011 constant international dollars.

¹² The available global capital is more productive with low salaries because the same prod-

this logic does not work, as we said, because there are institutional barriers in the developing countries. These countries lack the large middle class that provides stability to the political system; they do not have proper judicial and legislative systems, free press and proper infrastructure - including administrative processes; and corruption creates uncertainty and slows down the economic process. Therefore, capital did not go in large quantities to the developing countries. 4) The way out was the ICT revolution; which worked very well with the Asian growth model, and badly with the neoclassical model, mainly because of two reasons: a) The institutional requirements needed in the developing countries for the expansion of the ICT revolution are much less than the required for the neoclassical model to work. And b) For fast economic growth large savings are required, but given the institutional barriers foreign investment (foreign savings) did not come as required to the neoclassical developing countries. While large local savings was a key characteristic of the Asian growth model.

But if liberalism is not a good guide for global progress: What is the alternative? The success of the Asian model and the failure of the neoclassical model taught us an important lesson: while free trade is needed, it is not enough - institutions are critical. Economic progress does require free trade to be able to enjoy the productivity that can be obtained by incorporating developing economies into the ICT revolution. But large middle-income developing countries must follow an Asian growth model, which means having their own industrial policy - to protect and develop local production, very high savings, and exporting to the international middle class. And low-income developing countries would need the help of the West through an international developing program like the Marshall Plan. Global economic progress requires: a) Free trade; b) proper global institutions; c) adequate institutions in the developing countries to join the ICT revolution; and d) the concurrence and aid of the Western and Asian developed economies.

Before we finish this section, we must emphasize that, while the neoclassical liberal model has failed, the Marxist model is not the alternative. Within the Marxist tradition, it is often argued that developing countries must create their own middle class, because that - the argument goes - will generate more local demand and spur a national industrial and economic growth. Thus, the distribution of income is seen as the miracle that will provide economic justice, economic growth and even reduce local violence

uct per man is produced at a lower cost; which means more product could be produced with the same budget.

by improving the standards of living of the most needed. I have dealt extensively with these issues in other works, so here I will only summarize some of the main conclusions. I) Income distribution policies are helpful to improve the living conditions of the most needed only when they are joined by a proper economic growth program. Otherwise, what has happened in most leftist distribution programs is that the sacrifice made in terms of economic growth largely outweighs the benefits obtained by the redistribution of income; so that the true real income of the most needed ends up being worse off in relative terms to the countries that did not redistribute but that had proper economic growth policies¹³. II) Crime and violence in a given country cannot be stopped by income redistribution policies, first of all because crime has other determinants¹⁴; and second because, as we said, those policies unless coupled with a proper economic growth program will not improve the standard of living of the most needed. III) Income distribution policies do not create economic growth. First, because, as we said, income distribution policies whenever not coupled with proper economic growth programs do not actually improve the standard of living of the most needed. And second because, even if they were able to create a larger local middle class capable to expand local demand, this will only foster the development of a second-class industry based on obsolete technology, which will be unable to compete in the future with the frontier international technology and will eventually collapse. Any inward-looking model is condemned to fail. An economic growth program to be sustainable in the long run has to be based on frontier global technology, and that can only happen by exporting to the global middle class.

IS IT TRUE THAT DEMOCRACY GENERATES PEACE?

Democracy, as we have pointed out, has been crucial for the development of the world economy, not only because it is the mechanism by which the middle class challenges the political control of the higher classes, which meant among other things higher savings and higher economic growth; but also, because it is associated with individual freedoms that supported

¹³ Obregon, C., 2020. *Three Lessons from Economists That Policy Makers Should Never Forget*. Amazon.com. Also available at Research gate.com.

¹⁴ Obregon, C., 2019. *Social Order: Harmony and Conflict in Human Societies*. Amazon.com. Also available at Research gate.com

the spread of human creativity in hard sciences, technology and in social sciences. But despite its historical relevance, as we will see, it does not seem to be true that democracy necessarily generates peace.

The relationship between democracy and war has been under close scrutiny by the global academic community largely because its ideological implications. In the eighties Robert Doyle, and others, initiated serious empirical work to show that democracy brings peace. The inspiration came from *Kant's Project for a Perpetual Peace*, the central argument of which is that republics (reinterpreted today as liberal democracies) that need to ask for the approval of the public on whether go to war or not, are less likely to do it. Today among Western scholars, it is widely accepted that while it cannot be shown that democracies are less likely to enter wars, it can be proven that democracies are less likely to fight amongst themselves. What the research has shown is that even though inter-State war has been a rare event in the post Second World War period, it has been even rarer between democracies. Today's explanation of why peace amongst democracies exists is based on two arguments: 1) that it is in the democratic culture to settle disputes by peace; and 2) that the balance of powers within each democracy prevents the executive power to unexpectedly declare war to another State. The "democratic peace" thesis is a key cornerstone of liberalism and has been very influential in the foreign policy proposals of both the democratic and the republican parties in the US and, also, of the EU.

Is it true that democracy generates peace? The first problem to answer this question is: what do we mean by democracy? In general democracy has to do with electoral rights. We follow a classification of countries into four categories proposed by Anna Lührmann, Marcus Tannenberg, and Staffan Lindberg: 1) Closed autocracies: in which there are no electoral rights. 2) Electoral autocracies: with electoral rights to choose the chief executive of the government and/or the legislature through multi-party elections. 3) Electoral democracies with additional freedoms like freedom of association and expression that guarantee meaningful, free and fair multi-party elections. 4) Liberal democracies in which citizens are equal before the law, there are further individual and minority rights and the actions of the executive are constrained by the legislative and the courts¹⁵. Based on this classification figure

¹⁵ This classification comes from: The Regimes of the World (RoW) classification by political scientists Anna Lührmann, Marcus Tannenberg, and Staffan Lindberg. Lührmann, Anna, Marcus Tannenberg, and Staffan Lindberg. 2018. Regimes of the World (RoW): Opening New Avenues for the Comparative Study of Political Regimes. *Politics and Governance* 6(1): 60-77.

1.3 presents a long history of democracy. Whatever one wishes to call democracy, it seems clear that the percentage of countries in the world with electoral and democratic rights has increased since 1820. Thus, democratic and electoral rights increased in the two waves of globalization. But the first wave of globalization led to the First World War, the hyperinflation of the 20's, the 1930' GD (Great Depression), the Second World War, and a growing number of deaths in conflicts per one hundred thousand inhabitants. While the second wave of globalization is related not only to a higher global progress than the first wave, but also to relative peace, as the decrease in the number of deaths in conflicts per one hundred thousand inhabitants shows. The liberal literature has mainly focused on the second wave, in which both democracy grew and peace (mainly between large, developed countries) was achieved; but a longer-term view does not support the liberal thesis. In the first wave increased democracy was associated with less peace. Moreover, if one looks at figure 1.1 one can appreciate that the very low number of deaths in 2000, is similar to many historical periods in which all the countries were closed autocracies.

The argument that it is in the democratic culture to settle conflicts by peace, as opposed to the authoritarian culture, is unconvincing. The historical fact is that the European democratic countries and the US have started many wars against other countries to protect or expand their imperial interests. From 1801 to 1922, Great Britain participated in 94 wars (excluding the First World War), and from 1922 to the present in 41 wars (excluding the Second World War); and most of these wars were fought against countries that could never have invaded Great Britain¹⁶. The US participated in 57 wars between 1801 and 1922 (including many Indian wars, and excluding the First World War), and in 30 wars from 1922 to the present (excluding the Second World War); all of them against adversaries that could not invade the US¹⁷. While China only participated in 10 wars between 1801 to 1922 and in 14 wars from 1922 to the present¹⁸. Thus, democracies are not necessarily peaceful.

¹⁶ See Laycock, S. (2012). *All the Countries We've Ever Invaded – And the Few We Never Got Round To*. The History Press. ASIN 0752479695. See also https://en.wikipedia.org/wiki/List_of_wars_involving_the_United_Kingdom

¹⁷ see <https://www.thoughtco.com/american-involvement-wars-colonial-times-present-4059761>. See also https://en.wikipedia.org/wiki/List_of_wars_involving_the_United_States

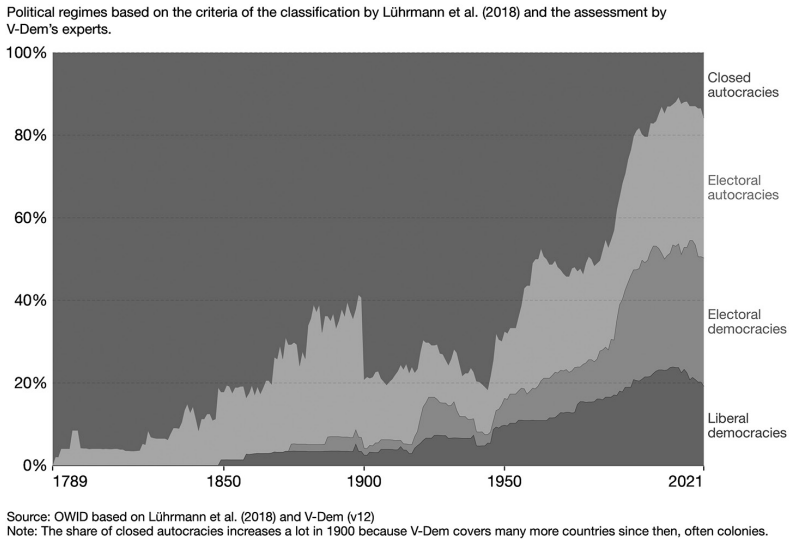
¹⁸ Graff, David Andrew, and Robin Higham, eds. *A military history of China* (University Press of Kentucky, 2012). See also https://en.wikipedia.org/wiki/List_of_Chinese_wars_and_battles

We maintain that the empirical fact that recently less wars are fought between democracies is not explained by the argument that democracies are peaceful, but by other factors such as: 1) The Second World War created a singular leader, the US. 2) The lessons of the First World War created the possibility of creating global institutions in the West. 3) The Marshall Plan, conceived for the recovery mainly of Europe and Japan. 4) The new nuclear power prevented a confrontation with the USSR, thus instead of a military war, a Cold War with the USSR started which was a reason for the consolidation of NATO, which largely explains why less confrontations between democracies have happened. This will be the topic of the next chapter.

The question that we are exploring is whether liberalism is an adequate international policy to promote peace and progress. We already saw in the previous section that although free trade is needed, liberalism it is not a good guidance for economic progress. In this section we have discussed whether the liberal thesis that a world with only democratic countries would be a peaceful one is true. The answer that we have found is that there is no basis to sustain this thesis. Democracy is nationally bounded. And democracies do go to war whenever their national interests are at jeopardy. Moreover, even if the liberal thesis was true (which is not the case); it still would not be a practical guide for international policy. In the real life, the ideal of a world of only democratic countries is not achievable. In 2021 only 19% of all the countries of the world were liberal democracies; and only 13.3% of the global population was living in liberal democracies¹⁹. Democratic values are far from being universal, there are many distinct ideologies and ways of living in the world, and one of the keys to global peace is ideological tolerance; which will be the topic of the third chapter.

¹⁹ If we include both liberal and electoral democracies: 48.7% was living in democratic countries in 2021; but still the population living in these countries was only 29.2% of the world's population.

FIGURE 1.3. SHARE OF DEMOCRACIES, WORLD



Source: <https://ourworldindata.org/democracy>

CONCLUSION

The ICT revolution has created a critical opportunity for the world to increase its productivity and its economic rate of growth; to be able to seize this opportunity free trade in the world is a must. The importance of free trade for economic growth was discovered by Adam Smith and has been extensively documented by the neoclassical school, it is a solid, well known empirical and theoretical proposition. It is unfortunate that after the 2008 GFC the world has seen a revival of nationalism and protectionism, that is shown in the trade battle between China and the US, the US policy for the government to buy “made in America”, Brexit, and so forth. As I have written elsewhere, the 2008 GFC did not have anything to do with the increase in global trade and the large savings of China and other countries²⁰; the world was in the right track before

²⁰ Obregon, C. 2018. *Globalization: Misguided Views*. Op.cit.

2008, and should continue in it. Losers due to the ICT revolution should be compensated through tax and government transfers policies, and not through protectionism. Nationalism and protectionism are bad news in terms of global peace, they were critical causes of the two world wars of the twentieth century.

But free trade, while critical, is not enough to obtain global economic progress, there are also other fundamental issues involved, such as: the growth of the middle class, the role of the governments in increasing savings and promoting science and technology, the quality of the global institutions, the use of large social expenditures, the economic model adopted by large middle-income developing economies, the recovery and developing plans to incorporate developing economies to the global economy, and so forth.

The success of the Western model of growth is undeniable, but global progress cannot be based on reproducing such a model in the developing economies; because they do not have the historical institutions that the West developed, and because the presence of the West in the global economy changes the global conditions under which an economy has to develop. The neoclassical model was a failure in developing economies, while the Asian model was a success.

The Asian growth model is based on a managed economy. The model has two historical phases. The first one was led by Japan and the second one by China. In the first one, the keys to its success were: the use of frontier technology guided by the exports to the West, high local savings, management of the exchange rate, protection of local industries and development of champion local companies able to export to the West in competitive terms. In the second wave, in addition, it was critical to be properly integrated to the ICT revolution by creating all sort of facilities for the foreign investors to produce the fragment of production that they chose to do in the developing economy.

The Asian growth models main goal was not to generate a national middle class, in fact in some countries it was associated with a worsening of the income distribution; but in the long run, the fast rate of economic growth of these countries has created an economic middle class, and in some of them even a political middle class.

Economic progress has to be based on increasing trade and growing economic interdependence in the world, but within a proper institutional framework that must accommodate distinct models of economic growth, such as the Western, the Asian and the development model that could

result from aiding the poorer countries on earth.

The goals for the world are progress and peace. But they will not be achieved with promoting unreachable ideals such as: 1) The Marxist proposals of a global proletariat revolution; or that the income distribution will produce national economic progress, justice, and national peace, or 2) the liberal thesis that economic and political freedom will create progress in all the nations, which will then live in peace with one another.

In reality, the global proletariat revolution never came, and the income distribution policies which are not part of a proper economic growth program are condemned to fail, like all the inward-looking models have failed such as the communist model and the import-substitution model. And in reality, a world of only democratic nations is an ideological proposal which does not have any foreseeable possible pragmatic implementation, moreover nothing guarantees that such a world of democratic nations would be peaceful.

World progress and peace require free trade. Free trade is one of the key ingredients needed for progress, and it has the advantage to bring people from different nations together. But bringing people from diverse nations together may end up in conflict like in the first wave of globalization, or in peace like in the second wave of globalization. The difference were strong international institutions. Thus, institutions and trust are required for progress with peace; this is the topic of our second chapter. And for trust to be developed ideological tolerance is needed, which is the topic of our third chapter.

CHAPTER TWO: GLOBAL INSTITUTIONS AND TRUST

The liberal promise (understood as the proposal that political and economic freedoms in all the countries on earth will bring global progress and global peace) is not a scientific proposition, because it cannot be proven wrong. It is an ideological preconception, which is not even achievable in pragmatic terms. There is no real scientific support for the use of the liberal promise as a guide for global policy, or for policy within non-Western countries.

The main problem with the liberal model is that it is an essentialist idealistic conception, that ignores the key institutional historical factors which explain both the success of the Western model and its limitations. Factors which are critical to be taken into account, for an international policy that pretends to be implemented in the real world.

One of the key factors that is ignored by liberal idealism is the historical presence of the nations. Human rights and democracy are bounded by the national interests. The school of realism in international relations has been arguing, in opposition to liberal idealism, that nations confront each other based on their own selfish interest; and therefore global peace, they insist, can only be obtained by a balance of powers between the diverse nations. In the US today the two main international relation's schools of thought are liberalism and realism.

Liberalism is idealistic, and it does not capture the complexities of the real world; in which distinct countries and cultures have developed with different conceptual systems and institutional arrangements that are not necessarily compatible with the one of the West. And realism is simplistic, international relations go well beyond the balance of power between different countries. Global peace has to be built within a solid conception of the complexities that characterize international relations.

Realism has argued that the idealism of liberalism has prevented it to explain the true reality in international relations – dominated by divergent national interests. The Russia-Ukraine war for example, according to the realist school, is inexplicable in liberal terms. Their criticism of liberalism is sound; and at first glance it seems that this war can be better understood with the realist position. However, in other works we have

argued that even the realist position is insufficient to explain this war – the explanation as we have shown is multifactorial²¹.

As an alternative to both liberalism and realism, we present in this chapter a third position as a guidance for international relations: institutionalism. Kenneth Boulding defined the social system as consisting of three systems. The economic, the integrative and the power system. The economic system includes the production and exchange of goods and services. The integrative system includes the set of values, religious beliefs, ethical principles, customs and laws that glue the society together. And the power system includes the complete set of mechanisms related to the use of force. We argue in here that neither liberalism, nor realism provide adequate guidance for international politics. While it is true that liberalism seriously undermines the importance of national interests in international issues, it is also true that realism sees the international world as being dominated by the power system and ignores the importance of both the integrative and the economic global systems. The alternative is to have a realistic vision of the international world based on the three systems: economic interdependence and free markets in the economic system; solid global institutions developing mutual trust that act as a forum to negotiate national economic interests; an international conceptual system that fosters ideological tolerance within a new integrative system; and an international nuclear policy and global military arrangement that guarantees a global balance of power.

Realism explains international relations based upon the power system alone, and leaves aside the integrative and economic international systems. But nations besides having confronting interests, also have economic relations and a tradition relating to each other. International peace could never be established only through the balance of powers, because such a balance is by its nature very unstable. What we have learnt recently, for example, is that balancing nuclear powers does not prevent traditional wars between powerful nations and powerless nations. Game theory shows that any game which does not include shared information and mutual trust will result in a suboptimal outcome, in this case war. This is so because the lack of trust implies the risk of a party exercising unilateral moves that may make it better off at the expense of the other; and therefore, there is a high incentive to be the first to exercise such moves, and the game easily degenerates into a suboptimal solution. Global peace to be achievable, besides a balance of powers has to include

²¹ See Obregon, Carlos., 2022. *Conflict and Resolution*, op.cit.

global institutions capable to foster mutual understanding along the three social systems: the power, the integrative and the economic one.

However, realism, despite its limitations, is right in its claim that liberalism is too idealistic, and that it does not take properly into account what is happening in reality. In the real world, there are institutional differences between distinct cultures and nations that are the outcome of their own particular history. The main problem with liberal idealism is that it leaves aside these institutional particularities; and as a consequence, argues for the establishment of an ideal world – which does not correspond with the actual institutional historical features of the real world.

We propose that any solution for global peace has to take into account the complexities of the real world. Samuel Huntington argued in the *Clash of Civilizations*²² the existence of distinct cultures, and he was right in this point; although, as I argued elsewhere, they do not necessarily have to clash as Huntington maintains in his book²³. In other works, I have shown that distinct societies have historically differentiated themselves along diverse divergent conceptual systems and institutional arrangements such as: 1) The Hindu, predominating in India and South Asia. 2) The Neo-Confucian, still highly influential in North Asia. 3) The Muslim, predominating in Arab countries and those countries with a large Muslim population. 4) The Latin American, which is a hybrid culture. 5) The Western, predominating in the Western world. And there are many other, more specific differentiations like: 6) The Russian predominating in many areas of the old USSR. 7) The Turkish; and so on²⁴. Of all these historical diverse routes of differentiation, the only one that differentiated the individual based on his rights is the Western one. This is why, in 2021, only 13.30% of the world's population lived in liberal democracies²⁵. Liberalism is mainly a Western phenomenon. But that does not necessarily imply that a clash of civilizations has to happen. Since a long time ago, many of these divergent cultures have learnt to live with each other, there are traditions and integrative common values between them. Just to cite some examples, we may think of the relationship between Arabs and Christians all throughout Spain's history; or recall that in India the

²² Huntington, Samuel P. (1993). "The Clash of Civilizations?". *Foreign Affairs*. 72 (3): 22–49. doi:10.2307/20045621. ISSN 0015-7120. JSTOR 20045621

²³ Obregon C., 2022. *Conflict and Resolution*, op.cit.

²⁴ Obregon, C. 2009. *La Soledad y el Amor*. Amazon.com. Also available at Research Gate.com

²⁵ Own calculation, based on the information contained in figure 1.3.

Hindu, the Muslim and the Western traditions have existed together for a long time; or remember that the old empires were formed of many cultures living together. The route to peace is to strengthen the international integrative and economic systems, and to develop a globally shared power system based on a commonly accepted law and judiciary process.

In the first section of this chapter, we discuss the West's historical institutional reality; and its key differences with liberalism. In the second section, we present the developing economies' historical institutional reality; and explain why the liberal model has been a failure in democratic countries, while the Asian growth model has been a success even in authoritarian countries. In the third section, we present the world's present global institutional reality; and we show that if the world is contemplated as "one society", it looks like an underdeveloped society. In the fourth section, we briefly discuss the reason why the liberal proposal does not have adequate scientific support. And finally, in the fifth section, we present our own institutional proposal to guide future international relations and to achieve global peace.

THE WEST'S HISTORICAL INSTITUTIONAL FEATURES

The West's success was due to its particular historical institutional characteristics, among which the most important one, as we have argued earlier, is the long process of consolidation of the middle class. As already mentioned, in other works I have defined the middle class as having two properties: 1) It consumes goods and services produced with worldwide frontier technology; and 2) it defies politically the high class for the political control of the country²⁶. It is critical to understand that the lack of a middle class in the developing economies is the main reason why liberalism (the neoclassical model + democracy) has not worked well.

On the democratic front, the middle class is the political support required for other key democratic institutions to work properly, such as a free press and independent judicial and legislative branches of power, able to establish boundaries to the executive power. Without the political support of the middle class, formal electoral democracies actually may disguise authoritarian populist regimes that base their power on the eco-

²⁶ Obregon Carlos, 2008. *Teorias del desarrollo economico*. Amazon.com. Also available at Research Gate.com

conomic benefits they give to a large uneducated low class. This has been the case for example in Venezuela, Bolivia and other countries. Even Mexico, which is a middle-income country, is today under the menace of populism. Mexico is of particular interest, because it is an electoral democracy that adopted the neoclassical model; and not only it has not grown properly, but it is nowadays being governed by a populist government elected through a democratic process. However, there many other, more radical examples of electoral autocracies, and even electoral democracies, in which the electoral process is used to justify populist non-democratic movements. Think for example of many African countries, or of the recent elections in Hungary. In summary, without a middle class the democratic process does not work. Then the question becomes: How is a political middle class formed? The answer is that it takes a long time and particular historical circumstances. In the West, it took around three centuries: from Cromwell's civil war in England in 1649 to the consolidation of liberal democracies after the Second World War. In figure 1.3, before 1950 only Switzerland, Norway, Denmark, Australia and New Zealand are classified as liberal democracies. In the same figure 1.3, in 2021 there are only few non-Western countries that are classified as liberal democracies: Chile, Uruguay, Botswana, Buthan, Cyprus, Seychelles, Japan, South Korea and Taiwan. Moreover, liberal democracies are not necessarily stable, they may retrocede into electoral democracies – as it happened recently to South Africa²⁷.

On the economic front, of the non-Western countries classified as liberal democracies only Japan, South Korea and Taiwan have a significant middle class that consumes products and services produced with global frontier technology. Chile, Uruguay, Botswana, Buthan, Cyprus and Seychelles do not have a worldwide class industry; they operate, as many developing economies, by exporting mainly primary goods, tourism or services. Japan is an interesting case, despite having an electoral democracy after the Second World War (imposed by the US)²⁸, for fifty years it had “free” elections in which only one party won. Only recently has Japan become a truly multi-party liberal democracy. South Korea, despite having early formal democratic signs since 1948, was basically an authoritarian regime until 1987 when the first democratic elections were held. In figure 1.3 South Korea appears as a liberal democracy since

²⁷ The data mentioned here, and later in the text, corresponding to figure 1.3 comes from <https://ourworldindata.org/democracy>.

²⁸ Japan is classified in figure 1.3 as a liberal democracy since 1952.

1993; however, *The Economist's Intelligence Unit* only classified South Korea as a full democracy until 2020. Taiwan is also a very recent democracy, its first democratic election happened in 2000, the year in which it appears classified as a liberal democracy in figure 1.3. These three Asian countries are a good example of how hard is for a country to consolidate a liberal democracy, even after having many decades of economic success that have formed an economic middle class. Thus, “exporting” democracy to the the whole world is an impossible task in pragmatic terms.

In what follows we will describe the particular circumstances that led to the development of a middle class in the West, and why it did not happen in other regions. It is important to understand the particular historical characteristics that explain why development first happen in the West, because this allow us to understand why democracy cannot be exported to other regions and cultures that do not have a historical middle class.

The First Phase, 1500 to 1820. Due to its geographical position, its population density and its early trade with the East, Western Europe already had in 1500 a GDP per capita 86% higher than the average of the world²⁹. It can be appreciated in table 2.1 that Western Europe 30 in 1500 had 31% of the global middle class market. Europe in 1500 was a very attractive market; table 2.2 shows that the European market (Europe 12) was already 6 times more attractive than the China’s market. As Table 2.1 shows, in 1500 almost all the West’s middle class was in Western Europe, but in 1820 the Western Offshoots and Eastern Europe already had a meaningful middle class.

TABLE 2.1. MIDDLE CLASS MARKET %WORLD

Region	Year		
	1000	1500	1820
Western Europe 30	0.68	30.68	40.18
Western Offshoots	0.00	0.00	3.43
Eastern Europe 7	0.00	1.66	3.74
Total west	0.68	32.34	47.35

Source: Maddison 2010

Methodology: Middle class market= $((\text{Region GDP per capita}-\text{Africa GDP per capita})\ast\text{Region population})/(\text{world GDP per capita}\ast\text{world population})$

²⁹ Maddison 2010.

TABLE 2.2. 1500 WORLD RELATIVE MARKET RICHNESS

	<i>Population %¹</i>	<i>GDP per capita²</i>	<i>Market %³</i>	<i>Territory %⁴</i>	<i>Market richness index 3/4⁵</i>
Europe 12	17.3	797	54.0	12.8	4.22
China	36.9	600	31.1	43.4	0.72
West Asian countries 15	6.4	590	4.6	28.3	0.16
India	39.4	550	10.3	15.6	0.66

Source: Angus Maddison 2009, see Table 1.1.

- ¹ Population of each region as percentage of the sum of all. These regions together represented 63.6% of the total world population.
- ² GDP per capita of each region. The world average was 566. Together, these regions represented 69% of the world GDP. Very important note is that Italy had 1100 GDP per capita.
- ³ Percentage of the market that each region has from the market they conform as a whole. Market is defined as GDP per capita minus 528 dollars. This amount represents the average between the 3.10 poverty line and the 1.90 extreme poverty line of the World Bank. But, since both are expressed in 2011 PPP international dollars, we have to convert the average into 1990 PPP International dollars as defined by Maddison. The idea of subtracting the 528 dollars is that they represent almost subsistence level. Thus, the market size that counts for development is GDP per capita minus 528 dollars.
- ⁴ Percentage of the common territory of each region. Together, they represent 14.8% of the world's territory.
- ⁵ Measure market richness comes from dividing market percentage by territory percentage.

Its particular position in 1500 allowed Europe to be the main beneficiary of the ship technology. Portugal went east to Asia, and Spain went to America. The big global market established by the trade of gold and species created an opportunity for manufacturing production in a large scale. Which was developed in those countries, for example the UK, that were not rich due to the gold or the species trade. This was the beginning of large burgos or cities. The migration from the feuds to the cities, that had already started centuries before, increased substantially and large cities were created – which implied the urgent need of a new form of government of the citizens. Initially, cities strengthened the power of the kings (Hobbes), which used to be only powerful feudal lords. But as the cities became more powerful, they became eager to exercise an independent power based on the citizens (Rousseau). However, the battle for the middle class to rise to power was a very long one. In England, Cromwell, belonging to the chamber of commons, in 1649 led the civil war that ended up hanging the king and giving control of taxes and military expenditures to the parlia-

ment – but after that, the chamber of the lords (which is elected non-democratically by the English elites, even today) nominated all the prime ministers. It is not until the beginning of the twentieth century that the chamber of the commons is able to nominate again a prime minister. In France, the revolution of 1789 was followed by the rule of kings and emperors until 1870, year in which France loses the war with Germany and has to give up the key steel production areas of Alsace and Lorraine. And it is not until after the Second World War that a true democracy starts in France. In the US, women were not allowed to vote nationally until 1920, and black people were restrained from free vote until the 1960's.

The Second Phase, 1820 to 1950. The second phase corresponds with the first wave of globalization + the years from 1920 to 1950. In this second phase, the world's GDP per capita accelerated drastically, it had a 0.86% annual growth rate³⁰ – compared with a 0.05% during the period 1500-1820³¹. This second phase is characterized by the fast growth of the middle class's market in the West, which dominates the growth of the global market until 1950; in this year it represented 91% of the middle-class global market (see table 1.4). The consolidation of the middle class in economic terms is the actual precedent that gives rise to the consolidation of liberal democracies in the West after the Second World War.

The Third Phase, 1950 to Today. All along the economic development of the West the middle-class's growth was decisive; but it was particularly so with the consolidation of the West's liberal democracies after 1950. In the third phase (the second wave of globalization) –1950 to today, the political participation of the middle class was critical in the increase in government and social expenditures in the West. Table 2.3 shows that social expenditures in the West in 1900 were almost inexistent – only 0.5% of GDP on average for the countries shown in the table; in 1960 they were already 9.5%, which shows the increasing political power of the middle class; but by 2010 they were 24%, which demonstrates the consolidation of the political power of the middle class in this third phase.

³⁰ Based in Maddison 2020.

³¹ Based in Maddison 2010.

TABLE 2.3A GOVERNMENT EXPENDITURES %GDP

Countries	Year			
	1900	1950	1960	2010
Germany	19.4	27.4	23.4	50.4
Italy	16.8	18.3	17.6	54.7
France	14.1	25.1	23.3	59.1
Netherlands	13.5	26.6	21.8	53.1
United Kingdom	11.9	37.3	36.8	53.5
Sweden	7.7	19.4	25.6	53.9
Canada	7.3	17.3	16.9	47.5
United States	2.9	15.4	29.8	45.1
Average	11.7	23.3	24.4	52.1

TABLE 2.3B SOCIAL EXPENDITURES % GDP

Countries	Year			
	1900	1950	1960	2010
Germany	0.59	N.A.	15.37	25.92
Italy	0.00		10.72	27.63
France	0.57		6.10	30.66
Netherlands	0.39		9.60	22.09
United Kingdom	1.00		9.70	22.79
Sweden	0.85		10.37	26.27
Canada	0.00		8.12	17.55
United States	0.55		6.20	19.35
Average	0.49		9.52	24.03

TABLE 2.3C GOVERNMENT EXPENDITURES-SOCIAL EXPENDITURES % GDP

Countries	Year			
	1900	1950	1960	2010
Germany	18.78	N.A.	8.02	24.45
Italy	16.79		6.86	27.04
France	13.53		17.17	28.41
Netherlands	13.08		12.21	31.02
United Kingdom	10.88		27.13	30.66
Sweden	6.87		15.24	27.65
Canada	7.31		8.81	29.97
United States	2.36		23.55	25.72
Average	11.20		14.87	28.12

Source: <https://ourworldindata.org/government-spending>

In the third phase, the growing government and social expenditures plus the development of certain key Asian countries creates the conditions for a serious expansion of economic growth. The world's GDP per capita annual economic growth 1950 to 2018 was very high, 2.25% (see table 2.4). This rapid global economic growth is partially due to the fast Asian growth; but it is also a clear consequence of the larger governments and larger social expenditures that characterized the second globalization wave. As can be seen in tables 2.4 and 2.5 all the Western countries had a higher rate of growth in the second wave of globalization versus the first; including the Western Offshoots that had a very fast rate of economic growth in the first wave of globalization.

What is critical to understand is that the Western world *as we know it today*³² is very recent –1950 to today. And it is also important to realize that during the third phase we also had a very fast Asian growth in certain key countries. As we have shown in table 1.4, in 1950 Asia (including East Asia, South Asia and Southeast Asia) had 0% of the middle-class market, and in 2018 it had 35%. Which means that of the 43% global middle-class market lost by the West almost all of it went to Asia (the other 7% went to the Middle East due to the relevance of oil in industrial production and transportation).

The Western model's success in the real world did include free markets and democracy as liberalism argues; but in addition, it was charac-

³² With consolidated liberal democracies and large social expenditures.

terized by a large middle class. A middle class which in the process of its consolidation created the democratic institutions that were key for the well-functioning of the democracy such as an independent free press and solid judicial and legislative branches of government, capable to refrain the power of the executive. In addition, as we have seen, the middle class by defying the political power of the high class was able to increase taxes and therefore the government's size, which created: a) the high savings required for fast economic growth; b) the government expenditures that created infrastructure and support for scientific and technological development; and c) the large governments required to guarantee financial stability. Moreover, the growth of the middle class enlarged the market and the large investment available (due to the high savings) was guided by the dynamic changing preferences of the middle class, which created a very fast process of technological change.

DEVELOPING ECONOMIES ARE IN A DIFFERENT INSTITUTIONAL REALITY THAN THE HISTORICAL ONE OF THE WEST

Assuming that introducing democracy and free markets to the rest of the world will create progress and peace is incorrect. First, because in the other countries there are no institutional conditions like the ones that the West has had. And second, because the presence of the developed West establishes the new conditions under which the development of the other regions takes place. Since the world's frontier technology is defined in the West, the regions and countries that do not export to the West develop an obsolete technology, and will collapse whenever trade starts with the West, as it happened to the ex-USSR, Russia, East Germany, Latin America and all the countries that followed an inward-looking development model, like the communist model or the import-substitution model. This means that growing a national middle class with an inward-looking model does not generate sustainable economic growth. Neither expanding trade between countries that do not export to the West will generate sustainable economic growth. In addition, given institutional barriers and the ICT revolution the neoclassical model has failed in the countries in where it has been applied and it is not the theoretically recommended model.

Free markets and democracy by themselves are not able to create neither a fast economic growth, nor a stable democratic system, as the

Mexican case has shown. The main difference between the “idealistic liberal proposal” and the “real successful Western model” were the West’s institutions – mainly the middle class – which did not exist in the Mexican case, nor in any other developing country, and neither do they exist at the international level. There has not been one single case of a developing country that has been successful applying the liberal model (the neoclassical model + electoral democracy). Instead, some Asian countries have been successful with either the Asian growth model + autocracy or the Asian growth model + electoral democracy (although once developed some of these Asian countries have become liberal democracies). What explains the failure of the liberal model and the success of the Asian growth model (whether combined with autocracy or democracy) is whether the country has had -or not- the proper institutional arrangement. The lesson learnt is that the liberal model cannot be applied to countries with different historical institutional arrangements than the one of the West, and that there are other alternative institutional arrangements that are better at fostering the development of developing countries.

The liberal ideology promises that democracy and free markets will bring progress and peace. The promise is based on the history of the Western world after the 1950’s; in which there is a correlation between political and economic freedoms and progress and peace. However, a detailed analysis reveals that there are no scientific reasons to support the liberal promise.

The main reason is that the correlations in the history of the West happened in a given historical framework with a particular institutional arrangement. Therefore, extrapolating the historical correlations found in Western history to the world as a whole or to other countries is scientifically incorrect. Freedom does not necessarily generate progress and peace; it all depends upon the institutional arrangement under which freedom happens.

Looking at the ways countries are classified in figure 1.3 it is interesting to compare Latin America and Asia. In Asia in 2021, South Korea, Japan and Taiwan are liberal democracies; Singapore, Malaysia and India are electoral autocracies; and China, Hong Kong and Thailand are closed autocracies. In Latin America in 2021, Argentina, Brazil, Colombia and Mexico are electoral democracies; while Chile, Uruguay and Costa Rica are liberal democracies³³. As we have pointed out Latin America represents a failed economic model (first it followed the import-substitution model

³³ As we mentioned before, data referred to figure 1.3 comes from <https://ourworldindata.org/democracy>.

and then the neoclassical model or some hybrid models in some countries) and Asia a successful economic model (the Asian growth model).

Finally, an interesting question is whether economic growth by creating an economic middle class will generate or not a political middle class. Five Asian countries have become advanced economies (according to the IMF classification), three of them are liberal democracies: Japan, South Korea, and Taiwan. One – the richer one – is an electoral autocracy: Singapore. And one is a closed autocracy: Hong Kong. As classified in figure 1.3. Japan became a liberal democracy in 1952 (although one party won elections for fifty years), South Korea in 1993 and Taiwan in 2000. Thus, these three countries seem to confirm that once a large economic middle class is formed it creates a political middle class. Hong Kong however, has always been a closed autocracy, even after being taken back by China in 1997. And Singapore, the most successful of the Asian countries, has always been an electoral autocracy. Thus, Singapore and Hong Kong do not confirm the previous thesis.

THE INSTITUTIONAL REALITY OF THE WORLD LOOKS LIKE THE ONE OF A DEVELOPING COUNTRY

In 2020, the world's GDP per capita was \$16,198 dollars³⁴, slightly higher than the one of Latin America & the Caribbean of \$14,826 dollars; and it is almost one third of the one of the high-income countries of \$48,028 dollars. Thus, while capitalism has been successful in drastically accelerating the rate of economic growth of the world, the world's GDP per capita still is the one of an underdeveloped economy. Capitalism has been unable to solve the problems of income distribution, underdevelopment and poverty at the global level³⁵. The world's income distribution is quite unequal; it is very similar to the one corresponding to very underdeveloped countries. The world's income distribution between countries, once we exclude China and India, is still worsening. And the income distribution within countries has worsened in the last thirty years in some Western countries due to the ICT revolution; a deterioration that has generated

³⁴ 2017 PPP constant 2017 international dollars. Source: World Bank, WDI Data Bank. Last Updated 04/08/2022.

³⁵ For a good analysis of today's global problems see Obregon, C. 2020. *A New Global Order*. Amazon.com. Also available at Research gate.com.

protectionist policies, instead of adequate distribution policies to compensate the losers. Poverty is still a major problem in many countries around the world. And underdevelopment has not been resolved except for a few Asian countries that were successful due to the Asian growth model.

At the global level liberalism has been bounded by the national interests. The world as a whole does not have a global democracy, nor a large middle class, nor free press or an accepted international law or judicial system. The WHO (World Health Organization) is very small – it has a budget that is equivalent to the one of a large US hospital; and was unable to manage properly the 2020 GP (Global Pandemic). The climate crisis is being managed poorly. Uncontrolled financial flows due to fiscal paradises promote tax evasion and illegal transfers of criminal money. International crime has been confronted by national polices with all the limitations that this implies.

The history of Western capitalism and democracy has been bounded by the national state. Democracy is not a worldwide phenomenon, the mere thought of a true global democracy, with a worldwide elected president is unthinkable today in pragmatic political terms. And while democracy was a success story in the Western developed nations, it has not been necessarily so in other countries which experienced all kinds of mixed results. While there are success stories like Japan or South Korea, there are other failed experiments like Venezuela or Bolivia; and many mixed cases like Mexico or Argentina.

THEORETICALLY THERE IS NOT AN ECONOMIC LIBERAL SOLUTION

That free markets do not have a unique stable optimal equilibrium has been theoretically established by information economics, game theory, Keynes' economics and institutional economics. Information economics has shown that there are multi-equilibriums, some of which are associated with unemployment and/or underdevelopment. Game theory has proven not only that there are multi-equilibriums, but that many can be suboptimal, as for example Nash equilibriums. Keynes' economics has established that a monetary economy may produce financial crises and unemployment. And institutional economics has shown that the economic equilibrium does depend upon the institutional arrangement. As I have explained these theoretical results recently in another work, I will not dwell on this

topic here³⁶. That democracy does not work without the proper democratic institutions has been established by political science, and it is the main distinction between electoral autocracies, electoral democracies, and liberal democracies. In sum, the liberal idealistic model does not have an economic solution. The successful Western model happened because of the presence of proper political and economic institutions.

At the theoretical level, it has been shown that free markets do not necessarily generate neither a stable relationship between the economic agents, nor economic progress. At the empirical level, in developing economies increasing economic interdependence has not necessarily been associated with faster economic growth (again the perfect example is Mexico). This empirical result reinforces the theoretical discovery that the economic equilibrium does depend upon the characteristics of the institutional arrangement under which the economic interdependence is created.

Keynes argued that: 1) At the national level neither full employment nor financial stability can be obtained with free markets, unless the proper institutions exist; and 2) at the international level, to avoid wars and drastic global inflation-depression business cycles, proper institutions are also required.

The 1930 GD, the 2008 GFC and the 2020 GP have shown us that even the Western countries are not able to produce full employment and financial stability (as the liberals argued that they would – according to the rational expectations school) without the proper institutions; thus, Keynes was right. In the 2020 GP the economic response of the governments has been a huge increase in government expenditures, as Keynes would have recommended. Today, the liberal idea of stable markets in the developed Western economies is gone, it has been shown wrong by economic reality.

Free markets while necessary for global progress, are not sufficient. Proper national and global institutions are required. The first wave of globalization, given the lack of adequate global institutions, ended up in the First World War. And as Keynes wrote in *The Economic Consequence of the Peace*, the aggressive agreements imposed by the winners on the losers after the war were the main cause of the hyperinflation of the 1920's. The central banks' monetary contraction to fight the hyperinflation of the 1920's created a recession, which in turn stimulated protectionist policies aimed at reducing the impact of the recession. But these protectionist policies backfired, creating the 1930's GD. And in turn the 1930's GD generated nationalistic-populist policies, among them communism and

³⁶ Obregon, C., 2020. *New Economics*. Amazon.com. Also available at Research Gate.com

Nazism, which were a precedent of the Second World War. It is not until after the Second World War that a relative peace between the main powers is established due to four factors: 1) The US's unquestionable leading role; 2) The new global institutional arrangement of the West – partially a consequence of Keynes' recommendations; 3) The Cold War between the West and the USSR could not easily become an open war due to the new nuclear power capabilities on both sides.

The US's leading role officially ended in 1971, when the agreements reached in Bretton Woods were changed into the new global system of free-floating exchange rates and free capital flows (under Bretton Woods exchange rates were fixed and capital flows were controlled). Since 1971 the disintegration of the global institutions started, and was particularly accelerated in the eighties, under the influence in political economy of the neoclassical thinking in monetarism and the school of rational expectations. At the end of the eighties the ICT revolution began and the world started a long period of economic growth that did not end until the 2008 GFC.

In the last 14 years the world has seen three major global crises. The 2008 GFC, the 2020 GP and the Russian-Ukraine war. Additionally, the world has accumulated many unresolved critical issues: the climate crisis, the loss of control of global financial flows through the presence of global paradises, the empowerment of international crime, partially fostered by the lack of control of financial flows, unresolved and unacceptable levels of global poverty, and the subsistence of underdeveloped economies that have only marginally benefited from the global capitalistic economic growth. What is going on? Why so much global disorder? The answer is that the world lacks an adequate global institutional arrangement and that free markets do not operate well without one.

AN INSTITUTIONAL PROPOSAL FOR INTERNATIONAL RELATIONS AND FOR GLOBAL PEACE

We have so far already introduced enough elements that can be used in the construction of an institutional proposal for international relations and global peace. First, national interests are a reality, and therefore the use of power to solve conflicts between nations is always a possibility. Second, while a military balance of powers - as proposed by the realist school - is required, it is an unstable and insufficient solution. Third, the solution

must also involve the integrative and the economic systems. Fourth, the liberal model is an abstract ideology that does not explain well what really happened in the history of Western economic growth, it misses the importance of institutions, particularly the role of the middle class. Fifth, the liberal model (neoclassical model + democracy) did not work well in developing economies and neither in the ex-USSR countries. Sixth, the Asian growth model worked well in developing economies; it is the only model that has created advanced economies from developing ones. Seventh, the Asian growth model is a dependent model – it requires exporting to the global middle class. Eighth, the world's economic growth is defined by the economic interdependence and the size of the global economic middle class's market (the middle class is understood in economic terms as the one who buys goods and services produced with worldwide frontier technology). Ninth, theoretically it has been shown that free markets do not generate a stable, unique, optimal equilibrium. The economic solution depends upon the institutional arrangement. Inadequate institutions will generate financial crises, unemployment, underdevelopment and poverty, wars, and in general suboptimal and inadequate global solutions for many of the world's problems like the climate crisis, or international crime. This is what has happened in the real world. Tenth, contemporary wars are lose-lose games –in general, they are fought to decide who loses less; they are the outcome of inadequate settings of the game – or, in another language, an inadequate institutional arrangement.

Taking these elements in consideration, our proposal is that the best path to obtain global peace is economic interdependence, but for the latter to work properly it requires a framework of stronger global institutions.

The economics of global peace proposes that: 1) Economic interdependence is the key to global peace; 2) however, for the global economy to work properly and in order to avoid open conflicts, trust between the economic agents and the nations is required; 3) such a level of trust requires common, strong global institutions – including the ones directed at expanding the global middle class; and 4) for these global institutions to operate properly, ideological diversity needs to be tolerated.

Point 4) is central in our proposition and will be discussed in the next chapter, therefore our full recommendation will only be outlined completely until the conclusion of this manuscript. In the remaining of this chapter, we will explore two key issues of the proposal: why trust is required for optimal solutions; and which specific global institutions are required for developing trust between nations.

Trust and Optimal Solutions

Contemporary economics, using game theory, has shown that the amount of resources under dispute depends both upon the institutional settings of the game, and the specific strategies adopted by the agents in the game. Therefore, the focus has changed to the understanding of the quality and properties of the institutional arrangement.

Game theory provides an interesting lesson for conflict theory, because it has shown that even if the conflict is analyzed in dynamic terms, the result may still be suboptimal³⁷. The reason why this can happen is that a given economic agent does not know what the others will do. And even if we hypothetically assume that: a) all economic agents are informed of what the optimum potential solution is; and b) communication between them to announce their future actions is allowed; it can still be the case that the optimum solution does not occur, because in addition to be informed about the other economic agent's future actions, the economic agent has to trust than they are saying the truth – knowing than the others may benefit from lying.

But trust is not a feature neither of the economic system, nor of the power system, it is a feature of the integrative system³⁸. The main lesson learnt with game theory is that economic conflicts do not have a solution within the economic system itself³⁹; the solution requires an institutional arrangement bolstering trust, that necessarily involves the integrative system. Now, what happens when there is not an adequate integrative system? Since economic conflicts do not have a solution within the economic system, then the solution of the conflict will often involve the power system – the use of force or the menace of it.

At the international level, this implies that the lack of a common integrative system implies that economic conflicts may easily have subop-

³⁷ Even if the agents have full dynamic information as to the moves of each one that will take them to the optimal solution; it will not be achieved, unless the agents trust each other. Because otherwise, they may be afraid that the other agents may not comply with the optimal required moves, because by cheating these other agents may get extra benefits at the expense of the ones that did comply; therefore, they will cheat first.

³⁸ In this manuscript we follow Kenneth Boulding's framework of institutional economics, according to which the interactions of individuals within a society are not only explained by the existence of an economic system, but also by the prevailing norms of an integrative system and by the use of force or the menace of it within a power system. For definitions and further discussion of these three social systems see figures 3.3 and 3.4.

³⁹ Obregon C., 2022. *Conflict and Resolution*, op.cit. Chapter one

timal solutions that probably will involve the power system – the likelihood of wars increases substantially.

The balance of power proposed by the realist school is a solution to economic conflicts based on the menace of the use of power. But such a solution is unstable, because it can easily be shown in game theory that it is to the advantage of the participants to anticipate the other (whom they distrust not to attack them first) by starting a military aggression first. This explains, to a large extent, the wars all through the history of humanity, up to the Second World War. After the 1950's, the development of nuclear-power countries has changed what the balance of power means. The balance of power between nuclear-power countries has made war very expensive for those involved; but the way out has been for nuclear powers to involve themselves in wars with small, non-nuclear countries, under the premise that none of the nuclear power countries will rescue the non-nuclear, small country given the potential high costs of a nuclear war. This however increases the possibility, as we now have seen in Ukraine, that the other nuclear powers come to the rescue of the non-nuclear small country by providing it with non-nuclear traditional arms and know-how (Russia also supplied armament to Iraq and Afghanistan in the corresponding wars). But this situation is unstable and dangerous for the world. As I am writing, Putin has announced the launch of a new intercontinental missile and has publicly declared that it is a warning for those countries that wish to threaten Russian interests.

There is no solution for economic or power conflicts within the power system that are stable, the only way out is a common integrative system⁴⁰. That is why global institutions are required. And there is an important lesson to be learnt from this discussion: institutions have to be global and be inclusive – able to include everybody; otherwise, whoever is left out will distrust the institutions and conflict will be generated. This already has significant practical implications. It implies, for example, that not eliminating NATO after the collapse of the USSR was a mistake. It also implies that if NATO was not going to be dissolved, Clinton should have promoted the inclusion of Russia into NATO, as Putin requested in 2001. And it also implies that Nixon and Kissinger were correct in opening diplomatic relations with China. That Putin attempted to isolate Russia and its interests is a huge mistake. That Biden declared the Russia-Ukraine war as the war between autocracies and democracies is a

⁴⁰ See Obregon, Carlos., 2022. *Conflict and Resolution*, op.cit.

mistake. Creating the EU and preventing countries from joining is a mistake; Russia should have been a European Union member. Dismantling the WTO is a huge mistake. Global organizations such as the WTO, the IMF, the World Bank, the WHO, and others must be strengthened and new, broader roles should be assigned to them.

In simple terms, the only road to peace is to develop a worldwide, inclusive, integrative system. As long as there is a distinction between us and them, between the “in-group” and the “out-group” there will be conflict and wars. However, a global integrative system will always be insufficient given the presence of national interests, and in a broader sense the conflicting evolutionary nature of humans. Conflict is evolutionary built-in in human societies, and to some extent it is required for societies to change and be able to confront endogenous and exogenous parametrical changes like technology, climate conditions, exhaustion of resources and so on. Therefore, together with the integrative system there has to be a global power system with executive capacity to implement, for example, the resolutions of global judges. And again, given the existence of powerful nations the global power system will always be insufficient. But although the solution will always be far from optimal, the direction is clear: to strengthen the global integrative system and the executive capacity of the global power system. Common laws and judges must be accepted, and global endorsement mechanism should be created and respected (like for example those that have been imposed in the past by the WTO).

Either one believes, as liberalism defends, that institution must be dismantled or one believes, as we are proposing, that institutions must be strengthened. However, it must be clear that our institutional proposal does not imply that institutions can substitute the markets. If we have learnt anything, it is that free markets, economic interdependence, and a large middle class are the keys for economic progress. And while economic progress by itself does not guarantee peace, together with strong, inclusive institutions developing common international trust, it will go a long way to promote peace. Conflict will always be there and wars most likely will continue to happen; but they can be reduced in extent and global relevance by following our institutional proposal. This proposal is not the magic cure for progress and peace. But it changes our view of the world about how to deal with conflict, how to stimulate progress and how to promote peace. And as Boulding used to say, we should not look for the optimum, we should

just watch whether we are going up or down. Our institutional proposal will take us in the upward direction. Liberalism and communism will continue fostering conflict, menacing progress and peace and taking us in the downward direction. Thus, our institutional proposal is not an ideal-optimal solution, it is just a pragmatic change of view that will take us in the upward direction.

Towards Inclusive Global Institutions

Under Keynes' influence, and with leaders that were aware of the failure of the negotiations of the First World War, Bretton Woods was a success. It created inclusive institutions (excluding communist countries) aimed at fostering the economic recovery of enemies and allies alike. The Marshall Plan aimed at the recovery mainly of Europe (including Germany and Italy), and Japan. As table 2.4 shows, 1950 to 1970 were the best annual growth rates in the period 1820 to 2018, not only for Europe, but also for the Western Offshoots (which include the US) and for the World. As table 2.5 shows, these years were particularly good for the former enemies (Germany, Italy and Japan) because they needed more reconstruction.

TABLE 2.4 REGIONAL GDP PER CAPITA ANNUAL GROWTH RATE % (2011 PRICES)

Years	Western Europe	Eastern Europe	Western Offshoots	Latin America	Asia (East)
1820-1950	0.89	1.24	1.37	1.05	0.02
1950-1970	4.08	3.58	2.28	2.67	5.12
1970-2018	1.89	1.49	1.77	1.69	3.56
1950-2018	2.53	2.41	1.92	1.98	4.02
	Asia (South and Southeast Asia)	Middle East	Sub-Saharan Africa	World	
1820-1950	0.11	0.69	0.39	0.86	
1950-1970	1.86	3.54	1.98	2.91	
1970-2018	2.339	2.84	1.24	1.97	
1950-2018	2.94	3.05	1.46	2.25	

Source: Maddison 2020

TABLE 2.5 GDP PER CAPITA ANNUAL GROWTH RATE % (2011 PRICES)

Years	United States	UK	France	Germany
1820-1950	1.35	0.93	1.18	1.06
1950-1970	2.29	2.22	4.02	5.27
1970-2018	1.76	1.67	1.58	2.07
1950-2018	1.91	1.83	2.29	3.00
	Italy	japan	USSR	China
1820-1950	0.57	0.65	n.a.	-0.08
1950-1970	5.24	8.44	3.43	2.84
1970-2018	1.67	1.93	1.66	4.77
1950-2018	2.71	3.80	2.17	4.20

Source: Maddison 2020

The key institutions for the Marshall Plan were the World Bank, in charge of the reconstruction loans, and the IMF, in charge of maintaining the global financial stability. Since the monetary regime of Bretton Woods consisted in fixed exchange rates, controlled capital flows and autonomous monetary policy, the IMF oversaw that the recovery happened with macro-stability, so that the external balance of the countries was healthy enough to maintain the required fixed exchange rates. Exceptions had to be authorized by the IMF, which could provide the liquidity needed for the adjustments required.

Despite its undeniable success, Bretton Woods had two problems. The first problem was that it was based on a dominant country player – the US, which should have guaranteed financial stability by maintaining a fixed gold-dollar parity, so that other currencies could have a fixed parity with the dollar. This of course implied macro-prudence in the US's government finances. As we know, Nixon - looking for his reelection - increased government expenditures with his famous dictum that “we all are now Keynesians” (he abandoned monetarism because it was creating too much underemployment and was politically unappealing for the political reelection); and as a consequence in 1971 France (Europe had already recovered due to the fast 1950-1970 economic growth) asked the US to convert the dollars France had into gold; the US refused, and this was the end of Bretton Woods and the beginning of the actual monetary regime of flexible exchange rates, free capital flows and autonomous monetary policy.

The second problem was that Bretton Woods was built under the Cold War spirit. Therefore, it excluded countries that were members of the USSR and those with which the West did not have political relations – like China, or Cuba later. The Cold War is one of the tragic events in recent history. It started due to Stalin's unsatisfiable ambition and Truman's inexperience in international political affairs. Winston Churchill warned Truman that Stalin was moving Russia's military forces into Eastern Europe and suggested that the UK and the US should stop him by moving their troops eastwards; Truman refused, because he wanted the US soldiers to go back home as soon as possible, and he argued that later, in a diplomatic table the territorial disputes with Russia could be settled. But Churchill was right, and Truman was wrong, Stalin never gave back an inch of territory, and an angry Truman started the Cold War. The Cold War has had an enormous cost for the world's economy, it meant that large, key populations did not participate in the economic recovery 1950-1970. The USSR grew fast during this period, at an annual rate of 3.43%; but, because it was dissociated from the West and it did not have a large middle class of its own, it grew with obsolete technology. And the consequence was the collapse of the USSR at the end of the eighties. The USSR today has the same problem, an inward-looking economy growing with obsolete technology. The costs for the world of the Cold War have been on four fronts: 1) The foregone economic growth associated with incorporating the large USSR market; 2) The large investments made in obsolete technology in the USSR which finally collapsed when the USSR opened to the West; 3) The large expenditures in military nuclear and non-nuclear armament; and 4) Traditional wars involving small countries that reflect the confrontation between the superpowers. This includes today's Russia-Ukraine war, which likely will signal a new round of increasing costs on these four fronts.

The historical difference between China, on one side, and the USSR and Russia, on the other, illustrate the difference between inclusive versus exclusionary institutions. In 1970 Nixon, under Kissinger's advice, opened the relations between the US and China. Only ten years later, China started repositioning itself to trade with the West and at the end of the eighties joined the ICT revolution (with an Asian growth model) and had the huge success that we have witnessed. During 1990-2020 the annual growth rate of China has been 12.97%, while the one of the Russian Federation has only been 1.05%⁴¹. But the difference is not only

⁴¹ WDI, World Bank last updated 04/08/2022.

in the rates of growth, but in the technology they are using. China is a dominant exporter of machinery and transport equipment to developed countries, Russia does not participate in this market. China has frontier technology while Russia continues to grow with obsolete technology.

The benefits of the Chinese economic growth for the West have been huge. China has increased global productivity for years, and it is behind the long wave of low inflation that the world has had in the last decades. Meanwhile, Russia continues isolated, arming itself, and what it has brought to the world is the Russia-Ukraine war with all the future costs that it will imply.

It was a mistake not to use the collapse of the USSR to introduce a second Marshall plan to modernize the USSR. The argument for not doing it because they were communists was never a good one; in the first Marshall plan the West successfully helped imperial Japan and Nazi Germany. Moreover, China is still a communist country. The real reason why the West did not do it was because the then dominant liberal economists' thought was that it was not needed, they were convinced that free markets would do the job of recovering the USSR, and they were wrong. And the failure of the liberal model produced as a response an inward-looking recovery in Russia, that isolated this country again.

It was also a mistake not to include Russia into NATO when Putin asked Clinton to do it in 2001. It is a mistake to maintain exclusionary institutions. Whoever is left out will become a resentful adversary, if not an enemy.

What is our proposal? It is a change of mind. Instead of having as a goal exporting liberalism, and protecting it through exclusionary institutions, create inclusive institutions that "include everybody", practicing ideological tolerance (the topic of next chapter) and looking forward to increasing economic interdependence and the size of the global middle class.

What does it mean concretely? Let us briefly discuss what it means in terms of the WTO, the IMF, the World Bank, the WHO, NATO, and fighting the climate change crisis and international crime. The following notes only pretend to briefly indicate the directional change that our proposal entails.

The WTO. The World Trade Organization is critical in our proposal. It is the key for a healthy development of free trade and economic interdependence, and therefore for the economic growth of the world. Bilateral trade agreements should be precluded, and large nations should obey the WTO dictums. The developed countries' defense of agricultur-

al products import tariffs is unjustified. And the growing protectionism in the US, the UK and the EU is unacceptable, and it has huge costs for the global economic growth. The US-China bilateral agreements are the wrong way to go. Trade penalties approved by the WTO in fact can be an instrument for global justice. A case like Russia's invasion to Ukraine could theoretically be sanctioned through a strong WTO. But the key point is that the WTO should be inclusive of everybody – with the same rules. The ICT revolution entails the potential of an enormous increase in global productivity, but it requires a strong WTO. Instead, today the WTO has lost prestige, influence and power, to the point that nobody with an international solid curriculum in the developed countries wants to be nominated to preside it. We are going in the wrong direction.

The WB. Besides free trade and economic interdependence (which should be the goal of the WTO), the other element on which global economic growth depends is the size of the global middle class. There are two ways to increase the global middle-class market. The first one is to increase the imports of the successful Asian countries that followed the Asian growth model, this slowly happens because they are becoming wealthier, but in addition it could be a task for the WTO that should stimulate free trade. The second one is to increase the middle class in the developing countries – this should be the goal of the World Bank. How? Promoting the development of the world through an economic new Marshall plan. The developed countries will benefit enormously by the new middle-class markets in the developing economies, and their insertions into the global economy may imply an increase in global productivity well beyond what happened with the insertion of China.

The IMF. The International Monetary Fund will be in charge of global financial stability and should be the final authority in the matter. Financial sanctions like the ones applied to Russia should never be imposed unilaterally by a given country or group of countries, it should be the duty of the IMF. The IMF should provide financial support for the countries' long run growth programs, and not only for short-term economic cycles, as it does it today. This implies, for example, backing countercyclical policies in the developing economies, as the ones that are applied in the developed ones. The IMF should be in charge of legalizing global financial flows by gaining control of the activities of fiscal paradises.

The WHO. The World Health Organization's budget is equivalent to the one of a large US hospital. The world paid dearly for this during the 2020 GP. As late as May 2020, the WHO was still not recommending

wearing masks. The WHO should be strong and should have real command in global health issues.

NATO. The North Atlantic Treaty Organization should disappear and be substituted by a global security agency that should include all the countries in the world. This organization should be the cornerstone to maintain a balance of powers, while reducing the military armament and the nuclear power of the countries involved.

Climate Change. Climate control should not be the consequence of multilateral agreements between countries. There should be an international agency with political stature, financial possibilities and authority to penalize the countries that do not achieve the targets assigned and agreed by them.

International Crime. It will never be stopped unless there is control of financial flows by the IMF, an efficient worldwide police and an accepted international law and international judiciary system.

International Courts. The US is asking for the condemnation of Russia's and Putin's war crimes by the international courts – but it faces the contradiction that the US does not officially recognize the international courts (it has been avoiding their recognition, among other issues, for example to prevent childcare demands to US soldiers from non-US nationals). This contradictory behavior has to stop; if we want to build an international community able to aim at progress and peace, it is necessary to have recognized international courts, an international law accepted by everyone, and consensual enforcement mechanisms.

CONCLUSION

Liberalism has dominated global policy for the last decades; and it has been mistaken on many fronts: 1) It defended the wrong view about the 2008 GFC; contrary to the argument of the liberal economists, the private markets did not do their job, and a local real-estate subprime crisis, unresolved by the US government - that did not intervene, under the advice of the liberal economists-, became unneeded the 2008 GFC. 2) It was unable to solve the problems of poverty and underdevelopment. The only countries that tackled these problems were the ones that followed the Asian growth model. 3) It has been unable to solve the global climate crisis. 4) It has been unable to regulate global financial flows, which have

benefited substantially the expansion of international crime. 4) It was unable to solve both the 2008 GFC and the 2020 GP, both of which were confronted with non-liberal policies like the Keynesian expansion of the governments' expenditures and the central banks entering directly into the credit markets in what is known as quantitative easing. 5) The 2020 GP required the massive intervention of the governments for vaccine production and application. 6) It was unable to export democracy, even after decades of the US being present in Iraq and Afghanistan it failed in bringing democracy to these countries.

Free markets and economic interdependence do work well, and they are most needed; but they only work well within a Keynesian institutional world that has a key role for the governments. The West's success is explained by free markets and economic interdependence, but within a very specific institutional arrangement that includes a large middle class. Free markets and economic interdependence do not work well within a liberal world lacking proper institutions; there are many examples, the first wave of globalization ended up in the First World War and the liberal recommendations of what is known as The Washington Consensus did not work well in the developing countries that adopted them. Liberalism has not brought democracy to the world, only 13.3% of the population lives in liberal democracies. What liberalism has done is to create unneeded global tensions that have been one of the negative influences that explain the Russia- Ukraine war. It is time for us to abandon liberalism as a guide for international relations.

The only known alternative is realism. The criticism of the realist school to liberalism of being idealistic and leaving aside the reality of confronting diverse national interests is adequate. International relations cannot ignore the historical reality of nations with divergent interests; nationalism has been a constant in the last millennia of human history. But the solution proposed by realism, of an international balance of powers, is too unstable; and will lead to frequent military confrontations. Realism is based in the power system; and there is no doubt that the power system is critical, but international relations include also the economic and the integrative systems.

In this chapter we have introduced a third alternative to guide international relations: institutionalism. Institutionalism argues in favor of strong international institutions. We have summarized the institutional proposal for global peace as follows: 1) Economic interdependence is the key to global peace; 2) for the global economy to work properly and in order to avoid open

conflicts, trust between the economic agents and the nations is required; 3) such trust requires common, strong, global institutions – including the ones directed to expand the global middle class; and 4) for these global institutions to operate properly, ideological diversity has to be tolerated.

The new technology of the ICT has globalized the economic system and fostered an economic interdependence that accelerates free trade and increases global productivity. The ICT revolution is the key for global economic progress, but it requires free markets which will only work properly under the guidance of strong global institutions. Bilateral trade agreements will end up in protectionism and will jeopardize the productivity possibilities of the ICT revolution - what is needed is a strong WTO.

The progress of the world depends critically on its economic interdependence and on the growth of the international middle class. Both of which increase the market size that allows for a fast technological development, guided by the changing preferences of the middle class. While the WTO is required for adequate economic interdependence, a strong WB and FMI are required to develop an international middle class and foster the financial stability required for economic development.

Economic progress however, given national interests' divergence may become unstable and lead to military conflicts. The only way out of this is to build solid international institutions that foster mutual trust. Thus the WTO, the WB and the FMI have to be supported by an international law and international accepted courts and mechanisms for enforcement. It is under an accepted common legal framework that a new Global Security Agency must operate, with the aim of establishing an adequate balance of powers directed at reducing the military armament and the nuclear power of the diverse countries in the world. And it is under an accepted common legal framework that problems like global health, global climate and international crime can be addressed.

The new institutionalism's guide for international relations is not an ideal proposal, it is a required response to the globalization brought about by the ICT technology. We live today in a globalized world; the ICT revolution has globalized the economic system, and the nuclear technology has globalized the potential consequences of a traditional war. The Russia-Ukraine war must alert all of us that something is going awfully wrong in the way we manage the world. Not only today everybody around the world can watch the war and the killing of innocent people in their home's TVs. But everybody is suffering the consequences. Many people around the world are starving because of the food scarcity pro-

duced by the lack of exports of Ukraine and Russia. Many others are suffering the inflation caused by increased energy prices. People in Washington are buying food to store home, afraid that Putin may decide to launch an intercontinental missile; and they are not crazy – although is unlikely, it is for the first time a possibility with a probability higher than zero. Moreover, the increase in energy prices and of food brought about by the war add up to the supply-chain problems consequence of the 2020 GP and the high global demand created by the expansionary government adjustment programs, also due to the 2020 GP. The increase in energy prices and of food triggered by the war may be the last drop that spills over the glass of water and creates the possibility of inflationary expectations that force the central banks to an aggressive increase in interest rates, that may take the world into a recession, that would be absurdly costly. We are just too interdependent in the modern world. And even crisis in relatively isolated countries like Ukraine and Russia may have all sorts of negative consequences for the global economy and maybe even for the global peace. We do not even want to imagine what could occur if China invades Taiwan.

The institutionalism's guide to international relations does not ignore the difficulty of creating strong international institutions, given the prevalence of the national interest of powerful nations. There will never be an optimal solution for global progress and global peace. The pragmatic question however is: What should be the guide for international relations? Marxism should not even be mentioned, not only because it does not stand any real possibility, but because it is also theoretically mistaken (see next chapter). Liberalism has failed, it is too idealistic, and it does not stand a real chance in a world in which only 13.3% of the population lives in liberal democracies. Realism is restricted only to the power system, the solution it proposes is not stable and will lead to vey suboptimal solutions, with frequent military confrontations and the consequent damage to economic progress. Thus, we need to do something else, something new. We need to change our minds, to understand that we truly live in a globalized world. One that will never be dominated by just one ideology; thus, as we argue in the next chapter, ideological tolerance is required. We should move in the direction of strengthening the international institutions. It will be a slow process, and it will take a long time; but it is the only possible pragmatic route for a world whose technology is growing so fast, that it is becoming ever more interconnected, in economic, cultural and military terms.

CHAPTER THREE: EVOLUTIONARY CONFLICT, SOCIAL CHANGE, AND IDEOLOGICAL TOLERANCE

To understand the origins of ideologies, it is critical to realize why the world could never be dominated by just one ideology, whether be it liberalism, Marxism, Christianity, Islamism, Confucianism or Buddhism. In the first section of this chapter, we discuss how the mind forms images of reality, how conceptual systems are developed, and how they relate to institutional arrangements; what glues societies together, and why diverse societies create distinct ideologies that may confront each other. In the second section, we show why conflict is endemic to human societies, and how it is the basis for a healthy evolutionary social change. We introduce theories of social change and how they explain today's international reality. In the third section, we discuss why ideological tolerance is required in today's globalized world, and why it is a critical ingredient of the institutional proposal defended in this manuscript.

CONCEPTUAL SYSTEMS AND INSTITUTIONAL ARRANGEMENTS: THE ORIGIN OF IDEOLOGIES

The human mind does not have access to the "true" external reality. Humans only know the images of such a reality that they have in their brains. We capture information through our senses, process it and file it in the form of neural maps – which are images of the external reality. When needed, we retrieve these images and may combine them. Science help us to interact better with reality, and to get to know it more. But science is a consequence of mental and mathematical models of reality which are not the "true" external reality. Take for example the notions of time of Newton and Einstein, they are very different one from another; in Newton time is an absolute dimension, and in Einstein it is relative and a geometrical dimension. Now, "true" reality is just one. But what is "true" time? Newton's or Einstein's? The answer is: none of them. Both New-

ton's physics and Einstein's physics explain rather well macro-physical reality for almost all events, but they are not "the physical reality" – they are models of reality. And different models of the same reality may interact in distinct productive ways with it.

From the beginning, humans had to confront the need to survive, and therefore they have to create images of reality that interact in productive ways with it. Thus, societies created conceptual systems that had as a counterpart an institutional arrangement that implemented in pragmatic life the ideas contained in the conceptual system. And distinct societies created different conceptual systems with their corresponding institutional arrangements. In other works, I have distinguished three very large conceptual systems in human history: magic, rationality and harmony; which correspond to the primary society, the traditional society and the Western society respectively. But these are only artificial, abstract categories, created with the intention to show the particularities of the Western society; that is the only society that has differentiated the individual in terms of his/her rights. All the traditional societies, whether past or contemporaneous, are particular – singular – differentiations away from distinct primary societies. But all the traditional societies have in common that the individual is only differentiated based on his/her duties. Hinduism, Buddhism, Confucianism, Christianity and Islamism are conceptual systems that correspond to traditional societies – in none of them the individual has rights, he/she only has duties.

In primary societies, humans living in small groups did not differentiate the individual. The whole universe was ordered by a universal cosmogony – magic. In magic, things are just the way they are, and humans do what they are designed to do. As societies get more sophisticated and larger, in the traditional societies, they become hierarchical and it becomes necessary to differentiate the individuals by their duties. And it is not until the contemporary Western societies, due to their particular historical characteristic that gave rise to the citizens as the central force of the political system, that individuals are differentiated by their rights. The reader interested in the in-depth discussion of these topics may review them in my previous works⁴². What is relevant for our purpose here is that there are distinct conceptual systems that imply diverse institutional ways of living, and lead to very different lifestyles; particularly, that the Western society's conceptual system is a drastic departure from other tra-

⁴² Obregon, C., 2021. *The Philosophy of Belonging*. Amazon.com. Also available at researchgate.com

ditional conceptual systems, because it is the only one that differentiates the individual based on his/her rights.

Therefore, the notion of human rights that seems like an unquestionable truth from a Western perspective, is not understandable from a traditional perspective. Why? Because evolutionarily we basically are social beings, not individual beings. We were evolutionary designed to live in a social group. And from an evolutionary standpoint the group's survival is prior in relevance over the individual's survival. This principle is still alive even in Western societies, that is why they send soldiers to war – it is a social duty, among others that the individuals have. Individualism has to be understood for what it is, a Western ideology. How did it start? From an institutional perspective, with the growth of large cities, due to the increase in global trade, that eventually gained power and needed a political system based on the citizen. From a conceptual perspective, it is an inheritance of Christian thought. Saint Thomas argued that moral truths were in God's mind and that they could be understood by the human mind, a position followed later by Kant and Locke and most modern Western philosophers. For these philosophers, human rights reside in the mind of God; and humans have them because they are the children of God. But this particular institutional and conceptual differentiation that happened in the Western traditional society (and that gave rise to the contemporary Western societies), did not occur in other traditional societies. These societies followed distinct differentiation routes of their own, compatible with their specific history.

In India, the cast system organized the hierarchical society and the Hindu religion was developed as a support for the differentiated individual to perform his duties. Hinduism was later developed into Buddhism. In China, the need of integrating a large territory with diverse cultures could not be satisfied by Buddhism (which was a personal religious philosophy)⁴³. Therefore, rational Confucianism emerged, which is a rational order for society based on the individual's duties. In the Islam, the need was military survival, and the religious conceptual system became very specific regarding the individual's responsibilities. In the Islam, religion has never completely dissociated itself from the State as it happened in the West. Marxism is a Western ideology that rebels against

⁴³ That is why Buddhism as a social philosophy was not approved in China, in which it remained only as what it really is, a personal religion. China's conquest of the Tibet is explained for this reason, as well as China's refusal to dialogue with the Dalai Lama. The Tibet was not seen well in China and still is not.

what was happening with Western individualism and goes back to traditional values by defining individual freedom as the traditional societies have done: the individual is free when he performs his social duties (in Marxism individuals performing their social responsibilities satisfy their true nature of “species beings”). This is why Marxism has been adopted by some traditional societies.

What glues the individual to the society? Belonging. We are evolutionarily designed as social beings; therefore we belong to the society. And when the society becomes more complex, we belong both to the society and to the small group of people near to us that we love. Belonging is a necessary feature for evolutionary survival. In other works, I have defined belonging as the evolutionary capacity to identify ourselves with the external world. There are three basic ways of belonging: 1) Love – belonging to the people near to us; 2) Social Significance – belonging to the society at large; and 3) Existential Significance – belonging to the external, material and biological universe that surround us. Belonging gives us meaning – significance – as individuals; that is why social belonging is called social significance and existential belonging is called existential significance. There exists a large scientific empirical literature on the relevance of the three ways of belonging for evolutionary survival⁴⁴. But the point that is of our interest here is that the three ways of belonging have to be defined by a conceptual system and implemented in real life by an institutional arrangement. Therefore, although belonging is an evolutionary requirement for survival, it is expressed in diverse ways in distinct cultures. Why? Because societies are built bottom up, they develop from small groups that join each other in distinct environments, and diverse historical times and characteristics, that shape both their thinking and their living.

Since social life is the expression of social belonging, the three social systems described by Kenneth Boulding are contained within social belonging. In fact, these three systems specify what social belonging is. The whole picture of the relationship between the individual and the society is presented in table 3.1 and the corresponding definitions are in table 3.2. But it must be emphasized that the individual in figure 3.1 is already from the start a social individual. Individualism is just a specific social differentiation of a particular society – the West’s. But even in the Western society, individual freedom is a concession from the society to the individual (again, as the right of the society to send the individual to war shows).

⁴⁴ Obregon, C., 2021. *The Philosophy of Belonging*, op.cit.

TABLE 3.1 SOCIAL INTERACTION

individual	Love	Institution: Conceptual System and Institutional Arrangement
	Social significance	
	Existential significance	
Social significance:	Integrative System	
	Economic and Trade System	
	Power System	

TABLE 3.2 DEFINITIONS OF CATEGORIES OF ANALYSIS OF SOCIAL BELONGING

Institution: is the sum of a Conceptual system and its corresponding Institutional Arrangement.

Conceptual System: it is a mixture of knowledge, beliefs and habits that fully explain the social and physical reality, and guide and direct social and individual behavior.

Institutional Arrangement: The set of institutions that make operative the Conceptual system.

Integrative system: traditions and customs and social obligations, for example: established rules, the law; values and social beliefs in general; ethical principles; religion; benevolence; and individual commitments individually socially sanctioned.

Economic and Exchange System: the production and distribution of economic goods and the selfish exchange in any social relations, including economic exchange.

Power System: the social use of force

Once it is understood that the human mind does not have access to the “true” reality and much less to eternal moral truths, it is easy to understand that human rights are a particular ideology of the Western society – and therefore, they do not have a real chance to become universal. No ideology will ever become universal. Societies are built historically bottom up, conceptual diversity and institutional differences in the way of living of diverse societies are part of our evolutionary makeup.

The problem with liberalism and Marxism (like all the other “isms”: Christianity, Buddhism, Hinduism, and Confucianism among others) is that they are based on preconceptions that are *a priori* assumptions that are not derived from scientific knowledge, nor can they be deduced from their philosophical system. Thus, they are ideologies based on “beliefs”, that is why they cannot be reconciled between them.

Marxism starts with the assumption that the human essence is to be a “species being”. And then it introduces two more assumptions: that all economic value comes from labor, and that the social sciences can get to know the laws of human history. With these three assumed preconceptions the rest follows. Proletariats are alienated from their true essence as “species beings” because what they produce with their labor accrues to the capitalists – therefore the capitalists’ profits are exploitation. Once the assumptions are made, the only way out is the proletariat revolution, so that the proletariats can own the means of production (communism); and it will necessarily happen because of the given laws of history. Once communism exists, it will evolve by itself into the humane society – in which all the individuals will satisfy their true nature as “species beings”. Progress is guaranteed because value comes from labor, and peace because humans are universal “species beings”. To a large extent Marx’s human society is heaven on earth⁴⁵. Notice

⁴⁵ Marxism has to be understood for what it is: a ramification of Western ethical humanism. To understand Marx’s thought, one has to go back to his early manuscripts and his initial works in philosophy. Following Feuerbach, Marx turns Hegel’s idealism upside down and transforms it into Marxist materialism; but maintains from Hegel the notion that human history has “telos” (an ultimate purpose) and that it can be understood by the human reason through the study of history, philosophy, and the social sciences. For Marx the global nature of economic production in capitalism reveals at once the true nature of humans as “species being”. And it is from the philosophical presumed understanding of this true nature of humans that the rest of Marx’s social thought is deduced. Marx’s philosophical preconception of humans as “species being” is the perfect example of what Derrida has called *a priori* philosophical preconceptions that cannot be explained philosophically or scientifically, but which are assumed from the start and provide the basis for the deduction of the rest of the proposed philosophy. In Marx, given the “species being” nature of humans it follows that whatever they produce is produced as a “species” (a common production) and therefore must be owned by the whole species. Marx found in the labor theory of the classical economist the piece he was looking for to further advance his philosophical thinking. Since labor is the fundamental source of economic value and it must be “social necessary labor” – it has to be ratified by the market (because the hours of labor to produce a good that cannot be sold, do not generate economic value – Marx’s critique to Proudhon); it follows that social labor is what generates value. Thus, the capitalist’s appropriation of the surplus left after paying labor is exploitation. Workers are alienated from their true nature of “species being” and do not receive what they truly deserve – the whole value of their production. The only solution is for the workers to own the means of production, and for this to happen a proletariat revolution has to occur. Since humans are a “species being” and since in capitalism production has been globalized, for Marx the proletariat revolution was going to be global. the proletariat revolution would install a communist society whose main goal was to create the conditions for the “humane society” to flourish. A “humane society” is one in which all the individuals are truly free, exercising their true nature as “species being” – the promised land.

It is critical to understand that Marxism is an ethical humanitarian proposal, because that is why it has become so popular. People who defend Marxism do not do it because they defend an authoritarian society; but because they see it as liberating humans from the tyranny of the capitalists. Marxism is a substitute for a religious ethics. In Christianity, humans (due to the

the Christian influence on Marx's thought. In Christianity, humans are thrown into history so that they can, with their labor, redeem themselves from the original sin. At the end of history, humans will live like brothers and sisters in heaven as children of God. And although some individuals may be condemned in the final judgment, and sent to hell, it is written that humans as a species will go back to live with their father in heaven.

Liberalism starts with the initial assumption that all individuals have human rights; among them the political rights of free vote and free expression, and the economic rights of private property and to produce, buy and sell goods and services as he/she so wishes. The second assumption is that social science can prove that free markets optimize economic welfare. And the third assumption is that social science can prove that democratic countries are peaceful. From these three assumptions (none of which can be proven scientifically), it follows that global capitalism with free markets and democratic nations is both the goal and the end of history, because it will guarantee individual freedom, progress, and peace. Notice again the similarity with Christianity. Humans have a given essence, and when they realize it they are truly free; and once this happens the social system will have peace and progress. Capitalism and democracy (in the liberal's conception) is the liberal version of heaven on earth.

The difference between Marxism and Christianity⁴⁶ on one side, and liberalism on the other, is the individualism contained in the latter ideology. Marxism with its version of the "species being", as we mentioned, is compatible with the traditional societies that did not differentiate the individual on the basis of his/her rights; that is why Marxism became popular in Russia and China. The main traditional version of Christianity – Catholicism, was not fully compatible with the differentiation of the individual based on his rights made historically in the real life in the Western societies; that is why, as Max Weber beautifully has shown⁴⁷, Protestantism emerged together with Western capitalism.

original sin) are condemned to work for their living, and through history redeem themselves to finally (after the final judgment) reach the promised land – "heaven" – in which they can freely enjoy and exercise their true essence (nature) as "children of God". In Marxism, humans work to transform their living environment and through history unfold their true nature (essence) as "species being", the end of history is communism which will end up in the "humane society" in which humans can freely exercise and enjoy their true nature.

⁴⁶ Christianity was initially developed in traditional societies as Judaism, and Catholicism; both of which described the individual's duties.

⁴⁷ Max Weber; Peter R. Baehr; Gordon C. Wells (2002). *The Protestant ethic and the "spirit" of capitalism and other writings*. Penguin. ISBN 978-0-14-043921-2.

Moreover, these “isms” are incompatible among each other, because each ideology starts with different preconceptions, developed according to the historical reality in which they emerged⁴⁸. And precisely because they are incompatible, in a globalized world ideological tolerance is required; otherwise, the incompatibility will be transformed into confrontation.

SOCIAL CONFLICT AND SOCIAL CHANGE: WHERE ARE WE TODAY?

Evolutionary survival requires both social functionality and social change. Functionality is required for daily survival, and social change to be able to cope with the endogenous and exogenous shocks that characterize social life. Among the endogenous shocks we may find: scientific discoveries, technological advances, population growth, and new ways of living and thinking. The exogenous shocks are related to weather changes, epidemics, earthquakes and so on, and the interaction with other societies – “out-groups”. Social change implies social conflict within the society and between societies. It includes among others independence movements; revolutions; racial, sexual, and other rights movements; and wars.

Social conflict will never end because it is an evolutionary requirement for social change and survival. But functional stability is also required for survival. Thus, conflict is always, one way or the other, resolved; and gives rise to a new functional structure. But this process may happen in distinct ways, some more optimal than others in terms of diminishing human suffering. Rigid institutions will force open conflicts, including wars, which are very costly in human terms. Flexible institutions, on the other side, may be able to accommodate conflict, and allow for social change while minimizing human cost. We propose that the reason why we have had so many wars is the presence of rigid ideological essentialisms, which ideologically justify a military balance of powers strategy, that in reality is oriented to protect long-term economic interests of the nations involved. Wars are the ultimate consequence of a selfish, scarcely institutionalized global game, that, in contemporary wars fought in a globalized world, result in a lose-lose solution. In contemporary wars everybody loses. Contemporary wars are, in fact, fought to see who loses less. That is why

⁴⁸ For a description of the preconceptions in Buddhism and Confucianism see Obregon, C., 2021. *The Philosophy of Belonging*, op.cit.

strong credible international institutions are essential for global peace and they necessarily need to imply ideological tolerance.

A satisfactory social theory must be able to explain: 1) social stability; 2) social change; and 3) the role of social conflict in social change. Moreover, the explanation must be based on the microanalysis of the interaction between individuals and groups. And any macro-perspective must be understood as based upon *ad hoc* abstract constructions by the analyst which serve the purpose to illustrate better the social dynamics, but caution must be exerted in that different abstract constructions could be built by diverse analysts. And at the end the usefulness of the abstract macro-categories must be judged by their capacity to illustrate social dynamics, which is always based on the micro-interaction between individuals and groups. Whatever social theory is proposed must be compatible with: 1) Scientific knowledge in neuro-evolutionary biology and in social sciences; and 2) the fact that social dynamics in distinct societies has been historically very diverse.

Human beings started living in social groups, and what characterizes them as a species is that they intensified furthermore their social life. Thus, humans are social beings. Any social theory based on the free individual of the Western society as the key element of social dynamics must be refused, the key element of social dynamics is always a social group. Groups of course are formed of individuals, but a distinction must be made between individuality and individualism. Individuality is a biological reality, individualism is the particular differentiation in Western societies of an individual that has human rights: among them, political and economic freedom. The rights of individualism however, at the end, are given by the society.

Scientifically we know that humans do not have access to essential eternal truths. Therefore, there is no way to know the true essence of humans. Humanism is a socially constructed concept about humans. We must reject any essential vision of the nature of humans such as: the neo-classical free independent individual; the neo-institutionalist free individual with limited rationality; and the Marxist species being. Language is of social origin. Therefore, what Veblen called habits of thought and habits of life⁴⁹ are of social origin – the true agent of social stability and change is

⁴⁹ Veblen's "habits of thought" correspond to what we have called the conceptual system, and his "habits of life" to the institutional arrangement. For a discussion of institutionalism see Obregon, C., 2008. *Institucionalismo y desarrollo*. Amazon.com. Also available at Research Gate.com.

a social individual, who has a physical individuality but always exists in a social group that defines both his/her conceptual and institutional reality.

Different social groups have formed different conceptual systems and institutional arrangements, in which the power to define the social changes that are needed to adapt to external and internal shocks may reside either in democratic decisions (made by the free Western individual), in group decisions (like in primary societies) or in a selected group chosen by the elites (like the Roman senate).

Individualism is only one of the many social differentiations in human history, and even today it is not of general acceptance. Around eighty seven percent of the population of the world today lives in societies where social stability and social change are defined by traditional conceptual systems and institutional arrangements that have diverse characteristics amongst them – but which have the commonality that the individual differentiation of human rights is not the axis of social stability and change.

Scientifically we know that rock technology played a decisive part in the evolution of human beings, because it allowed extended groups to exist and the development of an erected human that used the hands, a larger brain, a sophisticated language, and the capacity to read other's emotions. Thus technology, as Marx, Veblen and North argued, is a fundamental element of social change. But we also have enough evidence that humans since the beginnings have constructed conceptual systems, burial ceremonies are documented at least two hundred thousand years before the Homo Sapiens. Therefore, symbolic interactionism is also right, individuals interact with one another to create symbolic worlds, and these worlds influence the individuals behavior. These individuals are already social individuals, not isolated individual social agents; there is no doubt that conceptual systems do exist in human societies and that they have a dynamic of its own, as North has argued. And that, independently of who takes the decisions, social engineering responding to external and internal shocks is a required survival characteristic of human societies.

Although individualism is a particular social differentiation of the Western society, individuality is an evolutionary biological reality consequence of the evolutionary requirement to diversify as much as possible the genetic pool. And individuals to survive need survival instincts such as hunger, fear, sex, and aggression⁵⁰. Therefore, although individuals are always social, there is also always a tension between the individual and the group

⁵⁰ This is our animal heritage, as Lorenz shows in his book: *On Aggression*. Lorenz, Konrad, *On Aggression*. New York: Harcourt, Brace and World. 1996.

that is never fully resolved. As we have argued before, and as it has been largely documented in psychology, belonging failures bring back individual aggression as the main form of social relation between individuals⁵¹.

Moreover, evolutionarily human beings were made to belong to small groups of around one hundred to one hundred and fifty members⁵². In these groups, social belonging occurs through physical interaction between the members, and therefore it is still partially based on limbic connections⁵³. As societies are extended, and they are composed of many small groups, social belonging within the groups is still limbic, but between the groups it is not. Thus, there is an evolutionary potential conflict not only between the individual and the social group; but also, between the distinct groups that constitute the extended society. Conflict is particularly strong between societies that do not share a common conceptual system or institutional arrangement.

Social conflict is an evolutionary feature of human societies because social belonging always has failures. A full integration between the individual and the group, and between the distinct groups that constitute the society is an evolutionary impossibility. Social conflict in fact is a healthy feature in human societies. If, as an example, one looks at the recent history in Western societies, many positive features that are accepted today and that functionalism argued to be highly valuable adaptive features like democracy, black voting or female voting, were the result of social conflict.

Social conflict however has to happen within an institutional arrangement that provides unity and functionality. If social life was only guided by social conflict, nothing would guarantee social survival. Thus, although on occasions social conflict destroys the old institutional arrangement and creates a new one, an institutional arrangement is needed for the functionality of the society -in this point functionalism is right. Naked power cannot provide social stability for long. In order to provide long lasting stability social power has to be functional. But the differential characteristics of the agents that constitute the society (whether individuals or groups) do play a key role in social conflict, which is a fundamental element in the process of social change. Social change based on social conflict may on occasions end in the total destruction of a particular so-

⁵¹ Obregon, C., 2021. *The Philosophy of Belonging*, op.cit.

⁵² Obregon, C., 2021. *The Philosophy of Belonging*, op.cit.

⁵³ Obregon, C., 2021. *The Philosophy of Belonging*, op.cit.

ciety, but in most cases, this does not happen because social conflict is guided by social belonging, and therefore at the end a new form of functional stability is institutionalized.

Social belonging is defined by the three social systems: the integrative, the power and the economic system. These systems, as we have argued, are abstract constructions, useful for social analysis, that might be substituted for other ones. We use them because they have the advantage to point out that economic power is only one of the features of social stability and change. Integrative power and the power system itself also play a fundamental role in social stability and change.

Social stability and social change happen in different ways in distinct societies, in this ethnomethodology is correct⁵⁴. We have used the abstract categories of the primary society, the traditional society, and the Western society to exemplify this diversity. But in the real world there are, of course, many different societies within these abstract general categories; and the boundaries between them are not clearly defined either. However, an undeniable scientific fact is that the social differentiation made in in the West, particularly as it relates to human rights and democracy, is only one of the several routes of differentiation historically taken.

Social stability and change happen in different ways in distinct societies. There are however some common features: 1) social belonging and social conflict always exist; 2) social belonging in general guides social conflict; 3) all societies develop functionality; 4) social change is the consequence of external and internal shocks, among which social conflict is an important one – because it provides social flexibility in the response to the shocks suffered⁵⁵; 5) all societies develop a conceptual system and an institutional arrangement that adapts and changes through time; 6) social change happens both at the level of the institutional arrangement and at the level of the conceptual system; 7) because of evolutionary individuality the agent of change has to be the individual; but in all cases, even in Western individualism, the individual is always a social individual.

The micro functioning of the society is extremely relevant in any society, and the microanalysis is particularly relevant for Western societies. But such micro functioning always occurs within a historical context which implies a given conceptual system and an institutional arrangement. The agent

⁵⁴ See Obregon Carlos., 2022. *Social Power*. Amazon.com. Also available at Research Gate.com.

⁵⁵ See Obregon Carlos., 2022. *Social Power*. Amazon.com. Also available at Research Gate.com.

of change is always the individual, but it is a social individual influenced by the conceptual system and its corresponding institutional arrangement. Change happens both in the institutional arrangement and in the conceptual system, and there is social creativity at both levels.

The economic development of the West is due to several factors such as: 1) technology, as Veblen and Marx state; 2) free markets, as the neo-classical thinkers defend; and 3) individual innovation, as North argues. But it is also consequence of the consolidation of the middle class, which was the one that definitively enlarged the market and whose dynamic preferences guided and fostered technological development. Thus, social change is always the consequence of a complex interaction between the three social systems: the integrative, the power and the economic.

The price system as a transmitter of information does not have a specific relevance in Veblen. In North instead, it is essential to transmit incentives for individual creativity. In the view proposed here, the price system is crucial to transmit the changing needs of the middle class, which provide the central guidance for the fast technological development in capitalism⁵⁶.

The economic development of Asia is not well explained neither by Veblen nor by North. The view presented in here explains it in terms of institutional policies that: a) reflect the institutional strengths of these cultures; b) recognize the need for an endogenous savings policy; and c) establish an investment policy aimed at producing for the mass consumption of the Western middle class – and therefore requires using world's frontier technology.

Underdevelopment in North is the consequence of institutions that do not promote individual creativity and innovation. In Veblen it is explained by obsolete institutions that do not allow technological development. In the view presented in here, underdevelopment is the consequence of: a) a non-competitive local institutional arrangement; and b) an inadequate global institutional arrangement⁵⁷.

The world's global problems are explained in Veblen by the prevalence of old habits of life and thought, in North they are the consequence of not having proper institutions that free human individual creativity in all the countries; in the view presented here they are the consequence of an improper global institutional arrangement.

⁵⁶ See Obregon Carlos., 2022. *Social Power*. Amazon.com. Also available at Research Gate.com.

⁵⁷ See Obregon Carlos., 2022. *Social Power*. Amazon.com. Also available at Research Gate.com. the ch dynamic preferences are theible, m, nor realism are the solutions for the complex interational relations Institucionalis.

Diversity and conflict in the society are welcome, as they make it more plural and flexible. But too much conflict without institutional functionality results in social chaos. Therefore, what is needed for proper social change is a strong institutional setting, which however is flexible enough to incorporate changes fast; changes due to the social diversity allowed, and the conflict of ideas that propose distinct paths to accommodate to endogenous and exogenous parametrical changes. The flexible institutionalization of diversity is a critical element for a society to have the capacity to have an adequate process of social change.

Where Are We Today?

In Veblen's terms, the problem of the world today is that the old habits of life and of thought have not yet adapted to the new technological changes brought about by the ICT revolution. In our language, while the ICT revolution has globalized the world, the international institutional arrangement has lagged behind. The old conceptual systems still used today are no longer useful to understand the reality of the contemporary world's society that has been globalized by the ICT revolution. Liberalism belongs to the conceptual system of the modern Western society; but it is ill suited as a reference for today's globalized world and its future dynamics. Realism rightly points out the difference between distinct national interests and national points of view; but its proposal, of maintaining a balance of powers between nations, is restricted to the power system and is unstable and insufficient. Although nations constitute an undeniable reality, and any global perspective must deal with the interest of powerful countries, the view of a world defined by national interests is conceptually behind the globalized reality imposed by the ICT revolution. The only way out to move forward is to strengthen global institutions capable of responding to the needs brought about by the new global reality. If we do not do it, the unresolved conflicts between national interests confronted in an intense global interaction brought about by the ICT revolution could be the cause of continuous acute problems and suboptimal solutions.

IDEOLOGICAL TOLERANCE, A MUST IN TODAY'S GLOBALIZED SOCIETY

The West, the communist world, and other regimes are guided by ideological essentialisms that propose non-achievable paths towards global peace, and that blame their enemies for breaking the peace. Each one of these essentialisms argues that they defend the “goodness” in humankind, and that the others represent the “dark side” of humans. Battles are presented as “good” versus “evil”: The crusades were fought about defending the “true” God. Nazis condemned the Jews. The allies in the Second World War saw the Nazis as representing “the evil” in humans. In the Cold War, NATO condemned the communist world. Communists condemn capitalists as dirty pigs, abusing of the masses of poor proletariats. Once and again wars are fought in the name of national freedom and independence. And in their name aggression and repression, truly motivated by selfish “national interests”, are justified.

As we said before, the conceptual system and the institutional arrangement of a society correspond to one another; therefore, economic interests always correspond to ideological explanations. Societies operate along the three large social systems: the power, the economic and the integrative. Wars between two societies are guided by the power system of each of the societies in the military confrontation; but they always involve the other two systems. There is always an ideological explanation of the war. And wars always involve the pursuit of advantageous diplomatic gains in the peace negotiations, that reflect long-term national economic interests. However, in the contemporary interrelated global world it is no longer true that wars are fought to benefit a nation or a group at the cost of another nation or group's disadvantage (as it could be the case in the old empires) – because, most often, in contemporary wars everybody loses. Thus, wars seem to be fought to see who loses less. In an interrelated world, the pursuit of national interests cannot any longer be fruitfully accomplished through wars. However, as game theory has taught us, this does not guarantee peace. Lose-lose games are common in human life and in human societies. Thus, despite its potential destruction, as we are seeing vividly with the Russia-Ukraine war, contemporary wars can occur. Peace is not guaranteed by a growing global trade, nor by increasing economic interdependence; as we mentioned before, the first wave of globalization led to the First World War.

Peace will not be built imposing an ideological perspective on others, because ideological intolerance creates mistrust and makes it impossible to have credible strong global institutions. Ideological intolerance in itself creates the distinction between “us” and “them”, between the “in-group” and the “out-group” which has been shown in many social psychological experiments to be the basis of social conflict. Ideological tolerance, on the other side, coupled together with a common institutional arrangement creates an overreaching umbrella – a “superordinate goal” that puts everybody within an “in-group” category. Disentangling the discussion of national interest from an ideological battle, and accepting international institutions to act as arbitrageurs, does not guarantee peace, but it certainly is a step in the right direction

I have discussed elsewhere the importance of the categorization of “in-group” and “out-group” for social conflict⁵⁸. Therefore, here I will just briefly describe a classic experiment that illustrates this principle.

Realistic Conflict Theory (RCT) started with the Robbers Cave experiment which was part of a series of studies conducted by social psychologists Muzafer Sherif, O J Harvey, and his colleagues in the 1940s and 1950s⁵⁹. In these studies, they showed how groups of normal, well-adjusted boys at summer camps interacted in a hostile manner with a rival group having conflicting aims. The participants in the Robbers Cave experiment were boys approximately 11-12 years old, who thought that they were participating in a typical summer camp, which took place at Robbers Cave. They arrived in two separate groups. For the first part of the study, they spent time with members of their own group, without knowing that the other group existed. The groups chose names (the Eagles and the Rattlers), and each group developed their own group norms and hierarchies. After a short period of time, the boys became aware that there was another group at camp and, upon learning of the other group, each of the camper groups spoke negatively about the other group. At this point, the researchers began the next phase of

⁵⁸ Obregon, C.,2021. *Poverty and Discrimination*. Amazon.com. Also Available at Researchgate.com.

⁵⁹ Sheriff M. and OJ Harvey (1961), *Intergroup Conflict and Cooperation: The Robbers Cave Experiment*, Norma OK, University of Oklahoma, Institute of Intergroup Relations. Sherif, Muzafer. “Experiments in Group Conflict.” *Scientific American* vol. 195, 1956, pp. 54-58. <https://www.jstor.org/stable/24941808>.

the study: a competitive tournament between the groups, consisting of games such as baseball and tug-of-war, for which the winners would receive prizes and a trophy.

After the Eagles and Rattlers began competing in the tournament, the relationship between the two groups quickly became tense. The groups began trading insults, and the conflict quickly spiraled. The teams each burned the other group's team flag, and raided the other group's cabin. The researchers also found that the group hostilities were apparent on surveys distributed to the campers. During this time, the researchers noticed a change within the groups as well: the groups became more cohesive.

To determine the factors that could reduce group conflict, the researchers first established contact between the campers, bringing them together for fun activities; such as having a meal or watching a movie together. However, this did not work to reduce conflict; for example, meals together evolved into food fights. Next, Sherif, Harvey, and his colleagues tried having the two groups work on what psychologists call "superordinate goals", goals that both groups cared about, for which they had to work together to achieve. For example: 1) the camp's water supply was cut off intentionally by the researchers, and the Eagles and Rattlers had to work together to fix the problem; 2) deliberately a truck bringing the campers food would not start, thus members of both groups had to pull on a rope to pull the broken truck. These activities did not immediately repair the relationship between the groups. In the beginning, the Rattlers and Eagles resumed hostilities after a superordinate goal had been achieved. However, working on shared goals eventually reduced conflict. The groups stopped calling each other names; perceptions of the other group, as measured by the researchers' surveys, improved; and friendships even began to form with members of the other group. By the end of camp, some of the campers requested for everyone to take the bus home together, and one group bought beverages for the other group on the ride home.

Donelson Forsyth⁶⁰ explains that the Robbers Cave study demonstrates how readily people engage in social categorization or dividing

⁶⁰ Forsyth, Donelson R. *Group Dynamics*. 4th ed., Thomson/Wadsworth, 2006. https://books.google.com/books/about/Group_Dynamics.html?id=VhNHAAAAMAAJ. See also, Konnikova, Maria. "Revisiting Robbers Cave: The Easy Spontaneity of Intergroup Conflict." *Scientific American*, 5 Sept. 2012.

themselves into an in-group and an out-group; even before the actual competition for scarce resources starts, which of course aggravates things as realistic group conflict theory would predict⁶¹.

Realistic group conflict theory explains how intergroup hostility can arise as a result of conflicting goals and competition over limited resources. It also offers an explanation for the feelings of prejudice and discrimination toward the out-group that accompany the intergroup hostility⁶². Groups may be in a competition for a real or perceived scarcity of resources such as money, political power, military protection, or social status. The length and severity of the conflict is based upon the perceived value and shortage of the given resource. The Robbers Cave study also shows that conflict is not inevitable or intractable, as the researchers were eventually able to reduce tensions between the two groups. The Robbers Cave experiment allows us to evaluate social psychology's contact hypothesis; the latter suggests that contact is not always enough to reduce conflict. Instead, the key may be to find a way for the two groups to work together. According to this theory, positive relations can only be restored if superordinate goals are in place.

John Duckitt expanded the theory to include competition between groups of unequal status and showed the resulting correlation with prejudice⁶³. When group conflict extends to nations or tribes, the theory argues that the collective danger leads citizens to start having strong feelings of national or tribal identity, preferring a strong, hierarchical political system, adopting strict discipline and punishment of deviants, and expressing xenophobia and strict religious and sexual morality⁶⁴.

⁶¹ Khan, Saera R. and Viktoriya Samarina. "Realistic Group Conflict Theory." *Encyclopedia of Social Psychology*. Edited by Roy F. Baumeister and Kathleen D. Vohs, SAGE Publications, 2007, 725-726. <http://dx.doi.org/10.4135/9781412956253.n434>

⁶² Jackson, Jay W (1993). "Realistic Group Conflict Theory: A Review and Evaluation of the Theoretical and Empirical Literature". *Psychological Record*. 43 (3): 395-415
Baumeister, R.F. & Vohs, K.D. (2007). "Realistic Group Conflict Theory". *Encyclopedia of Social Psychology*. 2: 725-726.

Sidanius, J. & Pratto, F. (1999). *Social Dominance: An Intergroup Theory of Social Hierarchy and Oppression*. Cambridge, UK: Cambridge University Press. pp. 17-18.

⁶³ Duckitt, J. (1994). *The Social Psychology of Prejudice*. Westport, CT.: Praeger. pp. 157-179.

⁶⁴ Fog, Agner (2017). *Warlike and Peaceful Societies: The Interaction of Genes and Culture*. Open Book Publishers. doi:10.11647/OBP.0128. ISBN 978-1-78374-403-9.

Psychologists Michael Platow and John Hunter connect the Robber Cave experiment to social psychology's social identity theory⁶⁵: the theory that being part of a group has powerful effects on people's identities and behaviors.

Ideological intolerance by itself generates social conflict, and ideological tolerance coupled with a common strong institutional arrangement is the way to reduce conflict. Therefore, ideological tolerance is one of the pillars required for our institutionalism proposal.

However, ideological tolerance does not mean to give up ones' own beliefs; which besides not being required, would be impossible to achieve in pragmatic terms. In fact, ideological tolerance is compatible with promoting ones' own values, as long as one respects the others' as valid.

Being born in the West, it is difficult not to believe in the importance of human rights and individual freedom. And Western individuals, like anyone else, have the right to promote their values. But it is important for them to realize that such values are not necessarily the "end of history", nor that they have to be the values of the future global society to come. And just as them, others have the right to promote distinct values.

It is important to dig deeper into the question: What does it mean to be a liberal? To be liberal is in fact a gradient, that goes all the way from the extreme of believing, as liberalism does, that democracy and free markets must be exported at all cost to all the countries on earth (because they will create progress and peace), to the other extreme of believing that individual freedom is valuable for human societies, and that it must be promoted, respecting the others' right to promote their own different values. In the sense of this latter extreme, I count myself as a liberal. Table 3.3 describes the gradient that being a liberal may imply. As it can be seen in the table in a very restricted sense our institutional proposal has a liberal spirit, in that it believes in promoting individual freedom as long as other ideologies are respected and their right to promote their ideals is also granted.

⁶⁵ Platow, Michael J. and John A. Hunter. "Intergroup Relations and Conflict: Revisiting Sherif's Boys' Camp Studies." *Social Psychology: Revisiting the Classic Studies*. Edited by Joanne R. Smith and S. Alexander Haslam, Sage Publications, 2012. https://books.google.com/books/about/Social_Psychology.html?id=WCSbkXy6vZoC

TABLE 3.3 THE LIBERAL SCALE

A) *Types of Liberalism by Its Consequences:*

Level IV (what we have been referring to in this text as liberalism): Free markets + democracy in few countries + democratic promotion = global economic progress + democracy in each country + global peace

Level III: Free markets + democracy in few countries + democratic promotion + large governments + global institutions = global economic progress + democracy in each country + global peace

Level II: Free markets + democracy in few countries + democratic promotion + large governments + large social expenditures (social justice) + global institutions = global economic progress + democracy in each country + global peace

Level I: Our institutional proposal. Economic interdependence based on free markets + democracy in few countries + large governments + large social expenditures (social justice) + worldwide inclusive global institutions promoting ideological tolerance and global social justice + democratic promotion + promotion of other ideologies = global economic progress + future larger middle economic class + unknown future but one with likely better chances of both: 1) global and national respect of certain individual freedoms; and 2) better chances of global peace

B) *Types of Liberalism by Origin*

Level IV: Human rights residing in God's mind, which can be grasped by the human mind.

Level III: Human rights are implanted by God in the human heart, and they are learnt through life by practicing social virtues.

Level II: Human rights' origin is unclear; but still, they are an unquestionable human value – they are universal.

Level I: Our institutional proposal. Human rights are a specific historical differentiation of the Western society; therefore, they are not universally valid. The West however has the right to promote them, as other societies have also the right to promote their own different values.

Humanism did not start with the Western notion of human rights. Humanism has a long tradition in humans' philosophies. It starts long before Christianity. In the Indian religion and in Buddhism loving other humans is a natural consequence of the interconnectedness of anything that exists. The two Buddhist truths that are supposed to be achieved through illuminations are: 1) That everything that exists starts to exist in its interconnectivity with everything else; and 2) that individual existence is therefore an illusion. In Buddhism humans learn to love animals, nature and other humans, because they are existentially interrelated to them. In Confucius' philosophy human beings are social by nature, and must develop virtuous relationships among

them; relationships of excellence. These relationships are dominated by the principle of “Shu”, reciprocity. The center of Confucius’ ethics is the “Xiao”, family feeling. The most important social relationships for Confucius are five: ruler and ruled, father and son, husband and wife, elder and younger brother, and friendship. The objective of the ethics of Confucius is to develop social harmony between individual interests and those of society. Always giving priority to the common interest. The two basic virtues for this author are “Ren” (humanism or kindness) and “Li” (act properly). The virtue of “Ren”, leads to the “Shu”, reciprocity, of Confucius: “Do not do to others what you do not want them to do to you”⁶⁶. In Greek philosophy, humans become a key player in a universe ordered by rationality and understood by human reason. And it is through using their reason and through ethical practice (Aristotle) that humans understand their ethical duties to other humans. In Christianity humans are conceived as children of God and they gain therefore a special place in the existential universe that sustains the Christian humanist thought. Christianity, Hinduism, Buddhism, and Greek humanism belong to traditional societies in which the Western human rights are not respected. And it is precisely these humanisms that created the precedents for the Western philosophy to emerge. But what is important to realize is that Western thought is only one of the routes taken by humanism.

We can distinguish four main incompatible routes taken by political humanistic philosophies; their incompatibility partially explains today’s global social disarray. Each one of these four routes, has built-in an initial assumption which one way or another assumes that humans have access to understand the essential nature of the universe and of humanity.

The first route is a mystical social order inherited from the primary society, but culturally modified by the specific history of each society.

⁶⁶ The difference between the “Shu” reciprocity of Confucius and the golden rule of Kant, is that the second is proclaimed attached to the duty imposed by reason, and the first in terms of the development of virtuous conduct in moral praxis. The virtue of “Li” is the concrete individual application of the virtue of “Ren” in individual behavior, “Li” is learned through the rituals of the community. “Li” is the individual’s own behavior that explains the social order, beyond the strength of the State to impose it. The superior person “Junzi”, is the one who cultivates the moral virtues, and the one who behaves in the appropriate way “Dao”. Mencius, a disciple of Confucius, developed an idealistic Confucianism in which man is by nature good, and being virtuous implies developing that innate nature; but this idealism is not present in the initial thought of Confucius. The ethics of Confucius is an ethic of responsibilities that promote social order.

This explains: 1) The Hindu religion, which largely defines social order in India and South Asia. Social order in contemporary India, despite the democratic influence of England, is still mostly explained by its traditional roots⁶⁷. 2) Social order in most of Africa; Africa has a high degree of social disarray because the conquest destroyed largely the traditional social order, by creating new artificial frontiers which created new territories that did not correspond to the traditional ones. 3) Social order in the indigenous cultures of Latin America. Latin America is a similar case to Africa, but its traditional social order was less disrupted by the conquests. From the perspective of this first route, the Western individual appears as isolated from his natural surroundings and as incapable to develop his/her true mystical being.

The second route is Confucius's rationality, which still today significantly explains social order in China, Japan and North Asia. However, religious and personal life continue under the influence of

⁶⁷ In Hindu thought the universe is an integrated whole. The Vedas, the oldest Hindu text of philosophy written 2000 years ago, describes the cosmology of the universe as repeated cycles of creation, destruction and rebirth with each cycle lasting 4300 years. The mythical conception characteristic of the ancient cultures such as the Incas, Mayas, Hopi and other indigenous tribes, as well as the Egyptians, Babylonians, Greeks, Hindus, Buddhists and other cultures, conceives time as cyclical, producing an endless repetition of ages and entities, birth and extinction. Essentialism in these initial philosophical thoughts, however, is not rational. The essential character of the existing cannot be understood through reason, but only via illuminated ritual and meditation. The cosmogony principles of the Hindu religion are a legacy of primary magic. Life is eternal, and every living being is subject to a continuous cycle of birth and death. The influence of our actions goes from one life to another, and transcends life and death. The Karma - the individual destiny, is defined by the behavior performed in previous lives. The Hindu cosmogony vision defined the political philosophies in India, Burma, Thailand and most of South Asia. In all these societies social order is established through old traditions inherited from the primary society. In the case of India, a very strict cast system is established. This social order defines the first two ways of belonging: love and social significance. And they are both guaranteed just by being a member of the society. Existential belonging, however, is not guaranteed any longer as it was in the primary society; it becomes an individual responsibility, but Buddhist teachings show the way. In India, each individual confronts his existential significance in a different way, depending upon his cast, and his own characteristics such as age, intelligence and so on. Therefore, nobody practices, for example, the same yoga.

a modified Buddhism⁶⁸, and of mystical Taoism⁶⁹. China today is a communist country, and one cannot deny the influence of Western Marxist thought; however, China is not understandable without its traditional roots, which still are the key to explain its social order. Japan is influenced by Western democracy, yet its social order is also mainly traditionally explained. It is interesting to note that China's and Japan's social orders, despite one being communist and the other capitalist, have many similarities. The reason China could so easily transform its communism into a communist capitalism, is that its true social order has never been explained by communism; it has always been mostly explained by its traditional roots. From the perspective of this second route the Western individual appears as too self-centered, mundane and incapable to develop properly his/her true social and existential being.

⁶⁸ Buddhism is the proposition that the differentiated individual actively, by meditation and illumination, becomes conscious of his true irrelevance and inexistence. The two main principles of Buddhism, only accessible through illumination, are: the inexistence of any particular and the interconnected existence of everything. Buddhism is a moral religion, which promotes love between the individuals, and as such it cannot be scientifically corroborated. It is a religion based on the individual's illumination, that requires long hours of individual training. Social order in India, as we said, was due to strong inherited traditions, and therefore it did not have to be the task of the Buddhist religion. Buddhism, by itself, does not guarantee social order in large societies. This explains why, when Buddhism was exported to North Asia, it entered in open conflict with Confucianism; and why, even today, the Dalai Lama is seen as a menace in China. The historical problem of China was always the integration of its great territory and the establishment of social order in it. For this Buddhism, which is an ethic for individual behavior, as we have already pointed out, was inappropriate.

⁶⁹ In Neo-Confucianism, however, as well as in the Greek thought, rationality is not the only method of access to the essentials. In Neo-Confucianism the essence of social life is accessed by reason along the lines of Confucius; while, the essence of the existential universe is accessed both by Buddhist enlightenment, and by Taoist mysticism. China today is still heavily influenced by traditional Neo-Confucianism, which imposes unique characteristics to the capitalist-communist system that defines this nation. Neo-Confucianism is the political philosophy also in Japan and most of North Asia. Where, like in China, love and social belonging are defined by rationality, and existential belonging by Buddhism and Taoism. In Japan, however, Neo-Confucianism arrives in the middle of a feudal military age, and therefore social belonging is more determinant than in China where feudal militarism has been left behind. In China, family, education, individual cleverness, and intelligence, were praised; and military virtues were disdained. While in Japan, social ties are everything, and military virtues are praised. The military tradition brought the custom to take group decisions, avoiding individual ones. In Korea and Vietnam, militarism also made social belonging prevalent. In traditional Japan, there is nothing that the individual would not do for his society. This explains the Kamikaze's behavior in the Second World War. Japan today is the consequence of its traditional, particular form of Neo-Confucianism, and the influence of the Western political philosophy.

The third route is the Greek rationality, which was first modified into Christian religious rationality, and later into Western harmony. Greek rationality defines political life in Greece, and later in the Roman empire⁷⁰. The Roman senate, elected by the elites, reflects the Greek's belief in the rule of the wisest, and was the most powerful institution in the Roman republic. The senate's power was

⁷⁰ The Greeks, as previously the primary societies, showed concern for the nature of the material universe. But there are two fundamental changes. The first change is a greater dominion over the external universe, due mainly to: a) the consecutive revolutions of copper, bronze, and iron; and b), the development of mathematical, technical, and pre-scientific knowledge. The second change is the increasing complexity in daily tasks, due to economic progress and population expansion, which leads to the differentiation of individual roles; and it becomes necessary to define specific obligations to the differentiated individual. In the controversy of the Greek thinkers, the great political-ethical dilemmas that would be the subject of discussion until our contemporary era are already raised. The central discussion is about human's ability to access universal truths. On the one hand Protagoras, and in general the sophists, reject rationalism, emphasize the importance of emotions, and argue that ethical judgments are relative. On the other hand, Socrates, Plato and Aristotle (protagonists of the triumphant school) conceive the universe as rationally ordered and susceptible of being understood through reason; and therefore, defend the rational capacity of humans to understand universal ethical truths (the Stoics would also emphasize the importance of restricting the passions and of living an austere life following the principles of reason). For Socrates, vice is a consequence of ignorance; and knowledge imposes ethical duties, which in the long run should lead to the harmonious development of human nature. Ethics, for Socrates, defines the social obligations of the individual. Socrates distrusts democracy, because he doubts the ability of the crowd to reach true knowledge. The world of Plato's ideas is a logical consequence of Socrates' desire to reach the truth. Plato venerates reason, because only through it can the true and infallible knowledge of stable objects be reached: perception of the senses often fails. The ideas or forms are immutable, and constitute the essence of things, and they are the objective references of our universal concepts, the goal of scientific inquiry, and the solid foundation of moral knowledge. For Plato, reason must be the judge of pleasures; and should decide which arts should be admitted and which ones should be rejected. The justice of the State, for this author, resides in that each one fulfills his duty, without interfering with the one of the others. For Plato the democratic principle has no meaning. The State must be governed by the knowledge of the truth; and the man who possesses such knowledge, is the philosopher. Ethics, for this author, is consequence of the goodness in man. But the goal of life is to be happy, not being ethical. Happiness must be compatible with reason; but much depends, for Aristotle, on the feelings or actions in question. The work of Aristotle is less radical than that of Plato, in his thought there is room for emotions, and his opinions about the changes to be made in the State are less extreme. Aristotle builds a bridge between the sensible objects and the ideas of Plato, by introducing the formal principle that organizes form and matter; and thanks to him, the rational world of Plato's ideas is reconciled with the real world. Due to Aristotle, Plato's essences have had a decisive influence on later Western thought. The Roman republic, with the senate as its main guardian, chosen among the elite, and not by a democratic process, reflects the political thought of Socrates, Plato, and Aristotle. The objective of the legislators and the constitutional establishment of collective life, should be to promote the virtuous life of citizens (remember that in Greece, neither women nor slaves were citizens).

however substantially reduced later, with the venue of the all-powerful emperors, supported by the military. Rationality and authoritarianism do not necessarily go together, but they might. Rationality has always been suitable to be taken by military force; as Sparta in Greece, and Julius Caesar in Rome did show. Greek rationality was transformed into religious rationality and sustained the power of the Christian church through the Middle Ages. However, as commerce grew and the new burgos or cities started their consolidation, they supported the power of the rising kings, which until then had only been one more feudal lord. In England, where commerce was stronger, the new rising power of the citizens initially consolidated that of the kings; to the point that the latter even dared to defy the church, as Henry the Eighth did⁷¹. And later, the citizens defied the power of the king; Cromwell led a revolution that finally cut off the head of king Charles in 1649. The king's power was initially thought of as having a divine origin, and later - with Hobbes - was conceptualized as reflecting the interest of the citizens, through his famous implicit social contract⁷². As the power of the citizens grew stronger, it soon would be recognized as the true source of power; and the implicit contract of Hobbes would be transformed into the explicit contract of Rousseau. This was the beginning of harmony, today's Western conceptual system. Harmony is a particular kind of rationality, where the existential universe is still accessed by reason, and the ethical laws in God's mind can also be accessed by reason alone (Catholicism) or by the mystical understanding of God's will (Protestantism); but social order cannot be established based upon reason, it can only be the consequence of the will of the people. This was a major fundamental change away from traditional rationality. However, harmony was developed under five constraining historical conditions. First, it was nationally bounded. Second, it was not universally accepted; all through its history it has been challenged by military rationality, whether in fascist Germany, in Franco's Spain, in military movements in Africa, or in Latin America's military coups. Third, Marxism challenged democracy as the true source of the will of the people. And it proposed revolutions that never happened in the developed Western world, but that changed the faith of large populations in other regions and countries such as Russia,

⁷¹ Henry VIII was King from 1509 to 1542.

⁷² Hobbes' *Leviathan* was originally published in 1651.

China, and Cuba. Marxism, where revolutions did happen, became a source of new centralized regimes, whose leaders proclaimed that they understood the true will of the people better than the people themselves (as it happened in all traditional societies). These leaders distrust democracy. Therefore, communism has become a new form of traditional rationality, in which the communist leaders think that they know best. Fourth, in those countries where harmony was not a natural historical consequence of the growing political power of the middle class, the lack of a powerful middle class has produced very weak democratic results, often manipulated by the high classes than corrupt the democratic process. Therefore, a sense of injustice has been associated with democracy, that has favored the leftist claims for social justice. Fifth, as we said before, despite its global influence, harmony only explains around one sixth of the political systems of the world.

The fourth route is the religious rationality of Islam, which today explains mostly the social order in the Muslim world. The Islam's rationality is alike the Catholic rationality in Western feudal times, it gives the State's political power to the religious leaders. But Islam rationality is even more specific defining everyone's duties; and it has survived almost intact. The influence of the Western harmony in the Muslim world has been the last. From the perspective of this fourth route the Western individual is seen as sinful, and as lacking the respect for the religious life that it deserves.

There are, therefore, several humanisms, each one with its own perspective of what is best for the human being. The world is not divided between the West which is democratic and humanistic and the rest which is autocratic and not humanistic, this is the wrong view of the world. Other humanisms are respectable and have a view of humanity that is different and critical of the West's view; and taking them seriously may enrich the West's view, while the West's view may enrich theirs. None of the humanisms is the right one, all of them are historical differentiations of specific societies based on preconceived assumptions. We do not know what other humanisms the future might bring. But what we know today is that ideological tolerance and strong accepted international institutions are required to eliminate the conflict between the "in-group humanism" and the presumed "out-group anti-humanism"; a requirement needed, given the new globalization brought about by the ICT revolution.

CONCLUSION

Philosophical essentialism, characteristic of the nineteenth century Western philosophers, was built around philosophical preconceptions that cannot be deduced from their philosophies (as Derrida's deconstructionism has argued), nor can they be based on sound scientific discoveries. These preconceptions gave philosophical validity to their ideologies. But at the end, despite the philosophical sophistication of these thinkers, the preconceptions are themselves contained within the ideologies. Ideologies that developed due to particular historical characteristics – those of the West. The differentiation of the individual based on his rights did not happen in other traditional societies that followed their own routes of differentiation like: Hinduism, Buddhism, Confucianism or Islamism. Each one of these different conceptual systems has its own preconception of humanism, which is as valid as the one of the West. Marxism goes back to the traditional view of humans as social beings –the critical preconception introduced by Marx is that humans are a “species being”. That is why, as we said, Marxism, which was not successful in the West, was easily adopted in traditional societies like Russia and China. Marxism, as all the other philosophies, has its own way to understand humanism. There is not one ideology that can be called superior to the others, and none of them will ever prevail in the whole world (although most of them have aimed to do so), because ideologies are simply conceptual systems formed with particular institutional historical characteristics. Conceptual systems developed bottom up, from small groups to larger societies, and once they consolidate into “a grand ideology” they remain in human thought influencing societies for a very long time. The future will certainly bring new ideologies with new conceptions of humanism. There is no end to human history, both Marx and Fukuyama were mistaken.

Today the world is at a critical crossroads because the ICT revolution is rapidly globalizing the international life. And this globalization is happening within the historical reality of a global arrangement based on nations with particular interests, that belong to diverse cultures with distinct ideologies. The world's conceptual system and institutional arrangement is ill prepared for the technological revolution brought about by the ICT revolution. Proper international relations are more critical than ever, but they cannot be guided by an essentialist-universalist ideology that pretends to unify the world's ideologies, the diverse conceptions of humanism and the distinct lifestyles in different cultures. This is why

liberalism cannot be the guide for international relations. Ideological diversity is a historical reality; and therefore, any pragmatic guide for international relations must include ideological tolerance. As we have argued, the military balance of powers is unstable, the world needs an adequate integrative system – but it must be built on the historical reality of nations with diverging interests and distinct ideologies. That is why we need to build strong international institutions capable to serve as arbiters of national interests and to develop mutual trust between the nations that whatever is agreed will be respected – globally accepted international law, global judges and enforcement mechanisms have to be developed. But mutual trust cannot be established based upon ideological intolerance which creates the distinction between “us” and “them”, between the “in-group” and the “out-group”. Such distinctions create mistrust, and invite for conflict, as several experiments and theories in social psychology have shown. To see the world as divided between humanistic democracies and non-humanistic authoritarian states is incorrect. Only 13 % of the global population lives in liberal democracies, and it is not true that the other 87% is not free and must be liberated. There are in distinct cultures diverse conceptions about what human freedom means. For example, Cicero in Rome gave his life in defense of freedom. Despite being a personal friend of Caesar, Cicero opposed him in the name of freedom and paid with his life. But for Cicero freedom meant the Roman republic, based on the power of the senate that was not elected democratically – but by the elites (as - by the way- still today, as we previously mentioned, the chamber of the lords in the UK is elected). Romans, alike the Greeks before them, were suspicious of democracy, because they argued that it represented the mistaken rule of the ignorant masses. The distinction between authoritarian dictators and freely ruled States is critical but not equivalent to the distinction between liberal democracies and other, non-democratic States. We all should learn to be more ideologically tolerant; nobody has the final truth; and we can all learn from each other. And above all, ideological tolerance is a must, if we want to stand a chance to properly manage the globalization brought about by the ICT revolution.

Since each institutional arrangement necessarily has its corresponding conceptual system, the creation of strong global institutions aimed at maximizing global progress and guaranteeing fairness and global justice, creates common accepted rules and goals for the international society, which will necessarily be the beginning of a worldwide accepted envelope conceptual system. It is true, however, that given the ideological diversity

and distinct national interests, particularly of dominant nations, such a conceptual envelope will always be fragile. That is why ideological tolerance must be promoted intensively, and the global institutions should be strong. An although all these efforts will never fully guarantee peace and progress; they are the best route, given today's globalization, to move the world in this direction.

CONCLUSION: A PEACEFUL FUTURE?

The world's ICT revolution is not yet fully understood by the dominant ideologies. On the one hand, due to the ICT revolution, the West's productive alliance is with China. On the other hand, China's political regime is condemned as authoritarian and illegitimate. On one side, freedom reflected in free trade is praised, on the other, the WTO is dismantled, and nationalistic and protectionist policies are on the rise in the West. On one side Europe increases trade with Russia, on the other rejects Russia from becoming part of the European Union and of NATO. All these inconsistencies can be explained by the fact that the global conceptual systems and their corresponding institutional arrangements are lagging behind the technological reality imposed by the ICT revolution.

The ICT revolution has brought about a fast technological change in the international production of goods and services, as well as in the life of many individuals around the world. Just think of what you do yourself every day, and its relation to the ICT revolution. Do you use a Microsoft software in your personal or business computer? Do you have an iPhone, or a similar cellular phone? Do you watch Netflix, or any one of its competitors? Have you used UBER, or any of its competitors? How many products have you bought recently made in China, or another Asian country? The list is endless. From the 2022 perspective, 1990, when the ICT revolution started, looks like a very remote gone past. The ICT revolution touches every aspect of human life, and involves a large part of the global population. Even in rural areas in developing countries, people own a cellular phone and use internet. More and more political battles, all over the world, happen in the social networks. The ICT revolution has been an abrupt technological worldwide change, and the global society conceptual system's adaptation has been ill suited. Conceptual system changes occur at many levels, from micro-individual and group behavior to large changes in legislation or social frames of reference. The problem with the world society is that capitalism is being rapidly globalized, and there is not a global democracy capable to respond properly; and the global institutions either are too weak or have been dismantled already. The global scene of today, as it happened before the First World

War, is more and more defined uniquely by national interests, and this is dangerous.

Global progress does not necessarily bring global peace, nor is it necessarily self-sustainable. We must not forget that the first wave of globalization resulted in the First World War. Thus, as we learnt then, whenever global institutions do not rise to the challenge of the new global technological changes, progress may be followed by dark ages. We already have had three major crises in the last decade and a half: The 2008 GFC, the 2020 GP and the Russian-Ukraine 2022 war – which is the largest one since the Second World War. It is not fortuitous, the ICT revolution started in 1990 and rapidly accelerated globalization, and the global institutions are not up to the task. In the 2008 GFC the globe's financial leaders thought that the sub-prime crisis in the US was a local crisis, that would be solved by the local markets – this was, for three years, the official statement of the Economic Report of the President. They never understood the deep globalization of the financial flows brought about by the ICT revolution, and their potential to generalize the crisis to the whole developed world⁷³. The 2020 GP was consequence of the interconnectedness between China and the rest of the world, and was confronted by a WHO with a budget similar to a large US hospital – which was just not up to the task. In the Russia-Ukraine war, people all over the world are following it through the web and the TV networks. President Zelinsky has spoken to many parliaments around the world asking for help, and has been heard by millions of people. And as a consequence, politicians are facing political pressure, from the public in their countries, to intervene in favor of Ukraine, beyond what they would do otherwise. A local war, consequence of Russia's invasion of Ukraine, has been internationalized, and has risen to a global dimension that creates for the first time the risks of a nuclear war. It is true that the risk is still low, but it is no longer near to zero as it used to be, and this is very worrisome.

Despite all its virtues, the ICT revolution creates risks that the world needs to confront such as: the changes in the global climate, or the exploitation of natural resources in developing countries with polluting industries, or the rapid growth of international crime due to the ease of global communication and transportation.

However, instead of witnessing the building of strong global institutions to confront the challenges of the ICT revolution, we have seen an

⁷³ See Obregon, C., 2017. *Globalization Misguided Views*. Amazon.com. Also Available at Research Gate.com

international rise of populist nationalism that explains the Brexit movement in the UK, Trump's influence in the US, Brazil oscillating between the right populism of Bolsonaro and the left populism of Lula, López Obrador winning the elections in Mexico, Le Pen's recently renewed popularity in France and Biden's policy that the US will only buy "made in America". This is not good news for the world. At best, a populist nationalism will endanger progress, and hinder the world of reaping the benefits of economic growth that the ICT revolution could produce. It will reduce global trade and worldwide economic interdependence, and delay substantially the growth possibilities of a large global middle class. At worst, a populist nationalism will seriously endanger global peace.

The world is at a critical crossroads. If we do not act decisively, the globalization brought about by the ICT revolution will likely continue exacerbating all kind of global problems. And new, serious global crises will occur, which will foster new waves of populist nationalisms, and may create the negative vicious cycle that brought about the world's dark age between 1914 and 1945. Strengthening the global institutions is not an option, it is a must – it is the pragmatic way for the world to face the ICT revolution.

In this book we have presented the reasons for which, given the globalization brought about by the ICT revolution, both liberalism and realism are ill suited as guides for international relations. And we have been arguing in favor of institutionalism, as a third viable option to guide international relations. But institutionalism is not a panacea either, there are no ideal solutions. The promised humane global communist society of Marxism will never come. And the liberal world with progress and peace brought about by free markets and democracy in all the countries will not be the future of the world. There is not and end of history⁷⁴. Strong global institutions are likely the best possible replacement for the lack of a truly global political system (like for example, the impossible dream of a worldwide democracy). But they never will work in an optimal way; they will always be challenged by the interests of the powerful countries. Institutionalism is not an ideal nor an optimal solution. It will not end military conflicts around the world, and global progress will continue to be challenged by populist nationalisms. But institutionalism is a call for a change of direction. It is a call to leave aside ideological proposals that only serve, at best, to guide us to wrong global policies, and at worst to disguise national imperialistic interests. It is a call to be congruent with

⁷⁴ Like Marx and Fukuyama asserted, although for opposite reasons.

the globalization brought about by the ICT revolution. The world is facing a gigantic technological opportunity, and it must reap as much as possible its benefits. Institutionalism is a call to free ourselves from rigid ideologies, and to promote ideological tolerance.

The institutional proposal is based on four pillars: 1) Allowing the ICT technology to display its beneficial potential, through maximum possible economic interdependence. 2) Creating stronger international institutions – including the ones directed at expanding the global middle class - capable to guarantee mutual trust and serve as a forum to negotiate national economic interests. 3) Fostering ideological tolerance. 4) Developing a global demilitarization and nuclear control strategy that guarantees safety, and a balance of powers, at a low economic cost. We are convinced that this is today the best possible route to guide international relations.

Will we have a peaceful future? Most likely not. But we must do what we can to obtain it.

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