

*Theory and practice***Peace, Prosperity, and Political Freedom**

What should be done to promote political liberty and economic growth around the world? At several recent Cato events, political scientists and economic experts have debated policies designed to promote democracy, free trade, and secure property rights in countries where those institutions were previously absent. At a January 12 Book Forum for *Electing to Fight: Why Emerging Democracies Go to War*, author Jack Snyder of Columbia University warned that democracy alone is not a guarantee of peace. At a January 18 Forum on “Advancing Economic Freedom in the Middle East,” the Fraser Institute’s Fred McMahon discussed how economic and political freedoms are linked. And at a December 6 Policy Forum for a new study, “How Much Will Trade Liberalization in Rich Countries Help Africa?” correspondent Robert Guest of *The Economist* described Africa’s extreme poverty and the economic barriers that sustain it.

JACK SNYDER: President Bush says that America is safest when democracy is on the march. And President Clinton said that since no two democracies have ever fought a war against each other, promoting transitions to democracy would make the world more peaceful. Over the past year, we have seen plenty of elections in the Middle East. A big social science experiment has been going on there, and the results are starting to come in. Most of them are pretty dismaying.

The candidates who have been doing well in those elections support nuclear proliferation, encourage pushing Israel into the sea, and deny the Holocaust. They often represent ethnic and sectarian communities rather than a broader public interest. In the Palestinian elections, we are expecting Hamas to do well. In Afghanistan, warlords and drug lords prevailed.

I would not want to claim that the elections are the main problem in Iraq, but they

have been polarizing. It is much easier in a nascent democracy to form political parties based on narrow religious sectarian and ethnic interests and longstanding social networks than to create secular networks from scratch. Those networks arise only over time and in a well-developed institutional setting that allows cross-religious, cross-ethnic groups to form.

If the world were populated by mature democratic countries, it would be more peaceful. But the problem is getting from here to there. Countries where democratic systems are weak are more likely to get into wars—both international and civil and ethnic wars—than are other kinds of states.

In the 1990s many such wars occurred. In Yugoslavia, the war broke out about six months after elections were held all around that country. Hundreds of people were killed in Burundi in 1993 when a Hutu defeated the Tutsi military dictatorship in

elections that had been demanded by the international community. In Indonesia, violence broke out literally the day after the East Timor independence referendum was passed. A World War I-style trench war broke out toward the end of the 1990s between Ethiopia, a democratizing country, and neighboring Eritrea, a country that was on the verge of implementing a democratic constitution. India and Pakistan’s Kargil War, in which nuclear threats were made by both democratically elected governments, came after Pakistan amended its constitution to increase democratic control over the military.

The correlation between democratic transition and war goes back to the French Revolution. Weak political institutions create both a motive and an opportunity for elites to promote virulent nationalism. Old elites left over

from an authoritarian regime see that they need to reach out to a mass constituency to retain power in elections. Slobodan Milosevic, to win elections after communism fell in Yugoslavia, encouraged Serb nationalism in order to win the support of a large number of voters. He offered a political doctrine that said the government should rule in the name of the people without the strict democratic procedural controls of accountability to the people.

Sometimes, however, nationalism comes from formerly oppressed groups who are looking for a better deal than they had under the old regime. They organize on the basis of group identity in an attempt to gain power within the new government or to secede and form their own state.

The sooner the elections take place after a conflict or after an authoritarian regime collapses, the weaker the political institutions of the state. And, consequently, the

more likely it will be that the political groups that form will be based on the cultural patterns of the traditional society, ethnic or religious. That is what we've seen happening in Iraq.

What about all the peaceful cases of transition to democracy over the last 20 years in South America, North Eastern Europe, Taiwan, South Korea, even South Africa? Things have been going better in those places than one might have expected. But those countries have certain advantages that helped them make successful transitions to democracy. Per capita income is high, the people are literate, and the skills that allow them to participate in democracy are relatively advanced. Many of those countries had made past attempts at democracy that left an institutional legacy. In South Africa, the authoritarian regime had built up fairly strong state institutions that the new government could put to democratic purposes.

None of those favorable conditions exists in most of the emerging democracies of the Middle East. They are countries with low per capita income and low literacy rates. Some of them are oil economies, which are notoriously hard to mix with democracy. They are multiethnic states. The question of which nationality should get to exercise national self-determination in a state like Iraq remains unsettled.

So what is the prescription for dealing with states that lack the preconditions for successful peaceful transition to democracy? We must get the sequence right. If your job is democracy promotion, start by helping countries build effective state institutions that follow consistent rules and are free from corruption. Develop a legal system in which citizens can get a fair and equitable hearing. Once there is some initial progress in creating the beginnings of a rule-of-law state, move toward the creation of institutions needed for mass political participation: professional and unbiased journalism, strong political parties. And then wind up the process with free and fair, no-holds-barred elections. Don't start the process with the elections; hold the elections after the institutional basis for success has been put in place.

That's not easy to do. But it is the only

way to ensure that countries complete the transition to democracy rather than become unstable, warlike states.



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FRED McMAHON: Many years ago, Milton Friedman predicted that nations with economic freedom would produce better lives for their citizens. Then the Fraser Institute's executive director challenged him to prove it. That began the Economic Freedom Project headed by Friedman and Mike Walker. Empirical research published in the world's top peer-reviewed journals has proved Friedman's assertion, often in ways he probably did not originally anticipate.

It is absolutely true that citizens of economically free nations enjoy a higher standard of living. If you take the top fifth of the economically freest nations and compare them with the bottom fifth, the standard of living is 10 times higher in the most economically free nations than in the least free nations. Investment in economically free nations is 20 times higher on a per capita basis than it is in the least-free nations. Unemployment in the least-free nations is two and a half times unemployment in the

most-free nations.

Economic freedom, as it also turns out, is absolutely crucial for the development of democracy. If government controls your ability to make a living, to feed and clothe your family, to get a promotion, to choose where you will live, you remain dependent on government and government officials. Centralized economies do not allow the institutions of democracy to develop. But when you liberate people from government dependence, other institutions develop. People are more likely to speak out against the government once they no longer feel constrained by economics.

Now, it is true that sometimes democracy is imposed on nations that are not economically free, but those nations tend to be unstable. Free-market economics is a vital anchor for stable democratic growth. I often have the great pleasure of talking to anti-globalist crowds at universities, and I remind them of their belief that free markets are fundamentally anti-democratic. Everybody in the room nods, because everybody believes that markets are undemocratic. And then I ask them if anyone can name a single stable democracy that does not have a market economy. Then they all begin to look puzzled. The fact is that you need economic freedom for stable democratic development. Economic freedom also promotes peaceful resolution of conflict.

The reasons for that are quite complicated, but one simple explanation is that centralized economies are a zero-sum game. Interest groups—ethnic, religious, and other factions—must compete, often violently, for a slice of a fixed pie, which is doled out by government. Such economies are a recipe for tension, instability, and violence. In an economically free nation, the economy is no longer a zero-sum game. Free markets produce a great deal of growth, and your gain tends to be my gain too. A wealthier consumer or a wealthier supplier is to my benefit. The incentives turn from trying to use political power and force to gain rewards to actually trying to produce better goods and services for people.

As it turns out, economic freedom reduces both internal and external conflict. In a free market, stealing resources from others is no longer the best way to attain wealth.

Wealth is produced by the functioning of a free market and the free decisions of millions of individuals. A conqueror can steal resource wealth. But a conqueror cannot coordinate a free market to his benefit, because that means cutting off the freedom that actually produces the wealth.

Reforming economic policies works. Forty years ago, Taiwan and South Korea were as poor as or even poorer than their neighbors. They were the first in the region to take steps toward freeing their economies and look at trade-driven economic growth. Now they have nearly First World standards of living, while many of their neighbors remain poor and developing. Fortunately, their neighbors have taken some lessons from those countries and are themselves trying to establish free markets. No matter what their current situations, the dynamic of free trade can help burgeoning economies grow strong.

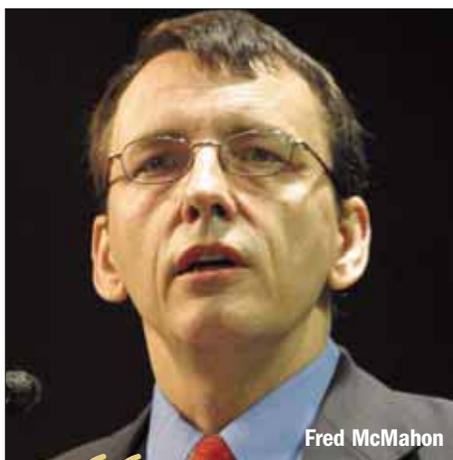
ROBERT GUEST: I have found it difficult over the years to make a Western audience understand the magnitude of the wealth gap between the developed world and Sub-Saharan Africa. You can talk about people living on a dollar a day, but that doesn't mean a lot in a country where a regular guy makes \$40,000 a year. In a recent article, I tried to contrast the life of a poor man in America with that of an upper-middle-class Congolese man.

Enos Banks is a jobless 62 year old living in a trailer in a hollow in the Appalachian Mountains of eastern Kentucky. He draws about \$521 a month in Supplemental Security Income from the government. Dr. Mbwebwe Kabamba is the chief surgeon at the biggest hospital in Kinshasa, the capital of the Democratic Republic of Congo. He makes about \$600 a month, more than half of which he must earn by operating on private patients after hours.

The cost of living in Congo is much lower than in Kentucky. But Dr. Kabamba has to support 12 people in his house, whereas all of Mr. Banks's children and his wife draw their own government benefits. Indeed, his wife lives in the trailer next door, because they figured they could draw more benefits that way.

Dr. Kabamba is considered a rich man

in Congo. He gets begging requests from a whole army of relatives upcountry. Yet he is materially worse off than Mr. Banks, who would be considered the poorest of the poor in America. Dr. Kabamba's home is more crowded. His family fetches water in jars. He eats meat only twice a month and says it is a great luxury. Poor people in America eat twice as much protein as the government thinks is good for them. In Congo, a rich man like Dr. Kabamba worries about the price of bread. Enos Banks, a welfare recipient in Kentucky, worries



Fred McMahon

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about the price of car insurance. That is how poor Africa is.

The question is why, and what can be done about it. Sub-Saharan Africa is poor primarily because of political instability and a lack of the policies and institutions, such as private property rights, that are necessary for the market economy to flourish.

Dr. Kabamba knows all about political instability. In the past seven years, his homeland has been ravaged by half a dozen national armies and militias, leaving about three million people dead. For the impact of property rights, look at Zimbabwe. As a

sequel to President Robert Mugabe's illegal seizure of virtually all the commercial farmland in the country, this year he has had all the big shantytowns bulldozed, leaving some 700,000 people homeless. He called it “Operation Drive out Trash,” which gives you an idea of the value he places on the lives and livelihoods of his people. Zimbabwe is, I think, a good illustration of the fact that property rights and human rights are intimately entwined. A leader who is prepared to run Caterpillar tracks over people's houses is prepared also to run them over people.

Good governance is more important than free trade. But free trade should be much easier to establish than the rule of law in a country that has never known it. The problem politically is that the benefits of free trade are widely dispersed, whereas the damage is highly concentrated. America doesn't protect domestic cotton production for fear that an international cotton shortage will damage national security. Cotton subsidies persist because, for a tiny group of Americans who raise cotton, cotton subsidies are the most important political issue. They will lobby hard for those subsidies, and they will vote against anyone who talks about repealing them. For everyone else, it is a very small program that costs only a few dollars a year.

International charities are right to condemn Western protectionism. It is hypocritical for Western politicians to talk about free trade while doing so little to tear down the walls around their farming, textile, and steel industries. But Western politicians are not the only hypocrites. African leaders who call for greater access to global markets while rejecting trade openness at home are also hypocritical. And domestic protectionism is also self-defeating because it makes countries poorer than they would otherwise be.

Acceptance of domestic protectionism or tariffs for a particular industry is a form of corruption. The government is telling one very small group: we are going to give you this enormous benefit that will harm all the other people in the country who want to buy cheap things. But the flow of goods in Africa is hampered not just by such formal trade barriers but by informal ones as well.

I once hitched a ride on a beer truck from the port of Douala, Cameroon, to an

interior town called Bertoua. The distance is equivalent to a trip from New York to Pittsburgh, but it took us about four days because we were stopped 47 times at roadblocks by the police. Every time we were stopped they checked the axles and the tail-lights and tried to find something that we had done wrong so they could start the long, slow process of negotiation about how much the driver was going to have to pay them to be able to move on.

The government has turned a blind eye to this extortion by the police because it does not want to raise police salaries. Instead, the police are given free rein to rob people as they try to move goods around the country. Setting up trade barriers is simply the formal version of highway robbery. Such barriers give particular exporters or local merchants license to rip off their fellow countrymen. And yet, this is the system that Western charities promote when they encourage protectionism for African markets.

I recently received a report from a British charity that suggests that the evil forces of the World Trade Organization are threatening the livelihoods of millions of the world's



Robert Guest

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poorest people by forcing open markets on poor countries. The charity presents anecdotal evidence of this. It says that the removal of tariff barriers on textile exports has forced 20 factories in Nigeria to close, causing a loss of more than 16,000 jobs. That is indeed very bad. But what about the 120 million Nigerians who might possibly want to buy clothes? Does the affordability of those clothes for that much larger and significantly poorer group matter at all?

Among serious economists, the argument about free trade is over. They all know that it creates more winners than losers. But myopia about the consequences of trade protection runs through the whole of the anti-globalization movement. It is not enough for us to know that the protectionists are wrong. We have to convince enough people of that truth so that the world's politicians start to take notice. Africa needs more than free trade. It needs economic freedom of all sorts and the rule of law to underpin that freedom. But winning the war against protectionist delusion would be an excellent start.

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