

The Most Important Book on the Most Important Topic of Our Day: Economics and the Crisis of the Conscience in a Time of War

Chris Coyne, *After War: The Political Economy of Exporting Democracy*. Stanford, CA: Stanford University Press, 2007, Pp. 238. ISBN-13: 978-0-8047-5440-8.

The U.S. is currently embroiled in an incredibly costly effort to reconstruct Iraq into a viable democracy. Nobel Prize winning economist Joseph Stiglitz has estimated that the cost of this effort will exceed \$2 trillion. Yes, I did write trillion. Whatever our ultimate assessment of Stiglitz's accounting of the monetary cost of the war, we have to admit that the financial burden assumed by the U.S. in the wake of the Iraq war is far in excess of the original projections of \$50 billion. Moreover, the cost in terms of human life have been nearly as staggering with the death toll of U.S. troops at 3,887 and 28,629 wounded U.S. troops at the time of this writing (December 5, 2007). The number of Iraqi civilians that have been killed during our occupation is an estimated to be mind-numbing 80,000.

But as everyone knows nothing worth striving for is free. Perhaps the sacrifice of the current generation will yield a future of peace, prosperity and freedom. In the minds of many intellectuals and policy makers this trade-off translates into a bargain of current sacrifice for the establishment of a democratic polity and a thriving market economy in Iraq. If we leave that understanding of the public policy intent unquestioned, we are still required to ask 'Can Liberal Democracy Be Exported at Gunpoint?' Thus, begins Chris Coyne's brilliant and beautifully written *After War: The Political Economy of Exporting Democracy*. Coyne does not engage in moralizing about U.S. military interventions with the intent of establishing liberal democracies abroad. Instead, he restricts himself to an examination of the efficacy of the policies chosen for the stated end of the establishment of a liberal democracy. In addition, he picks a very low standard to claim success – a

score of +4 on the Polity Index. In other words, he simply asks in each case of U.S. led military intervention in the effort to establish liberal democracy: Did the country achieve a self-sustaining polity score that would raise it to the level of democratic governance that would be slightly above what we currently see in present day Iran? Iran scores +3, yet when we examine the countries through the 20th and 21st century that the U.S. military has intervened in to attempt to establish democratic society, the rate of failure ranges from 60% to 70%. This rate of failure is staggering and almost unbelievable given the amount of effort (in terms of money, manpower, and political capital) and the rhetoric of ‘good intentions’ that has accompanied our efforts to bring freedom to the repressed, prosperity to the destitute, and hope to the hopeless throughout the world. Coyne takes the rhetoric at face value for the sake of analysis, and demonstrates that due to internal and external constraints, the means chosen (military intervention) are ineffective with regard to the task pursued (the imposition of democratic governance and a free-market economy).

Coyne’s central argument is that the continued effort to apply ineffective means in the attempt to obtain worthy ends results in unintended and undesirable consequences from the point of view of publicly interested policy makers. It is not a matter of just trying harder (more money, more troops, etc.) and then we will get closer to the worthy goals. Instead, the continued efforts at employing the same ineffective means ultimately undermine the ability to achieve the desired ends of peace, prosperity and political freedom.

Coyne explains in detail precisely why the means of military conflict, occupation and reconstruction prove to be ineffective with respect to establishing a self-sustaining

democratic polity and free market economy. The simple rule of thumb might be --- in countries where prior to military conflict there existed a thriving market economy and established traditions of freedom of press and other mechanisms for expressing political voice, the task of establishing a self-sustaining democracy and market economy is achievable. But in cases where prior to conflict the regime was one of political repression and economic control, the probability of establishing through military intervention a self-sustaining democracy and market economy are negligible. As Coyne puts it, either reconstruction efforts work very well, or they don't work at all. The empirical record reveals a bi-modal distribution.

The internal and external constraints faced in countries where the cultural beliefs, political and legal institutions, and economic practices and policies do not reflect the protection of property, freedom of contract and freedom of association are such that public policy initiatives to push back those constraints are prohibitively costly. The incentives are not aligned, in other words, for the wide-scale adoption and endorsement of political and economic freedom even when it is being introduced at the point of a gun (or precisely because it is). Obviously there is the repugnant option --- complete occupation by the invading group and the annihilation of the indigenous population. The costs in terms of money and in human life of such a policy would be astronomical, though it would clearly establish that geography is not a determining factor in whether or not political and economic freedom is self-sustaining. But a new wave of aggressive colonialism is not what is being proposed as a matter of public policy with US-led military interventions for 'nation building'.

Whether a country is free or not is not determined by its geographic location, or abundance (or lack of) natural resources. Countries are free because of belief systems, and institutions that follow from those beliefs, which support and reinforce political and economic freedom. People respond rationally to incentives. If opportunities to better their lives and those of their family members present themselves, then individuals will pursue them. But, it is critical to remember that opportunities have to be perceived by human actors, and what we perceive as options is a function of our beliefs about ourselves, others, and the way we interact with others and with nature.

There are strong reasons why individuals should see mutual gains from exchange with others rather than gains through group conflict. The gains from social cooperation under the division of labor among peoples should provide a strong incentive to cease conflict and coordinate around norms that promote free and peaceful interaction. But in many cases we don't see this. Coyne explains that the predicted results of the "Coase Theorem" in the realm of politics and society do not emerge. Similar to the argument one finds in Daron Acemoglu (2003), Coyne explains why there is no political Coase theorem analogous to the one in the market setting that economists study. Mutual gains from exchange go unexploited due to the inability to establish a credible commitment. Again Coyne's stunning observation about war reconstruction efforts reveals its truth --- efforts either work immediately because the transaction costs of enforcing the rules of economic and political freedom are low because of preexisting internal norms, or the efforts fail miserably because the costs of enforcement are prohibitive because of the absence of norms that promote social cooperation under the division of labor. In the

latter case, the absence of coordinating norms support suspicion of strangers, and distrust (and distaste) of potential trading partners.

In diagnosing the role of norms in coordinating social intercourse, Coyne also contributes to the literature on social capital and civil society. As he points out, social capital comes in the form of bridging and bonding, and the “dark side” of social capital is that in its bonding form it can effectively form tight in-group affiliations which prevent gains from trade from being realized with out-group partners. As he points out, there is a lot of social capital at work in terrorist cells. But the ‘art and science of association’ that Tocqueville (1835/1839) discussed in *Democracy in America* relates to both in-group and out-group and how identity and affiliations work to ease the realization of social cooperation. What is unique about America, according to Tocqueville, is the norms and cultural belief systems that cultivated and reinforced civic engagement, responsible individualism, and self-governing citizenry.

A self-sustaining system of economic and political freedom does not have to replicate the world Tocqueville described in fine detail, but it has to mimic those norms to a considerable extent. Absent such norms, the costs of enforcement will be prohibitive and the political leaders will be unable to establish a binding and credible commitment that limits the predatory proclivities of mankind.

Dani Rodrik has recently argued that there is *One Economics, Many Recipes* (2007). That is more wishful thinking in the title while the actual analysis is more in-line with the criticism that Coyne is developing. That line is that economic science teaches us that while there are many different ways for people to choose to live, there are very few ways for them to do so in a way that generates peace and prosperity. It is not the

Washington Consensus that provides the one-size fits all policy recipe, but there are internal and external constraints that exists in any specific case that must be accounted for, and interact with economic forces that are universally at work. Specificity interpreted through universal theory reveals the truth in Adam Smith's old phraseology that: "Little else is requisite to carry a state to the highest degree of opulence from the lowest barbarism, but peace, easy taxes, and a tolerable administration of justice; all the rest being brought about by the natural course of things." (1776, xl) Unpacking precisely how peace, easy taxes and a tolerable administration of justice will be achieved in any specific historical time and place is not completely answered by Smith, but the general principles apply across time and place.

Coyne looks for an answer to the mystery of why some countries can become self-sustaining free political and economic systems (what Doug North and his colleagues refer to as 'open access' systems), and the difficulties associated with rational constructivist efforts at imposition of 'free' political and economic systems in both the internal and external constraints that must be confronted. There is a knowledge problem, there are public choice issues, there are questions of credible commitment, and there are problems of bureaucratic control. All these add up to a serious warning --- nation-building exercises are prone to failure and extremely costly in monetary as well as human life. Hayek's warnings about 'rational constructivism', it turns out, are as applicable to efforts at social engineering in the name of democracy and free markets as they were in the name of socialism and social justice.

Coyne offers an alternative --- liberal means to achieve liberal ends. Principled non-interventionism and free trade, is the policy program Coyne argues has historically

had the greatest degree of success and should be our guiding policy today. George Washington argued in his farewell address that the policy rule should be entangling alliances with none, free trade with all. Coyne is the modern day champion of this fundamental insight of Washington. It is my sincere hope that this book finds itself on the desks and bookshelves not only of scholars across the policy sciences, but also policy makers world-wide, and the general intellectual public. Its message is powerful – analytical in method, and humanitarian in its conclusions --- making *After War: The Political Economy of Exporting Democracy* the most important book on the most topic of our day.

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