

An economic analysis of national reconstruction at gunpoint

Review Essay on *After War: The Political Economy of Exporting Democracy*, by Christopher J. Coyne (Stanford University Press, 2008)

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Can USA or other Western military forces establish self-sustaining liberal democracy in a country with a different type of politico-economic order? US government leaders believe they can do so, or so it appears, if we may judge by the dozens of attempts they have made since the late nineteenth century. From the Spanish–American War to the present wars in Afghanistan and Iraq, USA, British, and other Western leaders, relying on military force, have undertaken to remake defeated, subjugated, occupied, or colonized societies into market-oriented, democratically governed, rule-of-law systems. In the great majority of cases, these attempts have failed. In *After War: The Political Economy of Exporting Democracy* (Stanford, CA: Stanford University Press, 2008), Christopher J. Coyne brings economic analysis to bear in explaining why this quest so often fails. He also points the way toward a policy stance more likely to meet with success.

Coyne defines his terms early on. He focuses his analysis on national *reconstruction*, by which he means “the rebuilding of both formal and informal institutions....[This] involves the restoration of physical infrastructure and facilities; minimal social services; and structural reform in the political, economic, social, and security sectors” (p. 9). He distinguishes reconstruction from the related terms *state building*, *nation building*, and *peacekeeping*, which he treats as subsets of reconstruction. Success in national reconstruction implies “the achievement of a self-sustaining liberal democratic, economic, and social order that does not rely on external monetary or military support” (p. 10). He intends his analysis to be purely positive, neither requiring nor entailing any normative assumptions or conclusions.

Coyne’s specific contribution is the application of economic tools to the analysis of reconstruction and related matters. He proceeds not by specifying a formal mathematical model or by estimating the coefficients of an econometric model, but by introducing, explaining, and applying a number of economic concepts, principles,

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and understandings drawn from several economic subfields: Austrian economics, behavioral economics, constitutional political economy, new institutional economics, and public choice economics. The analysis is fairly elementary and does not require any previous training in any of these areas. Thus, any intelligent reader should be able to absorb the book's contents fully.

Early in the book, Coyne presents a preview of the main lessons he intends to convey, as follows:

1. Although policymakers and social scientists know what factors constitute a successful reconstruction, they know much less about how to bring about this end (p. 20).
2. Uncontrollable variables serve as a constraint on controllable variables (p. 22).
3. Reconstruction efforts suffer from a nirvana fallacy (p. 24).
4. Sustainable social change toward liberal democracy requires a shift in underlying preferences and opportunities (p. 27).

Although many social scientists may view these lessons as more or less obvious and already well established, they have nonetheless been honored more in the breach than in the observance by the practitioners of reconstruction. If we assume that these practitioners are sincere about what they say they are trying to accomplish, then they stand to learn important lessons from Coyne's book. Coyne himself follows in the footsteps of such great Austrian economists as Ludwig von Mises and F. A. Hayek by giving the policy makers the benefit of the doubt. Rather than calling their projects into question as smokescreens for other, more genuine objectives, he proceeds as if the policy makers actually intend to carry out reconstruction along the lines they themselves stipulate.

In Coyne's scheme, successful reconstruction requires changing both preferences and opportunities so that members of the society will not "defect" but choose the "cooperate" option in a meta-game of social interaction with their fellows. Individuals, families, tribes, firms, and other organizations must act as though they expect others to play cooperatively along the lines typical of a liberal democracy. "Reconstruction efforts seek to foster preferences for freedom, democracy, the rule of law, markets, and tolerance. Likewise, these efforts seek to create a new set of opportunities that were not feasible prior to the occupation" (p. 28). Successful reconstruction turns on incentive compatibility; it "entails finding and establishing a set of incentives that make people prefer continuing within a liberal democratic order as compared to any available alternatives" (p. 9).

After presenting the prisoner's dilemma game, to capture "the fundamental importance of incentives for cooperation with institutional change" (p. 34), Coyne moves to the Folk Theorem, which "suggests that a repeated prisoner's dilemma game can have a cooperative solution, provided that time horizons are sufficiently long...If individuals hold the appropriate conjectures and expectations, cooperation will be a dominant strategy" (p. 35). The crux then is whether they hold such conjectures and expectations or not, and if they do not, whether the occupiers can bring them to do so. Thus, "a key part of understanding reconstruction is identifying the factors and mechanisms influencing the initial coordination around good or bad conjectures" (p. 37).

Although these game-theoretic perspectives provide insight into the reconstruction process (or its miscarriage), in reality, people are playing a number of

overlapping games simultaneously with various sets of other players, and the actions chosen in each of these games add up to their way of playing the overall, or meta-level, game, which determines the success or failure of the reconstruction effort. Normally, a specific individual chooses the cooperative option in some of the nested games and the defection option in other nested games. Hence, the game-theoretic perspective provides not a definitive solution to the reconstruction puzzle but more a way for the analyst to organize his thinking about what is going on. Coyne astutely observes that “the nested games may be so complicated that the meta-game cannot be easily characterized let alone solved by occupying forces” (p. 59). Moreover, the occupiers’ presence in the country creates a variety of new games nested among all those already being played there, complicating the situation even further.

Coyne asserts that the suggested framework of analysis comports with several stylized facts about actual reconstructions, as follows:

1. Very rapid reconstruction is, in principle, possible (p. 40).
2. Some countries seem never to reconstruct or even turn the corner (p. 40).
3. Reconstructions will work either very well or not at all (p. 40).
4. Coordination is a necessary but not a sufficient condition for a successful reconstruction (p. 41).

Most of the book contains detailed descriptions of specific cases of attempted reconstruction, which illustrate the foregoing stylized facts and the lessons listed earlier.

These empirical materials indicate why in most cases “the predicted outcome of the Coase Theorem fails and conflict persists” (p. 44). Not surprisingly, we are shown that ill-defined property rights and high transaction costs have impeded bargaining to the efficient Coasian outcome. When, for example, groups in the society being reconstructed have histories of enmity or conflict and therefore do not trust one another to keep promises, they may refuse to bargain in good faith or even to bargain at all, and hence no Coasian deals can be struck. Sunni Arabs, Shia Arabs, and Kurds in Iraq illustrate this difficulty currently. In Coyne’s phrase, borrowed from Alexis de Tocqueville, they have not mastered the “art of association” with one another. Their inability to strike bargains works against credible commitment and thus precludes successful cooperative play of the meta-game along liberal democratic lines.

Coyne also discusses a number of further complications related to, among other things, the limitations of the occupiers’ knowledge and administrative capability and the possible perversity of the occupied people’s expectations. In light of all the difficulties he brings to light, one might well be astonished that an attempted reconstruction has ever succeeded. Infighting among individuals and agencies engaged in the reconstruction, an oft-observed aspect of the process, further diminishes the odds of its success. Coyne’s discussion of the process in the light of public-choice principles comes close to a revelation that reconstruction is little more than an attractive cover beneath which various special interests and their allies in the executive and legislative branches of government strive to achieve their own objectives, regardless of what happens in the occupied nation ostensibly being reconstructed. This discussion (pp. 85–103) may be the most analytically compelling and persuasive part of the book, although the other parts are by no means to be taken lightly.

In concluding the first, mostly analytical part of the book, Coyne concludes sensibly that “in reality policymakers face incomplete knowledge, imperfect information, and a non-neutral political system,” and therefore one may make “a very strong argument for refraining from foreign interventions aimed at exporting democracy” (p. 117). It is difficult to understand how any disinterested person can seriously contest this conclusion.

The second, somewhat shorter part of the book consists for the most part of three chapters, each of which considers two countries about which analysts may conduct instructive case studies. These detailed chapters examine six countries in greater detail, whereas Coyne’s initial empirical survey, in Chapter 1, deals more generally with 25 cases of US reconstruction. From the Polity Score data he uses to evaluate these cases, he concludes that “efforts to export liberal democracy at gunpoint are more likely to fail than succeed” (p. 16), by a substantial margin (for a similar evaluation of how infrequently USA and British reconstructions have succeeded, see James L. Payne, “Does Nation Building Work?” *The Independent Review* 9 [Spring 2005]: 563–72). One might note further that even the apparent successes may be spurious, inasmuch as a country that became a liberal democracy sometime after undergoing reconstruction by US forces might have become a liberal democracy even without this outside intervention.

In Chapter 5, Coyne takes up the US reconstructions of West Germany and Japan after World War II. These cases have tremendous importance because they are the ones to which most advocates of reconstruction point when they argue that the USA can succeed in such endeavors. Coyne’s detailed analysis, however, more or less demolishes this oft-advanced argument, showing it to be in large part a *post hoc ergo propter hoc* fallacy writ large. In fact, when one proceeds systematically, applying the economic concepts and principles Coyne develops in the first part of the book, one finds that the successful reconstructions of these defeated powers owed little to US intervention and much to the subjugated people’s own prior and contemporary actions.

“[M]any of the preexisting Japanese political, economic, and social institutions ‘passed through’ from the pre-war to postwar period” (p. 121). Although the occupiers “clearly had an impact of many fronts, including the new constitution, the court system, education, the structure of business and land ownership, and the purging of some members of the previous regime,” they “were able to work within a preexisting institutional framework that generated a sustainable solution to the larger Japanese meta-game” (p. 122). The Americans employed existing Japanese institutions, such as the emperor’s national leadership and the national legislature (the Diet), to signal credible commitment to carry through the reforms. General Douglas MacArthur, the effective dictator of Japan during the reconstruction period, astutely permitted considerable flexibility and widespread Japanese involvement in the day-to-day implementation of reform details.

Similarly, “the German meta-game was solved prior to the reconstruction effort” (p. 127). Here also the occupiers worked with established political institutions, which “had a long history of legitimacy among the German populace and served as the foundation for reconstructed institutions at the meta-level” (p. 128). Exhausted by years of war and economic deprivation, the defeated Germans “expected change and were willing to accept forced demilitarization and denazification in exchange”

(p. 129). Ultimately, however, the reconstruction succeeded “not because of the occupation but despite it” (p. 130), when, among other things, Ludwig Erhard evaded the occupation authorities and removed price controls, enabling the market process to bring much-needed goods and services to the populace. Coyne concludes that “the policies of the occupiers were only effectively implemented to the extent that they aligned with the desires and wants of the German citizens....[O]ccupiers were largely unable to effectively govern the German population during the occupation let alone centrally design and implement sustainable liberal institutions....[T]he German reconstruction should be seen less as an exercise in imposing liberal institutions and more as an exercise in overseeing emergent indigenous institutions of self-government” (p. 131). Coyne might have strengthened his case by citing the extensive evidence that US reconstruction of Germany, especially during the first few years, was never even intended to implant liberal democracy, but for the most part to punish the German people for having gone to war and to insure that they would not do so again (see James L. Payne, “Did the United States Create Democracy in Germany?” *The Independent Review* 11 [Fall 2006]: 209–21).

Coyne turns next to a chapter on the attempted reconstructions of Somalia and Haiti. The former began as a UN operation to relieve starvation and suffering in the wake of revolutionary turmoil during the early 1990s. Everything that could go wrong went wrong, and the UN, despite heavy US involvement, “was not able to effectively end conflict and generate sustaining political, social, and economic change” (p. 138). Despite the absence of an effective central government during the past 17 years, however, Somalia has not done so badly, especially in comparison with many other Sub-Saharan African countries, because in many parts of the country, people have employed long-established traditional institutions to govern themselves and to regulate their economic and social affairs reasonably well. No doubt to the great astonishment of Hobbesians, “many individuals can enjoy an environment of peace, lawfulness, and security in the absence of a central government....[A]ttempts by foreign governments since 1991 to revitalize a central Somali state have only served to increase the level of armed conflict” (p. 142), because the Somali people, correctly identifying a national state as potentially the chief predator in their society, have fought either to gain control of it or to prevent its establishment, and when a makeshift state has been launched, most Somalis have resisted its authority.

In Haiti, which enjoys the distinction of having endured a failed state from its independence two centuries ago to the present time, reconstruction efforts proved equally unavailing. Unfortunately, the Haitians, unlike the Somalis, did not enjoy the luxury of well-established traditional institutions on which they could fall back in the absence of an effective central state. Haiti seems always to have been, and to remain today, a semi-chaotic thugocracy, and hence a society in which economic activity never rises much above the subsistence level for want of secure private property rights and a reliable rule of law. “Haitians have come to expect institutions characterized by further coercion and predation,” and the best advice one might give a young Haitian is “get the hell out.” Coyne aptly concludes that “policymakers lack the knowledge of how to establish credibility and legitimacy where it does not exist” (p. 151). He might have added that the US intervention in the 1990s occurred only because of domestic political pressures on the Clinton administration, and it

represented little more than a costly and futile display of good intentions, inasmuch as no one had any sound reason to expect that the occupation could turn Haiti into a liberal democracy, not even a badly functioning one. Haiti comes as close to being a hopeless case as one can find anywhere on earth.

In Chapter 7, Coyne considers Afghanistan and Iraq in detail. Because these cases have been constantly in the news for the past 6 years, many readers will be fairly familiar with the information he presents. Thus, not many will be surprised to read: “Ethnic, linguistic, and sectarian differences have created an array of nested games in Afghanistan that must be solved before any meaningful solution to the larger meta-game can be achieved” (p. 164). The situation in Iraq presents similar difficulties, which are greatly aggravated by ill-advised actions the occupiers have taken during the past 5 years. Notwithstanding these cases’ familiarity, Coyne summarizes them nicely and shows how the grave difficulties of reconstructing these countries can be understood better with reference to the economic concepts and principles he brings to bear in his analysis.

In the final chapter, Coyne summarizes his empirical surveys by observing that “reconstruction efforts are least likely to work precisely where they are needed most” (p. 173). Dismissing both brute force, such as outright colonization, and military peacekeeping approaches as also deeply flawed, he turns to a consideration of alternative, noncoercive means of achieving the objective—nonintervention and free trade. These, he argues, “will be the most effective in spreading liberal democracy around the world” because they avoid “many of the pitfalls to which the other strategies for liberal democratic nation building are prone” (p. 181). He supports the unilateral opening of US markets, in preference to bilateral trade liberalizations or the formation of free-trade blocs. Free trade will promote not only economic progress on both sides of the exchange but also cultural accommodation and melding. Moreover, “free trade can be viewed as a means of potentially establishing the complementary institutions that are required for formal Western-style institutions to operate effectively” (p. 185). As evidence of this effect, Coyne points to the mellowing of autocracies in Mexico, South Korea, and Taiwan in the wake of these countries’ more active engagement in international trade.

Other benefits include, for Americans, the shedding of the Yankee imperialist or “hypocritical hegemon” (p. 193) image that US reconstruction efforts have fostered in the past. As open traders, Americans would lead by example, not by pointing guns at people and dictating that they fall into line according to an American blueprint for their societies. This approach promises to diminish the hatred and blowback that have attended so many previous US interventions abroad, no matter how humanitarian or liberally inclined they might have been. The West, Coyne concludes, “must move away from the belief that Western values are universally desired and relevant and therefore can be exported at the point of a gun” (p. 194). In essence, he is calling for a return to the traditional US policy of offshore noninterventionism and open commerce as the default option for American engagement with the rest of the world (for a compilation of recent studies that point in the same direction, see Robert Higgs and Carl P. Close, eds., *Opposing the Crusader State: Alternatives to Global Interventionism* [Oakland, CA: The Independent Institute, 2007]).

To sum up, in *After War*, Coyne demonstrates convincingly that national reconstruction seldom succeeds, and he presents the essential economic concepts and principles that allow us to understand why it usually fails, especially in the countries that seem most in need of it. The book is clearly written in precise, straightforward prose. The tone is scholarly, disinterested, and devoid of polemics. Although economists will find all the economic ideas arrayed in the analysis to be familiar ones, the book should make a significant contribution to the understanding of the specialists in international relations, political science, history, journalism, and other areas, who are the ones usually engaged in the planning and evaluation of reconstruction efforts. Economists will gain enlightenment from Coyne's compact, well-documented presentation of a great variety of relevant facts about some of the leading cases of national reconstruction in which the US government has engaged during the past century. Although the analysis as a whole is eclectic, rather than strictly Austrian, it makes apt use of key Austrian ideas—Hayekian knowledge problems, unintended consequences, and the Misesian dynamics of intervention. It does so unobtrusively, however, without needlessly provoking non-Austrians, and thus it exemplifies nicely how Austrians may engage in mutually beneficial intellectual exchange with other economists.