

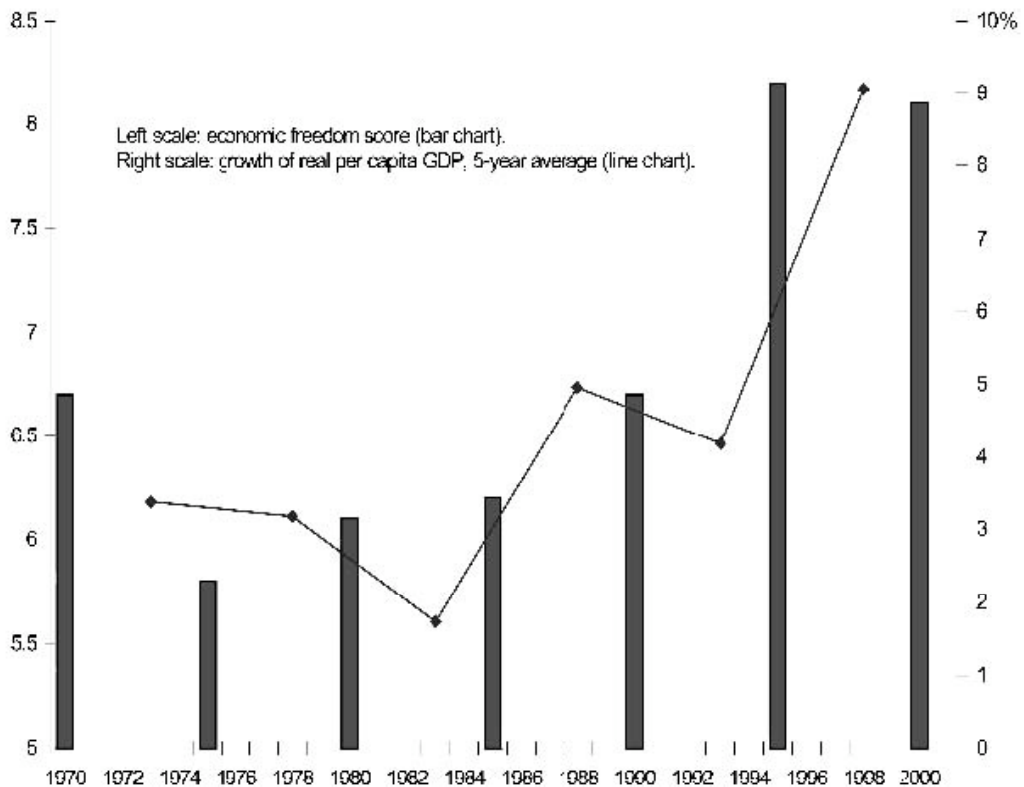
Understanding the Power of Economic Freedom to Create Peace

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Fifteen years ago, Ireland was one of the poorest countries in the EU; it is now one of the richest countries, per capita, in the EU and the fourth richest country per capita in the world. This amazing economic growth in Ireland has simultaneously reduced violence in northern Ireland, the most violent region of northern Europe for the past forty years. Since the mid 1990s the IRA has observed a ceasefire, and in 2005 they declared an end to their campaign. Although negotiators and leaders deserve credit for stopping the violence, so does the miraculous rate of economic growth. The miraculous rate of economic growth was caused by steady increases in economic freedom.

IRELAND'S ECONOMIC FREEDOM SCORE AND GROWTH RATE



Source: Benjamin Powell, "Economic Freedom and Growth: The Case of the Celtic Tiger," *Cato Journal*, Vol. 22, No. 3

In 1986, unemployment in northern Ireland was 17.6%. Today, it is 4.5%, one of the lowest unemployment rates in all of Europe. Although it is true that poverty does not cause violence, and that the vast majority of poor people are non-violent, chronic unemployment and poverty provide recruiting grounds for those who wish to address other grievances violently. Desperate,

angry, marginalized young men with nothing to lose are more likely to try to regain their dignity and seek revenge through battle and bombings.

Can this success story be repeated around the world? Recent work by Erik Gartzke shows that economic freedom, as defined by the Fraser Index of Economic Freedom of the World (EFW), is fifty times more effective than democracy at reducing violent conflict. As Montesquieu said two hundred and fifty years ago, "Peace is the natural effect of trade."

The belief that global commerce would lead to a peaceful world was widespread prior to WW I. Then France and Germany, each of which was the other's largest trading partner, went to war with each other and destroyed the belief in peace through commerce. Subsequently the disillusionment with capitalist democracies caused by WW I combined with the Soviet Revolution led many idealists to place their hopes for world peace in communism. The revelation of the Stalin-Hitler pact in 1939 provided yet another disillusionment. Then the Cold War dominated international relations for the next fifty years; most peace efforts were focused on reducing Cold War tensions or resisting U.S. military involvement in Cold War proxy wars.

Since the collapse of communism, peace has been breaking out all over:

The Human Security Report, an independent study funded by five countries and published by Oxford University Press, . . . reveals that after five decades of inexorable increase, the number of armed conflicts started to fall worldwide in the early 1990s. The decline has continued. By 2003, there were 40 percent fewer conflicts than in 1992. The deadliest conflicts -- those with 1,000 or more battle-deaths -- fell by some 80 percent. The number of genocides and other mass slaughters of civilians also dropped by 80 percent, while core human rights abuses have declined in five out of six regions of the developing world since the mid-1990s. International terrorism is the only type of political violence that has increased. Although the death toll has jumped sharply over the past three years, terrorists kill only a fraction of the number who die in wars.¹

Although wars still take place, and another world war remains a possibility in the future, it is important for us to take note that we are, at present, facing a window of opportunity for creating lasting peace. Before we once again find ourselves in a world of Cold War-scale military polarization, we should do everything that we can to create a solid foundation for lasting peace.

Immanuel Kant's essay on "Perpetual Peace," posited that there were three legs of a tripod, each crucial to lasting peace. They are often interpreted today as:

1. International institutions
2. Democratic governance
3. International commerce

The idea of a three-legged tripod implied that each element must be in place in order to ensure that peace would be perpetual.

¹ Andrew Mack, "Peace on Earth? Increasingly, Yes," *Washington Post*, December 28, 2005, <http://www.washingtonpost.com/wp-dyn/content/article/2005/12/27/AR2005122700732.html>

Both the failed League of Nations and the stumbling United Nations have been attempts to create a foundation for peace based on international institutions. But it is clear that one leg of the tripod alone is inadequate. More recently, especially since the end of the Cold War, the concept of the Democratic Peace has become widespread. Although there appear to be partial exceptions, for the most part two democracies are unlikely to go to war with each other. But, of course, a tripod has three legs, not merely two.

This is the point at which Gartzke's research becomes relevant:

- When measures of both economic freedom and democracy are included in a statistical study, economic freedom is about 50 times more effective than democracy in diminishing violent conflict.
- The impact of economic freedom on whether states fight or have a military dispute is highly significant (at the 1% level) while democracy is not a statistically significant predictor of conflict.
- Nations with a low score for economic freedom are 14 times more prone to conflict than states with a high score.
- The overall pattern of results does not shift when additional variables, such as membership in the European Union, nuclear capability, and regional factors, are added.

Gartzke's results appear to offer robust evidence that the third, and least appreciated, leg of the Kantian triangle may be the most important one.²

Thus the appropriate way to understand the apparent counter-evidence offered by the French-German conflict in WW I is that, as important as the third leg is, Kant was correct that the other two legs are also necessary conditions. Germany was essentially a military dictatorship in 1914 rather than a democracy, and instead of transparent international organizations there were a network of secret alliances. Moreover, WW I started in the Balkans, the least economically integrated region in Europe. Once the conflict started in a region that was not economically integrated, and it then triggered the set of secret alliances among military dictatorships, then the economic integration of France and Germany was not sufficient to stop the catastrophe. But this set of circumstances, in which the two of the three legs of the tripod were entirely absent, should not be understood as counter-evidence to the thesis that economic integration is the strongest leg of the tripod when the other two are in place.

Moreover, by emphasizing economic freedom rather than merely trade or economic integration, Gartzke has most likely discovered a deeper and more reliable underlying manifestation of the

² See "Executive Summary," *Economic Freedom of the World: 2005 Annual Report*, Fraser Institute, http://www.freetheworld.com/2005/Executive_Summary.pdf, and also Erik Gartzke, "Economic Freedom and Peace," *Economic Freedom of the World: 2005 Annual Report*, Fraser Institute, http://www.freetheworld.com/2005/Chapter_2.pdf.

third leg. Economic freedom is more likely to produce a broadly entrepreneurial economy in which numerous individual entrepreneurs and their companies have a vested interest in peaceful trade. Government-controlled economies, by contrast, are likely to result in a few large firms that dominate the economy; thus if a few of those firms happen to have some interest in gaining from warfare, or even if their trade is merely not effected by war with a particular nation, then the peace-enhancing effects of trade are apt to be mitigated.

Finally, insofar as resource capture was a former motivation for territorial conquest, insofar as a much higher percentage of today's economies are based on manufactured goods and services, and raw materials provide a small fraction of the total economic value produced, the "peace through commerce" rationale of mutual interest should be ever more powerful. Oil is the principal significant exception; quite aside from U.S. military action, a number of observers have noted the geo-political strategic interests in securing a long-term supply of oil being taken by the Chinese. This last major resource-based obstacle to lasting peace is yet another rationale for moving away from an oil-based economy sooner rather than later.

In addition to the direct benefits of economic freedom, it also provides a crucial foundation for democracy, the second most important leg of the tripod. Economic freedom is highly correlated with economic growth; a 1-point increase in the index rating is associated with approximately a 1% increase in the annual growth rate.³ And economic growth is highly correlated the stability of democracies

"Political scientist Adam Przeworski examined the experience of 139 countries over four decades . . . the probability that any individual democracy would be overthrown by a dictatorial regime was nearly four times as great if the country's per capita income was falling than if its income was rising."⁴

In Przeworski's own language,

"There is no doubt that the probability that a democracy survives increases with per capita income. You can control it for everything from the kitchen sink to the grandmother's attic. That relationship will survive anything. It's monotonic, and it's strong, unbelievably strong."⁵

And Przeworski conducted much of this research as a Marxist. Again, Przeworski:

"I think that democracy becomes more stable in more developed societies because as people become wealthier, too much is at stake in attempting to subvert democracy. Intense political mobilization is risky in general, and in wealthy democracies it is even more risky because people have too much to lose. For example, if the American

³ Gwartney, James, Robert Lawson, and Randall Holcombe (1999). "Economic Freedom and the Environment for Economic Growth," *Journal of Institutional and Theoretical Economics*, 155, pg. 9.

⁴ Benjamin Friedman, *The Moral Consequences of Economic Growth*, pgs. 323-324.

⁵ Adam Przeworski, "Capitalism, Democracy, and Science," Interview with Adam Przeworski by Gerardo L. Munck, February 24, 2003, http://www.nyu.edu/gsas/dept/politics/faculty/przeworski/przeworski_munck.pdf, pg. 17.

presidential election of 2000 had occurred in a country with one-third the income of the United States, it would have ended in a coup d'état or a civil war, as it did in Costa Rica in 1948 under very similar circumstances. These outcomes did not occur because people in the United States have too much to lose. They eventually said 'Well, we are going to be governed by a government that probably stole the election, has no legitimacy, and that we don't like. But so what? We will survive. We have our homes, our cars, and our TV's. So, why bother? There is too much at stake to go into the street and build barricades or whatever.' . . . This is why democracies survive in wealthy countries.'⁶

Given the history of military coups and civil wars throughout much of the developing world, the need for stable democracy based on economic growth is not trivial. For instance, the recent Congo civil war, 1998-2002, is the deadliest conflict since WW II, and almost as many people have died in African wars in the past fifty years as in all wars in all other parts of the world combined. The absence of sustained economic growth in most African nations since their independence, has resulted in intermittent violence on such a scale that it would have been described as WW III had European peoples been involved.

While democratic regimes are not always peaceful, compared to dictatorships they are far less likely to initiate violence against both their own citizens and the citizens of other nations. The steady global trend towards democratic governance in the last thirty years is unambiguously a step towards a more peaceful world. A world of nations with deeply integrated economies, each of which is dynamic and vigorous economically, and in which dictatorships have become a thing of the past, will be a significantly more peaceful world.

⁶ Przeworski, op. cit., pgs. 18-19.