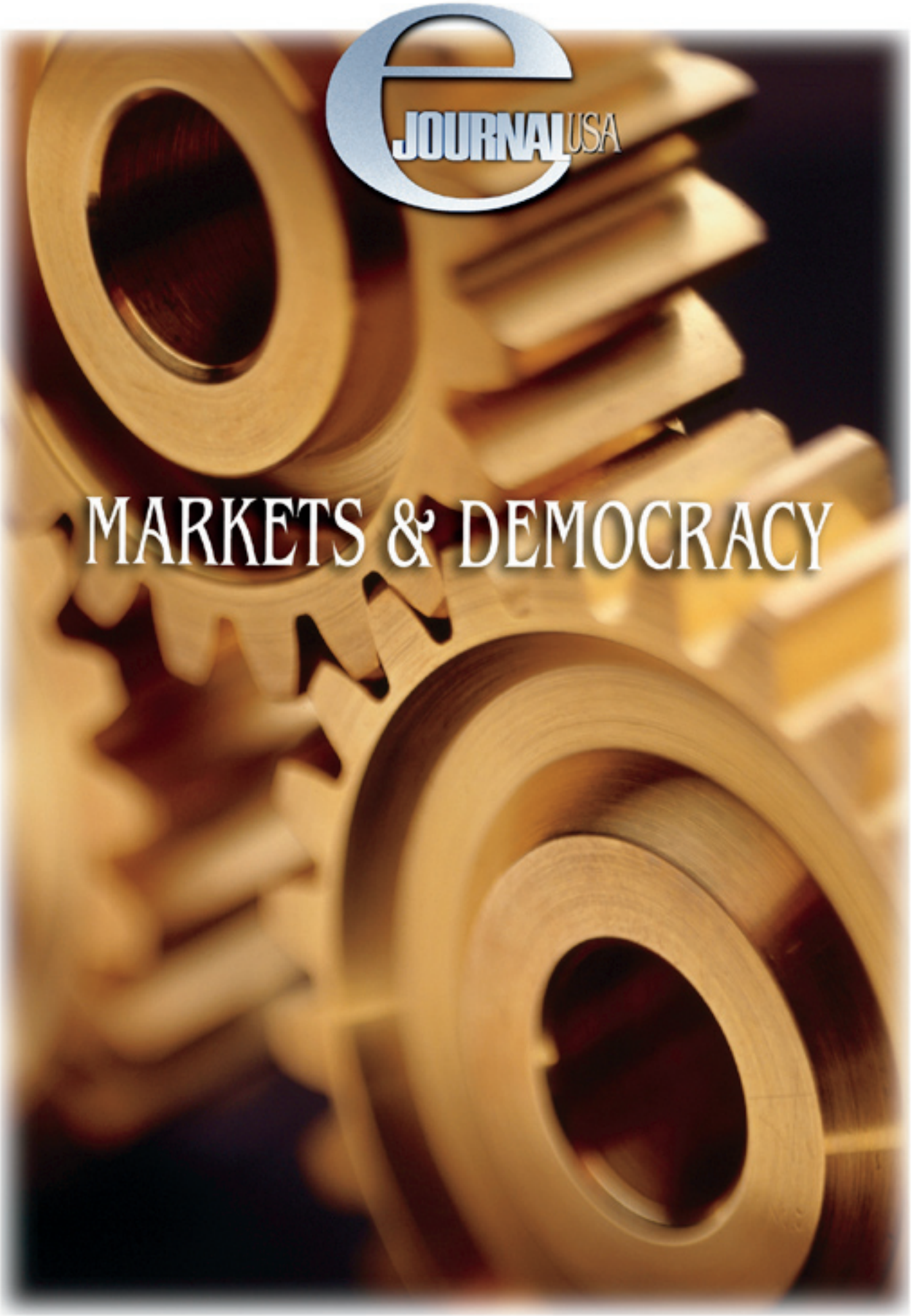


MARKETS & DEMOCRACY

U.S. DEPARTMENT OF STATE · BUREAU OF INTERNATIONAL INFORMATION PROGRAMS

U.S. DEPARTMENT OF STATE / JUNE 2008
VOLUME 13 / NUMBER 6
http://www.america.gov/publications/ejournalusa.html

International Information Programs:

Coordinator	Jeremy F. Curtin
Executive Editor	Jonathan Margolis
Creative Director	George Clack
Editor-in-Chief	Richard W. Huckaby
Managing Editor	Bruce Odessey
Production Manager	Susan L. Doner
Assistant Production Manager	Sylvia Scott
Web Producer	Janine Perry
Copy Editor	Rosalie Targonski
Photo Editor	Maggie J. Sliker
Cover Designer	Diane Woolverton
Graphic Designer	Vincent Hughes
Reference Specialists	Martin Manning
	Anita N. Green

The Bureau of International Information Programs of the U.S. Department of State publishes a monthly electronic journal under the *eJournal USA* logo. These journals examine major issues facing the United States and the international community, as well as U.S. society, values, thought, and institutions.

One new journal is published monthly in English and is followed by versions in French, Portuguese, Russian, and Spanish. Selected editions also appear in Arabic, Chinese, and Persian. Each journal is catalogued by volume and number.

The opinions expressed in the journals do not necessarily reflect the views or policies of the U.S. government. The U.S. Department of State assumes no responsibility for the content and continued accessibility of Internet sites to which the journals link; such responsibility resides solely with the publishers of those sites. Journal articles, photographs, and illustrations may be reproduced and translated outside the United States unless they carry explicit copyright restrictions, in which case permission must be sought from the copyright holders noted in the journal.

The Bureau of International Information Programs maintains current and back issues in several electronic formats at *http://www.america.gov/publications/ejournalusa.html*. Comments are welcome at your local U.S. Embassy or at the editorial offices:

Editor, *eJournal USA*
IIP/PUBJ
U.S. Department of State
301 4th Street, SW
Washington, DC 20547
United States of America
E-mail: eJournalUSA@state.gov

Countries Ranked High for Open Markets and Democracy

Countries in boldface type appear on both lists.

Top 20 Countries in Index of Economic Freedom

1. Hong Kong	**11. Denmark**
2. Singapore	12. Estonia
3. Ireland	**13. Netherlands**
4. Australia	**14. Iceland**
5. United States	**15. Luxembourg**
6. New Zealand	**16. Finland**
7. Canada	**17. Japan**
8. Chile	18. Mauritius
9. Switzerland	19. Bahrain
10. United Kingdom	**20. Belgium**

Source: Heritage Foundation and *The Wall Street Journal*

Top 20 Countries in Index of Democracy

1. Sweden	**11. Ireland/New Zealand**
2. Iceland	13. Germany
3. Netherlands	14. Austria
4. Norway	15. Malta
5. Denmark	16. Spain
6. Finland	**17. United States**
7. Luxembourg	18. Czech Republic
8. Australia	19. Portugal
9. Canada	**20. Belgium/Japan**
10. Switzerland	

Source: *The Economist* © The Economist Newspaper Limited 2007. All rights reserved.

About This Issue

The World Bank's Commission on Growth and Development recently released a report analyzing the factors that make for economic growth in developing countries. The group of international experts, including two Nobel Prize winners, found that one key is "credible, inclusive, and pragmatic governments." Other factors the commission identified were "the quality of the debate" in a country on public policy, vigor in fighting corruption, and equality of opportunity — all characteristics popularly associated with democratic systems.

The chart makes a similar point. Place the top 20 countries listed in the Index of Economic Freedom next to the top 20 in the Index of Democracy, and what do you see? Much overlap. Thirteen countries appear on both lists. There would appear to be, at a minimum, an association between a productive free market and a democratic form of government.

Michael Mandelbaum, author of the new book *Democracy's Good Name*, is more emphatic. "The principal source of political democracy," he writes in this issue of *eJournal USA*, "is a free-market economy. While there have been, and continue to be, countries that practice free-market economics but not democratic politics, no country in the 21st century that is a political democracy lacks a free-market economy." Yet an article last year by public policy professor Robert Reich in the respected journal *Foreign Policy* is titled "How Capitalism Is Killing Democracy."

Clearly, the connection between markets and democracy is not a straight line. Since Adam Smith's *An Inquiry into the Causes and Nature of the Wealth of Nations* appeared in 1776, such big economic thinkers as Max Weber, Joseph Schumpeter, and Lester Thurow have been debating this complex relationship. Is it possible to have free markets without democracy? Which develops first? Can the powerful, universal incentive of economic growth lead to greater democracy in countries that are not democratic?

The international experts in this issue offer some answers to these questions, and point out such relevant variables as opportunities for wealth creation, the role of social trust, and concepts of "voice" and accountability. Our goal, however, is not to resolve a centuries-old intellectual debate but to deepen our readers' understanding about the nuances of what is undeniably a matter of importance for everybody in the world today.

— *The Editors*

U.S. DEPARTMENT OF STATE / JUNE 2008/ VOLUME 13 / NUMBER 6
http://www.america.gov/publications/ejournals.html

MARKETS AND DEMOCRACY

4 The Roots of Modern Democracy
Michael Mandelbaum, Professor of American Foreign Policy, Johns Hopkins University School of Advanced International Studies
Liberty and self-government are the two parts of democracy. Free markets come first and make the right conditions for democracy to emerge.

7 Elastic Democracies and Globalization
Chan Heng Chee, Singapore's Ambassador to the United States
Countries can have varying degrees of freedom and democracy. Open markets are necessary but not sufficient for democracy. Recent experience suggests that open markets precede democracy.

OPPORTUNITIES FOR WEALTH

9 The Roots of Modern Capitalism
Bruce Scott, Professor of Business Administration, Harvard Business School
Capitalism and democracy typically did not arise together in history. Whether they can continue to dominate the world's systems of commerce and government raises a new question.

12 Marketization Without Democratization in China
Kellee S. Tsai, Professor of Political Science, Johns Hopkins University
Don't expect democracy to emerge in China any time soon. A booming economy and rising incomes might just bolster the readily adaptive communist government instead.

15 Free Markets and Democracy: The Cuban Experience
Oscar Espinosa Chepe, Economist
Decades of oppression by a centralized government have ground down Cuba's economy. Without freedom, Cuba's people can never compete in a globalizing economy.

ROLE OF SOCIAL TRUST

17 Democracy, Free Enterprise, and Confidence
William A. Reinsch, President, National Foreign Trade Council
Free markets tend to bolster democracy. Sometimes democracy bolsters free markets, sometimes not.

20 Market Economy Without Democracy in the Gulf
Jean-Francois Seznec, Visiting Associate Professor, Georgetown University
The Gulf states have mostly free markets but not free elections. The rulers share the benefits of economic expansion but not political power.

23 Democracy and Capitalism: The Separation of the Twins
Ivan Krastev, Chairman, Centre for Liberal Strategies
The fear was that Central Europe would embrace democracy and reject market economics. The case now is that Central Europe has accepted free markets but grown dissatisfied with democracy.

25 **The Effects of Ethnic Strife**
Doh C. Shin, Professor of Political Science, and Christopher D. Raymond, Graduate Teaching Assistant, University of Missouri
Research shows that political and economic reforms reduce ethnic conflicts, even in countries where a minority ethnic group dominates the economy.

VOICE AND ACCOUNTABILITY

29 **On Democracy and Development: Challenging Extremes**
Daniel Kaufmann, Director of Global Governance, World Bank Institute
In the long term, freedom of speech and press plus democratic government accountability make a positive difference in economic development.

33 **Will Freer Markets Lead to a More Democratic Government in Russia?**
Anders Åslund, Senior Fellow, Peterson Institute for International Economics
Russia has turned back toward authoritarian government despite its economic boom, level of education, and relatively open society. The reason is corruption.

36 **Bibliography and Filmography**

The Roots of Modern Democracy

Michael Mandelbaum

© AP Images/Ahn Young-Joon

Freedom of speech and other freedoms in South Korea followed free markets.

Liberty and self-government are the two parts of democracy, Michael Mandelbaum says. Free markets come first and make the right conditions for democracy to emerge, he says. Mandelbaum is the Christian A. Herter professor of American foreign policy at the Johns Hopkins University School of Advanced International Studies in Washington, D.C., and the author of Democracy's Good Name: The Rise and Risks of the World's Most Popular Form of Government *(PublicAffairs, 2007).*

Over the past three decades democracy has enjoyed a remarkable rise. In 1900 only 10 countries could be counted as democracies. By mid-century the number had increased to 30, and 25 years later it remained there. By 2005, however, 119 of the world's 190 countries were democracies. How did this happen? The place to begin to answer that question is with a proper understanding of democracy itself.

For those who use the term — and that includes almost everyone — democracy is a single, integrated, readily identifiable political system. Yet historically, as I describe in my book *Democracy's Good Name: The Rise and Risks of the World's Most Popular Form of Government*, democracy came about through the fusion of two political traditions that, until well into the 19th century, were not only distinct but were widely regarded as completely incompatible with each other.

The two political traditions are liberty, which is often called freedom, and popular sovereignty, or self-government. Liberty belongs to individuals, while popular sovereignty is a property of the community as a whole. Liberty involves what governments do or, more accurately, what they are forbidden to do to their citizens — they are forbidden to abridge individual freedoms. Self-government, by contrast, has to do with the way those who govern are chosen — they are chosen by all the people. Self-government therefore answers the question who governs, while liberty prescribes rules for how those who govern may

© AP Images/Michel Lipchitz

Bastille Day in Paris celebrates the birth of popular sovereignty.

do so, rules that impose limits on what they may do.

The two component parts of democracy have different histories. Liberty is the older of the two. It developed in three stages. Economic liberty, in the form of private property, dates in the Western European tradition from ancient Rome. Religious liberty in this tradition — freedom of worship — emerged largely from the split in Christian Europe caused by the Protestant Reformation of the 16th and 17th centuries. Political liberty came later than the other two — 18th-century Britain was the first place where something resembling modern political liberty could be seen — and it involves the absence of government control over speech, assembly, and political participation.

Popular sovereignty burst upon the world with the French Revolution of 1789, which brought forth the idea that sovereign power should reside in the people as a whole rather than in hereditary monarchs. Since it is impractical for all of the people to govern themselves directly all the time, a vehicle for popular sovereignty has developed: representative government, with the people choosing their representatives in free, fair, open elections in which all adults have the right to vote.

Until the second half of the 19th century, it was widely believed that popular sovereignty would crush liberty. If the people gained supreme power in the societies in which they lived, it was thought, they would seize the property of the affluent and enforce political and social conformity on everybody. Two classic works of 19th-century political analysis, the French aristocrat Alexis de Tocqueville's two-volume study *Democracy in America* and the Englishman John Stuart Mill's essay "On Liberty," address precisely this danger. By the 20th century, however, it was clear that liberty and popular sovereignty could coexist peacefully, as they now do in many countries around the world.

Social Safety Net

One important reason for the successful merger of the two was the development, at the end of the 19th century and in the early decades of the 20th, of government programs of social protection — old-age pensions, unemployment insurance, and health care benefits — that came to be known, collectively, as the social safety net, or the welfare state. Since every citizen is entitled to these benefits, the welfare state, in effect, made the distribution of property universal, which in turn has made the institution of private property more acceptable than it would otherwise have been.

Combining social welfare with liberty and popular sovereignty made democracy attractive. So, too, did the course of modern history, in which democracies became the richest and most powerful countries in the world — Great Britain in the 19th century and the United States in the 20th. Nothing succeeds like success, and because the most successful countries in the world in the second half of the 20th century — Western Europe and Japan, as well as the United States and Great Britain — were democracies, others sought to imitate them.

It is one thing to aspire to establish a democratic system of government, however, and quite another actually to create one. Here a difference between democracy's two components is relevant. Popular sovereignty is a political principle that is relatively easy to implement. Free elections can be held quickly and inexpensively almost anywhere.

Liberty, however, is far more difficult to establish. It requires institutions, a full-fledged legal system foremost among them. It requires people with the skills and

experience to operate these institutions. Liberty can only flourish in a society in which the values supporting these institutions, such as respect for the rule of law, are widespread. These institutions, skills, and values cannot be called into existence quickly and cannot readily be imported from abroad. In Great Britain, for example, they evolved over many centuries. This raises the question of where they come from. How do societies that lack the institutions and practices of democracy manage to get them?

The principal source of political democracy, as I explain in *Democracy's Good Name*, is a free-market economy. While there have been, and continue to be, countries that practice free-market economics but not democratic politics, no country in the 21st century that is a political democracy lacks a free-market economy. Most of the countries in which democracy appeared in the last quarter of the 20th century, particularly in Southern Europe, Latin America, and East and Southeast Asia, had had at least a generation's worth of experience in operating a working market economy.

Markets Foster Democracy

Free markets foster democracy in four different ways. First, at the heart of every free-market economy stands the institution of private property, and private property is itself a form of liberty. A country with a working free market, therefore, already has a major component of political democracy.

Second, free markets generate wealth, and many studies have shown that the wealthier a country is, the more likely it is to be governed democratically. Wealthy people have the time for the political participation that democracy requires and that poor people lack. Wealth creates what has historically been the social backbone of democracy: a middle class.

Third, the free market is the core of what social scientists call civil society, which consists of the organizations and groups in a society that are separate from the government, such as labor unions and religious and professional associations. Civil society stands between the government and the individual. It restrains the government's power and provides social space for activity independent of the government. The organizations of civil society rely on a free-market economy for the funds that sustain them. There can be no democracy without civil society and no civil society without a functioning free-market economy.

© AP Images/Eugene Hoshiko

China has moved to protecting private property, itself a form of liberty.

Fourth, the free market cultivates two habits that are essential for democratic politics. One is trust. Citizens in a democracy must trust the government not to abridge their rights, and minorities must trust the majority not to harm or persecute them. In a free-market economy, buyers and sellers must each trust that the other will fulfill the terms of the bargains that they strike; otherwise, commerce will not take place.

The other market-fostered habit that is crucial for democracy is compromise. In fact, democracy may be defined as the political system in which peaceful compromise rather than violence or coercion settles the kinds of differences that are inevitable in any society. People learn to compromise through the everyday activities of a free-market economy: The buyer and the seller must always compromise on the price of their bargain since the seller will always desire to be paid more than he receives and the buyer will always wish to pay less than he gives.

Beginning in the last third of the 20th century, the free market came to be regarded virtually everywhere as the best form of economic organization for producing prosperity. All societies want to be prosperous, so almost all of them have established, or tried to establish, free-market economies. Because the first tends to promote the second, the spread of free markets has done more than anything else to make possible the remarkable rise of democracy the world over. ■

The opinions expressed in this article do not necessarily reflect the views or policies of the U.S. government.

Elastic Democracies and Globalization

Chan Heng Chee

© AP Images/Wong Maye-e

Singapore prospered in textile and other industries before moving toward democracy.

Countries can have varying degrees of freedom and democracy, according to Chan Heng Chee, Singapore's ambassador to the United States. Open markets are necessary but not sufficient for democracy; with the exception of India, recent experience suggests that open markets precede democracy, she says. This essay was adapted from her September 18, 2007, remarks at the College of William and Mary in Williamsburg, Virginia.

Anglo-American democracy is based on the United Kingdom's parliamentary model or the separation of powers of the American political system. Its proper functioning assumes the existence of freedom of speech, freedom of assembly, free elections, and the rule of law. Any country that calls itself a democracy must adhere to all of these elements.

But around the world, democracy is elastic. You can have more democracy or less democracy, and you can have greater or lesser degrees of freedom. Malaysia and Singapore are less democratic than Japan and South Korea but more democratic than Thailand and Egypt.

My view is that markets are necessary but not sufficient for democracy. We have never seen a country that is democratic that does not have some degree of open markets, and we have never seen a country that is totally closed to the outside world that is not also authoritarian or totalitarian. Myanmar has hardly any markets really and no democracy. North Korea has no markets and no democracy.

Which comes first, markets or democracy? What is or should be the sequencing?

The Four Tigers

Observing political developments in Asia, I would say markets come before democracy. The four tigers — South Korea, Taiwan, Hong Kong, and Singapore — were authoritarian and became more open systems with adoption of an export-oriented, market-based economy. All became highly successful economically, achieving average growth of 8 to 9 percent a year over a decade or two.

Entering world markets requires discipline, rule of law, transparency, and access to information. These changes lead to a prosperous middle class to serve as a firm foundation for a stable democracy. Countries that embrace the world economy also embrace globalization, leading to democratization and equalization.

Compare the paths of Russia and China. The Soviet Union under Mikhail Gorbachev chose *glasnost* (openness)

© AP Images/Elizabeth Dalziel

China's economic system is fast evolving. Will its political system change too?

before *perestroika* (economic restructuring), hastening the Soviet collapse. But today Russia has become more centralized, and the United States is uncomfortable that it has retreated from democracy.

China chose *perestroika* first. Since 1978 China has been going through breathtaking economic growth. The middle class is growing, the Internet is buzzing, and social freedoms are allowed. Foreign travel is allowed, and ideas flow in along with foreign direct investment. I believe the Chinese political system will change to cope with the economic system that is fast evolving. Competition demands it. Chinese democracy may not look like Anglo-American democracy, but elections, free speech, responsiveness to the people will come.

India is one country in Asia where democracy came first and the opening of markets later. Now India is opening its markets and participating in the world economy in full measure. It will boom. India may be the rare exception where democracy became successfully established before markets.

The U.S. Role

Since the end of World War II, the United States and its European allies have endeavored to set up an open and fair global trading system and a stable system of currency exchange. International agreements have led to huge growth of trade, banking, and finance throughout the world. They allow newly independent and sovereign countries that buy into this system to develop and prosper without having to think about resorting to conflict to achieve their economic goals.

In tandem with open markets and open trade, the United States led in the promotion of democracy. For countries to accept and succeed with the democratic experiment, open markets were seen as essential. The United States kept its markets open while exporting capital markets and technology. In Asia, when we think of America, we think of democracy and free markets.

Since the Cold War, the United States and Europe set out to promote democracy and human rights along with economic deregulation in authoritarian and totalitarian regimes. This was the Washington consensus. In Asia we link the aggressive promotion of this consensus as hastening and contributing to the 1997 Asian financial crisis.

I believe the United States is still interested in promoting democracy. But paradoxically, the United States is turning protectionist. If the United States wants to see democracy flourish it cannot close its markets. New democracies will be choked off if they cannot work and prosper through being productive and play by the globally established rules of the game.

When the Chinese students stood up against the authorities in Tiananmen, they erected a Statue of Liberty as their icon. That is because the United States stands for freedom and liberty. That is what you export. If the United States were to become protectionist, I wonder what icon would be held up. It cannot be what the United States wants as its image. ■

The opinions expressed in this article do not necessarily reflect the views or policies of the U.S. government.

The Roots of Modern Capitalism

Bruce Scott

© AP Images/Zbzistaw Rowalewski

Ending border controls, as here at the German-Polish border, signals freedom of movement, a requirement of capitalism.

Capitalism and democracy typically did not arise together in history, according to Bruce Scott. Whether they can continue to dominate the world's systems of commerce and government raises a new question, he says. Scott is Paul Whiton Cherington professor of business administration at Harvard Business School and the author of a forthcoming book called Capitalism, Democracy and Development, *to be published later this year by Springer Verlag.*

At least since the 1835 publication of Alexis de Tocqueville's remarkable *Democracy in America*, the United States has been known for its particular marriage of capitalism and democracy — decentralized decision making in both the economic and political realms.

Although there is no consensus definition of capitalism, since 1990 it has become the near-universal economic system, encompassing China and India, though not Cuba or North Korea.

Democracy is still more difficult to define, and the number of democracies varies depending upon the definition used. Yale University political scientist Robert Dahl calculates that more than half the 200 United Nations member countries, with perhaps two-thirds of the world's population, could be characterized as democracies.

Thus capitalism, though imprecisely defined, has achieved near-total dominance in the global economy, and democracy has become the normative model if much less dominant in fact: China has built a hugely successful capitalist system but still maintains an authoritarian regime.

We need to define capitalism and democracy with more precision before we can predict whether they will continue to dominate as systems of commerce and government. First, there are varieties of capitalism; the U.S. variety differs from the European, for example, with Europe's stricter market regulation and more egalitarian incomes.

Second, discussions of democracy tend to focus on processes for citizen participation while neglecting to consider whether that participation actually assures democratic outcomes. President Abraham Lincoln's 1863 address at Gettysburg called the Civil War a test of whether "government of the people, by the people,

© AP Images/Visar Kryeziu

Hashim Thaçi is prime minister of Kosovo, where capitalism and democracy are still emerging.

for the people" would endure. As Lincoln implied, government by the people does not assure government for the people. As Lincoln was speaking, the United States had already enjoyed almost a century of government by the people yet had turned a blind eye to slavery, as though blacks were not people. It had turned an almost equally blind eye to the political rights of women.

Furthermore, the U.S. constitutional model divides sovereignty among three branches of government — legislative, executive, and judicial — while most other democratic regimes follow the British precedent, concentrating sovereignty in the popularly elected lower house of the legislature.

Defining Capitalism

Following is an attempt to provide an operational definition of capitalism, to show how it arose in history, and to suggest some conditions favorable to — and perhaps even essential for — democracy.

Many economists define capitalism more or less as a system of property rights coextensive with markets for production and consumption of goods and services, governed by the "invisible hand," to use Adam Smith's famous metaphor, which sets prices in line with demand and supply.

I prefer some political scientists' definition of capitalism as a system of governance that originates with state permission for non-state actors to exercise economic power, subject to a set of rules and regulation. Under this definition, capitalism depends upon a delegation of power from the state to economic actors and upon the coercive power of the state to design, monitor, and ultimately enforce market regulation. The pricing mechanism coordinates supply and demand within a given market framework, while the visible hand of government enforces the framework and keeps it up to date.

While the state needs to be accountable for its legitimacy, that accountability need not be to a democratically elected government in order for capitalism to flourish. Venice, perhaps the earliest example of sustained capitalism (since at least before 1200), was no democracy; it was essentially a constitutional monarchy, its seven islands having formed a voluntary union governed by an elected duke.

Capitalism emerged well before large-scale democratic states, and political scientists see the existence of decentralized market-based decisions in the economy as a prerequisite for decentralized political power through democracy.

While democracy at the level of cities seems to date from ancient Greek and Roman times, no democratic states were clearly apparent before De Tocqueville's observations on America, and his American example is the one case where some would argue that the two systems of democratic government and capitalism grew up together starting about 1630.

The historian Fernand Braudel, who dated the origins of capitalism to 1400-1800, admitted that he was unable to define capitalism, yet he recognized importantly that it was a system of economic relationships incompatible with feudalism, another system of economic relationships. Trade in goods and services did exist in many feudal contexts, such as those of the Aztecs, the Incas, Japan of the Shoguns, imperial China, India, and the Ottomans.

Ceding Power

Capitalism requires free movement and employment of labor and the right to buy and sell land, which were not compatible with feudalism. It recognizes that interest payments are a legitimate return on capital, and it provides the right for non-state actors to mobilize capital through legal vehicles such as partnerships, joint stock companies, and the modern corporation. All of these freedoms imply not only an end to feudalism, but also the willingness of the sovereign state to cede such power to non-state actors.

This concept makes clear that capitalism emerged in Europe long before elsewhere, with the exception of the United States, where European settlers brought many ideas and institutions with them.

© AP Images/Howard Yanes

Handcuffed opposition demonstrators raise their hands in Venezuela, where democracy is slipping away.

Why did capitalism emerge in Europe? There is no single answer, but an important and distinctive element of the European experience was nearly continuous warfare in the 16th and 17th centuries. This political-military competition placed great strains on the existing political units in Europe, which have been estimated to be as many as 500 in 1500 and as few as 40 by the end of the Napoleonic wars in 1815 and 25 in 1940.

As with economic competition today, the chances for survival of a political entity then were much higher if it had an effective army, and the size of the guns and armies got dramatically larger over the centuries. Political entities that would survive needed money or at least borrowing power. Decentralization of power to would-be entrepreneurs and traders was a potential source of income for those rulers who would tolerate decentralized power. And constitutional monarchies, which borrowed money with the consent of parliaments, had much lower borrowing costs.

The historic preconditions for capitalism seem to have been competitive threats to sovereignty and autonomy on the one hand and accountable government on the other. Japan, China, India, and the Ottoman Empire had neither for centuries.

The preconditions for democracy seem to include control of the military and police by elected officials; a state with a monopoly of coercive power, including the coercive powers of the courts and the power to provide security for persons and property; the existence of markets for production and consumption; and acceptance of Enlightenment values, notably the notion that ultimate political authority is vested in human institutions that have been derived from human reasoning.

A number of conditions favor continuance of democracy, including rising incomes, avoidance of excessive inequalities in the distribution of wealth and power, a strong and well-mobilized middle class, and an accepted code of ethics, balancing individual self-interest against the responsibilities of citizenship.

Other conditions can threaten democracy. One of these is large sources of unearned income, such as so-called mining rents from oil. Nigeria and Venezuela are examples. The unearned income becomes a huge source of wealth and patronage for government leaders and thus a springboard to unaccountable power.

Building the underlying conditions to support democracy takes decades, and starting prematurely may not hasten the process, as evidenced in Bosnia, Kosovo, Iraq, Lebanon, and the West Bank. A number of European countries, such as Britain and the Netherlands, were well governed long before they became democracies.

Constitutions and elections do not alone necessarily signify democracy, as evidenced in contemporary Nigeria, Venezuela, and Zimbabwe. Constitutions and elections can be manipulated by elected leaders, and focusing on the establishment of these procedural aspects of government by the people may, in fact, delay its creation, let alone the creation of government for the people, which is more difficult still. ■

The opinions expressed in this article do not necessarily reflect the views or policies of the U.S. government.

Marketization Without Democratization in China

Kellee S. Tsai

© AP Images

Chinese entrepreneurs have amassed their wealth under Communist Party rule.

Don't expect democracy to emerge in China any time soon, Kellee S. Tsai says. A booming economy and rising incomes might just bolster the readily adaptive communist government instead, she says. Tsai is professor of political science at Johns Hopkins University in Baltimore, Maryland.

In 1978 China did not even keep official statistics on private businesses because they were illegal and negligible in number. Merely three decades later, the private sector represents the primary engine of growth in the Chinese economy. In 2008 there are more than 34 million private businesses, employing more than 200 million people and accounting for 60 percent of the country's gross domestic product.

The spectacular pace of private-sector development has led many observers to speculate that the country is developing a capitalist class that will demand democracy. This expectation is based on the logic that an increasingly prosperous merchant class will overthrow the authoritarian government in the spirit of "no taxation without representation," thereby reenacting the pattern of democratic development in Great Britain and the United States.

Yet this conventional wisdom about the causal relationship between free markets and political freedom does not fit the situation in present-day China. Private entrepreneurs are not acting collectively to push for democracy, and those who have persisted in criticizing the Chinese Communist Party are censored, repressed, or exiled. Instead of political liberalization, the spread of market forces has bolstered authoritarian resilience and regime durability in China.

Capitalists Divided

China's private business owners do not constitute a distinct "capitalist class" that shares a common identity and interests. Sidewalk peddlers and restaurant owners have different concerns from real estate tycoons and owners of Fortune 500 corporations. The newly minted millionaires and billionaires have amassed their wealth under the current political system. The street hawkers and household factory owners are too busy toiling to consider how a democratic transition might alleviate their day-to-day complaints.

But even the middle tier of capitalists — that

might appear to share an economic interest in political participation to ensure rule of law and protection of private property rights — lacks common ground. Their differing social and political identities inhibit class-based collective action.

Given the relatively recent introduction of marketizing reforms, China's private sector comprises people from widely varying backgrounds. Some private entrepreneurs are former peasants who abandoned communal farming to establish commercial businesses early on in the reform era. Some are former state employees who entered the private sector because they were laid off or underemployed. Others are marginalized intellectuals or disenchanted former bureaucrats who gave up on politics to make a decent living. And a good number of private entrepreneurs are Communist Party members who have leveraged their political connections for preferential access to bank credit, land, and other state assets.

These types of differences inhibit class formation and class-based collective action. Indeed, very few private entrepreneurs regard themselves as "capitalists," preferring, instead, to identify with their former occupations.

China Fragmented

The argument could be made that China's divided capitalist class is merely a short-term phenomenon. Perhaps the next generation of private entrepreneurs will develop more coherence as a class and decide that a democratic regime type would better serve their interests. Perhaps they would unite to initiate a democratic transition. While plausible, this scenario remains unconvincing.

First of all, in my surveys of private entrepreneurs, most indicate that they would prefer their children — or more typically, one child — to become well-educated, white-collar professionals or government officials rather than toiling business owners. In most cases, today's capitalists do not aspire for generational continuity in their commercial pursuits. To the extent that entrepreneurial parents succeed in getting their way, private profit is merely a transitional means to achieve a more respectable form of livelihood. To the extent that today's private businesses are passed on to the next generation — which would be a slim minority given the high turnover in business registrations — it is still unlikely that they would coalesce into a pro-democratic political force.

Capitalists operating in similar sectors and at similar business volumes have different complaints and political views due to local variation in policy environments towards the private sector. Just as the identities of China's business owners vary significantly depending on their backgrounds, their actual operating experiences also vary regionally.

Certain localities are known for offering particularly hospitable conditions for private businesses. A notable example is Wenzhou in the southern coastal province of Zhejiang. Well before the central government legalized private enterprises, Wenzhou's local officials were already permitting its destitute farmers to run retail establishments and small factories.

In contrast, other localities have systematically discriminated against private capital throughout the reform era. Local governments in areas that inherited large state or collective sectors from the Mao era (1949-1976) have been more reluctant to give private entrepreneurs access to key resources (e.g., bank loans) needed to run their businesses. Similarly, localities that have received substantial infusions of foreign direct investment continue to treat foreign investors more favorably than their domestic counterparts.

China's capitalists thus face different types of challenges depending on what part of the country they are operating in, and their capacity for policy influence varies accordingly. Autonomously organized trade associations in Wenzhou work actively to advocate on behalf of their members, while business associations in other localities are dominated by the government and less helpful for business owners. In this sense, the internal demographic fragmentation of capitalists is mirrored in the spatial variation for private economic activities. If disgruntled entrepreneurs in one locality became more politically assertive, then they would face difficulties in garnering nationwide support for their demands.

Repressed Dissent

Private entrepreneurs are not the only segment of Chinese society that faces territorial limitations for organized political action. Farmers, workers, and intellectuals who harbor grievances face similar challenges in mobilizing cross-regional support.

In recent years, the numbers of mass protests and demonstrations have increased significantly: Official statistics indicate that there were 58,000 protests in 2003, 74,000 in 2004, and 87,000 in 2005. Although increased population mobility and the spread of new

© AP Images/Greg Baker

China's Communist Party has adapted to and, so far, prospered with economic reforms.

communication technologies have eroded some of the organizational barriers of the pre-reform era, these protests have remained limited to particular localities.

The only movement that posed a potentially serious challenge to the regime was the short-lived China Democracy Party (CDP). In 1998 local party committees of the CDP were established in 24 provinces and cities. But authorities promptly detained, arrested, or exiled CDP leaders, which effectively thwarted further efforts to establish a central-level CDP.

The subsequent crackdown on Falun Gong practitioners in 1999-2000, the quarantining of citizens during the 2003 SARS outbreak, and the swift repression of Tibetan protestors in 2008 provide further evidence that Beijing retains the capacity to control its population during times of crisis.

Communist Resilience

Observers who expect a democratic transition in China see that the spread of market forces has been associated with a host of destabilizing effects, including the conspicuous rise in income inequality and increased opportunities for official corruption. While the incidence of protest has been increasing, however, capitalists — the expected class carrier of democracy — are notably absent from these outbursts of discontent. Furthermore, few of the protests have been directed at challenging the Chinese Communist Party's monopoly on political power. Even the attempted establishment of the CDP occurred through standard administrative channels — that is, within the rules of the current political system.

Ultimately, market reforms in China under authoritarian rule have generated unexpectedly high rates of economic growth, which have benefited a broad cross-section of society. The beneficiaries of this authoritarian capitalist mode of development are not inclined to clamor for political reforms that might destabilize society and jeopardize continued growth.

Moreover, throughout its 87 years of existence, the Chinese Communist Party has demonstrated a remarkable ability to redefine and reinvigorate itself through dramatic shifts in ideology, membership composition, and policy objectives. Thus far, the adaptive turn to marketization has proven to be the party's source of legitimacy rather than downfall. For these reasons, contemporary China continues to elude the popular association of economic freedom with political freedom. ■

The opinions expressed in this article do not necessarily reflect the views or policies of the U.S. government.

Free Markets and Democracy: The Cuban Experience

Oscar Espinosa Chepe

© AP Images

In 1959 Fidel Castro started a repressive regime that has brought catastrophe for Cuba.

Cuban dissident economist Oscar Espinosa Chepe says that decades of oppression by a centralized government has ground down Cuba's economy. Without freedom, he says, Cuba's people can never compete in a globalizing economy.

After almost 50 years of totalitarianism in Cuba, the loss of freedom — especially the violation of the freedom of movement in the market — has had devastating effects on all aspects of Cuban society. The process that began in 1959 and created so many illusions, in time, turned into an oppressive system that blocked the country's progress.

With the pretext of establishing a system of "harmonious and proportional development," the country's free market was replaced by a centralized planning mechanism copied from the Soviet Union, based on a harsh willfulness that created multiple distortions and an enormous waste of resources. This state of affairs was maintained until the end of the 1980s thanks to colossal subsidies, which finally sank Cuban society into the worst crisis in its history, a situation still not overcome.

One could ask, What was the initial reason to displace the country's free market as the essential tool for the distribution of resources, replacing it with bureaucratic centralized planning? Why is the system maintained despite the repeated failures of centralization? The answer to these questions is that the system is based on the interests of a group of people whose only pursuit is maintaining absolute power over Cuban society. For these totalitarian objectives, the system's political profitability is obvious, regardless of the levels of misery, backwardness, and degradation they produce.

Economic Freedom Lost

The same explanation shows the reasons for the mass confiscations of properties in Cuba — far more than those in other countries that suffer from centralized systems — as well as for the attempts to banish all traces of economic freedom. This strategy was aimed at exercising strict control over the population by converting the citizens

© AP Images

General Raúl Castro, succeeding his brother, has hinted at changes, at least for the Cuban economy.

into entities with no rights, entirely dependent on the all-powerful state.

The economic, social, political, demographic, and environmental consequences have been catastrophic for Cuba, without mentioning the damage to the people's spiritual values, severely eroded by a crisis whose end cannot be seen. To this must be added an enormous and dangerous dependence on Venezuela.

At the economic level, a process of human and material decapitalization has affected society as a whole. Cuba, in the past a rich, self-sustaining agricultural country, according to official data, imports today 84 percent of its basic food requirements, mostly from the United States. The once major sugar provider to the world now buys sugar abroad. These dislocations occur while more than 50 percent of the arable land remains abandoned and overrun by brambles. At the same time, due to the low wages — about $20 per month, on average — the population is driven to crime in order to survive. As a result, according to United Nations data, Cuba has become the nation with the highest prison population in the world in relation to its inhabitants.

Hints of Change

Cuba is a sad example of the consequences of not having freedom. And Cuba could well fall even further behind as the rest of the world grapples with globalization and market integration. While those forces create enormous developmental possibilities, they also require a significant increase in competition, in which efficiency, productivity, and creativity play an increasingly important role. It is impossible to promote these elements in societies ruled by fear, where freedom of association and freedom of speech are prohibited, thus preventing the debate and the free exchange of ideas needed to identify better options for progress.

The situation is so obvious that even within the Cuban government, one is beginning to hear voices, however hesitant and incoherent, in favor of introducing structural transformations and conceptual changes in the system, especially in the economy. Hints can be found in speeches made by General Raúl Castro, who on February 24, 2008, became president of the Council of State and president of the Council of Ministers.

Perhaps the hinted changes will begin a gradual process toward reforms, bringing the Cuban people freedom. If newly awakened hopes were again frustrated, however, social instability would be the probable outcome. ■

The opinions expressed in this article do not necessarily reflect the views or policies of the U.S. government.

Democracy, Free Enterprise, and Confidence

William A. Reinsch

© AP Images/Alexander Zemlianichenko

As democracy erodes in Russia so does free-market competition in some sectors.

According to William A. Reinsch, free markets tend to bolster democracy. Sometimes democracy bolsters free markets, sometimes not, he says. Reinsch is president of the National Foreign Trade Council and a member of the advisory U.S.-China Economic and Security Review Commission.

Looking around the world today, we see that many of the most prosperous countries also boast the most dynamic democracies. Countries such as Chile, Ireland, and the United States are vibrant democracies with largely free markets. Countries such as Burma and North Korea are marked by dictatorships and rigid, command economies.

While there are exceptions to any rule, economic and political freedoms tend to go hand in hand. In many cases a country's engagement with the world is an important harbinger of both economic and political freedoms.

In particular, global economic engagement is an important foundation for democracy. Trade and competition promote growth, which builds wealth and creates a larger middle class. In turn, this larger middle class demands more of its government, which can no longer rely on the support of a small coterie of elites. At the same time, trade exposes inefficiencies in bloated state-run enterprises, further limiting the ability of state officials to dole out jobs and favors.

Economic despair, on the other hand, fosters the conditions in which demagogues can become dictators, as the period between the two world wars highlighted all too well. President Harry Truman and Secretary of State George Marshall understood this when, in the wake of the Second World War, they laid out a plan to rebuild Europe. "The revival of a working economy," Marshall said, would "permit the emergence of political and social conditions in which free institutions can exist."

Beyond creating a prosperous economy, the increased engagement of global businesses can also support democratic ideals. For example, global companies are

© AP Images/John McConnico

Citizens wait to vote in Denmark, a country blending strong free markets and social trust.

More generally, global economic competition fosters greater engagement with the world, which inevitably leads to the exchange of information, ideas, and democratic values. U.S. presidents from Franklin Roosevelt to John F. Kennedy to Ronald Reagan have recognized the intangible benefits open markets and engagement have on the promotion of democracy abroad.

More recently, Presidents Bill Clinton and George W. Bush both agreed that bringing China into the World Trade Organization would be good for democracy. "When individuals have the power not just to dream, but to realize their dreams," Clinton said, "they will demand a greater say." Bush added that "economic freedom creates habits of liberty" and, with respect to China, "Our greatest export is not food or movies or even airplanes. Our greatest export is freedom."

Not long ago, the United States and Western Europe exported U.S. ideals through rock music, books, and television to the former Soviet Union. In 1987 Billy Joel played for audiences in Moscow and Leningrad, telling the Soviet people, "What's going on in your country now is very much like the '60s in my country." Today, freer markets mean greater access to the Internet, cell phones, and text messages, which speeds information, gossip, and news in ways that are difficult for any government to control fully. Plugging into the global information and economic system is good for democracy.

But is democracy good for free enterprise?

This is perhaps a more complicated question, though one thing is clear. Dictators rarely embrace free markets. Burma, Cuba, Libya, North Korea, and Zimbabwe are the least free economies in the world, according to the *2008 Index of Economic Freedom*, produced by *The Wall Street Journal* and the Heritage Foundation. The kind of concentrated authority that allows these political systems to survive encourages a centralized, command economy that rewards those loyal to the regime and punishes those who are not.

Democratic government certainly has helped bolster free markets in the United States and around the world. For more than 60 years, the United States has helped in many cases prohibited by law from offering bribes or engaging in corrupt practices.

In addition, many companies are voluntarily instituting internal codes of conduct or subscribing to conventions for corporate conduct such as the Global Sullivan Principles or the UN Global Compact. The more these kinds of companies are allowed to engage through trade and competition, the less bureaucrats or party chiefs can sustain themselves or feed a government machine through questionable or corrupt practices.

Corporate Social Responsibility

Today there is another important political benefit to the participation of global companies in local economies. Many businesses have instituted corporate social responsibility programs to support the communities in which they work. In a number of cases these efforts are not directly related to a core business but instead focus on improving local institutions.

This is particularly true in Africa, where multinational companies have founded treatment programs for HIV/AIDS, set up post-conflict resettlement programs, and established microcredit institutions. General Electric, for instance, has partnered with development economist Jeffery Sachs to build a series of hospitals across 10 countries in Africa, using GE technologies and company volunteers to improve rural health care delivery. These projects help strengthen civil society and further encourage the establishment of free institutions.

© AP Images

By opening up to world markets the Chinese have a chance to open up to ideas.

fashion and support a liberal world order based on free trade and stable global markets. Over about the same period, Europe has lowered its economic barriers and improved its labor market efficiencies following the spread of democracy across the continent.

Free Markets and Stability

But free and fair elections alone do not necessarily promote free markets. One problem is that a growing number of autocratic regimes masquerade as democracies, where one party maintains virtual control over government and the economy and where a robust opposition does not exist. Russia under Vladimir Putin, former president and now prime minister, is a prime example of a country where democracy is eroding. As Putin has increased his control over the country, Moscow has asserted greater control over the economy, expanding its influence over state-owned enterprises such as Gazprom and using its economic leverage to send political messages to its neighbors and the world.

Other democratic governments lack the institutions and support to encourage free markets. Fledgling governments in places such as Iraq and the West Bank and Gaza, where basic stability and security are ongoing issues, do not have the governance and security structures in place to promote free markets in meaningful ways.

Even in more established democracies, backlashes against the free market are not uncommon. In Latin America, a number of politicians have been elected in recent years based on populist and, in some cases, socialist platforms. In the United States, polls show dwindling support for free trade, while the home mortgage crisis has led to questions about the consequences of free markets without sufficient oversight and regulation.

Democracy appears best able to strengthen free markets when it is accompanied by strong local institutions and social trust. Denmark boasts one of the most open economies in the world and is a model democracy, but it also embraces a unique social compact known as "flexicurity," a system that has taken more than a century to refine and that spends substantially on social programs, training, and benefits.

The result of the compromise is that the Danes believe strongly in free enterprise and global trade — even unions embrace outsourcing. Author Robert Kuttner, who has analyzed the Danish compromise between free markets and social stability, suggests that these kinds of bargains "have to grow in their own political soil."

The key to encouraging the growth of democracy and economic freedom is to foster the local institutions on which both are based.

The United States, its allies, and international institutions should continue to encourage the rule of law, independent and transparent judicial systems, productive capital investments, and adherence to international human rights and legal obligations in order to make it more likely that governments, however structured, will operate in a fair, humane, and transparent manner.

At the same time, governments, nongovernmental organizations, and businesses can all play a role in bolstering the local institutions and civil society groups that strengthen democracy and support individual freedoms.

We must engage vigorously in the world with all of the tools at our disposal, particularly through trade and diplomacy. If we do, we have an opportunity to help people around the world become more free, prosperous, and secure. ■

The opinions expressed in this article do not necessarily reflect the views or policies of the U.S. government.

Market Economy Without Democracy in the Gulf

Jean-Francois Seznec

© AP Images

Gulf Cooperation Council countries rank relatively high on free markets, relatively low on civil and political rights.

The Gulf states have mostly free markets but not free elections, according to Jean-Francois Seznec. The rulers share the benefits of economic expansion but not political power, he says. Seznec is visiting associate professor at Georgetown University's Center for Contemporary Arab Studies in Washington.

Market economies seem to thrive in certain nondemocratic states and yet do not seem to move these countries towards democracy. Consider the six countries that form the Gulf Cooperation Council (GCC): Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and the United Arab Emirates.

On the Freedom House scale from 1 to 7 of freedom in the world, with one being the freest, the Gulf countries score poorly. Saudi Arabia gets 6.5 because of its limited civil and political rights. Highest scoring is Kuwait with only 4.0. Kuwait does have freely contested elections to parliament and freedom of expression, but the primacy of the royal family is not questioned.

By some measures, however, the Gulf states are among the freest markets in the world.

All Gulf countries are market economies. Saudi Arabia ranks a relatively high 23rd on the World Bank's list of countries for ease of doing business. All GCC countries are members of the World Trade Organization

© AP Images/Kamran Jebreili

The Dubai International Financial Center reflects the Gulf countries' openness to investment.

(WTO). Oman and Bahrain have free trade agreements with the United States. Tariffs are low.

None of the countries has income taxes. Corruption for day-to-day transactions is minimal. GCC country banks and financial institutions are sophisticated lenders. Restrictions on the sale of goods are limited, except for religiously forbidden products such as pork and alcohol.

The Gulf states also are modernizing their economic structures and laws to attract private investments, both local and foreign. Today a foreign company can own 100 percent of all its ventures in most GCC countries. It can repatriate its profits freely, sell assets as it wishes, and pay relatively low corporate taxes.

The Gulf countries' economies are booming. Moving to become less dependent on oil or gas, they are seeking to maximize their advantages of low-cost energy, plentiful capital, and strategic location. They already produce about 12 percent of all the world's chemicals and fertilizers. They are increasingly producing more advanced chemicals such as ethylene-based plastics. With access to cheap electricity, they are already large producers of aluminum, and, with future access to bauxite in Saudi Arabia, they may achieve 20 percent of world production before 2020.

Limits on Free Markets

Adherence to free markets has limits, of course. Contracts are not easy to enforce because of different legal traditions and few judges with knowledge of international legal practice.

In order to achieve economic development, the Gulf countries are investing hundreds of billions of dollars in infrastructure projects, building industrial cities, railroads, harbors, and airports.

Most of the very large chemical and metals companies operating in the GCC today are state owned, although managed like large Western companies with minimal interference from government. SABIC, for example, is the most profitable and fastest-growing chemical company in the world with access to raw materials at lowest cost. It is also becoming a research and development powerhouse and, like its petroleum counterpart, Saudi Aramco, trains and uses Saudis to create knowledge-based industries in the kingdom.

The success of state-owned companies has drawbacks. Managers insist they should not have to share their low-cost raw materials with local competitors. Thus, while very large state enterprises create work for the private-market economy, they also restrict private-sector competitors from getting too large.

Of course, some interests in the GCC resist free markets, including traditional manufacturers and merchants. The religiously conservative Salafis also lobby against free markets, fearing that an open economy invites widespread Western-style education and practices.

Sharing Wealth, Not Power

To achieve their ambitious economic goals, the governments of the Gulf have sought to share wealth, but not political power, with their people.

Saudi authorities have used the stock market to share the wealth. Many of the 115 companies listed are controlled by the state and are usually very profitable; these companies will sell perhaps 30 percent of their capital as stock market shares. Saudis who invest in these state-owned companies get good dividends and capital appreciation on safe investments. Furthermore, the Capital Markets Authority ensures that all the companies

© AP Images/Kamran Jebreili

Western-style construction, but not Western-style democracy, is on the rise in Dubai.

listed are bona fide and that small investors get a chance to buy shares. Today 50 percent of all Saudis own shares and hence have a stake in the development of the kingdom.

Gulf governments fear, however, that sharing political power with their people could bring development to a screeching halt. The few freely held elections in the Gulf have given absolute majorities to the Salafis. To balance Salafi gains, GCC kings and emirs have appointed consultative councils, comprising technocrats who give a stamp of participatory approval to economic policy and uncontroversial laws.

Lack of judicial independence demonstrates another divide in the Gulf states between sharing wealth and political power. Government-appointed judges rule in cases of Islamic family and criminal law but lack competence in commercial law. The Saudis have established a parallel legal system called the Board of Grievances to handle commercial cases.

Yet the powerful remain beyond the reach of the courts. The Saudi Board of Grievances does not consider disputes involving princes and government officials; rarely are such cases adjudicated on merit.

Growth of free markets, both promoted and hampered by autocracy, has done little to effect political reform in the Gulf states. The free-market economies are sustained by the unquestioned political control of their leaders. Even in Dubai, the entrepreneurial center of the region, the word of the ruler is the rule of the land.

The Gulf governments are not of the people, by the people, for the people. They are governments of the few for the benefits of the many. This is a far cry from what Western democracies have achieved, but it is home grown.

Democracy cannot be imposed from the outside. Ongoing economic changes in the Gulf may be indicating that, over time, the rulers there will allow not only market freedom but also political freedoms such as political parties, free speech, and independence of an educated judiciary. Ultimately, promoting economic participation and reform may still promote democracy. ■

The opinions expressed in this article do not necessarily reflect the views or policies of the U.S. government.

Democracy and Capitalism: The Separation of the Twins

Ivan Krastev

According to Ivan Krastev, the fear was that Central Europe would embrace democracy and reject market economics. He says the case now is that Central Europe has accepted free markets but grown dissatisfied with democracy. Krastev is chairman of the Centre for Liberal Strategies in Sofia, Bulgaria.

© AP Images/Vadim Ghirda

Voters in Romania and elsewhere in ex-communist Europe have accepted free markets but have grown restive with politics.

Today historians are tempted to write the history of the post-communist transitions in Central and Eastern Europe as a story of the irresistible attraction between democracy and capitalism. But 20 years ago many feared that it would be a horror story.

While political theorists tended to agree that democracy and capitalism are natural partners and that free-market and competitive politics strengthen each other in the long run, the fear was that the political and economic reforms needed to transform East European societies would block each other.

How can you give people the power to do what they want and then expect them to choose policies that will lead initially to higher prices, higher unemployment, and increased social inequality — this was the dilemma of the post-communist transitions.

In the view of the German sociologist Claus Offe, "a market economy is set in motion only under pre-democratic conditions." And leading Polish political scientist and Solidarity activist Jadwiga Staniskis was convinced that "as long as the economic foundations for a genuine civil society do not exist, the massive political mobilization of the population is only possible along nationalist or fundamentalist lines."

In short, Central Europe was seen as doomed to choose between market socialism and authoritarian capitalism. Happily, sometimes what does not work in theory does work in practice.

Central and Eastern Europe succeeded in a simultaneous transition to market economics and democracy. It was a magic mix of ideas, emotions, circumstances, and leadership that made the success possible.

Support for Economic Changes

The legacy of communism was reformers' natural ally in transforming Central European societies. People were patient and endorsed reforms because they were impatient

to break away from communism. The early 1990s was a surreal time when trade unions were advocating for job cuts and ex-communist parties were eager to privatize the economy.

There was anger against capitalism, but there was neither a party nor even political language able to mobilize the losers in the transition. Communism had eroded the capacity of society for collective action along class lines. Any criticism of the market was equated with nostalgia for communism. Anti-communist counter-elites, because of their ideology, and ex-communist elites, because of their interests, both supported economic changes.

The popular longing for a "return to Europe," strengthened by the attraction of the European Union and NATO (North Atlantic Treaty Organization), allowed societies to reconcile the redistributive instincts of democracy with the need for long-term vision and patience as a pre-condition for economic success. It worked differently in different countries, but Euro-Atlantic integration secured continuation of economic reform and ensured against political backlashes.

The success of post-communist transitions led a new generation of political theorists to rethink the chances for the simultaneous emergence of democracy and capitalism. What had been viewed as historical luck was then declared a natural law. Democracy and capitalism were no longer viewed as a happy couple but rather as identical twins.

Skepticism About Democracy

The tendency was to ignore the tensions between democracy and capitalism. But it is enough to look at the experience of countries such as Russia, China, or Venezuela to be skeptical about the natural tendency of capitalism to lead to democracy and the natural tendency of democracy to support capitalism.

The experience of Central Europe also needs some rethinking. A year after the Central European democracies became members of the European Union, the region was shaken by the rise of populism and nationalism. Dissatisfaction with democracy is growing, and, according to the global survey Voice of the People 2006, Central Europe, contrary to all expectations, is the region of the world where citizens are most skeptical about the merits of democracy.

All over the region publics distrust politicians and political parties. The political class is viewed as corrupt and self-interested. The transition was an unqualified

© AP Images

Trade union members like these in Poland view themselves as losers in the post-communist transition.

success for Central Europe but led to rapid social stratification, painfully hurting many while elevating a privileged few.

Many lives were destroyed and many hopes were betrayed in the time of transition. The fact that the major winners of the transition were the educated and well-connected members of the old regime did not help make it acceptable. The post-communist democracies are now viewed as a triumph not of egalitarianism but of anti-egalitarian communist elites and anti-communist counter-elites.

The external constraints imposed on the accession countries by the European Union were essential for the success of reforms but contributed to the perception that they were democracies without real choices.

Twenty years ago theorists feared that the newly emerging democracies might lack a taste for capitalism. What we see now is that most people in Central Europe have more trust in the market than in the ballot box. ■

The opinions expressed in this article do not necessarily reflect the views or policies of the U.S. government.

The Effects of Ethnic Strife

Doh C. Shin and Christopher D. Raymond

© AP Images/Bernat Armangue

Violence erupted in Kenya, a democratic country torn by ethnic tensions.

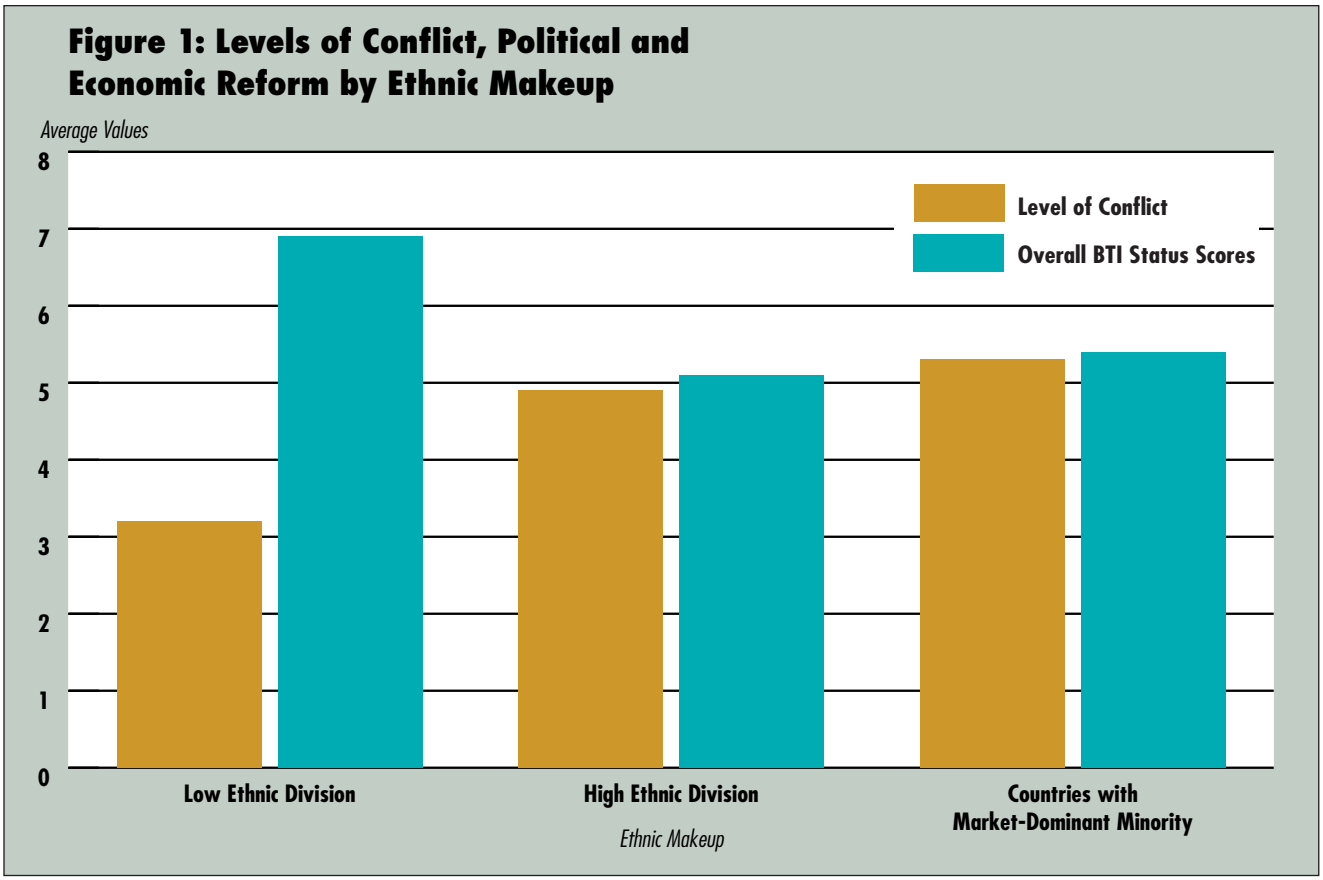
Research shows that political and economic reforms reduce ethnic conflicts, even in countries where a minority ethnic group dominates the economy, according to Doh C. Shin and Christopher D. Raymond. Shin is professor of political science, and Raymond is a graduate teaching assistant, both at the University of Missouri at Columbia, Missouri.

At the beginning of 2007, Kenya was considered one of Africa's most successful democracies; at the end of the same year, Kenya was in chaos. Ethnic violence erupted in the country after incumbent President Muwai Kibaki was declared the winner of the highly disputed presidential election held on December 27, 2007.

The Luo, the ethnic group supporting losing candidate Raila Odinga, have long resented the wealth and power of the Kikuyu, the ethnic group of Kibaki. Many Luo accused Kibaki and the Kikuyu of engaging in electoral fraud, and in the months following the election, their violent protests led to the death of as many as 1,500 people and the displacement of 250,000.

This outbreak of ethnic violence in the wake of a free and competitive election in one of Africa's most successful democracies has rekindled the debate about whether certain types of developing countries should pursue the simultaneous establishment of democracy and capitalism.

For decades, conventional wisdom has said that democracy and free markets work together to promote economic prosperity and to improve citizens' quality of life. At least one research paper has argued that combining free markets with democracy in countries where an ethnic minority is economically dominant can produce a highly explosive situation because free markets and democracy often favor different ethnic groups: The former favors a minority, while the latter favors the majority.



In countries such as Indonesia and Zimbabwe, where a small ethnic minority dominates the market with a disproportionate amount of economic resources, for example, establishing democracy and giving voice to the previously silenced majority can spur expression of ethnic hatred and resentment against the rich. The ensuing outbreak of ethnic violence, in turn, will likely hinder, if not halt, the development of democracy and capitalism.

Crafting a Test

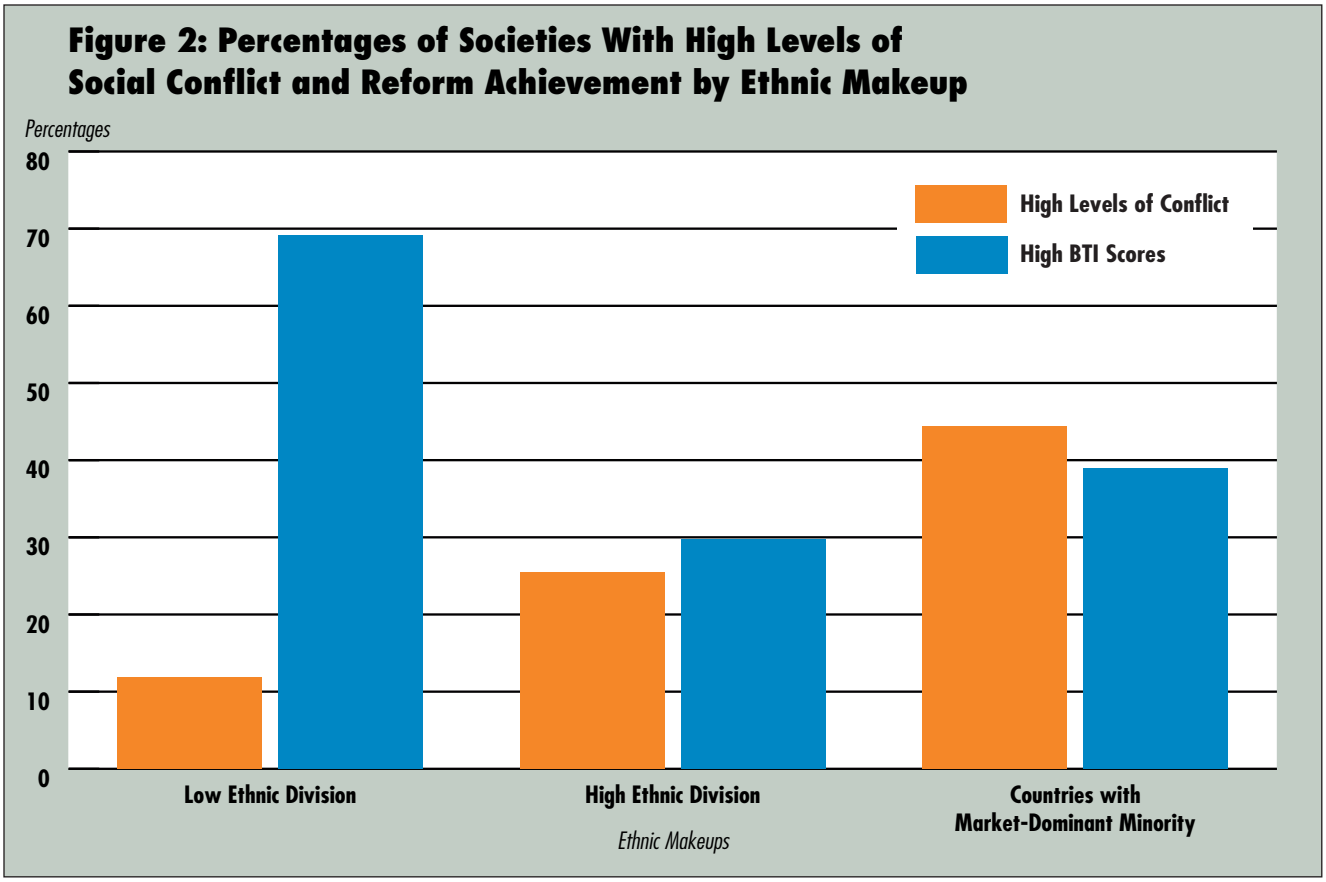
We decided to test the validity of the assertion that attempts to build capitalist democracies in ethnically divided societies, especially those with a market-dominant minority fail mainly due to outbreaks of political violence.

Our tests used two sets of multinational data. From ethnic diversity data collected by Harvard economist Alberto Alesina and his colleagues, we divide 125 countries, all at various levels of political and economic transitions, into three categories based on their ethnic makeup. These categories are countries without a market-dominant minority and with low ethnic division (42), those without a market-dominant minority and with high ethnic division (47), and all countries with a market-dominant minority (36).

Using data from the Bertelsmann Transformation Index (BTI), we compare the countries' levels of social conflict and their achievement levels concerning democratic and economic reforms. The BTI measures the political and economic status of 125 developing and transitional countries on an 11-point scale, ranging from a low of 0 to a high of 10. For easy interpretation, we grouped the scores into two levels, low (0-5) and high (6-10), and then calculated the percentages of countries falling into each level.

Figure 1 shows the mean levels of social conflict experienced by each of the three ethnic categories of countries. The conflict levels are highest (5.3) in countries with a market-dominant minority, followed by countries with high ethnic division (4.9) and those with low ethnic division (3.2).

As shown in Figure 2, 44 percent of those countries with a market-dominant minority experience a high level of conflict (6 or higher on the BTI scale), 26 percent of those with high ethnic division, and 12 percent of those with low ethnic division. Countries with a market-



dominant minority experience a significantly higher level of social conflict or violence than other countries do.

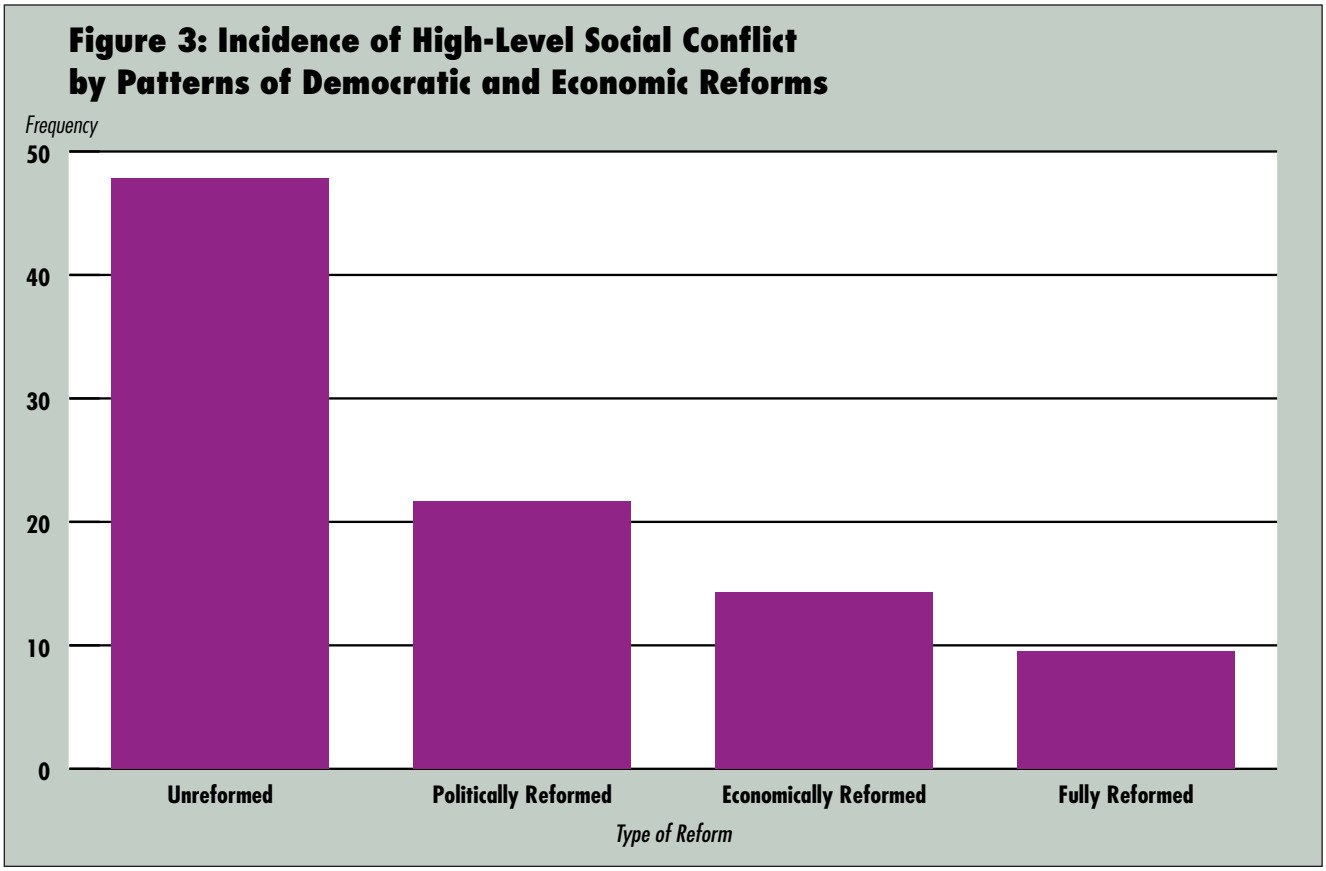
Figure 1 also shows the mean levels of political and free-market reforms implemented in the three categories of countries. Countries with low ethnic division have the highest achievement level of combined political and economic reforms (6.9), followed by countries with a market-dominant minority (5.4) and countries with high ethnic division (5.1). Achieving a high level of political and economic reforms (6 or higher on the BTI scale) are 69 percent of countries with low ethnic division, 39 percent of those with a market-dominant minority, and 30 percent of those with high ethnic division (see Figure 2).

The Findings

These findings indicate that the high level of social conflict and violence in ethnically divided societies makes it difficult to carry out political and economic reforms in those societies. However, contrary to other research, the existence of disproportionately rich minorities in those societies does not necessarily make it more difficult to implement those reforms.

How does the achievement of political and free-market reforms affect ethnic conflict? To explore this question, we divided the 125 transitional countries into four groups, based on whether their achievement levels are high on neither, one, or both reforms. The resulting four patterns are the politically and economically unreformed (32 countries), the economically reformed (17), the politically reformed (13), and the politically and economically reformed (63). The fourth pattern refers to those countries that have implemented democratization and marketization in parallel. According to another scholar, these are the countries where ethnic groups divided along economic lines would be likely to engage in violent conflict.

For each reform pattern, Figure 3 shows the percentages of countries experiencing a high level of social conflict. Contrary to what is expected from other research, the incidence of social conflict is lowest (10 percent) among countries that have successfully pursued parallel development and highest (48 percent) among those that have implemented neither of the reforms. Falling in the middle are countries that have implemented only one of the reforms; experiencing high levels of social conflict are 22 percent of the politically



reformed countries and 14 percent of the economically reformed.

These findings indicate that as countries transform their political and economic systems into successful capitalistic democracies, they lower their chances of experiencing high levels of social conflict. This finding holds true even among countries with a market-dominant minority.

Our simple analysis suggests that ethnic division does indeed promote social conflict and violence and thus can hinder the transformation of political and economic systems. The successful transformation of both systems, however, is an effective way to reduce social conflict and improve the quality of citizens' lives, even in ethnically divided societies with market-dominant minorities. ■

The opinions expressed in this article do not necessarily reflect the views or policies of the U.S. government.

On Democracy and Development: Challenging Extremes

Daniel Kaufmann

Walt Disney Pictures

18th-century pirate ships were more democratic and more successful than merchant and navy ships of the era.

In the long term, freedom of speech and the press plus democratic accountability make a positive difference in economic development, Daniel Kaufmann says. Kaufmann is director of global governance at the World Bank Institute.

Is economic development impossible without democracy?

It is easy to assert confidently that democracy is a fundamental precondition for an efficient market economy and for economic growth. Or to state that particular democratic systems, as we know them in the industrialized West, are the only way of promoting economic development in other parts of the world.

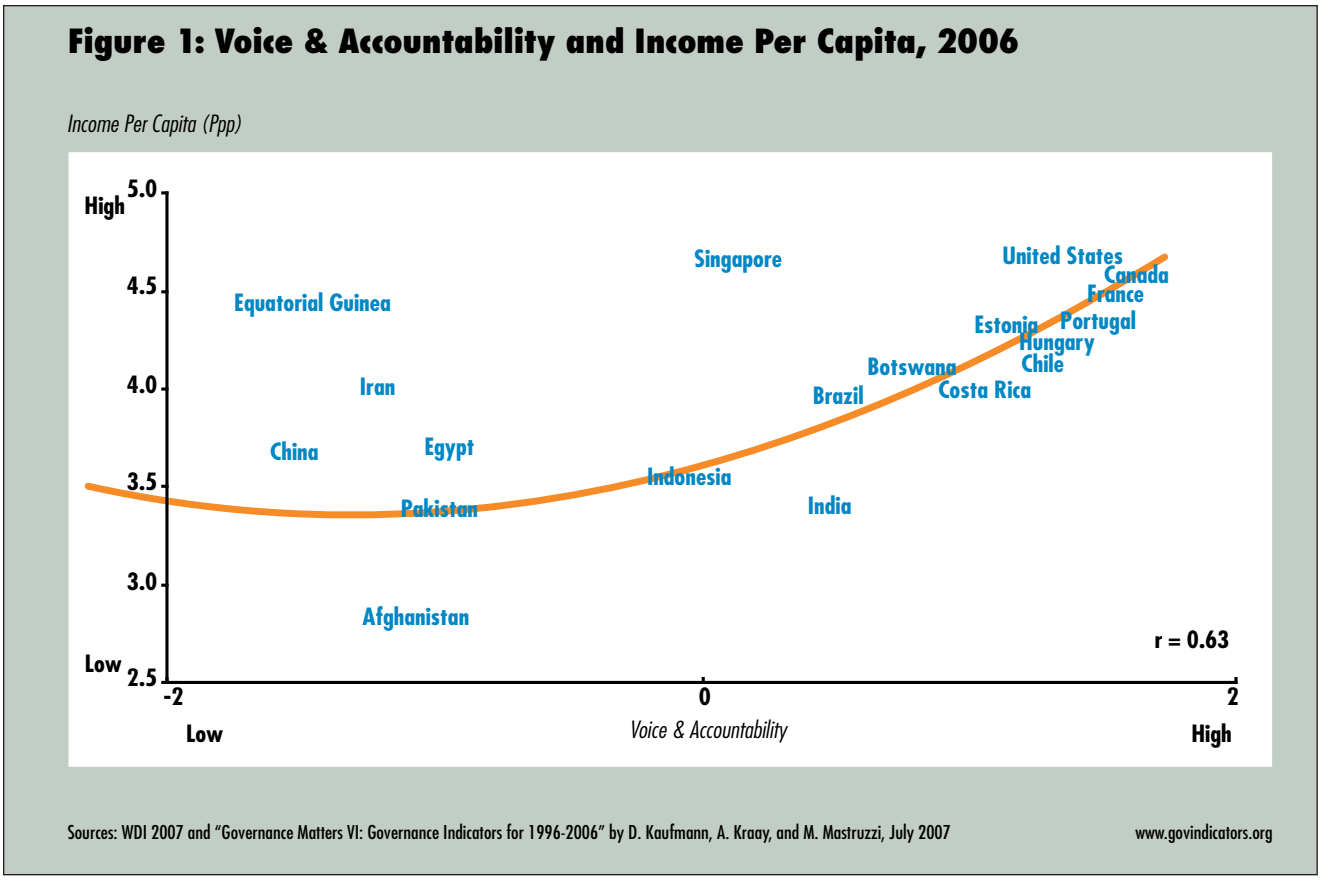
But are these assertions based on dogma or evidence? Unfortunately, the analysis of the empirical evidence points to a complicated answer. This is not an experiment in the hard sciences, but a nuanced challenge in the social and political sciences.

Ambiguous Evidence

The evidence on the short-term effects of democracy on growth is ambiguous.

More than a dozen serious research papers have investigated the effects of democracy on economic growth. They present a mixed picture. Utilizing large cross-country samples, a number of studies found that, on average, democracy has no major effect on growth. Another study, however, which also finds little direct evidence of democratization affecting growth rates, does point to some potentially important indirect effects: Democracy may be associated with higher levels of human capital formation, macroeconomic and political stability, and liberalized markets. These, in turn, are conducive to higher growth rates.

Other researchers have found evidence that a move toward democratization in highly repressive political regimes is indeed associated with higher growth rates. But beyond a certain level of political liberalization, they say, any further democratic reform does not translate into yet higher growth rates. To the contrary, there may



be growth deceleration at intermediate levels of political liberalization, according to such research. But then another recent study suggests that a transition toward democracy is not associated with slower growth.

In short, based on these studies, there is no clear linear and causal link between democracy and growth. Yet there is no strong basis for concluding that political liberalization results in growth deceleration either.

Short Term, Long Term

These studies are generally based in the short term. Further, we need to keep in mind a basic stylized fact in development: Irrespective of the type of political regime, one expects to see faster economic growth in lower-income countries than in industrialized countries. This is because poorer countries can potentially catch up by applying existing technology from more advanced countries for increased productivity. On average, developing countries typically grow at a higher rate than richer countries. Compare, for example, China or India with the United States or Germany.

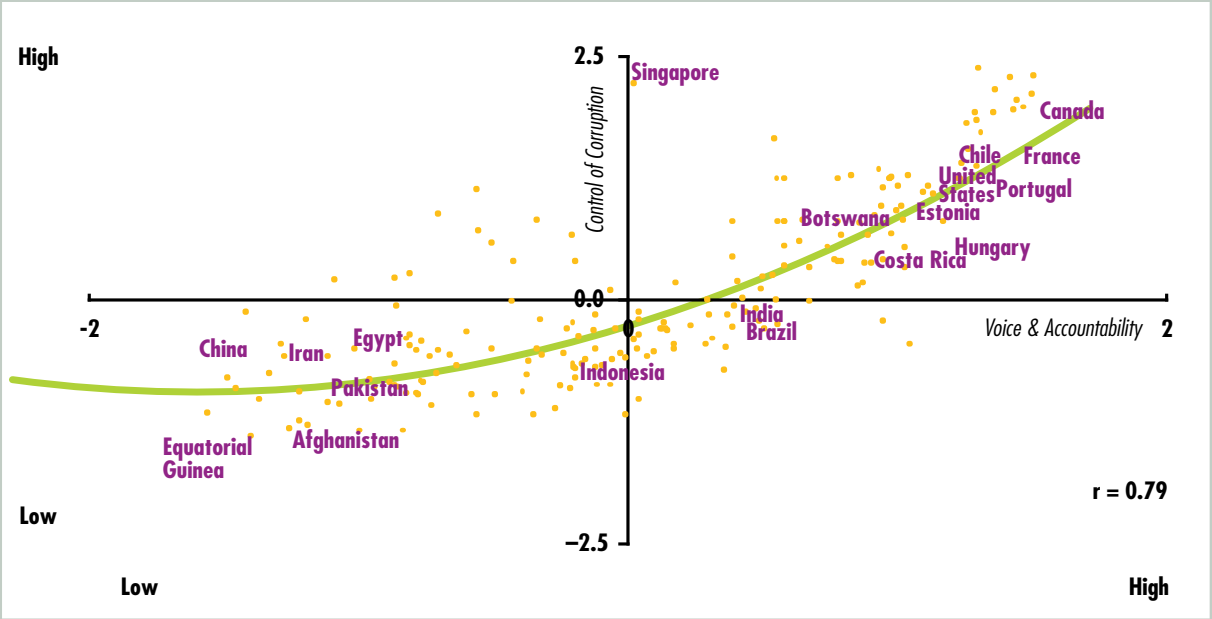
Part of the slower growth observed during political liberalization may actually reflect decreasing opportunities to play technology catch-up in an increasingly industrialized setting, and not the influence of the political regime per se. Either way, there appears to be no compelling positive link between democracy and growth in the short term.

But consider the longer term and a broader view of democracy.

Part of the problem may lie in viewing democracy too narrowly as a system that holds elections and that allows for more than one political party. Many countries that did not hold elections 20 years ago are doing so now, and they generally allow more than one party, even if grudgingly at times.

The extent to which these countries hold "free and fair" elections is, of course, another matter. Furthermore, given recent electoral mishaps in Kenya and Zimbabwe, for instance, the notion of "free and fair" should be expanded to "clean, free, and fair," so as to acknowledge more explicitly the challenges of corruption, vote buying, outright poll rigging, and other forms of subverting electoral integrity, which is only partially captured under the notion of "fair" elections. Also, given the dominance of the government's political and funding machinery in

Figure 2: Control of Corruption and Voice & Accountability



Source: "Governance Matters VI: Governance Indicators for 1996-2006" by D. Kaufmann, A. Kraay, and M. Mastruzzi, June 2007 www.govindicators.org

some countries, the existence of more than one party does not mean that there is meaningful political contestability.

Neither does it necessarily mean that there is freedom of expression. Indeed, according to Freedom House, the number of countries classified as democracies grew from 75 (46 percent of the overall global sample) in 1990 to 123 (64 percent) in 2006. Yet Freedom House tells us also that from 1995 to the present there has been no significant improvement in press freedom, on average, worldwide. The 2007 data suggest that only 37 percent of countries have a fully free press (27 percent for developing countries). Also according to Freedom House, well over 40 percent of the world's democracies (and almost one-half of developing country democracies) do not have a free press.

Raising "Voice"

Consequently, narrow notions of democracy miss the broader notion of "voice" — meaning freedom of expression and participatory voice — and democratic accountability. In our work measuring governance (the Worldwide Governance Indicators, or WGI), one of the six indicators we construct — voice and democratic accountability — is based on this broader definition. Our research, as well as that of other academics, suggests that there is an important causal link from improved governance to higher levels of income.

Figure 1 shows the link between voice and democratic accountability on one side and income per capita worldwide on the other. In contrast to the short-term studies cited earlier, this link can be interpreted as a long-run trend. The evidence suggests that, while the short-term link between formal democracy and economic growth may not be very clear, there is a robust link between voice and democratic accountability, broadly defined, on the one hand, and economic development, on the other — in the longer term.

More speculatively, an important channel through which participatory voice may promote economic development is control of corruption: More freedom of expression, transparency, and political contestability may impose important checks on systemic corruption. And the importance of controlling corruption for economic development has been previously shown in studies. The particular association between voice and corruption control can be seen in figure 2.

Yet figures 1 and 2 also show that none of these links

is absolute: Exceptions (outliers) exist, such as Singapore in Figure 2, for example. Of course, Singapore, a city state that has scored very high in key areas of governance other than voice, is a special case, not subject to easy replication in larger countries.

Pirate Ships

Analyzing these types of links in the social sciences requires more than examination of vast cross-country aggregate data sets. Examining in-depth country case studies and microdata are also essential.

More than a decade ago we researched the determinants of success of developing country investment projects financed by the World Bank. Not surprisingly, we found that the quality of economic policies did matter. More surprisingly, at least for economists, was to find that civil liberties also made a significant difference: The more robust a developing country's civil liberties, the more likely an investment project's chance of success.

"Micro" historical case studies can provide other insights. A gem of a paper by an economic historian, just published, compares the internal organization of merchant, navy, and pirate ships in the 1700s. Merchant and navy ships were absolute dictatorships, with the captain holding absolute unchallenged authority. Pirate ships, in sharp contrast, had formal (often written) democratic structures and regulations — internal rule of law — dividing authority between the captain and the crew. There were checks and balances on the captain's authority. And statutes specified how the spoils of piracy were to be divided. Bottom line: Pirate ships were extraordinarily successful at enabling internal cooperation — among a bunch of bloodthirsty guys with swords. They were very successful enterprises, in sharp contrast with the commonly mutinous conditions in the authoritarian and strife-torn commercial and navy ships of the day.

Is democracy a crucial precondition for fast growth? Or is democratic accountability unimportant to long-term development? Neither, we conclude.

More Than Elections

On balance, political and governance institutions that promote more political contestability, accountability, and checks and balances can make a difference for economic development in the longer term. In the short term, this link is less clear.

Having a broader perspective encompassing the full gamut of freedom of expression, voice, and democratic accountability is also important. Narrow definitions of democracy based solely on whether or not elections take place (or whether more than one party exists on paper or not) often miss the broader participatory voice attributes.

Taking a longer and broader view is also important given the evidence that democratic transitions are difficult. Economic outcomes can vary in the short term following such democratic transitions, and reversals can take place. Development is a complex, arduous, and often fragile process. A number of development lessons, such as macroeconomic stability and low corruption, generally apply, but there is no single template for successful development.

Nevertheless, the evidence suggests that civil liberties and freedom of expression can lead to a more transparent and better governed system and a more robust and participatory economic development. In addition to clean, free, and fair elections and more effective multiparty political systems, also important are a robust free press and other communications media. In today's world, social media innovations such as blogging and text messaging, complementing community broadcast radio in poor rural areas, are changing the meaning of voice and democratic accountability, with vast potential to help improve governance and development results. ■

The opinions expressed in this article are those of the author and do not necessarily reflect the official views or policies of the World Bank or the U.S. government.

Will Freer Markets Lead to a More Democratic Government in Russia?

Anders Åslund

© AP Images

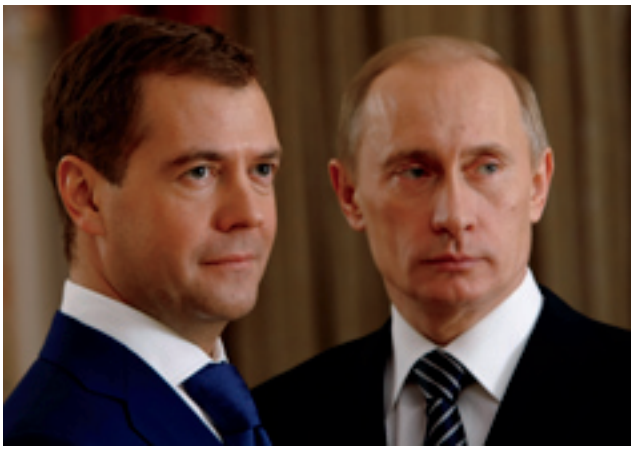
Russians continue voting even while retreating from democracy.

Russia has turned back toward authoritarian government, Anders Åslund says, despite its economic boom, level of education, and relatively open society. He says the reason is corruption. Åslund, who is a senior fellow of the Peterson Institute for International Economics, is the author of Russia's Capitalist Revolution: Why Market Reform Succeeded and Democracy Failed *(Peterson Institute for International Economics, 2007).*

During the past three decades, democracy has expanded extraordinarily in the world. What political scientist Samuel Huntington named the "Third Wave" of democratization, which started in Spain and Portugal in the mid-1970s, has increased the number of democracies in the world from 41 in 1974 to 123 in 2007, according to the authoritative assessment by Freedom House. For the first time in world history, most human beings live in democratic countries.

In a seminal article published in 1959, the influential political sociologist Seymour Martin Lipset argued that the probability of a country becoming democratic increased with its level of income, the population's education, and its openness to foreign trade and travel.

Since world income, education, and openness have increased greatly in the past three decades, the advance of democracy is not surprising. By and large, democracy and freer markets go together, but the correlation is not all too tight.



© AP Images

President Dmitry Medvedev and Prime Minister Vladimir Putin: Can authoritarianism last long?

Yet in the past few years, a few prominent countries have turned their back on democracy. The outstanding examples are Russia, Nigeria, and Venezuela, and this article focuses on Russia. Many also point to China, which has grown relentlessly for three decades and even so remains solidly authoritarian.

In a recent article the neoconservative intellectual Robert Kagan argued: "Now it looks as if the richer a country gets, whether China or Russia, the easier it may be for autocrats to hold on to power. More money keeps the bourgeoisie content and lets the government round up the few discontented who reveal their feelings on the Internet."

Yet it is far too early to draw such pessimistic conclusions. Unlike Russia, China is still a developing country. Even today, China's gross domestic product (GDP) per capita at current exchange rates is merely one-quarter of Russia's. By traditional Lipset standards, we would expect China to be authoritarian.

A Contradiction

Russia, however, is too rich, too educated, and too open to be so authoritarian. The faster Russia grows, the greater this contradiction becomes between an increasingly obsolete political system and a swiftly modernizing economy and society. It has become an outlier.

At present, Russia's GDP per capita measured in purchasing power parities, that is, standard of living, is a respectable one-third of that of the European Union. Only eight countries in the world are richer than Russia and still not democratic, namely Singapore and seven small oil states. Russia is both far bigger and less dependent on oil and gas than any of these other authoritarian oil states.

Numerous political scientists point to Russia's current abundance of oil revenues as the main source of its remaining authoritarianism. In a fine book with regression analysis of many countries, University of California, Berkeley professor Steven Fish finds three causes for Russia's authoritarianism, namely too much oil, too little economic deregulation, and too weak a legislature.

The grand old man of Russian history, Harvard professor Richard Pipes, emphasizes the country's strong authoritarian tradition, both in practice and thought. The current post-imperial nostalgia also contributes, as does the post-revolutionary stabilization. Russians are tired of politics, and they blame their economic hardship in the 1990s not on the collapse of communism but on the post-communist democracy. They praise former President Vladimir Putin for the steady economic growth of 7 percent a year since 1999.

The question of whether Russia's authoritarianism is sustainable is best answered by clarifying its purpose. Since 2003, when Russia became truly authoritarian, no reforms have been undertaken, so that was not the goal.

Instead, the most remarkable development has been rising corruption in Russia, although corruption usually declines when a country grows wealthier, and it has declined in most other post-communist countries. According to Transparency International, the only country in the world that is both richer and more corrupt than Russia is Equatorial Guinea, which is hardly a standard worthy of a great, historic nation.

Large-Scale Corruption

Credible independent Russian reports, such as Vladimir Milov's and Boris Nemtsov's *Putin: The Results*, record kickbacks from major infrastructure projects of no less than 20 to 50 percent of the total project cost. Russia's top officials steal many billions of dollars from the state and its corporations every year. A group of KGB intelligence officers sits at the top of each state corporation and taps it for money while purchasing good private companies with state funding and foreign bank loans.

Presumably, no country has ever seen such large-scale, top-level corruption as Russia does right now. This can hardly go on for very long. The state is becoming just too dysfunctional. The situation is untenable even in the short term. Any Russian ruler must start a serious anticorruption drive, but that can be destabilizing in itself.

The aggravated corruption took off with the confiscation of the Yukos oil company initiated in 2003. Since then, one big, well-run private corporation after the other has been renationalized. Curiously, no ideological

© AP Images

Headquarters of natural gas monopoly Gazprom: High energy prices have helped keep authoritarian rule alive.

aim is presented, but the nationalization appears to be a means of state officials to seize assets cheaply or extract kickbacks.

Therefore, the increased role of the state in the Russian economy has been accompanied with rising corruption. Freer markets would reduce the corruption, and then the top officials would not need so much authoritarianism. The state channels the oil wealth to its top officials, and freer markets would not allow them to do so.

Naturally, this large-scale corruption reduces economic growth. At present, both oil and natural gas production have started falling. Russia can afford its extensive corruption only because of the very high and still-rising price of oil. If the oil price were to moderate, the Russian people would ask where all the money has disappeared, and what many already know would become evident to everybody.

No large state with an educated population has managed to maintain authoritarian rule or stay so corrupt at Russia's level of economic development. ■

The opinions expressed in this article do not necessarily reflect the views or policies of the U.S. government.

Bibliography

Additional Readings on Markets and Democracy

Åslund, Anders. *How Capitalism Was Built: The Transformation of Central and Eastern Europe, Russia and Central Asia.* New York, NY: Cambridge University Press, 2007.

Åslund, Anders. *Russia's Capitalist Revolution: Why Market Reform Succeeded and Democracy Failed.* Washington, DC: Peterson Institute for International Economics, 2007.

Barro, Robert J. "Democracy and Growth." *Journal of Economic Growth*, vol. 1 (1996): pp. 1-27.

Baum, Matthew A., and David A. Lake. "The Political Economy of Growth: Democracy and Human Capital." *American Journal of Political Science*, vol. 47, no. 2 (2003): pp. 333-347.

Comeau, Ludovic Jr. "Democracy and Economic Growth: A Relationship Revisited." *Eastern Economic Journal*, vol. 29, no. 1 (2003): pp. 1-21.

Dabrowski, Marek, Ben Slay, Jaroslaw Neneman, eds. *Beyond Transition: Development Perspectives and Dilemmas.* Aldershot, Hants, England; Burlington, VT: Ashgate, 2004.

Doucouliagos, Hristos, and Mehmet Ali Ulubasoglu. "Democracy and Economic Growth: A Meta-Analysis." *American Journal of Political Science*, vol. 52, no. 1 (2008): pp. 61-83.

Feng, Yi. "Democracy, Political Stability and Economic Growth." *British Journal of Political Science*, vol. 27, no. 3 (1997): pp. 391-418.

Gasiorowski, Mark J. "Democracy and Macroeconomic Performance in Underdeveloped Countries." *Comparative Political Studies*, vol. 33, no. 3 (2000): pp. 319-349.

Gerring, John, William T. Barndt, and Philip Bond. "Democracy and Growth: A Historical Perspective." *World Politics*, vol. 57, no. 3 (2005): pp. 323-364.

Geo, Uk, and Alexander C. Tan. "Democracy and Economic Growth: A Causal Analysis." *Comparative Politics*, vol. 33, no. 4 (2001): pp. 463-473.

Graham, Carol, and Susan M. Collins, eds. *Brookings Trade Forum, 2004.* Washington, DC: Brookings Institution Press, 2004.

Graham, Carol, and Stefano Pettinato. *Happiness and Hardship: Opportunity and Insecurity in New Market Economies.* Washington, DC: Brookings Institution Press, 2002.

Harrison, Lawrence E. *The Central Liberal Truth: How Politics Can Change a Culture and Save It from Itself.* New York, NY: Oxford University Press, 2006.

Harrison, Lawrence E. and Peter L. Berger, eds. *Developing Cultures: Case Studies.* New York, NY: Routledge, 2006.

Harrison, Lawrence, and Jerome Kagan, eds. *Developing Cultures: Essays on Cultural Change.* New York, NY: Routledge, 2006.

Kaufmann, Daniel, Aart Kraay, and Massimo Mastruzzi. "Governance Matters VI, Governance Indicators for 1996-2004." World Bank Policy Research Working Paper No. 4280 (2007). http://papers.ssrn.com/sol3/papers.cfm?abstract_id=999979.

Kaufmann, Daniel, and Aart Kraay. *"Growth Without Governance."* World Bank Policy Research Working Paper No. 2928 (2002). http://papers.ssrn.com/sol3/papers.cfm?abstract_id=316861.

Kaufmann, Daniel, Aart Kraay, and Massimo Mastruzzi. "Governance Matters IV, Governance Indicators for 1996-2004." World Bank Policy Research Working Paper No. 3630 (2005). http://papers.ssrn.com/sol3/papers.cfm?abstract_id=718081.

Kaufmann, Daniel, Joel Hellman, and Geraint Jones. "Seize the State, Seize the Day: State Capture, Corruption and Influence in Transition." World Bank Policy Research Working Paper No. 2444 (2000). http://papers.ssrn.com/sol3/papers.cfm?abstract_id=240555.

Kaufmann, Daniel, Lant Pritchett, and Jonathan Isham. "Civil Liberties, Democracy, and the Performance of Government Projects." *World Bank Economic Review*, vol. 11, no. 2 (1997): pp. 219-242. http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1116669.

Leeson, Peter T. "An-arrgh-chy: The Law of Economics of Pirate Organization." *Journal of Political Economy*, vol. 115, no. 6 (2007): pp. 1049-1094.

Mandelbaum, Michael. *Democracy's Good Name: The Rise and Risks of the World's Most Popular Form of Government.* New York: Public Affairs, 2007.

Oppenheim, Lois H. *Politics in Chile: Socialism, Authoritarianism, and Market Democracy.* 3rd ed. Boulder, CO: Westview Press, 2007.

Padayachee, Vishnu, ed. *The Development Decade?: Economic and Social Change in South Africa, 1994-2004.* Cape Town, South Africa: HSRC Press, 2006.

Persson, Torsten & Tabellini, Guido, 2007. "The Growth Effect of Democracy: Is It Heterogeneous and How Can It Be Estimated?" CEPR Discussion Papers 6339 (2007). *http://ideas.repec.org/p/cpr/ceprdp/6339.html*

Przeworski, Adam. "Democracy and Economic Development," *The Evolution of Political Knowledge*, edited by Edward D. Mansfield and Richard Sisson. Columbus, OH: Ohio State University Press, 2004.

Plumper, Thomas, and Christian W. Martin. "Democracy, Government Spending and Economic Growth: A Political-Economic Explanation of the Barro-Effect." *Public Choice*, vol. 117 (2003): pp. 27-50.

Root, Amanda. *Market Citizenship: Experiments in Democracy and Globalization.* Los Angeles, CA: Sage, 2007.

Shin, Doh Chull, and Russell J. Dalton, eds. *Citizens, Democracy, and Markets Around the Pacific Rim: Congruence Theory and Political Culture.* New York, NY: Oxford University Press, 2006.

Tavares, Jose, and Romain Wacziarg. "How Democracy Affects Growth." *European Economic Review*, vol. 45 (2000): pp. 1341-1378.

Tsai, Kellee S. *Capitalism Without Democracy: The Private Sector in Contemporary China.* Ithaca, NY: Cornell University Press, 2007.

FILMOGRAPHY

These documentaries are available from the State Department Video Catalog 2008:

Africa Open for Business (2005)
Running time: 60 minutes
Synopsis: This documentary challenges the stereotypes and proves Africa cannot be so easily defined. It profiles companies in Nigeria, Kenya, Ghana, Lesotho, Senegal, Botswana, Uganda, Zimbabwe, and Somalia.

Commanding Heights (2002)
Running time: 60 minutes for each part
Synopsis: This PBS series tells the inside story of our new world economy, the struggle between governments and markets, and the battle over globalization.

The Women's Bank of Bangladesh (1996)
Running time: 47 minutes
Synopsis: The famous Grameen Bank makes small-business loans to women only. The film follows the daily activities of three women who have taken out loans to fund cottage industries.

Home of eJournalUSA

http://www.america.gov

A MONTHLY JOURNAL OFFERED IN MULTIPLE LANGUAGES