

Free Men and Free Markets: Spreading the Revolution to Less Developed Countries

By Edward L. Hudgins, Ph. D.

I begin this discussion of the problems of less developed countries by looking at a now familiar example of a success story, of a country whose citizens climbed out of poverty and built a strong, prosperous nation. This country had been a colony of one of the great powers. It had no infrastructure. Its roads, bridges, industries, and farms had to be built by its citizens. And those citizens were from the lowest or poorest classes of society of the world at that time. Most had only rudimentary education. All were refugees from other lands, many forced out of their native countries as undesirables.

Two hundred years ago, this country, the United States of America, fought a war of independence that was also a revolution, for a regime based on the principles immortalized in the words of Thomas Jefferson:

We hold these truths to be self-evident, that all men are created equal; that they are endowed by their creator with certain unalienable rights; that among these are life, liberty and the pursuit of happiness; that to secure these rights governments are instituted among men, deriving their just powers from the consent of the governed; that whenever any form of government becomes destructive of these ends, it is the right of the people to alter or to abolish it....

The United States was the first country explicitly to recognize the rights of the individual to live his life for himself as he sees fit and to recognize that the principal reason for government is to protect these rights. It was owing to this freedom of the individual that America has become the freest and most prosperous nation the world has ever known.

Return to Revolutionary Past. Today many countries are emerging from the long dark night of socialism and communism, and are attempting to establish democracies and economic prosperity. Further, the failures of statist systems in Latin America, Africa, and parts of Asia are now apparent. U.S. and other Western policy makers understandably want to help ensure the success of the changes in these countries. But to do so they must recognize the essential connection between individual liberty, social stability, political democracy, and economic prosperity. For example, the free market system, to be established and sustained, requires a certain moral and ethical basis, specifically, that individuals take responsibility for their actions and that individuals respect the equal rights of others. What I suggest is that the U.S. return to its revolutionary past. America must not simply spread foreign aid funds throughout the world, which often do more harm than good. It must also and primar-

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ily spread to less developed countries the revolutionary idea that only free men and free markets can ensure economic prosperity.

Failed Foreign Aid Strategies

After World War II the U.S. correctly believed that by building an economically prosperous world, its security, economic, and humanitarian interests would best be served. After the reconstruction of Europe, Western democratic countries, individually and through such institutions as the International Monetary Fund and the World Bank, turned their attention to the less developed countries of Africa, Asia, and Latin America. During the 1960s and 1970s, it was assumed that transfers of money and technology would be enough to lift these countries out of poverty. That approach did not work. Many countries were as bad off, if not worse off, than before because of this approach.

With debt crises beginning in the early 1980s in such less developed countries as Mexico, Brazil, and Argentina, the West changed its tactics, tending to promote macroeconomic reforms as conditions for new loans. Advising countries to lower their inflation rates, for example, was a good idea. Promoting balanced budgets even when this meant higher taxes on already poor and overtaxed people, was counter-productive.

With the revolutions in Eastern Europe and the changes of regimes in Panama and Nicaragua, America's and the West's foreign aid budgets are now stretched. Some critics, such as Senator Robert Dole, suggest that the U.S. divert money from countries such as Israel, Egypt, Greece, and Turkey to more needy or worthy countries. And with growing competition for scarce aid dollars, it is not unreasonable to suggest that only those countries that act to reform their economies from top to bottom deserve aid.

Yet this debate misses the essential truths about development assistance. Most important is the fact that there is no correlation between the amount of foreign aid a country receives and its economic progress. Tanzania has received more money per capita than almost any other country. It is an economic basket case. Chile, on the other hand, after its economy was destroyed by its Marxist leader in the early 1970s, and after nearly two decades of economic sanctions and no foreign aid owing to its military government, has the strongest economy in Latin America.

The road to prosperity lies in economic policies that give individuals incentives to produce. And the only system that can provide such incentives is a free market, which protects individual private property rights.

Four Principles of Freedom

To establish America's role in promoting these goals and how it is to go about its task, it is useful to review the principles that allowed America to become the world's richest country.

First and foremost, America has been a country dedicated to the principles that individuals have an inborn right to life, liberty, and the pursuit of happiness, that individuals should be free to live their lives as they see fit, neither initiating the use of force against others nor allowing themselves to be victims of the transgressions of others. There are two ways by which individuals can deal with one another, either based on voluntary, mutual consent, or at the point of a gun. The U.S. has tended to see only the first of these as consistent with the

rights and dignity of free men. This means individuals should have freedom to express their opinions, to practice the religion of their choice, or to practice none at all, to travel freely, to live where they wish, to choose their friends and associates.

Second, the United States has stood for the rule of law and limited government. Since the purpose of government is to protect the lives, liberty, and property of the citizens, it is best to have a government of laws, not men, to have a set of objective rules spelling the limited duties of the government and the penalties that individuals will suffer for violating the rights of their fellows. Americans understand that the greatest probable threat to freedom is government and that abuses of political power must be guarded against.

Third, America has stood for a democratic form of government, that is, the power of the people themselves ultimately to control the government that is to protect their rights. More specifically, the U.S. is a republican form of government, with checks and balances not only on the government but on the people as well, to avoid what Alexis de Tocqueville called the tyranny of the majority.

And fourth, the United States has stood for economic freedom, that is, the right of the citizens to own private property, and its corollary, the free market system. Individuals thus have control over the material means of their survival and prosperity. Economic freedom gives individuals incentives to work hard, to unleash their creative talents, and in the process of pursuing their own rational self-interest, to build a strong, prosperous society. This system also is based on the assumption that ultimately, wealth is something that must be created. Settlers in America did not find farms, factories, roads, or houses, waiting for them on this continent. They had to build this country from scratch, without foreign aid.

Immigrant Success in America

The American approach worked better than any other approach to human society throughout the history of the world. America attracted and continues to attract immigrants from the world over. These immigrants have always been from the lowest and poorest classes of societies, the Third Worlders. In the past they were German, Eastern Europeans, Jews, Irish, Italian, Chinese, Japanese, Mexican, and Jamaican. Today they are Mexican, Vietnamese, Korean, Ethiopian, and Iranian. Somehow this collection of the world's poor understood the message of America. They were attracted to these shores by the promise of personal freedom and economic opportunity.

My mother's family was typical of these immigrants. In the 1920s the DiCamillos were poor tenant farmers in a mountain village in a remote part of Italy. They had no running water, no electricity, no modern conveniences. My grandfather saved his money, went to America by himself, worked to earn enough money to bring the family over, and soon went back for my grandmother and my aunts and uncle. In America they had to learn a new language and adjust to new ways of life. But the freedom that they had allowed them, like millions of other immigrants, to move into the middle class.

Spreading Ideas. In its early history America was a truly revolutionary power. It spread its system around the world, but not principally through guns and armies. It sent something even more powerful: it sent ideas. The American ideals of individual liberty, the rule of law, democracy, and economic freedom that attracted immigrants to America caused those that stayed behind to make revolutions in the name of these ideals.

Unfortunately, in the 20th century the situation changed. First, America had to face the competing ideologies of socialism, fascism, and communism. In some cases, those that nominally opposed these ideologies, and used the rhetoric of freedom, were little better than their opponents. In Latin America, for example, repressive regimes controlled by privileged families or individuals used the power of the state in the name of liberty to rob the people of their economic liberty.

Socialism's Spiritual Corruption

Today, as the failures of these other ideologies are recognized, it is important for America to return to the ideals that made it a great country, and again to use these ideals to help establish a free and open world order. More and more we find it unnecessary to point out the failures of socialist economies and political dictatorships, for they are too obvious and on the front page of newspapers every day. But we often fail to present fully and completely the alternative and to point out that the revolution in these countries must penetrate to the very base of the society. Consider a comparison between a socialist system and a free market.

The economy of a country is not separate from the country's social and moral order. Rather, these institutions are tied together. A certain social and moral order is required for a free market to work. But the causality works in the other direction as well. The economic order can create and reinforce the social and moral order. Consider a comparison between socialism and the free market.

Under a socialist or statist system, the material fate of individuals is out of their hands. They do not have the right to own any property they wish, to use it as they see fit, and to dispose of it as they desire. Rather, their daily bread, their homes, their salaries, their purchasing power are all dependent on the dictates of the government. Bureaucrats control their fate.

Such a system has serious adverse social effects. Individuals living under socialism will tend to have a low sense of personal efficacy. They will view themselves as out of control of their own lives. Arbitrary, whimsical forces, specifically the government, dominate. The people feel helpless. They can do nothing. In many less developed countries, social patterns perpetuate a master-servant relationship between the people themselves and between the people and the government. In Latin America, for example, the Spanish brought their feudal institutions and imposed them on the natives. There were the caballeros and the humble, subservient peasants. Socialism continues this pattern, substituting one master for another.

Stifled Creativity. In a socialist system, the creative efforts of individuals are stifled. Men have an inherent desire to use their minds, to use their imaginations, to do things differently and better, to acquire new knowledge, and to invent new ways to accomplish their goals. As we have seen, wealth itself must be created. Yet without individual control of material resources, such creative impulses often cannot find their way into action. Rather than working to transform matter into valuable goods or services, rather than working the land or starting a business, rather than attempting to convince others to join their efforts voluntarily, based on mutual consent, individuals have an incentive to achieve their goals in another manner. They attempt to gain political power, to use force to have other men do their bidding.

Corruption in less developed countries usually is a result of statist policies. If legitimate avenues for personal advancement are closed off by government control and regulations, ambitious, self-motivated individuals might well take the only road of prosperity opened to them. They will seek a government job through political contacts and political favors. And they will proceed to sell the one commodity that most people are willing to purchase: a government favor. They will allow one individual to start a business, for the proper bribe, and reject the application of those too poor or too honest to engage in such a transaction. They will overlook illegal business or other activities by the man who turns over his regular kick-back, but crack down on the man who resents being subject to extortion.

And most men will pay the bribes. Most will have been raised in such a system and think of this as the normal procedure. Again, while in a free market system individuals prosper through their ability to sell goods, services or ideas to their fellow citizens by appealing to the citizens' self-interest and relying on voluntary, mutual agreements, in a statist system the premium is placed on the use of force, of raw political power, of extortion and government armed robbery. What sort of people will one find in such a society? Pretty much what we see today in less developed countries.

The Moral Superiority of Free Markets

In a free market system, in which individuals are allowed to own and control private property and in which economic transactions are based on mutual consent, a different social and moral system is encouraged. I have been through some of the poorest parts of the world and I am impressed by the fact that the people are just as hard working and entrepreneurial as they are in any Western country. Small artisans, for example, work to transform wood into furniture, cloth into clothing, and metal into pots and pans. Farmers work the land to grow food. Merchants bring consumers a variety of goods. These are the same sorts of people that made America. The problem is that in most cases governments limit their economic opportunity.

I would ask these small-scale entrepreneurs, "How is business?" Inevitably they would respond, "It is good." I would ask, "Do you sell everything you produce?" They would answer, "Yes." I would inquire, "Could you sell more if you had it?" Most would say, "Oh yes, much more." I would suggest, "Why don't you produce more then, and make a larger profit?" The response would be, "We must first purchase our raw materials or tools or perhaps pay an additional worker before we make the product. But we only receive money from sales sometime later. In the meantime, inflation often eats up our profit." Suspecting the answer, I would ask, "Can you borrow from a bank?" The expected answer comes, "No, the government owns the banks." The problem is not the people. It is government control of economies.

But what is also needed is an appreciation of how a free market system can make these societies not only economically better off but socially and politically more stable and humane.

Economic freedom allows individuals and businessmen to create more than material wealth. The property owner or businessman is, in a sense, forced by his property to exercise self-discipline. He must take care of his property, for no one else will. He must open his business on time, take inventory, put in the hours necessary to meet his business needs.

Gaining Self-Esteem. The free market creates a sense of personal efficacy. Individuals see that their personal efforts can bring about their goals. They are not merely subject to arbitrary and uncontrollable forces. The free market allows individuals to gain a sense of self-esteem. They are making their own way, through their own efforts, for which they can be proud. The free market creates in individuals hope for the future, the promise that their condition will improve, that their children will live in a better world, that centuries of destitution can come to an end.

Individuals with moral characters formed in this way will tend to be more responsible citizens. They will pick responsible leaders. They will respect the equal rights of their fellows. This is how the free market, democracy, and individual liberty are a kind of package deal. They tend to lead to one another and to reinforce one another.

We already see, aside from the familiar revolutions in Eastern Europe, a massive, grass roots free market revolution sweeping the less developed world. It is called the informal sector or black market. Many of you might already be familiar with the work of Hernando de Soto in Peru. De Soto surveyed the black market in his own country. He found that almost half of the people work in the informal sector. Most retail activity takes place illegally. There are huge illegal settlements on government land. Some seven out of eight new dwellings built each year are by unlicensed, informal construction crews. Ninety-five percent of public transportation is black market, with unlicensed buses carrying most of the population to their destinations.

De Soto also documented the reason for this situation. To obtain a license to set up two sewing machines took 289 days of full time activity and two bribes. To acquire a piece of abandoned government land and obtain permission to build took six years and eleven months. But the black market shows that what people need is freedom from government, not more government programs.

America's Loss of Confidence

During the 1960s and 1970s, the U.S. lost some of its sense of its own virtues and self-worth. Internationally, this loss manifested itself in two seemingly contradictory ways. First, in many cases the U.S. has found it expedient to support dictatorial regimes that did not respect the rights of their own people. Sometimes, in light of America's conflict with the Soviet Union, this might have been necessary. At other times, support for the wrong kinds of regimes resulted from a callous lack of concern for the damage such regimes might inflict on their own people. Therefore, rather than being a friend of freedom worldwide, the U.S. was seen as a friend of oppressors.

A second manifestation of America's self-doubt was its attempt to demonstrate concern for problems of world poverty by purchasing friends. Sometimes this was done in the conventional manner, with American taxpayers' dollars, distributed through the Agency for International Development, the IMF, or the World Bank. At other times this was done by withholding criticism of brutal, corrupt governments. To criticize an African dictator, for example, was seen as a slap in the face of the starving masses of that continent or even as racist. Recall the reaction to one of the exceptions to this pattern when, in the 1970s, America's then-U.N. Ambassador Daniel Patrick Moynihan pointed out the simple fact that Uganda's then-dictator Idi Amin was a racist murderer. Moynihan was denounced as undiplomatic for insulting a world leader.

A New Revolutionary America

I suggest a new approach to American foreign assistance policy. I suggest that the U.S. return to its revolutionary roots. Rather than taking the side of corrupt governments, the U.S. should take the side of the people. With Soviet power diminishing worldwide, there is far less need or excuse to smile at dictators and to keep on their good side so that they will back the U.S. against the Soviets. We should point out that most of these governments are responsible for the misery of their people and point out that economic liberty is the only means to prosperity.

I suggest that we treat the poor of less developed countries with the dignity and respect that they deserve. Rather than assuming that they are helpless children, rather than heaping foreign aid funds on them, or more specifically, on their government officials, I suggest that we recognize them as capable and hardworking and lacking mainly the freedom to put their efforts to the most productive use. I suggest that we support the right of all individuals in less developed countries to life, liberty, and property, and to freedom from government control of their lives. Many Third World leaders will denounce us for this. But the people will hear our message.

I suggest that the U.S. again become the example for the world, that we export our ideals and values of individual liberty and economic freedom as the only workable and morally defensible system.

