After War: The Political Economy of Exporting Democracy

Chapter 1 Can Liberal Democracy Be Exported at Gunpoint?

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“We are led, by events and common sense, to one conclusion: The survival of liberty in our land increasingly depends on the success of liberty in other lands. The best hope for peace in our world is the expansion of freedom in all the world.”

“…[I]t is the policy of the United States to seek and support the growth of democratic movements and institutions in every nation and culture, with the ultimate goal of ending tyranny in our world.”

- George W. Bush, Inaugural Address, January 20, 2005

On February 15, 1898, the battleship USS Maine exploded and sank in the port of Havana, Cuba. This event occurred at the same time that support was increasing among Americans for military intervention in Cuba. Civil violence between Spanish occupiers and Cuban rebels seeking independence was ongoing within the Spanish colony, and public opinion in the U.S. concerning this situation was largely shaped by the spread of often exaggerated stories in the major newspapers detailing the inhumane treatment of Cubans by the Spanish. Debate continues to this day about the cause of the explosion on the USS Maine, but the papers at the time claimed it was an act of sabotage by the Spanish. In fact, with such headlines as “Remember the Maine!” serving as rallying cries for those in favor of intervention, U.S. public opinion supporting military action reached an all-time high.

With public opinion behind him, President William McKinley asked Congress on April 11, 1898 for the authority to send troops to Cuba to end the civil unrest. In addition to the reported inhumane treatment of Cubans, however, McKinley’s greater, and unspoken, concern was the protection of American economic interests. Eight days later, Congress passed a joint resolution proclaiming Cuba to be “free and independent” and calling for a complete Spanish withdrawal. The resolution also authorized the president to use as much force as necessary in
achieving this goal. The Teller Amendment to the resolution indicated that it was not the intention of the United States to control Cuba and made clear that, once the U.S. military defeated the Spanish occupiers, Cubans would be granted their freedom. On April 25, Congress officially declared a state of war between the U.S. and Spain.

In a series of battles with the Spanish naval fleet, the U.S. quickly gained control of the waterways around Cuba, preventing Spanish ground troops from receiving additional supplies and support, and within a month, Cuba was securely under U.S. control. The signing of the Treaty of Paris in December 1898 marked the official end of the war. Per the terms of the treaty, Spain relinquished Puerto Rico and Guam to the U.S. while sovereignty of the Philippines was transferred to the U.S. for $20 million. In addition, Spain ceded its claim to Cuba, but as per the Teller Amendment, the U.S. did not assume permanent control.

Despite the fact that it never assumed official sovereignty over Cuba, however, the U.S. military continued its occupation through 1902, serving as the active government. During the occupation, the U.S. built infrastructure, including public sanitation, an education system, and a postal service. In 1900, a constitution was drafted and municipal elections were held. Under U.S. pressure, a series of amendments were attached to the constitution that simultaneously allowed the U.S. the ability to influence Cuban policy while disengaging from daily operations of the country in order to comply with the letter of the Teller Amendment if not its spirit.

One such amendment to the constitution, the Platt Amendment, provided the conditions for the withdrawal of U.S. troops from Cuba. The amendment also granted the U.S. control of Guantánamo Bay, a naval base, which somewhat infamously, or perhaps notoriously, it continues to utilize to this day. It also restricted Cuba from transferring land to any nation other than the U.S. Finally, the amendment provided rules regarding Cuba’s ability to float foreign debt and
enter into treaties with non-U.S. countries. Perhaps most important, the Platt Amendment specified that the U.S. could intervene in Cuban affairs whenever the U.S. government deemed it appropriate. With the adoption of the constitution, U.S. troops were withdrawn in 1902, and Tomás Estrada Palma, a strong supporter of the initial U.S. intervention and of U.S. policy regarding Cuba in general, became Cuba’s first president on May 20 of that year.4

The American occupation of Cuba was important for several reasons. As highlighted above, it was the catalyst for Cuba’s independence from Spain, but more important from a U.S. foreign policy perspective, the occupation marked one of the first U.S. attempts to shape political, economic, and social outcomes via military intervention and occupation. The experience in Cuba marked the beginning of a trend of intervention and occupation that has continued into the twenty-first century with the occupation of Iraq and Afghanistan.

The U.S. would utilize the stipulations of the Platt Amendment twice more over the twenty-year period following the initial occupation. In 1906, the U.S. again occupied Cuba to suppress civil insurgency. President Estrada Palma’s reelection was met with violent opposition from the Liberals (the National Liberals and the Republic Liberals), and the U.S. occupation, which lasted until 1909, focused on restoring order and establishing a new democratic government in the wake of Estrada Palma’s eventual resignation. Yet another U.S. occupation of Cuba occurred from 1917 to 1922 due to an uprising inspired by the Russian Revolution. The U.S. military was charged with ending the uprising and protecting U.S. property and interests.

If the goal of this series of U.S. occupations in Cuba was to plant the seeds of a sustaining liberal democratic government that would ultimately become a long-term ally of the U.S., one must obviously consider it a failure. Since the end of the last U.S. occupation in 1922, Cuba has
had several short-lived governments followed by the emergence of two oppressive dictatorships, those of Fulgencio Batista (1940-1959) and Fidel Castro (1959-present).

Over two decades after the United States exited Cuba for the final time, at the conclusion of World War II, the U.S. engaged in the most ambitious effort in its history of democratizing war-torn countries with the occupation and reconstruction of West Germany and Japan. In both cases, the outcome was drastically different than that in Cuba. In both West Germany and Japan, military occupiers were able to successfully transform war-torn countries into liberal democracies that have survived to this day.

In May of 1945, Germany surrendered unconditionally to the Allied forces. Leaders from the Allied countries had gathered in a series of conferences both before and after Germany’s surrender to determine a common occupation policy. The main tenets of this policy were that Germany would be partitioned and each Allied power would control a zone, Nazism would be abolished, the country would be democratized, war criminals would be punished, and reparations would be paid. The U.S. would carry out the reconstruction of its Western zone from 1945-1955.

The physical infrastructure, economy and morale of the German people had been devastated by the war. During the occupation of its zone, the U.S. disbanded the government and assumed control of the provision of public goods at the municipal and local level and managed administrative and budgetary functions. Despite the destruction of the country, economic recovery occurred relatively quickly. Although there were many economic ups and downs, annual economic indicators showed double-digit growth in the GDP of West Germany from 1947 to 1952. Historians and policymakers continue to debate the factors that contributed to this recovery. Some attribute it to the aid delivered under the Marshall Plan, and others emphasize the currency and fiscal reforms of Ludwig Erhard as the catalyst of the recovery. Whatever one
concludes on this issue, few would disagree that the reconstruction effort was able to transform West Germany into a liberal democracy. This is not to indicate that the reconstruction process did not suffer any setbacks. The process was far from smooth, both within each zone and also across zones. Progress occurred at different rates and on different margins, but overall, if the standard against which the reconstruction of West Germany is judged is the sustainability of the reconstructed orders, it must be deemed a success.

Although the specifics of the U.S. experience in Japan were clearly different, the outcome was very similar to that of West Germany. Following the use of nuclear bombs on Hiroshima and Nagasaki, Japanese officials surrendered unconditionally in September 1945. As with Germany, Japan’s infrastructure, economy, and morale had been severely damaged during the war. The terms of Japan’s surrender had been determined by the U.S., the United Kingdom, and China at the Potsdam Conference in July of 1945. In addition to unconditional surrender, the Potsdam Declaration required the purging of certain government officials, as well as the democratization of Japan, military disarmament and the establishment of freedom of thought, speech and religion.

Despite the fact that several countries agreed to the terms of surrender at Potsdam, the Supreme Commander for the Allied Powers, U.S. General Douglas MacArthur, directed the occupation unilaterally. He decided basic policies and utilized his position of power to implement them. The unilateral power of the United States in Japan during this period is evidenced by the fact that no other Allied nation challenged U.S. authority during the reconstruction process. MacArthur orchestrated sweeping and drastic changes throughout Japanese society, including the government and civil administration, the economy, education, civil society, the education system, and the military. In the process, MacArthur achieved icon-
like status among the Japanese populace.8 A new constitution was drafted over a relatively short period of time and went into effect in May 1947. According to the guidelines of the constitution, the emperor lost all military and political power and became a figurehead of the state. As with Germany, there were many bumps in the road, but most observers would agree that occupiers had established a sustainable liberal democracy by the time they exited Japan in April 1952.

The successful cases of Japan and West Germany have lasting importance. Not only do they exist in contrast to the failures in Cuba, these cases laid the groundwork for the perception that the United States’ had the ability to successfully export liberal democracy at gunpoint. Indeed, the U.S. undertook several subsequent efforts to export liberal democracy during the Cold War, including to Vietnam, Cambodia, and the Dominican Republic. Although these attempts largely failed, efforts to establish liberal democracy abroad continue to this day.

In October 2001, the U.S. began military operations in Afghanistan in response to the September 11, 2001 attacks on the World Trade Center and the Pentagon. The aim of the operation was to eliminate the Taliban government and the al-Qaeda organization. Military operations were swift and effective. With the assistance of the Northern Alliance, the U.S. gained control of Kabul, the capital city of Afghanistan.9 In December 2001, representatives from the U.S. and the Northern Alliance as well as expatriate Afghan leaders met in Bonn, Germany. The result of the conference, the Bonn Agreement, outlined a roadmap and timetable for bringing peace, stability, and democracy to Afghanistan. In January 2004, Afghanistan’s constitutional Loya Jirga approved a new constitution.

In March 2003, while U.S. forces were still attempting to reconstruct Afghanistan along the guidelines put forth in the Bonn Agreement, the U.S. began a military operation in Iraq. The specific aim of the operation was to overthrow the regime of Saddam Hussein and replace it with
a liberal democracy. The hope was, or seemed to be, that establishing democracy in Iraq would have positive spillover effects for the rest of the Middle East. The 2003 operation, much like the earlier U.S. military operation in Iraq in January 1991, went smoothly and met little resistance. The U.S., with superior military technology and leadership, was able to topple the comparatively poorly trained and ill-equipped Iraqi army quickly. The result was the collapse of the Hussein regime. President Bush publicly declared on April 16, 2003 that Iraq had been “liberated.”

As of this writing, the situations in Afghanistan and Iraq continue to unfold. It is too early to determine with certainty whether these reconstructions will achieve their desired end of creating sustaining liberal democracies. However, while the initial military operations in both countries were successful, the aftermath has been a different story. In both cases, the existing governing regimes were easily toppled, but subsequent reconstruction efforts have been met with strong resistance. Dispersed pockets of insurgents located throughout each country characterize the nature of the resistance – there is no longer a central enemy that can be confronted head-on. Moreover, costs – both monetary and human – have substantially exceeded initial predictions. Further, public opinion in the U.S. seems to be turning against prolonging the occupations and support is increasing for withdrawal sooner rather than later. It may take several years, or even decades, before the outcomes of these efforts can be judged as successes or failures, but at least in the short-term, the likelihood of success is not looking good compared to what happened after World War II in West Germany and Japan.

These brief narratives are not meant to do justice to the complexities of the cases discussed. Instead, the purpose is to highlight the long and varied history of U.S. attempts to utilize military forces to occupy and reconstruct countries along liberal democratic lines. It is interesting to note that early failures in Cuba did not prevent the U.S. from further military
intervention before and after World War II, and certainly West Germany and Japan are clear cases of successful reconstruction. However, the failure of a series of reconstruction efforts between the 1960s and the 1990s, coupled with the current difficulties in Afghanistan and Iraq, seems to call America’s ability to export liberal democracy via military occupation into question.

Given the ongoing struggle in both Afghanistan and Iraq and the growing discontent among the U.S. electorate, we should expect the issues associated with reconstruction to remain at center stage for the foreseeable future. In August 2004, a new office – the Office of the Coordinator for Reconstruction and Stabilization – was created within the State Department to oversee U.S.-led reconstruction efforts. If the present paradigm is maintained in spite of the widely publicized logistical issues and changing public sentiment, we can safely assume that U.S. involvement in such efforts will only increase.

The effort to win the “war on terror” has been a driving force behind the emphasis on spreading democracy via military occupation. In this context, the underlying logic is that the spread of democracy will greatly reduce, if not eradicate, the terrorist threat. It is widely recognized that the major threat to the U.S. is no longer a few powerful countries, as during the Cold War, but instead the threat posed by countries lacking a strong and effective central government. Reconstruction efforts attempt to remedy this situation by establishing the foundations of sustaining liberal democratic institutions.

Moreover, there is also an increasing call in the academic literature for the U.S. to embrace its role as an empire. A key advocate of this position, Niall Ferguson, contends that America should utilize its relative position of power in the world to impose liberal political and economic institutions in weak and failed states. These efforts, Ferguson contends, should not be constrained by the “light footprint” approach to occupation, but instead should establish colonial
administrations, when necessary, to achieve the desired ends. I will return to this “brute force”
theory later, but for now, the key point is that there is good reason to believe that U.S.
involvement in reconstruction efforts will continue beyond Afghanistan and Iraq.

Given the long history of U.S. reconstruction efforts, coupled with what is sure to be the
continued relevance of the issue in the future, a central question comes to the forefront: Is
military occupation and reconstruction an effective means for exporting liberal democracy? The
purpose of this book is to answer that question. Looking at the historical record, and as noted in
this chapter thus far, one observes some clear cases of success, such as the post-World War II
reconstructions of Japan and West Germany, but the historical record also includes a large
number of clear failures. I seek to contribute to our understanding of these drastically different
outcomes. Specifically, my goal is to understand the precise mechanisms and contexts that
contribute to or prevent success.

To pursue this line of inquiry, I will ask some fundamental questions about how
economics can explain the logic of continued conflict as well as efforts by external parties to
resolve those conflicts by establishing cooperation grounded in liberal democratic institutions.
Why does conflict persist? What mechanisms facilitate, or impede, the transformation of conflict
to cooperation? What constraints do occupiers face in the reconstruction process? Can occupiers
cause more harm than good? Are there alternatives to reconstruction that can generate
institutional and social change toward liberal institutions? Finding answers to these questions is
critical to understanding the viability of reconstruction as an effective means of exporting liberal
democracy.

I contend that the tools of economics can shed light on these questions by illuminating
the ability of foreign powers to construct sustaining liberal democracies in weak, failed, and
conflict-torn states. Economics can also offer insight into the process of social change. Sustainable social change requires a shift in underlying preferences. This shift can be influenced through brute force or through voluntary acceptance. I contend that the latter is more effective in generating liberal democracy. I further argue that a key mechanism for generating sustainable change is a commitment to free trade, not only in goods and services, but also in cultural products, ideas, and institutions. Unfortunately, throughout the history of U.S. foreign policy, including the recent occupations of Afghanistan and Iraq, emphasis has been placed on military occupation and reconstruction while inadequate attention has been paid to the alternative of exporting liberal values, ideas, and institutions through non-intervention, trade, and exchange.

**What’s Economics Got to Do with It?**

For the most part, research regarding the fundamental questions stated in the previous section has been limited to the disciplines of history, political science, and public policy, and my primary aim is to contribute to this existing literature by employing the tools of economics. Reconstruction was a popular topic among some prominent twentieth-century economists, including Walter Heller, John Maynard Keynes, Ludwig von Mises, and Bertil Ohlin. Nonetheless, few recent economists have turned their attention to this problem. To fill this gap, I seek to analyze the reconstruction process through an economic lens. I contend that doing so will contribute substantially to the ongoing debate regarding the ability of governments to effectively export sustainable liberal democracy via military occupation.

When one looks at the fundamental nature of the reconstruction process, it becomes evident that economic issues are of central importance. That is, postwar reconstruction requires the creation of political rules and can therefore be considered a problem in political economy. A
central emphasis of political economy is “the reason of rules.”\textsuperscript{16} The underlying logic is that rules provide the parameters within which individuals can carry out private activities while simultaneously establishing the scope and strength of political institutions and the activities of political agents within those institutions.

Viewed from the perspective of political economy, the reconstruction process can be seen as an issue of incentive compatibility. Occupiers must establish the “rules of the game” but also ensure that institutions are in place that provide incentives for the populace of the reconstructed country to follow those rules once occupiers exit. As the economist Avner Greif emphasizes, institutions are patterns of behavior that persist because they provide incentives that lead people to behave in ways that reproduce those same patterns over time.\textsuperscript{17} The economic view of successful reconstruction thus entails finding and establishing a set of incentives that make people prefer continuing within a liberal democratic order as compared to any available alternatives. Economic analysis can assist in understanding if the formal and informal rules and institutions of the reconstruction “game” provide such incentives.

A discussion and analysis of reconstruction must draw on knowledge from a wide range of disciplines. As an economist, I perhaps lack the insights a historian, political scientist, or regional expert might provide given their purviews. However, the tools of economics have not been used to examine the basic nature of the problems faced in reconstruction. A lack of theoretical understanding of the challenges involved in reconstruction has led to bad policy and repeated failures in efforts to reconstruct weak, failed, and conflict-torn states; hence this book.

To illuminate this last point, consider the growing literature that criticizes the current efforts in Iraq for a lack of foresight, planning, and execution.\textsuperscript{18} The analysis provided here can assist in understanding not only the current situation in Iraq but also the limitations of future
efforts to construct liberal democracies via military occupation. Applying the economic way of thinking to the topic of reconstruction will yield insights that are of interest not only to academics in a wide range of disciplines but also to policymakers as well.

**What Does Reconstruction Entail?**

For purposes of clarification, I should specify the terminology and assumptions that serve as the foundation for the analysis that follows. I define reconstruction as the rebuilding of both formal and informal institutions. More specifically, the reconstruction process involves the restoration of physical infrastructure and facilities; minimal social services; and structural reform in the political, economic, social, and security sectors.

The terms “reconstruction,” “state building,” “nation building,” and “peacekeeping” are often used interchangeably. For my purpose, however, these terms capture overlapping but essentially different activities. Reconstruction requires rebuilding, and in some cases building from scratch, both formal and informal institutions in order to achieve fundamental political, economic, and social change. State building and nation building can be seen as a subset of reconstruction and involve transferring governance capabilities. Likewise, peacekeeping can be seen as a subset of reconstruction that involves stabilizing a conflict-torn society.

When I use the term “reconstruction,” I am referring to the process in its entirety, from the initial occupation through the exit of occupying forces, as well as the wide array of activities that occupiers undertake in the political, economic, and social arenas. The reconstruction process includes nation building, state building and peacekeeping, but it also goes beyond these activities as well. It is possible for foreign governments to undertake nation building or peacekeeping missions without engaging in a broader reconstruction effort. For example, the operation in
Somalia in the mid-1990s started as a humanitarian peacekeeping mission and only later became a broader effort at reconstruction.

Post-conflict reconstruction efforts can be categorized depending on the nature of the conflict that precedes the reconstruction. Categories would include civil wars or humanitarian efforts (for example, as in Somalia and Kosovo), the perceived threat of future conflict (as in Afghanistan and Iraq), or international wars (as in Germany and Japan). Within these various categories of conflict, one can further classify the role of the occupying power. At one extreme is long-term colonization and at the other extreme is liberation – and there is a range of possibilities in between.

Part of classifying the role of the occupying power involves clarifying the means used to achieve the desired ends. On the one extreme in this regard is the “brute force” approach, which emphasizes the complete domination of the post-conflict country using whatever force is necessary to impose liberal democratic institutions. At the other extreme is the “light footprint” approach, which places heavy emphasis on the involvement of local indigenous actors coupled with as little international presence as possible. Under the light-footprint approach, the role of international forces tends to be limited to peacekeeping-oriented operations, such as maintaining general order and stability. This does not mean that international forces are restrained from intervening in specific affairs as deemed necessary, but rather that such “hands-on” interventions are viewed as a last resort. These categorical distinctions will influence the issues involved in the reconstruction process and will be considered throughout the analysis.

I define ultimate success in the reconstruction process as the achievement of a self-sustaining liberal democratic, economic, and social order that does not rely on external monetary or military support. A successful reconstruction does not require fully mature or “consolidated”
institutions, but it does require that the seeds for such institutions be planted. In other words, several years after the exit of occupiers, we should observe movement toward a consolidated liberal democracy.

I take this goal as the given end of reconstruction efforts, meaning that I do not consider whether the end goal is itself good or bad. In the context of U.S. politics, the view that sustainable liberal democracy is critical to peace can be traced back to at least Woodrow Wilson, the twenty-eighth president of the U.S., who sought to make “the world safe for democracy.” Historically, military occupation and reconstruction have been the means used to achieve this desired state of affairs.

Ultimate success does not necessarily mean military forces have entirely left the postwar country, however. For instance, the U.S. still has troops stationed in Japan and Germany. The main characteristic of a successful effort is the official end of the reconstruction by the occupiers, coupled with the sustainability of reconstructed political, economic, and social orders in the absence of military interventions or monetary support. For instance, neither Germany nor Japan would collapse if the U.S. withdrew existing forces currently stationed in those countries. If, in fact, a reconstructed country’s institutions would unravel once troops exited or monetary or humanitarian aid ended, the reconstruction is deemed to have failed to achieve its goal.

Throughout the analysis I will be careful to use the term “liberal democracy.” As Fareed Zakaria has emphasized, “democracy” is often confused with “liberal democracy.” Democracy deals with the method of selecting government officials, while liberal democracy deals with the goals of government: the protection of individual rights, the rule of law, and so on. In the absence of constitutional liberalism, democracy will not necessarily yield the desired results as defined by U.S. foreign policy objectives. The election of Hitler in Germany or the elections in
Iran, considered by most to be a corrupt sham, provide but two illustrations of the point that
democracy in itself is not enough to obtain the desired outcome of liberal democracy.

Although politicians and policymakers often state the end goal of reconstruction efforts
as “spreading democracy,” what they implicitly mean is the establishment of liberal democratic
institutions along Western lines – if not in specific design then at least based upon Western
principles. This difference is more than semantics. Compared to establishing a lasting liberal
democracy, holding elections is relatively easy. During U.S.-led occupations, elections have been
held in Haiti, Bosnia and Kosovo. However, it remains far from clear that these countries could
be classified as self-sustaining liberal democracies.

The means available to occupiers to achieve the goal of sustainable liberal democracy
include an array of resources that consist of physical assets as well as knowledge and
information about the specific country and reconstruction in general. The use of these means is
constrained by other factors, such as culture and historical experiences in the country being
reconstructed and domestic and international public opinion. Along these lines, I will also pay
careful attention to the important distinction between controllable and uncontrollable variables.
Controllable variables include those factors that occupying forces can vary as they choose: troop
levels, monetary aid, timing of elections, and so on. Uncontrollable variables are those factors
that cannot be varied at will by occupiers. Examples would include the beliefs and norms of the
individuals in the country being reconstructed, or the pressure of domestic and international
opinion to follow a certain course of action.

Although I recognize their critical importance, I will not address the normative issues
associated with military intervention and occupation. Instead, I will argue purely as an economist
and limit my discussion to empirical questions. My focus on the positive aspect of reconstruction
is not intended to downplay the importance of ethical issues. Instead, the normative aspects of the reconstruction issue are beyond the scope of what I address in this inquiry.23

My starting point in this argument is that reconstruction efforts have taken place in the past and are currently under way in Afghanistan and Iraq. In addition, on the basis of the indications provided by policymakers and the realities of the world, I assume that further attempts at reconstruction will take place in the future. Given the historical reality and the assumption about future efforts, I will focus on understanding what economics can contribute to our understanding of whether military occupation and reconstruction are effective means for achieving the desired ends of spreading liberal democracy to conflict-torn, weak, and failed states.

**Is Military Occupation the Means to Liberal Democracy? A First Take**

The narratives that began this chapter provided some insight into the U.S. experience with occupation and reconstruction. Now that we have established what reconstruction entails, as well as the end goal of reconstruction efforts, it makes sense to take a closer look at the historical record of U.S.-led reconstruction efforts. Doing so will provide some initial insight into the question of whether military occupation is an effective means for generating sustainable liberal democracy.

To see if a general pattern exists regarding the success and sustainability of U.S.-led reconstruction efforts, I will utilize the well-known Polity IV Index.24 The Polity IV Index ranks the political institutions of a country on a twenty-one-point scale of institutionalized democracy. A combined “Polity Score” is then calculated by subtracting the Autocracy (0 to 10) score from the Democracy (0 to 10) score. The resulting scale ranges from +10 (fully democratic) to -10
(fully autocratic). This index is especially useful because data are provided for most countries from the 1800s through 2003.

The categories of democracy and autocracy incorporate several key dimensions. Institutionalized democracy, as defined by the authors of Polity IV, consists of three key elements: (1) the presence of institutions and procedures through which citizens can express their preferences, (2) the presence of institutionalized constraints on the executive, and (3) the guarantee of civil liberties for all citizens in both their daily lives and political participation. The authors define autocracy by a specific set of characteristics as well. Autocracies “suppress competitive political participation. Their chief executives are chosen in a regularized process of selection within the political elite, and once in office they exercise power with few institutional constraints.”

To provide some concrete examples of what these scores mean in terms of actual governments, Iraq under the Hussein regime had a Polity Score of –9 in 2002, while Afghanistan scored a –7 under the Taliban in 2000. As of 2003, Egypt scored a –6, Syria a –9, and Saudi Arabia a –10. In contrast, as of 2003, all of the members of the G-8 had a Polity Score of +10 except for France, which scored a +9, and Russia, which scored a +7.

A key question in this inquiry concerns which Polity Score to use as a benchmark for a successful reconstruction. The Polity Project has considered a score of +7 or more as necessary for a country to be a mature and “internally coherent democracy.” This same benchmark has been employed in several studies focusing on democratic peace.

To be as charitable as possible, however, I will employ a substantially lower score of +4. To put this score in context, as of 2003, Iran, which President Bush declared to be a member of the “Axis of Evil,” was a +3. By employing a +4 score as a benchmark, I am essentially asking,
“Were U.S.-led reconstruction efforts able to generate a political regime slightly better than present-day Iran?”

Timing is yet another issue in making a judgment regarding the success of a reconstruction process. If the end goal of reconstruction efforts is to establish a self-sustaining liberal democracy, one must consider the status of these countries well after occupying forces exit the country. In some cases, as in postwar Japan and West Germany, liberal democracy might occur relatively quickly, but in other instances, reconstruction efforts might plant the seeds of liberal democracy that only blossom several years down the line. Likewise, a country might appear to be a liberal democracy when occupiers initially exit the country only to unravel soon thereafter. What is important in our consideration here, and I would argue, on the largest of scales, is whether reconstructed liberal democratic institutions are sustainable over the long run.

There is debate among political scientists regarding the time frame of when a democracy becomes established or “consolidated.” The suggested time frame ranges anywhere from ten to twenty-five years. Recognizing that there is not a consensus on this issue, I will consider the Polity Score for U.S.-led reconstruction efforts in five-year intervals: five, ten, fifteen, and twenty years after the exit of occupying troops. In other words, I want to understand if these countries had a political regime that scored at least a +4 in five-year increments after the official and final exit of U.S. occupiers. The results are summarized in Table 1:
<table>
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<th>Country</th>
<th>Occupation Period</th>
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<th>10 Years</th>
<th>15 Years</th>
<th>20 Years</th>
</tr>
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<tr>
<td>Austria</td>
<td>1945-1955</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
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<tr>
<td>West Germany</td>
<td>1945-1955</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
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<tr>
<td>Lebanon</td>
<td>1958</td>
<td>No</td>
<td>No</td>
<td>Yes</td>
<td>No</td>
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<tr>
<td>South Vietnam</td>
<td>1964-1973</td>
<td>No</td>
<td>No</td>
<td>No</td>
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<tr>
<td>Dominican Republic</td>
<td>1965-1966</td>
<td>No</td>
<td>No</td>
<td>Yes</td>
<td>Yes</td>
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<tr>
<td>Cambodia</td>
<td>1970-1973</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>Lebanon</td>
<td>1982-1984</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>Grenada</td>
<td>1983</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Panama</td>
<td>1989</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>-</td>
</tr>
<tr>
<td>Somalia</td>
<td>1993-1995</td>
<td>No</td>
<td>No</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Haiti</td>
<td>1994-1996</td>
<td>No</td>
<td>No</td>
<td>-</td>
<td>-</td>
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<tr>
<td>Bosnia-Herzegovina</td>
<td>1996-2002</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Kosovo</td>
<td>1999 – present</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
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<tr>
<td>Afghanistan</td>
<td>2001 – present</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Iraq</td>
<td>2003 – present</td>
<td>-</td>
<td>-</td>
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Table 1: 2003 Polity IV Scores – U.S. Military Occupations 20th and 21st Century

For those entries in italics, there is no data available from the Polity Index for the country or time period in question. Nevertheless, I have attempted to fill in data as much as possible using supplemental metrics and common sense about the situations of the countries in question. For instance, most would agree that given the current developments in Somalia, it does not have
the necessary score at the end of 2005 – ten years after the exit of U.S. occupiers – to consider it a success. Similar reasoning applies to Haiti, which the U.S. exited in 1996. As of 2006, Haiti remains in a state of utter disarray. It is the poorest country in the Western hemisphere, with approximately 80 percent of the population living in abject poverty. United Nations peacekeepers are a central means of security for the country. The presidential election in February 2006 was characterized by accusations of corruption, fraud, and vote manipulation.\textsuperscript{30} Likewise, instability continues to plague Lebanon because of such issues as the constant threat of assassination of the country’s leaders and ongoing tensions with neighboring Israel and Syria. In contrast, Panama had relatively stable political institutions through 2004, fifteen years after the exit of U.S. occupiers. Presidential elections between three competing parties were held in 2004. Public protests against government are generally tolerated, and civil and political rights are, for the most part, protected. Given this, I assume its Polity Score will either stay consistent or increase for the better once the index is updated.

Unfortunately, Grenada is absent from the Polity IV Index altogether. To categorize its performance, I use the Freedom House’s \textit{Freedom in the World} report.\textsuperscript{31} Freedom House is an independent nongovernmental organization that focuses on understanding and analyzing worldwide trends of democracy and individual and political freedoms. The organization’s well-known \textit{Freedom in the World} report is an annual comparative study of individual and political rights at the global level. According to this report, Grenada has consistently fallen into the category of “free.”\textsuperscript{32} As such, I consider it to be a case of success. The relevant time increments have not yet passed for Bosnia, Afghanistan, or Iraq; and the final political status of Kosovo has yet to be determined, so it cannot be considered an independent state for scoring purposes.
What do the data indicate regarding the effectiveness of reconstruction as a means of achieving liberal democracy? In short, the historical record indicates that efforts to export liberal democracy at gunpoint are more likely to fail than succeed. Of the twenty-five reconstruction efforts, where five years have passed since the end of occupation, seven have achieved the stated benchmark, resulting in a 28 percent success rate. The rate of success stays the same for those cases where ten years have passed. For those efforts where at least fifteen years have passed, nine out of twenty-three have achieved the benchmark for success, resulting in a 39 percent success rate. Finally, of the twenty-two reconstruction efforts where twenty years have passed since the exit of occupiers, eight have reached the benchmark, resulting in a 36 percent success rate.

Note that this says nothing about the magnitude of the U.S.’s impact in the outcomes of these countries. For instance, the Dominican Republic reached the relevant benchmark fifteen years after the exit of U.S. occupiers. However, it is difficult to judge the influence of the U.S. occupation fifteen years earlier on this outcome. In other words, it is unclear what the magnitude of the U.S. intervention actually was on the trajectory of this country. Similarly, Lebanon reached the benchmark fifteen years after the exit of U.S. occupiers in 1958. However, the country’s political institutions unraveled only two years later and again fell below the benchmark. Nonetheless, considering U.S.-led reconstruction efforts in this manner sheds some light on the general pattern of success and failure. The general pattern indicates that attempts to spread liberal democracy via military occupation will fail more often than they will work.

Of those cases in Table 1 that failed to achieve a score of +4, have reconstruction efforts generated any positive change in the country’s pre-occupation Polity Score? I assume no benchmark in this consideration but simply ask the question more specifically as follows: “Did
the reconstruction effort have any positive impact on the country’s pre-occupation Polity Score as measured five, ten, fifteen, and twenty years after the end of the occupation?” The results are summarized in Table 2:

<table>
<thead>
<tr>
<th>Country</th>
<th>Occupation Period</th>
<th>5 Years</th>
<th>10 Years</th>
<th>15 Years</th>
<th>20 Years</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cuba</td>
<td>1898-1902</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Panama</td>
<td>1903-1936</td>
<td>No</td>
<td>No</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Cuba</td>
<td>1906-1909</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>Nicaragua</td>
<td>1909-1910</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Nicaragua</td>
<td>1912-1925</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>Mexico</td>
<td>1914-1917</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>Haiti</td>
<td>1915-1934</td>
<td>Yes</td>
<td>Yes</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>Cuba</td>
<td>1917-1922</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>Dominican Republic</td>
<td>1916-1924</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>Nicaragua</td>
<td>1926-1933</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>South Korea</td>
<td>1945-1948</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>South Vietnam</td>
<td>1964-1973</td>
<td>No</td>
<td>No</td>
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<tr>
<td>Cambodia</td>
<td>1970-1973</td>
<td>Yes</td>
<td>No</td>
<td>Yes</td>
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<tr>
<td>Lebanon</td>
<td>1982-1984</td>
<td>No</td>
<td>No</td>
<td>No</td>
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<td>Somalia</td>
<td>1993-1995</td>
<td>No</td>
<td>No</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Haiti</td>
<td>1994-1996</td>
<td>Yes</td>
<td>No</td>
<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>

Table 2: Impact of reconstruction on Polity Score for countries where reconstruction failed

Any positive increase in the score is recorded as a “Yes,” while any score that stays constant or falls is recorded as a “No.” As Table 2 indicates, in only five instances did a country where reconstruction failed to achieve a +4 score experience any increase in its Polity Score from the pre-occupation level. In Panama, the pre-occupation score was –3 and increased to –1 fifteen years later, in 1951, and to +4 twenty years later in 1956. Panama’s score would fall to a -8 prior to the subsequent U.S. occupation in 1989. In Nicaragua, the Polity Score prior to the U.S. occupation in 1909 was –5 and improved to –3 after the exit of occupiers in 1910. Haiti saw
an improvement from its pre-occupation score of –3 in 1914 to a score of 0 in 1938 and 1944, but this increase did not last, as a military coup occurred in 1946. Finally, Cambodia experienced an increase in its pre-occupation score of –9 in 1969 to a score of –7 in 1978, although this was not sustainable, as the country has been plagued by instability. Data for Cuba do not start until 1902, while the scoring for South Korea starts in 1948.

While fully recognizing that there is a wide array of factors contributing to the Polity Score of a country, a high-level review of the historical record of reconstruction efforts indicates that U.S. efforts have been either very successful or very unsuccessful. Where U.S.-led reconstruction efforts have been successful, they have generated consolidated liberal democracies. Japan, Austria, Italy, West Germany, and Panama, after the 1989 occupation, all have scores of +9 or above, which places them in the category of established and sustaining liberal democracies.

However, where these efforts have failed, they have either had no sustainable positive impact or have resulted in a lower score. Of the failures, Cuba is the closest to the benchmark of +4, scoring a +3 after the two latter U.S. occupations of the country. This is the same score Cuba possessed prior to these occupations, indicating that U.S. forces had no impact in either direction. However, as discussed in the opening narrative, the seeds of liberal democracy were not planted in Cuba, as evidenced by the Batista and Castro dictatorships. All of the other failures had negative scores or were considered in a state of transition or civil war for the relevant time increments.  

This exercise is meant to provide a first take, a basis for understanding whether military occupation is an effective means for achieving liberal democracy. Although there is no clear indication of what a “good” success rate might be, as noted earlier the U.S. has achieved a 28
percent success rate for reconstructions that ended at least ten years ago, a 39 percent success rate for those that ended at least fifteen years ago and a 36 percent success rate for those that ended at least twenty years ago. In short, at the very least, the historical record shows more failures than successes and indicates that liberal democracy cannot be exported in a consistent manner at gunpoint. Admittedly, there are clear cases of success, but there are more clear cases of failure. Understanding these drastically different outcomes is the main aim of this book.

Overview of the book
As stated previously, I analyze the issue of post-conflict reconstruction using the tools of economics, and in order to do so, I will draw on various economic fields, including Austrian Economics, Behavioral Economics, Constitutional Political Economy, New Institutional Economics, and Public Choice Economics. It is my view that each of these theoretical perspectives can offer us important insights that will contribute to answering the question driving this analysis. I do not assume any specialized knowledge of these fields on the part of the reader, but rather, I merely point out the synthesis of perspectives that the following analysis entails. Economics is a broad field of many complementary and contending perspectives, and this fact allows any economic investigator many tools with which to explore the issue at hand.

The methodology employed in this book is what has been called the “analytic narrative,” which blends the analytical tools of economics with the narrative form of exposition common in historical research.34 In other words, it combines the framework provided by economics with the emphasis on the context of historical occurrences. As such, this method provides a means of understanding past events and causal mechanisms that allow for the generation of policy implications for the present and future. For instance, the narrative approach allows for the
exploration of strategic interaction and the impact of historical experiences on past and current reconstruction efforts.

This method is especially conducive to the analysis of reconstruction, which for a variety of reasons is a difficult topic to handle formally. There are some general databases, such as the aforementioned Polity IV Index, but the number of relevant and interacting variables in the reconstruction process is large and the actual variable set contains the histories of many different cultures for which no systematic database exists. As the political scientist Samuel Huntington has noted, there is no single factor, or set of factors, that “causes” democracy across countries and across time. Instead, democratization, or the lack thereof, in different countries is a result of differing causal combinations specific to the country.35 Given this complexity, the analytic narrative method fits well with an analysis of reconstruction efforts generally in as much as attempts to establish liberal democracy have occurred in different countries at different times. Given these broad parameters, any approach will be relatively informal compared to that employed by my colleagues in most other fields of economics. Nevertheless, I feel that the importance of the topic and the potential contribution of the field of economics to our understanding of the reconstruction process militate in favor of study rather than neglect.

Chapter 2 provides a model to understand the reconstruction process, wherein I draw on some basic concepts from game theory in order to understand the reconstruction “game.” I postulate that successful reconstructions are those in which occupiers are effectively able to transform situations of conflict into situations of coordination around a set of conjectures, beliefs, and expectations that support liberal democracy. The following two chapters then consider the mechanisms that contribute to, or prevent, the necessary transformation from conflict to cooperation. Chapter 3 focuses on the mechanisms that facilitate or prevent
cooperation among the indigenous citizens of the country being reconstructed. Chapter 4 considers the mechanisms influencing the behavior of occupiers in their efforts to export liberal democracy.

After exploring the specifics of these mechanisms, I apply them to historical and current reconstruction efforts. I dedicate a chapter each to case studies for the following categories of reconstruction:

1. Successful reconstructions (as in Japan and West Germany),
2. Unsuccessful reconstructions (as in Somalia and Haiti),
3. Current reconstruction efforts (as in Afghanistan and Iraq).

The aim of these case studies is to illuminate how the framework and mechanisms developed in earlier chapters apply to historical and current reconstruction efforts. These case studies will also highlight the main implications of the analysis. I conclude by considering some competing alternatives to military occupation and reconstruction as means of generating sustainable liberal democracy. In doing so, I consider the strengths and weaknesses of each alternative.

Although my main focus is on past and current U.S.-led reconstruction efforts, the insights of this analysis, to be developed in the following chapters, can be generalized and applied to all reconstruction efforts across time and place. The results of this analysis will suggest four primary themes, or lessons to be learned, as described in the following text:

While policymakers and social scientists know what factors constitute a successful reconstruction, they know much less about how to bring about this end.
We possess a firm understanding of what a successful reconstruction seeks to accomplish. For instance, we know that the rule of law; protection of individual, political and property rights; and the smooth transfer of power between elected officials characterize a liberal democracy. Despite this understanding, however, much less is known about the appropriate steps to take to achieve this desired end. Stated differently, while we know what a successful reconstruction entails, we lack an understanding of how to bring about the desired end. Indeed, as the previous general analysis of U.S.-led reconstruction efforts has illustrated, liberal democracy via occupation has, more often than not, remained elusive. Thus, failure is not due to a lack of a clear end-goal, but instead, failure is due to the lack of knowledge of how to go about achieving the desired end. In other words, failure is due to the gap between the know-what and know-how.

This uncertainty is evident in the ongoing debate among social scientists regarding the social and economic conditions that are conducive to a sustainable liberal democracy. Academics have long considered several factors, including a middle class and a certain level of economic development, ethnic homogeneity, historical experience with constitutions and liberal democracy, and a national identity, to be preconditions for a sustainable liberal democracy. But recent research has called these previously assumed preconditions into question. For instance, a recent cross-country study by Steven Fish and Robin Brooks finds, counter to prevailing wisdom, that social heterogeneity does not increase conflict or stifle democracy. As Larry Diamond, a leading expert on democracy, has recently pointed out, scholars have spent decades attempting to understand the factors that contribute to stable democracies, but the wave of new democracies that arose between 1974 and 1994, a period wherein democracy spread to countries that lacked these conditions, “raised the prospect that democracy could emerge where the social scientists would least expect it.” On the one hand,
this fact can be viewed as a positive since it indicates that all countries have some democratic potential. On the other hand, however, this realization highlights the limited knowledge of scholars regarding the factors and causes of sustainable democracy. It is my contention that this latter realization should be reason for pause when considering reconstruction via military occupation as a policy option.40

Attempts to understand the various factors by comparing historical cases have yielded inconclusive results. For instance, a RAND study of several U.S.-led reconstructions attempts to generate “lessons learned” from these cases by focusing on several controllable variables. But in truth, when one looks across cases, it is unclear that there are any uniform lessons to be drawn. For instance, the number of troops per thousand inhabitants was significantly higher in Bosnia and Kosovo (18.6 and 20 per one thousand inhabitants respectively) as compared to Japan (5 per one thousand inhabitants). Along similar lines, Somalia had either the same number or more troops per thousand inhabitants than Japan over the first two and a half years of occupation and a drastically different outcome.

Likewise, it may appear that initial total monetary aid is an important controllable factor that contributes to ultimate success or failure, and indeed, total aggregate assistance during the first two years of occupation has varied greatly across historical reconstruction efforts, from $12 billion in Germany to approximately $5 billion in Bosnia, $4 billion in Japan, and slightly under $2 billion in Kosovo and Afghanistan. However, when adjusted for per capita assistance, one finds that Bosnia received approximately $1,400 per capita in aid, Kosovo received more than $800 in per capita in aid, Germany received approximately $300 per capita in aid, and Japan less than $100 per capita in aid.41
When it comes down to it, policymakers and social scientists know what ultimate success entails. They also have an understanding of the array of factors that influence the reconstruction process. The level of military forces, foreign aid, the timing of elections, culture, historical experience, ethnic tensions, and the many other variables all matter for the ultimate outcome of reconstruction efforts. However, lacking is an understanding of how these controllable variables interact and influence each other as well as the “right” levels required for success on a consistent basis. In short, although the end goal is clear, the knowledge of how to employ various means to achieve this end is lacking. It is critical to keep this distinction in mind between the “know-what” – knowing what a successful reconstruction looks like – and the “know-how” – understanding how to bring about the desired end. It is only by recognizing this distinction that we can hope to understand why reconstruction efforts have failed to be consistently successful, and in some cases have caused more harm than good.

*Uncontrollable variables serve as a constraint on controllable variables.*

A key element of the economic way of thinking is the recognition of constraints. For instance, the amount of goods and services a consumer can purchase is constrained by his or her income and prices. In the context of reconstruction, key constraints are often neglected. Focus is often placed on the political and military leaders of the occupying forces as the main constraints. One hears criticisms of these individuals for poor planning, too few troops, too little funding, lack of an exit strategy, and so on. If only these leaders would adjust their behavior either by shifting strategy or increasing monetary or physical resources, critics contend, the outcomes of reconstruction efforts would be drastically different. But focusing solely on political and military
leaders as the key constraints overlooks the contextual constraints within the country being reconstructed.

In his analysis of Central and Eastern Europe, the economist Svetozar Pejovich concluded that the transition from communism to capitalism is not merely a technical issue.\textsuperscript{42} In other words, the same expenditure of resources in different transition efforts will yield different outcomes. Similar reasoning applies to the case of reconstruction. Why is this the case? To borrow a phrase from Pejovich, “It’s the culture, stupid.”

Economists are often uncomfortable with the concept of “culture” because it is difficult to define let alone neatly quantify.\textsuperscript{43} Indeed, there is no definition of culture that is universally accepted by social scientists. When I use the term culture in this analysis, I will follow those scholars who define the term as the informal rules that constrain human interaction.\textsuperscript{44} From this viewpoint, a society’s culture is the existing array of values, customs, traditions, belief systems, and other mores passed from one generation to the next. By this definition, culture is an “informal institution,” which means that it is not formally mandated but coexists with formal institutions such as constitutions and written laws.

Acting within these formal and informal institutions are various individual actors and also organizations, which are groups of individuals joined for some common purpose.\textsuperscript{45} Culture constrains the actions of individuals and the various organizational forms that individuals can achieve within a given set of formal institutions. In other words, the creation of a wide array of organizations – political groups (parties, councils, senates), economic bodies (families and firms), and social bodies (associations) – will be constrained by the existing endowment of culture. For instance, the economist Timur Kuran has analyzed how certain informal institutions in the Middle East have created “evolutionary bottlenecks” that serve as constraints on certain
organizational forms.\textsuperscript{46} Indeed, the limitations on certain organizational forms have been a main cause of economic stagnation in the region.

Culture is perhaps the greatest constraint on reconstruction efforts. Francis Fukuyama has argued that democratic consolidation must take place on four levels. Culture is the “deepest” level and therefore is “safely beyond the reach of institutional solutions, and hence of public policy.”\textsuperscript{47} In other words, controllable variables matter, but only up to a point. The same level of resources – monetary aid, troops, organization of elections, and so on – as was invested in West Germany and Japan in 1945 will generate a drastically different outcome in Afghanistan and Iraq in 2005. This is due to the fact that these countries have different endowments of culture – capital and knowledge that constrain the effectiveness of those resources.

The reader should note that this is not an argument for long-run cultural determinism. Indeed, research shows that all states possess some democratic potential.\textsuperscript{48} Instead, culture can be seen as a short-term constraint on the process through which liberal democracy is established and evolves. Culture establishes the limits to the indigenous acceptance of policies implemented by occupiers at the time of the reconstruction, and formally reconstructed institutions require the existence of certain complementary institutions and capabilities to operate in the desired manner. Absent these complementary informal institutions, the same institutions transplanted in different societies will yield drastically different results. When the underlying culture and reconstruction efforts coincide, liberal orders will flourish, and absent this coincidence, the sustainability of reconstructed orders will be a constant struggle.\textsuperscript{49} Continued force will be required where voluntary acceptance is absent. Given that the projected end of reconstruction is a self-sustaining liberal democracy, this is not a desirable state of affairs.
Reconstruction efforts suffer from a nirvana fallacy.

The term nirvana fallacy was first used by the economist Harold Demsetz to describe the comparison of real markets to ideal government institutions lacking imperfection. Such a comparison leads to the conclusion that government intervention is required to overcome the failures of markets. Flawless government intervention is desirable when compared to imperfect market outcomes.

Demsetz argued that such comparisons were unrealistic, leading to faulty analyses and conclusions. The reality is that government also suffers from imperfections, and due to these imperfections, government actors may fail to allocate resources as effectively as even an imperfect market. In short, one cannot assume that “the grass is greener on the other side,” that government intervention will yield a better outcome as compared to the situation, which would exist in the absence of those interventions.

A similar fallacy often applies to reconstruction efforts. In the context of reconstruction, a nirvana fallacy occurs when it is assumed that, in the face of a weak, failed, or illiberal government, external occupiers can provide a better outcome relative to what would exist in the absence of those efforts. This is not to say that reconstruction efforts can never have beneficial effects, but neither can it be assumed that occupation will yield beneficial outcomes.

As subsequent chapters will make clear, occupiers face constraints not just within the country being reconstructed but also from their home country as well. For instance, the political decision-making process in the country carrying out the reconstruction will influence the overall effort. As will be discussed, the incentives created by the political system often lead political actors to produce policies that fail to align with the broader goals of the reconstruction effort.
Reconstruction efforts might not merely fail to achieve the desired end – there is also the real possibility that the efforts of foreign occupiers can cause more harm than good. Obviously, such harm is usually an unintended consequence, and as will be discussed further in subsequent chapters, these negative unintended consequences can occur along two key margins.

The first margin consists of unintended consequences that are internal to the country being reconstructed. In other words, the actions of occupiers may cause unintended harm within the country being reconstructed. One example of internal negative unintended consequences is the possibility that reconstruction efforts can distort the evolution of indigenous social structures and governance mechanisms. Perhaps the best example of this is the case of Somalia. To date, there have been seventeen failed foreign-led attempts – both by the U.S. and others – at national reconciliation in Somalia since the collapse of the Siad Barre regime in 1991. As will be discussed in more detail in Chapter 6, efforts to establish a central liberal democratic government have often increased conflict between various clans throughout the country instead of generating cooperation.

One can envision many other examples of negative internal unintended consequences as well. For instance, the U.S. supplied arms and financial support to Afghani rebels in the 1980s to fight Soviet forces. Some of those same weapons were used against U.S. forces during the invasion of Afghanistan in 2001. Clearly, the U.S. did not intend for the weapons to be used in this manner when they initially gave them to the rebels.

External unintended consequences can also result from reconstruction efforts. In other words, the actions of occupiers may generate “neighborhood effects” that cause harm to those outside the country being occupied. For instance, in a recent study, political scientists Edward Mansfield and Jack Snyder explore the claim that democracies are less likely to go to war. Their
main finding is that, while it is true that consolidated democracies tend not to engage in conflict with one another, immature democracies making the transition from authoritarian regimes do tend to engage in conflict. What some may find more surprising is that the authors of this study find that immature democracies are more likely to engage in conflict and war than are authoritarian regimes. This is due to the fact that individuals vying for political positions in democratizing countries tend to appeal to hard-line nationalism in order to gain support, while separating themselves from both competitors within the country and foreigners as well.

To understand the implications of external unintended consequences, assume that the U.S. is successful in planting the seeds of democracy in Iraq. In such a case, political, economic, and social institutions would be fragile, as their full development would be far from complete. With a semi-democratized Iraq, one could envision an array of political competitors employing nationalism against neighboring countries to obtain positions of leadership and power. While these fragile institutions might provide minimal stability within Iraq, appeals to Iraqi nationalism might very well generate conflict between Iraq and its neighbors along the lines that Mansfield and Snyder outline. In such a situation, the U.S. might achieve the goal of bringing some semblance of stability to Iraq, but only at the cost of increasing the potential for conflict in the larger Middle East region.51

There are many other examples of external negative unintended consequences as well. For instance, some have argued that the current war in Iraq will generate a “blowback,” whereby current reconstruction efforts will create the future generation of insurgents who will seek targets around the world.52 As just discussed, in this case, efforts to bring stability to Iraq through reconstruction would generate negative consequences for other countries around the world.
To summarize this lesson to be learned, while the failure of endogenous institutions in countries with weak, failed, or illiberal governments may indeed be significant, the failures generated by foreign governments can be even greater. Interventions by foreign governments in these countries do not necessarily generate a preferable state of affairs in spite of the best intentions. While an effective and strong liberal government might be preferable to the current situation in such countries, often such an outcome is not a realistic option. Further, unintended consequences resulting from foreign intervention may not just affect the country being reconstructed but may also inflict harm externally as well. This implies that a reconstruction that generates peaceful coordination on one margin may simultaneously increase conflict on other margins.

*Finally, sustainable social change toward liberal democracy requires a shift in underlying preferences and opportunities.*

The economic way of thinking emphasizes that individuals have preferences and act within a set of constraints that place limits on their opportunities. A preference can refer to a predilection for certain goods or services or for a certain type of behavior. Preferences and a set of associated feasible opportunities are constrained by such things as cultural norms, mental capabilities, income, laws, and economic and political institutions. For instance, an individual has one set of opportunities within a context wherein individual and property rights are protected and a different set within a context wherein they are not, just as an individual who has never been exposed to a certain technology cannot possibly have a strong preference for a given technological product since he is unaware of its existence.
Preferences and opportunities can change as the underlying factors and constraints change. For instance, individuals’ preferences may change as they are introduced to new goods or services of which they were previously unaware. Likewise, an individual’s opportunity to consume a certain good or service may change, perhaps through a change in income or a change in laws and political institutions that allows for the protection of individual and property rights. Likewise, changes in cultural norms may make previously unacceptable activities acceptable, which would increase the opportunities available to the individual.

Similar reasoning applies to specific behaviors in which individuals choose to engage. An individual’s choice to engage in cooperation, civic activities, crime, terrorism, or insurgency is influenced by preferences and opportunities. Given that, sustainable social change requires either a shift in preferences or a shift in the opportunities facing members of society. If the aim is for members of a society to engage in activities that support liberal democracy, their preferences and opportunities must be such that they demand these behaviors. Individuals must possess the complementary informal institutions necessary for the operation of formally reconstructed institutions. Further, their preferences must include a commitment to the rule of law, individual and property rights, and markets – and they must have the opportunities to carry out this commitment.

Indeed, a key purpose of reconstruction efforts is to change the preferences and opportunities of the members of the country being reconstructed. Reconstruction efforts seek to foster preferences for freedom, democracy, the rule of law, markets, and tolerance. Likewise, these efforts seek to create a new set of opportunities that were not feasible prior to the occupation. These opportunities might include the ability to vote, open a business, worship in the church of one’s choice, or to utilize the legal system, among other possibilities.
The main implication is that successful social change requires a shift in underlying preferences and opportunities. The best way to bring these changes about remains an open question. Reconstruction efforts have been successful in changing the opportunity set that citizens face. For instance, overthowing a political regime via military force has proved to be an achievable task, as evidenced by the recent efforts in Afghanistan and Iraq. Toppling a political regime clearly provides a new set of opportunities for citizens that were not previously available. The more difficult task for military occupiers has been to effectively shift the underlying preferences to support liberal democracies and Western-style institutions.

For instance, in the cases of Haiti, Somalia, Iraq, and Afghanistan, occupying forces have failed to coordinate citizens around reconstructed liberal institutions. In stark contrast, military occupation in these countries has produced a backlash that has contributed to increased violence and conflict. To reiterate, while formal rules can be changed quickly, they must be grounded in the informal everyday practices of a society in order to operate as desired. In the absence of complementary informal institutions, formally reconstructed institutions will be dysfunctional. Where these institutional complements are lacking, formal institutions will be ignored or fail to have the desired impact.

While policymakers and academics have typically focused on reconstruction efforts as a means of generating changes in preferences and opportunities, alternative mechanisms have been neglected. This is a mistake. It is my contention that political, economic, and social change that is imposed at the point of a gun is more likely to be met with resistance and is less likely to “stick” once occupiers exit the country. Among the key neglected mechanisms for fostering sustaining change is a commitment to non-intervention coupled with free trade and exchange, not just in physical goods and services but also in cultural products, ideas, beliefs, and institutions.
Instead of employing illiberal means (occupation and coercion) to achieve liberal ends, the focus should shift to liberal means (non-intervention and free trade) to achieve liberal ends. As I will discuss, a commitment to non-intervention and free trade has a long tradition in the U.S.

A commitment to non-intervention and free trade is one means of exercising what the political scientist Joseph Nye has called “soft power.” The notion of soft power entails attracting and convincing others to shift their preferences in the desired manner. This stands in contrast to “hard power,” which relies on coercion to achieve the desired end. Free trade provides the potential to attract others to voluntarily adopt liberal values and institutions.

In addition to the widely recognized economic benefits, free trade produces cultural benefits by increasing the menu of choices available to all. As Tyler Cowen, an economist, indicates, cross-cultural exchange allows different cultures to simultaneously maintain certain aspects of their unique identities while merging with others and becoming similar on other margins. Given that, free trade can be seen as a means of finding a common ground between cultures both within and across borders. A commitment to trade, coupled with non-intervention, provides the opportunity to exchange cultural practices and ideas and the potential for enemies to be transformed into trading partners. Along similar lines, free exchange allows for the imitation of both formal and informal institutions, as well as organizational structures within these institutions, across national borders, resulting in social change through peaceful interaction. Because of the potential for these positive outcomes, non-intervention and free trade deserve at least a fair hearing as a viable alternative to spreading liberal democracy via military occupation. Given the less-than-stellar record of the U.S. in spreading liberal democracy at gunpoint, such alternatives must be seriously considered.
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3 On the motivations of the U.S. behind the intervention in Cuba, see Pérez 1990, Hunt 1987 and LaFeber 1993. The common historical interpretation is that the U.S intervened for humanitarian reasons (see, for instance, Offner 1992). LaFeber contends that the U.S. was motivated not by humanitarian ends but by furthering its own interests and power.

4 For a detailed history of Cuba, see Gott 2004.

5 See Dobbins et al. 2003, 19.

6 For more on Erhard and his role in the reconstruction of Germany, see Mierzejewski 2004.

7 See Dower 1999, 736.

8 Ibid., 226-233.

9 The Northern Alliance, which was the main resistance to the Taliban government prior to U.S. intervention, is a coalition consisting of Tajik, Uzbek, Hazara and some Pashtun elements.

10 For a narrative of the timeline of events that occurred in Iraq, see Polk 2005, 166-183.

11 For recent documentation of the problems in Iraq, see Baker and Hamilton 2006. For a discussion of some of the problems in Afghanistan, see Rubin 2007.

12 A Pew Research Center for the People & the Press survey conducted November 9-12, 2006 found that approximately 64 percent of those Americans polled believe the war in Iraq is going “Not to Well” or “Not Well at All,” while 51 percent of those polled believe the U.S. made a

13 See, for instance, Fukuyama 2004 and Rotberg 2004a.

14 See Ferguson 2004. Scholars and policymakers often use the terms “weak state” and “failed state” without clarifying what the terms mean. When I utilize these terms, I follow Eizenstat et al. (2005, 136), who measure the strength or weakness of states along three margins: security, the provision of basic services, and the protection of essential civil freedoms. Failed states do not provide any of these functions, while weak states are deficient along one or two of these margins.


16 See Brennan and Buchanan 1985.


19 Whenever I use the word “institutions,” the reader should interpret this term as incorporating the formal and informal rules governing human behavior and the enforcement of these rules through the internalization of certain norms of behavior, the social pressure exerted on the individual by the group, or the power of third-party enforcers who can use the threat of force on violators of the rules.

20 Regarding the current effort in Iraq, President Bush stated that the goal of U.S. policy is an Iraq that can “govern itself, sustain itself and defend itself” (quoted in Baker and Hamilton 2006, 40). It should be noted that there is a debate regarding the relationship between democracy and economic growth. See for instance, De Haan (1996), Knack and Keefer (1995) and Tavares and Wacziarg (2001). Although an important discussion, it is not my aim to contribute to this debate. There is also a debate regarding what “democracy” actually entails. For a discussion, see
Diamond, Linz and Lipset (1995). These authors point out that “democracy” refers to a political system that is separate from the economic and social realms. While this may be true, it seems clear that the aim of the U.S. in modern reconstruction efforts is to establish not only a liberal democracy but also a liberal market and social institutions as well. See for instance, King (2003), who discusses the plan to implement a liberal market economy in Iraq.

21 For more on “Wilsonianism,” see Paris 2004.

22 See Zakaria 2003. The argument that increasing political participation can lead to conflict and instability in states where political institutions are weak was originally made by Huntington (1968). Dahl (1971) and Nordlinger (1971) develop similar arguments.


24 See Marshall and Jaggers 2003. On the different indices available and why the Polity IV Index is the most reliable and valid, see Munck and Verkuilen 2002.


26 Ibid., 14, 36.

27 See Keller 2005 and Rousseau et al. 1996. Other studies have found that a score of +8 is a more suitable benchmark. See Dahl 1998, Davenport and Armstrong 2004, and O’Loughlin et al. 1998.


29 There is debate over which countries are in fact U.S.-led reconstructions. I have tried to consider as broad a list as possible. I have drawn the countries on my list from Lawson and Thacker (2003), Dobbins et al. (2003), Payne (2006), Pei and Kasper (2003) and Pei (2003).
recognize that there are many cases of U.S. military interventions that are not included on this table.

30 CIA World Factbook 2005.


32 For more on how Grenada compares to other reconstruction efforts using the Freedom of the World report as a metric, see Lawson and Thacker 2003.

33 For more on the failure of the U.S. to export democracy to Mexico, Central America and the Caribbean via military occupation, see Lowenthal 1991.

34 See Bates et al. 1998.


36 The distinction between the know-what and the know-how can be traced back to the philosopher Gilbert Ryle (1949). Hayek (1973, 72) appropriated the distinction to examine the importance of tacit knowledge in the social coordination process. Boettke (2001b: 251-252) also uses the distinction to explore the gap between the wealth of nations.

37 These are only a few of the preconditions for consolidated democracy that have been raised in the literature. For a more complete list, see Huntington 1991, 37-38.

38 See Fish and Brooks 2004.


40 See also Shin (1994, 151), who puts forth several general propositions on the third wave of democratization, which include: (1) there are few preconditions for the emergence of democracy, (2) no single factor is sufficient or necessary to the emergence of democracy, (3) The emergence
of democracy in a country is the result of a combination of causes, (4) the causes responsible for
the emergence of democracy are not the same as those promoting its consolidation, (5) the
combination of causes promoting democratic transition and consolidation varies from country to
country, and (6) the combination of causes generally responsible for one wave of
democratization differs from those responsible for other waves.

41 For troop and aid numbers, see Dobbins et al. (2003, 149-158). Both aggregate and per capita
aid numbers are in constant 2001 dollars.

42 See Pejovich 2003.

43 Hayek (1960, 1973) and North (1990, 2005), Platteau (2000), and Pejovich (2003) are clear
exceptions.

44 See Gellner 1988 and North 1990.

45 North (1990) makes the critical distinction between institutions as the rules of the game and
organizations as the players within those rules.

46 Kuran 2004a, 2004b.

47 Fukuyama 1995a, 9.


49 The importance of culture for the acceptance or rejection of social and economic change is
recognized by Boettke (2001b) and North (2005, 48-64).

50 See Demsetz 1969.

51 Owen (2005) extends Mansfield and Snyder’s analysis of war between democracies to Iraq.

52 The term “blowback” refers to the unintended consequences of U.S. actions abroad. On the
potential blowback generated by the war in Iraq, see Bergen and Reynolds 2005. For a broader
analysis of the blowback generated by American foreign policy, see C. Johnson 2000.

54 See Cowen 2002.