



**Episode 378 – Why Postwar Germany and Japan
Don't Prove it's Easy to Spread Democracy
Guest: Christopher Coyne
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WOODS: We're doing your books out of order. We did your other book. It was *Doing Bad by Doing Good*. Is that the name of that other book?

COYNE: That's right. That's the most recent one.

WOODS: That was the one we did last time, and then this other book of yours called *After War: The Political Economy of Exporting Democracy*, which I had read a while ago. I suddenly realized it would be useful because I have been getting a few people who have wanted to know if specifically I could talk about the post-war cases of Germany and Japan because this gets raised a lot in the context, oddly enough, of the War on Terror, because people will say it's not pie-in-the-sky to say that we could transform these places politically because, look, after all very spectacularly West Germany and Japan were indeed transformed politically after World War II by the U.S. government or by European governments as well. So it can be done.

I wanted to have you talk about those cases in particular, and then I thought we might talk about the broader thesis of your book. So if you wouldn't mind, let's jump immediately into what I think is chapter 5 of your book and talk about those two because they are so difficult. Let's talk about Germany first. You have in Germany obviously the epitome of an illiberal regime in power from 1933 to 1945, and then within five years you have an industrial powerhouse that has turned its back on the former illiberalism. How did that happen if not for the reconstruction programs instituted at the hands of the state, of other states?

COYNE: Sure, well, this is, as you mentioned, it's a very common data point—both Germany and Japan, so two data points that are commonly brought up by defenders and proponents of foreign intervention, and the conventional wisdom, as you mentioned, is that, well, here we have two cases of the U.S. military and U.S. government intervening in countries and significantly and radically transforming them, to use a common phrase, to make the world safe for democracy and actually establish democracy, but a closer look at this conventional wisdom I

think casts doubt on it, at least the strength of the claim that many people have been taught from a young age and tend to think. And there's a couple of things that are relevant. First of all, we shouldn't deny, which is a fact, that the U.S. military intervened and overthrew regimes in both countries. So there was a significant outside or exogenous shock in both cases. But you have to look at the conditions in each country, both Germany and Japan, prior to the U.S. intervention, and there's a couple of defining characteristics. I won't do justice to them given our time, but just to make mention of them.

First of all, both countries were industrialized and relatively developed prior to the U.S. intervention, and a lot of the know-how capital, human capital specifically, carried over into the postwar period, the reconstruction period. Of course, a lot of physical capital was destroyed due to the war and the U.S. bombing of each location, but physical capital can be rebuilt. It's the human capital—the culture, the belief systems, and things like that—that are more difficult to rebuild, as we're experiencing right now. When I say "we," the U.S. government is experiencing now in Afghanistan, Iraq, and so on. So you had industrialization. Number two, you had an actual notion of a nation that had existed for a significant period of time prior to the U.S. intervention in each country. In other words, citizens had been able to interact peacefully and cooperate, and there was a notion of what it meant to be a citizen of Japan and Germany. Again, contrast that with something like present-day Iraq, Afghanistan, Libya, where there is significant ethnic divides and other type of fractionalization where you had—to the extent you had a nation-state, it was held together by force, corrupt regimes, and so on, and you're seeing those civil wars play out right now after the U.S. intervenes to overthrow those regimes.

The final point that I will raise, and there's others as well, but the final kind of characteristic of these societies is absolute surrender and military occupation and almost colonization in some sense, and you can contrast that now with, you know, it's often called the light footprint approach in Iraq, Afghanistan, and so on where the U.S. government went in and said, okay, we're going to try to work with local groups of people and allow for self-determination and so on. And again, look, we shouldn't deny if you stick a gun in someone's face or threaten extreme coercion, you can oftentimes get them to do things that you want, and that's largely what the U.S. did in those places, starting with the brutality of the war itself, especially in Japan, but of course in Germany as well, and those characteristics that define these countries—the fact that there was a well-established nation-state with a central government—the fact that there was a high-level industrialization and the notion of when the nature of the war compared to more modern wars helps explain to a large extent what was happening.

One other key thing I just want to touch upon briefly with Germany because it's related to the conventional myth is, of course, the Marshall Plan. The conventional kind of view is that, well, the Marshall Plan single-handedly revitalized postwar western Europe. It stopped or contained the spread of the Soviet Union and of communism, and it led to growth and the miracle that happened in the postwar period. And a lot of this when you actually look at the details is just factually wrong. It's something that we've all been taught since we were kids, but when you

actually look at the evidence, it doesn't support it. My colleague for your listeners who are interested in more detail about what I am about to say to you because, again, I can't do full justice to it. My colleague, Tyler Cowen, has a wonderful article called "The Marshall Plan: Myths and Realities," and if listeners just Google that, this will come up.

WOODS: I will put it on the show notes page. It's one of my favorite pieces he's ever written. It's killer.

COYNE: Yeah, it's wonderful.

WOODS: Yeah, it will be tomwoods.com/378. We'll link to it there.

COYNE: And just to touch upon, again, briefly just scratch the surface of a few of these myths given our time limit is, you know, first of all, the actual impact of the Marshall Plan just in magnitude terms was quite small. So it never exceeded 5% of the gross national product of any of the countries that received it, and you know, the typical view, which persists to this very day both in foreign interventions, but foreign aid, which is something you and I talked about in our earlier conversation on my more recent book is this idea that, well, you need aid. You need monetary injections in order to have development. The reality is in the post-war period it was the terrible economic policies that really stifled recovery and stifled private entrepreneurship. And of course, the classic example of this was the maintenance of economic controls, price controls, which had been implemented by the Nazi government and the U.S. government, and the U.K. as well, the government of the U.K. in what was called Bizonia, which was their joint zone, they maintained these controls. And the important story here is an individual named Ludwig Erhard, which had—he had been very close to the well-known Austrian economist Wilhelm Röpke, and Erhard was the economic director of Bizonia, and in a famous move, he went behind the backs of the military government of Lucius Clay, who was the military governor, and lifted the price controls, and soon after doing that removing the restrictions on private entrepreneurship, the economy started to pick up. And as Tyler points out in his article, Tyler Cowen, it started picking up in many cases in areas that either hadn't received a lot of the aid through the Marshall Plan or started to pick up before the aid actually arrived, and so really it was this issue of removing barriers to private initiative, to private entrepreneurship, that was the key driver, but if you just kind of read the history books, people say, oh, okay, there's the Marshall Plan. People talked about it being this huge injection of money. So that must have been the cause of the recovery, and they downplay the broader change in policies.

WOODS: Chris, this story, if I can just jump in for a second, this story may be apocryphal, but I may actually have read it in your book. I don't know where I read it, but Erhard got into some trouble with the occupying forces for doing this, as I recall, and they explained that he was not to make changes to rules and regulations like this without approval. He said, well, I didn't change them. I abolished them.

COYNE: That's right.

WOODS: I don't if that's—if that's true, that's one of the best examples of talking back to your superiors I have ever heard.

COYNE: Yeah, that's right, and technically he's correct. He did not change them.

WOODS: He just got rid of them. So that's great. But I am sorry, I interrupted if you want to continue your point.

COYNE: No, and just to very quickly to touch upon a couple of these other myths. You know, the other thing that people hold is related to that first point I was just making is to say, okay, the Marshall Plan—it wasn't just a significant portion of recovery, but it actually fostered development, but again, if you actually look at what was happening and you understand how wealth is created through private entrepreneurship, through regime certainty. So stability and rules and an environment of economic freedom which induces or incentivizes individuals to engage in productive activities. You see very quickly that the policies that were adapted in Germany, or adopted, excuse me, ran counter to that. So to the extent recovery happened, it happened despite the U.S. occupation, not because of it. One example of that: under the Marshall Plan, the government had to set aside the equivalent amount in domestic currency that was given in aid. That meant that for every U.S. dollar that was given under the program, the foreign government had to invest a dollar in public works. Now, if you have kind of a vulgar Keynesian view, you'd say, well, that's good. That will stimulate the economy because the U.S.—the foreign government, excuse me, is spending money and investing in infrastructure. Well, of course, money doesn't come out of thin air. Investments don't come out of thin air. There's always the seen and the unseen. There's always an opportunity cost, and so every dollar that the U.S. government was getting, which of course, they were taking from their taxpayers from private individuals, the foreign governments were pulling money from private sources on their side as well and investing it in these public works.

Well, if you think about where that money comes from and what it could have been used for, again, the unseen, you quickly realize that this doesn't make a lot of sense if the goal is to truly stimulate private, productive activity. There is other myths as well that go along with this, but I don't want to take up too much time. One other final one, and then we can move on is that the United States government maintains significant trade barriers with these countries in western Europe, and so, you know, the other kind of myth that goes along with this, oh, the U.S. was very—the U.S. government was very market-oriented. They injected these funds, but they embraced markets. Well, as the example of Erhard that you and I were just discussing, Ludwig Erhard illustrates it was anything but the case. And on top of that, you know there was significant barriers to trade with these countries, so only about half of the imports that came from Europe to the U.S. were duty-free. The other ones had a variety of tariffs. Some were quite high. Some were lower, but there was a much easier way for the U.S. government to foster development to create what was called the open door between the U.S. and western Europe, which would have been to reduce trade barriers. So what you had was really an attempt to engage in massive central planning on the part of the U.S. government, and again,

to the extent that it had any kind of positive effect, it was because of the removal of these barriers to productive entrepreneurship and not because somehow the U.S. government was enlightened and could centrally plan development from the top down. So, again, we can't deny that in Germany and Japan as well that regime change occurred, that the U.S. installed a new regime, but in many cases, it was success despite occupation, not because of it.

WOODS: We might also note a couple of things about the specific case of Iraq, because there you have a country that is very much divided internally because there's something artificial about the political boundaries of Iraq, and so they are going to view democracy not so much as freedom, but as another form of oppression. Because if I have more votes than you do, I will oppress your people, and I think that that's not as present—obviously in Germany, the whole point of the Nazi years was to emphasize nationalism, to try to erase the internal boundaries and to emphasize the existence of one single nation. You don't have that in Iraq, so they are not going to view these Western ideas as being liberating ideas. Secondly, I think in Germany you have a tradition of liberalism in terms of intellectuals who believe in, are knowledgeable about, and support the liberal tradition, and you don't see that in a lot of the countries that they are proposing to change today. Then finally, on democracy itself—exporting democracy—to me, I am interested in whether liberalism can be exported, but democracy is another question, because as my old friend Lee Wrights puts it, I am not sure how I feel about a system that says that my rights are dispensable simply because I happen to be outnumbered.

So I am more interested in—I mean, if democracy upholds liberalism, that would be one thing, but I am more interested in the ideas of liberalism of private property and the rule of law and so on and so forth. What are the difficulties—moving away from Germany and Japan—that are faced by an outside force trying to bring those institutions to other countries, and feel free to use a case study.

COYNE: Sure. I think you really hit upon the kind of the crux of the crucial issue here, which is again, especially in the U.S., but in other Western countries as well, from a young age we're taught democracy. Democracy is the key to liberty and freedom and so on, and of course, throughout history we have numerous counterexamples of that, because democracy in its raw form is simply a mechanism for engaging in collective action—for selecting some kind of outcome when you're in a group or collective. But as you rightfully point out, absent constraints on the winner, if you will, of the election, whoever that is—they can and they have historically utilized that power, winning the election if you will, to then turn around and engage in extremely predatory and oftentimes violent behaviors against the minority—the losers of the election. So really, to the extent that you care about democracy if you really—most people, and they imply this even though they don't fully appreciate it. They are talking about some notion of liberal, as you put it, or constitutionally constrained democracy, and here's the thing. If you look at just the U.S. government's historical record over the past two decades—you know, one interesting thing about Japan and Germany which we should also point out is a case of what have you done for me lately? The fact that people point to two instances from the '40s and

early '50s, and that's their benchmark that they continually hold up for success by itself should at least it's not a stopping argument by any means, but it should raise some skepticism because the U.S. government has been actively intervening around the world, to a large extent around the world, by that, I mean a significant geography or portion of the world since World War II, and there's not many other cases, if any, of success along this magnitude. So, of course, if you tried anything enough, every once in a while it's going to work, and so we should point that out, but here's the thing. Social scientists, and by that, I mean economists, political scientists in which you include historians and so on down the line: we have a grasp of what a liberal democracy looks like. In other words, the things you were just talking about; protections for people's rights, private property of person, and the things that you own and so on. But we don't know—social scientists when I say the we—don't know how to go about getting those things when they don't exist, and to a large extent where you look at cases where liberalism has emerged, it's been the result of a long and historical process, a variety of experiences and experimentation that no one centrally planned.

It's what F.A. Hayek, of course, called the extended order of a free society, and what he was getting at was that the extended order was a result of a historical evolution of traditions and belief systems which were beyond the grasp of any mind or group of minds, and therefore, attempts to centrally plan those institutions wouldn't oftentimes just result in failure, but Hayek pointed out would actually result in just the opposite. The attempts or the ultimate outcome would be of attempting to impose these things would be control by a small group of people who ended up violating the very norms of liberalism, and if you think about what the U.S. government does now, it goes into other countries with guns and tanks and brings them freedom and liberty, and there's a fundamental—or supposedly brings them those things. At least that's the rhetoric that's associated with it. And if you just think about the fundamental irony of that that I am going to use force to make you free, there's something troubling about that, I think. So really this is just a variant of kind of the knowledge problem that Mises and Hayek talked about not in the context of centrally planning economic activity. Although, in the case of Germany, as I was just talking about, the U.S. government tried to do that, and in current occupations they try to do that as well, but it's a broader issue; one of planning a free society until you plan those foundations. And the reality is we can't, and we don't even know how to do it, and so to the extent that we don't, in my view, and my argument is we should give it up, and it's a fool's errand to even start it in the first place, and you can just find just over the past—forget about even going back to the '40s and '50s.

Just look over the past decade to two decades, and you raise this great point about these other countries not having the experience. There is that. There is places like Libya, Iraq, Afghanistan that don't even have the historical experience and belief systems that you were pointing out, but there's another issue, which is the U.S. government has been meddling in these countries for decades now, so even if we take at face value the rhetoric of policymakers and politicians, and we say, okay, they are truly good guys. They truly want to spread liberty and freedom, and they really want to make the world a better place for the people who live in these countries. So

let's grant that. The people on the ground don't view it like that, and part of the reason they don't view it like that is as you were pointing out correctly, they don't have a notion of liberal democracy the way Westerners do, but second of all, they view the U.S. government with extreme skepticism precisely because historically the U.S. government has intervened oftentimes in a way that is fundamentally at odds with liberalism. And so what they associate with notions of freedom, with capitalism is not things that you were talking about like individual rights and freedoms, but rather of exploitation, predation, and picking winners so that the U.S. government can establish a client state in these countries that will benefit the narrow interests of certain members of the U.S. government precisely at the expense of the citizens of those countries.

And that's an important point to keep in mind, I think because there's a bias, of course, which all of us suffer from, which is we tend to think that people view the world the way we view it, and of course, that's not a problem for us as private citizens because we have no right to force our views on other people, but when you have the gun backing you up, and you can go around and force your views on other people, you say to yourself, well, I view the world this way. I call it American exceptionalism, so I am going to impose that on other people, and if they reject it, and you see this on a daily basis in the headlines. If they reject it in things like insurgency whether it's peaceful or violent reaction to the fact that the U.S. occupying their country, the response isn't, well, maybe they didn't want it. It's, well, we—the U.S. government—gave them the chance to be free and they rejected it because they don't like freedom. That's a very arrogant way of viewing the world because it assumes that other people's worldview aligns with yours, and when it deviates, you have some kind of right, if you will, or duty to impose your worldview upon them at gunpoint.

WOODS: In your table of contents—of course, we've already talked about Japan and West Germany, but there are four countries that are listed specifically in the table of contents: Somalia, Haiti, Afghanistan, and Iraq. Now, I am not asking which of these is the most significant, but of these four, which of these do you think proves your point most spectacularly?

COYNE: I probably would select—if I had to pick it again, they are all very good examples, but I would probably pick Afghanistan, and the reason I would probably pick Afghanistan is because, of course, the U.S. government was involved going back to the late '70s with the Soviet-Afghan War, again with the idea of spreading democracy and liberty and keeping the world safe from the spread of communism, and of course, the U.S. government had been involved in Afghanistan well before that with—and this is how I start my second book, which is more oriented towards foreign aid with something called the Helmand Valley Project, which was an attempt, and this is a direct quote, "to build a little America in Afghanistan," which again, captures kind of the arrogance of the Western government-type view of the rest of the world. This project failed miserably. An end was brought to it with the Soviet invasion of Afghanistan, and again, many people point to the U.S. entry into that war not directly, but it's a proxy war through, of course, the government of Pakistan, where the U.S. paid them significant amounts

of money and continues to do so to this day to smuggle weapons, resources, and so on to what were then called the freedom fighters in Afghanistan. Today we call them the Taliban.

And, you know, eventually they were successful in pushing back the Soviets, and right there in my mind that should have raised in the present day in the post-9/11 world should have raised a lot of concern about the U.S. occupation because, of course, the Soviets had for all their problems had a lot of military force behind them, and they failed miserably in their occupation of Afghanistan. It's a perfect example of all the issues we've been talking about. You get the U.S. intervention through Pakistan. The Soviets are forced out. The U.S. pulled back because they've been successful, they believe. Well, what happens? That creates a power vacuum. Of course, you have no notion of a nation-state with a constitutionally constrained government as you and I were briefly discussing a few moments ago, and you get the rise of the Taliban. Then, of course, you get 9/11 and the U.S. government intervenes again in Afghanistan, and now it's just turned into the ongoing conflict that it is. It's a cesspool of violence and conflicts. There is no exit for the U.S. military. By the U.S. government's own estimates, about 90% of the legal economy—so that excludes poppy production—is dependent on foreign aid, which of course, is another supposed kind of justification for staying involved. Oh, well, we can't leave now because the economy will collapse.

Well, that's because we're artificially propping it up through U.S. taxpayer funds and other funds from the citizens of other Western countries, and so that series of events going back numerous decades to the Helmand Valley Project all the way to the present, in my view, perfectly captures the hubris and the broad mistakes that are repeatedly made by those in the U.S. government. And I think there's good reasons why they are made, and I think we can explain that using the tools of economics and how governments operate and the incentives they face, but it perfectly captures all these issues from the constraints on occupiers to imposed institutions, to the ability to create development through central planning and foreign aid, all the way to the ability of the most sophisticated military in the world in terms of technical capabilities to put down an insurgency that by all measures is rudimentary compared to what the U.S. government has in terms of resources and capabilities.

WOODS: Well, the book is *After War: The Political Economy of Exporting Democracy* by our guest Christopher J. Coyne. Your website is CCoyne.com. Is that right?

COYNE: That's correct.

WOODS: All right, so you can check out more about him there. Of course, we will link to the book on the show notes page for today. Let's remind myself which one that is because I am doing so many at once today—tomwoods.com/378. Chris, thanks for being with us again today.

COYNE: Thank you so much, Tom.