

stuffed his pants with incriminating documents from the Clinton administration, later destroying them. The criminal, and criminally stupid, Berger is shown accusing the miniseries' director of manipulating history for partisan purposes. The nerve!

But it is here that we encounter the fundamental problem with AFR and many of its films. As "Blocking" moves into its final scenes, we are prepared for a stunning indictment of Washington and Hollywood. The audience anticipates that the documentary will champion the cause of artistic freedom and truth-telling. Instead we get a boring endorsement of the Republican Party. An assistant director on "The Path to 9/11" turns to the screen and says, "I considered myself liberal on most issues. But, after this, I really have a new perspective on who *gets it*—who gets the nature of our enemies." Members of AFR's audience murmured little "Amen's" and nodded their heads.

At AFR, to hate Sandy Berger is to fall into the arms of Condi Rice. To despise Michael Moore is to cheer Bill O'Reilly. If Noam Chomsky is a hypocrite, then why criticize the Pentagon at all? AFR, instead of promoting American values, is trolling for votes. Its mission is high-toned and cultural, but its goals are transparently political. No wonder that after its first years in Dallas and Los Angeles, the festival seems to have found its permanent home in Washington, where Leadership Institute and Heritage interns can be marshaled to volunteer their efforts and their eyes.

It is no wonder that artists of a conservative bent like Tom Wolfe, Whit Stillman, and Mark Helprin have kept a formal distance from the conservative movement. The organized Right cannot stop itself from turning a popcorn flick into a pamphlet or a documentary into a screeching polemic. Freedom, rugged individualism, and the triumph of the human spirit? Sure. Just vote GOP. ■

# Invisible Fist

Can capitalism and authoritarianism work together?

By Paul Gottfried

HISTORY WAS SUPPOSED to have ended in 1989 with the triumph of Western-style democracy and capitalism. The fall of the Berlin Wall proved, at least to the satisfaction of many American pundits and academics, that economic and political liberty advanced hand in hand. Prosperity must bring freedom and vice versa, a virtuous cycle that would lead the developing world inexorably toward American ideals.

But after 20 years, an alternative scenario has arisen. "By shifting from Communist command economy to capitalism, China and Russia have switched to a far more efficient brand of authoritarianism," Azar Gat of Tel Aviv University argued in *Foreign Affairs*. These countries "could establish a powerful authoritarian-capitalist order that allies political elites, industrialists and the military; that is nationalist in orientation; and that participates in the global economy on its own terms." Indeed, our erstwhile Cold War foes are doing well with their new economic systems. Russia under Putin and China since the end of Maoism have both registered high rates of economic growth. In Russia, disposable income in the last six years has risen almost fourfold, while unemployment has gone down by more than half. There and in China, the vast majority express a high degree of satisfaction with the way the government has handled the economy.

This stands in sharp contrast to public opinion in America, where 82 percent of the population considers the country to be "headed in the wrong direction." As the events of recent weeks have shown, democratic capitalism—once imagined

to be the unstoppable wave of the future for the entire world—now faces an uncertain tomorrow even in the West. Pat Buchanan noted in a recent column, "Liberal democracy is in a bear market. Is it a systemic crisis, as well?" If it is, might authoritarianism and capitalism soon seem to be natural complements, the way that free markets and democracy were once thought to be?

Advocates of "democracy plus free markets" typically favor some variation of capitalism that is fused with popular elections, religious and cultural pluralism, secularized political institutions, tolerance of homosexuality, and women's rights. These seem to be the necessary preconditions for economic and moral well-being and for a peaceful international community, since, according to this particular picture of human history, democracies never fight each other.

At least to some extent, the identification of democracy with prosperity is true. The Fraser Institute's *Economic Freedom of the World, 1975-1995* and other more recent surveys show the correlation between high standards of living and "democratic institutions." Even such heavily taxed and regulated "democratic" countries as Sweden and Norway boast some of the world's highest living standards, as well extensive domestic and foreign investments in their economies. Welfare states such as Australia, Iceland, Canada, and Sweden also register respectable rates of economic growth. That is because these countries, like our own, are politically stable and still have relatively unfettered economies.

But there is no reason to think that only governments that are “democratic” in the current usage can provide political stability and good investment climates. Free markets are operating well in very different political systems. One of the most successful examples of nondemocratic capitalism is Singapore, which after winning independence in 1959 flourished under the firm hand of Lee Kuan Yew, who was prime minister or senior minister from 1959 until 2004. Lee has always stressed economic productivity and very low taxes. But in a 1994 interview with Fareed Zakaria, he pronounced his opposition to “Western democratic imperialism.” While acknowledging that the U.S. has some “attractive features,” such as “the free and open relations between people regardless of social status, ethnicity or religion” and “a certain openness in argument about what is good or bad for society,” Lee expressed doubts about the American way “as a total system.” “I find parts of it totally unacceptable,” he told Zakaria, “guns, drugs, violent crime, vagrancy, unbecoming behavior in public—in sum the breakdown of civil society. The expansion of the right of the individual to behave or misbehave in public as he pleases has come at the expense of an orderly society.”

In Lee’s country—and in Asia more generally—they do things differently: “In the East the main object is to have a well-ordered society so that everyone can have a maximum enjoyment of his freedom. This freedom can only exist in an ordered state and not in a natural state of contention of anarchy.” Lee had admired the U.S. in the past, but given the “erosion of the moral underpinnings” and the “diminution of personal responsibility” that has since taken place in recent decades, he has since changed his view of American democracy for the worse.

Contemporary Russia and China provide even more striking examples than diminutive Singapore of relatively free

markets under authoritarian governments. But one need not look so far afield—the historical milieu in which capitalism arose in Europe supplies ample evidence closer to home. Industrial development in the West began long before European societies became “democratic” in the contemporary sense. Until the 20th century, women didn’t vote, nor did they hold extensive property rights. In many of the countries in which industrialization and the rise of the bourgeoisie first occurred, there was nothing like separation of church and state. And most of the Western societies that were undergoing industrial development in the mid- or late 19th century were not particularly tolerant toward labor unions: workers’

movements of democratization is naïve. They are inherent in the claims made by modern democracies to being pluralistic, egalitarian, and universalistic.

The current version of democracy benefits from consumer capitalism inasmuch as public administration needs the financial resources and consumer goods produced by the market to maintain social control. Consumer societies also serve the goal of democratic socialization—that is, the creation of “democratic,” as opposed to “authoritarian,” personalities—by encouraging a materialistic way of life. As Daniel Bell argues in *The Cultural Contradictions of Capitalism*, other things being equal, democratic-capitalist societies work against

## INDUSTRIAL DEVELOPMENT IN THE WEST BEGAN LONG BEFORE EUROPEAN SOCIETIES BECAME “DEMOCRATIC” IN THE CONTEMPORARY SENSE.

strikes were often broken up by the police or the military. The Western societies that created free markets and expansive economies sometimes look almost medieval, as viewed from the perspective of contemporary “democracy.” Yet these societies typically had freer—that is, less regulated—markets than our own modern states.

Conversely, present-day notions of democratic equality and what the state must do to promote that value may eventually preclude the possibility of relatively free markets. Despite their costly welfare states, Western democracies have so far been able to survive as wealth-producing countries, and this situation might have prevailed forever—if certain conditions of late democracy had not come along. In particular, feminist attitudes toward childbearing and the modern democratic state’s affinity for mass immigration have clouded the future of free markets. To regard these culturally revolutionary features as merely accidental accompani-

pre-modern institutions and values. A stress on consumption and on fashionable commodities leads to a condition of life characterized by the availability of ever-increasing goods and the association of social rank with their acquisition. Living in this manner nurtures both individual-centeredness and openness to change. These are values that democratic educators are happy to emphasize in order to weaken and replace traditional, pre-democratic communities.

But there are limits to how far democratic welfare states will go to sustain capitalism. Democracy’s support of feminism, for example, creates short-term benefits but also long-term headaches for the economy. While today’s working women earn and spend more than their predecessors who were not part of the labor force, they are also less focused than earlier generations on child-rearing, and are unable or unwilling to devote as much time and energy to their offspring. Among the results of women’s

emancipation from the family, particularly in Europe, has been a graying of the native population and the need to import a foreign, largely Third World, labor force. The rationale for this step has been to pay for retirement funds and social services, although more recently this policy has also been justified as helping to enrich the culture.

The gamble of importing unskilled immigrants to make up for the birth dearth has not paid off for Germany. Because of that country's bloated welfare state, its national debt is now 11 times higher than it was in 1972, and it is likely to increase fivefold in the next 20 years in order to provide social services to the new immigrants, the vast majority of whom are either unemployed or earning-impaired. Unemployment is now many times what it was in the 1970s. And the demographic collapse is only worsening. A prominent economist and onetime adviser to the Christian Democrats, Meinhard Miegel, in his monograph *Die Deformierte Gesellschaft*, draws a gloomy picture of a society that is falling on the skids materially, in a way that Freedom House and the Fraser Institute have avoided noticing. By 2200, if present trends continue, Germany will have the population that it did in 1800, but the demographic distribution will be the opposite: in 1800, most Germans were below 40 years of age; already today 24 percent are 60 or older.

Although there are special circumstances in the German case, such as the costs of national reunification, most of Germany's problems are characteristic of other Western societies. Women marrying late or choosing not to marry at all, low fecundity rates, and the welcoming of unskilled immigrants have all become endemic in the West. Democracy today, with its emphasis on equality and pluralism, is an agent of social disintegration.

It's also bad business. Although a modern democratic system can coexist

with capitalism in the short and even middle terms, the two will eventually clash. Their contradictions are too glaring not to surface. Expanding social programs, the lopsided statistical distribution of young and old caused by the very democratic feminist movement, and the importing of unskilled labor are bound to increase popular demands for income redistribution. Our own country now stands at the threshold of new social spending such as government-controlled healthcare. While it might be hard to demonstrate that such developments have always inhered in a welfare-state democratic regime, one can easily comprehend how modern democracy reached its present state here and in Europe.

Can authoritarian governments conceivably do better than modern democracies as frameworks for capitalist economies? Certainly the old idea that capitalist development inevitably leads to political freedom has fewer adherents today than it did at the end of the Cold War. Robert Kagan, in his new book *The Return of History and the End of Dreams*, no longer treats the movement toward liberal democracy as "the unfolding of ineluctable processes," though he still calls for the U.S. to form a "league of democracies"—an arrangement that his admiring blurber, John McCain, intends to put himself in charge of—to force the world to be free.

Once the reader looks beyond Kagan's search for enemies against whom the "democracies" can mobilize their laggard populations, however, one sees that he makes several relevant points. Authoritarian powers like Russia and China can effectively integrate free market economies into their nationalist projects. Economic freedom does not necessarily require the adoption of liberal or democratic institutions. The belief that had driven the end-of-history theorists of the 1990s, that movement

toward the free market would be accompanied by political liberalization, has not proven consistently true, and the exceptions might be more important than the embodiments of the rule.

Although Kagan ignores the changing meaning of his god-terms "liberal" and "democratic," he correctly perceives the degree to which politics can control economics, even in a recognizable market economy. Not all capitalist economies will lead to the election of Barack Obama or Tony Blair. Indeed, in some societies a thriving economy may go hand in glove with a favored Russian Orthodox Church, the veneration of the last tsar and his family, or evocations of the glory of the Ming dynasty. To his credit, Kagan admits that capitalism does not always lead in the political direction he wants it to go. Market economies can be a valuable asset to any kind of government. Even those that prefer to rule by the stick have come to recognize the need for carrots.

Even so, autocratic capitalism may prove a transitory phenomenon, for the simple reason that authoritarian regimes are not likely to endure. Israeli political scientist Amos Perlmutter, the author of *Modern Authoritarianism*, argues that despotic governments rule in societies that are only imperfectly modernized: they have typically depended for their establishment on (often shifting) alliances made with the peasantry, military, established churches, and elements of the working class. Over time, such regimes either give way to other, similar orders—often as the result of military coups—or else they evolve, like Franco's Spain, Syngman Rhee's South Korea in the 1950s, and Pinochet's Chile in the 1980s, into middle-class constitutional states. Perlmutter does not have an ax to grind against authoritarian regimes, which often provide the breathing space for economic and political change. But he views them as stepping stones to peri-

odic instability or else to democratic capitalism. Within this view, one does not have to agonize over a Singaporean exception, since Lee's attempt to blend economic growth with Confucian culture may not have any significance outside of his region. Lee may have produced an exotic flower that does not flourish in other climates.

It goes without saying that should authoritarian-capitalist states metamorphose into new democratic-capitalist regimes, they will soon be subject to all of the problems familiar to the West. And these difficulties will set in far faster than they did in our country because American cultural values will soon be swamping these fledgling democracies—by example, if not by force. Given their long-time totalitarian pasts—and in China's case, far-flung, dense population—the modern malaise may take root in authoritarian lands more slowly than in more Westernized countries such as Japan. But the Chinese and Russian cases are not yet illustrations of a stable, long-term “authoritarian capitalism.” Most likely, Putin and the Chinese Communists will eventually give way to “democratic capitalist” governments or to periodic regime changes followed, in the best of circumstances, by further economic growth. Without nurturing any illusions about the supposed friendship between democracy and capitalism, there is no compelling reason to treat autocratic capitalism as a permanent arrangement. The friendliest climate for economic freedom may have existed in pre-democratic Western societies in the 19th century. But that too proved to be a transition to something else, a new “democracy” with whose consequences we are still contending. ■

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## Street Sweeping

*Continued from page 9*

patch scandal brought down Continental Illinois in 1984. Since then, the crises have come thick and fast. The late 1980s and early 1990s saw a wave of savings and loan collapses, followed in 1998 by the spectacular implosion of Long-Term Capital Management. In all these disasters and several lesser ones, deregulation provided executives with the financial rope with which they hanged themselves. The current subprime crisis is the clearest case yet in which regulation of the sort that ruled midcentury American finance could have minimized the trauma.

Regulation has received bad press in recent decades—often deservedly so. There is a difference, however, between good regulation and bad. Good regulation in this context requires minimalism and transparency. Instead of regulators involving themselves in the minutiae of every financial transaction, they should confine themselves mainly to setting prudential guidelines to keep firms generally within safe limits and to building appropriate firewalls to stop financial conflagrations from sweeping through the entire system. That said, regulators should have extensive powers to evaluate and, where necessary, ban what are euphemistically known as “new products.” As the present crisis amply demonstrates, such products generally serve only one real purpose: to enable Wall Street to confuse—and frankly short-change—its customers.

Why is regulation so necessary? A key problem is the notoriously asymmetrical nature of financial knowledge. Put another way, your broker knows more than you do. If he wants to do well for you, that is fine. But few securities sales-

persons become rich that way, and they have often preferred to prey on their customers' ignorance. Usually this is done subtly, at least where Wall Street's more reputable firms are concerned, and in recent years the tool of choice has been the invention of ever more esoteric “new products” that just happen to be ever more difficult to price accurately.

Writing in the *Financial Times* in 2004, economic commentator John Kay itemized some of the self-evidently absurd new products then being touted in financial markets: “Why would anyone want to buy a bond whose return is proportional to the square of the current interest rate? Why would someone in search of high income buy a security that offers it, but also offers a risk of large capital loss if one of three stock market indices should fall more than 25 percent below its initial level?” He added, “The only people well-equipped to assess the value of these instruments are the people who are selling them.”

For thinking conservatives the question is this: if easily analyzed, plain-vanilla financial products were good enough for the Eisenhower era, what has changed in the interim to suggest that today's highly complex products serve society better? In truth, Wall Street's perennially self-serving mindset and its periodic crises are two sides of the same coin. It is time to end the failed experiment with radical deregulation. ■

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# Small Tent

In a move that has fragmented his nascent libertarian populist movement, Ron Paul endorsed Constitution Party nominee Chuck Baldwin. The decision is a

deliberate snub to the Libertarian candidate, Bob Barr.

Preferring to avoid a choice between two claimants to his legacy, Paul at first attempted a blanket endorsement of all of the major third-party candidates, which provoked a protest from Barr. Paul's subsequent endorsement of the Constitution Party candidate has hardened the rift between Paul loyalists, whom Baldwin represents, and Barr supporters, who see their candidate as the best chance to increase the Libertarians' share of the vote in a year when conditions favor a third-party challenge on the Right. The endorsement saga reminded everyone of how many mutually antagonistic factions came together behind Ron Paul in the primaries and how unsustainable this movement was.

The crack-up began Sept. 10, when Paul held a press conference to unveil his multi-endorsement of Chuck Baldwin, Cynthia McKinney of the Green Party, and independent Ralph Nader. Many of Paul's supporters were dismayed that their hero could support such radically different candidates, but the confusing endorsement was an accurate reflection of the ideological hodgepodge of Paul's admirers during the primaries. Barr had been invited, but declined to participate, quickly organizing a press conference of his own at which he ridiculed Paul's decision as a failure of leadership. Many Paul supporters had been unenthusiastic about Barr all along, a fact reflected in the miserable results of his fundraising efforts, in stark contrast to the Ron Paul "money

bombs" of last winter. Now most of them will lend Barr no help at all.

The former Georgia congressman clinched the Libertarian nomination in May at least partly on the grounds that he had enough name recognition and ideological credibility to increase the Libertarian vote. Disaffected conservatives found both McCain and Obama unacceptable and were looking for someone to advance Paul's message. As a pro-life immigration restrictionist, Barr offered the LP the possibility of winning over populist conservative voters, while his newfound civil libertarian and antiwar views would secure the party's base. Paul's popular but ultimately unsuccessful primary candidacy for the Republican Party offered many clues for how this might work, but Barr desperately needed Paul to signal to his supporters that they should rally around the Libertarian candidate.

The Baldwin endorsement scuttled that hope. Dissident conservatives, who may once have been drawn to Barr, now have less reason to back a Libertarian platform with which they disagree and a candidate who until recently was indistinguishable from conventional Republicans. The Constitution Party has been an explicitly conservative third party for two decades: it is proudly pro-life, pro-sovereignty, and restrictionist in a way that Barr as the Libertarian nominee could never be. It is the natural home for traditional conservatives who cannot support McCain. Paul's seal of approval has made it that much easier for social conservatives and constitutionalists to vote for Baldwin.

Moreover, Barr's increasingly petulant responses to the endorsement have alienated conservatives who were sympathetic to his candidacy. At a *Reason* event held in conjunction with the first presidential debate, Barr was asked about Paul's Baldwin endorsement. He replied by attacking Paul and dismissing Baldwin as a "theocratic candidate." Evidently not embarrassed by his own thin record as a civil libertarian and opponent of the war in Iraq, Barr claimed that Paul "used to espouse" a libertarian agenda and had somehow ceased to do so with his endorsement of the Constitution Party's candidate.

Most disappointing for Paul's supporters has been the unraveling of the movement in the immediate aftermath of the successful Rally for the Republic counter-convention in St. Paul. While many conservative Paul backers are more likely to agree with the priorities of the Constitution Party, the promise of the movement depended upon holding on to its libertarian and conservative factions. Unfortunately, as often seems to happen in protest movements, the policy-driven Ron Paul Revolution has broken apart because of clashing personalities.

As all of this unfolded, the financial crisis revealed the prescience and importance of Paul's warnings about the Federal Reserve's inflationary monetary policy. This issue, which Paul stressed repeatedly during his primary campaign—much to the eye-rolling amusement of supposedly serious journalists and pundits—has proved far more relevant in this election cycle than anyone could have guessed. It is particularly unfortunate for the country that there will not be a unified, coherent movement to give voice to this critique at a time when we need it most. ■