

The Trouble With Freedom

The more voters [in democracies] are buffeted by the changing winds of an open world economy, the more they will resist change

By Jeffrey E Garten

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May 10 issue - In recent days, more than 170 million Indians have voted in a multistage national election that will conclude on May 10. On that day, Filipinos will cast final ballots for their president. In July Indonesians will do the same. Taiwan just re-elected its president. South Korea has given its leader's party a majority in Parliament, and Hong Kong citizens are protesting new restraints on their political freedom.

The democratic ferment isn't confined to Asia. British Prime Minister Tony Blair has decided to make approval of the new EU Constitution subject to a popular referendum. Poland and other EU members may well follow suit. In Latin America, despite serious economic and political setbacks in Argentina and Venezuela, and notwithstanding widespread disillusionment with the failure of elected governments to deliver material benefits—the subject of a U.N. report released last week—democracy has clearly trumped military rule. South Africa last week celebrated 10 years of political freedom.

While the global story of the 1990s was the opening of economies around the world, the bigger theme for this decade is the deepening and maturing of democratic movements. Both trends are cause for cheer, but the two may not reinforce one another, especially in the next several years. In fact, the flowering of democracy may slow economic globalization even as it makes it more inclusive and more equitable over time.

The growth of democracy could, for example, slow the expansion of international trade. Reason: a democratic government cannot decree the dropping of barriers but must listen to the views of farmers, workers, manufacturers, nongovernmental organizations and others. In many countries, the voice of public opinion will play a larger role than ever before. At best, this is likely to delay international trade talks as governments attempt to reach delicate compromises among competing interests at home. At worst, it could lead to rising protectionism as anti-trade groups scream the loudest.

Democracies also tend to favor easy money, even when it's not the technically correct prescription for sound economic policies; it's a sure way for politicians to curry favor with the masses. The danger is that when several countries do this, the world economy develops a bias toward inflation—which ultimately is destructive to long-term growth. It is therefore vital to establish fiercely independent central banks with governors strong enough to withstand political pressure. Right now, for example, the finance ministers from Germany and France are in a highly visible fight with Jean-Claude Trichet, the president of the European Central Bank, over his insistence that now is not the right time to lower interest rates in the eurozone. This kind of confrontation is sure to be played out in many countries over the next few years.

Speaking of easy money, democracies like to open the spending spigot, even when they shouldn't. Case in point: Brazil's president, Luiz Inacio Lula da Silva, is right now under intense public pressure to abandon his admirable fiscal conservatism in order to gun the economic engines. The temptation may be politically irresistible and even understandable, but international financial markets will not be pleased.

Even the most advanced democracies, such as the United States, France and Germany, have demonstrated an inability to build the necessary long-term safety nets to prosper in a hypercompetitive global economy. Obviously, so too will less sophisticated democracies. Think about America's inability to rein in its enormous fiscal deficits, despite the certainty of massive upcoming expenses relating to Social Security and health care for its aging population. Or about the inability of major European nations to establish economically viable pension and unemployment compensation systems.

The more voters are buffeted by the changing winds of an open world economy, the more they will resist change. While authoritarian governments may have done no better, there is still no mistaking that the short-termism of democracy is worrisome.

I am not predicting that the spreading and deepening of democracy will throw a monkey wrench into the workings of the world economy. But there is a good chance that it will slow it down over the next decade or so. On balance, though, more people will be accorded the dignity of having a say in their future, so the costs of democracy in terms of foregone economic globalization will have been well worth the price. As Winston Churchill once said, "Democracy is the worst form of government except for all those other forms that have been tried."

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