

Ronald Reagan and Margaret Thatcher: Lessons in Freedom and Democratic Leadership

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President Aznar, distinguished guests, it is a great honor to appear in this FAES lecture series. I must say that the moment of the invitation was one of some puzzlement and amusement. I met with President Aznar in Washington last summer and we spoke about political developments and think tanks and his new association with FAES. He told me that he and Ana Palacio were planning a lecture series for 2005 to commemorate “the 25th anniversary of the revolution.” “Excuse me, President Aznar,” I interjected, “what revolution?” He responded in his gentle way, “Do you remember 1980—Ronald Reagan and Margaret Thatcher?”

We were both amused that a European political leader should be reminding the president of the American Enterprise Institute of the importance of Ronald Reagan and of this anniversary. But it was also a telling moment. There is some truth to the caricature of Americans as being preoccupied with the present and Europeans as having a greater sense of history, of how the past looms over and shapes our current endeavours. So I greatly appreciate the invitation to reflect on the Reagan–Thatcher years and to see what lessons they might teach for the different—but equally momentous and contentious—problems we are facing today.

But I must begin with an historical point of my own: 2005 is really the 30th anniversary. The Freedom Revolution is appropriately dated not to November 1980, when Ronald Reagan was elected president of the United States, but to five years earlier—November 1975—when King Juan Carlos took the throne in Madrid and announced that he would be King of all the people and intended to usher in democracy in Spain. The importance of that moment cannot be over-emphasized. Through the King's leadership, and that of a rising generation of young Spanish political activists, Spain demonstrated for the first time in modern history that it was possible for a nation to go from dictatorship to democracy without great violence. Many brilliant intellectuals and political observers had argued against the very possibility, right up to the moment that it happened. The Spanish example soon spread to Portugal and Latin America. By the end of the 1980s there were only two nations in the Spanish– and Portuguese–speaking world that were not free democracies.

Nevertheless, it is true that the initial movement towards political and civil freedom gained tremendous new impetus with the arrival of Margaret Thatcher in 1978 and Ronald Reagan in 1980. I believe that their achievements teach three great lessons relevant to our circumstances in 2005.

The first lesson is that freedom and democracy are not parochial customs of the North Atlantic peoples but are universal and fundamental. They are also transforming—enabling us to see and act on possibilities for radical improvement that would otherwise be foreclosed.

These lessons, although central to the achievements of President Reagan and Prime Minister Thatcher once in office, had little to do with their political ascents. They arrived at the White House and at 10 Downing Street essentially by accident. Both were from modest, lower-middle-class backgrounds and had been scorned for most of their careers by the upper-crust establishments of their parties, the British Conservatives and the American Republicans. Minority figures within minority parties, they were chosen in desperation amidst crises that had discredited everyone around them, leaving no one else standing.

In England, the economy was in a state of decomposition, dramatized by a series of ugly and paralyzing strikes—garbage piled high in the streets of London, and also coffins piled high when striking ambulance drivers defiantly refused to take the sick and dying to hospitals. What had been called the “British disease” was turning deadly. In the United States, we faced fantastic rates of inflation and unemployment, the Iran hostage crisis—where American citizens were captured on American soil, provoking only a pathetic and ineffectual response—and a president who bitterly rebuked his fellow citizens for failing to accommodate themselves to a world of (as he saw it) diminished circumstances and declining opportunity.

It was only after they arrived in office that it became clear that Thatcher and Reagan were more than conservative alternatives to the failed policies of James Callaghan in England and Jimmy Carter in the United States. They had ideas about the role of freedom and democracy in practical politics that were unique and that had not been part of the mainstream political conversation that preceded them.

Reagan and Thatcher departed from the established consensus in two respects. The first was their evaluation of the Soviet economy. From the late 1950s through 1980, the prevailing assumption in the West had been that the market economy, for all of its domestic advantages, was a handicap in our struggle with Soviet communism. Our economic freedoms were thought to be a source of private wealth and personal satisfaction—but enjoyed at a heavy price in larger national goals. The Western economies were built for individual consumers while the Soviet economies were built for national power.

A revealing illustration of this assumption occurred in the 1960 U.S. presidential

contest between Vice President Richard M. Nixon and Senator John F. Kennedy. The previous year, Vice President Nixon had engaged in a celebrated impromptu debate with Soviet Premier Nikita Khrushchev at an American exhibition in Moscow comparing the consumer products of the two nations. In the course of what was to be called the “kitchen debate,” Nixon had pointed to a color television—at the time an amazing new technology rapidly replacing black-and-white TV in the United States—as an example of the superiority of the American economy; he acknowledged, however, that the Soviets might be ahead in some areas, such as the thrust of rockets used for space exploration. Then, in 1960, Senator Kennedy made the “missile gap” a central part of his campaign for the White House, and turned scornfully on Nixon’s remark in the kitchen debate. America, Kennedy said, should be first in rocket thrust, even if that meant being second in color television.

To which Vice President Nixon—the Republican and presumably more “market oriented” candidate—replied: essentially nothing at all. America could afford both color television and powerful missiles, and just needed to try harder. It seems never to have occurred to him, or anyone else involved in the 1960 debates, that an economy so technologically advanced that it could produce mass-market color television—which at the time was much a miracle as the iPod is today—was one with tremendous advantages over the planned Soviet economy, which was incapable of producing even competent black-and-white television not to mention refrigerators or toasters. Notably, the one person who had grasped the point was Nikita Khrushchev himself, whose response to Nixon in the kitchen debate had been that the Soviet Union was ahead of the United States in color television as well as rocket thrust! The assertion was preposterous, and delivered with the brazenness of a man who understood his adversary very well.

I offer this story as a metaphor for the deep confusion that prevailed in the West throughout the Cold War about the merits of free versus socialist economies. For decades, the U.S. Central Intelligence Agency prepared annual estimates of Soviet economic performance that we now know were hugely inflated (and that, by overestimating Soviet GDP, underestimated the share of GDP that the Soviets were devoting to military purposes). The erroneous CIA estimates were not the result of faulty intelligence or estimating techniques. The Agency was staffed by very smart economists from Harvard, Yale, and other top universities who had imbibed deeply of then-popular teachings about the inherent advantages of socialism and the waste and inefficiency of free markets. These ideas drove them to conclusions that a few days walking around Moscow or Leningrad would have shown to be plainly wrong. If you go to the library and pull down the *Statistical Abstract of the United States* for 1989, you will find that in the year the Berlin Wall came down the U.S. government was estimating that per capita GDP was higher in East Germany than West Germany!

Reagan and Thatcher’s second departure concerned the role of human rights and democracy in the conduct of foreign policy. The prevailing view had been

that these issues were peripheral or even harmful to Western political interests in the international arena. The view was derivative of the idea that the Soviet block economies were performing well and perhaps catching up with West. If that was the case, then Soviet communism was here to stay and the current state of international politics was immutable. We might deplore the lack of civil and political freedoms in the communist nations, but their system was demonstrating certain advantages and the best we could do was to learn to live with it. Among conservatives in both Britain and the United States, the dominant school of foreign policy analysis was realism. Realism meant managing power relations among states as best as possible, with little or no concern for what was going on behind the states—within the societies that the states claimed to represent.

There was at the time a competing school of human rights activism in international affairs, but it had been dominated for four years by President Jimmy Carter, whose view of human rights was highly perverse. In President Carter's hands, human rights was a tool to be used against authoritarian governments that were friendly to the United States in the contest with Soviet communism, even as human rights violations within communist nations were completely overlooked. Under President Carter's predecessor, Gerald Ford, human rights had played a more neutral and effective role in Cold War politics. In 1975, when President Ford and several European leaders signed the Helsinki Accords with Soviet leader Brezhnev, they gave some recognition to Soviet dominion in Eastern Europe in return for Soviet agreement to recognize a degree of human rights among its own people. The Helsinki Accords turned out to be a master stroke in human rights *realpolitik*—providing the first openings in Soviet domestic politics for Andrei Sakharov, Natan Sharansky, and other brave dissenters. But at the time, American conservatives attacked Gerald Ford for the Accords as viciously as they were to attack Jimmy Carter's human rights policies.

The prevailing views I have described were rejected lock, stock, and barrel by Ronald Reagan and Margaret Thatcher as soon as they arrived in office. To them, the essential contest between the Free World and the Soviet world was a moral contest, not a power contest. The power contest that had preoccupied the foreign policy elites was simply a reflection of an underlying moral divide. The free consumer economies of the West were not a weakness but a key strength in the battle with communism. And the lack of personal and political freedoms among the subjects of Soviet totalitarianism was the Achilles' heel that would lead to their downfall. Thatcher and Reagan sought not *détente* but destruction—not peaceful coexistence but peaceful victory.

Domestic policy and foreign policy were linked in the Reagan-Thatcher strategic vision. Deregulation, stable money, low taxes, and privatization were ways of enhancing the West's natural advantages over the planned socialist economies. The vast resources that President Reagan poured into the U.S. military build-up of the 1980s, and his confident public discussion of our plans to build a hi-tech missile defence system, were as much economic policies as military policies.

Finally turning the tables on Nikita Khrushchev, Reagan sought to convince the Soviet leaders that succeeded Brezhnev that they had no hope of catching up with the West and that they were going to fall further and further behind—even in the part of their economy that was doing best, which was the militarized part. And he provided continuous moral and material support to anti-Soviet freedom fighters in Latin America and elsewhere.

We now have Natan Sharansky's account of the effects within the Soviet Union, long before they were recognized in the West. In the prison where he had been incarcerated for many years, inmates developed ingenious, surreptitious methods of communication—they would tap out code to each other on pipes or, when they had a particularly urgent message, would drain the water from their toilet bowls, stick their heads in the bowls, and talk directly among themselves. On the day after Ronald Reagan gave his famous "Evil Empire" speech in the United States, a day on which the Western media had little but ridicule and scorn for the speech, the pipes and toilet bowls of Sharansky's prison rang with agitated code and joyous shouts. Every prisoner knew immediately that the Soviet Union, having been called its real name by the leader of the West, was doomed and would fail within their lifetimes.

When Ronald Reagan left the presidency, eight years after having come to office in a world of foreign policy realism and pessimism about the decline of the West, he delivered his last major public address in Washington at my institute, the American Enterprise Institute. And this is how he summed it up:

"We promulgated a foreign policy whose fundamental basis was the truths all Americans hold to be self evident: That all men are created equal, that they are endowed by their Creator with unalienable rights, that among those are life, liberty, and the pursuit of happiness. We have done this, not solely because we believe it is right, but because we know it is in our national interest to do so. We told the world the truth we had learned from the noble tradition of Western culture, and that is that the only answer to poverty, to war, to oppression, is one simple word: freedom. Now, freedom is not only a moral imperative for our foreign policy; it is also supremely pragmatic. For if there is anything the world has learned in the 1980s, it is that freedom works."

The application of the Reagan-Thatcher doctrine to the struggle against terrorism and Islamic radicalism we are engaged in today could hardly be more direct. Soon after September 11, George W. Bush, José María Aznar, Tony Blair, and several far-sighted Asian leaders such as Japanese Prime Minister Junichiro Koizumi and Taiwanese President Chen Shui-bian, put freedom and democracy at the centre of their geopolitical strategy, just as Reagan and Thatcher had done. George Bush's second inaugural address this past January, which Ana Palacio quoted from, presented the most emphatic statement of these principles. The address was widely disparaged in the American and European press. But less than two months later, in Iraq,

Afghanistan, the Ukraine, Palestine, Lebanon, and Egypt, we have seen such a dramatic series of democratic breakthroughs that even the *New York Times* and others of President Bush's harshest critics have been saying that maybe, just maybe, he was right.

Some, of course, are saying that George Bush has turned to democracy as the justification for ousting Saddam Hussein only because he failed to find weapons of mass destruction. But that is not true. Within the U.S. government, two central features of the war on terrorism were widely understood within months of the 9/11 attacks. First, the immediate task was to hunt down, root out, and kill or capture the Al-Qaeda and other terrorists. Second, that that would not be sufficient, because there would be many more fanatical young men waiting to take their place. The new recruits—like the Saudi-Egyptian gang that planned and conducted the 911 attacks—would be the embittered products of the secular and theocratic tyrannies that had ruled the Middle East for so many decades, indifferent to the wretched failures of their societies and the religious fanaticism failure had spawned. In a world where small, cohesive groups had acquired the means of wrecking massive destruction on innocent civilian populations, the only hope for a global peace was to bring peace to the societies of the Arab and Persian Middle East. And that meant civilizations where Islam had made peace with individual liberty, political choice, and the rule of law.

Iraq was the most urgent immediate problem because its dictator had recently invaded a neighbouring sovereign state, had proceeded to violate every important term of the cease-fire agreement after his invasion had been repelled, and had made his nation a haven of regional (at least) terrorism. His displacement held out at least the hope that free institutions could begin to take root in the heart of the Arab world. Several weeks before the commencement of Operation Iraqi Freedom, President Bush had this to say, in a speech at the American Enterprise Institute, about the rationale for the action that was about to begin:

“The Iraqi regime has shown the power of tyranny to spread discord and violence in the Middle East. A liberated Iraq can show the power of freedom to transform that vital region, by bringing hope and progress into the lives of millions. America's interests in security, and America's belief in liberty, both lead in the same direction: to a free and peaceful Iraq.

“There was a time when many said the cultures of Japan and Germany were incapable of sustaining democratic values. They were wrong. Some say the same of Iraq today. They are mistaken. The nation of Iraq—with its proud heritage, abundant resources, and skilled and educated people—is fully capable of moving toward democracy and living in freedom. The world has a clear interest in the spread of democratic values, because stable and free nations do not breed the ideologies of murder. They encourage the peaceful pursuit of a better life. It is presumptuous and insulting to suggest that a whole region of the world—or the

one-fifth of humanity that is Muslim—is somehow untouched by the most basic aspirations of life. Human cultures can be vastly different. Yet the human heart desires the same good things, everywhere on Earth.”

One cannot imagine a more perfect application of the doctrines fashioned by Ronald Reagan and Margaret Thatcher onto our current circumstances.

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The second lesson of the Reagan-Thatcher freedom revolution is that great political leadership requires intellectual grounding and independence. Ronald Reagan and Margaret Thatcher showed that ideas are as important to effective statecraft as political parties and campaign organization. They were pragmatic politicians and very skilled ones at that, but they came from an intellectual culture—from the world of think tanks, opinion journals and magazines, and academic conferences such as the one we are at today—that enabled them to transcend their parties and, as we have seen, to challenge some of their parties’ entrenched dogmas. They saw their political careers not as ends in themselves but as means of accomplishing larger goals for their societies. Once in office they maintained close relations with their intellectual compatriots, rather than abandoning them for a new coterie of political handlers and public-relations specialists. This provided them with important protections against the isolation which threatens anyone in top political office. They never allowed themselves to become captured by their government ministries or political staffs, and they never imagined that political success would come from triangulating the parochial political interests that surrounded, pressured, and flattered them.

I served for a time on President Reagan's White House staff and can tell you first-hand that the many accounts of his being remote and out-of-touch with the issues of the day are completely wrong. Many of those accounts came from his own staff—people whose real complaint was that he was out-of-touch with their recommendations. A frequent occurrence in the Reagan White House was for the President to be presented with a decision memorandum laying out three options, A, B, and C, only to have him pick none of the above—to chose a course of action that no one else had considered, to the consternation of all concerned except himself. Ronald Reagan had ideas of his own about right policy and good politics that were fortified by his relations with academics, intellectuals, businessmen, old friends, and others who were not part of any government or political hierarchy. Our State Department and Central Intelligence Agency, appalled by the draft of Reagan’s “Evil Empire” speech, warned him of the dire international repercussions of the speech that was to electrify Natan Sharansky and his fellow prisoners and terrify the Soviet leadership. As he was drafting his equally famous Berlin Wall speech, Reagan’s top political advisers repeatedly crossed out the phrase “Mr. Gorbachev, tear down this wall,” pleading with him not to utter such a ridiculous and dangerous fantasy. But it was not Reagan who

was out-of-touch. His deep intellectual grounding, and his wide sources of information independent of the official sources that prepared his decision memos, gave him the confidence to be his own man.

I can say much less about Prime Minister Thatcher. But I know from some personal experience, what those who worked closely with her also attest, that even a casual conversation with Margaret Thatcher resembled an oral examination at a highly competitive university by a very demanding and persistent professor. A woman possessed of both very firm opinions and every social grace, she nevertheless saw every encounter as an opportunity to gather new information and test her opinions and judgments. She would state her own views in no uncertain terms, but with equal vigour pummel you with questions about your own views and what information you had to support them. She wanted facts and she loved argument, and she would push back at practically anything you said for the sake of learning more. Her insatiable curiosity was part of her strategy of leadership, which depended on maintaining lines of communication outside of those of officialdom.

The lesson I draw is that groups such as AEI, FAES, and others that are growing up around Europe and to some extent in Asia, are not academic sideshows or pastures for out-of-work politicians. They are in fact the avant-garde, the future of our politics. Think tanks are not, as the term implies, self-contained vessels for insulated thinking; rather they are incubators of new ideas and of new leaders who will transform tomorrow's politics. Most of the time, in most democracies, our politics have been led, and will continue to be led, by conventional politicians, such as in the United States in the 1990s and in Spain today. But the leaders that make a difference, that move history forward, will come from institutions that nurture new ideas and see politics not as a popularity contest but as a contest of ideas.

George W. Bush does not come from an intellectual culture as Ronald Reagan and Margaret Thatcher did. But throughout the late 1990s the Governor of Texas was calling on writers, academics, and policy experts from a wide variety of backgrounds to talk through the North Korea problem, the Iran problem, Social Security reform, taxes, and a variety of social welfare issues—accumulating information and knowledge to complement his strong sense of conviction and purpose. He continues to do so. As we all know, President Bush's "forward strategy of freedom" in the Middle East has come under continuous, often vituperative attack during the past two years from the left in the United States and from many official and intellectual quarters in Europe. What is less well known is that his policies have come under similar attack within his own government. Just as our State Department and CIA opposed Ronald Reagan's most important foreign policy initiatives, so they have opposed George Bush's. Just as our "permanent government" had acquired a view of the Cold War that was, by 1980, highly counterproductive, so it has acquired a view of the Middle East that is equally counterproductive today. Ironically, today's outmoded views are

themselves a vestige of the Cold War—seeking stability and the preservation of the status quo above all else, and fearing the risks the disruptions that freedom and democracy will surely bring to the Middle East. It has required of President Bush not only strong character but deep understanding to advance his policies in the face of so much internal opposition and occasional outright sabotage.

A wonderful example of President Bush's outside-the-box intelligence gathering is his recent meeting with Natan Sharansky, whom I mentioned earlier. Last December Sharansky published a powerfully argued book called *The Case for Democracy: The Power of Freedom to Overcome Tyranny and Terror*. An old Texas friend of President Bush's read the book and sent it to him and urged him to read it, which he did. A few weeks later, Sharansky was in Washington, speaking at AEI about the book, when he got a call from the White House asking if he might stop by for a visit with the president. They spoke for more than an hour, and George Bush told Natan Sharansky: This book describes the whole purpose of my administration's foreign policy. You have understood this and expressed it better than anyone else. At the conclusion of the meeting, Sharansky leapt to his feet and embraced the president and said, "Mr. President, you are the First Dissident of the world!" From Natan Sharansky, that was the highest possible praise. Imagine the President of the United States being envisioned as a dissident. This is a man who understands the importance of maintaining intellectual independence in the face of constant pressures to bend to the political winds. One of the most important things that groups such as FAES and AEI can do is to cultivate that independence in political leaders.



The third lesson of the Reagan-Thatcher years is that freedom has powerful enemies, and that the struggle to maintain and extend free institutions is never ending. Ronald Reagan and Margaret Thatcher were as controversial in their day, and in many quarters as despised, as George Bush, José Aznar, and Tony Blair are today. When their ideas triumphed, those who had opposed them did not concede defeat, did not recant their earlier opposition. Instead they rationalized the outcome. The Soviet empire, many of them said, would have collapsed on its own—if anything, Reagan and Thatcher had prolonged the endgame with their bellicose rhetoric and military provocations. Having blithely pronounced as inevitable an event they had previously said was impossible, they regrouped and turned to other issues and causes that expressed in new forms their hostility to the idea of individual liberty. As today's "forward strategy of freedom" advances in the Middle East, we will see similar backing-and-filling by those who had opposed it.

The cause of freedom faces three permanent obstacles that must be surmounted in every generation. The first is totalitarian ideologies—ideas about the proper constitution of society that require that the state take complete control of the life

of the individual. Yesterday it was communism, today it is radical Islamism. The second is organized interest groups—business groups, labour unions, farmers, teachers, retirees, and on and on—that are effective in obtaining subsidies and other favours from government and work strenuously to protect their advantages. And the third is public opinion itself. Most of the time, most people are politically inattentive, occupied with their careers, families, local communities, hobbies, sports, and other aspects of their personal lives. This is a good thing in itself, but it leaves the political process vulnerable to both interest groups and ideologues. Interest groups do attend closely to the government, and are adept at securing policies that benefit themselves at the expense of the general public. Ideologues are equally adept at providing simple and alluring answers to complex and intractable problems—the sort most likely to appeal to people with other things on their minds. Democracy can be messy and the free society is indeterminate in its outcomes, but many people will want government to provide answers, not merely procedures for arriving at answers.

Although the lessons of the Reagan-Thatcher years are clear enough in the Middle East and in confronting other tyrannies around the world, the freedom revolution today presents three particular issues where we are largely on our own. First, we classical liberals (called conservatives or libertarians in the United States, liberals in Europe) have yet to decide exactly how far we propose to go in rolling back the domestic welfare state, including programs of social insurance and economic regulation. Reagan and Thatcher managed to slow the growth of government, reducing taxes and spending and regulation somewhat, but they did not go as far as they plainly wanted to and, aside from Prime Minister Thatcher's privatization initiatives, none of their achievements were permanent. We have not addressed these problems more rigorously because of disagreements among ourselves (to say that one is a liberal is not to say what one would do about pension policy) and because of uncertainties over how far our fellow citizens would follow our ideas in these areas.

Second, how strong is our commitment to democracy, not just in Iraq and Syria but in our own nations? To say that one is pro-democracy is not to say what one thinks about the EU constitution or about the many other and multiplying forms of supranational government, such as the United Nations, World Trade Organization, and Kyoto Protocol, which have only a highly attenuated relationship to popular sentiment and democratic accountability. It does not say whether proportional representation or first-past-the-post electoral systems are preferable, and it does not say what the relative powers of central and local governments should be in federal systems.

And third, can the ideals of classical liberalism, which have made such headway in practical politics and in some quarters of the intellectual world, begin to gain ground in the institutions of high and popular culture—in the newspapers and magazines, in television and movies, in the academy, and in the worlds of art and literature. It is a remarkable fact that, twenty-five or thirty years into the freedom

revolution, virtually the entire Western cultural establishment remains strongly, and often vociferously, left-wing and anti-liberal. And it is frankly embarrassing that societies that have achieved such high levels of economic prosperity and social pluralism remain so closed and monolithic in the cultural realm. Liberals of my persuasion are fond of lamenting media bias and the ideological faddishness of the professoriate and of Hollywood stars. But further progress will require more than complaining: we will need to develop our own institutions and our own talents—our cultural equivalents of Reagan, Thatcher, and Aznar.

I want to suggest that a fruitful way of addressing these three challenges is with the idea of competition. Competition is different from freedom, democracy, or private enterprise. It is the proposition that all things of value ought to be offered by a multitude of suppliers—that no one should be given a monopoly. I believe that this proposition has potential to win converts to liberal policies among the critical middle ground of ordinary citizens. Many people are sceptical about big business and the free market, and many are dubious about intellectuals of any stripe, whether classical liberals or socialists; but almost everyone understands the principle of competition from sports and from their daily lives, and understands that competition is a powerful inducement to hard work and good performance and a powerful antidote to the corruption and self-dealing that is endemic to many government programmes. Let me suggest how the competition principle might be applied to the challenges I have identified.

Regarding the welfare state, I believe—and I am certain that most average citizens believe—that in societies as wealthy as ours the government should support the education of the young and provide generously for those in bad health or facing other serious problems not of their own making. But that does not mean that the services in question need to be state monopolies—it would be better for all concerned if they were supplied under conditions of competition. We are in the midst of a great debate in the United States over how to reform our public schools, especially those in our poorest urban communities which tend to be chaotic and highly unproductive. The most promising reform proposal is to provide parents with school vouchers which they may use to send their children to schools, public or private, of their choice. That is the principle of competition in action. When parents are in a position to deny resources to one school and provide them to another, all schools will have to work harder if they are to survive. The same principle may be applied to retirement income, health care, job training, and other welfare services. One can be as generous-minded as one likes in providing retirement income or health care for those of modest means without requiring that they be provided as government monopolies. Privately owned retirement savings accounts, and vouchers for the purchase of private health insurance, have the potential for correcting many of the most serious fiscal and economic problems of the welfare state, while providing a stronger safety net for those in need.

Competition is an equally important principle for determining the relative powers

of local, national, and supranational governments. Of course, government is by definition a monopoly of coercive power, but the degree of monopoly is critical: a government may enforce its policies over all of its citizens, but the citizens may in turn “vote with their feet” or with their wallets, moving themselves or their business to other jurisdictions with different policies. In the United States, many of our most successful policies are those that are supplied under conditions of vigorous competition among state governments (such as our corporation laws, where firms may choose to be governed by laws of any state regardless of where their headquarters or offices are located). On the international stage, the globalization phenomenon—the increased mobility of people, capital, and business operations around the globe—has made policy competition among nations much more intense than it used to be and spurred many beneficial reforms. Many recent efforts at supranational organization and treaties are efforts to preserve traditional national powers against the effects of globalization—by forming “policy cartels” that make it more difficult for citizens to escape from unwelcome policies.

Like many foreigners, I am reluctant to comment on the proposed European constitution. A constitution so politically momentous, and so organic to the experience and aspirations of a given people, that outside opinion is of limited value. But there is something a foreigner can talk about, and that is the potential for abuse when power becomes too centralized. In my view, the specifics of the proposed constitution are less important than how the great political power that has been accumulated in Brussels is actually exercised. Today, in many areas of government policy, there is healthy competition among the nations of Europe. In tax policy, for example, Ireland introduced dramatic reductions in tax rates (especially those applied to capital income) ten years ago, which led to a flood of foreign investment, huge increases in labour productivity, and consequent dramatic increases in average wages. Spain’s reduction and flattening of its tax rates in 1998 produced a significant increase in labour supply and other benefits similar to those in Ireland. These tax policy innovations have provoked a good deal of complaint from other European nations, but also many improvements across the continent.

For the European government in Brussels to suppress tax competition—which it has always promised not to do, but is now inching up to doing—would be very deleterious to economic prosperity. And there are many other proposals, such as the current one to establish a Europe-wide securities regulatory body to replace the current practice of mutual recognition of national securities laws, that would be similarly harmful. I was particularly disappointed to read the other day of the postponement and possible abandonment of the proposals for free competition in services, such as health care services, across national borders. For the government in Brussels—which began with the Treaty of Rome and the great dream of a single European market—to accede to pressures for national protectionism would be highly regrettable.

On the third, overarching challenge of culture, let me cite the great Peruvian novelist and essayist Mario Vargas Llosa who lectured at American Enterprise Institute just last week. What differentiates civilization from barbarism, he said, is not economics but rather ideas and culture. I believe that the creation of a global culture of liberty is more important than any other challenge before us today. Democracy and capitalism can only succeed in a culture that informs the choices of free individuals and gives meaning to the social consequences of their choices. But a successful culture, like a successful democracy or market system, must rest on persuasion, not coercion: it must welcome, and be willing to compete openly with, other ideas, other ideals, and other norms. When our institutions of high and popular culture have become as pluralist and competitive as our institutions of politics and commerce, the next advance of the freedom revolution will be truly underway.

Thank you very much.

Christopher DeMuth is President of American Enterprise Institute for Public Policy Research. This paper was delivered before the Fundación para el Análisis y los Estudios Sociales (FAES) in Madrid, Spain, on March 7, 2005.