

WORLD REVOLUTIONARY CHANGE AND THE RISE OF THE AMERICAN NATION IN THE 21ST CENTURY

By Kim R. Holmes, Ph.D.

The world is in turmoil. Terrorists shoot down American passenger planes, and we cannot find out who did it. A young and hopeful democratic movement in China is brutally repressed by tanks and bayonets. A drug king-pin, Panamanian dictator Manuel Noriega, runs the country that controls the destiny of the vitally important Panama Canal.

At home our trade deficits are too large. Abroad, the debt of Third World nations threatens the viability of many Western banks. And notwithstanding all of Moscow's promises of disarmament, few reductions have been made in the Soviet Union's formidable military machine.

The United States indeed faces many problems. But it also has many opportunities. It is said that opportunities neglected do not come back. For this reason, we must not fail to recognize today's opportunities — in fact we should focus efforts on identifying them.

I would characterize the opportunities facing the U.S. today as the "four revolutions" — the revolution in the communist world, the democratic revolution in the Third World, the capitalist revolution in the Third World, and the information and technology revolutions occurring all over the world.

Death of a Myth. Let's take the first one — the revolution in the communist world. One of the great myths of the 20th century is dying — a myth created by an obscure 19th century German philosopher who suffered from carbuncles and was endlessly broke — a myth that says that the human being is most free when all political and economic decisions are made by the state, the most productive when all work, good or bad, is rewarded the same regardless of quality, and the most equal to his fellow man when all major decisions affecting his life are made by an elite of party officials and bureaucrats. The German philosopher of course is Karl Marx, and the myth that is dying is communism.

We have all heard of the troubles in the Soviet Union and China. The tragic crackdown in Beijing last June notwithstanding, communism is on its last legs. There will be temporary reversals, as happened in China and may very well happen in the Soviet Union, but the decline of the communist system is likely to continue. This is inevitable because communist regimes have lost the economic battle with the West. I first realized this at a personal level during a visit to the Soviet Union in 1987.

I was a guest of the government and was supposed to spend the evening with a typical Soviet family. The dinner was to be arranged by the government to give the foreign visitor some idea of how an average Soviet family lived. Now I fully expected the best the Soviet Union had to offer. I had heard stories of Americans visiting families for dinner where the

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walls were still wet with paint, no food was in the cabinets, and no clothes in the closet. In other words, these Americans were not visiting a real family at all, but Party officials posing as a family and hosting their guests not in a private house, but in a residence run by the government and used as a showcase for foreign visitors.

Real-Life USSR. I had expected the best, but what I found was quite different. My host was a typical middle-class Soviet family man – a mechanic working for the public transportation system in Kiev, the capital of the Ukraine. He and his family lived in a third-floor, two-room apartment, accessible by a dirty and wet stairwell that was pitch dark the evening I arrived because there was no lighting in the halls. The family of three ate and slept in a cramped, single living room. A small couch doubled as a bed. I was told that my hosts' baby slept every night in his stroller on a tiny glassed-in balcony about the size of closet. There was no heat on the balcony where the baby slept. Obviously, no member of the family had a proper bed to sleep in.

I tell you this story because it clearly reveals that the standard of living of most Soviet citizens cannot compare to that of the average American. In fact, if they lived in the U.S., most people in the Soviet Union would be living well below the poverty line.

Fights Over Soap. Central economic planning has caused an economic and environmental catastrophe of enormous proportions in the Soviet Union and Eastern Europe. Vast tracts of land in Poland are nearly uninhabitable because of the poisons dumped by heavy industry into the soil. The water in Prague, Czechoslovakia, is so bad that expectant mothers are warned by the government not to drink it. It is practically impossible in Moscow today to buy soap or toothpaste. When someone is lucky enough to find a shop that has soap, a family member must show his or her passport to get the five cakes of soap rationed for each family. There have been reports in Soviet newspapers of fights breaking out in shops where soap appears.

Hospital care in the Soviet Union is simply abysmal. Every sixth hospital bed in the Soviet Union is in a facility with no running water. Twenty-four percent of Soviet hospitals do not have indoor toilets. Infant mortality is 50th in the world, between Barbados and Mauritius (a tiny island off the eastern coast of Africa). Infant mortality is, in fact, 2.5 times higher than it is in the U.S.

This is not the Third World. This is not Africa or the Caribbean. It is an industrialized nation, which sends people into space and fields the most powerful military in the world.

One hundred years ago Russia was among the greatest grain exporters in the world. Today the USSR imports grain from the U.S. At the turn of the century, before the Communist Revolution in 1917, Russia was the fastest growing economy in the world. Today its economy is not only stagnating, it has a budget deficit of \$175 billion (150 billion rubles), which is 17 percent of the gross national product.

Hunger for Freedom. These economic failures are, however, only part of the story of why communism is dying. There also is a growing hunger for freedom. It is happening everywhere in the communist world – we saw it in China when that lone student tried to stop a column of tanks in Beijing with nothing but a raised hand and his unbelievable courage. We saw it in the faces of Poles who braved the rain to hear George Bush talk about the real possibility – for the first time since the end of World War II – of bringing freedom

to their country. And we see it even today in the miner strikes and democratic movements that have swept across the Soviet Union.

The hunger for freedom is bursting forth particularly in Eastern Europe, where President Bush recently visited. Never since the end of World War II have the communist authorities — and their masters in the Kremlin — been more tolerant of political and economic change than they are now. I would go further than that. Never before have the communist authorities themselves in countries like Poland and Hungary been so demanding of real change.

In Hungary, for example, the communist rulers recently invited the Vice President of the U.S. Chamber of Commerce, Richard Rahn, to advise them on how to reform their monetary system. So why is a firm believer in capitalism and little government interference in the economy advising communists? Because the communists know that communism has failed and that reform will require doing what works — and what works is capitalism, which has produced more wealth, more quickly, and for more people, than any other economic system in history.

No Choice But To Reform. Let me add that the communist authorities in Poland and Hungary did not have a change of heart because the West was nice to them. It was, rather, because they have no choice but to reform. In Poland and Hungary the communists no longer know what to do about the economic crisis, and they are working with opposition groups, like Solidarity, to get them involved in government so as not to be the only ones held accountable if the people rise up in revolt.

In Poland and Hungary the communists no longer feel that they can take the heat by themselves. So they are reaching out — to the West, to Lech Walesa of Solidarity, and to Richard Rahn of the U.S.

So what happens here in the U.S. if communism really dies? All of us in this room know how dangerous a wounded beast can be in the final moments before it dies. Could Moscow's leaders act like a wounded bear if the Soviet Union falls apart and lashes out at the outside world with growling ferocity? In truth, it could go well. It could go poorly. It will, in any event, take longer than many people anticipate. But if communism dies, we should be glad that this tired and tyrannical philosophy is finally ending up in the dustbin of history, and we should also hope fervently that it departs this earth as peaceably as possible.

THE DEMOCRATIC REVOLUTION IN THE THIRD WORLD

If the passing of communism is good news for America, so is the spread of democracy in the Third World.

Since 1981 thirteen Third World regimes have already turned, or will soon be turning, away from authoritarianism toward democracy — meaning that they are holding free elections and in many cases are ousting dictators. These new democracies are Argentina, Brazil, Bolivia, Uruguay, Paraguay, Guatemala, Honduras, El Salvador, Grenada, the Philippines, and South Korea. Chile and Taiwan will join this list in the coming year. Also for the first time in decades the Mexican government has recognized an opposition party as legitimately winning an election.

This is quite an achievement. Only a few years back thousands of people were disappearing in Argentina, never to be seen again as the military dictatorship rounded up and executed political opponents. We all remember Ferdinand Marcos and his wife Imelda — the woman with a thousand pairs of shoes — clinging on to power as if they were hanging from a cliff.

The Marcoses and the military junta in Argentina are now gone. And this is good for the people of these countries and the U.S. as well. We work best with democracies, forming lasting alliances, trading with them, doing business with them. We are a democracy ourselves, and it is good for us to have partners who are democracies.

There are several reasons for this democratic revolution in the Third World. One is that the U.S. under Ronald Reagan and George Bush has supported the spread of democracy. The U.S. was instrumental in preparing the transition toward democracy in the Philippines, for example.

Second, as in Poland and Hungary, the dictators no longer want to take the responsibility for failing economies. They wanted out in places like Argentina because presiding over disastrous economies was a recipe for losing their heads if the people were to rise up and revolt against them.

Middle Class Demands. And third, in places like Taiwan and South Korea, where capitalism is taking off like a rocket, new middle classes were being created that demanded more freedom and democracy from their rulers. There are hundreds of thousands of students in South Korea, many of whom have pressured the government to hold free elections. South Korean students were, in this respect, luckier than their counterparts in China who were crushed beneath tanks and armored personnel carriers when they demonstrated for democracy.

We can, I think, be hopeful that what happened to the students in Beijing will happen less and less in the noncommunist Third World. It is becoming more and more difficult for dictators to close themselves off from the outside world. They need to trade and communicate with the rest of world in order to have a prosperous economy. The world economy is too interdependent, communications too open, and access to information too easy for dictators to suppress the democratic idea totally and forever.

Democracy is by no means successful everywhere in the Third World — there are still fewer democracies there than authoritarian regimes. But this is changing. It is said that nothing endures but change. This is true for Argentina, Brazil, El Salvador, and other countries that have cast off the yoke of dictatorship in the past fifteen years. The democratic idea is not only changing the Third World, but it is enduring despite the wrath of dictators and the indifference of the outside world which said it could not be done.

THE CAPITALIST REVOLUTION IN THE THIRD WORLD

I have spoken of the democratic revolution in the Third World. But what I have not yet mentioned is another, perhaps even more exciting, revolution taking place in Latin America, Asia, and other parts of the developing world. This revolution could prove to be the most important of this century — more important than the Bolshevik Revolution in

Russia and as far-reaching in its effects as the reshuffling of the world stage by World War II.

I am speaking of the new revolution of capitalism spreading throughout the Third World — a wave of entrepreneurial activity in Asia, Latin America, and other parts of the world that could revolutionize the world's economy and lay the foundation for eliminating much of the world's poverty in the next century.

For decades the countries of Africa, Latin America, and Asia were mired in poverty and backwardness. These countries' leaders felt the only way to enter the modern world was to adopt the socialist model of economic organization — government ownership and control of economic enterprises, tight government regulation of the economy, high taxes, and massive amounts of borrowing from Western countries to fund government subsidies and huge militaries.

Plenty of "Miseries." But the countries who tried socialist policies did not join the modern world; they fell farther behind. As Winston Churchill once said: "The inherent vice of capitalism is the unequal sharing of blessings; the inherent virtue of socialism is the equal sharing of miseries." Instead of economic growth and a larger economic pie to divide among their people, their socialist policies gave them plenty of "miseries" — enormous foreign debts, massive inflation, low productivity, high unemployment, and raging poverty.

But facts are stubborn things. They refuse to change no matter how much you want them to. Just as in the Soviet Union and China communist leaders have recognized the failure of communism, so too are leaders in the Third World recognizing the very stubborn fact that the socialist policies of heavy government interference and subsidization of economic activity are failing miserably.

Some countries in the developing world have decided to try a new approach to modernizing their economies, one tried successfully in the West for over two hundred years. They are trying old-fashioned capitalism. They are trying new economic policies based on private initiative, selling off government-owned businesses to enterprising private individuals who are willing to make them work, lower taxes, and less regulation of the economy by the heavy hand of government.

Free Market Remedy. And how is it working for those countries embarking on this new course? Very well indeed. In 1985, before trying the new policies of economic capitalist reform, Bolivia was an economic basket-case. It had an annual inflation rate of 22,000 percent. After breaking with the past and introducing a more free market approach to the economy, Bolivia's inflation rate fell to 9 percent this year.

Some of the fastest growing economies in the world are in the so-called developing world. The gross national products of Hong Kong, Singapore, and Taiwan grew over 7 percent in 1988, compared to around 3 percent for the U.S. Mighty Singapore had an inflation rate of 1.4 percent in 1988 and an unemployment rate of 3.3 percent. These are figures an American president running for office would envy mightily.

There is more: The only country in Africa seriously to try policies based on free market principles and private enterprise — the little country of Botswana — is also not only one of the fastest growing economies in Africa, but in the world. From 1980-1987 Botswana's gross domestic product grew on average 13 percent a year.

In Argentina newly elected President Menem is planning to reform his economy along free market principles. In Chile there has been a near economic miracle because of free market reforms. From 1980-1987, prior to reforms, Chile's real growth in GDP averaged less than one percent per year; last year after reforms were implemented it grew to 7.4 percent. And even in China where the communists have been experimenting with free market policies the economy grew at an astounding rate of 11 percent in 1988.

For someone like myself who went through graduate school being told that the Third World was poor because the West was rich, that capitalism could never work in the Third World because "they weren't like us" (meaning they were not smart enough to make capitalism work) or because they had some rarified cultural or religious hang-up that made capitalism impossible to achieve — for someone who was told all these things, it is truly astonishing to learn that all my good and learned professors were so terribly wrong.

Capitalism is working in Third World for a very simple reason: it is the only economic system that really works. It works because it harnesses the strength of each individual's will to improve himself, aims to produce wealth (and not manage scarcity as socialism does), and organizes societies naturally, not according to government command or decree, but according to the millions of little "free" decisions made each day by each individual who decides in the market place what he or she wishes to buy.

THE INFORMATION AND TECHNOLOGY REVOLUTION

In a book about to be published by George Gilder, it is said that it took 4,000 years for the volume of information to double on earth up until the American Revolution. It doubled again in the next 200 years. It will double again in the next 25 years. And thanks to the microchip, the miniaturization of computers, and the revolution of computer processing, it will be doubling every year by 1995.

This is the information equivalent of a thermonuclear explosion. Because of the information revolution, not only will the world be wired for instant communication, it will be capable of utilizing that information in ways never before imagined. It will be increasingly difficult, if not impossible, for dictators to close off their societies completely because they too will need computers, fax machines, Xerox machines, video recorders — the instruments of the information revolution — to run their governments. Tiny backward countries will be able to leapfrog into the 21st century with cheap personal computers to organize their governments, support agricultural projects, and help run businesses.

The revolution caused by the microchip and the spread of cheaper computing processing will make the American work place more flexible and dynamic. Smaller and more powerful computers will enable the companies of the future to be smaller, but just as effective, making it easier for people to start businesses, and for more people to work for themselves or to stay at home while working for others.

Ending the Information Monopoly. The information and communication revolution will have an enormous effect outside the U.S. The existence of thousands of personal computers in China was instrumental in ending the communist authorities' monopoly on information — a situation which gave rise to the student uprising there and will make its ultimate repression more difficult than in the past.

The old men in China's leadership may want to crack down totally on all dissent in China, but they will find it impossible to do so unless they remove all the PCs and Xerox machines that which are needed to make the economic reforms they want so badly work.

The rub is this: If the Chinese or the Soviets want to reform their economies, to make them more productive and efficient, they are going to have to open up their economies and societies to the information and technology revolution occurring in the West. If they do not open up, their economies will fall farther behind the West. If they do open up, however, they will have to give their people more freedom to organize their business and their lives as they choose.

This is an enormous opportunity for the U.S. and its allies in the West. Our personal computers, Xerox machines, audio-visual equipment, and the like, may be important long-term instruments for bringing down the Soviet empire. Dictators, like vampires, cannot stand the light of day — and information is the light of day. Information about how to organize businesses, free markets, and free elections could create revolutions, not the violent kind we have witnessed so many times in the past, but the peaceful kind based on nothing more than the desire of people to make a decent living and to choose the kind of government that rules them.

Our Founding Fathers knew that the free flow of information was a key to democracy. It is no different today for millions of people throughout the world. The more people know about the rest of the world, the more they demand to be a part of it. That is happening in the communist world and throughout Africa, Latin America, and Asia.

Such may be the legacy of the little microchip. So take heart, the information and technology revolution will turn out to be more than Nintendo or PacMan; it may turn out to be engine of the next great democratic revolution of the 21st Century.

MAINTAINING AMERICA'S GREATNESS INTO THE 21ST CENTURY

What do these four revolutions mean for the future of the U.S. as a nation and as a world leader? I began by saying that the U.S. has its problems, that maintaining America's position in the world will not be easy. This is true. Our foreign debt is too high, we consume more than we save, we buy more foreign products than we import, and Moscow is still building 3,500 tanks a year.

With the exception of the Soviet tanks, I believe that the severity of these economic problems is overstated. But even if we accept that they are problems, I must nonetheless conclude that the future for the U.S. is bright. And I must also conclude that all the turmoil in the world is more of an opportunity for the U.S. than a problem.

I believe that the 21st Century will still be the American century. The U.S. is still poised for greatness, not only because this is a strong and great country, but because, on balance, the world is moving in our direction.

Moscow Abandoning Hope. We are, after all, winning the Cold War. It is not yet won, but the Soviets themselves recognize that they are falling behind the West. As Soviet newspaper columnist Stanislav Kondrashev put it recently, "the [communist] hope for an eventual crash of world capitalism has not been fulfilled. It looks like we have finally abandoned [this

hope.]” Appearing in the newspaper *Izvestia*, a prominent official Soviet newspaper, this quote would seem to be official recognition of communism’s failure.

Gorbachev, too, realizes that he is losing the Cold War. That is why he is frantically trying to reform his economy, loosening his grip on Eastern Europe, and being more cooperative in conventional arms control negotiations. I do not for a minute believe that Gorbachev is at all pleased about this. I believe that he fervently hopes that he can turn things around so that the Soviet Union can still carry on the struggle with the West.

But I do not think that he can do it without making changes. Make no mistake about it: the Soviet armed forces are still the most powerful in the world and pose a real potential threat to us and our allies. But no army, no matter how big it is, can force a country to feed itself, manufacture its clothes and shoes, and build its houses and hospitals.

Our final victory in the Cold War, if it should come — and there is no absolute guarantee that it will — would mean many great things for the world. It would mean that Poles, Hungarians, Czechs, Germans, and other East Europeans could gain independence from their Soviet masters. It would mean a reunited Europe, whose division these past forty-four years has been one of history’s great tragedies. It would mean a reduced risk of war between the U.S. and the Soviet Union. And it would mean we could spend more of our defense budget on fighting terrorism and other threats outside of Europe.

Winning the Economic War. Now, I can almost hear someone ask: If we are winning the Cold War, what about the economic war with countries like Japan? Are we not losing that war? I believe we are not. I am convinced that the U.S. will be the dominant economic power in the 21st century, not Japan.

Notwithstanding Japan’s wealth, it is almost totally dependent on outside natural resources and open export markets. We are not so dependent as Japan. This means we are much better positioned to weather economic hard times than are the Japanese. In an excellent article by Karen Elliot House in *The Wall Street Journal*, Japan was likened to a thin-bottomed pan on a hot fire — very vulnerable to external forces and easily burned if the fire gets too hot. The U.S. is not nearly so vulnerable because we are more self-reliant.

Also, America’s economy is nearly twice the size of Japan’s, and the economic growth rates of both countries today are about the same. Productivity is higher in the U.S. than in Japan. This means that we are still the economic giant in the world, and there is no chance that Japan will ever surpass the size of our economy.

Far from being alarmed by Japanese investment in this country — by the way, they are third on the list of the largest foreign investors in the U.S., behind the British and the mighty Dutch — I am encouraged by it. It means that the Japanese have confidence in the viability and strength of our economy. Also it makes them partners in maintaining a healthy American economy. As John Welch, Jr., chairman of General Electric Company recently said: “The more the Japanese invest, the more committed they are to the American economy. If you buy a home in my neighborhood, you care how I keep my neighborhood. If the Japanese own our assets, they don’t want values to drop or currencies to drop.”

In other words, do not expect a sudden withdrawal of Japanese credit or investment to cause a great recession. The Japanese want an American recession even less than we do.

American Symbol. But most of all, do not expect Japan to be a world leader in the next century. This is because, as Karen Elliot House has suggested, Japan lacks the necessary vision, values, attractiveness as a society — and, yes, the military forces — to become a great world power. Those students on Tiananmen Square erected an American symbol — the Statue of Liberty — to express their hopes and dreams about democracy coming to China. They erected no monuments to Japan's export figures or U.S. real estate investments.

Ideas still move people, and Japan stands only for making Japan wealthy. This is not enough to make them a great power. Ask the Chinese students. Ask the Poles who stood in the rain for hours to hear George Bush speak of his hope for bringing freedom and democracy to Eastern Europe.

Finally, I am confident that America will remain great in the next century because our economy is basically sound. Between 1977 and 1985 we created 18 million new jobs, 15 million of which were generated by American firms with fewer than 100 employees. This is not only tremendous economic growth, but growth of the right kind — entrepreneurial growth generated by small companies and people willing to take risks.

I am also confident about eliminating our federal budget deficits. The trends are favorable. Recently released forecasts from the Congressional Budget Office indicate that the flow of red ink is subsiding. From its peak level of \$220 billion in fiscal 1986, the federal deficit in fiscal 1989 is expected to shrink to \$148 billion. More important, as a share of total economic output — the best measure of the economic impact of federal borrowing — the deficit will fall to 2.9 percent of gross national product in 1989. This is substantial progress, considering that the deficit consumed 6.3 percent of GNP in 1983.

Nor are other problems such as immigration or our meager savings rate as serious as some believe. Immigration rejuvenates our work force. And our savings rate is improving. Because our population is aging, our savings rate will likely be a respectable 10 percent of GNP by the end of the 1990s.

Are the Japanese and the Germans buying up America? Well, yes and no. Yes, foreigners are investing in American real estate, stocks, and bonds. But foreigners own only 5 percent of all U.S. assets. We own more assets overseas than do foreigners in our country. Besides, foreign investment helps build American factories and creates jobs. Some three million Americans work for firms owned by foreign companies.

My point is this: The American economy is a flexible and adaptable animal. There is nothing like it in the world. And there will be nothing like it for at least a generation to come because the U.S. will still be a world leader in the 21st century.

CONCLUSION

Thomas Jefferson always said that the most honest and safest government is one that has confidence in the people. I think that we should take a lesson from Jefferson and have confidence in ourselves and in this country.

The U.S. is not declining. It is not a withering empire, militarily overcommitted, spending too much on defense, or incapable of competing with Japan and other economic giants. It is a vibrant nation, which has all the ingredients for world leadership well into the next

century: it has a flexible and growing economy. It has military power on a global scale. But more important, it stands for something more than getting rich or acquiring more military power.

Looking to the U.S. People the world over still look to the U.S. to learn how to build freedom, democracy, and economic prosperity. They do not look to Japan. Nor do they look to West Germany or Western Europe. They certainly do not look to the Soviet Union or China.

They look to the United States because what we do works and what we believe in most people want.

Yes, the world is in turmoil, but take heart, it is changing in our direction. Where there is change, there is opportunity. And where there is opportunity, there is hope. America will have plenty of change and opportunity in the next century, and will emerge a world leader because of it.

