

STEVE FORBES

WHAT NOW FOR DEMOCRATIC CAPITALISM IN THE WORLD TODAY?

Mr. Steve Forbes, *President and CEO, Forbes; Editor-in-Chief, Forbes Magazine*

Hon. Edwin Meese, *Ronald Reagan Distinguished Fellow in Public Policy; The Heritage Foundation; former U.S. Attorney General (introduction)*

HON. MEESE: Thank you very much, ladies and gentlemen. It's a pleasure for me to participate in this 15th anniversary of the lawyers conference. It's hard to believe that we're at age 15 already for this part of the Federalist Society, but it's always a pleasure to participate in Federalist activities.

The Establishment of The Federalist Society is one of the most significant events in the legal profession that has occurred since I became a lawyer. So, it's great to see all of you and to have this opportunity, particularly to have the honor of introducing our guest speaker.

We're privileged to have, literally, one of the great economic and policy thinkers in America today. Steve Forbes is President, as you know, and Chief Executive Officer of Forbes, and Editor-in-Chief of *Forbes Magazine*. *Forbes* is more than just a magazine. It is a conglomerate of financial, economic and policy ideas and information. They have a number of publications, in addition to that magazine, in the field of business.

In 1997, looking ahead to the future, *Forbes* entered the new media arena with the launch of Forbes.com. And since that time, it has grown to become one of the most important sites on the web, receiving an average of 4 million visits a month. It is a leading destination, particular for business decisionmakers and for investors.

Forbes also contributes — and this is something that has been particularly of interest to our speaker — to American history and culture. And for that reason, Steve is chairman of the company's American Heritage Division, which publishes *American Heritage Magazine* (which I point out to protect him, has no relationship to the Heritage Foundation that I represent) and two quarterlies, *American Legacy* and *American Heritage of Invention and Technology*. So again, they are on the cutting edge.

Steve is not just a publisher who sits in an ivory tower and counts the money, but is also a writer himself. He contributes an editorial to each edition of *Forbes Magazine*, under the heading of "Fact and Comment," and it's always the place that I turn to first when I get the magazine because it has pithy and witty commentaries on what's going on in our nation and in the world today.

I think one of the most interesting things I've found out about him is that he is a widely respected economic prognosticator. I didn't know there were widely respected economic prognosticators until I learned about him, because the old joke that I learned was that economic prognosticators make weathermen look good.

Steve, however, has managed to rise above that and, as a matter of fact, received four times what is known as the Crystal Owl Award — for wisdom, of course — for being the financial journalist whose economic forecast for the coming year proved most accurate. I'm not sure whether he'll include any economic forecasts in his talk today, but I can assure you that it will be a very important talk, and a very interesting and worthwhile talk, because Steve is a man of ideas.

He has run twice for the Presidency, not because he necessarily wanted political office, not because he wanted the prestige of the office that he was seeking, but really so he could inject into the policy thinking of America some of the most important ideas which are necessary for the future — ideas like the flat tax, like medical savings accounts, like a new social security system to protect working Americans, like parental choice of schools for people's children, term limits and strong national defense — ideas such as this.

And so, we're particularly happy to have him with us today to talk about, "What Now for Democratic Capitalism in the World Today?" Please join me in welcoming Steve Forbes.

MR. FORBES: Thank you. Thank you very much, General, for those very, very kind words. I liked how you said, "He doesn't stay in an ivory tower counting money." We don't have an ivory tower for offices, but I wouldn't mind, in this recessionary environment, to be counting money.

I also was very pleased that Ed was very diplomatic in making reference to my attempts to make a mid-life career change. He just glided over what happened to those attempts, which is why I'm here and not in another place in Washington right now.

But, it is a great honor to be here, and I just want to say, personally, how grateful I am to have been introduced by one of the most courageous and principled men in American public life, Ed Meese. You're a remarkable man.

As for forecasting, I was delighted that Ed thought economists could even come close to weather forecasters. From the very beginning, weather forecasters have been very smart. They have said that there's a certain percentage probability; you know, 20 percent, 40 percent. Numbers meant nothing, but the forecasters gave themselves a perfect escape

hatch. They never said 100 percent probability, so they always had an out.

I should remind you of a favorite saying of my grandfather, who founded *Forbes* Magazine. He was an immigrant from Scotland at the turn of the last century, one of ten children, with a grade school education and very little money. He said that while growing up there were more mouths in the house than money. In Scotland, that really meant something.

But like millions of others, he came to this country with dreams and ambitions, and he started *Forbes* Magazine. And when asked about financial markets, the stock market, my grandfather would invariably respond, “You make more money selling the advice than following it.” You’re all on notice. That’s full disclosure. Just because my name appears on a magazine...I have to reveal to you that we do count on the short memory of our subscribers sometimes, in some of the things we say.

But your coming together — and Ed mentioned the 15th birthday of the Federalist Society — I think underscores one of the great strengths of this country in this extraordinary time. It’s one that’s been noted before, but I think it’s still a marvel today.

Alexander de Tocqueville noted it when he came to this country from France, 170 years ago, that is, what was then called voluntary associations. He’d never seen anything like this in Europe, with its medieval background. People voluntarily coming together for a shared purpose: professional activities, sporting activities, cultural activities, for education, for hospitals, religious activities, whatever. People coming together.

We take it for granted in this country that, as you become older, you go on committees. We all know about committees. We always have one or two ramrods making sure that everyone else gets some work done. But people do come together, whether for problems or opportunities. They pursue them, and that gives a great strength to this republic.

Tocqueville said that this is how people learn to be citizens in a republic: taking on individual responsibility, learning self-governments, working together. We are a nation of individualists, but we are also a nation of extraordinary cooperation, primarily because we are individualists and are accustomed to taking things into our own hands.

You are coming together to stand against the legal assaults — the seeming legal assaults against our system and our principles. I hate to call it counter-Reformation, because what the trial lawyers and others have done I wouldn’t call a Reformation. A distortion, a perversion, I think, would be more accurate. But here we are today, after September 11 — the proverbial crossroads — at a time of extraordinary opportunity and extraordinary danger.

All we have to do is to look back to the beginning of the last century, the 20th century, a time of enormous optimism. A lot of people, particularly the in United States and Great Britain, felt the 20th century would be a glorious century. It would seem not only great material and scientific progress but also the advance of the rule of law and democratic principles. After all, even the most seemingly backward of European nations of great power at the time, czarist Russia, was lurching — haltingly, but in an unmistakable way — toward something resembling a constitutional monarchy, with the Stilepin (phonetic) Reforms and others that came along.

By 1914, the time of the First World War, Russia had the fastest economic growth rates of any Western nation, including the United States. It also was the greatest grain producer in the world. But then came the First World War, with the seemingly senseless slaughter on the Western Front and elsewhere. And that, of course, undermined the faith of many in the principles of Western civilization. It made possible the rise of Communism, Fascism, and Nazism. The chance for a durable peace was thrown away at Versailles.

Then followed the catastrophic economic mistakes of the late 1920s and early ’30s, particularly the Smoot-Hawley Tariff. After all, Adolf Hitler never could have come to power had it not been for the Great Depression.

Following the Second World War, we saw where policymakers began to get things right, with the Marshall Plan, Bretton Woods, NATO and GATT, now called the WTO. We did things more right than wrong, and laid the foundation for waging a successful Cold War.

Now we face a new threat. But this threat is also an opportunity, and that’s what I want to touch on today. It is an opportunity to advance democratic capitalism. I say “democratic” because I want to distinguish it from state capitalism of the varieties that we saw in the last century. I think we need to remind ourselves that capitalism has a moral foundation. It is not simply a Faustian bargain with greed and exploitation in exchange for a higher standard of living.

America’s founders, particularly Alexander Hamilton, understood that under democratic capitalism, people have an opportunity to develop and advance their own talents and, at the same time, actually help other people. Even if you think you’re only helping yourself, success in a capitalist society also means enabling others to advance. It is not a zero-sum gain.

Human ambition can be used for good things and bad things. Human nature has the capacity to do great things. But it also has an evil underside, as we were reminded on September 11. Democratic capitalism channels human ambitions in a constructive direction, because to succeed in business in a free society, one has to produce something, a service or product, that others are willing to buy. In other words, you are forced to pay attention to the wants and needs of other people. If you have a terrible personality, the kind that makes babies cry and dogs run away in horror when you walk down the street, if you’re a grouch and a terrible person to be around, you’re not going to succeed unless you have the power

of the state behind you. You're not going to succeed unless you're meeting the needs and wants of other people.

Ours is a remarkable system, and it's engendered extraordinary trust and cooperation, webs of trust and cooperation, that we take for granted. We get up each morning, do our thing, and we're part of a system that no one directs from above, that brings about extraordinary products and services around the country and the world, and no one forces us to do it. If you don't show up for work, you might lose your job, but a Commissar is not going to come around and blow your brains out. It's a remarkable system, and that's why we broke the bounds of medieval thinking, that society was a zero-sum gain.

Democratic capitalism has been a most benign system. Is business perfect? Is capitalism perfect? No, because human nature isn't perfect. But it is the best system possible, given the imperfections of human nature. And it is because the Founders created this commercial republic, the most commercial entity in the world of global history. But we are also the most philanthropic and charitable nation in history.

You always hear the phrase, "Give back". If you've done well, you've got to give back, as if you took something in the exploitative sense. But, if you think about it, commerce and philanthropy are opposite sides of the same coin — learning to pay attention to the needs and wants of other people. So, it's about as benign a system as you can have.

The real capital of this society, something others have a hard time grasping, is not physical things. It's not piles of gold; it's not jewelry; it's not large amounts of land and having large armies that can go on conquests. It's really not physical; it's metaphysical. That's the true capital and wealth of this society.

We saw it after World War II, with Europe and Asia physically destroyed. But because the knowledge was there, their cultures were rebuilt, and they made a very quick physical recovery. That is metaphysical capital.

You see it in the Middle East today. What is oil? They call it a natural resource. There's nothing natural about that resource. In and of itself, oil is simply glop; goo; icky stuff. You can't eat it; you can't drink it; you can't even feed it to camels. What makes it valuable is the human inventiveness that has turned this glop into something that is now an integral part of our lives.

You see it in the high-tech era that we're now in. Yes, high tech has taken a hit, but that's just temporary. Just remember, we've had 300 automobile manufacturers in this country in the last century; we only have 2-1/2 today. But there is no shortage of automobiles or SUVs or trucks. And even Al Gore's been seen riding in one once in a while.

Sorry, some modes are hard to get out of... But what this underscores is that these things do have ups and downs, but technology in a free society moves forward. Think about the basis of high-tech. It's still the chip. And what is the chip based on? Sand. And whoever thought, when you were growing up and sopping about on the beach, that those grains of sand could literally be used to bring the whole world to your fingertips? Not by just putting a shell to your ear, but literally bringing the whole world to your fingertips? Silicon — it's amazing, and only in a free society could something as strange as that come about.

This brings us to the world we live in today. How do we, in this environment, advance what you might call democratic capitalism? The nice thing is that any society can adopt it. Fifty years ago, we had people in the State Department saying that Japan would always remain a nation making cheap manufacturing products and be dependent on subsistence agriculture. It didn't have the culture to advance. They said the same thing about the rest of Asia. Well, we've seen that with democratic capitalism even so-called traditional societies can make enormous advances.

The same thing can happen in the Middle East, if we create the right environment. And that leads to the question, "How do we create the right environment to advance democratic capitalism?" We should take heart from what happened after World War II. Yes, Europe was part of the West, but the Germans and French, for example, have been at each other's throats for a thousand years. Teuton and Gaul. Today, it is inconceivable that Germany and France would go to war — absolutely inconceivable, yet they've been at it for centuries. It's inconceivable today because of the institutions the U.S. encouraged and helped to set up after the Second World War.

Obviously the Mid-East will require far different kinds of foundations from those that worked in Europe and Japan. But there is no reason why, over time, that Middle Eastern societies couldn't begin to evolve, if encourage economic freedoms were encouraged. You don't have to have a full-blown Jeffersonian, de Tocqueville kind of democracy and republic. Just look at some of the nations that made transitions while we were fighting the Cold War. Look at Chile, look at Taiwan, South Korea, the Philippines, even South Africa.

These nations had authoritarian or semi-authoritarian governments but they make the transition. They didn't do it overnight, they started with economic freedoms — allowing people to be able to set up businesses to learn commerce. Then they started to develop a middle-class that then wanted to have more control over their lives. And the political reforms followed in their wake.

So, it's possible for these things to evolve. But how do we create an environment where this can happen? Well, obviously, we have to win this war against terrorism. And it is a war. If this attack had to come, thankfully it came now. If it had come, to be blunt, a couple years ago, we wouldn't have had a global war against terrorism. If it had happened a couple of years from now, it might not have been just the kamikaze hijacking of passengers. The terrorists could have used radioactive devices, even if they weren't nuclear. If one of those devices had exploded, it could have contaminated the whole

area, just as happened in Chernobyl 15 years ago. So, the weapons of destruction could have been of more ghastly scale than those we experienced on September 11.

Now the gauntlet has been thrown down, and we've shown, even with our brief victories in Afghanistan, that a little bit of determination and willingness to fight can go a long way in changing the terms of debate and combat. We have a long way to go. We have to take care of Iraq. We have to go after Syria and others. There are ways to do it, which we can maybe discuss during the Q and A.

The fact is, if we see this thing through and break up these terrorist cells, yes, there will be the occasional mad bomber, a Unabomber type who can wreak some destruction. But it will not be the kind of systemic assault, potential systemic assault, on our values that we saw exemplified by September 11. There are other, more peaceful things we should be doing, as well. We need to start encouraging some of these authoritarians in Pakistan, Egypt and Saudi Arabia to start liberalizing. Even if it's only economically. Then the liberalizing can take on a life of its own.

We have to do something about an agency — this will sound very mundane but it's a very destructive agency — called the International Monetary Fund. If anyone's here from the IMF, I apologize in advance. But Ed's my friend and I see that exit, so I can get out of here. But the fact of the matter is, we're in a recession. Even both parties on Capitol Hill are talking about tax cuts, tax relief. They have very different means, but none of them are proposing big tax increases. Unfortunately, the International Monetary Fund routinely recommends massive tax increases and major currency devaluations to countries that get in trouble.

What the IMF is to economics is what doctors were to medicine 200 years ago. If you got sick then, doctors would bleed you. That, of course, got rid of your pain and suffering because it got rid of you. It was a very simple matter. The IMF today routinely harms its patients. Increasing taxes — we tried that in the Great Depression; it didn't work. It makes things worse when a country is in trouble.

Look at Argentina. It's about to have a major default, spiraling out of control. Why? Because in the last three years, the government has routinely enacted one tax increase after another. The economy contracts more and more as these tax increases go into effect. No wonder Argentina can't handle its debts. Argentina's debt in proportion to their economy is not out of line — it would be easily handlable if Argentina had a modicum of growth. When you're contracting, debts become unsustainable, especially in a deflationary environment.

And what does devaluing your money do? The IMF thinks it will improve your trade balance, give you more hard currency to create more capital, pay your debts. In the real world, what happens when you devalue a currency is inflation. You get a higher cost of capital, you get flight capital — after all, who wants to hold money that's depreciating? You want to get rid of it. So, it leaves the country; real capital leaves the country. Devaluing the currency destroys wages, which undermines the moral order.

Read Kane's *On Inflation* — he understood that deflation undermines a sense of moral order, a sense of cohesiveness and economic and social and civic life. These things do have consequences. But the IMF continues to devalue currencies and raise taxes. And look at the IMF's miserable record. It almost destroyed Mexico in 1995, the Pacific Rim and Russia, and earlier this year, Turkey, critical secular Moslem country, was going through terrible financial throes because of the IMF's misbegotten advice. You are going to be reading more about Brazil and Argentina.

As we saw with the Great Depression, politics and economics are intertwined. If you don't get the politics right, the economics can go askew and create political repercussions, as we saw with Nazi Germany in the early 1930s. Remember — in 1928, Hitler got only two percent of the vote. Three years later, the Nazis were the largest party in the Weimar Republic. So, these things do have consequences, but we can get them right.

Let me give you five principles of economic progress and growth. They will sound very simplistic, but it is amazing how often, even today when we're facing a great threat to our civilization; how often these seemingly simple, simplistic principles are violated.

One, of course is, as you can well appreciate, the rule of law, particularly individual equality before the law and individual property rights. If you do not have individual equality before the law, it's very hard to have an entrepreneurial economy. The strong can crush the challengers. In this country we take property rights for granted. When you buy a house, you get a mortgage, you sign 900 pieces of paper. As you know, property law goes back to England during the plague in the 14th century. We take for granted when you buy something in this country, you can hypothecate it; you can use it as collateral in any institution. Everyone recognizes it, no matter what part of the country you come from. Property law's so bloody boring, if you're not in it and making money off of it, that most people pay no attention to it. Yet it is extraordinarily important. Just look at it economically. What is the biggest source of money for new businesses in this entrepreneurial country? Not venture capitalists, not Wall Street. Mortgages are the biggest source of money for starting a new business. Taking out a mortgage or refinancing a mortgage or taking a second mortgage. That's a huge source of capital.

In most parts of the world, they don't have the kind of property rights we have in this country. If you go to Third World or formerly Communist countries, you go to these shantytowns outside the cities. In those neighborhoods, everyone knows who owns which plot land. But it's not recognized, not codified, so you can't get a mortgage on it. You can't get services for it.

Through Hernando de Soto, a Peruvian economist, and others at *Forbes Magazine*, we've estimated that 4 billion people around the world own \$9 trillion — not billion — \$9 trillion worth of real estate. Because of imperfect property laws, it's dead capital. Dead capital. Imagine mobilizing and bringing to life \$9 trillion.

The second basic principle is sound money. You know, money should be like a ruler. A foot is 12 inches. Imagine building a house if you floated the ruler each day like you do with money. Twelve inches one day; 18 the next; seven the next. It would be hard to build a house. You'd have to get futures on it; you'd have to hedge against the fluctuation in order to build it. It would complicate things.

The third basic principle is taxes. Taxes are not just a means of raising revenue; they are a price and a burden. The tax you pay on income is the price you pay for working. The taxes you pay on profit and capital gains are the price you pay for being successful, for being productive, for being innovative, for being willing to take risks. The proposition is very simple. Lower the price on good things like risk-taking, and you get more of them; raise the price, you get less of them. We need a genuine tax cut in this country. A real one, like the Reagan and Kennedy tax cuts.

The fourth basic principle is what you could call government non-interference in the setting up and running of a business. Again, it's fairly easy in this country to set up a business. In many countries, it is almost impossible to set up a legal business, if you don't have the time and means to deal with all the bureaucracies, all the agencies, all the bribes, all the things you have to deal with. If you're politically connected, you can short-cut the system. And governments wonder why there are big underground economies. Well, it's the only way people can survive.

And finally, there is free trade. Reduce the barriers to trade, and people will trade more.

So, seemingly, five simple principles: The rule of law; the creation of sound money; low taxes; government non-interference in the setting up and running of a business; and reducing trade barriers. Seemingly simple stuff, but pick up the paper tomorrow and read about Argentina, and you'll see the dumb things that are being done and are undermining the basic principles of democratic capitalism there.

So, here we are. Enormous opportunities; enormous dangers. We did it wrong in the early part of last century. We started to get it right in the latter part of the century and saw the benefits that came from it. I'm an optimist, as I think you are Ed. I think we will get the reforms right, and ultimately, I think, the premise of democratic capitalism, as Alexander Hamilton and others sought, will triumph. We will show the world that the best of human nature will triumph and move forward.

Thank you very much.

HON. MEESE: Steve, thank you very much. I think the audience has indicated their appreciation for those excellent remarks. I understand we have time for a few questions, so if anyone would advance to the microphones on either side, we will entertain questions until the leaders here take us off the stage.

AUDIENCE PARTICIPANT: Good morning, Steve. John Reposa. I'll decline your invitation with respect to Syria, but I will ask you to address, if you've thought about it, the necessary transformation of Saudi Arabia, which I view as creating, possibly, a much greater threat on an ongoing basis internationally.

MR. FORBES: Well, I don't blame just them. We entered informally into the relationship with Saudi Arabia. We chose to ignore their financing of groups they shouldn't have been financing, through various front organizations, in return for their nominal support and making sure the oil continued to flow. That wasn't just the Saudis' fault; we entered into that bargain.

During the Cold War we had to do a lot of things we might not have wanted to do. You have to have allies in a war. We are doing things in the war against terrorism that in an ideal world, we wouldn't have to do. During World War II, we had an alliance with a hideous regime, the Soviet Union. But you do those things and keep your goal clear.

In the case of the Saudis, I think the time has come to tell them that the old way of doing things is not going to work. Their legitimacy is being undermined, even though they try to pay extortion money to everyone who shakes a fist at them. It's not viable, long-term. And one way they must start doing it is by liberalizing internally. They have a terrible problem with finding employment for younger people. They don't have the money anymore to pay everyone off with the oil revenues.

As you know, the crown prince, apparently doesn't much like America. But what got him in trouble with the other members of the Royal Family was not his blatant anti-Americanism or alleged anti-Americanism. It was that he wanted to start examining expense accounts of the thousand or so princes. It was outrageous.

So, they can't continue that way. Bahrain has shown that Arab states can make democratic reforms. And I think Saudi Arabia is going to have to do so. They can start on the economic side, but they're going to have to make the painful realization that eventually, they're going to have to do it on the political side as well. Otherwise they're going to suffer the same fate the monarchy did in Iraq in the 1950s. A monarchy doesn't last very long if it doesn't renew a sense of legitimacy. I think all of these regimes, each of them I've mentioned, and others, are going to have to reform. Some, are recognizing it and smelling the coffee, so to speak, faster than others. One thing I want to mention is that one country we

should be utilizing as an ally is Turkey — a secular Moslem nation that made a firm tie to the West after the First World War at the behest of a general who fought the West in the First World War. He said, this is no future.

One good thing that might have come out of September 11 (one can always hope, and try to find these silver linings) is what we are seeing now in Texas with Mr. Putin and Mr. Bush. If Putin follows through on what looks like trying to tie Russia to the West, that'll be a momentous event. A Russia not feeling that it can be isolated, or that it can make an anti-U.S. alliance with China, as it did with Germany against the West in the early 1920s.

For years, as you know, Germany was always torn between East and West. The war made the firm decision: It is tied to the West. If the Russians do that, that will be a huge, huge, positive long-term event. So, with Saudi Arabia, they've got to change the status quo; it is not tenable, and I think some of them are beginning to wake up to it. It doesn't mean they can't survive — they may not have as much money as before — but, you know, these regimes can morph in a positive way, if the leaders let it happen.

HON. MEESE: We'll limit our questions to the two people currently at the mics.

AUDIENCE PARTICIPANT: Thank you. As an American, Mr. Forbes, I wish to thank you for being such a proud and capable defender of democratic capitalism. You can tell you're in a room of conservatives, because I'm sure that everyone would have risen to their feet in addition to the nature of the applause you received. I really appreciate your remarks.

I wanted to ask mostly for the kind of ammunition you've already given us, if you can respond to the kind of intellectual response to democratic capitalism of late, which has been that you can't be spread around the world without inevitably spreading Walt Disney with it, without trampling the other cultures of the world. In other words, without Americanizing the world. And it's now the pseudo-colonialism. And we're no better than the British empires were.

MR. FORBES: Well, the criticisms that others make of us is not our civic life or democracy or republic. They don't like parts of our culture. Lo and behold, I think there are a lot of people in this room, including the gentleman beside me who are not very happy with our culture. One of the good things about a free country is that you can say, "Hey, something has gotten out of line. This is not right." And I think one of the things that is going to happen after September 11 (these things take time; they never happen overnight) is a new seriousness. There is a little less sense of frivolity. I think we are starting to see the essence of what is true and what is just glitter and false.

In terms of countries fighting a culture, if they have ideas to do it, not the way the Taliban did it, but ways of putting pressure on providers of culture to clean up their act, we would be open to it. People like Bill Bennett and others have been fighting by putting pressure on the purveyors. You can't stamp the underside of human nature out, but at least you can make it not respectable.

So, if you get something trashy, it's something that a decent company shouldn't be associated with. You shame them. Have advertisers put pressure on them; that gets their attention. And there will be cries of censorship. But one of the things we're learning now is that the freedom to express an opinion or to write something or to create something doesn't mean you have to endure the consequences of having that opinion or writing that thing.

And if people shun you or shake their fists at you, so be it. You can express it, but don't expect everyone to roll over and pretend they agree with it, or think, your view is interesting and is as worthy as everyone else's. If somebody thinks you're full of B.S., be prepared to take the heat.

So, in terms of culture, yes, we're fighting culture wars. But bin Laden doesn't have the solution to it. I think a free society has the solution to it, of saying we're once again going to have a sense of standards.

HON. MEESE: Yes, last question.

AUDIENCE PARTICIPANT: Yes, Richard Painter of Illinois.

You spoke of both political and economic reforms in the Middle East. And my question would be, which comes first? It seems that our experience with Germany in the 1920s and '30s was that a democratic political system without the economic foundations can lead to disaster. Could that be true if we push countries like Pakistan and Saudi Arabia too quickly to representative democracy without laying the economic foundations first?

MR. FORBES: And it's not just economic foundations. It's what you might call "civic life foundations," where people are accustomed to doing things. One of the things that made our Revolution not go the way of the French Revolution, in addition to the Great Awakening, was, we were quite accustomed to handling our own town affairs, local affairs. One of the amazing things about British colonialism in North America was the vivid contrast with French colonialism in North America. Paris — the French — were very rigid in their colonial policies in North America, great regulations, lots of detail emanating from the homeland. With Britain, it was sort of haphazard. Sometimes they paid attention to what we were doing over here; other times, they didn't. And so, it was this kind of ad hoc approach, non-systemic approach, that allowed us to learn a bit

of self-government.

So, were were prepared. A lot of countries weren't. You can make a case, you can cite countries in which democracy came first, and then economic reforms came with it, or you can go backwards. I mean, Britain, after the war, went backwards economically until Mrs. Thatcher came along.

But, you can find a model for either one. The key thing is to have a sense that to be authoritarian to suppress any dissent and hope for the best and pay off those who could do you harm, is not going to go very far. And whether the Arabs use the Turkish model, or abruptly try to sweep away the past and create the seeds for more liberalization; or whether they do it the Taiwanese way, which was economic, and then move up to the point where, today in the Taiwanese national legislature, they don't just debate; they throw chairs at each other and fists at each other: a very, very vigorous debate. There are various ways to do it. Especially if Turkey goes with us into Northern Iraq and sets up an autonomous Kurdish region, having Turkey play a prominent role in this fight against terrorism, would give the fight great legitimacy. Even though Turkey has very real shortcomings, it is light years ahead of what you see in that region.

And you can say that if the Turks went through what they went through in the last century and some of the horrible things that have happened there, if they could make the transition to more representative and open society, by golly, Saudi Arabia, Pakistan, et al. should.

Why didn't Egypt, an ancient civilization make the kind of transitions that Japan and others made as the West rose up? It still can; that's the nice thing about high-tech. You can leap forward. It does give you the chance to make up for lost ground. So, there are various ways you can do it. The key thing is to say, we have got to start doing it. Each one may be different, but the status quo does not suffice anymore.

Before Ed and I get thrown off, we will pretend that we voluntarily left, and say thank you very much, and bless you in your good work.