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FOREIGN AFFAIRS

Expeditionary Economics

Spurring Growth After Conflicts and Disasters

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THE UNITED STATES' experience with rebuilding economies in the aftermath of conflicts and natural disasters has evidenced serious shortcomings. After seven years of a U.S. presence in Iraq and over nine years in Afghanistan, the economies of those countries continue to falter and underperform. Meanwhile, the damage caused by the earthquake in Haiti early this year revealed deep economic problems, ones that had confronted earlier U.S. efforts to boost Haiti's economy, and they will plague reconstruction efforts there for a long while. Economic growth is critical to establishing social stability, which is the ultimate objective of these counterinsurgency campaigns and disaster-relief efforts. Various obstacles, such as insurgencies and inadequacies in infrastructure, have made economic development difficult in these countries, of course, but these difficulties cannot be blamed exclusively on such obstacles. A central element in the failure to establish robust economies in war-torn or disaster-stricken countries is the prevailing doctrine of international development, according to which strong economies cannot emerge in poor countries.

Yet there is a proven model for just such economic growth right in front of U.S. policymakers' eyes: the entrepreneurial model practiced in the United States and elsewhere. This model rests to a huge extent on the dynamism of new firms, which constantly introduce innovations

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into the economy. Washington's recent engagements have made it appreciate that postconflict economic reconstruction must become a core competence of the U.S. military. But this appreciation has not yet been followed by sufficient enabling actions. The U.S. Army *Stability Operations* field manual, published in 2009, offers no relevant guidance on what role economic development should play in the United States' postconflict strategy or how to help build dynamic, growth-oriented economies. The manual epitomizes the central-planning mindset that prevails in the international development community.

It is imperative that the U.S. military develop its competence in economics. It must establish a new field of inquiry that treats economic reconstruction as part of any successful three-legged strategy of invasion, stabilization or pacification, and economic reconstruction. Call this "expeditionary economics."

A DISCOURAGING RECORD

THE U.S. MILITARY often cannot accomplish its long-term missions by force of arms (postinvasion Afghanistan and Iraq) or with its logistical skills (relief efforts in Haiti) alone. Military planners are by no means blind to this challenge. Most are not economists, but they are well aware that unrest in the world's trouble spots tends to be fueled by a lack of economic opportunity. Indeed, the areas that have proved most fertile for terrorism recently have had low or negative rates of economic growth over the last 30 years.

Yet U.S. military planners and U.S. troops on the ground often turn to U.S. and international development agencies or nongovernmental organizations (NGOs) for practical guidance on improving local economic conditions only to find that the putative experts are little help. The record of recent economic reconstruction efforts in post-conflict settings is discouraging, to say the least. In Bosnia, which has received massive development aid from a coalition of countries since NATO and UN forces intervened there in the 1990s (close to $10 billion since 1995), unemployment and poverty both hover around 25 percent today. A UN report released in early 2009 placed Iraq's overall unemployment rate at 18 percent (which means it remains virtually unchanged since 2004)—and unemployment in the volatile demographic of men aged 15 to 29 at about 28 percent. Iraq's GDP per capita stands at $3,300, roughly half the level of Bosnia's. In Afghanistan, meanwhile, the main growth industry remains opium cultivation, thanks to the support of both farmers and the Taliban, who sustain themselves financially partially thanks to the drug trade.

Elsewhere, the sweeping structural reforms that have often been mandated by lenders at the World Bank and the International Monetary Fund (IMF) have done little to help struggling economies. Long-running aid programs have left many African countries mired in poverty. Arguing that the aid may even have retarded progress, some informed voices in poor countries are pleading for an end to the assistance.

Two points stand out from these experiences. First, when rebuilding postconflict and post-disaster countries, it is not enough merely to restore the economy to a level resembling the pre-crisis status quo. The economy is often part of the original problem in places that become trouble spots. Afghanistan has been very poor and thus a magnet for illicit activities, such as the opium-poppy trade, for many years. Iraq has long relied on oil exports, treading the risky path of countries that depend on the extraction of natural resources. The risks include, among other things, rule by dictator, because a government that can control such resources can usually control almost everything else, too.

The second key point is that stabilizing a troubled country requires economic growth more than economic stability. For this, job diversity is needed in the private sector—in other words, options well beyond the usual public-sector sinecures are essential. New opportunities must be created that are more attractive than trading on the black market or making bombs.

The U.S. military is well placed to play a leading role in bringing economic growth to devastated countries. It may have little resident economic expertise, but it has both an active presence and an active interest in places where economic growth is sorely needed. The U.S. armed forces usually are the most formidable and best-resourced entity in the troubled countries in which they operate; indeed, the Defense Department today controls one-fifth of U.S. foreign aid. In many cases, the U.S. military effectively serves as the legs of the other government agencies and of the NGOs offering assistance. It also has a strong interest in concluding expeditionary ventures quickly: prolonged occupations increase the risks that more troops will die and that resources will be stretched thin. Such possibilities weaken the United States' chances of responding to the next crisis.

The U.S. military must therefore formulate a doctrine of expeditionary economics designed to spur solid growth as rapidly and effectively as possible. For this, it should draw on some of the more recent wisdom of the international development community—a growing number of scholars are rejecting the decades-old doctrine of big plans and dictated reforms and turning instead to more modest yet more effective projects. Some military officers, in fact, have already been doing work along these lines. The military could then use the various means of influence at its disposal to steer international development practices in the direction of the new doctrine.

MESSY CAPITALISM

THE UNITED STATES' method of producing economic growth has proved itself time and again. Entrepreneurs have continuously reinvigorated the U.S. economy, especially during periods when experts feared that it was slipping into decline. And they are poised to do so again now, in the wake of what is being called the Great Recession.

U.S. and international development policies would be much more successful if they applied to other countries the salient features of the United States' economic form, especially entrepreneurship. The rate at which new businesses are created in the United States is among the highest in the world. Many countries encourage the activities of small and medium-sized firms, but the United States boasts many young companies that grow rapidly to a significant scale and thus inject huge doses of dynamism into the system. This has been true even during economic downturns: over half the companies among the Fortune 500 were launched during a recession or in a bear market.

The creation of high-growth firms has multiple benefits, chief among them the constant creation of new wealth and new jobs, even as older firms recede because of global competition, changing lifestyles, or advancing technology. Intel, Genentech, and Google are such dynamic companies, and there are others outside the technology sector. Some high-growth firms have introduced new services or business methods that have helped the entire U.S. economy operate more smoothly and more productively: some examples are delivery and transport firms, such as FedEx; low-cost retailers, such as Walmart; and various mutual funds and discount brokers, which have vastly broadened the scope of private investing.

Such transformative entrepreneurship is not a modern phenomenon or a phenomenon that occurs only in already developed economies. In the late 1800s and early 1900s, when the United States was itself a less developed country, high-growth enterprises included all the major railroads; Sears, Roebuck; Western Union; International Harvester; and Standard Oil. And this is not unique to the United States: two of the great economic stories of the past 30 years are China and India, whose progress has contributed to a historic drop in global poverty. Each is following a different model, and each is following a model different from the United States', but in both cases, entrepreneurs are playing an important role, as they did in the United States. Although much attention is paid to the role of the Chinese state, the creation of private enterprises has exploded in China over the last two decades, and many observers trace the origin of the Chinese miracle not to Deng Xiaoping's leadership but to the appearance and spread of village enterprises in the 1970s and 1980s. In India, firms such as Tata (an industrial giant), Wipro (a vegetable oil trading company turned technology giant), and Infosys (one of the country's largest information technology companies) have led the country's economic growth.

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Entrepreneurial capitalism is messy, since it is highly organic rather than centrally planned or centrally managed. Many different people and entities bring the elements—from new firms to university research to federally funded research—into place, and activity flourishes from letting them all evolve and interact in the marketplace. It is nearly impossible to predict what outcomes these activities will bring beyond a broad trend toward higher productivity, rising standards of living, and continued economic growth. By contrast, the problem with international development today is that it is dominated by the theory and culture of grand central planning. Successful development requires a strategy, not a plan.

The so-called Washington consensus laid out a set of guidelines according to which troubled countries were to restructure their economies. For the World Bank, the IMF, and U.S. government agencies, these guidelines have become conditions for granting loans or aid. Countries seeking assistance are expected to, among other things, practice fiscal discipline, cut subsidies to domestic industries while investing more in infrastructure and education, privatize and deregulate key industries where possible, and reform or liberalize their policies on taxes, interest rates, and international trade. Development agencies then translate these policies into detailed plans to be implemented by allegedly competent government agencies and contractors.

This is the template that U.S. officials used for restructuring Iraq's economy after the U.S.-led invasion of 2003. The U.S. Agency for International Development (USAID) hired U.S. contractors, such as Bechtel, for large construction projects, mostly bypassing ordinary Iraqi citizens. Little regard was given to incorporating local residents or local businesses into the reconstruction efforts. At nearly every step, outside contractors were given priority, and insufficient attention was paid to helping build indigenous companies. The Coalition Provisional Authority sought to promote free trade and a market-driven economy, but its approach focused primarily on the predetermined institution building outlined by international development doctrine. It paid little attention to the creation of firms and jobs—in short, to the engine of growth, entrepreneurship.

Although international development policy is beginning to recognize the importance of entrepreneurship, it is so far doing so in ways that make little substantial difference. Microfinance for tiny enterprises helps many individuals earn a living, for example, but it does not stimulate high-growth enterprises. Attempts to cultivate high-growth firms, meanwhile, have focused on attracting venture capital and other growth incubators. Such important support mechanisms are, indeed, found in entrepreneurial capitalism, but in advanced economies, they do not help as much as is commonly believed. Less than 16 percent of the fastest-growing U.S. firms in the past decade received any venture capital. In developing economies, such capital sources should not be considered an agent for inducing entrepreneurship. Studies show that it is entrepreneurial activity that creates venture capital, not the other way around.

The U.S. military's economic programs in Iraq, like its civil programs, have led to mixed and sometimes contrary results. Operation Adam Smith, which was meant to revitalize Baghdad's commercial district, had little impact. The Commander's Emergency Response Program, which facilitates the rapid disbursement of funds for physical reconstruction in Afghanistan and Iraq, has helped quell strife by putting people to work, as was intended, but it may also have created dependence and led to the neglect of longer-term activities. These development efforts are motivated by the very best intentions. Still, a new and more effective doctrine for spurring economic growth is needed.

AN INTEGRAL GOAL

A DOCTRINE OF expeditionary economics, with practical guidelines for economic expansion, must begin with a clear notion of what works. Whenever the United States sends troops overseas, military planners must consider the effort in three phases: invasion, stabilization or pacification, and economic reconstruction. These are so strongly linked that the U.S. government should not engage in any significant military action until it has thought through and anticipated the requirements for stabilization or pacification and economic development.

Nor should economic development be seen as a separate task that can wait until after the others have been achieved. Although the various steps involved may compete for attention, there are also ways in which they can inform and reinforce one another. Counterinsurgency campaigns, for example, can facilitate economic growth by helping identify the entrepreneurial aspirations of certain individuals.

Going in, detailed economic planning probably is not necessary and may even be counterproductive. What is most needed then is a good assessment of the work that lies ahead (and attention paid to such assessments), with a range of options for how to meet the likely needs and with well-defined economic goals.

Too often, in both the military and the international development spheres, there has been a failure to consider the postwar economy in any strategic sense. Military doctrine has usually treated operations other than war as secondary matters to be handed off to other agencies. These agencies, USAID in particular, have rarely conceived of their work as part of a larger strategy for the country in question or for promoting U.S. interests. One-off projects and bureaucratic delays—due in no small part to congressional constraints on USAID—have created the impression that dependence and subsistence are the inevitable future for countries such as Afghanistan. Economic growth is rarely even considered a possible goal. Regrettably, too, the body of scholarship on the relationships among economic prosperity, democracy, and war is a morass of tangled regression analyses and confused notions of causation. Yet economic growth plainly is a positive force in society and for governments; it is no coincidence that most conflicts today, most of which are civil wars, occur in countries with weak or stagnant economies.

Economic growth must be an integral goal of U.S. postconflict and post-disaster strategy. Growth is not simply a mechanistic composite of statistical indicators. It is in a very real sense an expansion of the imagination. "For income growth to occur in a society," the economist and Nobel laureate Robert Lucas has written, "a large fraction of people must experience changes in the possible lives they imagine for themselves and their children, and these new visions of possible futures must have enough force to lead them to change the way they behave." This view suggests that economic reconstruction must be rethought, especially by the military planners tasked with establishing the foundations on which stable postconflict economies will need to be built.

Economists sometimes get tripped up trying to measure growth; it can be misleading to look at a single standard, such as GDP growth. For example, Iraq's per capita GDP rose from 2006 to 2008 due to increases in world oil prices, but was that really growth or just a fortuitous and temporary gain in revenues? Afghanistan has enjoyed double-digit GDP growth for the last several years, but largely because foreign aid accounts for roughly 40 percent of its economy and the opium trade accounts for another 40 percent. Strictly speaking, economies do not grow. It is individual firms within these economies that grow—or shrink. The collective fate of these firms is the fate of the economy.

In other words, signs that real growth is occurring include the fact that new firms are being founded; that the number of jobs in firms younger than five years old is rising faster than that of jobs in older enterprises, including government-owned companies; and that new firms are growing to large sizes by bringing new products or new services to the market. For this growth to be sustainable, it is vital that firms regularly give birth to new lines of business or entire new industries, especially since existing industries tend to contract as they mature and as they face ongoing competition. Only then can real GDP expansion follow.

International development researchers have often been perplexed by the fact that a program that produces good results in one country may not work in another. They should not be: every situation is different; formulaic approaches cannot work. It is not necessarily true, for example, that an economy needs great infusions of outside capital in order to grow. Start-up ventures do need capital, but the best sources of this capital may differ from one state to another. In poor postconflict countries, few entrepreneurs can finance their own projects, especially if these are ambitious ventures with high growth potential. In those instances, some direct investment from the U.S. military or other U.S. government agencies, preferably working through local lending institutions, may be required. Another possible model is something like the United States' Small Business Innovation Research Program, which makes grants to small firms so that they can develop and commercialize innovative technology.

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Even for companies that are already growing fast but need financing to continue, venture capital is hardly a one-size-fits-all solution. Venture-capital financing, which is based on investors' ability to cash out quickly, may not be desirable in developing countries. In such places, one should prefer to see local entrepreneurs hold on to their ventures and eventually build iconic homegrown firms, like Infosys and Wipro in India, which not only generate more growth but can serve as examples for other entrepreneurs throughout the country. Thus, financing tailored to the circumstances of each country and the needs of its particular high-growth enterprises is required.

FOSTERING DYNAMISM

PLANNERS AND decision-makers everywhere try to control events and steer their policies toward predictable outcomes. But a successful entrepreneurial system requires a willingness to accept messy capitalism even when it appears chaotic, trusting that the process will eventually bring sustained growth, as it has in the United States and elsewhere.

Such an approach may seem to contradict the U.S. military's usual goal of imposing order in postconflict zones. But this is so only at first glance. The stability that the military seeks is primarily social and political, not economic. Some of the world's most dynamic economies exist in some of the most stable countries—the United States is an obvious example—and nothing about messy capitalism inherently suggests a connection to social chaos. Quite the reverse: social stability often enables entrepreneurial capitalism. The two goals may conflict sometimes, as when jobs are lost after major privatizations. Where and when they do, there is no easy answer for how to reconcile them. But it would be a mistake to invoke this problem as a justification for preferring stability to dynamism, as the U.S. government seems to do in other countries, when dynamism is required for economic growth. A new strategy that strikes a balance between control and laissez faire is necessary. Economic activity outside of the government's control should be more than just tolerated: it should be encouraged.

A successful example of this is the National Solidarity Program in Afghanistan, an Afghan government initiative that gives block grants to villagers, who then decide, through elected councils, how to spend the money. This program, which stresses accountability has been much more successful than many other development programs in Afghanistan. (A similar program in Indonesia also enjoyed success.) Unfortunately, the U.S. government has repeatedly scaled back funding for it, perhaps because of its persistent discomfort with projects that it cannot control.

If they want to do better at building vibrant economies in countries that have been devastated by war or natural disasters, U.S. military planners will have to look beyond international development organizations, which are prone to self-reinforcing thought patterns. They will have to consult people with practical experience, such as entrepreneurs who have gotten concrete results from launching successful firms.

Helping other countries' economies grow may be the United States' most potent way of projecting soft power. But such power will be effective only if what Americans have accomplished for themselves appeals to others. Some nations show disdain for American popular culture and its supposedly materialistic values, but many more consider U.S. levels of economic prosperity and opportunity to be the gold standard, even after the recent recession. They desire the same at home, only a version tuned to their own cultures and values. If the United States lets its economic performance slip or if it drifts away from the principles of entrepreneurial capitalism, it will endanger the standard that others view so highly and create the conditions for less America-friendly views to prevail in the world. Conversely, if it maintains its economic health and learns how to export it more effectively, the future will look bright for all.

The United States' armed forces are uniquely positioned to contribute to world peace and prosperity by means other than actual force. And if they apply the ideas outlined here, they could start a revolution in thinking about economic growth. But using the whole of American power effectively—beyond simply the "whole of government"—means reconfiguring the usual cast of actors, recognizing the limits of government, and tapping the enormous potential of entrepreneurs and skilled investors. If successful, such efforts could reshape current thinking about international development and help strengthen the United States' national security. One can only hope that this decade will one day be known as the decade of development, a decade when the world's most troubled nations finally began to grow.