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## **The Upside of Middle East Turmoil**

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White Rock, B.C. -- As we watch parts of the Middle East descend into chaos and civil war, it is easy to get lost in the current worries about the effect on the oil markets, the investment markets and the economy. Those concerns are real and we monitor them daily; however, there are significant benefits which could arise from the turmoil – assuming the end result is the development of indigenous democratic governments.

Throughout the last 50 years (or more) the instability in the Middle East has had disastrous effects on the economy of the West. One of my first memories is the economic turmoil caused by the 1973 oil embargo – and the subsequent stagflation with low growth and high unemployment. In fact, the rotten economy of the '70's was one of the original motivations I had in studying economics. Similarly, the recession of the early 80s and the recession of the early 90s were both provoked by Middle Eastern turmoil and oil supply disruptions. If one has learned any lessons in economics one has learned that we must consider potential alternative outcomes -- the upside of Middle East turmoil.

Democracy is a stabilizing force politically. With democracy in the Middle East, we could expect more pragmatist politicians and fewer ideologues. More Chretiens if you will and fewer Qaddafis. Such a transformation in the Middle East would mean significant spin-offs and opportunities for Western companies and economies. Democratically elected leaders have one over-riding goal: re-election. A pragmatic government remains in power by achieving two things: a vibrant economy and peace with its neighbours. A spin-off of the development of pragmatic democratic governments in the Middle East would be less conflict and turmoil, and less interference in the oil markets. In other words, oil would become a commodity to these governments and not a weapon. Such political stability in the Middle East would increase stability in the oil markets and help create economic stability in the West. And stability breeds a healthy economy.

A second benefit of the development of democratic governments in the Middle East would be the impact on Middle Eastern economies, and the spin-off effects for the developed Western nations. With democracy – and the development of just rule of law, property rights and non-violent social resolution mechanisms – economies and people can flourish. This is more than the age-old “guns versus butter” trade-off taught in Economics 100. Organizations and firms like stability – they like to know that they can make investments without fear of expropriation, that tax and economic policies are reasonably stable and not arbitrary, and that disputes can be resolved using reasonably just, peaceful means. In such a context, growth flourishes and living standards rise.

To understand the significance of this, consider the recent history of Eastern Europe. After the fall of the Berlin wall and the transition to more democratic governments, in 1999 living standards in Eastern Europe were roughly 35% of that in Western Europe. In 2009, Eastern Europe had caught up to 55% of Western living standards.

Living standards in the Middle East are about 1/3 that of Western Europe. Were the Middle East to experience the same kind of “catch up” occurring in Eastern Europe demand for consumer goods, technology, vehicles and all the trappings of modern life would increase significantly. That can only be a good thing – not just for the Middle East but for our economy and us as well.

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