

The Market and Democracy

*"The relation between economic freedom and political freedom is that initial growth in either political freedom or economic freedom tends to promote the other"*¹

M. Friedman

I'm sure Karl Marx would have appreciated the irony of finding one of his favorite concepts at the beginning of a paper defending the free market. There is, in fact, a dialectical relationship between democracy and the free market. They may often contradict each other: the uneven distribution of wealth which one can often find in an uncorrected free market system tends to falsify democratic political processes because wealth means influence. The free market also constrains state actions and the possibility of the people to intervene in economic processes. Many economic facts are the product of individual decisions or even automatic processes which the people cannot control. On the other hand, democratic decisions often impose restrictions on a free market. However, democracy and the free market generally encourage each other.

Let us first take a look at the way in which a free market can promote democracy. A free market loosens the control of authoritarian states over their societies. If states give up control over the economy, then perhaps they will also give up control in other fields. If a state does not control all economic means, then people will have more freedom to oppose the state because the state cannot as easily take away their jobs or put them out of their houses. A planned and regulated economy usually means a planned and regulated society.

A free market also promotes democracy because it requires:

1. *The rule of law.* In itself, a free market does not guarantee the rule of law but, in a certain way, it does help to promote it. Private companies like predictability. They want their investments to be protected by the law, they want a state that protects their goods and their personnel, and they want to be able to use the judiciary to enforce their contracts. Companies moreover like to have an international rule of law. They want the same rules applied everywhere. For example, if labour regulations are not the same everywhere, then companies in certain countries have an unfair competitive advantage, because they have to pay their workers less, they have to invest less in safety etc. "[T]he rule of law enforced by an independent judiciary is a condition for modern market economic relations . . . 'Markets need laws' claimed a businessman . . . criticizing the pervasive inefficiency and corruption of the judiciary".² Because the free market requires the rule of law, and because the rule of law is best protected by democracy (this is an empirical fact³), one can conclude that the free market will promote democracy.
2. *A limited state and a free society.* Both the free market and a democracy require a limited state and a free society. Only a free society can serve as a base for the democratic control and criticism of government, and an unlimited state is the main characteristic of tyranny. The free market promotes a limited state and a free space

for society because it limits state regulation and intervention in the economy. The free market is the freedom to produce, to buy and to sell and this kind of freedom promotes freedom in general.

3. *Transparency and free flows of information.* Businessmen need free flows of information in order to be able to make the best economic decisions. Hence, a free market promotes democracy, the most transparent form of government and the form of government most dependent on free flows of information.
4. *Means of communication and transportation.* A free market economy promotes the development of the means of communication and transportation. It is difficult to image a democracy without means of communication and mobility. Furthermore, increased communication and mobility weaken the power of habit and tradition, which in turn can weaken the grip of traditional authoritarian structures and forms of power.
5. *Social mobility.* Traditional authoritarian social structures, and social structures in general, are less stable in a free market, and subject to the free choice of individuals. Companies tend to select the best man for the job, irrespective of his social rank. This mobility promotes equality, which again is necessary for democracy.
6. *International trade.* The free international circulation of goods can promote the free circulation of ideas. Inter-cultural communication between people who can trade freely with one another can promote democracy because it can allow people to question their habits, customs and traditional power structures. After all, you start to realise that things can be different when you see that they actually are different elsewhere in the world. In cultures that cannot trade freely and therefore do not communicate much with the outside world, most habits are considered to be self-evident and are accepted without questions. Undemocratic habits are then difficult to change. If we eliminate international trade barriers, then we can open up traditionally closed societies.

A democracy also tends to adopt a free market system. A democracy is a limited state because it necessarily (or ideally) adopts the rule of law and hence creates a space for free economic activity, exchange and competition between a variety of groups and persons. A democracy also - ideally - respects human rights and many human rights, such as the right to private property, promote the free market. It is difficult to imagine a free country, a democracy which guarantees all civil liberties, but does not allow the freedom to produce, to buy and to sell goods and services. However, a democracy may find it necessary to limit the free market, or correct for some of its injustices. It may want to redistribute some of the wealth created by the free market to those of us who cannot use their freedom to become economically successful.

This being said, one should not conclude that a democracy is necessarily a free market of policies. Economic reductionism is an ever present temptation. Indeed, a democracy encourages the free competition of ideas, policies and leaders, but the selection of policies and leaders in a democracy cannot be reduced to a process that is identical to the economic selection of goods and services. Politicians should do more than buy their votes with the capital of policies, subsidies and other measures which citizens are willing to exchange for their votes. Citizens as well should do more than adopt a self-centered approach in which they sell their votes in order to maximize their self-interest. Politics is also about the general interest, and this concept does not necessarily mean the aggregate

of individual self-interests. Democratic politics in particular provides the deliberative mechanisms to discuss and decide on this kind of general interest.

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¹ The Wall Street Journal, 12-2-97

² F. Panizza, in Beetham, D. (ed.), 1995, *Politics and Human Rights*, Blackwell, Oxford, p. 179.

³ There are also many theoretical reasons to defend the link between democracy and the rule of law. I have tried to give an overview of these reasons in *Homo Democraticus, On the Universal Desirability and the not so Universal Possibility of Democracy and Human Rights*, Cambridge Scholars Press, 2003, Part 1.