

# THE MARKET ECONOMY, FREEDOM AND DEMOCRACY

by Garrett O'Boyle

*"...the masters of the Government of the United States are the combined capitalists and manufacturers of the United States."*

— *President Woodrow Wilson, 1914.*

TO SOME, the operation of 'consumers' sovereignty' in the free market is a fundamental aspect of democratic control, allowing production and distribution decisions to be decentralised to an individual level, allowing real economic freedom which reflects and facilitates political freedom. Others, however, prefer a more substantial form of 'economic democracy' wherein real egalitarian control of a society's resources is effective.

## DEFINING DEMOCRACY

To some theorists such as Green, western society is but a pseudo-democracy which boils down to being a mere prop for social status. To this end he formulates political equality as being "the real spirit of democracy" — the idea that an individual counts for one, and no more than one, in societal decision-making (Green, 1985:5). Political equality must surely be one of the most important factors in measuring 'democraticness', so we will use it as the central element in our definition of democracy. I will argue that economic privilege distorts political equality both directly and indirectly (through social structure) even within this relatively broad definition.

However, MacPherson (1973) has persuasively argued that an adequate definition of democracy must include not only that each individual has equal effective say in decision-making, but that each individual should have equal opportunity and access to the means enabling them to develop and fulfil their 'human potentialities'. In this more precise philosophical definition of democracy, it is argued that the market relations fundamental to capitalist society negate political freedom.

## THE MARKET AND EQUALITY

Dogmatic advocates of the market would argue that there is no logical necessity for exchange relations to result in economic inequality. Basing their arguments on general equilibrium theory, they demonstrate that with any given initial endowment of resources in a 2 person, 2 commodity, 2 input economy, a mutually beneficial and agreeable sequence of exchange will occur, with both participants ultimately maximising their utility. However, the real world is very far removed from this model, which assumes a state of perfect competition (whereby each individual producer or consumer is a price taker). The model also explicitly states that the initial distribution of resources will determine the subsequent post-exchange distribution, and an egalitarian outcome is only possible in the event of an initially egalitarian distribution. Thus in a society where wealth is transmitted through the generations and in a society which developed from oppressive feudal relations this argument has little relevance. The model is further damned by the patent inapplicability of perfect competition in a modern multinational corporate society. Thus the operation of the free market cannot guarantee that self-perpetuating economic inequalities will not be produced.

These inequalities may be said to have a subversive influence on the degree of political equality in a society, in purely procedural terms. The impact can either be direct or indirect. Direct influences include the obvious advantages that wealthy individuals and powerful corporate interests have in "persuading" decision-makers. Lobbying, financial contributions, campaign support and outright bribery are such "advantages". Howard Sherman (1972) sees economic inequality and its political effects in terms of class antagonism, and identifies two contrasting views of capitalist democracy. These are labelled the "pluralist" and "radical" positions (1972;123). The former view sees democracy (in the U.S.) as reflecting plurally distributed political resources, with decisions being a result of the interaction of different interest groups' competing claims. The political system is more or less democratic and political power is to a large degree independent of economic power (*ibid*). The radical view predictably sees economic inequality as having a much greater impact in frustrating political equality.

But economic and social inequality may have a less direct impact on the operation of democracy, in that patterns of political participation vary with class background. Subordinate economic class members, as individuals, have less access to information, less education and are more politically alienated than those in the dominant class. Educational and cultural impoverishment means that the necessary basis for political participation is denied. An individual's sense of citizenship and political effectiveness will be affected by this. Thus, those who maximise their formal political rights tend to be of an economically ascendant class, therefore the state, controlled by this ruling elite, may then give institutional backing to the existing distribution of advantages and recruitment into power positions: "the state could be defined as an institutional complex which is the political embodiment of the values and interests of the dominant class" (Parkin, 1972;27).

The dominant class can then use its economic and political power for social self-recruitment resulting in perpetuation of their dominance (Parkin,1972;14). (Through for instance the state controlled education system, which has an important role in socialising individuals into their class roles and expectations). Likewise the concentration of control of the mass media in the hands of the privileged compounds this — the quality and quantity of news published depends on the class at which it is aimed, and this will also have an effect on political attitudes.

We have seen the argument propounded by advocates of the free market that there is no logical necessity for the operation of the market to either result in economic inequality or to distort political equality. Moving onto a more philosophical level, theorists such as Friedman would argue that a competitive capitalist economy not only does not hinder the operation of democracy, but is necessary for that operation.

## **CAPITALISM AND FREEDOM**

Friedman sees concentration of power as a threat to freedom, and thus the decentralisation of economic decision-making through the market is conducive to democracy. Were the economic power in the hands of the state, there would be no capacity for the private sector to be a check on the public sector (Friedman,1962). Voluntary co-operation can be established in a system of exchange - each individual working for his or her self-interest benefits society as a whole. Friedman believes that such market decentralisation effectively separates economic power from political power (1962;9). Based on empirical evidence, not too many people would agree with this postulate. He also links the contemporaneous development of classical capitalism and political democracy without proving causality.

However MacPherson (1973;148) suggests that capitalism could only be established when “political freedom had been won by those who wanted capitalism to have a free run”; thus the level of actual freedom will be largely determined by the interests of those who desire capitalism to be sustained. He further makes the point that the liberal state which facilitated the establishment of capitalism wasn't really democratic, and that once the franchise was extended the government began to curb market freedom (ibid). Friedman then goes on to extrapolate from a sample Robinson Crusoe model of exchange - in which (theoretically) voluntary co-operation in the market maximises freedom in the co-ordination of economic activities, which is the fundamental issue in society —to a full, industrial, monetary economy without mention of the shortcomings of general equilibrium theory (1962;13).

Friedman claims that political freedom can be defined as the absence of coercion of a person by others - the power to coerce is a fundamental threat to freedom (1962;15). He further claims that so long as effective freedom of exchange is maintained, a consumer or employee is prevented from being coerced by sellers

or employers by the presence of others which he can deal with. MacPherson (1973;146) takes issue with Friedman's claim that every transaction is strictly voluntary if individuals are effectively free to enter, or not to enter, into any particular exchange. The question should really be about an individual's freedom not to enter into any exchange at all. MacPherson claims Friedman has overlooked the consequences of the separation of the ownership of capital from the mass of the labour force, rendering the latter without a real choice whether to sell its labour or not - "where there is no choice there is coercion" (Ibid). Thus coercion is inherent in capitalist market relations, an idea somewhat damaging to Friedman's claims.

## THE MARKET, CAPITALISM AND THE NATURE OF MAN

MacPherson goes still further. He identifies two claims made by liberal-democratic theory, and sees them to be antagonistic (1973;3). They are based on two distinct concepts of man - the first claim is that liberal-democracy maximises individual utilities: This is based on a view of Man's essential self as an infinite consumer and appropriator; the second claim is to maximise individual human powers, and this is based on a distinct view of man as an "enjoyer of his human attributes", as "a bundle of conscious energies seeking to be exerted" rather than a "bundle of appetites seeking satisfaction" (1973;5). MacPherson claims the latter concept to have been incorporated into liberal theory to make it "liberal democratic", and thus democracy for him should include equal rights, opportunities, and access to the means of fulfilling distinctive human potentialities.

Furthermore, he sees the concept of Man as an infinite consumer as both a social construct and the basis for social constructions (pp 17,18). Society felt the need to set up a right to almost unlimited property acquisition as an incentive to production when those most active (ruling) sections of the people judged that the chief purpose in life was the battle against (perceived) scarcity. The result was a new moral acceptability of unlimited desire, and the assumption of the rationality of acquisitiveness. An incentive to production was necessary to make real the potential that was there for wealth and power - hence it was necessary to reformulate the legitimating theory underlying social institutions. This was done by postulating infinite desirousness and its rationality (p 19).

MacPherson no longer sees the need for this consumerist concept of Man in democratic theory and argues that it, and the market relations inherent in the capitalist society resulting from it, are antithetical to the concept of real democracy involving an "equal effective right to live as fully humanly as he may wish". The latter right involves not only the human capability to realise some goal, but also the actual ability to achieve it - this necessitates access to external resources and makes any limitation of that access a diminution of individual powers (p9). The separation of capital (the means of labour) and the source of those external resources from the mass of the labour force results in a continuous net transfer of some individuals' powers to others (the owners of capital) by means of labour market transactions.

Such a transfer of powers is fundamental to the capitalist system, thus the capitalist system of the free market diminishes rather than maximises equal individual freedom to use and develop natural capacities and human potentialities (pp 10-11).

## **CONCLUSION**

Thus, if you accept the arguments tendered, a free market economy is detrimental to democracy in a number of ways. First, the resultant economic inequality gives differential levels of access to and influence over decision-makers, differential access to information and influence on public opinion, and class relations which breed political apathy, resignation and class reproduction. On a deeper level, the fact of labour market transactions in a capitalist society stunts the fulfillment of human powers.

Questions should be asked, however, as to whether it is the operation of the market per se or just its operation within capitalist society which is the problem. For example, in a model of market socialism, with popular ownership of the means of production, would participation in the labour market result in the alienation of individual powers? If so, to whom, given that people would (in a "true" economic democracy) own the state, the capital resources, and be "their own" employers? Whatever about that, the more direct procedural aspects of the subversion of democracy would certainly be lessened under almost any (non-totalitarian) social system other than capitalism.

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