

**FREEDOM
DEMOCRACY AND
ECONOMIC
WELFARE**

FREEDOM DEMOCRACY AND ECONOMIC WELFARE

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PREFACE

I. ORIGINS

This book has its origins in a discussion paper which I was asked to write for the 1984 meetings of the Mont Pelerin Society in Cambridge, England. The paper upon which I was asked to comment, “1984—A False Alarm?” by journalist and historian Paul Johnson, presented the view that George Orwell’s predictions about the demise of democracy had proven to be too pessimistic. In commenting on Johnson’s paper, I raised a number of points which I thought demonstrated the accuracy of Orwell’s analysis even if he had been wrong in the extent to which totalitarian forces would exert themselves by 1984.

For example, the increase in the aggregate tax rate born by the citizens in the Western democracies has gone hand in hand with the decline in their ability to individually control their economic destinies. The use of social insurance to trace every financial transaction in which individuals engage has increasingly exposed private affairs to the potential scrutiny of the State. The fact that one of the economic transactions that is subject to scrutiny is contributions to political parties lead me at the time to note that this intrusiveness of the State might eventually challenge the political freedom which in Western democracies we take for granted. Ultimately it is the wide dispersal and ability of financial resources which enables citizens to challenge the political power of governments. In other words, I opined, there is a connection between the extent of economic freedom and the dispersal of economic purchasing power and the extent of political freedom enjoyed by people.

In support of my comment, I referred to a passage in the ground-breaking book *Capitalism and Freedom* by Milton Friedman with the assistance of Rose Friedman, in which the authors note “historical evidence speaks with a single voice on the relation between political freedom and a free market. I know of no example in time or place of a society that has been marked by a large measure of political freedom, and that has not also used something comparable to a free market to organize the bulk of economic activity.”

At the meeting in Cambridge, there then ensued a discussion about the relationship between economic and political freedom. It became clear during the course of this discussion that while Milton and Rose Friedman’s

comment has been extant for more than several decades, there had been no serious attempt to explore the relationship between economic and political freedoms in a scholarly way. I decided at that time that such an investigation should be undertaken and was able to convince Rose and Milton Friedman to co-host a symposium to investigate these relationships.

In discussion, it soon became clear that the focus of this symposium should be somewhat broader than economic and political freedoms. As Milton Friedman noted at the time, in some important cases it is civil freedoms and not political freedoms which are of most significant interest and concern. Hong Kong, which has a trivial amount of political freedom, but enjoys civil and economic freedoms, is a case in point.

We were extremely fortunate to attract to the symposium some of the finest minds in the world, representing a broad cross-section of disciplines, including history, philosophy, political science, economics and the law. The papers, which were presented, and the very rich discussion and debate, which ensued, provide a fascinating exploration of this important topic.

II. A CONCEPTUAL HISTORICAL AND STATISTICAL OVERVIEW

Part one of this book provides a conceptual, historical, and statistical overview of the relationship between political, economic and civil freedoms.

The historical paper by Douglass North provides fascinating insights about the role which institutional developments and cultural heritage play in the evolution of democratic process. By comparing and contrasting the evolution of Britain and Spain, North casts into sharper relief the factors that have been important in the evolution of economic growth in the Western World. This paper is followed by excerpts from the book by Milton Friedman, with Rose Friedman, *Capitalism and Freedom* which I have noted above were in some sense the instigation for the symposium. The conceptual exploration of the relationship between economic and political freedom contains in the excerpts provides a timeless exploration the subject and this is evidence from the discussion led by Professor Gordon Tullock. There is also a considerable range of opinion about the issues, and certainly no consensus. There was, however, considerable progress made in isolating the issues which have to be considered in forming a judgment on the importance of economic and civil freedoms.

For example, it was noted that economic and civil freedoms have in common the fact that they are freedom from coercion by others, whereas political freedom, at least according to some of the discussants, was a pro-

cess whereby people relinquish their rights in a collective majoritarian decision-making process. According to some participants, if civil and economic freedoms are guaranteed then participation in the political process is almost irrelevant in this sense.

While the direction of causality was not established, evidence introduced in the course of the conversation led to the definite impression that there is a correlation between the level of affluence and the likelihood that a nation will be politically tolerant and be respectful of democratic institutions. Professor Alvin Rabushka, referring to earlier work, noted that he had correlated the level of incomes with the political freedom indices produced by Raymond Gastil in his paper Part One. The unmistakable conclusion from Rabushka's work is that countries which have a high rate of growth and a high level of income are also likely to have political and civil freedoms.

An examination of the global record seems to strongly suggest that the existence of political freedom is not a prerequisite to the existence of civil and economic freedoms. Singled out for particular consideration by the participants was the fact that most people tend to associate political freedom with the existence of some majority rule. That is to say that legislation is determined by a simple majority of the populace and that all have the opportunity to participate in the electoral process. It was determined by the consideration of a number of examples that majority rule of itself has no particular virtues, especially if the majority decides to abuse the rights of the minorities.

III. CASE STUDIES

Hong Kong and Singapore

Part Two of this book consists of a collection of case studies in which countries from different parts of the world and existing in different cultural and environmental contexts are analyzed to discern how economic, political and civil freedoms coexist in these environments. The first paper in Part Two, by Alvin Rabushka, deals with the two city states Hong Kong and Singapore. The paper, and the subsequent discussion, confirms the impression that both these countries have done remarkably well in protecting economic and civil freedoms without access to political freedoms in the ordinary sense. In the case of Singapore, a one-party government has denied the citizens effective political choice whereas in Hong Kong the colonial status has meant that people have not engaged in political activities of any significant nature.

Not only is the conclusion that countries have been able to prosper in spite of having no political institutions, the judgment is that they have prospered because there have been no political institutions. Much of the discussion centers on the unfortunate proclivity of the political system to be used for what Gordon Tullock described and Anne Kruger has dubbed “rent shocking behaviour.” This involves the use of regulations and legislation to benefit one group of citizens at the expense of another.

While enjoying substantial amounts of economic freedom, neither Hong Kong nor Singapore which has had a long tradition of government activism with regard to such institutions as the Central Provident Fund and other social engineering types of policies. On the other hand, it was also noted what while Hong Kong is subject to economic regulation, by comparison with any other developing country, it is undoubtedly the most economically free country in the world.

While the lack of political institutions has been an important ingredient in Hong Kong’s past economic success, as the end of colonial status approaches and the beginning of the People’s Republic of China hegemony becomes important after 1997, the conclusion is that political institutions may be the only thing that can act as a buffer between the PRC and Hong Kong’s economic and civil freedoms.

Africa

The second paper in part two by Lord Peter Bauer examines the interaction of economic growth, political sovereignty and freedom in black Africa. Bower notes that the colonial managers of black African states left an administrative residue which has subsequently become the “ready-made” framework of economic totalitarianism.” Also according to Lord Bauer, the subsequent behaviour of Western politicians, civil servants, academics and people in the media, have tended to reinforce totalitarianism and encourage despotism and lawlessness in black Africa. Economic aid has largely underwritten unsuccessful and intrusive economic policies which in the absence of aid would have led to economic collapse and the necessity to face the consequences of those policies. But aid has also shored up totalitarian political behaviours of the region as time and again Western countries have provided military, financial and moral support for leaders engaged in the systematic elimination of economic, political and civil freedoms.

Ironically, according to Bauer, it was the economic apparatus of marketing boards and import controls erected by colonial managers which have

been the principal instrument of economic destruction in these countries. The fact that the same basic policy apparatus could under colonial administration lead to relative prosperity and in the context of political and tribal rivalry lead to economic demise is a telling commentary of the relationship between political and economic freedom. But, as Bauer notes, an even more poignant comment on the consequences of providing African states with their sovereignty is the large numbers of blacks from all over Africa who travel long distances to attempt to get into South Africa where black peoples are said to be enslaved by the current system.

As Sir Isaiah Berlin noted in 1958, the notion of liberty is a concept of such porosity that there is practically no interpretation that it is capable of resisting. The confused identification of the sovereignty of African governments with the freedom of Africans as an example.

During the course of discussion, while there were no firm conclusions, there was a kind of concensus that Africa does provide a large number of examples of the misuse of political power by incumbent governments and the crucial role which protection of civil rights and economic rights has for economic development and political stability. The resounding message from Africa is that those who are seriously interested in the freedoms enjoyed by people must not be misled to believe that political freedom, in the sense of freedom to cast votes in an election can in any sense guarantee freedom from capricious violence administered by the state. The economic success stories of Africa occur in those jurisdictions where civil rights are preserved and where a measure of economic freedom has been ensured.

South America

The paper by Ramon Diaz dealing with the puzzle of economic, political, and civil freedoms in South America is in some ways a melting pot for many of the concepts and notions which emerged in previous discussions and in many previous papers. It reflects the insights about institutional and cultural attitudes contained in the first paper by Douglass North. Diaz sets for himself the task of explaining why an area with such economic promise as South America could have lapsed into the economic and political difficulties which are endemic to the region.

Diaz hypothesizes and the subsequent discussion confirms that, in part, the difference between South America and North America is that South America was inspired by a Rousseauian concept of the appropriate role of government whereas in North America and the Lockean notion of limited government was much more prevalent. Cultural differences have also

apparently proved important, particularly the pervasive impact of mythological thought and romanticism in Latin society.

Sweden

The paper by Ingemar Stahl notes that many of the discussions about the relationship between rights and freedoms is often marred by a lack of precision in the terminology used. Stahl proposes an approach to the discussion about freedoms and civil rights which relates these to contractual relationships between individuals and the State. Freedoms in this sense are bundles of rights which will be more or less extensive in different states depending on the regime pursued.

This was found to be quite a useful classification system and it sharpened somewhat the nature of the discussion. The discussion itself focused more on the extent to which the relations between the State and the individual really are voluntary in the modern welfare state, and in particular, focused on the issue of Sweden's economic performance in the light of the fact it is a highly redistributive state.

In discussion it emerged that the Swedish case is not, in many respects, what it appears, because much of the economic success in Sweden occurs within the export sector which is very lightly regulated. This is one of the reasons why the Swedish economy has performed so well notwithstanding a significant welfare state apparatus. Another point, which arose from the discussion, was the very important question of the extent to which the modern welfare state apparatus really is coercive. If citizens believe that other citizens are bearing the cost of the programmes, which they themselves particularly subscribe to then they are, in effect voluntarily concurring with arrangements which, while not in their interest, seem to be in their interest because of a lack of transparency of the costs and benefited associated with their actions. Discussion of the Swedish case, in particular, revealed that there are many lapses and many imperfections in the conceptual framework which economists and political scientists bring to the analysis of the relationship between economic, political and civil freedoms.

Yugoslavia

The final paper in the volume by Svetozar Pejovich deals with innovation in economic systems and while at first blush seems to be unconnected with the rest of the papers in the volume, in fact initiated a discussion which

neatly enveloped much of the discussion which had proceeded. Innovation—the introduction of something new—occurs in economic, political and scientific as well as other aspects of human existence. The amount of innovation, in its broad sense, that can occur in a society depends to a considerable degree on the relationship between individuals and on the relationship between the individual and the State.

As emerged in the conversation, as long as people are free to make contracts with each other about how they will treat each other and even if those contracts involve restrictions they nevertheless enhance the amount of freedom in the sense of the amount of choice that people have. It was noted, for example, that contracts between inventors and those given the rights to use their inventions, while often quite demanding contracts, in effect are intended to provide the user with sufficient latitude to use the innovation in a creative and potentially novel way. The only way the inventor will be inclined to encourage this to happen is if there is some equitable sharing, from the inventor's point of view, of the fruits of that arrangement.

One of the kinds of innovation that can occur in a society where people are free to contract and recontract and make choices is a new institution. Elections are a process whereby people change governments and the freedom to do that is the freedom to innovate in the political area. Freedom of speech is the freedom to bring new ideas or new perspectives on old ideas to a society, while the range of civil rights which are often the concern of civil libertarians and libertarians are the rights to be innovative in personal behaviours as long as those behaviours don't impose costs on others. From the point of view of society's economic growth and development, the most unimportant right is the right to innovate, to bring new products, new methods of production and new pricing information to individual interactions.

The papers and discussions contained in this volume are by no means presented as a final or definitive word on the relationship between economic, political, and civil freedoms. The ideas recorded here are both novel and hackneyed in the sense that the themes are some of the oldest which have occupied thinking people for the course of human history. They are novel in the sense that little attention is paid to them by formal economists, by political scientists or by others into whose realm of analysis the issues do not quite squarely fall.

For those you have an interest in pursuing the issues discussed in this volume, I am pleased to say that the symposium on which this book is based is the beginning of a process which will continue for many years. Thanks to the agreement of the Liberty Fund, Inc. to provide funding, a series of discussions about economic freedom will be conducted at the

Fraser Institute during 1988 and 1989. For that reason, this book has been entitled Volume I and subsequent excursions in the series will be published in subsequent years.

The papers and the opinions expressed in this volume have been independently arrived at by the authors and as a consequence may not reflect the views of the members, the trustees, or others who financially support The Fraser Institute. Nevertheless, the Institute is especially pleased to have the opportunity to present the views of these learned scholars in the hope that it will stimulate further discussion and research by others.

Michael A. Walker
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The Fraser Institute