Freedom and Equality: Two views of the Liberal Market-Democracy Link
What is your tolerance for economic inequality?

A. **High**  I know that the market creates inequalities but everyone is better off in a market economy than in any other type of economy.

B. **Medium**  I want a short-medium term social safety net to allow those who have failed in the market to get back on their feet.

C. **Low**  I believe that society should maintain the market but provide the government with the capacity to redress the economic inequalities that it creates.
The Freedom-Equality Spectrum

Freedom

Economic Liberalism

State Intervention in the economy
- promote efficiency
- Protect rights

Political Liberalism

Distributive Justice

Social Democracy

Equality

Holmes

(Guerovitch)

Marx

Socialism
Liberalism inherited the values of both Freedom and Equality + both reject arbitrariness

- Economic Liberalism: rich and poor have equal freedom in the market under the non-arbitrary “Rule of Law”
- Political Liberalism: market freedom + emphasis on equal rights
  - Market is arbitrary so
  - State must take action to ease economic inequality
- And here is the logic of the argument
Review: What is “justice” or “fairness” in income distribution?

- **Feudal system**: distribution based on factors beyond individual control—arbitrary
- **Liberal concept**: Blind Justice. It applies to all equally. Feudal distribution is unjust
- **Economic Liberals**: The market system is more just, still arbitrary and creates inequalities
- **Economic AND Political Liberals**: meritocracy is more fair but still arbitrary
- **Political Liberals**: The Redistributive Principle best meets criteria of both freedom and equality
Socioeconomic Status of Students in Selective Colleges

Percentage of Disadvantaged Students Admitted to Selective Colleges by High School Class

- Top Quarter: 74%
- 2nd Quarter: 16%
- 3rd Quarter: 7%
- Bottom Quarter: 3%

Percentage of Disadvantaged Students from Each Quartile

[Bar chart showing distribution]
Redistributive Principle

unequal but still free
The Market system

• Economy: Market provides entitlements but not what we necessarily deserve.....we share because we belong to a Community
Should we be free to own all of the fruits of our talents?

Or Are our Talents collective assets?
Markets and Democracy
Why markets and Democracy are good for each other....

• Markets create more wealth than any other system
• Markets spread the wealth
• And markets also diffuse power
• Democracy is the best way to organize diffuse power
In fact, Markets create democracy!

• “habits and values of a market economy, when transferred to the political sphere, make for a democracy.”
• Even China has a growing middle class which will press the state for democracy.
• And it will eventually win
And Democracy creates markets!

- Democratic governments provide more constraints, more separation of power than authoritarian govts.
Economic liberals sometimes argue that Democracy Undermines the market:

- The reasoning is that markets require economic competition and a minimal but strong state that ensures competition;
- But democracies are vulnerable to interest group and populist pressures that distort markets through taxes and regulations (especially labor demands need to be constrained because they prevent capital accumulation.)

Pundits like Thomas Frank deplore the role of interest-group lobbying, but aren’t we all part of some interest group or other?
Free, unfettered Markets lead to income inequality
Political Liberal argument: wealth inequalities lead to power inequalities

[Image of a cartoon showing a figure with a bag for a head and a speech bubble saying, "THE SUPREME COURT OKS ELECTION SPENDING BY CORPORATIONS...AND TO THE CORPORATIONS, FOR WHICH IT STANDS."]
Large corporations spend the most lobbying congress.
Also....Double movement is inevitable: People will protest economic inequality because it undermines political equality
Protest leads to repression

• Market reforms create opposition
• So in order to push through market reforms, politicians have to be authoritarian
• the process of democratization will be sacrificed at the expense of market liberalization
• And that sacrifices future democratization
• politicians recognize that market reforms will face significant opposition, so they resort to political tactics like (1) policymaking by presidential decree, (2) bait and switch campaign tactics, and (3) the isolation of economic reform teams from congressional and public oversight

which are undemocratic methods. as a result, the process of democratization may be sacrificed at the expense of market liberalization. and potentially, these undemocratic methods could become precedent, harming the chances for future democratization. This refers to situations in which candidates run on an anti-reform platform only to enact market reforms once elected.
Empirical evidence that Markets don’t lead to democracy

In fact, countries that have participated in the market and grown fast over the past 50 years—or over the past 150—haven’t shown a greater tendency to become democratic.

Russia: If suddenly the price of oil increases and it becomes much richer through the market, do we expect it to become more democratic?
Not only do Markets NOT create democracy.......  

- They may actually destroy Democracy!
In fact, some say that democracy requires a redistributive state! Social democracy
Summary of The Possibilities: Know the logic behind each one

• Two economic liberal perspectives
  – Markets and Democracy work together
  – Democracy undermines the market

• Two Political Liberal Perspectives:
  – Markets hurt democracy
  – Democratic Socialism!
Some problems with all of the above: contingent nature of the relationship

– Whether democracy and markets fit well together depends on
  • When countries enter the market
  • When they industrialize
  • Where they fit in the international system of power and wealth
  • We will talk about this later in the course
And how we define democracy

- we often conflate liberalism with democracy.

**Dysfunctional Democracy**  
**Illiberal Democracy**

- Dysfunctional Democracy
  - WHAT'S DEMOCRACY?
  - DEMOCRACY IS THE FREEDOM TO ELECT OUR OWN DICTATORS

- Illiberal Democracy
  - COURAGEOUS REPORTING... READ THIS BOOK!
  - GREG PALAST
  - An Investigative Reporter Exposes the Truth about Globalization, Corporate Cons, and High Finance Fraudsters
What happens to the political economy of freedom in all of this?
And how we define democracy

Dysfunctional Democracy

Illiberal Democracy

The Best Democracy Money Can Buy

Greg Palast

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