

Free Market and Democracyⁱ

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Abstract

Keywords

1. Introduction

After the end of the Cold war, Democracy has become a worldwide reference for political regimes (Fukuyama 1992, 2014). Notwithstanding the partial failure of the fourth waves of democratisation nor the process of de-democratisation, democracy is still by and large the most relevant political regime of the last centuries (Cassani, 2012). Its revolutionary proposal, compared with the traditional, authoritarian and totalitarian regimes, governing humankind since the beginning, has freed humans, transforming passive subjects into citizens. The research on democratisation as well as on the quality of democracy, vary on the point of the role played (if there is one) by the free market system on democratisation. Moreover, quite surprisingly, there is a recurrent misunderstanding among scholars who confuse capitalism with the free market system.

The controversial relationship between democracy and free market has been stressed in the last years as one of the main causes of the economic, financial, social and political crisis. The last decade may have proven that the distortion of the free market has been accompanied by a regression of the quality of democracy in some countries, as well as it may have dumped the consolidation process of democracy and the installation process of democracy in other countries. Starting from the same theoretical approach and discourse of Giovanni Sartori (1993: 239-240) the paper will try to complete the optimisation role that Sartori provides for the free the market system with the more substantial necessary condition (which is?).

The purpose of this paper is to explain why and to what extent free market is a fundamental variable for a proper and vital democracy. However, it will be noted that there are many countries with poor democratic systems but with decent market ones: for these cases the objective is to demonstrate that the market has simply not fully played its

action in these countries. When the market deepens and expresses itself, democratisation is facilitated, both in the installation process and in the consolidation process. On the contrary, a flawed or even an absent market could compromise the process of democratic consolidation in some cases, or hinder the establishment of democracy in cases where it is not present yet. The paper will analyze the role played by the economic dimension in the crisis/collapse of non-democratic regimes, the instauration and the consolidation of democracies, with the aim of contributing to an interpretative theory to explain democratization processes, including the democratic transition paradigm.

What endangers the democratization process is not the free market but the absence of it, even in those countries that have embraced capitalism, the international economy and the global competition. The hypothesis is that non-Western countries have poor scores in these dimensions and thus they reject the Western democratic model. In this prospect, the relationship between democracy and free market fosters the possibilities of democratic transition everywhere it functions properly, thanks to the fundamental role of inclusive institutions and free market rules and culture (Acemoglu and Robinson 2012). The implementation of the free market can deepen the level of inclusion in a society through the competition, the circulation of information and the opportunities for a wider part of society.

The hypothesis to control is that the free market variable is a crucial factor for the democratization process in all its main phases. On the contrary, the failure of the free market is co-responsible of the failure of the democratization process. Four dimensions, that feed the relationship between free market and democracy, will be controlled: private property; middle class, civil society, trust and compromise attitude (Mandelbaum, 2007). These variables will be analyzed thorough a theoretical framework (L. von Mises, H. H. Hoppe, J. Buchanan, P. Boettke) and operationalized through index of market and democracy performance such as Freedom House, and the Index of economic Freedom. Relevant empirical indicators will be used, those elaborated by Freedom House for the democratization process and the those of the World Bank,

the IMF or the Index of Economic Freedom for the free market. The paper is organised as follows: in the first paragraph a theoretical background will be provided; in the second paragraph the conceptual confusion between free market and capitalism will be investigated and eventually disentangled; in the third paragraph the methodology of the study will be presented, discussing the relation between free market and democracy; chapter four will provide the core analysis: the role of free market in designing democracies will be thoroughly explained; finally the conclusions will be drawn. The challenging hypothesis is that the free market is the invisible determinant variable of the democratisation process, in all the envisaged notion of democracy.

2. Free Market and Democracy. Theoretical Background

The impressive advancement of democracy in the last decades has ended up with a decline in the quality of democracy and in a democratic crisis eventually, in the period that followed the financial, economic, social and then political crisis of 2008 (Crouch 2004; Zakaria 2007, Habermas 2012). Financial capitalism has been mostly blamed for this decline because it raises inequalities eroding the middle class and curbs the powers of Parliament and the power of governments.

Considering the normative definitions of democracy developed in the literatures, it is possible to distinguish liberal representative democracy, responsive democracy, Seymour deliberative democracy, associative democracy, egalitarian or social democracy, good governance, good democracy (Morlino 2012: 35). The classical notion of liberal democracy emphasizes the procedural features of democracy which are accountability, responsiveness and the rule of law, as well as competition at the core and effective freedom to complement them (Mill 1861; Schumpeter 1942; Dahl 1956, 1970; Sartori 1957, 1987). In this regard, responsive democracy (Dahl 1970, May 1978) contains significant content of procedural democracy when it envisages the necessary correspondence between acts of government and the wishes with respect to those acts of the persons who are affected? (May, 1978:1). In participatory democracy (MacPherson 1977; Pateman 1970) the empirical referents are grounded on participation and freedom with redistribution and reforms benefiting the "have-nots" as aims that fulfil the meaning of participation. According to deliberative democracy (Cohen 1989, Habermas 1996, Bohman 1996, Elster 1993), the procedural dimension represented by participation and the content one represented by freedom, are central to this type of democracy. The peculiarity is the role of public discussion among free and equal individuals that can redefine the preferences of participants, reaching collective decisions on a different path from classical representative

democracy through organizational networks of civil society. Also, associative democracy deems a mix of procedural and content features, such as accountability, participation and freedom (Hirst 1997). A different level of participation regards forms of self-management by groups with deep-rooted social base and different forms of organization and action. Associative democracy entails participatory and deliberative practices by the organised civil society in order to solve collective problems and satisfy social needs in subsidiary or remedial action. The egalitarian or social democracy is grounded on the empirical dimension of equality and freedom, in the form of the Rawls (1971) property-owning democracy, stating that each individual has an equal right to a fully adequate scheme of basic liberties and social and economic inequalities have to be attached to positions open to all citizens under conditions of equality of opportunity and these must be to the greatest benefit of the most disadvantaged members of society.

Rule of law and freedom are the key empirical elements of good governance, intended as the capacity of the public sector of steering alone or in cooperation with other actors, the economy and society? (Peters 2008: 445). The normative dimension intervenes adding the adjective good defined for the World Bank (1992) as an efficient public service-, an independent judicial system and a legal framework to enforce contract; an independent public auditor, responsible to a representative legislature; the respect for the law and human rights; a pluralistic institutional structure, and a free press. Thus, the most significant empirical dimensions considered are: the rule of law, government effectiveness, legitimacy and voice, political stability and absence of violence, transparency, accountability, participation, responsiveness. A different approach is to examine how and to what extent contemporary democracy implements, with its policies, the values of freedom and equality. A good democracy is a broadly legitimate regime that satisfies its citizens. When they have the full backing of civil society, they can pursue democratic values. On the contrary, if they have to consolidate and maintain their legitimacy, they have to concentrate energy on building the basis of the democratic system itself.

The classical definition of market, states that there is an automatic mechanism determining costs and prices. Any time a plurality of individuals seeking an exchange, compete for the possibility to exchange, there is a market. More specifically, the market is the sum of the voluntary and pacific exchanges, with mutual advantages at agreed prices addressing the reciprocal demand. The individuals participating in the market are rational actors preferring the exchange as the best way to obtain what they need for other ends like self-production, stealing, public assignment by a central power, violence. This favour behaviour can be explained because the market is the most impersonal pacific relationship in which individuals can enter because

it is oriented considering only the interest for the goods at the core of the exchange, and no other values, group interests or moral duties (Weber, 1961: 624). As argued by Simmel (1984: 421) the exchange produces an increment of the total values perceived, because everyone offers to exchange only what he relatively needs, receiving for that a greater perceived utility. That is to say, the market system is the archetype of every rational social action (Weber, 1961: 619).

As Hayek observed, there are organised orders and spontaneous orders. The free market is a spontaneous order as previewed by the invisible hand of Adam Smith. It is formed as an unplanned process of aggregation of actions, aimed at solving problem by mobilizing relevant dispersed knowledge in an autonomous way and not governed by anyone. Market does not have functioning costs, it is flexible and sensitive to change, simplifies information and it is the complement of democracy. The idea that there are organised institutions formed thanks to unintentional actions, though being the results of the actions of many people, belongs, as it well know, to the tradition of methodological individualism. Starting from David Hume, Adam Smith and Bernard Mandeville, passing through Benjamin Constant and Alexis de Toqueville, as well as Georg Simmel and Max Weber, this tradition finds a theoretical framework with Carl Menger, Ludwig von Mises, Friedrich A. von Hayek of the Austrian School of Economics and more recently Karl Popper (Raffaele De Mucci, 2011). In order to have a proper free market system the only political system possible is modern democracy. The market deemed that the exchange relationships between sellers and buyers have to be free and not coordinated at any level of central political authority. The freedom of the law of the demand and the promise of payment by money is the only rule that these relationships must have in order to have a free market system. Only modern democracy protects private property, the concurrence, the free initiative and the law of demand and supply from state interference (Constant 1970: 252).

This conceptual proposal goes back to Schumpeter and the competitive theory. Comparing the market system to the political system, democracy is a political market, with political leaders that act as entrepreneurs, electors as consumers and propaganda as advertisement. The profit seeking becomes in politics the competition for power (Schumpeter 1950). Political participation of Dahl (1956) is higher when there is a wider market where individuals participate, trust and are informed. The market system, defined by Rothbard as a modern and infinitive network of exchange, was funded with the capitalistic society, becoming the fundamental feature for the democratic and liberal development of society. In the history of western countries, this system starts in the late Middle Age when barons succeeded in obtaining concessions thanks to the lack of a strong central power. This was the institutional cradle where civil society would have subsequently grown

in. The guarantee and the respect of the private property and the free entrepreneurship are fundamental to build an autonomous free market (Rothbard, 1993: 3).

A modernization process follows, with unwanted and unattended consequences overcoming the economic system and reaching deep modification in the political system. This process implies a deep modernization, with the renewal of the institutions, new values and the affirmation of modern society, secularised and ruled by individualism and scientific rationalism (De Mucci, 2009).

A Market economy system is essentially a system of economic democracy, the most secure foundation of citizens' freedom. According to Mises, as soon as the economic freedom of the free market system is removed, political liberties and the legal system become fake and fade away, and democracy perishes. For example, the freedom of media is fake if the political power controls all the press office and the printing industry (Mises, 1959: 272). The central role of money not only depends on the rational economic evaluation of cost and earnings that is possible thanks to its use, but also it exemplifies the spirit of modern rationalism, playing a social function in the modernization process of society (Simmel, 1998).

However, the market is cruel with the most disadvantaged, less skilled people, pushing individuals to always do their best and to compete strenuously, having as a fundamental law the success of the most talented people. Competition is the essence of the market, that it to say that a market system without intra-market competitiveness is not a market system at all. The misunderstanding could stem from the confusion between competition as the structure of the rule of the game, which is invariant, with the competitiveness, which depends on how the game is played, which can vary from the over-competitive to the non-competitive actions played by monopolies or oligopolies protected (?) (Sartori 1957)

Notwithstanding, the fact that the market law of the most talented people winning the competition is cruel, in social terms, meaning that the market is blind regardless of the individuals, it is true that this system works when considering the society as a whole. This perspective is usually reversed when the question is deviated on the hunt to capitalists. This is a mistake. The capitalist makes profits from the market thanks to market rules, but due to the same rules he can lose everything. The market is always a spontaneous order that invented the capitalists, not the opposite. Until the XIX century, capital was used to indicate the wealth and the word capitalist indicates just a rich person. Only with the industrial revolution the word capitalism was formed with meaning of the wealth for investment, whereby the industrial revolution implied for investors disposing of capital in order to buy machines that substitute labour. At this stage, capitalism became essential for the development of modern societies, both with free market economy or with a mixed or even a communist economy. Without capital there is industrial economy and

the technology factor do not exist. Thus the choice is between private capitalism and state capitalism. Classic liberalism distinguishes between protective property and productive property. The first one is essential for individual freedom, whereas the second one can be missed without endangering the individual freedom and thus the political freedom and democracy (Sartori, 1993:236).

One of the main arguments against the free market is that it is unequal and selfish, the principal cause of the financial, economic, social and political crisis started in 2008 that have led many countries in the international community into the morass of recession. However, the market is a subsystem of the economic system and the market is not to be confused with capitalism. Sartori (1957) explains how this misunderstanding is possible. There are a couple of imprecisions defining the market that are still working today, misleading the debate on the relationship between market and democracy. Scholars, politicians and public opinion quite often mismatch market with capitalism, which instead are two different concepts.

Another significant contribution to the debate on the role of the free market comes from Charles Lindblom with his work *Politics and Markets* (1977). The idea is that the economic power limits the freedom of political power in liberal democracy and thus a controlled and planned market can be the right balance, in order to contain the pressure of oligopolistic powers. He conceals a model of state-authority, where authority control is often costless, and a model of market-exchange, in which a person renounces to a certain value to convince the other person to do what he is asking for. The most interesting part of this work is the analysis of the relationship between free market and politics. He deems that even if the market has very little democratic goals, political democracy exists only within free market economy system. He starts considering that market and polyarchy are means of controlling political authorities. Polyarchies, defined as system of social controlling of authority, were installed with the market system to conquest and protect some liberties, like private properties, freedom of entrepreneurship, and freedom of negotiations. The liberal state had the goal to organise the requisite for the consolidation of a free economy capitalistic system. On the other hand, it is not possible to have a polyarchy without the free market, but there are many free market systems without polyarchy (Lindblom 1988). The central role played by entrepreneurship in playing some public functions justifies the public intervention supporting some private sectors and big firms by the state. This is the point where Lindblom shifts from the domain of the free market on democracy to the domain of capitalism on democracy. The hypothesis of big firms controlling the state thanks to their privileged positions is the consequences of bad functioning of the free market. It is not the private property of production factors that distorts the free market game.

In order to have a market economy system the central

political power authority should not intervene even in coordinating the relationships between vendors and sellers that must be left to the free game of parties and settled through a money promise of payment (Lindblom, 2001). This system postulates the construction of the modern democracy as described by Benjamin Constant, a political and legal system that guarantees the free initiative of individuals, the private property, the concurrence and the spontaneous game of the demand and supply, limiting the intervention of the state (Constant, 1970:252).

3. Free Market and Capitalism: A Conceptual Confusion

Max Weber offers a preliminary definition of capitalism as the pursuit of profit, and forever renewed profit, by means of continuous, rational, capitalistic enterprise. He considers six fundamental elements in his definition: free labour, rationality, the continuous enterprise, the impersonality and the centrality of cities and towns. As deemed by Sartori (1991, 2008: 57 -59) free market and capitalism are different, implying that there are some countries being capitalist without free market institutions and other countries that adopt free market institutions but still are not capitalist. Thus some undemocratic countries with effective capitalistic economies do not falsify the positive action that the free market institutions and culture exert on the democratization process.

Capitalism can be defined as «a system of exchange that depends on the economic freedoms to own private property and to buy, sell, and invest the property as one wish. Unless people can own and exchange property without worrying that a central authority will confiscate it, they will have little incentive to save and invest. Unless they can keep most of the fruits of their work, they will also have little incentive to work hard. (Kuerian et al., 2011, p. 188). There are three dimensions that emerge from this definition: the private property, the consensual exchanges and the respect of agreements (Hume, 1978).

In the last years, the deviation of capitalism from its path has brought an increasing large part of the scientific community and the public opinion to confound the right critics to the deviant capitalism, like the cronyism or all other possible degenerations, with the critics to the capitalism itself, and more surprisingly, with the free market system. Indeed, the consensus on this severe and wrong judgment over the free market system is so large that even the *Encyclopaedia of Political Science* reports this view, deeming that capitalism can endanger the democratic system: «firms and industries seek competitive advantage over one another through laws and regulations that favour them over their rivals. They employ ever increasing numbers of lobbyists, mounting campaign contributions, and costly media campaigns. This escalating arms race drowns out the voices of average citizens.[..].

Under this scenario, politics comes to represent the interests of companies and financial institutions and their executives and investors, more than the interests of ordinary people» (Kurian et al., 2011: 189).

The pressure exerted by companies on public authority in order to obtain privileges and develop forms of protectionism, of forming private monopolies or oligopolies using the regulation is a degeneration and a deviation of the proper functioning of the free market through the capitalism. The real problem is to find the check and balances and the right regulation that give democracy the power to minimize these pressures and let the free market system the freedom to operate.

Therefore, the problem is not the free market system, from which comes basically not only the wealth of contemporary democracy but also the cultural and ideological structures, nor is the capitalism, when it works properly, without any distortion. The problems come from the bad working of the capitalism due to the concentration of power in few economic actors who behave as oligopolies and do not respect the rules. Indeed, though the perfect conditions of the free market are just theoretical, there is a practical functioning of the free market system that can be described from an operative definition of the free market that fosters democracy.

The free market has its own weak points. The market is not able to address the needs of “collective goods” and what economists named “natural monopolies” like police, security and streets and even more complicated cases related with the problem of positive and negative externalities, like forests, rivers etc. Moreover, the market is near-sighted and slow, or as they said, market do not clear, and it is not concerned about the problem of scarcity, feeding a unsustainable and unacceptable development that could lead the humanity to the past of poverty and famine.

There is the risk that democracy as a form of government deceives democracy as political idea (Dunn, 2006: 79). Indeed, today super capitalism has exacerbated this problem (Reich, 2008), with the consequences of the economic globalisation that have pressured democracies to lift rules in order to be more competitive. The results are disarticulated societies, weaker welfare states, freedoms not protected for everyone at the same level. However, this is not a free market system, because is distorted by the corruptive action of the super capitalism, looking for a way to divert the rule of the fair competition in order to have competitive advantages. The idea that the free market is against the solidarity is misgiving. This economic system is the most desirable to assure the more wealth to a wide number of people and thus it has the capacity, and the willingness to assure a minimum income to everyone (Hayek, 1986:429).

Since the pioneer work of Apter (1965) the role played by the modernization in the democratization has been exposed to conceptual confusion and dumping in favour of the development theories. To begin with, Apter proposed a

clear distinction among modernization, industrialization and development, offering a typology of political systems in which the combination of a pyramidal authority based on accountability and instrumental values based on a conflict of interest and secularization, are promoted at higher level of industrialization as the basis of democracy (reconciliatory system). Far to being conclusive, in his late works Apter still underlined the need to study modernization theory under an innovative perspective considering the contradiction of development and the conflict of social classes in advanced industrial societies (1987).

The discourse on democracy and free market has been complicated by the modernization theories, for which the economic development generates democracy. The richer a country is, the more chances it has to sustain democracy (Lipset, 1959: 49-50). The key argument of this approach is based on the idea that economic development laid the foundation for a series of deep changes in the society that acting together can result in a process of democratization. Wealthier countries tend to boast higher levels of education, more advanced tools of communication, elevated index of urbanization as well as greater social mobility and equality which also results in a large middle class. According to Lipset (1959) all these features can be related and required for the realization of a democratic transition and its consolidation. Thus, modernization manifests itself principally through social changes which, in turn, promote a democratic culture. One of the most fruitful and long lasting research agenda in social sciences has developed following the empirical comparative studies investigating the relationship between economic development and democratisation. A flourishing literature has been dedicated to the theme (Rostow 1959; Barrington Moore 1966; Rueschmeyer et al 1992; Muller 1997; Olsen 1968; Inglehart 1997; Vanhanen 2000). Over the years, sophisticated models have been set up in order to get reliable findings. The work of Przeworski and Limongi (1997) based on a sample of 139 countries and encompassing a rich time series data contributed to develop the theory of the economic development as exogenous and endogenous cause of democracy, depending from the circumstances. Epstein et al. re – interpreted Przeworski (1996) analysis underlying the statistical significance of the effect of per capita GDP on transition to democracy and other scholars suggested that income inequality and social mobility can act as casual mechanism fostering a democratic transition (Boix 2003). A further significant approach is proposed by Inglehart and Wezel, focusing on the role of ordinary citizens in the democratisation process, capable of conducting macro – orientation changes and request of effective freedom, which reflect in a change of the political institutions, starting from the micro changes of value. The modernization approach and, in particular, its economic dimension, dominated the comparative political research agenda. Its success was determined by the

comprehensiveness of concept of development, including both a social and economic sphere.

The modernization theory states that economic development boasts democracy, because at higher levels of income voters will be more willing to accept the re-distributional consequences of democracy, development is generally correlated with a low level of inequality, in the long term, and it is linked to a shift in the nature of wealth, from fixed assets, such as land, to a mobile capital, with more educated and secularised citizens demanding political participation and democracy. This relation is confirmed by empirical analysis over the period from 1800 to 2000 (Polity IV dataset) showing the impact of per capita GDP on the development of democracy globally. This relation, however, is not confirmed in many countries in transition in recent years, when many undemocratic countries experienced rapidly industrialization and development without starting significant democratisation process. A country's level of natural resource rents – defined as the share of GDP that stems from natural resource extraction – is a significant negative predictor of level of democracy. The debate on the (un)sustainable development is coming to an end on this faith, because the planet entered since 1970s in a period of growth no more compatible with the limited resources. Moreover, several countries on the path of development were not implementing at all any form of democracy.

4. Measuring the Relationship

To control the relationship between democracy and free market systems, relevant empirical indicators will be used, like those elaborated by Freedom House for the democratization process and those of the World Bank, the IMF or the Index of Economic Freedom for the free market. The hypothesis to control is that the free market variable is a crucial factor for the democratization process in all its main phases. On the contrary, the failure of the free market is co-responsible of the failure of the democratization process.

The cross-section takes into consideration some major countries representatives of the contemporary International Community. They are nineteen and they are: Australia, Brazil, Canada, Chile, Denmark, France, Germany, Ghana, Greece, Italy, Ireland, India, Israel, Japan, Poland, Serbia, South Africa, United Kingdom, United States. These countries were chosen on the basis of two criteria. The first one is geographical: in the sample there are countries from all the continents in the right proportions. The second criterion reflects the quality of the democracy: different levels of democracy are worthily represented, and the sample represents all kinds of degrees, from top-ranked Canada to the backward India. In addition, the decision for choosing the sample was also made in order to include particular and explanatory cases, useful for the purpose of

the analysis.

The free market system will be analysed using the Index of Economic Freedom, produced by the Heritage Foundation on collaboration with the Wall Street Journal. The economic freedom is the theoretical foundation and the essential pre-condition of market economy. As a consequence, the more economic freedom is guaranteed within a country, the more the country will enjoy a stable and free - market economy. The index of Economic Freedom considers ten variables each corresponding to a specific economic freedom: corruption in the judiciary and government bureaucracy; non-tariff barriers for trading; the fiscal burden of the government, encompassing income tax rates, corporate tax rates and trends in government expenditures as a percent of output; the rule of law; the regulatory burdens on business; the freedom from restrictions on financial services; labour market regulations. The ten factors have the same weight and significance in determining the economic freedom for each country.

The indexes considered for democracy are two: "Freedom in the World" by Freedom House, and the "Democracy Index" by the Economist Intelligence Unit. The first one is an annual global report on political rights and civil liberties, composed of numerical ratings and descriptive texts for each country and a select group of related and disputed territories. The data used are from the 2016 edition covering developments in the selected countries from January 1, 2015, through December 31, 2015. Assessing the real-world rights and freedoms enjoyed by individuals, the report controls the state of democracy. Considering the same scale of scoring between the Freedom House and the Index of economic Freedom the comparison is easy. The former has the highest scoring possible of 40 for the political rights checklist plus 60 for the civil liberties checklist with a total of 100.

Countries with the greatest degree of freedom with the status of Free for the Index are democracies. They enjoy a wide range of political rights, including free and fair elections. A possible level of political corruption, the limits on the functioning of political parties and opposition groups, and foreign or military influence on politics do not alter the democratic status. At the same time, they enjoy a wide range of civil liberties, including freedoms of expression, assembly, association, education, and religion. They have an established and generally fair legal system that ensures the rule of law (including an independent judiciary), allow free economic activity, and tend to strive for equality of opportunity for everyone, including women and minority groups. They could have a lower score than 100 if they have weaker civil liberties because of limits on media independence for example, or restrictions on trade union activities, and discrimination against minority groups and women. The Freedom House methodological note deems that the gap between a country's or territory's political rights and civil liberties ratings is rarely more than two points. Politically oppressive states typically do not

allow a well-developed civil society, for example, and it is difficult, if not impossible, to maintain political freedoms in the absence of civil liberties like press freedom and the rule of law.

The second index used in the analysis is the “Democracy Index” by the Economist Intelligence Unit. This index is based on 60 indicators grouped in five different categories measuring electoral process and pluralism; civil liberties; the functioning of government; political participation; and political culture. It distinguishes the 167 countries analyzed in four categories: full democracies, flawed democracies, hybrid regimes, authoritarian regimes. The measurement is made on a scale from 1 to 10, rounded to one decimal. Unlike the previous one, this index puts less emphasis on freedom and rights focusing more on the elements of political participation and functioning of government. It is also a more intuitive and immediate index, more versatile to use, especially in a comparison phase. For this reason, it will be extensively used during the analysis.

4) The Free Market system as fundamental variable?

The free market pushes democracy on a higher level. When the free market is weaker, also the score of democracy is low. However, there are significant exceptions and for some countries this relationship seems to be not so evident. The analysis will be threefold. First it will consider the countries where the correlation is strong. Then it will consider the exceptions. Finally, the countries where the relationship is not so evident will be examined.

Australia, with Canada, the United Kingdom, Denmark, Germany, Japan and to a less extent the United States are the countries with the highest score on the Index of Economic Freedom that present as well the highest score on democracy considering freedom in the World index of the Freedom House. Evidently, they all are Western countries with a well-established tradition of free market and liberal economy. The first group can also include Ireland, Poland and Israel, where the correlation between democracy and free market is not completely evident but it can still be envisaged to a lower degree for specific reasons.

Starting from Australia, Canada and the United Kingdom, belonging to the Anglo-Saxon culture, they are vibrant free market systems that foster strong democracy. The high quality of the rule of law, measured economically with the indicators of the security of property rights and the freedom from corruption, as well as the regulatory efficiency, especially in terms of the business freedom creating an environment highly conducive to entrepreneurship, and the openness of the market, foster the quality of democracy in these countries. The secure enforcement of contracts, the highly unusual practice of expropriating and the protection of property rights are some of the variables that create an environment necessary for democracy to flourish and to remain stable. Starting a business is very simple, the government tends to withdraw from most areas of the market and markets present a very

high level of openness, shaping strong free market democracies.

Australia has recorded significant economic freedom and strong democracy, leading also to an economic progress without a single recession for a quarter of century. Regarding Canada, although the 89% of the country's land area is owned by the state, the remaining 11% privately owned is very well protected. Opening a company requires only one procedure and flexible labour regulations enhance employment and productivity growth. For the open market, Canada average tariff rate is 1.5%. The United Kingdom's demonstration of high resilience against the Eurozone crisis and regional uncertainty may have got too far, with the Brexit vote. However, the economic freedom in UK is very high, with fiscal adjustment used to restore economic dynamism, steadily reducing the budget deficit, with the corporate tax being cut from 28% to 20% and new announcement of reduction.

On a slightly low level of economic freedom are Germany, Denmark and Japan, still presenting very efficient institutions with political and social stability. The rule of law is firmly respected, with very low levels of corruption and protection of private property strongly reinforced, a good independent and fair judicial system institutionalized through the economy, consent business freedom to be very consistent, thanks to a flexible hiring and dismissal regulation and the market very open, as all the EU members with the average of 1% tariff rate. But these countries experimented significant if not high level of public spending, accounting for over half of the GDP for Denmark, for example.

Germany has a strong free market economy considering the main indicators controlled, except some weakness in the labour freedom and the fiscal freedom, where employers and workers privileged a cooperative approach. The top individual tax rate and the total tax burden are not low, being the 45% of the total income and the 36.7% of the GDP. Moreover, the prices in some economic strategic sectors, such as house rental are controlled, to the bias of the free market theories.

Underpinning the correlation under investigation, Japan presents the slowness of the fiscal reform process, due to an expansive monetary policy to reduce the Japan's large debt burden, decoupling the size of the economy. Like in Germany, also in Japan the realm of the regulatory efficiency presents some shadows, dumping productivity, because of the rigidity of labour market, the propensity for lifetime-employment and seniority-based wage.

Denmark recorded a significant period of regulatory efficiency and the implementation of open market policies encouraging flexibility, competitiveness and an environment attractive for entrepreneurial activities. For the country it should be mentioned also the monetary stability well established.

Democracies in these countries benefit considerably from the presence of a well-functioning free market system.

Traditions, different political cultures and redistributive policies contribute to positioning them at a lower level of free market system in order to reach other political goals. But these are conscious and deliberate policies of their governments that accept a certain level of trade-off between free market and redistributive results without undermining the strong fundamental of the free market system.

United States concludes the first group of countries where the correlation between free market and democracies is strong. However, the economic freedom has constantly been decreasing in the last eight years in the US. The vibrant entrepreneurial growth of the United States has been upset in the last years by wide government policies in different areas, from healthcare, to education to energy. President Obama's engagement in expanding welfare and thus government spending has not addressed the need to recover the low productivity of the US economy and the low "quality" of a large part of the new hiring. The weak and uncertain foreign policy line on several issues has weakened the Obama administration, making deeper the escalation of political tension inside the country related to racial, religious and social fractures revamping in many states. Indeed, the social problem of racial discrimination, the dysfunction in the criminal justice system, the increasing role of private money in the electoral campaigns, the legislative gridlock, the delusion for the failure of the administration in enhancing government openness, confirm the difficulties the democracy in United States is experiencing. In the last years, the moderate contraction of the economic freedom has been followed by the worsening of the democratic quality of democracy.

On a different scale, the group of countries represented by Ireland, Poland and Israel presents a possible correlation between free market and democracy but less evident. Ireland follows the same path of the Anglo-Saxon countries, to a less extent, with strong free market economy and a sensitive democracy dumped by the burden of public debt. This problem lowers both the quality of the free market and the democracy. The high level of economic freedom in Ireland pushes the growth of the country but not the score of democracy. The weakness and structural problem of the economy due to the ratio of public debt to GDP are dumping the potentiality of Ireland. The government should try to solve in the near future this problem. After the financial crisis following the speculative bubble of 2008, the government of Ireland decided to nationalize several banks and accepted the EU-IMF rescue package, reaching an agreement with ECB to restructure loans and ease the debt burden.

The weak point of the free market in Ireland is the low management public finance. Combined with a modest but recurring level of corruption, including cronyism, political patronage and illegal donations have direct consequences on the social balance and the tenure of the Irish society. From this channel the quality of democracy is affected in a

bad way. On the other hand, democracy in Ireland benefits from significant institutional strengths determining a good score of democracy. Indeed, the protection of property rights, the judicial system and the business freedom are well organised and well performing.

Poland shows an interesting trend of the free market and good level of democracy, with a consistent rule of law, especially in the protection of property rights. On the other hand, the correlation under investigation is not exactly confirmed as in the hypothesis, because the level of democracy is much higher than the free market of the country would imply, as if the country is more sensitive to the economic reform. It can be deemed that the enthusiastic adherence of the country to the free market and democracy with the membership in the Nato in 1999 and the EU in 2004 has been fostered also in reaction to the historical and current concerns regarding the Russian assertive foreign policy in the region.

Israel presents the hurdle of the security dimension, with significant restriction to the personal liberties, limiting a higher level of democracy, accompanied with a relatively high level of free market. The level of democracy and the level of the free market are both still relevant, but well distanced from Australia or Canada. The openness to global commerce, as well as the consistent judicial system and the privatization programme help competitiveness and are a guarantee for the protection of the private property. The international factor with the never ending conflict with Arabs represents a structural obstacle for the implementation of a complete free market system, because of the burden of public spending, the bad management of public finance and the low labour freedom. However, the system expresses a dynamic free market economy.

This section is closed with the case of Chile, often considered by the advocates of the free market as the ultimate case study of the presence of a strong correlation between free market and democracy. Under the liberal economic policies applied in the 1980s by the so-called group of the Chicago Boys, the Chilean republic managed to replace the military junta with a democratic society. Milton Friedman considered Chile as the main example on how a free market and liberal economy can boost democracy. Now the country registers a high score for the free market resulting in the top positions with Australia and Canada. The flexibility and the openness of Chile's economy, as well as the strong respect of property rights and the strong commitment in liberalization correspond to a strong democracy both in terms of political rights and civil liberties.

After Chile, the following groups of countries do not verify the correlation and they could be taken as exceptions, or they may falsify the theory of the correlation. For different reasons Brazil, Greece and India, as the figures of the Economist Intelligence Unit show, present good level of democracy and not so good scores of economic freedoms. How to explain such a situation? A closer look at

the recent socio-political vicissitudes can be of great help. All the countries, in fact, some more than others, are undergoing a certain period of turmoil.

In Brazil the political landscape has been shaken by a scandal dubbed *Petrolão* involving the president, Dilma Rousseff, who faces the impeachment. More evidently, the limited experiment with market-oriented reforms has been uneven and even derailed in some areas. The state's presence in such sectors as energy, financial services, and electricity remains extensive. This prevents the maintenance of a situation of full market economy, although the presence of democratic rules and procedures in the is still solid, though more and more at risk given the climate of tension. The country is a democracy without a well-functioning market system. Corruption, the bad managing of public finance and the regulatory inefficiency are the main obstacle for the free market. For sure the worst recession in 25 years, the allegations of official corruption and the subsequent peaceful but massive protests don't depicts a democracy in a good shape in Brazil. However, the scoring of the index of Freedom in the World is still consistent.

The problems of Greece are all reflected in the public debt crisis, which has highlighted the enormous responsibilities of the Greek political élites and the deeply rooted systemic cronyism and corruption. Government spending remains high, at over 50 percent of GDP, and the public debt far exceeds the size of the economy. Democracy, in the place where it was born, still remains solid but unfortunately it seems that Greek rulers are not able live up to it. The market system is blocked by the public debt, the corruption and the regulatory inefficiency. The need of an intervention to foster market system is essential for avoiding a deeper crisis with inevitable consequences for the democracy.

India has by now risen as a great economic power but the large ethnic, religious and social mosaic, with all the contradictions among its components, is still an obstacle to a full socio-political as well as economic development. The increasingly nationalistic turn in the policy of the current Prime Minister Narendra Modi, considered a controversial, polarising and divisive figure, contributes to exacerbate clashes. Nevertheless, India remains a stable democracy, with regular elections and a sound pluralism. In the last period, intimidation and attacks against journalists, academic and writers are threatening the freedom of expression. The slow progress in implementing the reforms is harming the country, where corruption remains a serious obstacle for the development of a strong and vital private sector, the state presence in the economy is still extensive and there are significant tariff (7% the average) and not tariff barriers that impede the free flow of goods and services.

Finally, there are the countries with a weak correlation between free economy and democracy. Countries with these features are France, Ghana, Italy, Serbia and South

Africa. Italy and France in particular, clearly record a high level of democracy, comparable to that of the above mentioned countries, accompanied however by a much lower score in the free economy. Italy is bogged down by a never-ending slow reform process, which slows the whole economy and undermines the confidence of entrepreneurs and investors in the market. France is a consolidated democracy that by tradition admits a firm public intervention in the economy and uses the tool of democracy to foster a strong welfare state.

Ghana, Serbia, South Africa, although do not present a long democratic tradition, are not outdone in terms of democratic quality and free economy. Ghana has been a stable democracy since 1992, and nowadays presents a relatively sound, institutional and legal frameworks. The problem of political corruption, however, affects the economic freedom negatively. Much the same goes for Serbia and South Africa. In the former, corruption remains a serious concern, and implementation of anti-corruption legislation is relatively weak. In the latter, corruption among civil servants persist at all levels despite an excellent anti-corruption regulatory framework. In addition, the bad data on the labour market affects decisively on the overall efficiency of the market economy. Ghana, Serbia, South Africa and explain that countries that have not completed the consolidation process should not concede pause to their market economy scores, as their unsolved economic, ethnical and social fractures could resume in near future.

5. Conclusions

The free market, liberated from the distorting effects of government intervention, "distributes" as Milton Friedman famously put it the fruits of economic progress among all people. That's the secret of the enormous improvements in the conditions of the working person over the past two centuries.

Mandelbaum observes that free market will continue to create and destroy wherever it operates, making winners of some and losers of others. The different interests of the two groups will create political conflict. In this sense politics, and therefore history, will never end. But there is a difference between steady change within individual countries, which is inevitable and major changes in their relations with one another and in the international system to which they all belong. (Mandelbaum, 20:385).

There is an operating correlation between levels of market oriented reforms and democratization. This correlation also works over the time, because levels of democracy in 1992 help to predict transition indicators in 2012 and vice versa. This correlation does not necessarily imply a random relationship. It is possible to advance different interpretations: the first one is that cross-country differences in market reform could reflect variations in

democratisation at the time; differences in initial market reform could have been correlated with per capita income; initial market reform could reflect the geography or specific country prospective, like the EU membership; there could be a direct or indirect causal effect running from early transition to democratisation through the prevention of the formation of new elites opposed to democracy.

The development of a broad middle class is strongly correlated with the level of democracy, with the precision that in resource-rich states the middle class seems to play a less significant role in creating a strong demand for democracy. This is possible with the free market because it boosts interventions supporting the growth of the middle class and a stronger civil society.

Can the implementation of the free market deepen the level of inclusion in a society through competition, the circulation of information and opportunities for a wider part of society? The cutting edge economy of California experiments the sharing economy as the last frontier of the free market. Indeed, the sharing economy testifies the shift from the knowledge economy to the opportunity economy, overcoming the private property constraint with the concept of opportunity of fruition. The consequences for the quality of democracy can be relevant when considering the push of political inclusion through economic inclusion that this evolution may involve. In addition to this, the case of the Jugaad innovation in India exemplifies the positive effect of the free market on political inclusion via economic inclusion contributing to the deepening of systemic inclusion.

Appendix

Figures and Tables

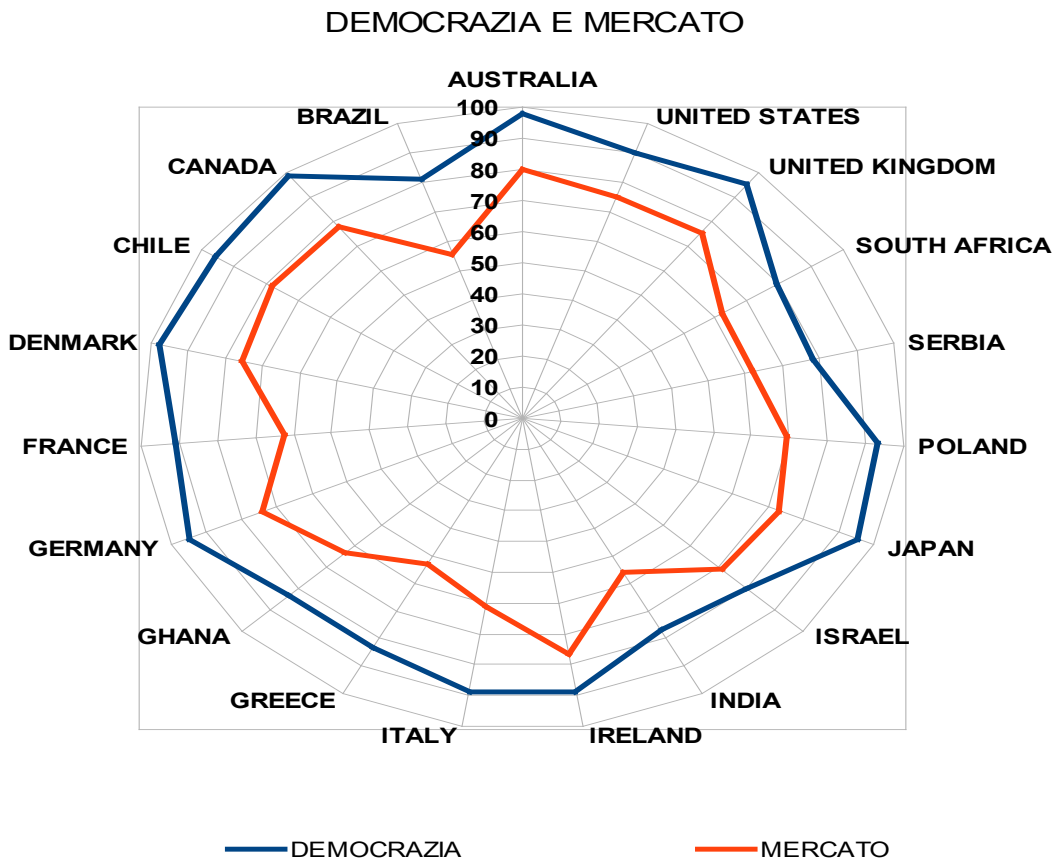
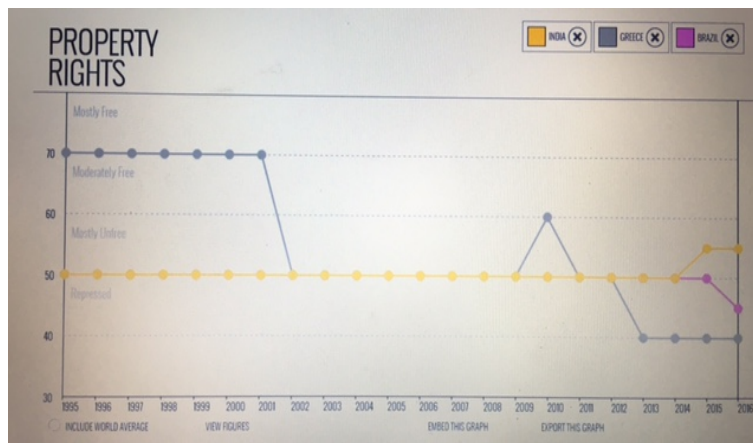


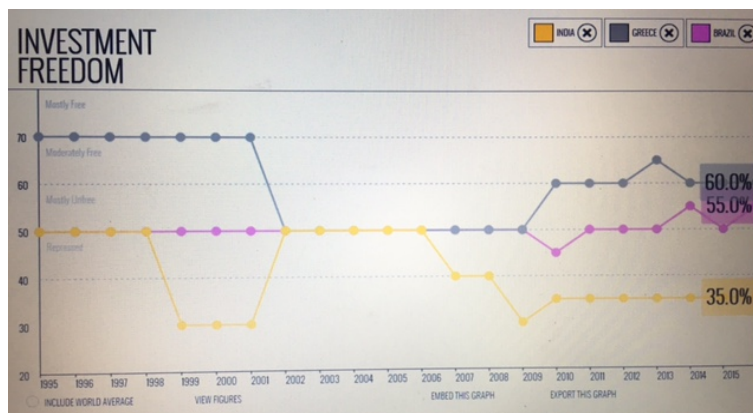
Figure 1.

Table 1.

	DEMOCRAZIA	MERCATO
AUSTRALIA	98	80
BRAZIL	81	56
CANADA	99	78
CHILE	95	78
DENMARK	98	75
FRANCE	91	62
GERMANY	95	74
GHANA	83	63
GREECE	83	53
ITALY	89	61
IRELAND	89	77
INDIA	77	56
ISRAEL	80	71
JAPAN	96	73
POLAND	93	69
SERBIA	78	62
SOUTH AFRICA	79	62
UNITED KINGDOM	95	76
UNITED STATES	90	75



Picture 1.



Picture 2.

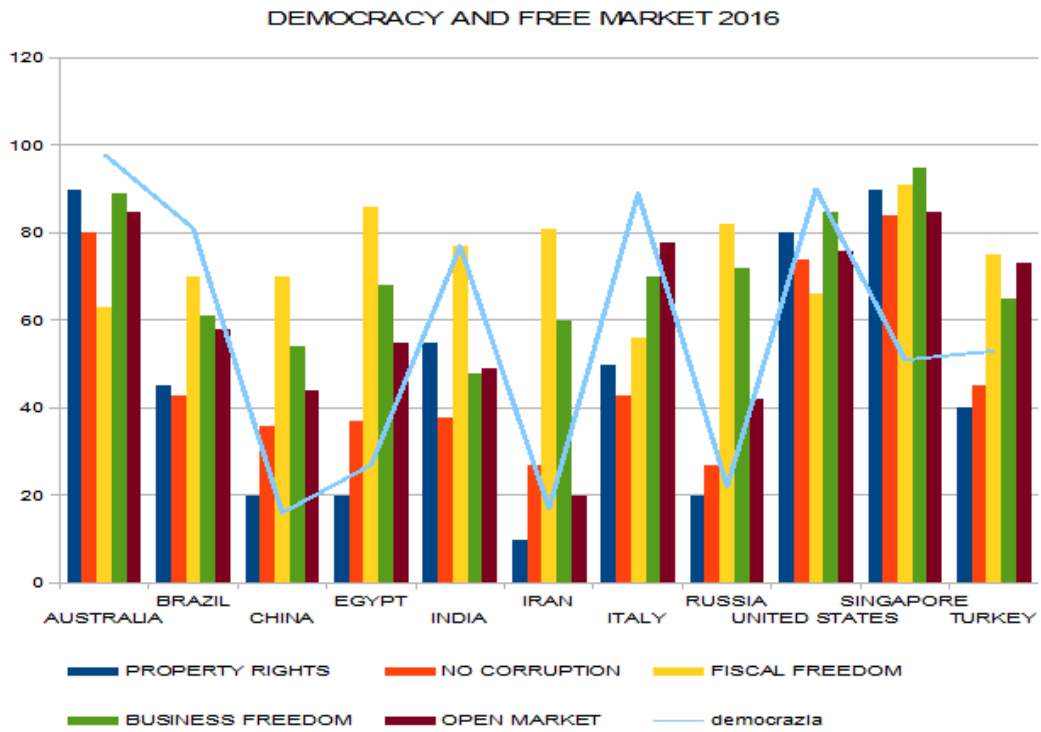


Figure 2.

DEMOCRAZIA E MERCATO

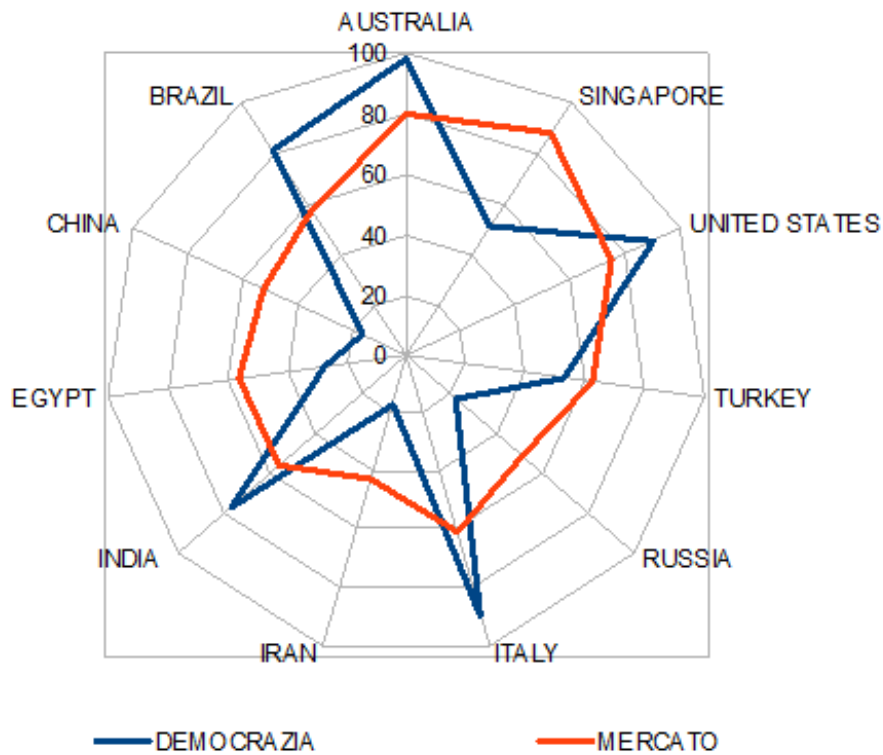


Figure 3.

Table 2.

	DEMOCRAZIA	MERCATO
AUSTRALIA	98	80
BRAZIL	81	57
CHINA	16	52
EGYPT	27	56
INDIA	77	56
IRAN	17	43
ITALY	89	61
RUSSIA	22	51
TURKEY	53	62
UNITED STATES	90	75
SINGAPORE	51	88
UZBEKISTAN	3	10

Table 3.

	HYBRID REGIMES	MARKET
ALBANIA	67	66
BANGLADESH	49	53
COLOMBIA	63	71
GEORGIA	64	73
GUATEMALA	54	62
INDONESIA	65	60
KENYA	51	57
LEBANON	43	78
MEXICO	65	65
MOROCCO	41	61
MOZAMBIQUE	56	53
PHILIPPINES	65	63
NIGER	52	54
PAKISTAN	41	56
TURKEY	53	62
VENEZUELA	35	34

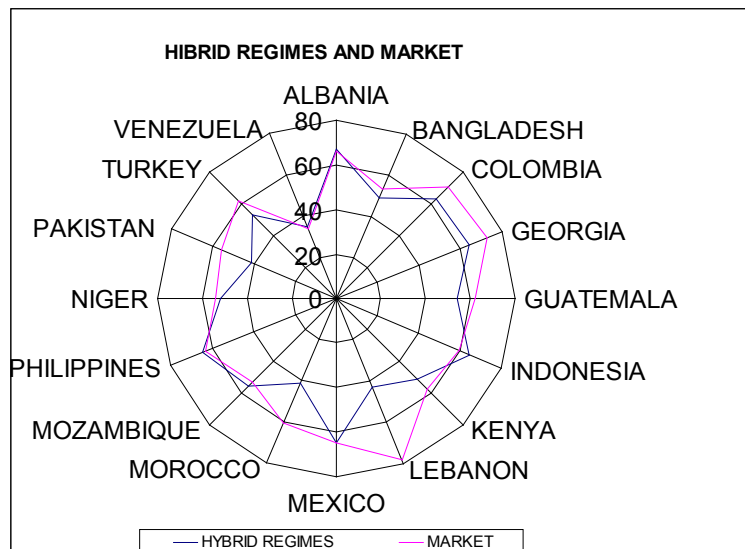


Figure 4.

Table 4.

HYBRID REGIMES	Democracy Index Score 2006	Democracy Index Score 2011	Democracy Index Score 2015	MARKET 2006	MARKET 2011	MARKET 2016
ALBANIA	59	58	59	60	64	66
BANGLADESH	61	59	57	53	53	53
COLOMBIA	64	66	66	60	68	71
GEORGIA	49	66	59	65	70	73
GUATEMALA	61	59	59	59	62	62
INDONESIA	64	65	70	52	56	60
KENYA	51	47	53	60	57	57
LEBANON	58	53	49	57	60	78
MEXICO	68	69	65	65	68	65
MOROCCO	39	38	47	52	57	61
MOZAMBIQUE	52	49	46	52	57	53
PHILIPPINES	65	61	68	56	56	63
NIGER	35	42	38	53	54	54
PAKISTAN	39	45	44	58	55	56
TURKEY	57	57	51	57	64	62
VENEZUELA	54	51	50	44	37	34

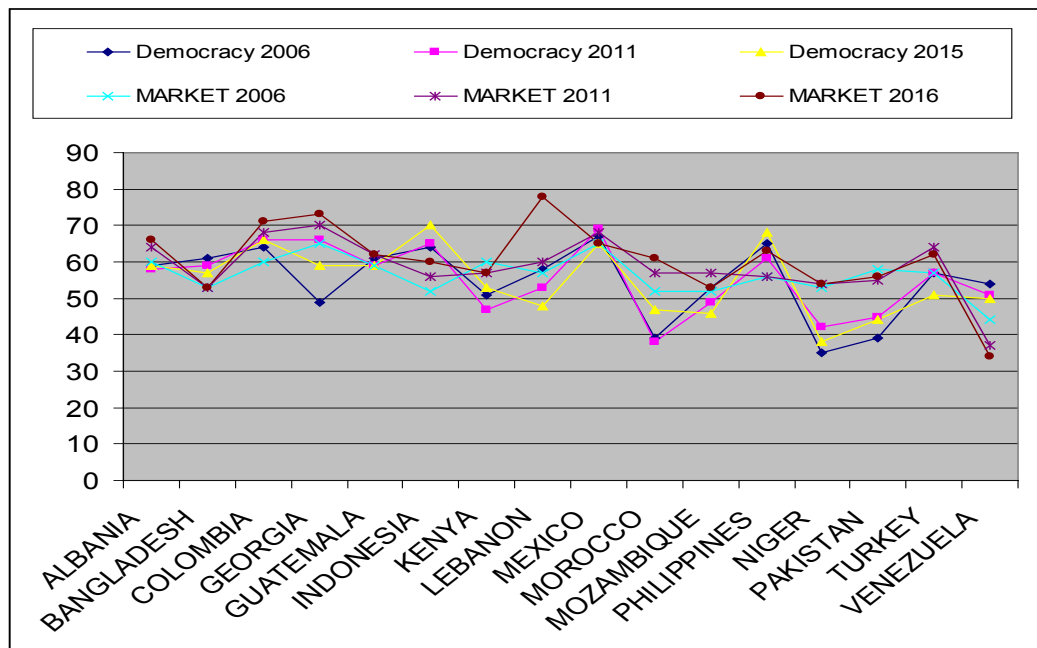


Figure 5.

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ⁱ All data on countries are taken from the Heritage.com country pages