

Globalisation builds democracy

Economists, we are told, are the power behind all thrones. They are the new “gnomes of Zurich”. Economists pull the strings and dominate public and private policy making, but have alienated the masses that constitute the economy. So would Australian Democrat Senator Andrew Murray, writing in the *Australian Financial Review* on January 6 (“Economists must get real”), have us believe.

But the truth is far more mundane. True, economists practise the dismal science. Dismal, because economists are only too happy to slaughter sacred cows and highlight inconvenient facts. It is also true that economists play a large role in policy making – but “economic rationalism” is political philosophy, not a school of economic thought.

The political opponents of economic rationalism have had to invent myths to undermine the pro-market forces that are sweeping the world. One of the Left’s favourite myths is that globalisation and market forces are undermining democracy, “equity” and social wellbeing. The emphasis on free trade, economic growth and development, the argument goes, has left many behind, perhaps even “millions”, unemployed and underemployed in a degraded environment.

Now, if free marketers are accused of going through life without any doubts, the Left goes through life without any facts. What are the facts? Has globalisation undermined democracy? Has globalisation led to increase inequality? Are economists wrong to concentrate on Gross Domestic Product?

Let us ignore that global democracy is a recent phenomenon. That Australia for example extended the vote to all citizens only in 1967. Democracy has swept the world from humble beginnings since just about the time of the industrial revolution.

It turns out that economic and political freedom are highly related. The 1999 Index of Economic Freedom (published by *The Wall Street Journal* and the Heritage Foundation) finds that economies with high economic freedom also have high levels of political and civil rights. There is a very simple reason: citizens who are released from the drudgery of subsistence living are able to involve themselves in political and civil activities. Now we may debate the causation, but empirical evidence suggest that economic freedom leads to greater political and civil freedoms. Far from reducing our democracy, globalisation is increasing the incidence of democracy.

What about the old chestnut, “the rich get richer, the poor get poorer”? No doubt careful definitions of what constitutes “poor” and very careful selection of time periods will show this to be true. On average, it must be false. Consider how many “poor” Australians had refrigerators 40 years ago and how many have them now. Consider average life expectancies 40 years ago and now.

Consider any number of human welfare statistics 40 years ago and now. There has been an unambiguous improvement. The “poor”, on average, enjoy longer and better lives now that they did 40 years ago. Consider the international evidence. Indeed, as the World Bank has documented, the lowest levels of income inequality are found in economies that are most committed to free trade. Unsurprisingly, the highest levels of income inequality are associated with economies that are not committed to economic freedom.

Economists are often accused of concentrating on measures such as GDP and ignoring other values and concerns in welfare measurement. In response to such criticism, the United Nations publishes its Human Development Report each year. It makes interesting reading – and supports the types of

argument Senator Murray makes. The UN Development Report tells us that “individual choices may be legal, affordable and socially acceptable – yet the consequences can be devastating for human development”. The major outcome of the report is the Human Development Index (HDI) – it measures three dimensions of human development: longevity, knowledge and a decent standard of living.

The HDI variable, however, is highly correlated to increased political and civil rights, and GDP. Countries with high GDP also have high Human Development Indices. It seems that those policies that improve economic growth also improve human development (as defined by the UN). Of course, this will not make leftist ideologists happy, but that’s why economists are called dismal.

Economics can never be value free, and economists need to be cognisant of their value judgements. In the policy area, however, it is not their job to make those judgements. Politicians are paid to make social choices; they should do so and not blame others for the outcomes.

Further reading

Kenney, H (1999) *From poverty to prosperity*, FMF Briefing Paper 37, Free Market Foundation, Johannesburg.

Kenney, H (2000) *Economic freedom in South Africa*, FMF Briefing Paper 45, Free Market Foundation, Johannesburg.

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