

## Democracy and Free Markets\*

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I take it that the topic chosen for this talk arises from the need to reflect upon the very rapid changes taking place in our part of the world, both in the political and economic sphere, and put them in the context of the broader choices that each society has to make at various junctures in its history.

All countries, including even Cambodia during the murderous Khmer Rouge episode, claim to be “democratic.” Such easy claims render the word almost meaningless. Those of us who subscribe to the liberal tradition would narrow the meaning of the term to mean a system of government whereby there exists and functions a lawful procedure by which a government can be peacefully removed, and presumably and preferably a new one, acceptable to the population, installed in its place. Elections are but one of the many possible mechanisms, whose only virtue is that they have been tried and tested in a vast number of countries.

An essential concept of the democratic system is the notion of choice. The collectivity of the governed are in theory supposed to have some choice in the matter of whom they are governed by. One of the claims to superiority of free markets is that it enables people to have a wide latitude of choice in their economic life: where they work, what they consume, how much they want to save, and so on. It is, therefore, sometimes claimed that free markets must inevitably lead to a democratic form of government—a claim much in vogue in the period since the adoption of the market system in formerly communist countries. This claim is easy to refute, as many authoritarian countries allow free markets to exist. The converse, however, many well be true, once a country has, for whatever reasons, decided to have a heavily planned economy, it is difficult to imagine such an economy surviving in a democratic environment, let alone making a success out of it.

I believe that there is no direct relationship between free markets and a democratic form of government. There are some of us who do not make that direct link between the two, but link them with a third factor, namely economic growth as well as the high standard of living that continued growth brings in its wake. It is now widely accepted that some form of a market economy is a better approach to achieve the high economic growth that is widely desired. Of course, the kind of market economy that will deliver the growth need not be the bare-knuckled capitalism that have emerged in some transitional economies. Indeed, as I shall discuss presently, that kind of capitalism is no good for anyone.

But whether that economic growth can be delivered with a democratic form of government is not as widely accepted. At one time, many of my less patient compatriots, and even now, many Asian leaders would make the claim that we should go all out for economic growth, and let democracy wait, until the fruits of growth are ploughed into things such basic services as education. THEN, when the powers that be decide that the people are good and ready, democracy will be bestowed upon them. Needless to say, these arguments are self-serving.

On the other side, for years, we also heard parallel opinions being voiced by Western businessmen. They felt they could do better business with a “stable” government than with those that are subject to the whims of the electorate. Stability of the players is equated with stability of the rules of the game, an assumption that does not pass the critical examination that it requires. Now that the old players in some countries have left the scene, so have the rules of the game, leaving the businesses and their investors in a limbo—a well-deserved limbo, I might add.

One of the unfortunate legacies of communism, and its distant cousin, socialism, is the overly sharp dichotomy sometimes drawn between a free market economy and a state managed system, and the implication that is sometimes drawn that the two are alternatives or substitutes. The freer the market, the

less the state role. This assumption may well be true for a society and an economy that has had a lengthy evolution of both its market and political institutions, so that the prevailing rules of the game in both areas are more or less taken for granted. However, for a developing country like my own, and probably even more so for a transitional economy, these rules of the game do not exist, and the state has to take an active role. Are the states in the region up to their task? Before they go about writing rules for others, they must be good at devising and then conforming to the rules that govern themselves.

We in Thailand are all too well aware of the failures that have attended our political system. The rate at which we have been tearing up and rewriting constitutions has made us the envy of the world. Despite the frequent changes that were made, one could not discern any improvement through an evolutionary process. Rather, we seemed to be spiraling rapidly downward to a money politics of the most blatant kind. Western economists worry about excessive intervention of government in the markets, we Thais have to worry about the intervention of the market mechanism in our system of government.

In the last two years, the logjam that had barred us from serious political reform had suddenly been broken. A new constitution was proclaimed in 1997. Although this is last of the more than a dozen that we have had over last sixty odd years, it was the first that was passed with a wide degree of public participation and entirely by constitutional means. The process was initiated by the then Parliament, the means, including the setting up of the national drafting assembly, its composition, its election, its emphasis on public hearings, were all devised by the parliament which would eventually approve or disapprove the draft constitution in toto.

The constitution mandated many institutional reforms, ranging from the auditing of government finances, to electoral supervision, to judicial reforms. It mandated specific legislation to be passed by the parliament in these and many other areas. Although many, probably most, of the current parliamentarians (elected under the old constitution) disliked both the Constitution and the mandated reforms, they swallowed hard and reluctantly voted for them, and we should not begrudge them the credit that is due.

The economic crisis that has hit us in the last two years also indicates that our market institutions, which we took for granted during the four decades of uninterrupted growth had serious flaws. Since these institutions were never "broke," no-one thought of fixing it before it was too late. Now we have no choice. During the last two years, it has become necessary for us to refashion in a hurry some of the most fundamental institutions of a market economy. These include new bankruptcy rules, new systems of corporate governance, new systems of regulation of public utilities. The most important task remains to be done, however, and that is to re-erect a financial mechanism that will link savers and investors, so that the economy can move forward. The mechanism that had served us before the crisis is now hopelessly beyond repair, but no-one seems to have any clear idea as to what is to replace it.

The changes that have been made and many that remain to be done, are changes to the fundamental institutions of the market economy, but they are not the kind of changes that the market mechanism will naturally bring about, there must be a political process. Inasmuch as these changes are taking place during a crisis, when there is no economic growth to anaesthetize the pains of adjustment, it is not surprising that there was bad temper all round. But to this day, I am glad to report that our political system is still holding out well. It is my firm belief that the reason the job was done, and that the reform was implemented was because the new political atmosphere made for a much greater participation—sometimes angry participation—by key sections of the population. And this is as it should be. We are truly engaged in a social contract with the future. It is important that all Thais are at least aware of what is being done in their name, and (God forbid) even to have an influence on the outcome.

The travails of the last two years have taught us some lessons about democracy and free markets. The first is that for an efficient, thriving market system to operate, it must be within the framework of a set of rules of the game, and yet allow for the smooth operation of the market mechanism. The state is necessarily involved in fashioning these rules of the game. But these rules in themselves have to command a broad social acceptance, the process by which they are adopted must be participatory to the broadest extent possible.

Of course, fashioning new rules of the game is by itself insufficient. Inasmuch as it is the state that created most of the important ones, it has to stand guard over them and, most importantly, ensure that they are followed and applied in the right context. In a rapidly changing world, it is inevitable that the officers of the

state that will have to apply some discretion over how the rules are interpreted and applied. Their own personal probity, the integrity and transparency by which they conduct their affairs, are absolutely essential. A few—very few—authoritarian states may have officers that rise up to these standards. Many democratic states, (including my own) have signally failed to do so. But I believe that in the long run, it is only in an open, democratic state, where freedom of speech is protected and guaranteed, where such officers will emerge and survive to serve their country.

Ladies and gentlemen, as business men and women, your performance is always measured against the standards set up by the stern task master that is the market. The market test is unconditional. Businesses fail, even if the circumstances that led to the failure are beyond the control of those running them, as my colleagues in Bangkok are finding out. The market does not provide any ready excuse. Perhaps your banker may give you temporary help from your mistakes, but in a well-regulated system, he is still subject to the market test.

Politicians in less democratic, and therefore less fortunate, countries do not have any standards by which they are judged at all. But even in democratic countries, they are measured by less stringent standards than the market. The most common of this is electoral performance. But the electoral test is far less stringent than the market test, because it is hedged about by many conditions and subject to various whims and fashions, which can be manipulated. Politicians have too many alibis, and they always cite them!

It is for this reason that we need to steer clear of the interventionist hand of the state and the heavy hand of the socialism.

Having said that, let me quickly add (as my last point) that it would be a mistake to allow full play to the invisible hand of the market, except with respect to business men and women. This is because it will always be the case that some individuals will be at the losing end of the fast-paced economic changes that are constantly occurring. And many of these are weakly equipped to bear the brunt. It is essential that society (not necessarily the state) be ready to lend a helping hand to them. For Australians, this may sound “old-hat.” This is because you have been living in a welfare state for close to a century, and have (I gather) even gotten tired of it. But for many Asian countries, the current crisis has caught their governments and their peoples unawares. Social safety nets are almost entirely non-existent, and the social consequences are therefore somewhat severe. One of the most important tasks that we now face in Asia is therefore to learn from your experience, and fashion a hard-headed approach to the provision of a social safety nets, but one which stays within the bounds of our modest means.

We in Thailand have already embarked on a road to a functioning democracy and a sustainable free-market system. We along the way have learned to appreciate the values of systems, and at the same time are not oblivious of the flaws. It is my personal hope that a new political culture, to be instilled and nurtured by the present constitution and the organic laws, will produce in due course a government which is truly a government of the people, for the people and by the people.

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