

**DEMOCRACY, ECONOMIC**

The concept “Democracy” has two quite different senses: democratic governance and public.

Modern democracy, first, is a unity of individuals, civil society. Only in century of New Times and only in the West Europe they are realized, that each man has “natural rights” is appreciable as individual independent from his social status. Republics of Ancient Times and Middle Ages inevitably “evaporated” becoming oligarchies and imperials. On the contrary, the triumphal cortege of democratic society paradigm led to the gradual accomplishment of political equality in European civilization countries without property qualification and national and racial restriction [1, 73-74]. For example, the density of voting right having persons in Great Britain, which are elder then twenty years old, has changed in this way- 4% of population in 1831, 9% in 1864, 18% in 1883, 30% in 1914, 74% in 1921 and 97% in 1931 [2, 29]:

Modern democracy became an arena of individuals’ interests’ collision and in struggle for their interests each of these individuals choose the political decisions useful for him and which political movements are preferable independently. Therefore, when speaking about democracy, we must not forget about the most important prerequisites of that institute and deem it a universal political principle. At the same time, if it is possible “to import” the democratic form of governance into any place, it is impossible “to import” democratic (civil) society. That is why under the similarity of appearance of politics in different countries can be hidden non-identical content [3, 144-145].

Despite some opinions, the democratic healthy society is not just an arena, where individuals pursue only private goals. Democratic systems prosper in the case of being used by citizens, when they taking an advantage of their freedom, are ready to take part in social life, to add their voice to public discussions, vote for representatives, which are responsible for their activity to accept the necessity of

cessions and compromises in public life. Though the citizens of democratic systems enjoy individual freedom, at the same time they have with others the responsibility of creating a future, which will include the main values of freedom and autonomy.

**Democracy definition.** Thought many people now the democracy as an understanding, but they still perceive it incorrectly as an idea. It is presumed by totalitarian governments, which try to conquer the people by adorning themselves with democratic labels. By dictionary definition democracy “is the government obtained by people, the sovereignty of which is trusted with people and is implemented by them or by figures elected in the network of liberal election system” [4, 4]. By Abraham Lincoln, democracy is a government of people, from people, for people [4, 4]. Freedom and democracy are often used as equivalents. However, these are not synonyms. Of course, democracy is a range of ideas and principles concerning freedom. Nevertheless, it consists of a group of actions and processes which have formed during the history. For short, democracy is the incarnation of freedom through the institutes. Therefore, we can define the equality fundamentals of constitutional government, human rights and equal protection of the law, which every society needs, if is worthy to be called democratic.

**Democracy and economy.** The democracy does not include any special doctrine of economy. Democratic governments include orthodox socialists and free market supporters. Of course, in modern democratic systems the most part of debates concerns the role of government in economy. It is fare to say, that the apologists of democracy commonly consider that the economic freedom is the key for democratic systems. This fact did not forbid the economic questions become the main driving force of ruggedness and definitions, which we now as “left-right” political arms.

For example, social democrats have put an accent on the necessity of equality and social

welfare as the kernel of government's economic policy. The state ownership was the result of that in the past, such as communicational network, vehicles and heavy industry. They also demand of government to provide the people in need with medical, unemployment and other social assistance. Despite this, the centrifugal and conservative political parties gave a great role to market economy without government supervision or economic interventions as the most productive form of reaching economic development and welfare. In fact, all sides of economic debates have more general opinions, than they are ready to accept under the torrent of political debates. For example, either "the left" or "the right" accepts the role that labor movement and independent from government workpeople have. In free society, they have an opportunity to member unities that present their interests to employers by carrying negotiations about salaries, health, pensions, work conditions and complaints.

No democratic state has such economic system, which completely belongs to the state or is out of government leadership. All of them are mixtures of private corporations and state supervision. All of them greatly trust the free state orders, but on the perceptive of providing free market benefits to everybody in the world where mutual dependency grows day by day.

The crash of socialism in East European countries in 1989-1990s and UCCR in the end of 1991 became a reason for several new democratic republics genesis. This wave of democratization continued the process of crashing imperials and selective democracies<sup>1</sup> genesis, which had started at the first part of XX century and fastened at the second part. There were no democratic countries in 1900 in the full sense of the word and there were no countries where the universal suffrage was established.

There were 22 democratic countries with 31% of world population in 1950. Until the end of century this indicators became 120 countries and 58,2% respectively (see figure 1) [5, 590-592].

The problem is that the general universal suffrage is not a guaranty of free society, were

market mechanism, where governments don't set prices, these are determined by thousands of consumers and producers (service providers), which are in relations with each other.

Political left parties, which usually have social democratic orientation, accept that free market working by a principle of "supply-demand" is the main driving force of welfare. The centrist right parties also, which usually are against the government interventions or its production property, have accepted the government responsibility in several spheres such as the assistance to unemployed, further the economic development. Therefore, modern democracies tend to have such economies which, being in different particularities, have generalities. At last years, the crash of economies planned by one center in many parts of the world again puts the accent on the important role of free markets. In economic and political questions, it seems that freedom is a compulsory factor. Only the freedom cannot ensure economic fortune but its pressure surely ensures economic crash. In democratic countries, people must continue to argue about economic questions as much as in the past. However, the debates are focused not on the government influence is limited, human rights are protected and legal norms are preserved. Actually, the research of International Institute of Press Freedom House illustrates that only 89 (which present the 43,6% of world population) of 121 elective democracies could be characterized as "free" at 2002 [6, 1-2]. A real progress criterion in this sphere will be the fortune of new democratic countries in government authority limitation, property and human rights guaranty preservation, which will serve basis for country's universal welfare.

By James Madison the challenge to be modern, the development of freedoms is more difficult problem, than the support of vast majority management idea. If people want to protect their "sacred freedom", they must learn to think about those advantages, which government authority limiting constitutional rights give and don't appear in trap of promises about "quick" goods expected from experienced scheme of redistribution. James Madison, the "general architect" of USA constitution, strived to unite the freedom and democracy with

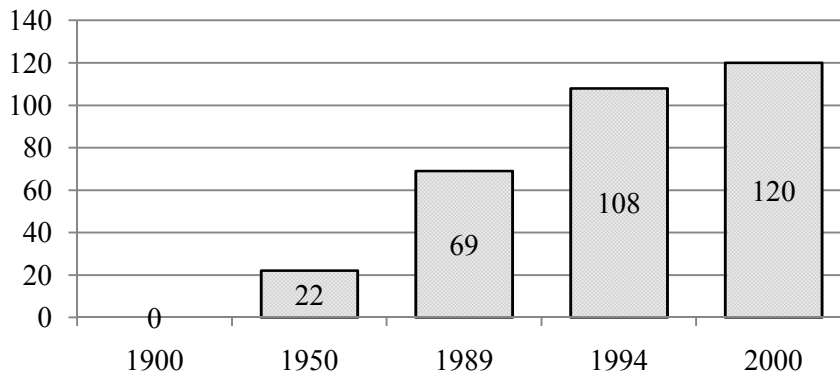
---

<sup>1</sup> Selective democracies are the countries, where the universal suffrage predominates.

constitutional order [7, 22-30].

From the Madison's understanding of liberal constitution, several conclusions for new

democratic countries are made:



(Source. Freedom House, Freedom in the World (for different years)).

Figure 1. The number of selective democracies in the world at 1900-2000

to establish real democracy government authority must be limited, actions must be fair and the safety of people and property must predominate over the elective policy;

for corruption prevention and rent aimed behavior it is necessary economic freedom to predominate, people must accept norm of low which will provide equality, guaranty private property and contract freedom rights;

sweeping liberal-marketing order will systematize economic activity and will create wealth in the case when government has minimal role in economy and lets people be free in their choice;

there can't be free society in the network of redistributing country, there is no "third" way, people must supervise guaranteed that majority will not the repress rights of minority for the sake of distribution justice.

How quick these lessons will be assimilated by countries with transition economies depends on the government power sphere and size in the old regime conditions and from duration. In the countries where the state was omnipotent and predominated central planning, the transition into democracies with rule of law and market freedom takes place more slowly, than in the countries with small governments, in countries, which have an experience in running market economy and memories about freedom.

Post communistic countries, which have

an prewar experience of liberalism (Hungary, Poland, Slovenia, Slovakia, Czech Republic and Baltic countries), move faster in direction of democratic capitalism.

Progress takes place more slowly in CIS countries, where there was extraordinary strong control over all spheres of life and which had no chance for formation of market or civilized society during many years.

There are brought several indicators of post-communistic countries according to Freedom House research in table 1: democratization level, rule of law, economic freedom degree. Practically, post communistic countries or countries recently become independent actually yield to East and Central European countries, which had an experience of liberal economic and political social order. Thus, Poland has the highest indicators of democratization and economic liberalization (respectively 1.5 and 1.92). On the other hand, Russia has a low indicator of democratization and economic liberalization (respectively 4.81 and 3.92)<sup>1</sup>

Similar results show the classification of Freedom House by rule of law rate. Those post-communistic countries, such as Poland,

<sup>1</sup> We would like to advise to approach to this data with a little skepticism associated with the evaluation methodology subjectivity. We should note that the rating reflects most common trends quite ad

Slovenia, Estonia, Hungary, which were legal states and ensure private property rights before The Second World War, had bigger progress in refining on their legislation and in shortening

corruption at transition period then Russia, Ukraine and Armenia.

Table.

The ratings of post communist countries by democratization, Rule of law and of economic liberalization\*

Countries	PP	CS	IM	GPA	DEM	CLJF	CO	ROL	PR	MA	MI	ECON
Poland	1,25	1,25	1,50	2,00	1,50	1,50	2,25	1,88	2,25	2,00	1,50	1,92
Slovenia	1,75	1,50	1,75	2,25	1,81	1,75	2,00	1,88	2,50	2,00	2,00	2,17
Lithuania	1,75	1,50	1,75	2,50	1,88	2,00	3,75	2,88	2,25	2,75	2,25	2,42
Estonia	1,75	2,00	1,75	2,25	1,94	1,75	2,50	2,13	1,75	2,00	2,00	1,92
Hungary	1,25	1,25	2,25	3,00	1,94	2,00	3,00	2,5	1,50	2,50	2,00	2,00
Latvia	1,75	2,00	1,75	2,25	1,94	2,00	3,75	2,88	2,50	2,25	2,25	2,33
Slovakia	1,75	1,75	2,00	2,25	1,94	2,00	3,25	2,63	2,00	2,50	2,50	2,33
Czech Republic	2,00	1,75	2,50	2,25	2,13	2,50	3,75	3,13	1,75	2,25	2,25	2,08
Bulgaria	2,00	3,25	3,25	3,50	3,00	3,50	4,50	4	3,00	3,00	3,75	3,25
Croatia	3,25	2,75	3,50	3,50	3,25	3,75	4,5	4,13	3,25	3,50	3,75	3,50
Romania	3,00	3,00	3,50	3,75	3,31	4,25	4,75	4,5	3,75	3,75	4,25	3,92
Yugoslavia	3,75	3,00	3,50	4,25	3,63	4,25	5,25	4,75	4,75	5,25	5,00	5,00
Albania	3,75	3,75	4,00	4,25	3,94	4,50	5,25	4,88	3,25	4,00	4,00	3,75
Macedonia	4,50	4,00	3,75	4,25	4,13	4,75	5,50	5,13	4,25	4,75	5,00	4,67
Moldova	3,50	4,00	4,50	4,75	4,19	4,00	6,25	5,13	4,00	4,50	4,25	4,25
Georgia	5,00	4,00	3,75	5,00	4,44	4,25	5,50	4,88	3,25	4,00	4,00	3,75
Armenia	5,50	3,50	4,75	4,50	4,56	5,00	5,75	5,38	3,25	3,50	4,00	3,58
Bosnia	4,25	4,25	4,25	5,50	4,56	5,25	5,50	5,38	5,00	5,50	5,50	5,33
Ukraine	4,50	3,75	5,50	5,00	4,69	4,75	6,00	5,38	4,25	4,50	4,50	4,42
Russia	4,50	4,00	5,50	5,25	4,81	4,75	6,00	5,38	3,5	3,75	4,50	3,92
Kyrgyzstan	5,75	4,50	5,75	5,50	5,38	5,25	6,00	5,63	4,25	3,50	3,50	3,75
Azerbaijan	5,75	4,50	5,50	6,00	5,44	5,25	6,25	5,75	4,25	4,50	4,50	4,42
Tajikistan	5,25	5,00	5,75	6,00	5,50	5,75	6,00	5,88	5,50	5,50	5,25	5,42
Kazakhstan	6,25	5,50	6,00	5,75	5,88	6,00	6,25	6,13	4,00	4,25	4,50	4,25
Belarus	6,75	6,25	6,75	6,50	6,56	6,75	5,25	6,00	6,00	6,25	6,50	6,25
Uzbekistan	6,75	6,75	6,75	6,00	6,56	6,50	6,00	6,25	6,00	6,00	6,00	6,00
Turkmenistan	7,00	7,00	7,00	6,75	6,94	7,00	6,25	6,63	6,75	6,25	6,50	6,50
Median	3,75	3,75	3,75	4,25	4,13	1,25	5,25	4,88	3,50	3,75	4,00	3,75
Average	3,86	3,55	4,02	4,25	3,92	4,11	4,85	4,48	3,66	3,87	3,93	3,82

\*Ratings (max-1, min-7).

Democratization (DEM) is the arithmetical mean of political process (PP), civil society (CS), independent MEDIA (IM) and public administration (GPA) estimations

Rule of law (ROL) is the arithmetical mean of constitution legislative and juridical frameworks (CLJF) and corruption (CO) estimations

Economic liberalization (ECON) is the arithmetical mean of privatization (PR), macroeconomic (MA) and microeconomic (MI) policy estimations

The ratings describe the period of 1.11.2000-31.12.2001. Countries are ranked by DEM rating

Source. Karatnycky A., Motyl A., Handelman S. (eds.). Nations in Transit 2001. Civil Society, Democracy and Markets in East Central Europe and the Newly Independent States. Washington, D. C., Freedom House, 2002 (<http://216.119.117.183/research/natransit.htm>).

Insignificant progress of Armenia and a range of post-communistic countries are not

amazing, because time is required for changing the mind-set of people after totalitarian regime

of long years [8, 289]. Inconsistent measures can't solve the problems with communistic social order: "As such, there is no other way between modern civilization and socialism. Market is incompatible with the state monopoly of labor and universal property of production means. Return to market is impossible without large-scale privatization. It is impossible to maintain law norms without multi-party system, without communists' refusal from the monopoly power. It is impossible to accept moral values and civilization, receive a right to return into European family without refusing the idea about society forced alteration" [8, 289].

The fact that communism wrecked doesn't mean that left moods have disappeared. As in developed democratic countries, in post-communistic countries also many people still want to have a government, which will restore "social justice" by weakening property rights and distribution of incomes. Thus, the danger Madison warned about ("arbitrary expropriation from some citizens for others", "arbitrary limitations, releases and monopolies" "unequal taxes", which "repress several types of property and encourage others") still exists [9, 102-103].

We can't consider the elective democracy to be a necessary and sufficient condition for long-term economic growth. At the beginning, the transition into democratic regime can stimulate economic growth if new regime promotes the development of political freedoms, increase of stability and property rights protection improvement. However, if elective

democracy is not limited by effective constitution, which defines the borders of state power and ensures civil and economic freedoms, annuity aimed behavior scales will increase and goods production will be replaced by redistribution system, which will embarrass the increase of real incomes. By Robert Barrow: "Where a moderate degree of democracy is acquired, the following increase of it will cause growth retardation, because predominates the effect of putting accent on resource redistribution social programs" [10, 1-27].

For not falling into trap, new democratic countries must pay more attention to limitation of government power that is to define the role of government in the free society. It is necessary not only for strengthening the economy, but also for protection of human basic rights. When government can't ensure the private property rights and intervenes in free trade, principles of law weaken and parallel to reduction of freedom of speech and other civil rights human basic rights start to be violated. In this respect, Milton Friedman mentioned, "In the case when economic freedom stimulates political freedom, political freedom has a trend to destroy economic freedom" [11, 7].

Data concerning post-communistic countries illustrates, that for countries with a high rank of economic freedom is typical a higher rank of democratization (see figure 2 ready-built by table data).

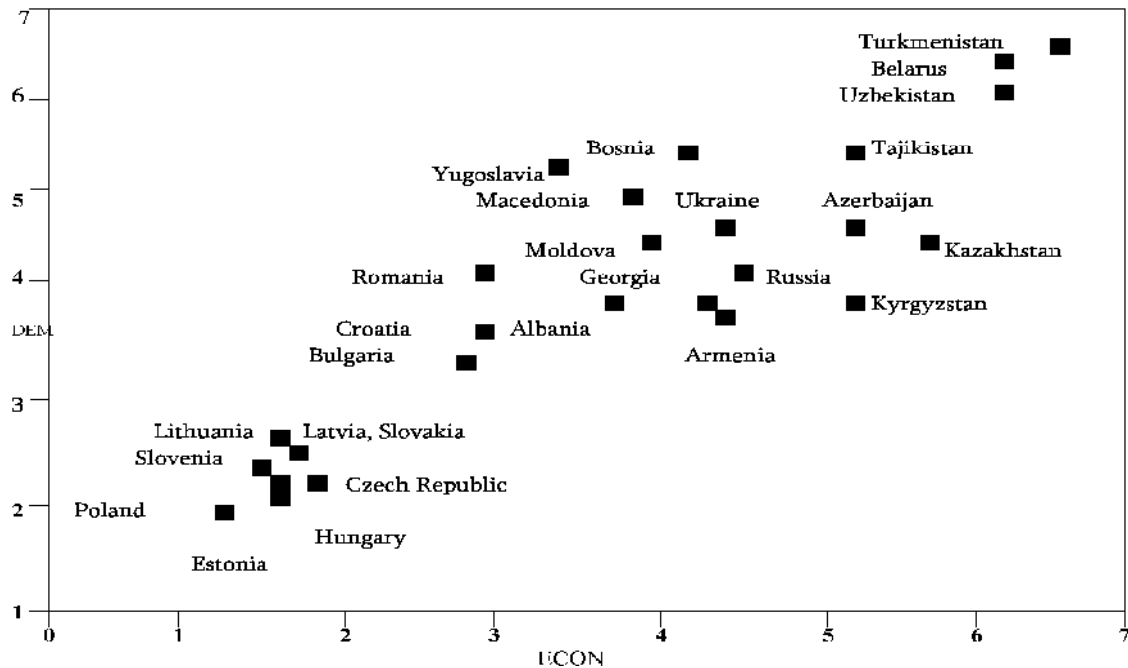


Figure 2. Mutual dependence of democratization and economic liberalization in post-communistic countries

The fact that these two indicators move in the same way, prompts that they can mutually strengthen each other, in extreme cases up to a certain point. However, let's note that the point depends on the size of state impact and sphere. If elective democracy is limited by the constitutional spirit of freedom, the universal suffrage doesn't constitute danger neither for political, nor for economic freedom [12, 78].

Multi-party elections typical for former USSR countries are a very good addition for freedom. Nevertheless, a range of independent countries couldn't limit the discretion of government power.

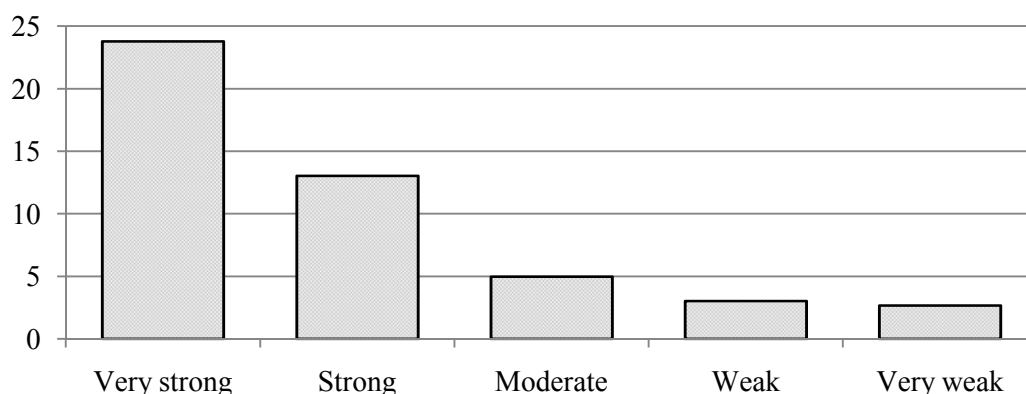
Special benefits in political process continue to predominate and use the legislative power in prejudice of citizens' majority for the appropriation of national wealth [7, 30-35].

**The future of democracy.** In order for democracy not to become dictatorship, new democratic countries, including those formed in the post-soviet area, need a reliable constitution, which is based on market liberal principles. The principles of liberal social order must be fully accepted and a universal understanding of justice must be acquired in conditions of freedom of law, ideas that were outlined in

Madison's papers.

From experience, those principles of law and economic freedom have key importance for economic growth [13, 163-190]. In the information century in the countries where the creation of market supporting institutes, including transparent legislation failed, great risks appear. Private property makes people responsible for the decisions made when using limited resources and gives stimulus for more profitable variants for labor and capital utilization searching. In case of limited government power and observing the law, people are more prone to concentrate attention on the consequences of their actions. At the same time, when government has limited power, investment decisions will have a political tone and resources will be pointlessly wasted.

Using data about 150 countries L. Hoskins and A. Eiras found out that the countries, where private property rights are protected and transparent, have a higher level of welfare (evaluated by the indicator of real GDP per capita), than those countries where private property is not ensured and high-level corruption exists (see figure 3) [14, 37-38].



Source. Hoskins L., Eiras A. Property Rights: The Key to Economic Growth.

Figure 3. The guaranty of property rights and growth of welfare

Gwartney J., Holcombe R., Lawson R., studying the situation in 60 countries at 1980-1995, defined that the expansion of government sizes by 10 % (evaluated as a government expenditures level towards GDP) at the beginning of present period is identified with the reduction of economic growth tempos by nearly 0.6% during next 15 years. They also concluded that in the case when government activity is limited by “the trial functions”, its expenditures are 15% of GDP. Any exceed of this greatness “has negative effect on nation welfare” [7, 36-37].

These empirical results confirm the importance of private property and government functions limitation not only by Madison’s meaning in purpose of creating a fair society, but also population poverty reduction once more time. For limiting the government actions the growth of redistribution state must be inhibited, which suppose an increase of individual freedom and spirit of responsibility. If the nation approaches to protect self-regulating liberal market system, that Madison observed as a system, which is compared with freedom of people in the best way, not only “a narrow sense democracy” but also “a broad sense democracy” must be formed. As the post-communistic countries’ experience shows, new democracies suffer from elite corruptness, annuity aim and a danger of alienation from democratic norms. The essence of problem is that it is necessary to help people to realize the benefits from the limitation of government activity and expenditures of unlimited democracy.

#### Literature

1. Зидентон Л. Демократия в Европе / Л. Зидентон. – М.: Логос, 2001.
2. Даль Р. О демократии / Р. Даль. – М.: Аспект Пресс, 2000.
3. Нуреев Р. Теория общественного выбора / Р. Нуреев // Вопросы экономики. – 2002. – № 9.
4. “What is democracy?” US Information Company. – Yerevan, 1992.
5. Freedom in the World: The Annual Survey of Political Rights & Civil Liberties, 1999-2000. Karatnycky A., Motyl A., Aili P. (eds.). – New York: Freedom House, 2000.
6. Freedom in the World 2002. – P. 1-2 [Электронный ресурс]. – Режим доступа: <http://www.freedomhouse.org/research/survey2002.htm>.
7. Дорн Дж. Нормы права и свобода в новых демократических государствах: концепция Джеймса Мэдисона / Дж. Дорн // Вопросы экономики. – 2003. – № 6. – С. 22-37.
8. Tsypko A. Revitalization of Socialism or Restoration of Capitalism? // Cato Journal. – 1991. – Vol. 11.
9. The Writings of James Madison, vol. 6, 1790-1802. – Vol. 6.
10. Barro R. Determinants of Democracy. A paper presented to the Mont Pelerin Society, Vienna, Austria, September 10 1996. – p. 1 / Barro R. Democracy and Growth, 1996, № 1, March.
11. Friedman M. Economic Freedom, Hu-

man Freedom, Political Freedom. The Smith Center for Private Enterprise Studies, Inaugural Lecture, November 1, 1991. Hayward, Calif., The Smith Center for Private Enterprise Studies, 1992.

12. Havel V. Summer Meditations. – L.: Faber and Faber, 1992.

13. Barro R. Determinants of Economic Growth. – Cambridge, Mass.: MIT Press, 1997; Gwartney J., Holcombe R., Lawson R. The Scope of Government and the Wealth of Nations. – Cato Journal, 1998, vol. 18.

14. Hoskins L., Eiras A. Property Rights: The Key to Economic Growth. In: 2002 Index of Economic Freedom. O'Driscoll G., Jr., Holmes K., O'Grady M. (eds.). Washington and New York, The Heritage Foundation and The Wall Street Journal, 2002.