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## **Markets, Democracy, and the Legco Elections**

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On Sunday the 15th of September, residents in Hong Kong casted their votes to elect 18 candidates to the 60-seat Legislative Council. This was the first-ever popular election to Legco held in the territory. While it may be an oversimplification to view the election simply as a contest to determine how many of the 18 seats would be captured by the democrats, this is not far from the truth. When the ballots were finally counted, a total of 17 seats had been seized by the democrats.

The English headlines the following day proclaimed the outcome of the election as a landslide victory for the liberals. The liberal caricature is unlikely to be a correct label for many of those who have been elected to Legco. The Chinese press was probably more accurate in characterizing the candidates as democrats, a term that sometimes conveys a populist meaning.

To be sure, the term "liberal" when used in politics has widely different meanings in different contexts. The original meaning of a liberal is that which befits a free man. In civil society, an individual can only be free if, in that society, liberty, whether economic or political, is strongly upheld. Throughout history the greatest threat to individual liberty has always been and still is the state, whose coercive and monopolistic powers over the legitimate use of violence are simply awesome.

Despite all its populist shortcomings, democracy has as its chief salvaging virtue in being ultimately the only effective long-run solution for protecting individual liberty. It does so by dispersing concentrated power. Political power is dispersed in such a political system because power ultimately resides with each individual voter who has the right of the ballot box.

In a free enterprise system, an individual votes in the marketplace much as he does at the ballot box. The number of economic votes he casts are based on his command over resources, which are based on private property rights. In some ways the market is better than the ballot box because it entitles a person to choose the product of his choice. The ballot inevitably coerces the minority to accept the choice of the majority.

Some believe that a free enterprise system is not as equitable as the ballot box because it allows some individuals to have more votes than others. Some see this as the evil of private property rights. But think for a second, without private property rights, economic control over resources that are now publicly owned passes into the hands of a few political leaders. This is an enormous concentration of power. A free enterprise system based on private property rights disperses economic power in the same way that a democratic political system disperses political power. Unfortunately this point is not often recognized.

Political democracy and the free enterprise system are similar in that both seek to avoid the concentration of power in the hands of the few, and in so doing, they both help to reduce the threat to individual liberty -- political and economic.

There are other differences as well. The enormous waste and inefficiency found in economies without markets and private property rights are now well recognized. Under a system of private property rights, the use of a resource is accountable to the owner, who has an incentive to ensure its proper utilization. Without private property rights, political leaders become responsible for allocating valuable resources which they do not own themselves, and consequently, do not have to bear full responsibility for their proper utilization. Such an outcome does not depend on how the political leaders are selected. Accountability is necessarily less perfect in politics than in economic markets; and this is true of both democratic and undemocratic regimes.

Political democracy is not a perfect system. Its primary weaknesses are an element of coerciveness and imperfect accountability, which are precisely the strengths of the free enterprise system. Democracies function better in competitive market economies based on firm private property rights. Without a strong free enterprise system, democracies often degenerate into competing distributional coalitions that violate private property rights, stifle economic prosperity, and limit individual liberty. They become the tyranny of a populist majority, and even worse, coalitions of special interests. The case of India shows how a democracy without competitive markets can lead to persistent poverty.

Will the success of the democratic candidates in the recent election to Legco usher in a new era of populist politics? It is difficult to predict future developments at this stage. But two factors suggest that one should not view the outcome of the elections to be an expression of voter support for populist causes. First, although many candidates made populist pledges during their election campaign, some candidates got elected without making such promises. Second, candidates who had successfully cultivated the local constituency over a long period of time, an essential populist strategy, were passed over by voters.

The election outcome in the New Territories East is most revealing in this respect. Two independent candidates running on platforms that did not support the termination of Hong Kong's status as a port of first entry for refugees triumphed over other candidates with strong ties to the local community. The losers had all advocated the ending of Hong Kong's port-of-first-entry status to prevent refugees from flooding into Hong Kong. The victory is particularly significant because residents in Shatin, which is in New Territories East, have been most affected by the concentration of refugee camps located in their district. Shatin residents have long been adamant in seeking to end the port-of-first-entry status of Hong Kong.

An important common determinant of success in this election is the credibility of the candidate as someone who will not betray them to those with power. The voters have demonstrated a clear preference for candidates who have shown such qualities in the past. Candidates were not chosen on the basis of what they promised to deliver, but for having the courage to speak their minds before those with power.

The novice Hong Kong voter is not gullible. He realizes that in our system of government, these elected politicians have only a limited room to maneuver. Legislators may voice their views with audacity, but can they deliver what they promised in their election campaigns? Had this been in fact possible, as in a true democracy, the election outcome may well have been different. It would be a great pity to misread the voters.

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