



Development Institute

LESSON PLAN

Universal Values of Democracy and the Market Economy

Prerequisite: CIPE Development Institute presentation by Anwar Ibrahim

I. Message

Samuel Huntington's famous book talking about the clash of civilizations prompted global debate on the increasing threat of conflicts between countries and cultures based on their differing traditional beliefs and ways of life. An inference that has commonly been made from this argument is that values held by people of different cultures and especially religions are inherently incompatible. Such attitudes have frequently focused on the alleged incompatibility of the Western and Muslim values concerning democracy and received a significant boost after the terrorist attacks of September 11. But contrary to those views, freedom underlying both democracy and market economy is not just a Western value. Instead, the ideal of political and economic freedom remains a universal value shared and sought by people of various cultures, religions, and national origins.

II. Objectives

1. Discuss the shared values underlying democracy and market economy (freedom, accountability, responsibility, transparency, etc.).
2. Understand the distinction between liberal and illiberal democracy.
3. Understand the distinction between crony capitalism and market economy.
4. Appreciate the need for good governance in functioning democracies and markets alike.

III. Discussion questions

1. What is a liberal democracy? How does it relate to electoral democracy?
2. What does it mean that democracy is "illiberal"?
3. Do countries calling themselves "market economies" always have free markets?
4. Can economic growth be sustained in the long run without democratic rule?
5. Is democracy a Western value? Can a Muslim country be democratic? (discuss the example of Indonesia)
6. Do government-sponsored mega-investments necessarily mean that market reforms have taken place? (discuss the case of Malaysia or local examples)
7. Why is good governance important for both democracies and free markets?

8. What is the Rawls-Nozick debate all about?

IV. Reading list

Required readings:

- Huntington, Samuel, *Clash of Civilizations and the Remaking of World Order*, New York: Simon & Schuster, 1998
- Ibrahim, Anwar, “Universal Values and Muslim Democracy,” *Journal of Democracy*, Vol 17, No. 3, July 2002, <http://www.journalofdemocracy.org/articles/gratis/Ibrahim-17-3.pdf>
- Zakaria, Fareed, “The Rise of Illiberal Democracy,” *Foreign Affairs*, Nov 1997, <http://www.fareedzakaria.com/ARTICLES/other/democracy.html>

Optional readings:

- Smith, Adam, *An Inquiry into the Nature and Causes of the Wealth of Nations*, London: Methuen and Co., Ltd., ed. Edwin Cannan, 1904 (first edition 1776), <http://www.econlib.org/LIBRARY/Smith/smWN.html>
- Smith, Adam, *The Theory of Moral Sentiments*, London: A. Millar, 1790 (first edition 1759), <http://www.econlib.org/library/Smith/smMS.html>
- Excerpts from the writings of Ibn Khaldun and Wang Anshi
- Sen, Amartya, *Development as Freedom*, Oxford University Press, 1999
- Canterbury, Ray E. and Harry G. Johnson, “Justice, Nozick, and Rawls: A Symposium,” http://college.holycross.edu/eej/Volume4/V4N1P1_7.pdf

V. Lesson plan

Speaker’s background

- Former Education, Finance, and Deputy Prime Minister of Malaysia

The East Asian experience

- The context of East Asian “economic miracle”
- The shortcomings of the “miracle”
- Economic growth under authoritarian rule
- Transitions to democracy (e.g., Taiwan, South Korea)

The essence of market economy

- Economic growth does not always mean that a country is a market economy
- Outward signs of development (e.g., mega-projects in infrastructure) do not necessarily mean that a country is a market economy
- True market economy is about economic freedom and institutions that enable it
- Economic freedom and democratic freedom share the same value

The context needed for sustainable economic growth

- Economic freedom accessible to all on equal footing

- Government spending focused on public services, education, necessary physical and information infrastructure
 - Showcase infrastructure projects often have doubtful utility
- Good governance and anti-corruption measures
- Seeking local solutions within the democratic and free market framework

Lessons from Adam Smith, Ibn Khaldun, and Wang Anshi

- The need for good governance and productive economy has been emphasized by philosophers from different cultures
- Markets should be transparent, accountable, and accessible to everybody
- The understanding of Smith's thesis should be based on his two key works considered together
 - *The Wealth of Nations*
 - *The Theory of Moral Sentiments*

The excessive criticism of free markets

- Often pertains to the limited and often incomplete Washington Consensus reforms advocated by the International Financial Institutions
 - Those reforms indeed were not enough to create efficient markets
- Commonly confuses crony capitalism with true market economy
 - Excesses of corrupt markets should not be equated with market economy
- Used by authoritarian rulers to avoid market reforms altogether
- Frequently linked to the issues of distributive justice
 - BUT without a market economy, all critics can distribute is poverty

VI. Test questions

- 1. Why can the term “economic miracle” referring to East Asia be misleading?**
 - a. Economic growth in the region was overstated
 - b. Economic growth in the region was not inclusive of entire populations
 - c. Economic growth in the region was limited to Malaysia
- 2. Market economy is a system where**
 - a. The state has limited involvement in the economy
 - b. Participation in the market is open to all on a level playing field
 - c. Rules governing the economy safeguard transparency and accountability
 - d. Individuals are free to pursue their entrepreneurial ideas
 - e. All of the above
- 3. The values of democracy and market economy are universal because**
 - a. Cultural differences do not matter
 - b. Nearly all countries in the world are now democratic market economies
 - c. At their core, both democracy and markets are about freedom
- 4. What is an illiberal democracy?**
 - a. A political system with no elections to the legislative body

- b. A system where elections happen, but they are not free and fair
- c. A system where even though elections may be free and competitive, the rule of law and protection of basic liberties remain weak

5. What is crony capitalism?

- a. A synonym for market economy
- b. An economic system where the benefits of market economy are limited to a narrow group of politically connected special interests
- c. An economy dominated by state-owned enterprises