



By: **Emre Alkin**

The Future Of Democracy and Private Sector



This year, a series of panels were held at the OECD's headquarters in Istanbul to discuss the development of the private sector in the region. I delivered a speech on behalf of Topkapı University. Normally, my audience would expect me to talk about numbers, but numbers mean nothing without talking about the philosophy of them.

Can a market economy work in a democracy that does not effectively work? We all know that liberalism is an approach in which the free will of people is prioritised over the interests of some groups. This is how it differs from neo-liberalism, which currently dominates the whole world. However, further definition is needed to fully understand the difference.

Democracy is based on the sovereignty of the people, while liberalism is based on the rule of law. When both combine, which is the best outcome, it is possible to talk about a system that respects the choices made by individuals, determines the limits of freedom as "a person's freedom ends where another person's freedom begins", does not use the law to protect the elected, but makes everyone equal before the law.

The fact that the rights acquired after hundreds of years of struggle in Western democracies are being eroded by neo-liberalism, which protects the rights of groups, not individuals, sets a bad example for the countries in a region trying to achieve a full transition to democracy. Some of the many practices in developing countries that are badly influenced by neo-liberalism include the transformation of public monopolies into private ones, the dominance of certain family corporations in some sectors, the presence of so-called autonomous institutions that intervene in price formations by in fact taking orders from the political authority, and applying negative selection in providing finance.

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We also see that the duty assigned to the State according to development theories is ignored. What is a State's duty? To provide the necessary infrastructure that will reduce production costs. In illiberal democracies which are not based on the free will of individuals, the government forgets or ignores this duty and instead focuses on costly mega projects that will later become a burden to the private sector and citizens. In time, the government starts to think, "I know what's the best for them", and does not even think about asking the citizens' opinion, because it won the majority of the votes. What is worse, governments may even enact new laws governing the likes or dislikes of those who voted for them. All of these factors either prevent the development and improvement of elements based on trust, such as savings and capital formation, stability of markets, and financial freedom, or create an environment where people can only act in a certain way that is allowed by the elected officials.

Governments think that markets will not achieve stability with the free will of individuals, and therefore, they constantly think about intervening in markets. They also prioritise scale and size, rather than quality and efficiency, when it comes to the development of the private sector. In such countries, governments do not care about "the most productive, the highest quality, the most value-added" but rather, they are fascinated by "the biggest, the widest, the highest". In countries where individuals choose action that will maximise their own interests not based on their own preferences, but on political will, developing private sector activities that can take so long that it could be described almost as an evolution that people must patiently wait for to be completed one day. The most important feature of evolution is the elimination of the weak; however the evolutionary process will never work effectively in environments that protect groups.

The development of the Private Sector is essential to solve the problems arising from representation, creativity, and diversity in societies, and to ensure peace for once and all.

It is also useful for easing political tensions. The most important element of this is "private property". Do you think a market economy can work properly as a result of property being taken by force or coercion? Can the private sector develop? Well, it can grow, but it will not develop. The root cause of problems experienced in many countries is the loss of private property to influential entities through specially enacted laws for such individuals or groups.

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Sadly today, the private sector is working under the constant supervision and under the control of political institutions. To right-wing politics, liberalism means the freedom to buy and sell, and to left-wing politics, it means personal rights, except the economic ones. Driven by different motivations, both sides try to prevent the full dominance of free will. Despite all these obstacles, production per capita seems to have increased by 3,000 times since 1800, thanks to the private sector-based market economy. Perhaps this increase encourages the development of the private sector in countries, whether liberal or illiberal.

But if it is about accepting a market Economy and limiting democracy, then governments must admit that the only thing they want to develop in such countries is "capitalism". If they act with honesty, they would be right in implementing interventions to preserve morality and justice for the development of capitalism.

The Relationship Between Structural Reform and Development

At the Izmir Economy Congress held in 1923, before the establishment of the Republic, Mustafa Kemal Atatürk said: "..Personal

interests often come before the interests of society, but they are also important in terms of competition. A State should act as a regulatory authority in a way that protects the rights of individuals and respects market rules. Because no State can replace individuals, no State can do the work of individuals..."

Thus, Atatürk puts an end to the conflict between Hayek and Schumpeter. There will be a central planning in the economy, but this planning will be designed in a way to enlighten the path of the market economy. Of course, John Stuart Mill warned society centuries ago in his book "On Liberty" about the difficulties associated with the transfer of political power. This book shows us that efforts to prevent security policies from rising above the market economy and democracy extend a long way back into the past.

Establishing a company with the sole purpose of becoming rich quickly, rather than contributing to creativity and competition, is an example of moral decay

After 30 years of experience in both private and public sectors, I can easily say that politics does not like the fact that competition creates businesspeople and groups who do not like competition. Independent authorities alone are not enough to ensure fair competition in both domestic and foreign markets. The country's cultural infrastructure and approaches should also be of a competitive nature. Based on this perspective, an evolution of thought is required for the effective development of the private sector in the Middle East, North Africa, and the Mediterranean.

It is obvious that some people who see the perks of their company as a right granted to them will never be content with the money they make alone. We know there are businesspeople everywhere who bill their companies for expenses not related to the work, but there are more in the regions I mentioned above. We should be aware by now that establishing a company with the sole

purpose of becoming rich quickly, rather than contributing to creativity and competition, is an example of moral decay. I often have difficulty in explaining that labour, capital, land, and entrepreneur are the elements of a private enterprise, and given that, if the entrepreneur sees himself as the absolute ruler and makes the company pay the expenses of his private life, this, I must conclude that that does not comply with the definition of "honest merchant" in any way.

Such companies that do not really comply with ethical business conduct but are constantly supported by governments continue to survive, despite the fact they do not make any profits. And in countries that are filled with these companies, capital accumulation, productivity, technological development cannot reach the desired level. These privileged groups which constantly increase their capacity but fail to use it optimally, invest in a lot of different sectors without hiring the appropriate human capital, and, through exerting pressure on the government, ensure the implementation of tax and foreign trade regimes specially designed to prevent competition, are actually created by the government itself, particularly by the governments of countries with poor democracy and rule of law records.

Private sector corporations that are large enough need to shape the market, and those that are not need to be shaped according to the market conditions

From this point of view, in order to ensure the development of the private sector, structural reforms must be made first. That is justice, freedom, and education. These three pillars will make free will stronger. We can maintain the rule of law by passing laws that actually protect rights and freedoms. Everything that creates disruption and deterioration (especially in terms of unfair costs) in incentives, tax and foreign trade regime, customs, and the financial sector should be eliminated through laws and regulations.

The institutions that regulate the market need to accept market realities and operate accordingly. Even when interfering with market movements to prevent them from harming the public interest, they must accept that this intervention is just a "temporary" thing, and avoid implementing permanent regulations. Laws and regulations must not be amended so frequently either, so as to restore investor confidence. Due to their poor amounts of savings, developing countries are in need of foreign funds. Ensuring an economy in which investors can trust would greatly help in increasing the inflow of foreign funds and maintaining the stability of national currency. It is not a coincidence that countries with constantly depreciating currencies face high inflation before they can become competitive in foreign trade.

One last warning. The private sector needs to correct its behaviour. Private sector corporations that are large enough need to shape the market, and those that are not need to be shaped according to the market conditions. Those who adapt to the market must be dynamic, and those who shape the market must act morally and ethically. Although morality and ethics can change according to cultures, we must accept that non-moral and non-ethical behaviours lead to negative consequences for both companies and society.

Digitalisation, environment, sustainability, green economy, circular economy and zero waste are equally important, but every attempt to achieve full democracy will be useless unless the foundations I mentioned above are strongly established.

Dr Emre Alkin is one of the most influential economists in the world. He is the President of Topkapi University in Istanbul, and well known author of the 4 best selling novels and 14 in total about socio-economics in Turkish and English. He held various positions in GSM and Telecommunication, International Financial Institutions, Payment Systems, Energy, Iron-Steel Industry and Insurance. Prof. Alkin participates in international projects about payment systems and financial management.