

FREE MARKETS AND TOLERANCE

The free market is both tacit acknowledgement that tolerance is necessary in human relationships and also a mechanism to facilitate it, writes Peter Gregory

■ Patty's Fruit & Veg, Prahran Market. Image: Andy Wagstaffe, Flickr.com

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If you're an avid reader of the IPA's *Hey...What did I miss*, you would have come across a recent article in *The Conversation*

claiming Adam Smith was racist.

In the opening sentence of *The Wealth of Nations*, Smith states that nations can consume only what they produce and 'what is purchased with that produce from other nations'. Indeed, a major part of Smith's thesis is that human prosperity is

predicated on voluntary exchange and co-operation between people of different nationalities and races, rendering *The Conversation* piece unsurprisingly absurd.

It does, however, provide an amusing segue into a question that has long preoccupied

economists—that is, whether there is a relationship between economic freedom and tolerance. A piece by economist Tyler Cowen in *The New York Times* in January this year piqued interest in this issue once again. Cowen cited a recent set of studies by Swedish economists Niclas Berggren (Research Institute of

Industrial Economics) and Therese Nilsson (Lund University) that have unearthed some interesting findings regarding this connection.

In short, these findings support a positive relationship between economic freedom and tolerance. Furthermore, they didn't find the other major themes of the 'tolerance literature'—education and income inequality—to be determinants of the level of tolerance present in the societies they examined.

Economic freedom's positive contribution to tolerance is unsurprising given that the purpose of the market existence is to satisfy the unique needs and wants of diverse individual human beings. As such, the market is both tacit acknowledgement that tolerance is a necessity in human relationships and also a mechanism to facilitate it.

The Enlightenment tradition assumes that trade and exchange between people and groups fosters trust, co-operation and ultimately tolerance. The exposure to each other through trade drives greater understanding between groups and removes suspicion of the unknown.

Furthermore, markets require trust to work. As such, the institutions that underpin markets—the rule of law, property rights, and the enforcement of contracts—are actually trust-protecting and trust-building institutions. It is easier to trust and tolerate a stranger if there is an effective means of recourse should the stranger break his or her contract with you.

Development economist William Easterly provides a salient example of this occurring in Italy where, he argues, the institutions required for economic freedom have impacted on tolerance levels in different parts of the country.

From the twelfth century onwards, the north of Italy was successful in resisting the autocratic

rule of the Holy Roman Emperor. A measure of economic and political freedom was achieved in what became known as the free cities in the north. In Genoa, for example, an institution known as the *compagna* emerged in the thirteenth and fourteenth centuries. The *compagna* enforced contracts between the city's prominent seafaring merchants.

The south, however, was subject to the autocratic rule of the emperor until 1870. This severely constrained economic freedom, as it disregarded the individual as an organising concept of society. Consequently, the destiny of the people in southern Italy was more heavily restricted on the basis of their class, religion, gender and race.

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Easterly cites studies that have shown that people in the north of Italy today have greater openness and trust in strangers than people in the south. For example, people in the north are today more likely to donate their organs—an act that will benefit someone they will never meet. Less trust of outsiders results in a greater importance placed on the bonds one has with people they know—family, friends and local community. Whilst these bonds are generally a positive force, Easterly argues that in some circumstances these two factors combined are believed to have contributed to the flourishing of organised crime in the south of Italy.

A further component of the Enlightenment view of economic freedom and tolerance is that



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tolerance is in people's self-interest. Commerce with individuals and groups outside one's own community, religion or culture has economic benefits. Tolerance is required for these transactions to take place and these transactions, in turn, create more tolerance. Those that are intolerant forego these economic gains. Economic freedom also makes people richer. The pragmatic view is that tensions between groups are simply less fraught when there is less economic pressure on communities. Thus, economic freedom contributes to greater tolerance via communal prosperity.

In contrast to the Enlightenment view, a significant proportion of the literature on tolerance focuses on areas other than economic freedom. Education is cited as a panacea for a range of social ills, of

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which intolerance is one. However, theorists argue that education can be either a positive or a negative force for tolerance.

On the negative side—education used to promote intolerance—American academic Catharine Newbury has argued that the unequal distribution of education in Rwanda, on the part of colonists,

consolidated the animosity between Tutsis and Hutus. Mexican sociologist Rodolfo Stavenhagen identified education being used as a tool for cultural repression by the Arab elite in Sudan. Academics believe education was used in Nazi Germany to manipulate history so as to normalise the exclusion, de-humanisation, and eventual extermination of Europe's Jews, homosexuals and gypsies. UNICEF has argued that the apartheid government of South Africa used the education system to buttress racial segregation. This was accomplished by teaching black South Africans that they were inferior to other races whilst depriving them of the intellectual tools to question this notion.

However, in terms of education reducing intolerance, UNICEF argues that bussing programs in

the United States in the 1960s (where students were bussed from one area to create more racially equitable classrooms), along with affirmative action, helped dampen racial tensions in the United States. Likewise, Tony Gallagher of Queens University in Belfast believes the end of segregation in education in Northern Ireland in 1981, and more conciliatory education policies generally, helped mitigate the sectarian conflict there.

Furthermore, concepts such as linguistic tolerance, cultivating inclusive citizenship, and using history education to foster peace in conflict-affected countries, are all put forward by theorists as ways that education challenges intolerance. Perhaps more convincingly, examples of education that directly challenge the state oppression of certain ethnic groups are believed to foster tolerance.

For example, the Roman Catholic Church in apartheid South Africa directly flouted the law by allowing black and white students to learn in the same classrooms.

Interestingly, UNICEF also argues that charter schools in the United States have contributed to greater racial tolerance by giving low income families a measure of choice in education, encouraging greater parental participation.

This confluence of education and freer markets (albeit in a considerably limited form) is as close as many researchers get to tapping into the power of economic freedom in contributing to greater tolerance.

Some researchers argue that income inequality causes intolerance. In 1953, Melvin Tumin produced the seminal work on social stratification (of which income inequality is a part) and its contribution to the breakdown in social cohesion.

Tumin wrote that:

[T]o the extent that inequalities in social reward cannot be made fully acceptable to the less privileged in society, social stratification systems function to encourage hostility, suspicion and distrust among the various segments of society, and thus to limit the possibilities of extensive social integration.

Stewart Wolf and John Bruhn pointed to the example of the town of Roseto in Pennsylvania in the 1960s as an example of income inequality increasing intolerance. Roseto experienced rapid economic change at this time, leading to increased income inequality and an apparent breakdown in social cohesion.

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However, Richard Wilkinson provides a different perspective on income inequality. In his 1996 book *Unhealthy Societies: The Afflictions of Inequality*, he used the example of Britain during the World Wars in support of the argument that income equality can increase tolerance. During the World Wars, incomes in Britain actually compressed which, according to Wilkinson, led to greater social cohesion.

The studies undertaken by Bergren and Nilsson, which in turn inspired Tyler Cowen's *New York Times* piece, are a victory for the

Enlightenment view. They showed that greater economic freedom, and subsequently greater wealth, leads to greater tolerance of gay people. They found that if people are accustomed to themselves and others possessing choice with regards to economic activities, it follows that those societies would tolerate choice in regards to individuals' sexual behaviour.

Interestingly, in the Bergren and Nilsson studies, different elements of what might be considered economic freedom have varying impacts on tolerance. Property rights, security and low inflation are strongly positively correlated with tolerance of gay people.

A key finding was that economic freedom and wealth have a more powerful association with tolerance when societies exhibit a higher level of trust. Cowen, like Easterly, believes that trust is an underrated commodity in economics and should be given greater attention.

Significantly, for those mentioned above who claim education and income inequality are decisive factors in the level of intolerance present in any given society, Bergren and Nilsson didn't find either to have significant impact in any of the cross-country data they collected.

In many ways, the question of the correlation, causation or otherwise between economic freedom and tolerance is a misnomer.

The market is an institution for traversing our differences. It is a mechanism through which we each have the opportunity to satisfy our unique set of necessities, interests, obligations, desires and dreams. Difference is an assumption of the market—without difference, the market would not be necessary.

Economic freedom, therefore, isn't a driver or cause of tolerance, but a form of tolerance itself. ■