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*for Karl Polanyi  
with best regards  
C. S. T.*

# The Canadian Journal of ECONOMICS AND POLITICAL SCIENCE

The Journal of the Canadian Political Science Association

PUBLISHED QUARTERLY BY  
UNIVERSITY OF TORONTO PRESS

\$1.50 the copy, \$6.00 a year

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145-4268

## MARKET CONCEPTS IN POLITICAL THEORY\*

C. B. MACPHERSON  
*University of Toronto*

If this paper were not too slight it might have been given a sub-title: a note on cultural lag in political science. For one of the things I want to suggest is that political scientists, whether out of envy or pure admiration for their economist colleagues, have in recent decades increasingly taken over an equilibrium-market concept from economics without realizing that they have been taking cast-off clothing. The epithet is perhaps unfair. But it does seem that just when economics has been moving away from its concept of the economy as a pure price system and turning to a notion of the economy as a system of power, carried on by power blocs rather than by maximizing individuals, political theory has been taking over the concept of the equilibrating price system and working it into a general theory of the political process. As economics adopts power concepts in a search for realism, political science adopts market concepts in a search for theoretical elegance. In this curious double process of transvestism I do not think political science has been the gainer. Economists may object that they have not abandoned marginal equilibrium analysis, and I would not insist that they have. Certainly they have not abandoned the search for elegance, and if their elegance is getting a little lumpier they are to be applauded for their greater realism. But the political scientists' use of market concepts is clear enough to be a matter of some concern.

The attractiveness of the economists' equilibrium concept to political theorists is understandable. Apart from the elegance and precision of economic models, and of the general and special theories that economists have developed from the concept of equilibrium, the main attraction of economics is the determinateness of its general theory. The economist has been able to show how the results of countless separate decisions by individual producers and consumers could be a determinate system. Taking for granted a society in which there was division of productive labour and exchange of products and of labour, it had only to be assumed (1) that every individual rationally tried to maximize his gains (or minimize his real costs), and (2) that there was a freely competitive market for the resources, materials and energies needed to produce things, and for the things produced. It followed that competition would determine prices for everything and that prices would determine what would be produced, offered, and purchased. Large numbers of independent decisions issued in prices, while the prices determined the decisions in the sense that every decision had to be that which, given the prevailing prices, was calculated to maximize the gain of the person deciding. Each person, taken separately, was ruled by market values, while the market values were the product of all the separate decisions. The whole thing was a determinate

\*A paper given at the meetings of the Canadian Political Science Association in Montreal on June 9, 1961.

system which tended to equilibrium, in that prices tended to be just what would induce buyers to buy what was produced and producers to produce what would be bought.

The essentials of this system had been set out by the classical economists. When marginal utility analysis was introduced, the notion of equilibrium became more refined. Its greater refinement was made possible by the fact that the marginal utility theorists, unlike the classical economists, abstracted from class and other social determinants of effective demand, and treated the consumers' wills as autonomous and independent. So the kind of economic theory available in the late nineteenth and the twentieth century, resting on completely atomized individual demands or utilities or preference schedules, seemed to provide the kind of apparatus needed to deal with the democratic political process.

The attractiveness, to political science, of a theory which produced a determinate system out of a multitude of conflicting individual wills which could be taken to be autonomous and undetermined is evident. Any general theory of the process of liberal-democratic government faces the same problem the economists appeared to have solved. If it is to be a general theory it must be in some degree determinate, yet if it is to be a liberal theory it must assume that the system is moved by separate individual wills which are not themselves determined.

Moreover, the economic theory appeared to show (if interpersonal comparisons of utility were allowed) that the equilibrium towards which the system tended must produce the maximum utility for the whole membership of the system. This demonstration in fact requires some further assumptions about the utility of certain distributions of property, as Bentham for instance saw, but after the victory of marginal utility, enchantment with equilibrium (among the political theorists at least) allowed this point to be obscured. I shall return to the question of the justificatory role of theory; here I merely remark that an economic theory which justifies as it explains is all the more attractive to the political scientist who already sees the democratic process as the analogue of the price system.

A final reason for the attractiveness of the market concept may well have been that a notion of equilibrium, in a much looser sense, had been familiar in political thinking ever since Machiavelli, or even since Aristotle. They had seen the main practical problem as one of maintaining stability, and had sought the solution in a rough balance of classes. The idea of balance as the secret of political stability, carried into the formative period of modern liberal ideas by the English republicans and the American federalists, thus had a respectable intellectual position. It was not, of course, entirely satisfactory for a democratic theory, since it assumed that the main problem was class division: the equilibrium it proposed was between two or three classes whose opposition was assumed to be fundamental, permanent and over-riding. With the arrival of democratic franchise and equalitarian ideas, the notion of class equilibrium became disagreeable. But by then the concept of equilibrium could be rescued by pressing into service the newer and more precise economic concept of equilibrium, which, abstracting from class, postulated atomized individual



demands. The transfer of the economic concept into political science thus seemed quite feasible by the twentieth century, at least in the most advanced countries. We had "one man, one vote," we had a set of politicians arrayed in parties competing for votes, and we had an extensive supplementary apparatus of interest groups collecting, organizing, and focusing individual wills so as to make scattered wills into effective demands on legislatures and governments.

In these circumstances, the equilibrium market model has been irresistible. The democratic political system is typically presented (especially by American political science, rather less so by English, and noticeably less so by European, for a reason that is perhaps already apparent, or will be so in a moment) as a mechanism whose function is to reconcile or balance or hold in adjustment a multitude of diverse and conflicting individual interests. The central mechanism is the party system, which is seen as an entrepreneurial system. It is said to tend to produce equilibrium in two ways. First, it continually combines a very diverse lot of demands, each of which is shared by different numbers of individuals, and no natural or spontaneous grouping of which would command the support of a majority, into a few groupings one of which can command the support of a majority and can therefore produce an effective government. The system thus enables political decisions to be made and enforced in a continuous, stable way. Second, because of the competition between parties for votes and between voters for governmental action favourable to themselves, the system tends to produce just that set of decisions (or, that allocation of political goods) which the citizens are willing to pay for in expenditure of political energy and other resources.

Thus by casting politicians and parties in the role of entrepreneurs in a profit-seeking economy (and voters in the role of consumers), one can get a political model which appears to explain how governments do carry out the social functions expected of them although the motives of the politicians who run the government are unrelated to these functions. Just as the entrepreneur is in business to make profit, not to perform a social function, but is compelled by the operation of the competitive market to perform social functions in order to make a profit, so the politician can be assumed to be in politics for the power, prestige or other satisfactions he can expect, and yet be shown to be compelled to perform social functions by the operation of the competitive party and interest group system.

The main assumptions needed for this model are (1) that both politicians and voters behave rationally, that is, seek to maximize benefits to themselves; (2) that there is free competition between parties, with all that this implies by way of freedom of speech and association; and, of course, (3) that the party with the most (effective) votes will be the government until the next election, which must be at or within a fixed period of time. This set of assumptions provides a rough working model of the democratic process, a model which can easily be expanded to include the role of interest groups.<sup>1</sup>

<sup>1</sup>A theory which depends on the organization of individual wills into parties and pressure groups may seem to be rather a power-bloc theory than (as I have classified it) an atomized equilibrium theory. But while the desire of organizers to maintain their own power is not overlooked in the market theory of the political system, the assumption usually is

The analogy between such a political system and the price system is, of course, not exact. The political system, besides equilibrating the supply and demand for political goods, has to produce and sustain a government. That is, it has recurrently to confer on identifiable persons the power to make (and the responsibility for making) the laws and orders by which political goods are distributed. This function is not paralleled anywhere in the economic market model. But it can be reduced to insignificance in the political model by treating governments in office as mainly inert recipients of pressures from interest groups. When the output of laws and orders is treated as a result of the input of pressures, it matters little what persons are in office as the government. The government, as the mechanism through which decisions are made, becomes in effect as impersonal or anonymous as the market in the economic model. One wonders whether it is because the political system can by this assumption be most nearly assimilated to the price system that the assumption has become so fashionable.

The rough theory of the democratic process that can be built in this way can be refined considerably by introducing marginal analysis. With the greater clarity that such analysis can give, some interesting propositions can be established.<sup>2</sup> It can be shown, for instance, that the tendency of the two-party system is to discourage rational voting, up to an indefinite limit. (Politicians in such a model can normally expect to increase their chances of gaining office by discouraging voters from choosing rationally, for example, by offering ambiguous programmes. The only limit is a degree of voters' irrationality that would destroy the democratic system, which party politicians have a stake in. But in each party's calculation, this limit will not appear to be approached by any action the party takes in the direction of greater ambiguity, that is, of greater irrationality imposed on voters. Hence the tendency of the system is to discourage rational behaviour indefinitely.)

Another proposition that can be reached from the model is that, although the rules of a democratic system are designed to distribute political power equally, such equality cannot result if all men act rationally. (The rational voter, to make his demand effective, must acquire a lot of information. The cost, in time, energy and money, of acquiring it must, by a rational voter, be weighed against the expected benefit to him, which benefit must be discounted in view of the very small amount of influence one vote has. The amount, and the cost, of the information needed for a rational decision necessarily varies between individuals, because the division of labour in modern society gives direct access to such information to only a few in each policy area. To those furthest removed from the sources of information the rational decision will be not to pay the cost of informing themselves, but to let some interested agency pay the cost, and accept biased information from it. Hence if all men act rationally their influence on policy must be very unequal.)

(as it must be in order to make the system tolerably democratic) that parties and groups respond to the shifting autonomous wills of individuals who have highly pluralistic demand schedules.

<sup>2</sup>The two propositions that follow are adapted from Anthony Downs's brilliant exercise in marginal analysis, *An Economic Theory of Democracy* (New York, 1957), chaps. viii and xii.

This kind of analysis is fascinating, and useful within limits. It cannot be carried as far as marginal analysis in economics because there is nothing in the political system as precise and measurable as price in the economic system. Perhaps its chief value is to show that with realistic assumptions about knowledge and uncertainty the market concept of democracy becomes self-contradictory. To the extent that politicians are rational, voters cannot be so; to the extent that voters are rational they cannot have the equal effective demand that democratic theory asserts; if all men are rational there cannot be a rational democracy.

But any equilibrium analysis of the political process in democracy, however rough or refined, has more serious limitations. The most noticeable limitation is that it is applicable not to democratic states in general, but only to the special case of expanding and prosperous (or optimistic) capitalist democracies. (This I think is why this kind of analysis is most developed in the United States but is still an imported academic luxury in Europe, where it has spread since the war at roughly the square root of the speed of coca-cola.) That the equilibrium analysis is applicable at all only in the special case can be readily seen. The analysis rests on the extreme pluralist assumption that the politically important demands of each individual are diverse and are shared with varied and shifting combinations of other individuals, none of which combinations can be expected to be a numerical majority of the electorate. This position is most nearly approached in a prosperous and expanding capitalist society: where the economy provides or promises a share of affluence to everybody, class interest will not outrank all the other divisions of interest. But in any other case the model is not appropriate.

In capitalist societies not expanding at a rate sufficient to meet expectations, political life is usually dominated by class parties, if such societies manage to keep a democratic system working at all. Class interests are then more important than the variegated other interests whose predominance is assumed in the equilibrium theory. To the extent that men think it rational to act politically as members of a class, the operation of the party system becomes very different from that of the market model. The extent to which men will so act is of course a matter of empirical judgment. But in the western nations of our century, where democratic franchise and competitive parties coincide with mass expectation of material betterment, the extent of class politics seems to vary inversely as the supposed expansiveness of the economy. Post-war and cold war prosperity has moved most of the western nations some distance away from class politics, but it would be optimistic to assume that this was now the normal and permanent condition of the established democracies.

When democracy, or the prospect of democracy, in the emergent independent nations of Africa and Asia is brought into consideration, the inadequacy of the market concept of the democratic process becomes even more apparent. The function of the political system in such countries is not the achievement of equilibrium in a pluralistic society but the authorization of a government strong enough to work a transformation from colony to viable nation. A one-party or quasi-party system appears to be more appropriate here than the competitive party model. The party which has the edge just before, or at the moment of, national independence is apt to accumulate authority



rather rapidly. And while its authority may be exercised somewhat dictatorially, it should not be written off as undemocratic. For the plenitude of its authority may well be a necessary condition of fulfilling national democratic aspirations. Tribal divisions, class divisions, and religious divisions within the national community may seriously complicate the problem of maintaining a unified authority able to transform a backward country into an advanced one fit for national independence. But once a people, through the political leaders of all its significant parties, has committed itself to the proposition that it is a backward country, and that it should advance, the need to support a party which has a chance of advancing it is apt to over-ride the divisive interests which flourish in a more secure society.

It may be said, of course, that this sort of regime is a transition to democracy rather than a viable kind of democracy. But while there are grounds for supposing that such regimes may allow more freedom of association as they feel more secure, it would be arrogant for western theorists to assume that such nations will wish to move towards the highly pluralistic society that is postulated in the equilibrium theory. The new nations which hope to keep a position between the western and communist worlds have several patterns of society to choose from, ranging from the most unified to the most pluralistic. There is no reason to suppose that they will strive exclusively for the most pluralistic. If they do not, their political systems cannot be fitted into the equilibrium theory, not even by setting up a special adolescent section of the equilibrium theory. And any theory of the democratic process that does not find room for such political systems can scarcely now claim to be a general theory.<sup>3</sup>

The inadequacy of the equilibrium theory for any but the special case of expanding and prosperous western democracies is perhaps sufficiently obvious. It remains to point out that, even in those countries, the appropriateness of the pluralistic equilibrium model is open to considerable doubt on historical grounds. The competitive party system, as a way of choosing and authorizing governments, was not developed to take care of a pluralistic universe of individual wants. It began as a means of settling sectional differences within the English ruling class, when democracy was not yet thought of. Later, when a democratic franchise could no longer be withheld, the party system was extended with a view to taming the democracy which was so much feared. The main purpose of the party system, as it began to function with the democratic franchise, less than a century ago, was to moderate class conflict. The system has on the whole been remarkably successful in doing this. And it seems probable that even in the most prosperous and least class-conscious countries the party system still has this underlying function. To the extent that that is so, the system is not adequately described by the pluralistic market theory. The equilibrium theory, then, even for the advanced western societies

<sup>3</sup>Whether or not a general theory of the democratic process should be expected to cover communist systems, one-party or otherwise, is a matter of the definition of democracy. Since even in a one-party communist state there is necessarily some measure of intra-party democracy, and something approximating a system of interest groups operating in or on the party and the government, a case can be made for trying to bring such political systems within a general theory of the democratic process. But they cannot readily be assimilated to the equilibrium model. For they have issued from revolutionary rejection of its individualist assumptions, and their viability depends on the re-education of the mass of the citizens away from competitive individualist behaviour and outlook.

to which it seems most appropriate, is so unhistorical as to be dangerously misleading.

The trouble with the equilibrium theory of democracy, we may conclude, is that, like the economists' marginal utility theory, it leaves out of account the historical determinants of effective demand. It treats class interests in advanced countries, and national aspirations in advancing countries, as just one among many kinds of political pressure. In doing so it averts its thoughts from the most serious problems of democracy. Equilibrium is a nice tune for whistling in the dark.

I have spoken so far of the use of a market concept to explain the mechanism of democracy rather than to justify democratic ends. If we look now at the justificatory theory, we find a somewhat different situation. The difference can be stated, perhaps over-*emphatically*, as follows: whereas the mechanical theorists see a market relation where it does not exist, or does not predominate, the ethical theorists commonly fail to see a market relation where it does exist, that is, in the ethical assumptions of the liberal tradition.

Market assumptions, I would argue, entered the premises of liberal-democratic thought at its origin in the seventeenth century. Market assumptions were a vital part of the ethical individualism which was at the root of the English liberal tradition. My own view, which I can only indicate here,<sup>4</sup> is that market assumptions are still in the premises of twentieth-century liberal-democratic theory to an extent not now warranted and not always realized. The market assumption is not now warranted, I think, not because we do not now live in a market society (for we do live in one), but because the rightness or justice of a market society is not now as nearly universally accepted within the society as it was from the seventeenth to the nineteenth centuries.

The market assumption which seems to me to lie unrealized within modern liberal-democratic ethical theory is the assumption which was explicit in much of the earlier individualist theory (from Hobbes to Bentham), namely, that the individual personality (which is the supreme value in the liberal tradition) consists of capacities which the individual *owns*, and for which he owes nothing to society. Man is the proprietor of his own person. He is what he owns. The human essence is freedom to do what one wills with one's own, a freedom properly limited only by such rules as are needed to secure the same freedom for others. On these assumptions, the best society (indeed the only possible good society) is one in which all social relations between individuals are transformed into market relations, in which men are related to each other as possessors of their own capacities (and of what they have acquired by the exercise of their capacities).

The clearest model of such a society was set up by Hobbes, who found that "the value or worth of a man is, as of all other things, his price, that is to say, so much as would be given for the use of his power,"<sup>5</sup> who saw all human attributes as commodities, to be contracted for and exchanged at values set (and rightly set) by the impersonal operation of a market in power, and who reduced justice to the performance of contract. In proposing this model of

<sup>4</sup>It is developed in my forthcoming *The Political Theory of Possessive Individualism: Hobbes to Locke*.

<sup>5</sup>*Leviathan*, chap. x.



society Hobbes was a little ahead of his time, but the model was approximated more and more closely with the spread of industrial capitalism. We have moved a little away from it again in the twentieth century, with the spread of humane welfare concepts. But even now our society is, in my opinion, closer to the market model than to any other.

It may seem inconsistent to assert that contemporary western society is substantially market society while denying, as I have denied, that its political system is a market-like system. But the two positions are consistent. The market model of society, as just described, does not entail a freely competitive political system, and certainly not a democratic political system; it may even require a class monopoly of political power, as was appreciated by most theorists from the seventeenth to the nineteenth century.

I am arguing, then, that while our society is substantially a market society, it is no longer automatically justified by its fundamental assumption. In the period when the liberal tradition was being formed, the assumption that society was a series of market relations between individuals was an adequate basis not only for describing the society but also for justifying it. For at that time almost all the politically articulate, seeing themselves as proprietors of their own capacities, accepted the rightness of the market society. Those who might have had doubts about its rightness were confronted with its inevitability. The laws of the market became the laws of nature. Their justice was not easily questioned. And since the relations expressed by those laws prevailed in the social as well as the economic order, the justice of a market society was similarly demonstrable. This was the position until about the middle of the nineteenth century. But with the emergence of a politically conscious working class both the justice and the inevitability of market society were challenged. So the justification of market society, in terms of the freedom it gave the individual as proprietor of his own person, ceased to be morally adequate. The old foundation of liberal morality was undermined.

The question not sufficiently asked since then is whether the justification of the liberal-democratic state has not continued to rest on the old justification of the market society. In so far as possessive market concepts got into the liberal postulates about the nature of man and society, into its moral postulates about the human essence, and were thence carried into the postulates of liberal-democratic theory, the theory cannot be expected to be adequate in the twentieth century.

The justification of liberal-democracy still rests, and must rest, on the ultimate value of the free self-developing individual. But in so far as freedom is still seen as possession, as freedom from any but market relations with others, it can scarcely serve as the ultimate value of modern democracy.

The two arguments of this paper can now be quickly summarized: political theorists have paid too much attention to the superficial analogy between the market and the political process at the operative level, and not enough attention to the market concept at the deeper level of the postulates about the nature of society and the nature of human freedom. In an age when the operations of the market are no longer assumed automatically to be good, and indeed are no longer assumed to be automatic, political science is still in full pursuit of the good old model.