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Market Participation, Self-respect, and Risk Tolerance

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Abstract
How important is the experience of risk in business endeavors for self-respect and moral development? Tomasi prompts this question with his attempt to reconcile Rawls's theory of justice as fairness with free-market capitalism, by claiming that economic activity is a way for people to exercise their autonomy, responsibility, and self-authorship, including through voluntary risk-taking. Critics argue that the social environment generated through market institutions is ill-suited for developing a sense of responsibility and autonomy among citizens. We refine the case for economic liberty by looking at the link between risk-taking and attitudes toward democratic citizenship. We highlight the critical role of ethical business practice as a contributor to the stability of liberal-democratic societies.

Keywords Entrepreneurship · Risk · Cooperation

Introduction

What is the relationship between market participation and democratic citizenship? This is a critical question for liberals as it informs what sort of economic institutions are required for a stable society characterized by free and equal citizenship. Rawls (1999, p. 240), inspired by Meade (2012), frames markets in instrumentalist terms: market institutions are effective at allocating resources to valuable ends but are not sources of broader socialization. As a result, Rawls proposes that either liberal socialism or a property-owning democracy could underpin just economic institutions but that all forms of capitalism, including welfare-state capitalism, are necessarily unjust (Vallier, 2019).

Pro-market liberals argue that this approach underestimates the importance of market activity for facilitating the development and pursuit of reasonable life plans (Shapiro, 1991, 1995; Tomasi, 2012) as well as the coercion required to generate productive economic activity under non-market arrangements (Gaus, 2012). Tomasi argues for the moral importance of rights to create, own, and voluntarily exchange property, including means of production and other capital assets, as well as to establish businesses. Defenders of Rawls's division between economic and social liberties respond that these accounts fail to acknowledge the harms in terms of effective, if not intentional, coercion involved in market participation and the resulting experiences of precarity that citizens face in a market society.

In answering these critics, we acknowledge that justifications for the ethical role of business in democratic societies have so far fallen short of reaching precise Rawlsian standards. Nevertheless, there remains a puzzle: real-world liberal democratic societies, including those that come closest to representing Rawlsian commitments, have widespread markets and constitutions with systematic protections for private property and economic liberty (Cowen, 2021a; Sumner, 2015). We offer a solution to the puzzle which is that market participation makes a unique contribution to fostering stable social cooperation in a way that reconciles self-respect with tolerance for unavoidable risks associated with engaging in democratic life. To do this, we first identify the role of the political process for Rawls and the necessary moral faculties of citizens participating in liberal politics which include a capacity to cultivate self-respect even when finding oneself in a minority on a policy issue or among the relatively disadvantaged in a given generation. This capacity is critical for social stability. Second, we show how opportunities to

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participate in markets contribute to these moral faculties, namely a capacity to have a resilient sense of self-respect while engaged in social activities where non-compliance and losses are constant risks and occasional experiences. Third, since appropriately constituted market institutions help to ameliorate, rather than augment, unchosen forms of risk and economic precarity (what we call general risk), they are able to reduce exposure to the sort of risks that would inevitably undermine self-respect. This suggests that out of Rawls's preferred regimes, property-owning democracy is more likely to be stable than liberal socialism and that Rawls may have been unwarranted in dismissing welfare-state capitalism as necessarily unjust.

The Existing Neo-classical Liberal Case for Economic Liberty

Tomasi (2012) challenges what has come to be labeled Rawls's 'high liberalism' by suggesting that market participation includes important practices and sites for moral development. On his 'neo-classical liberal' account, liberties to negotiate personal employment contracts, establish enterprises, make long-term financial decisions and buy, sell and possess means of production are necessary conditions for making citizens responsible self-authors, capable of formulating and carrying out rational life plans as autonomous agents. For Tomasi, to have a sense of self-respect, citizens must be responsible for their destiny, including making a living in their own way, and accepting the outcomes of their choices that determine their economic status.

Under the neo-classical liberal framework that Tomasi develops, the two key justifications for economic liberty are efficiency and responsibility. The efficiency case is that economic liberty encourages more economic growth and does so (or at least can plausibly be arranged to do so) in such a way that it materially benefits the least advantaged. Material welfare corresponds in a relevant sense to more opportunities to pursue a conception of the good. The responsibility case is that economic liberty makes individuals responsible for their own destinies.

While many of Tomasi's respondents recognize, in principle, that economic activities such as running a business can be morally edifying parts of a rational life plan, his approach has met with significant skepticism. Critics are concerned that establishing market activities leaves people vulnerable to exploitation in the economic sphere and is likely to conflict with basic liberties, especially the fair value of political liberties (Stilz, 2014).

Baderin and Barnes (2020) focus on a specific link in Tomasi's argument: the role of risk-taking in the cultivation of self-respect and the idea that the choices people are compelled to make in a market economy cultivate feelings of self-empowerment. They agree that opportunities to engage in risky activities of one's choosing can give people a sense of empowerment that contributes to self-respect. However, they deny that these opportunities are specific to economic life. They demonstrate a lack of empirical association between elevated individual experiences of economic insecurity (which they take to be characteristic of market society) and a sense of autonomy and empowerment, arguing that making citizens responsible for their own economic outcomes in a free-market society is an unlikely contributor to their self-respect.

This is an important objection to Tomasi's linking capitalist institutions with the cultivation of self-respect. However, it has weaknesses of its own and they stem from an assumption that the economic freedom that Tomasi espouses is necessarily connected with negative experiences of insecurity. First, Tomasi (2014) supports a welfare state that is capable of ameliorating insecurity through state support for the unemployed. Richer societies with productive market economies are more capable of sustaining a welfare state. Second, Baderin and Barnes (2020) only compare different individual experiences of insecurity within one regime: the United Kingdom. However, the most relevant comparison is arguably not between individual experiences within one set of institutions but how insecurity is experienced between a range of institutional regimes.

The comparative literature on employment security highlights the complexities in the experience of insecurity and the potential trade-offs between facing some degree of job insecurity and the level of social exclusion associated with that insecurity. Anderson and Pontusson (2007) suggest a typology with three kinds of insecurity: cognitive job insecurity (subjective assessment of job loss risk), affective job insecurity (worries and concerns associated with the possibility of losing a job), and labor market insecurity (the risk of not finding another job). They propose that affective job insecurity is likely to be influenced both by cognitive job insecurity and labor market insecurity; in other words, not just the risk of losing a particular job but also the risk of being unable to find a similar job. Regimes with greater economic freedom, where businesses form, grow and fail in response to market competition and where employers are permitted to expand and shrink their workforce in line with market demand are plausibly associated with greater job insecurity but lower experiences of labor market insecurity, partly because such regimes will generally have lower levels of long-term unemployment (Feldmann, 2007). By contrast, regimes that prioritize job security alone will have substantially reduced risk of job loss for those already with a job but potentially at the expense of those trying to enter the labor market for the first time, such as young people and migrants. Labor market policies focused on job security alone thus have a risk of advantaging protected insiders at the expense of outsiders.

Dixon (2020) finds some evidence in favor of economic freedom on this front by comparing worker experiences in different European labor markets. Workers generally feel more secure in regimes that are more economically free. Arguably the regime that has most effectively navigated these trade-offs is Denmark's 'flexicurity' model which combines flexible labor markets with a generous welfare state along with active labor market policies that both support the unemployed in retraining and oblige them to seek work when it is available (Kreiner & Svarer, 2022). While Denmark has a comparatively large public sector, it scores highly on economic freedom.

This indicates that Tomasi's proposal for a market democracy has some empirical support when the relevant point of comparison is taken to be between institutions rather than individual circumstances. With this in mind, our contribution is to reframe the case for economic institutions that expose citizens to some forms of risk. We can generalize the distinction between insecurity with respect to a particular job and insecurity regarding access to employment opportunities to a distinction between risks that represent personal setbacks and more general risks that threaten agency. On our account, some exposure to the former type of risk is important as it allows citizens to cultivate tolerance for the sorts of risks they face when participating in democratic politics. It is the latter that needs to be avoided as they undermine self-respect and produce a fear of participating in public life. In the next section, we consider what liberal democratic politics requires of its citizens.

What does Rawlsian Politics Look Like?

Rawls aims to specify a set of institutions or decision processes that reliably arranges society in such a way that justice as fairness is achieved. To relate his fundamental principles of justice to more familiar political institutions, Rawls proposes an approximate institutional division of labor between constitutional rules and legislative politics. Basic rights are constitutionally enshrined and upheld by a supreme judiciary (Rawls, 1999, p. 174). By contrast, questions of the division and management of social resources are generally decided by majoritarian democratic procedures.

What roles are there for political processes within Rawls's regime? The first role is to maintain social stability for the right reasons of a well-ordered society committed to justice as fairness. Politics is a site where support for fundamental liberties and a general commitment to equal citizenship is stably reproduced over indefinite generations. These are values shared by all parties and participants but require affirmation over time so as not to drift away from a commitment to a liberal political regime. The anti-majoritarian supra-political elements (such as a Supreme Court and written constitution) are there to help guide the political process should a transient majority in the legislature temporarily go off course (Rawls, 1999, p. 175).

The second role is as an open and competitive procedure to allocate resources and decide policies for producing and distributing goods where some inequalities are permitted (Rawls, 1999, p. 195). These are issues where the requirements of justice as fairness are open to interpretation. This is where the production and distribution of primary goods governed by the Difference Principle come to the fore, as compared to primary goods protected under the Liberty Principle. The Difference Principle is in some ways substantially limiting the potential policy space. It takes the baseline as strict equality and permits departures from it only when the least advantaged are benefited. However, once the link between inequality and advantage to the least well-off is established, then the principle is less demanding as to precisely how those benefits should be distributed. A group could end up being the worst off due to the implementation of a legitimate policy while being among the better off under a different policy. This is fair so long as whoever turns out to be the relatively worse off has benefited compared to relevant alternatives where the worse off group benefits less.

Note how counterintuitive the sentiment (if not the logic) of the Difference Principle is, especially in the context of Rawls's wider moral framework. On the one hand, Rawls insists that most sources of social inequality are arbitrary from a moral point of view: they do not track any entitlement or desert. On the other hand, it is fair that some groups, nevertheless, end up with more goods. For those in the worst-off position because of any decision or social mechanism, the obvious question is 'Why me or us? Why shouldn't someone else be in the worst-off position?' How are citizens supposed to maintain self-respect in these circumstances? For some egalitarian critics of Rawls, this position is too fraught and unstable. It seems to require that citizens split their personalities (between the potentially spited private person and the public-spirited citizen) for the sake of a putative general good justified by a hypothetical contract. While such outcomes can be justified, citizens need assurance that they are, in fact, living within a regime that follows the outcomes of the contract.

The position makes more sense when we bring in Rawls's underlying aim of establishing a society based on stable ongoing cooperative mutual advantage (Rawls, 1999, p. 273). There are many forms of cooperation that produce disproportionate benefits for some parties and relatively less for others. Insistence on equal benefits in each mode of cooperation may prevent a unitary society from emerging, leaving instead some non-cooperating segregated communities. Rawls's solution to protecting a sense of self-respect is to place greater emphasis on procedural fairness, including the fair value of political participation and equality of opportunity for entering public office. This way citizens placed in the worst-off position within one generation can have reasonable confidence that their children will not be in such a position.

This offers citizens rules of the game that they would find acceptable in principle. Nevertheless, this leaves a problem of how citizens can become morally and psychologically habituated to these unequal outcomes that are a necessary result of political decisions that are overall to everyone's advantage, including the least advantaged. How can citizens come to accept such a process and trust that it will produce the intended results over the long run when people might reasonably chafe at the short-run outcomes?

This is where we posit there is a unique contribution of participation in business. Experience of market activity can contribute to a resilient sense of self-respect under conditions of uncertainty. Markets help a community solve problems of deep uncertainty through trial-and-error processes. Experience of error and loss is intrinsic to this discovery process. While participating in markets, it is possible to do everything right from the perspective of merit and yet still get a relatively poor outcome because relevant conditions, unknowable *ex-ante,* turn out to be crucial *ex-post*.

This experience of unavoidable risk and loss has crucial parallels for participants in a political process that is supposed to be stable over indefinite generations amid important disagreements about fundamental values. In a liberal democracy, everyone will experience having their party lose or their preferred policies defeated. Yet the process produces the general benefit of peacefully settling conflicts. To function, citizens must differentiate between fairness in outcome and fairness in the process. They must push their own view because they believe it is just, and still maintain a sense of self-respect when that view is defeated by another view that is also grounded in public reason. Correlatively, winning parties on any given policy or election must recognize the role of fortune and chance in their success and thus not take it as a sign of the inferiority of those they defeated on this occasion. Winning and losing are often beyond one's immediate control in market activity.

On our account, sustaining cooperative schemes for mutual advantage, such as liberal democratic institutions, requires more than perceived procedural legitimacy as it further demands that citizens face and withstand the risks involved in political processes, and reaffirm their self-respect when personal setbacks materialize. In fact, one may regard political processes as ultimately fair or legitimate and yet be unwilling to engage in political participation by virtue of being unfit to bear the risks involved in political processes. In this respect, risk-tolerant attitudes are meant to complement procedural legitimacy by means of enabling citizens to bear those risks, thus fostering political participation. As we now argue, economic liberty educates citizens to maintain their sense of self-respect amid the need for compromise, negotiation, and acceptance of temporary loss that is part of a democratic society (Cowen, 2021b, p. 159).

The Role of Risk in Market and Political Participation

Participation in a cooperative venture requires risk tolerance to solve the problem of mutual assurance. First, citizens must accept the personal risk of trusting that others will participate fairly in the social scheme for mutual advantage when deciding to participate at all. Without risk tolerance, fear of being exploited will prevent participation in a political community and invite withdrawal into private life. Second, participating in democratic politics means occasionally losing; that is not having one's preferred political party win, or its policies adopted. Citizens must accept the inevitable risks of occasionally losing out in some cases or decisions while recognizing that they continue to benefit from ongoing social cooperation.

At the same time, citizens' self-respect must be maintained, even affirmed, in the process. While this is a potentially demanding requirement, participation in market society helps cultivate this necessary attitude among citizens. Business activity provides ample opportunities to realize gains from continuous cooperation despite facing inevitable risks of relative personal loss in individual cases. The fact that risk tolerance is cultivated in a market setting is important because, unlike other areas, it involves the allocation and distribution of socially produced resources, the same sort of economic goods at stake in many political decisions, such as when producing and allocating public goods. This defense resonates with the empirical evidence that finds that greater life satisfaction, social trust, tolerance, and personal economic security are associated with economically free institutions (Berggren & Bjørnskov, 2020; Berggren & Jordahl, 2006; Berggren & Nilsson, 2013, 2016). The general experience of life in a market society, at least compared to relevant alternative regimes, is not one of insecurity and disempowerment but one of successfully coping with peculiar risks through the availability of a greater range of opportunities (Dixon, 2020).

Our argument is thus two-fold: first, cultivating risk tolerance is a necessary condition for the emergence and stability of cooperative schemes for mutual advantage; second, market participation provides ample room for cultivating such risk-tolerant attitudes. A required step consists in laying out which experiences of risk foster individuals' risk-tolerant attitudes that we regard as essential for cooperation to emerge at the political level and to illustrate why business activity is uniquely suited to help individuals overcome the fear of engaging in mutually beneficial cooperative schemes. In this respect, we point to two distinct kinds of risk that are naturally embedded in market participation: *non-compliance* and *loss*.

In its simplest form, the risk of non-compliance captures risks involved in trusting other agents in a market transaction, when the nature of the agreement is such that each party cannot unilaterally enforce its demands. To illustrate it, we draw on Hume's (1976, pp. 520–521) popular harvesting example. In the *Treatise of Human Nature*, Hume describes a scenario in which two farmers—let us refer to them as Alf and Bob—attempt to cooperate to maximize their corn crop. So, they try to put in place a scheme where they agree to help each other with the harvest and, as a result, they will enjoy the benefits of cooperation:

> Your corn is ripe today; mine will be so tomorrow. 'Tis profitable for us both, that I shou'd labour with you today, and that you shou'd aid me tomorrow (1976, p. 520)

The rationality of cooperating, however, is threatened by the fact that their corn matures at different points in time (i.e., Alf's at t1 and Bob's at t2), and, as such, their agreement fails to be self-enforcing as one of the parties is made better off by non-complying with the agreement and *can* defect (Telser, 1980). In fact, if their interaction is only one-shot, once Bob has helped with the harvest at t1, Alf has no incentive to return the favor at t2. Through backward induction, Bob realizes that Alf will never return his help and, thus, chooses not to start the cooperative venture at the very outset:

> I have no kindness for you, and know you have as little for me. I will not, therefore, take any pains on your account; and should I labour with you upon my own account, in expectation of a return, I know I shou'd be disappointed, and that I shou'd in vain depend upon your gratitude. Here then I leave you to labour alone: You treat me in the same manner. The seasons change; and both of us lose our harvests for want of mutual confidence and security. (Hume, 1976, pp. 520–521).

Hume's example, later labeled as the *Farmer's Dilemma* (Skyrms & Vanderschraaf, 1998; Sobel, 1994, pp. 262–266), highlights a problem of mutual assurance. It shows that rational and purely self-interested agents may end up with a sub-optimal outcome when the structure of an agreement is such that one of the agents lacks instrumental reasons to comply with its demands.

The conventional reply to Hume's conclusion consists in observing that cooperation seldom represents a one-shot interaction. In many cases, agents face one another repeatedly at later stages and for an indefinite (though, obviously finite) number of times, and thus may have an incentive to build a good reputation if they wish to collect the benefits of cooperation (cf. Vanderschraaf, 1999). For instance, if Alf and Bob know that they will face one another in the harvesting scenario for an indefinite number of times in the future, their payoffs change so to incentivize Alf to return Bob's help at t2 and, thus, to motivate Bob in starting the cooperative venture at t1.

Yet, Hume's point still stands, as many ordinary market transactions seemingly represent one-shot interactions. They do not necessarily capture scenarios, such as the farmer's dilemma, in which rationality demands agents to defect, but cooperation may involve risks that agents may or may not be willing to undertake.

Consider, for example, online shopping. When purchasing goods on platforms such as eBay or Craigslist, buyers face a number of substantive risks: for instance, they cannot be certain that products they have paid for will be delivered, either because sellers engage in fraud or because couriers mess up shipments; or they cannot make sure that the product is as described, as they have to rely on the honesty of the seller.

Online shopping, though often resembling a case of one-shot interaction, does not represent an instance of the farmer's dilemma. Most of the time, sellers have instrumental reasons to comply with the terms of the agreement, either because they would be excluded from the trading platform, or because indirect feedback mechanisms become crucial for the survival and prosperity of their businesses (e.g., even though buyers and seller may engage in a one-shot transaction, sellers normally benefit from feedback mechanisms through building a positive reputation that is made available to prospective buyers). Nonetheless, buyers are still exposed to risks of non-compliance. Not all sellers on the platforms have genuine intentions and are, thus, interested in building a reputation that would help them grow their business in a legitimate way.

A possible objection is that the risk of non-compliance is present when participating in any economic system, including a market socialism that has many of the features of a market economy. This includes independent buyers and sellers but without private ownership of capital. The critical difference is that in the case of market socialism, the decision to allocate resources is supposed to be independent of distribution (personal gains) (Rawls, 1999, p. 241; Carens, 1981). This means that costs arising from non-compliance are absorbed by the community rather than the individuals who try to contract with someone who turns out to be incompetent or an opportunistic defector. In this sense, socialist alternatives to private markets socially insure people against a type of risk that in a market economy can cost them personally.

The risk of non-compliance in market transactions mirrors similar risks that citizens must be habituated to accept in a political community. Members of a community may fear the risk of widespread non-compliance with formal institutions that emerge from constitutional rules and democratic decision-making, especially rules shaping the provision and protection of public goods. Citizens may themselves decide not to comply with their demands thus jeopardizing the possibility of cooperation. Analogously, the fear of being exploited by politicians may discourage participation in democratic decision-making and invite withdrawal from civil society, thus undermining, at the very outset, the possibility of political cooperation. Business participation ameliorates this problem because to achieve anything in a commercial society, both buyers and sellers engage in exchanges in the expectation that the other party will occasionally fail to comply. They nevertheless participate because they have learned that, overall, they will benefit.

Risk in market participation does not merely capture uncertainty connected to non-compliance. It also embeds the risk of loss, which broadly refers to the risk of committing errors that negatively affect one's wealth or expected wealth. Virtually everyone makes consequential economic decisions during their lives in a market society. An important example is investments in education: one may choose to enroll on a course because of the anticipated job prospects and yet *ex-post* realize that it was not worth the time, effort, and money spent on it (at least compared to relevant alternatives in hindsight). Other examples include moving from one city to another in search of alternative opportunities, leaving a secure job in one sector to try a new job in another, as well as investing or selling property, and choosing more liquid or illiquid forms of saving as well as how much to insure against personal risks. These decisions require individuals to deal with uncertain payoffs in an effort to obtain economic gains, thus exposing them to the possibility of losses.

One aspect of market participation that characteristically involves a high degree of risk and uncertainty is entrepreneurship. Entrepreneurs are often characterized as individuals who take the risk of introducing new products and services, generating new markets through a process of creative destruction in an ambitious effort to generate new sources of profit (Schumpeter, 1943). The label "entrepreneur" can conjure up images of elite business leaders. To skeptics of economic liberty, entrepreneurs can represent a source of economic inequality and instability that characterizes the downsides of commercial societies. For Kirzner (1979, 1996), by contrast, entrepreneurship is a much more common practice among economic actors at all levels and is closely embedded with everyday market activity. An entrepreneur is anyone, whatever their social position and at any scale, who is alert to potential profit opportunities and willing to act on them when making business decisions. Following Hayek (1945), Kirzner explains that such opportunities emerge from people utilizing their situated, often tacit (inarticulable), knowledge that they have discovered through their personal experience of a location or sector. This might be noticing an excess demand for a consumer good, or intermediate factor of production and realizing that there exists a hitherto unrecognized source of that good, or a suitable substitute good (Kirzner, 1978). This does not necessarily represent innovation in a grand sense but simply the use of unique knowledge to make more efficient use of existing resources. So, while not everyone will act as an entrepreneur as part of their economic life, many people will have opportunities to do so throughout their lives and virtually everyone will observe peers starting, running, and closing businesses at various scales.

For Kirzner, entrepreneurs play a critical role in bringing markets closer to a theoretical competitive equilibrium where the marginal benefit of a good is equal to its marginal cost (Boudreaux, 1994; Delmotte & Cowen, 2019; Kirzner, 1997). Entrepreneurs spot price differentials that they think they can use as sources of profit. In realizing that profit, entrepreneurs bid up the price of the good that they noticed was under-utilized, while lowering the cost of the good they have contributed to producing more efficiently. They act against the given public prices quoted in the market, in the belief that they can exploit them. So, they, or a willing creditor, must bear the financial risk in case it turns out that the enterprise fails.

Indeed, entrepreneurial activity often results in losses. Entrepreneurs frequently fail to distinguish sound profitable opportunities to exploit from imagined ones, often because certain relevant circumstances that would make a certain commercial activity profitable have changed in ways that one cannot have predicted. In this respect, entrepreneurs are always exposed to risk and uncertainty (Michaelson, 2008). They can only exhibit a partial grasp of the soundness of an economic investment and often cannot predict, in a fully detailed fashion, whether certain relevant circumstances that are needed for an entrepreneurial decision to be profitable will remain unchanged.

Risk of loss, both the unavoidable ones, involving career decisions and personal finance, and common entrepreneurial ones, mirrors analogous risks at stake in the political arena that people take when adopting political positions, voting, and supporting political parties, as well as choosing to engage in more sustained and intensive forms of activism. Citizens who participate in the political life of a social community, by deciding to expose themselves to electoral competition, or by investing their time and effort to bring about social changes that they regard as desirable, must accept the likelihood of losing in any given case. Their preferences for certain policies may not encounter widespread consensus. Similarly, citizens may vote for a political party, with the aim to see certain policies implemented, and *ex-post* realize that such policies did not have the impact they would have predicted or hoped for.

If citizens fail to cultivate risk-tolerant attitudes toward the possibility of loss in the political arena, the fear of losing may invite their withdrawal into private life, undermining political participation and, in turn, the possibility of fruitful cooperation based on democratic legitimacy. Citizens may give up on the possibility of proposing and promoting new institutional shapes that better mirror their structure of preferences and goals, thus causing the political process to lose contributions that could potentially be to the advantage of all members of the community.

Reconciling Risk and Security: Local Vis-a-vis General Risk

Market participation involves risky activities that parallel the ones citizens face in their active engagement with democratic institutions. We suggest that the cultivation of risk-tolerant attitudes toward the possibility of loss and non-compliance constitutes an essential requirement for the stability and success of cooperative schemes for mutual advantage at the political level. Given this contribution, we hesitate, as Tomasi does too, from endorsing a conception of justice that aims at insulating citizens from the experience of risks in commercial activity. Such insulation could strip citizens of an ideal locus in which they can learn to develop the ability to cope successfully with risks that are inevitably part of active participation in the political life of their communities.

Baderin and Barnes (2020) press on this question. They offer an empirically informed narrative of the experience of risk that illustrates how it may substantially undermine individuals' self-respect, by threatening their capacity to form a coherent life plan and erode the motivation to pursue their own goals:

> Perhaps the experience of risk creates feelings of helplessness, rather than enhancing our sense of agency. In the face of risk, we might become demotivated, rather than driven. And perhaps the true social meaning of economic risk is an expression of disregard and devaluing, rather than trust and confidence (Baderin & Barnes, 2020, p. 6)

Baderin and Barnes's argument is compelling. If the experience of economic risk compromises agency, there are reasons to insulate individuals from it to maintain intact their self-respect and protect their ability to form and pursue plans of life they find meaningful. Moreover, one may convincingly argue that exposure to extreme economic risks, far from sustaining cooperation, may lead to the emergence of preferences for revolt (Alesina et al., 1996; Collier & Hoeffler, 2004; Miguel et al., 2004). In this regard, we face a dilemma: on the one hand, Baderin and Barnes provide plausible reasons for insulating individuals from the experience of risk in the economic realm. On the other hand, these risks mirror analogous situations that citizens must face when they actively participate in the political life of their community. Their ability to cope with the possibility of losing, while maintaining and reaffirming their self-respect, is ultimately necessary for social stability.

We can tackle this dilemma by distinguishing between the different natures of the experience of risk which we spell out along three distinct, though related, dimensions: *confined* vs *widespread, temporary vs permanent,* and *positive-sum* vs *zero-sum*.

	Local	General
Temporal extension	Temporary	Permanent
Spatial extension	Confined	Widespread
Societal output	Positive-sum	Zero/Negative-sum

The experience of risk, both in the economic and political realm, need not negatively affect agency when individuals perceive risks as confined, temporary, as well as rendering overall positive-sum consequences, whereas it may harm an individual's capacity to form a meaningful life plan and undermine their motivation to pursue it when they perceive risk as yielding potentially prolonged negative consequences, affecting various realms of one's life, and bearing overall zero or negative-sum consequences both at the individual and societal level.

To illustrate our argument, consider entrepreneurial risk. Suppose Betty believes she has spotted a profit opportunity and decides to put her idea into practice. For example, she might realize that her local town does not have a craft beer brewery despite the apparent popularity of craft beer among her friends. Betty only has a partial grasp of prospective customers' preferences, along with an imperfect knowledge of the circumstances that would make her investment of time and resources profitable. Hence, she is exposed to the risk of loss. Yet, Betty's experience of risk need not be *general*, in that: first, the possibility of loss does not prevent her from economic participation at future points in time, if she can be assured that further, future economic opportunities will emerge to be exploited; second, the possibility of loss does not prevent her from pursuing life plans that fall under other meaningful realms of life, if safety nets will be provided by fair schemes of social cooperation; third, Betty knows that collective exposure to local risks enlarges the society's opportunity set and minimizes her and others' collective exposure to general risks.

Market societies can help minimize Betty's general risk in two ways: first, such regimes can afford to pay for a welfare state by taxing those who generate higher incomes and profits in one period where they have been successful. This provides a safety net that ensures that Betty has enough resources to pursue her plans and, thus, affirm her self-respect, in different realms of life while coping with risk. Second, entrepreneurship helps to make goods, services, and intermediate goods more accessible to the benefit of everyone, including those who have lost out relatively in competition in the current period. It means that Betty can recover from her losses reasonably quickly without a drop in her absolute standard of living. Moreover, if Betty knows that collective exposure to local economic risk is likely to generate positive-sum outcomes, because the market process of discovery resulting from collective efforts in spotting new and unseen opportunities will ultimately enlarge the set of opportunities available in a society (Carden et al., 2021; Heath, 2014; Singer, 2018), and thus minimize collective exposure to general risk (Choi & Storr, 2022), she will recognize that she stands to gain from participating in economic activity amidst local failure and can further affirm her self-respect by virtue of being part of a cooperative scheme for mutual advantage that contributes to societal improvement.

In particular, Betty may recognize that, although not all entrepreneurial intuitions may turn out to be correct, the process of improving the overall allocation of resources, and the chance of introducing products and services that improve the lives of fellow members of the community, partly depends upon a process of discovery that takes advantage of entrepreneurs' failed attempts (Cowen, 2020). Therefore, loss due to entrepreneurial failure still relevantly contributes to the welfare of society, and, as such, may reinforce individuals' self-esteem when market functioning is properly understood (Fike, 2022; Van Schoelandt, 2022).

This experience, and the social contribution, apply to the risk of failure in the political realm. Citizens who are actively engaged in the political life of a community must face the risk of losing. However, such risk is only local and temporary in that individuals always maintain the possibility of further and future engagement with politics and retain their basic liberties to try to persuade their fellow citizens about the benefits of a desired social or political change. Moreover, cooperative schemes for mutual advantage emerge, in part, from a process of trial and error. So, participation in the political life of a community is praiseworthy and socially beneficial insofar as losing continues to inform the populace of possible alternative courses of action. It allows citizens to consider and evaluate trajectories of social and political change that were previously unnoticed and that may become relevant in the future.

We highlight that our argument applies to cases of market participation that do not necessarily involve entrepreneurial initiatives. Consider again, for instance, the case of policies that combine income security with high flexibility in hiring and firing decisions such as the Danish model of flexicurity (Kreiner & Svarer, 2022). What is interesting in the flexicurity model is that, by allowing for higher flexibility in the labor market, such policies expose people to higher local risk of losing one's job; at the same time, though, they scale down exposure to general risk by providing income security, also reducing domination and arbitrary treatment of employees (Bhargava & Young, 2022). While the rationale underlying these types of policies is that exposing people to local risks pays dividends in terms of better allocation of resources, which are then used to reduce exposure to general risk by means of granting income security in between jobs, we suggest that exposure to local risks yields benefits also in terms of fostering risk-tolerant attitudes, while preserving one's ability to reaffirm their self-respect.

In such institutional contexts, the risk of losing one's job does not need to have a detrimental or paralyzing effect on one's agency. In fact, income support in between jobs enables individuals to seek other opportunities, thus preserving their ability to reaffirm their self-respect at future points in time. Moreover, income support makes sure that the experience of losing one's job does not carry with it threatening effects on other realms of one's life, thus enabling one to pursue other meaningful plans.

It is important to stress that we do not wish to deny that the experience of local failure may often negatively impact one's self-respect. In fact, we do not argue that a market economy, which constantly exposes individuals to local risks, maximizes one's ability to cultivate self-respect *in abstracto*. Our idea is that the widespread presence of risk-tolerant attitudes is a basic requirement to sustain cooperation within *liberal democracies* and that participation in a market economy, by continuously exposing citizens to risks that mirror those involved in political participation, can help them develop these attitudes while, at the same time, equipping them with the ability to reaffirm their self-respect while facing risks. In this respect, the validity of our argument is contingent on a preference for liberal democracy.

Different political institutions may not require widespread risk-tolerant attitudes to be sustained. In fact, if citizens are not exposed to the political risks above highlighted, they may not need to cultivate risk-tolerant attitudes that would foster their political participation and enable them to reaffirm their self-respect amid the experience of non-compliance and loss in the political realm.

The Unique Contribution of Market Participation

Although one may recognize that the experience of economic risk, underpinned by the existence of markets, provides citizens with an opportunity to cultivate their risk tolerance while reaffirming self-respect, one may plausibly object that economic risk is neither unique nor the ideal locus to ensure citizens are prepared to accept losses in the political domain and continue to cooperate. In fact, one may suggest that other enterprises may play a similar, if not identical, role without exposing citizens to the threat of economic insecurity.[1]

For instance, consider sports: in a tennis game, players face the possibility of losing. They can study their opponents, and come up with strategies to defeat them, but it is ultimately impossible to have a perfect grasp of all the variables affecting a particular match. Tennis players, thus, must learn to cultivate risk-tolerant attitudes and to reaffirm their self-respect even in the face of losses if they wish to continue playing their sport. Similar considerations apply to other competitive games, which naturally embed the risk of losing and create fertile soil for individuals to cultivate risk-tolerant attitudes. In this respect, one may regard the experience of economic risk as an ultimately disproportionate tool to cultivate risk-tolerant attitudes to foster cooperation within the political domain. Other enterprises outside of markets could expose individuals to the experience of risk in a relatively safe environment, where prospective losses can be manageable for most participants.

However, there are four main features that make the experience of economic risk under free-market institutions, with appropriate safety nets, suitable for such a task and alternatives like sports not suitable: its cooperative nature, its inescapability, the real resources at stake in market exchanges, and the endogenous nature of rules in the marketplace.

Let us begin with the cooperative nature of economic risk. Agents in a market exchange are assumed to be seeking to secure the best available outcomes for themselves. Parties try to extract as much value as possible from one another. Consider a scenario where Betty is trying to buy a house from Alf. Both Betty and Alf set a certain reserve price which, on the demand side, defines the maximum price Betty is willing to spend on the property and, on the supply side, concerns the minimum price Alf is willing to accept to sell his property. Both Betty and Alf seek to secure the best possible deal, which consists of either buying or selling at each other's reserve prices.

Despite the apparent antagonistic nature of such interactions, market exchanges are set to advance the interests of both parties and are thus largely cooperative. In fact, under the assumption of rationality and symmetrical information, by definition, mutual satisfaction is a necessary condition for a transaction to take place as no agent has an interest in carrying out a transaction that leaves them worse off. Therefore, parties must take into account each other's interests to make sure that an exchange is carried out. Without such regard, agents may fail to bring about a state of affairs that is mutually advantageous (Cowen, 2021b; Guzmán & Munger, 2020).

The cooperative nature of such interactions is absent in competitive games where players seek to defeat their opponents without taking their interests into account. Competitive games, indeed, by virtue of being zero-sum, do not create an incentive for cooperative interactions as players' interests as these are antagonistic and mutually incompatible. Smart players will play strategically, and will thus carefully analyze their opponents' options, but interactions in competitive games are uncooperative.

As for market exchanges, in competitive games, there is both risk of non-compliance (i.e., players cheating on the game's rules) and failure (i.e., losing); however, such risks require no consideration for the opponents' preferences, nor create any incentive for coordination on a mutually advantageous outcome, as this is by definition unavailable. This feature of economic interactions makes them suited to help individuals cultivate their risk-tolerant attitudes in a cooperative scheme for mutual advantage such as the political domain. The underlying idea is that social cooperation requires individuals to be able to accommodate to a certain extent each other's conceptions of the good, structures of preferences, and goals. Failure to do so will likely impede convergence on basic institutional arrangements that provide the basis for mutually advantageous cooperation.

The second feature highlights that unlike the risks embedded in competitive games, economic risks are to a large extent inescapable. Although individuals can opt out of competitive games, thus choosing to insulate themselves from the experience of risk, market exchanges represent a largely inescapable way to improve one's condition. While opting out from a game does not prevent individuals from seeking satisfaction in other realms of life that do not involve risk exposure, insulating oneself from economic risks is ultimately unrealistic as it would mean avoiding all market exchanges, thus preventing one from pursuing a wide variety of goals. In this respect, exposure to risks in competitive games is somewhat fictitious as participation in such games is ultimately optional and our willingness to engage in them is an expression of our already formed risk-tolerant attitudes rather than providing an ideal locus to cultivate them.

Importantly, such inescapability is mirrored in the political domain. Although citizens always maintain the possibility of insulating themselves from the political arena (e.g., by abstaining from voting, supporting parties, and engaging in electoral competitions), such a decision is not costless as the effects of political institutions on citizens' lives are largely unavoidable as public policies affect us regardless of our involvement with the political realm.

Intimately connected to this second feature, the third aspect challenges precisely the idea that the cultivation of risk-tolerant attitudes can be obtained in contexts where there are no real resources at stake. The underlying thought is that, unlike the experience of economic risk, games cannot

[1] We thank Ittay Nissan for pointing us to this objection.

foster the emergence of risk-tolerant attitudes because they do not involve the risk of losing material resources. Losing in a competitive game brings with it more or less tangible costs such as a sense of disappointment; however, those costs do not mirror the potential costs involved in losing in electoral competitions, which along with personal disappointment, also involve losses in material and social resources, as in the case of redistributive policies which favor some citizens over others.

The fourth and final feature concerns the dynamic nature of rules within the marketplace vis-a-vis competitive games. Both the marketplace and games are shaped by formal and informal rules. While informal rules may change in both contexts (e.g., preference shifts and innovations may determine variations in how transactions are carried out and in how players design or pick their strategies), formal rules in games are clearly established *ex-ante*, whereas they are subject to continuous change in the marketplace depending on a wide range of factors (e.g., preferences, technological constraints, and public policies). For instance, regulations concerning licensing or tariffs are subject to constant scrutiny by regulatory bodies and governmental institutions, which may bring about changes that importantly affect the ways in which businesses are carried out.

This particular feature of the marketplace is also mirrored in the political domain where the formal rules of political participation are subject to change which may substantially alter outcomes (e.g., changing the boundaries of electoral districts may significantly affect the results of electoral competitions). The dynamic nature of formal rules in the marketplace introduces a further layer of uncertainty to people's decisions, forcing individuals to cultivate risk-tolerant attitudes in ways that prepare them for participation in the political domain.

Conclusion

Participation in both markets and democratic politics involves engaging in a rivalrous and competitive process where the overall outcome is to the mutual benefit of every contributor. Many theorists are concerned with the impact that the experience of risk and loss in markets might have on people's sense of agency. Baderin and Barnes (2020) point to empirical evidence linking job loss to reduced empowerment and self-respect as evidence for a tension between democratic citizenship and an economic regime that makes substantial use of markets. Our argument is that the sort of self-respect suitable for democratic citizens should be resilient to risk of loss that occurs through fair competitive processes but that citizens should not be expected to take on risks that threaten their social standing. This aligns with the economic freedom that Tomasi espouses because it exposes people to risks of loss that they are able to overcome through the extension of more opportunities, as well as empirical evidence that societies with relatively more economic freedom are able to reduce employment insecurity taken as a whole at the expense of some individual job insecurity.

What are the implications for the broader debate on the sort of regime most conducive to a liberal democratic conception of justice? Rawls suggests two possible regimes: liberal socialism and a property-owning democracy (POD). On our account, a liberal socialism, where most consequential economic decisions are taken through state and collective institutions, is unpromising as it would not offer individual citizens many opportunities to engage in market practices that would help them develop the risk tolerance for participation in democratic politics. However, a POD could work well with our account depending on the interpretation. Vallier (2015) points out that at least some explicit framing of POD involves constant adjustment and redistribution of wealth above a certain threshold. Insofar as these adjustments insulate people from losses incurred through exposure to local risks, then a POD is unlikely to cultivate sufficient risk-tolerant attitudes that will make citizens effective participants in a competitive democracy. On the other hand, the more general aim of a POD is to dissolve class distinctions between worker and capitalist and ensure that all participating members of a community have a fair opportunity to engage in cooperative production not just as workers but as owners (O'Neill, 2009; Williamson, 2009). This aim is conducive to precisely the sort of experiences of competition we argue to be important.

A POD, where policy was used specifically to insulate people from general risk but allows them to continue to experience local risk, would instantiate precisely the institutions that our account supports. Absent a POD being implemented in the real world, the flexicurity model of capitalism with a strong welfare state (demonstrated by Denmark) is another plausible instantiation of our proposed institutions. This aligns with recent research in comparative institutional economics suggesting liberal markets and well-resourced welfare states are mutually supportive (Bergh, 2020).

Our argument is not aimed at suggesting that there's an optimal level of risk that individuals ought to tolerate. Economic risks come in different degrees and individuals' risk attitudes may legitimately vary. Our underlying idea is that some basic threshold of risk tolerance is required for a social community to work properly. Any wide-encompassing cooperative venture requires individuals to be able to bear the risk of non-compliance from their fellow citizens, and the possibility of losing out relatively in having their preferred model of cooperation enacted. Without such a predisposition, our communities would cease to be cooperative ventures for mutual advantage and invite citizens to insulate themselves from social interactions.

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Research involving Human Participants and/or Animals Not Applicable.

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