

## **ARE DEMOCRACY AND CAPITALISM INCOMPATIBLE?**

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Democracy and capitalism are commonly perceived as part of modernisation. Lumped together in the political discourse, Sarah Lewis critically examines whether they form the “natural order of things”. She concludes that the philosophical tenets of democracy and capital accumulation diverge sharply. She illustrates how crisis is averted through checking mechanisms and ideological indoctrination that combine to make the notion of citizenship a chimera.

Democracy and capitalism are key words in contemporary political discourse. Democracy is founded on the ideals of liberty, equality and popular sovereignty, whereby individuals have the freedom to act without social impediment and power is both equal and accountable to those affected by its exercise. It cannot be said of democracy, as Lord Acton said of liberty, that it “is not a means to a higher political end. It is itself the highest political end” Hayek (1944). Democracy is essentially a means, a utilitarian device for safeguarding internal peace and individual freedom, with a commitment to the progressive extension of people’s capacity to govern their personal lives and social histories (Bowles and Gintis, 1986).

One of the most familiar perceptions of capitalism is as an economic system in which the economy is described in terms of markets. The government leaves the economy alone and free market forces operate along the lines of the *laissez-faire* model as expounded by Adam Smith (Bealey, 1993). ‘Capitalism’ is essentially derived from ‘capital’, an accretion of wealth (Bealey, 1993: 205).

It is acknowledged by most scholars that capitalism and democracy do not operate in separate spheres, the former relating solely to economics and the latter to politics. Historically, a correlation can be seen between economic growth and democratic values<sup>1</sup>, and both terms are regularly encapsulated in the concept of liberalism. Both democracy and capitalism stress the realisation of individual capacities, individual preferences and individual participation. If the institutional framework in which both operate can be shown to be responsive to individual preferences in an egalitarian manner, then it can be said that the two concepts are

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<sup>1</sup> Put forward by scholars such as Lipset (1978).

compatible. Analysis based on the works of Dahl, Green, Macpherson and others however shows that this is not the case. Due to the 'rule of privilege', that for Green (1986), is the essence of capitalism, the political sphere does not escape the effects of the inequalities created by capitalism. The adverse consequences for political equality lead us to conclude that democracy and capitalism are essentially incompatible.

Dahl (1998: 166) likens market capitalism and democracy to 'two persons bound in a tempestuous marriage that is riven by conflict and yet endures because neither partner wishes to separate from the other.' Historically, modern democracy rose alongside capitalism and, according to Schumpeter, in causal connection with it'<sup>2</sup> suggesting that modern democracy is the product of the capitalist system. Looking to history, Dahl (1998) points to the fact that democracy<sup>3</sup> has only ever endured in countries with a predominantly market economy and has never endured in a country with a predominantly non-market economy. This, according to Dahl, is because certain features of market capitalism are favourable with democratic institutions.

The private ownership of economic entities allows them to be guided solely by self-interested incentives. Hayek (1944: 73) goes so far to say that democracy is only possible within a capitalist system, if capitalism is taken to mean a competitive system based on free disposal over private property and economic entities. Decisions are made without central direction but the 'invisible hand' of the market serves to co-ordinate and control. As a result goods and services are produced 'much more efficiently than any known alternative' (Dahl, 1998: 167) and long run capitalism has typically led to economic growth.<sup>4</sup> By cutting acute poverty and improving living standards, economic growth helps reduce social and political tension. Growth also provides resources that are available should conflicts arise as

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<sup>2</sup> Quoted by Bealey (1993) in 'Capitalism and Democracy', *European Journal of Political Research*, 23,.

<sup>3</sup> This Dahl does limit to polyarchal democracy, though acknowledges that 'it also applies pretty well to the popular governments that developed in the city-states of Greece, Rome and medieval Italy and to the evolution of representative institutions and the growth of citizen participation in northern Europe' (Dahl, 1998: 166)

<sup>4</sup> It is not true to state forthright that economic growth is unique to democratic countries, and as Dahl himself points out: 'There appears to be no correlation between economic growth and a country's type of government or regime' (Dahl, 1998:170). Bealey (1993: 221) states non-democratic capitalism is as common as democratic capitalism and points to Taiwan and South Korea as examples of non-democratic countries with high growth rates. Huntington (1991) however contains that economic growth is unfavourable to non-democratic regimes, often undermining their legitimacy in the long run.

well as to provide individuals, groups and governments with resources for education which helps foster a literate and educated citizenry.

Market capitalism is also favourable for democracy because of its social and political consequences. A large middle stratum of property owners are created, that Dahl sees as typically seeking education, autonomy, personal freedom, property rights, the rule of law, and participation in government. The middle classes are the 'natural allies' of democratic ideas and institutions, as Aristotle first said. On this topic Bealey quotes Schumpeter, who argues that the rationalist scheme on which classical democracy rests is essentially bourgeois in origin. Milton Friedman (1962) points out the social benefits of the anonymity of exchange and the irrelevance of identities prevalent in the capitalist system. No one who buys bread knows whether the wheat from which it is made was grown by a Communist or a Republican, by a Constitutionalist or a Fascist, or for that matter, by a black or white person. This Friedman calls the staple of the liberal identification of capitalism and freedom.

The decentralised nature in which economic decisions are made in a capitalist economy is for Dahl the most important feature of the capitalist system that makes it compatible with democracy. This is because it avoids the need for a powerful central government. For a government to allocate scarce resources, a detailed and comprehensive central plan is needed, requiring a staggering amount of reliable information. Looking again to history, no government has proved up to the task. Dahl heeds that it is not the inefficiencies of a centrally planned economy that are most injurious to democratic prospects, but the social and political consequences of putting the resources of an entire economy at the disposal of government leaders, recalling the aphorism 'power corrupts and absolute power corrupts absolutely' (Dahl, 1998: 169).

Viewed as totally abstract, self enclosed decision-making processes, market capitalism and democracy have several common systemic features. In both individualism is at a premium, with the individual actor making a rational choice, thus there is an analogy between consumer sovereignty and voter sovereignty. In both cases the invisible hand is at work, with conflict between buyers and sellers being resolved by demand and supply and with the equilibrium price benefiting the greatest number. Here the analogy breaks down because the parallel with a democratic polity could only be sustained if voters did not have to accept policies they had not voted for in the same way that purchasers can exercise an effective veto by refusing to buy a particular product (Bealey, 1993). Manipulation however still exists in a 'responsible and responsive way' as in the democratic state political leaders control each other by exchanging favours, threatening and promising, organising alliances, opposing and supporting each other's policies. These moves are only understandable against the background of the competition for votes (Lindblom, 1988: 28).

Whilst democratic capitalism suggests a set of harmonious and mutually supportive institutions, Bowles & Gintis (1986) argue that even proponents of capitalism as good for democracy realise this is not the case. Approaching market capitalism from a democratic point of view reveals it has 'two faces': one pointing towards democracy, the other pointing in the opposite direction (Dahl, 1998). Dahl argues that democracy and market capitalism are locked in a persistent battle in which each modifies and limits the other. The market brings gains for some, but also harm to others.

Economic actors motivated by self-interest have little incentive for taking the good of others into account; and on the contrary have powerful incentives for ignoring the good of others if by doing so they themselves stand to gain (Dahl, 1998: 174). When harm results from decisions determined by unregulated competition and markets, questions about democracy are bound to arise causing some who believe in the virtues of total equality to oppose laissez-faire economics. Regarding this effect, Dahl states that the democratic potential of polyarchal democracy is limited by the inevitable inequalities that market capitalism creates, that in turn generate inequalities in the distribution of political resources. Consequently citizens are not political equals, violating the moral foundation of democracy, political equality. 'Market-capitalism greatly favours the development of democracy up to the level of polyarchal democracy. But, because of its adverse consequences for political equality, it is unfavourable to the development of democracy beyond the level of polyarchy' (Dahl, 1998:178).

Historical examples have shown capitalism has aided democracy, serving as a vehicle for a revolutionary transformation of society and politics. It has helped bring about changes 'from landlords and peasants to employers, employees and workers; from uneducated rural masses barely capable of surviving... to a country of literate, moderately secure, urbanised inhabitants; from the monopolisation of almost all resources by a small elite... to a much wider dispersion of resources' (Dahl, 1998: 178). But once society and politics are transformed by market-capitalism and democratic institutions are in place, the outlook fundamentally changes. Now the inequalities in resources that market capitalism churns out produce serious political inequalities among citizens. This presents 'a formidable and persistent challenge to democratic goals and practices that existed throughout the twentieth century and continue into the twenty-first. This is apparent within the state and globally, 'free trade' not turning out to be the means of linking the nations of the world together peacefully and democratically in the way it was forecast to. Liberalism increasingly appears an 'apologia for economic privilege' (Bowles & Gintis, 1986: 11).

The discrepancy between the many who work hard for a passable and insecure living, and the few who need not work at all to maintain their grotesque

wealth, always threatens to undermine the rule of capital (Green, 1985: 18). Yet if democracy and capitalism are incompatible, how have the two existed side by side for so long? Nineteenth and early twentieth century scholars forecasted the demise of capitalism yet they disregarded the elasticity and expansive capacity of capitalism. Productivity growth makes possible a simultaneous increase of both exploitation and real incomes of the exploited masses. This of course is not conducive to democracy. The minority is given unprecedented room for manoeuvre in dealing with the exploited majority (Therborn, 1977).

Some scholars believe that extensive government intervention and regulation can right the inequalities experienced. They believe whilst the market is not and cannot be self-regulating in that it lacks a single centre, some kind of elective, deliberative and representative political machinery will be able to ensure equality (e.g. Therborn, 1977). The causal arrow however goes both ways: from politics to economics and vice versa, and the existence of market capitalism greatly effects the operation of democratic political institutions.

Green (1985: 14) states that 'the inequalities in the distribution of economic capital are virtually reproduced in the distribution of political capital' and believes economic capital reproduces itself in the political realm with an even more decisive inequality. A society dominated by the interests of capital is a society whose goal is capital accumulation. This for Green is the result of the social division of labour. The central tactic of proponents of liberal capitalism has never been to deny the existence of the division but rather to deny that it determines the development of a similar structure within the strictly political institutions of liberal capitalist society. Rather it is suggested to be a side effect of human nature or the reality of large scale organisation. The social division of labour and the political division of labour are not identical; but 'their resemblance and inter-penetration are more than merely metaphysical' (Green, 1985: 14). Resources needed for both are time, skill or knowledge, money and property. The capitalist class has the greatest resources in time and money to spend on behalf of its interests. They do not depend on votes to underpin their power and influence; the other resources at their command are considerably more decisive. Many of its interests are also deeply entrenched in law and its methods for protecting those entrenched interests have become so intertwined with the accepted means for maximising the general welfare, that the costs of tampering with them will often seem too high, even to those who positively hate the existing distribution of power (Green, 1985). This rule of privilege is the very essence of capitalism, incompatible with democracy in the strongest sense. The kind of economic and social inequity that contemporary capitalism manifests makes the notion of citizenship a chimera (Green, 1985: 13).

Economists have for a long time seen command over property as not only the command over things, but also command over the powers of other men, with the

accumulation of the material means of labour leading to a net transfer of powers (Macpherson 1973, Bowles and Gintis, 1986). In a similar vane to Green, Macpherson (1973) attributes this to society's decision to abide by the right of unlimited individual appropriation and the natural inequality of individual capacities. This right of unlimited individual appropriation gives man an 'admirable carrot' (Macpherson, 1973: 18). Man, as an infinitely desirous creature, is moved to continuous effort with the prospect of unlimited powers over things to satisfy his desire as a consumer, spurred on by the belief that at the individual level anyone with enough drive can make it.

The crux of Macpherson's point is that the acceptance of the belief that unlimited desire is natural and rational leads ultimately to the continual net transfer of powers. This transfer of powers contradicts the principle that all individuals should be equally able to use and develop their natural abilities, by denying the greater part of men equal access to the means of using and developing their natural capacities. Thus Macpherson concludes that the maximisation of utilities cannot serve as the criterion of a democratic society and thus capitalism and democracy are inherently incompatible.

If we accept the interconnectedness of the economic and political spheres we can conclude that for the major organising and co-ordinating tasks in society in market orientated systems, there are two major groups of leaders and rulers: holders of governmental authorities and businessmen. Neither exercises conspicuously less ruling authority than the other even if there are some functions that are entrusted to government officials exclusively.

If we look at the democratic rule in the market system we see a huge democratic deficit. With respect to employees, corporations are authoritarian rather than democratic. Labour union influence softens that authoritarianism but by no means eliminates it (Lindblom, 1988). To 'vote' with money rather than ballots in some circumstances is more effective yet is also 'curiously limiting'... 'You and I cannot vote in that way for our preferred technology, location of industry, organisation and discipline of the workforce, or preferred method of executive recruitment and remuneration' (Lindblom, 1988: 123).

Lindblom also points out how business corporations must be induced, gratified, indulged, or rewarded to give them incentive to perform necessary tasks of social organisation or coordination. Governmental rulers in the democracies are usually fearful of being turned out of office if the economy stagnates and unemployment rises. They therefore 'warp' democracy to give high priority to devising policies businessmen want. Businessmen consequently achieve not a complete domination of the state but a degree of control over the state entirely disproportionate to their numbers. As a result democracy suffers both from direct market rule by holders of propertied authority and from the influence of those same

holders of property on the authority of the state (Lindblom, 1988: 128). Grant (1993: 18) describes this imbalance as ‘debilitating and potentially dangerous’. Western democracies are social mechanisms through which people demand of their governments what they have been taught by their elites. Thus popular control is to a degree short-circuited; democracy becomes circular (Lindblom, 1988: 135).

In the nineteenth and early twentieth centuries, as both political practise and constitutional debate clearly demonstrate, prevailing bourgeois opinion held that democracy and capitalism (or private property) were incompatible. Even such a broad minded liberal as John Stuart Mill remained a considered opponent of democracy for this very reason (Therborn, 1977). Yet today ‘capitalism’ and ‘democracy’ are terms widely held to jointly characterise our society. Bealey (1993) suggests this may be due to the desire of people to associate entities of which they approve. ‘Democracy and free markets are concepts that meet with so much approval that they have come to be regarded as part of the natural order of things (Bealey, 1993: 222).

In reality however the market system is a power system (Lindblom, 1988); it is a system for controlling behaviour; within it are to be found leaders or elites as well as a rank-and-file; and it embraces a variety of interpersonal controls, including coercion, that are profoundly undemocratic. Bowles and Gintis (1986) suggest that so stark an opposition between ‘capitalism’ and ‘democracy’ may appear unwarranted. But it remains the case that no capitalist society today may reasonably be called democratic in the straightforward sense of securing personal liberty and rendering the exercise of power socially accountable.

Both capitalism and democracy were revolutionary ideas, portending the breakdown of the old order of mercantilism, dynastic monarchy and repression of spoken and written thought. They signalled the end of the *ancien regime* and the rise of the common man. They can, therefore, both be regarded as aspects of ‘liberalism’, an umbrella term associated with so many of the radical notions of the nineteenth century (Bealey, 1993). One may therefore maintain that these notions were part of a process of ‘modernisation’. However democracy and capitalism remain very much opposed at the grass roots level.

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; Yet if democracy and capitalism are incompatible, how have the two existed side by side for so long? Nineteenth and early twentieth century scholars forecasted the demise of capitalism yet they disregarded the elasticity and expansive capacity of capitalism. Productivity growth makes possible a simultaneous increase of both exploitation and real incomes of the exploited masses. This of course is not conducive to democracy. Democracy is not inherently incompatible with Capitalism. The first requirement is that the Democracy (i.e. the majority) would have to vote or decide that their nation's form of economic market of Capitalism (versus Communism, Socialism, Mixed, etc.) be instated. Theoretically, once instated and maintained, it can remain and thus be compatible. Abstract Capitalism and democracy follow different logics: unequally distributed property rights on the one hand, equal civic and political rights on the other; profit-oriented trade within capitalism in contrast to the search for the common good within democracy; debate, compromise and majority decision-making within democratic politics versus hierarchical decision-making by managers and capital owners. Capitalism is not democratic, democracy not capitalist. The basic logics of capitalism and democracy are fundamentally different and lead to considerable tension between the two. Both have different claims to legitimacy: unequally distributed property rights on the one side, equal civic rights on the other. 4 Cp. more extensively: Merkel (2004). Democratic capitalism, also referred to as market democracy, is a political and economic system that combines capitalism and strong social policies. It integrates resource allocation by marginal productivity (synonymous with free-market capitalism), with policies of resource allocation by social entitlement.[1] The policies which characterise the system are enacted by democratic governments.[1]. The coexistence of capitalism and democracy, particularly in Europe, was supported by the creation of the modern welfare state in the post-war period.[2] The implementation of democratic capitalism typically involves the enactment of policies expanding the welfare state, strengthening the collective bargaining rights of employees, or strengthening competition laws. That argument channels a time-worn view, held by thinkers from Karl Marx to Friedrich Hayek, that democracy and capitalism may prove incompatible. Listen to this story. Your browser does not support the element. Enjoy more audio and podcasts on iOS or Android. The oldest is the worry that grasping masses will vote to expropriate the wealth (hard-earned or not) of entrepreneurs and landowners and without secure property rights there can be no capitalism. Hayek thought that the governments of the early 20th century, in responding to the concerns of the masses, had over-centralised economic decision-making, a road that led eventually to totalitarianism. But if capitalism and democracy are such uneasy bedfellows, what explains their long co-existence in the rich world?