

and a market-capitalist economy. Is there a feasible alternative to market-capitalism that would be less injurious to political equality? I return to this question, and more generally to the relation between democracy and market-capitalism, in the next two chapters.

Meanwhile, however, we cannot escape the conclusion that a market-capitalist economy, the society it produces, and the economic growth it typically engenders are all highly favorable conditions for developing and maintaining democratic political institutions.

#### A SUMMARY

Probably other conditions would also be helpful—the rule of law, prolonged peace, and no doubt others. But the five conditions I have just described are, I believe, among the most crucial.

We can sum up the argument of this chapter in three general propositions: First, a country that enjoys all five of these conditions is almost certain to develop and maintain democratic institutions. Second, a country that lacks all five conditions is extremely unlikely to develop democratic institutions, or, if it somehow does, to maintain them. What about a country where the conditions are mixed—where some are favorable but some are unfavorable? I'll postpone the answer, and the third general proposition, until we have considered the strange case of India.

#### INDIA: AN IMPROBABLE DEMOCRACY

You might already have begun to wonder about India. Doesn't it lack all the favorable conditions? If so, doesn't it stand in contradiction to my entire argument? Well, not quite.

That India could long sustain democratic institutions seems, on the face of it, highly improbable. With a population approaching one billion at the end of the twentieth century, Indians are divided among themselves along more lines than other country

in the world. These include language, caste, class, religion, and region—and infinite subdivisions within each.<sup>7</sup> Consider:

India has no national language. The Indian constitution officially recognizes fifteen languages. But even that understates the magnitude of the language problem: at least a million Indians speak one of thirty-five distinct languages. What is more, Indians speak about twenty-two thousand distinct dialects.

Although 80 percent of the people are Hindus (the rest are mainly Muslim, though one state, Kerala, contains many Christians), the unifying effects of Hinduism are severely compromised by the caste system that Hinduism has prescribed for Indians since about 1500 B.C.E. Like language, even the caste system is infinitely divisive. To begin with, a huge number of people are excluded from the four prescribed hereditary castes: these are the “outcastes,” the “untouchables” with whom contact is defiling. In addition, however, each caste is further divided into innumerable hereditary subcastes within whose social, residential, and often occupational boundaries its members are rigidly confined.

India is one of the poorest countries in the world. Pick your number: From 1981 to 1995 about half the population lived on the equivalent of less than one U.S. dollar a day. By this measure, only four countries were poorer. In 1993–1994, more than a third of India’s population—more than three hundred million people—officially lived in poverty, mainly in small villages and engaged in agriculture. In 1996 among seventy-eight developing countries India was ranked forty-seventh on a Human Poverty Index, next to Rwanda in forty-eighth place. In addition, about half of all Indians over age fifteen, and more than 60 percent of females over age six, are illiterate.

Although India gained independence in 1947 and adopted a democratic constitution in 1950, given the conditions I have just described no one should be surprised that India’s political practices have displayed some egregious shortcomings from a democratic

point of view. It has suffered from recurring violations of basic rights.<sup>8</sup> India is viewed by businesspeople as among the ten most corrupt countries in the world.<sup>9</sup> Worse, in 1975 India's democratic institutions were overturned and replaced by dictatorship when the prime minister, Indira Gandhi, staged a coup d'état, declared a state of emergency, suspended civil rights, and imprisoned thousands of leading opponents.

Yet most of the time most Indians support democratic institutions. In an action that would not have been taken by a people unqualified for democracy, two years after Indira Gandhi's seizure of power, she was voted out of office in a reasonably fair election. Not just the political elites but the Indian people as a whole, it appeared, were more attached to democratic institutions and practices than she had assumed; and they would not permit her to govern by authoritarian methods.

Although Indian political life is highly turbulent and often violent, somehow the basic democratic institutions, blemishes and all, continue to operate. This observation seems to confound all reasonable expectations. How can we account for it? Any answer to the Indian conundrum must be tentative. Yet surprising as it may seem, certain aspects of India help to explain why it manages to maintain its democratic institutions.

To begin with, several of the favorable conditions I've described do exist in India. Growing out of its past as a British colony, the Indian military developed and has maintained a code of obedience to elected civilian leaders. Thus India has been free of the major threat to democratic government in most developing countries. In contrast to Latin America, for example, Indian military traditions provide little support for a military coup or a military dictatorship. The police, though widely corrupt, are not an independent political force capable of a coup.

In addition, the founders of modern India who led it to indepen-

dence and helped to shape its constitution and political institutions all adhered to democratic beliefs. The political movements they led strongly advocated democratic ideas and institutions. Democracy, one might say, is the national ideology of India. There is no other. Weak as India's sense of nationhood may be, it is so intimately bound up with democratic ideas and beliefs that few Indians advocate a nondemocratic alternative.

Furthermore, although India is culturally diverse, it is the only country in the world where Hindu beliefs and practices are so widely shared. After all, eight out of ten Indians are Hindus. Even though the caste system is divisive and Hindu nationalists are a standing danger to the Muslim minority, Hinduism does provide something of a common identity for a majority of Indians.

Yet even if these conditions provide support for democratic institutions, India's widespread poverty combined with its acute multicultural divisions would appear to be fertile grounds for the rampant growth of antidemocratic movements powerful enough to overthrow democracy and install an authoritarian dictatorship. Why has this not happened? A closer view reveals several surprises.

First, every Indian is a member of a cultural minority so tiny that its members cannot possibly govern India alone. The sheer number of cultural fragments into which India is divided means that each is small, not only far short of a majority but far too small to rule over that vast and varied subcontinent. No Indian minority could rule without employing overwhelming coercion by military and police forces. But the military and police, as we have noted, are not available for that purpose.

Second, with few exceptions, members of a cultural minority do not live together in a single area but tend instead to be spread over different regions of India. As a consequence, most minorities cannot hope to gain to form a separate country outside India's boundaries. Whether they like it or not, most Indians are destined to

remain citizens of India. Because disunion is impossible, the only alternative is union, within India.<sup>10</sup>

Finally, for most Indians there is simply no realistic alternative to democracy. None of India's minorities, by itself, can overturn democratic institutions and establish an authoritarian regime, count on the military and police support it would need to sustain an authoritarian government, hope to form a separate country, or propose an appealing ideological and institutional alternative to democracy. Experience indicates that any sizable coalition of different minorities will be too divided to sustain a takeover, much less an authoritarian government. Democracy, it seems, is the only feasible option for most Indians.

The full story of democracy in India is more complex, as the full story of any country is bound to be. But in the end, India confirms the third proposition I promised earlier. In a country that lacks one or several but not all of the five conditions that favor democracy, democracy is chancy, perhaps improbable, but not necessarily impossible.

#### WHY DEMOCRACY HAS SPREAD THROUGHOUT THE WORLD

I began this chapter by noting how often in the course of the twentieth century democracy had collapsed and yet how widely it had spread by the end of that century. We can now explain that triumph: the favorable conditions I have described became much more widely dispersed among the countries of the world.

- The danger of intervention by an outside power hostile to democratization declined as colonial empires dissolved, peoples gained their independence, the major totalitarian regimes collapsed, and the international community largely supported democratization.

- The lure of military dictatorship declined as it became apparent, not just to civilians but to military leaders themselves, that military rulers were usually not able to meet the challenges of a modern society. Indeed, they often proved to be grossly incompetent. Thus in many countries one of the oldest and most dangerous threats to democracy was at last eliminated or greatly reduced.
- Many countries where democratization took place were sufficiently homogeneous to be able to avoid serious cultural conflicts. Often these were smaller countries, not large agglomerations of diverse cultures. In some countries that were more culturally divided, consensual arrangements were worked out. In at least one country, India, no minority culture was substantial enough to govern. In contrast, where cultural conflicts were acute, as they were in parts of Africa and ex-Yugoslavia, democratization was pretty much a disaster.
- With the visible failures of totalitarian systems, military dictatorships, and many other authoritarian regimes, antidemocratic beliefs and ideologies lost their previous appeal throughout much of the world. Never before in human history had so many people supported democratic ideas and institutions.
- The institutions of market-capitalism were spread to one country after another. Market-capitalism not only resulted in higher economic growth and well-being but also fundamentally altered a country's society by creating a large and influential middle class sympathetic to democratic ideas and institutions.

So for these reasons, and perhaps others, the twentieth century turned out to be the Century of Democratic Triumph. Yet we should view that triumph with caution. For one thing, in many "demo-

cratic” countries the basic political institutions were weak or defective. In figure 1 (p. 8), I counted sixty-five countries as democratic. But we might reasonably divide them into three groups: most democratic, 35; fairly democratic, 7; and marginally democratic, 23 (see Appendix C for sources).<sup>11</sup> Thus the “triumph of democracy” was considerably less complete than it was sometimes portrayed.

In addition, it is reasonable to wonder whether democratic successes will be sustained in the twenty-first century. The answer depends on how well democratic countries meet their challenges. One of these, as I’ve already suggested, arises directly from the contradictory consequences of market-capitalism: in some respects it is favorable to democracy, yet in others it is unfavorable. We’ll see why in the next two chapters.

*Why Market-Capitalism Favors Democracy*

Democracy and market-capitalism are like two persons bound in a tempestuous marriage that is riven by conflict and yet endures because neither partner wishes to separate from the other. To shift the simile to the botanical world, the two exist in a kind of antagonistic symbiosis.

Although the relation is extraordinarily complicated, from the profuse and constantly growing array of experiences with political and economic systems we can, I believe, draw five important conclusions. I offer two in this chapter, the other three in the next.

1. *Polyarchal democracy has endured only in countries with a predominantly market-capitalist economy; and it has never endured in a country with a predominantly nonmarket economy.*

Although I have limited this conclusion to polyarchal democracy, 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. But I'm going to bypass that history, some of which we encountered in Chapter 2, in order to focus exclusively on the institutions of modern representative democracy—that is, polyarchal democracy.

Here the record is amazingly unambiguous. Polyarchal democracy has existed *only* in countries with predominantly market-



capitalist economies and *never* (or at most briefly) in countries with predominantly nonmarket economies. Why is this so?

2. *This strict relation exists because certain basic features of market-capitalism make it favorable for democratic institutions. Conversely, some basic features of a predominantly nonmarket economy make it harmful to democratic prospects.*

In a market-capitalist economy, the economic entities are either individuals or enterprises (firms, farms, and whatnot) that are privately owned by individuals and groups, and not, for the most part, by the state. The main goal of these entities is economic gain in the form of wages, profits, interest, and rent. Those who manage the enterprises have no need to strive for broad, lofty, and ambiguous goals such as the general welfare or the public good. They can be guided solely by self-interested incentives. And because markets supply owners, managers, workers, and others with much of the crucial information they need, they can make their decisions without central direction. (This doesn't mean they can do without laws and regulations, which I'll come back to in the next chapter.)

Contrary to what our intuition might tell us, markets serve to coordinate and control the decisions of the economic entities. Historical experience shows pretty conclusively that a system in which countless economic decisions are made by innumerable independent but competing actors, each acting from rather narrow self-regarding interests and guided by the information supplied by markets, produces goods and services much more efficiently than any known alternative. What is more, it does so with a regularity and orderliness that is truly astonishing.

As a result, in the long run market-capitalism has typically led to economic growth; and economic growth is favorable to democracy. To begin with, by cutting acute poverty and improving living standards, economic growth helps to reduce social and political

conflicts. Furthermore, when economic conflicts do arise, growth provides more resources that are available for a mutually satisfactory settlement in which each side gains something. (In the absence of growth, economic conflicts, to use the language of game theory, become "zero-sum": what I gain you lose, what you gain I lose. So cooperation is useless.) Growth also provides individuals, groups, and governments with surplus resources to support education and thus to foster a literate and educated citizenry.

Market-capitalism is also favorable to democracy because of its social and political consequences. It creates a large middling stratum of property owners who typically seek education, autonomy, personal freedom, property rights, the rule of law, and participation in government. The middle classes, as Aristotle was the first to point out, are the natural allies of democratic ideas and institutions. Last, and perhaps most important, by decentralizing many economic decisions to relatively independent individuals and firms, a market-capitalist economy avoids the need for a powerful, even authoritarian central government.

A nonmarket economy can exist where resources are scarce and economic decisions few and obvious. But in a more complex society, to avoid economic chaos and to provide at least a moderate standard of living, a substitute for the coordination and control provided by markets is necessary. The only feasible substitute is the government of the state. So whatever the formal legal ownership of enterprises might be in a nonmarket economy, their decisions are, in effect, made and controlled by the government. Without the coordination of the market, it necessarily becomes the government's task to allocate all scarce resources: capital, labor, machinery, land, buildings, consumer goods, dwellings, and the rest. To do so, the government needs a detailed and comprehensive central plan and thus government officials charged with making the plan, carrying it out, and seeing to its enforcement. These are prodigious tasks,

requiring staggering quantities of reliable information. To gain compliance with their directives, government officials must discover and apply appropriate incentives. These may run from rewards, both legal (such as salaries and bonuses) and illegal (for example, bribery), to coercion and punishment (such as execution for “economic crimes”). Except under rare and transitory conditions, which I’ll come to in a moment, no government has proved up to the task.

It is not the inefficiencies of a centrally planned economy, however, that are most injurious to democratic prospects. It is the economy’s social and political consequences. A centrally planned economy puts the resources of the entire economy at the disposal of government leaders. To foresee the likely consequences of that fantastic political windfall, we might recall the aphorism that “power corrupts and absolute power corrupts absolutely.” A centrally planned economy issues an outright invitation to government leaders, written in bold letters: *You are free to use all these economic resources to consolidate and maintain your power!*

Political leaders would have to have superhuman powers of self-denial to resist this temptation. Alas, the melancholy record of history is clear: rulers with access to the enormous resources provided by a centrally planned economy have all confirmed the wisdom of the aphorism. To be sure, leaders may use their despotism for good ends or bad. History records some of both—though overall, I think, despots have achieved considerably more ill than good. In any case, centrally planned economies have always been closely associated with authoritarian regimes.

#### SOME QUALIFICATIONS

Although the two conclusions are valid, they need several qualifications.

For one thing, economic growth is not unique to democratic

countries, nor is economic stagnation unique to nondemocratic nations. Indeed, there appears to be no correlation between economic growth and a country's type of government or regime.<sup>1</sup>

Moreover, although democracy has existed only in countries with a market-capitalist economy, market-capitalism has existed in non-democratic countries. In several of these—Taiwan and South Korea in particular—the factors I mentioned earlier that tend to accompany economic growth and a market economy in turn helped to bring about democratization. In these two countries authoritarian leaders, whose policies helped to stimulate the development of a successful market economy, export industries, economic growth, and a large, educated middle class, also unwittingly planted the seeds of their own destruction. Thus although market-capitalism and economic growth are favorable to democracy, in the long run they may be far less favorable, indeed downright unfavorable for nondemocratic regimes. Consequently, the dénouement of a momentous historical drama to be played out during the twenty-first century will reveal whether China's nondemocratic regime can withstand the democratizing forces generated by market-capitalism.

A market-capitalist economy need not exist, however, only in its familiar twentieth-century urban-industrial or postindustrial form. It may also be—or at least has been—agricultural. As we saw in Chapter 2, during the nineteenth century the basic democratic institutions, with the exception of female suffrage, developed in several countries—the United States, Canada, New Zealand, and Australia—that were predominantly agricultural. In 1790, the first year of the American republic under its new (and still continuing) constitution, out of a total population of just under four million persons, only 5 percent lived in places with more than twenty-five hundred inhabitants; the remaining 95 percent lived in rural areas, mainly on farms. By 1820, when the political institutions of (white male) polyarchal democracy were already solidly established, in a

population of fewer than ten million people, more than nine out of ten still lived in rural areas. On the eve of the Civil War in 1860, when the country had more than thirty million inhabitants, eight of ten Americans lived in rural areas. The America that Alexis de Tocqueville described in *Democracy in America* was agrarian, not industrial. The economic enterprises of that agrarian society were, of course, principally farms, owned and managed by individual farmers and their families. Much of what they produced was used for their own consumption.

The important point, however, is that the economy was highly decentralized (more, indeed, than it was to become with industrialization); it gave political leaders little access to its resources; and it created a large middle class of free farmers. Thus it was highly favorable for democratic development. Indeed, in Thomas Jefferson's vision of the Republic, the necessary foundation for democracy was an agrarian society consisting of independent farmers.

Are these preindustrial origins of several of the oldest democracies irrelevant to countries in the postindustrial era? No. That body of experience reinforces a crucial point: whatever its dominant activity, a decentralized economy that helps to create a nation of independent citizens is highly favorable for the development and maintenance of democratic institutions.

A moment ago I mentioned "rare and transitory conditions" under which governments have efficiently managed central planning. What is more, the governments were democratic. These were the wartime governments of Britain and the United States during World War I and even more emphatically during World War II. But in these cases, the planning and allocation of resources had a clearly defined goal, which was to insure that military needs were met along with a basic supply of goods and services for civilians. The war aims were widely supported. Though some black markets developed, they were not so extensive as to diminish the effectiveness

of the centralized system for allocating resources and controlling prices. Finally, the system was dismantled after peace arrived. As a result, political leaders were deprived of the opportunities they would have enjoyed for exploiting their dominant economic role for political purposes.

If we put these wartime systems to one side, centrally directed economies have existed only in countries where the leaders were fundamentally antidemocratic. Thus we cannot easily untangle the undemocratic consequences of the economic order from the undemocratic consequences of leaders' beliefs. Lenin and Stalin were so hostile to democracy that with or without a centrally directed economy, they would have prevented democratic institutions from developing. The centrally directed economy simply made their task easier by providing them with greater resources for inflicting their will on others.

Strictly speaking, then, the historical experiment that combines democratic institutions with a centrally directed peacetime economy has never been tried. I for one hope that it never will. The likely consequences are, I believe, fully foreseeable. And they bode ill for democracy.

Yet even if market-capitalism is far more favorable to democratic institutions than any nonmarket economy that has so far existed, it also has some profoundly unfavorable consequences. We examine these in the next chapter.