

Why Market-Capitalism Harms Democracy

If we approach market capitalism from a democratic point of view we discover, when we look closely, that it has two faces. Like the emblem of the Greek god Janus, they face in opposite directions. One, a friendly face, points toward democracy. The other, a hostile face, points the other way.

3. *Democracy and market-capitalism are locked in a persistent conflict in which each modifies and limits the other.*

By 1840, a market economy with self-regulating markets in labor, land, and money had been fully installed in Britain. Market-capitalism had triumphed over its enemies on all fronts: not only in economic theory and practice but in politics, law, ideas, philosophy, and ideology as well. Its opponents, so it appeared, were completely routed. Yet in a country where people have a voice, as they had in England even in those predemocratic times, such a complete victory could not endure.¹ As it always does, market-capitalism brought gains for some; but as it always does, it also brought harm to others.

Though suffrage was highly restricted, the other political institutions of representative government were largely in place. And in due time—in 1867 and again in 1884—suffrage was expanded; after 1884 most males could vote. Thus the political system provided opportunities for the effective expression of opposition to unregulated market-capitalism. Turning for help to political and governmental leaders, those who felt themselves injured by unregulated markets

sought protection. Opponents of laissez-faire economics found effective expression of their grievances through political leaders, movements, parties, programs, ideas, philosophies, ideologies, books, journals, and, most important, votes and elections. The newly formed Labour Party focused on the plight of the working classes.

Although some opponents proposed only to regulate market-capitalism, others wished to abolish it outright. And some compromised: let's regulate it now, they said, and eliminate it later. Those who proposed to abolish capitalism never achieved their goals. Those who demanded government intervention and regulation often did.

As in Britain, so, too, in Western Europe and the other English-speaking countries. In any country where governments could be influenced by popular movements of discontent, laissez-faire could not be sustained. Market-capitalism without government intervention and regulation was impossible in a democratic country for at least two reasons.

First, the basic institutions of market-capitalism themselves require extensive government intervention and regulation. Competitive markets, ownership of economic entities, enforcing contracts, preventing monopolies, protecting property rights—these and many other aspects of market capitalism depend wholly on laws, policies, orders, and other actions carried out by governments. A market economy is not, and cannot be, completely self-regulating.

Second, without government intervention and regulation a market economy inevitably inflicts serious harm on some persons; and those who are harmed or expect to be harmed will demand government intervention. Economic actors motivated by self-interest have little incentive for taking the good of others into account; on the contrary, they have powerful incentives for ignoring the good of others if by doing so they themselves stand to gain. Conscience is

easily quieted by that seductive justification for inflicting harm on others: "If I don't do it, others will. If I don't allow my factory to discharge its wastes into the river and its smoke into the air, others will. If I don't sell my products even if they may be unsafe, others will. If I don't . . . others will." In a more or less competitive economy, it is virtually certain that, in fact, others will.

When harm results from decisions determined by unregulated competition and markets, questions are bound to arise. Can the harm be eliminated or reduced? If so, can this be achieved without excessive cost to the benefits? When the harm accrues to some persons and the benefits to others, as is usually the case, how are we to judge what is desirable? What is the best solution? Or if not the best, at least an acceptable solution? How should these decisions be made, and by whom? How and by what means are the decisions to be enforced?

It is obvious that these are not just economic questions. They are also moral and political questions. In a democratic country citizens searching for answers will inevitably gravitate toward politics and government. The most easily accessible candidate for intervening in a market economy in order to alter an otherwise harmful outcome, and the most effective, is . . . the government of the state.

Whether discontented citizens succeed in getting the government to intervene depends, of course, on many things, including the relative political strengths of the antagonists. However, the historical record is clear: in all democratic countries,* the harm produced by, or expected from, unregulated markets has induced governments to intervene in order to alter an outcome that would otherwise cause damage to some citizens.

In a country famous for its commitment to market-capitalism,

*And in many nondemocratic countries as well. But our concern here is with the relation between democracy and market-capitalism.

the United States, national, state, and local governments intervene in the economy in ways too numerous to list. Here are just a few examples:

- unemployment insurance;
- old age annuities;
- fiscal policy to avoid inflation and economic recession;
- safety: food, drugs, airlines, railroads, highways, streets;
- public health, control of infectious diseases, compulsory vaccination of school children;
- health insurance;
- education;
- the sale of stocks, bonds, and other securities;
- zoning: business, residential, and so on;
- setting building standards;
- insuring market-competition, preventing monopolies, and other restraints on trade;
- imposing and reducing tariffs and quotas on imports;
- licensing physicians, dentists, lawyers, accountants, and other professional persons;
- establishing and maintaining state and national parks, recreation areas, and wilderness areas;
- regulating business firms to prevent or repair environmental damage; and belatedly,
- regulating the sale of tobacco products in order to reduce the frequency of addiction, cancer, and other malign effects.

And so on. And on, and on.

To sum up: In no democratic country does a market-capitalist economy exist (nor in all likelihood can it exist for long) without extensive government regulation and intervention to alter its harmful effects.

Yet if the existence in a country of democratic political institutions significantly affects the operation of market-capitalism, the existence of market-capitalism in a country greatly affects the operation of democratic political institutions. The causal arrow, so to speak, goes both ways: from politics to economics and from economics to politics.

4. *Because market capitalism inevitably creates inequalities, it limits the democratic potential of polyarchal democracy by generating inequalities in the distribution of political resources.*

Words About Words

Political resources include everything to which a person or a group has access that they can use to influence, directly or indirectly, the conduct of other persons. Varying with time and place, an enormous number of aspects of human society can be converted into political resources: physical force, weapons, money, wealth, goods and services, productive resources, income, status, honor, respect, affection, charisma, prestige, information, knowledge, education, communication, communications media, organizations, position, legal standing, control over doctrine and beliefs, votes, and many others. At one theoretical limit, a political resource might be distributed equally, as with votes in democratic countries. At the other theoretical limit, it might be concentrated in the hands of one person or group. And the possible distributions between equality and total concentration are infinite.

Most of the resources I just listed are everywhere distributed in highly unequal fashion. Although market-capitalism is not the only cause, it is important in causing an unequal distribution of many key resources: wealth, income, status, prestige, information, organization, education, knowledge

Because of inequalities in political resources, some citizens gain significantly more influence than others over the government's policies, decisions, and actions. These violations, alas, are not trivial. Consequently, citizens are not political equals—far from it—and thus the moral foundation of democracy, political equality among citizens, is seriously violated.

5. Market-capitalism greatly favors the development of democracy up to the level of polyarchal democracy. But because of its adverse consequences for political equality, it is unfavorable to the development of democracy beyond the level of polyarchy.

For the reasons advanced earlier, market-capitalism is a powerful solvent of authoritarian regimes. When it transforms a society from landlords and peasants to employers, employees, and workers; from uneducated rural masses barely capable of surviving, and often not even that, to a country of literate, moderately secure, urbanized inhabitants; from the monopolization of almost all resources by a small elite, oligarchy, or ruling class to a much wider dispersion of resources; from a system in which the many can do little to prevent the domination of government by a few to a system in which the many can effectively combine their resources (not least their votes) and thereby influence the government to act in their favor—when it helps to bring about these changes, as it often has and will continue to do in many countries with developing economies, it serves as a vehicle for a revolutionary transformation of society and politics.

When authoritarian governments in less modernized countries undertake to develop a dynamic market economy, then, they are likely to sew the seeds of their own ultimate destruction.

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.

Whether and how the marriage of polyarchal democracy to market-capitalism can be made more favorable to the further democratization of polyarchy is a profoundly difficult question for which there are no easy answers, and certainly no brief ones. The relation between a country's democratic political system and its nondemocratic economic system has presented a formidable and persistent challenge to democratic goals and practices throughout the twentieth century. That challenge will surely continue in the twenty-first century.

The Unfinished Journey

What lies ahead? As we saw, the twentieth century, which at times appeared to many contemporaries likely to turn into a dark and tragic period for democracy, proved instead to be its era of unparalleled triumph. Although we might find comfort in believing that the twenty-first century will be as kind to democracy as the twentieth, the historical record tells us that democracy has been rare to human experience. Is it destined once again to be replaced by nondemocratic systems, perhaps appearing in some twenty-first century version of Guardianship by political and bureaucratic elites? Or might it instead continue its global expansion? Or, in yet another transformation, might what is called “democracy” become both broader in reach and shallower in depth—extending to more and more countries as its democratic qualities grow ever more feeble?

The future is, I think, too uncertain to provide firm answers. Having completed our exploration of the questions set out in Chapter 3, we have now run off our charts. The known world mapped from experience must give way to a future where the maps are, at best, unreliable—sketches made by cartographers without reliable reports on a distant land. Nonetheless, we can predict with considerable confidence, I believe, that certain problems democratic countries now face will remain, and may even grow more daunting.

In this final chapter I shall provide a brief sketch of several challenges. I'll focus mainly on the older democracies partly to make my

task more manageable but also because I believe that sooner or later—probably sooner than later—countries recently democratized or still in transition will confront problems like those that lie ahead for the older democracies.

Given what has gone before, none of the problems I'll mention should come as a great surprise. I have little doubt that there will be others. Regrettably, I cannot hope to offer solutions here, for that task that would take another book—or, rather, many books. We can be reasonably certain, however, of one thing: the nature and quality of democracy will greatly depend on how well democratic citizens and leaders meet the challenges I am about to describe.

CHALLENGE 1: THE ECONOMIC ORDER

Market-capitalism is unlikely to be displaced in democratic countries. Consequently, the antagonistic cohabitation described in Chapters 13 and 14 is sure to persist in one form or another.

No demonstrably superior alternative to a predominantly market economy is anywhere in sight. In a seismic change in perspectives, by the end of the twentieth century few citizens in democratic countries had much confidence in the possibility of discovering and introducing a non-market system that would be more favorable to democracy and political equality and yet efficient enough in producing goods and services to be equally acceptable. During the two preceding centuries, socialists, planners, technocrats, and many others had nurtured visions in which markets would be widely and permanently replaced by, so they thought, more orderly, better planned, and more just processes for making economic decisions about the production, pricing, and distribution of goods and services. These visions have nearly faded into oblivion. Whatever the defects of a predominantly market economy may be, it appears to be the only option for democratic countries in the new century.

Whether a predominantly market economy requires that eco-

conomic enterprises be owned and controlled in their prevailing capitalist forms is, by contrast, much less certain. The internal “governments” of capitalist firms are typically undemocratic; sometimes, indeed, they are virtually managerial despotisms. Moreover, the ownership of firms and the profits and other gains resulting from ownership are distributed in highly unequal fashion. Unequal ownership and control of major economic enterprises in turn contribute massively to the inequality in political resources mentioned in Chapter 14 and thus to extensive violations of political equality among democratic citizens.

In spite of these drawbacks, by the end of the twentieth century the historic alternatives to capitalist ownership and control had lost most of their support. Labor, socialist, and social-democratic parties had long abandoned nationalization of industry as a goal. Governments led by such parties, or at least including them as eager partners, were rapidly privatizing existing state-owned enterprises. The only major experience with a socialist market-economy, in which “socially owned” enterprises operating in a market context were internally governed by representatives of the workers (at least in principle), died when Yugoslavia and its hegemonic communist government disintegrated. To be sure, in the older democratic countries some employee-owned firms not only exist but actually flourish. Yet trade union movements, labor parties, and workers in general do not seriously advocate an economic order consisting predominantly of firms owned and controlled by their employees and workers.

So: the tension between democratic goals and a market-capitalist economy will almost certainly continue indefinitely. Are there better ways of preserving the advantages of market-capitalism while reducing its costs to political equality? The answers provided by citizens and leaders in democratic countries will largely determine the nature and quality of democracy in the new century.

CHALLENGE 2: INTERNATIONALIZATION

We've already seen why internationalization is likely to expand the domain of decisions made by political and bureaucratic elites at the expense of democratic controls. As I suggested in Chapter 9, from a democratic perspective the challenge posed by internationalization is to make sure that the costs to democracy are fully taken into account when decisions are shifted to international levels, and to strengthen the means for holding political and bureaucratic elites accountable for their decisions. Whether and how these may be accomplished is, alas, far from clear.

CHALLENGE 3: CULTURAL DIVERSITY

As we saw in Chapter 12, a moderate level of cultural homogeneity was favorable to the development and stability of democracy in many of the older democratic countries. During the last decades of the twentieth century, however, two developments in these countries contributed to an increase in cultural diversity. Both seemed likely to continue into the twenty-first century.

First, some citizens who had habitually incurred discrimination joined others like themselves in movements of cultural identity that sought to protect their rights and interests. These movements included people of color, women, gays and lesbians, linguistic minorities, ethnic groups living in their historic regions, such as the Scots and Welsh in Great Britain and French-speakers in Quebec, and others.

Second, cultural diversity in the older democratic countries was magnified by an increased number of immigrants, who were usually marked by ethnic, linguistic, religious, and cultural differences that made them distinguishable from the dominant population. For many reasons, immigration, both legal and illegal, is likely to contribute indefinitely to a significant increase in cultural diversity within the older democracies. For example, economic differences

between the rich democratic countries and poorer countries encourage people in the poorer countries in the hope that they can escape their poverty by moving to the richer countries. Others simply want to improve the quality of their lives by emigrating to a rich country with greater opportunities. The number seeking to move to the older democracies was further increased during the last years of the twentieth century by a flood of terror-stricken refugees desperately trying to escape from the violence, repression, genocidal terror, "ethnic cleansing," starvation, and other horrors they faced in their home countries.

Pressures from inside added to these pressures from outside. Employers hoped to hire immigrants at wage levels and under working conditions that no longer attracted their fellow citizens. Recent immigrants wanted their relatives abroad to reunite with them. Citizens moved by considerations of humanity and simple justice were unwilling to force refugees to remain forever in refugee camps or face the misery, terror, and possibly outright murder confronting them at home.

Faced with pressures from outside and within, democratic countries discovered that their boundaries were more porous than they had assumed. Illegal entry by land or sea was impossible to prevent, it appeared, without heavy expenditures for policing borders in ways that, aside from the expense, many citizens found distasteful or intolerably inhumane.

It seems unlikely to me that cultural diversity and the challenge it poses will decrease during the new century. If anything, diversity seems likely to increase.

If, in the past, democratic countries have not always dealt with cultural diversity in ways consistent with democratic practices and values, can they, and will they, do better in the future? The various arrangements described in Chapter 12 and in Appendix B offer possible solutions that extend from assimilation at one extreme to

independence at the other. There may be others. In any case, here again the nature and quality of democracy will greatly depend on the arrangements that democratic countries develop for dealing with the cultural diversity of their people.

CHALLENGE 4: CIVIC EDUCATION

Although I have not said much in the previous pages about civic education, you may recall that one basic criterion for a democratic process is enlightened understanding: within reasonable limits as to time, each member (citizen) must have equal and effective opportunities for learning about relevant alternative policies and their likely consequences.

In practice, how *do* citizens tend to acquire their civic education? The older democratic countries have created many routes to political understanding. To begin with, most citizens receive a level of formal education sufficient to insure literacy. Their political understanding is augmented further by the widespread availability of relevant information that they can acquire at low cost through the media. Political competition among office seekers organized in political parties adds to the supply, as parties and candidates eagerly offer voters information (sometimes laced with misinformation) about their records and intentions. Thanks to political parties and interest organizations, the amount of information that citizens *need* in order to be adequately informed, actively engaged in politics, and politically effective is actually reduced to more easily attainable levels. A political party usually has a history known in a general way to voters, a present direction that is ordinarily an extension of its past, and a rather predictable future. Consequently, voters have less need to understand every important public issue. Instead, they can simply vote for candidates from the party of their choice with some confidence that, if elected, their representatives will generally pursue policies that accord broadly with their interests.

Many citizens also belong to associations organized to protect and promote their specific concerns—interest groups, lobbying organizations, pressure groups. The resources, political skills, and expert knowledge available to organized interest groups provide citizens with a special kind of representation in political life that is often highly effective.

Because of party competition, the influence of interest organizations, and competitive elections, political leaders generally assume that they will be held accountable for carrying out, or at least trying to carry out, their party programs and campaign promises. What is more, despite widely held beliefs to the contrary, in the older democratic countries they usually have in fact done so.¹

Last, important governmental decisions are typically made incrementally, not by great leaps into the unknown. Because they are made a step at a time, incremental changes tend to avoid crippling disasters. Citizens, experts, and leaders learn from mistakes, see what corrections are needed, modify the policy, and so on. If necessary the process is repeated again and again. Although each step might look disappointingly small, over time gradual steps can produce profound, one might say revolutionary, changes. Yet these gradual changes occur peacefully and gain such broad public support that they tend to endure.

Although to some observers such muddling through in incremental fashion seems hopelessly irrational, on inspection it appears to be a fairly rational way of making important changes in a world of high uncertainty.² The most disastrous decisions in the twentieth century turned out to be those made by authoritarian leaders freed from democratic restraints. While democracies muddled through, despotic leaders trapped within their own narrow visions of the world blindly pursued policies of self-destruction.

With all its imperfections, then, this standard solution for achieving an adequate level of civic competence has much to be said for it.³

Yet I fear that it will not continue to be satisfactory in the future. Three interrelated developments seem to me likely to render the standard solution seriously deficient.

Changes in scale. Because of increased internationalization, actions that significantly affect the lives of citizens are made over larger and larger areas that include more and more people within their boundaries.

Complexity. Although the average level of formal education has risen in all democratic countries, and probably will continue to rise, the difficulty of understanding public affairs has also increased and may have outstripped the gains from higher levels of education. Over the course of the previous half-century or so the number of different matters relevant to politics, government, and the state have increased in every democratic country. Indeed, no person can be expert in them all—in more than a few, in fact. Finally, judgments about policies are not only fraught with uncertainty but usually required difficult judgments about trade-offs.

Communications. During the twentieth century the social and technical framework of human communication in advanced countries underwent extraordinary changes: telephone, radio, television, fax, interactive TV, the Internet, opinion surveys almost instantaneous with events, focus groups, and so on. Because of the relatively low costs of communication and information, the sheer amount of information available on political matters, at all levels of complexity, has increased enormously.⁴ Yet this increased availability of information may not lead to greater competence or heightened understanding: scale, complexity, and the greater quantity of information imposes ever stronger demands on citizens' capacities.

As a result, one of the imperative needs of democratic countries is to improve citizens' capacities to engage intelligently in political life. I don't mean to suggest that the institutions for civic education developed in the nineteenth and twentieth centuries should be

abandoned. But I do believe that in the years to come these older institutions will need to be enhanced by new means for civic education, political participation, information, and deliberation that draw creatively on the array of techniques and technologies available in the twenty-first century. We have barely begun to think seriously about these possibilities, much less to test them out in small-scale experiments.

Will democratic countries, whether old, new, or in transition, rise to these challenges and to others they will surely confront? If they fail to do so, the gap between democratic ideals and democratic realities, already large, will grow even greater and an era of democratic triumph will be followed by an era of democratic deterioration and decline.

Throughout the twentieth century, democratic countries never lacked for critics who confidently announced that democracy was in crisis, in grave peril, even doomed. Well, probably it was, at times, in grave peril. But it was not, after all, doomed. Pessimists, it turned out, were all too ready to give up on democracy. Confounding their dire predictions, experience revealed that once democratic institutions were firmly established in a country, they would prove to be remarkably sturdy and resilient. Democracies revealed an unexpected capacity for coping with the problems they confronted—inelegantly and imperfectly, true, but satisfactorily.

If the older democracies confront and overcome their challenges in the twenty-first century, they just might transform themselves, at long last, into truly advanced democracies. The success of the advanced democracies would then provide a beacon for all, throughout the world, who believe in democracy.