

Basics of the democratic capitalist order

The big question

- Are democracy and free market compatible?
 - For most of history, belief that they can't go together
 - Today belief that must be compatible – eg, End of History = democracy + capitalism
- Ways the combination can fail
 - Citizens put constraints on free market
 - Free market puts constraints on citizen rule

Things to know

- Incompatibility of democracy and capitalism
 - 19th c. fears, rationality of expropriation
- Reasons why people don't vote to expropriate
 - Incentives – it doesn't help
 - Ideology – it's wrong
 - Politics – it's impossible
- Capitalism undermining democracy

Things to know

- Prewar: long liberal 19th c., free markets but limited democracy, first globalization
- Interwar challenges
 - Integrating working class
 - Questions about legitimacy of capitalism
 - Failures of liberalism and attractions of left & right

Things to know

- Postwar politics
 - Catch-all party – nature & origins, Social and Christian democracy
 - End of ideology, discrediting of extremes
- Postwar economics
 - Postwar bargain = embedded liberalism & politics of productivity
 - Keynesian welfare state
 - 30 Glorious Years

Things to know

- Breakdown
 - New social movements & identity politics
 - Postmaterialist values, Maslow's hierarchy
 - Keynesian welfare state as victim of success

Debate: Workplace democracy

- Should workers have a right to ownership in their workplace? Or a right to participate in collective decisions in their workplace?

Arguments in favor

- Firms are like states – exert coercive power over employees (high exit costs), therefore a right to govern
- Workplace democracy creates more meaningful work
- Workplace democracy builds civic virtue, democratic habits

Arguments against

- Worker ownership less efficient – too many workers, less monitoring, too much risk
 - If better, why not more examples?
- How to change current system – do workers want control, how to get it
- Illiberal – restricts freedom of owners and workers

Discussion questions

1. Why no expropriation

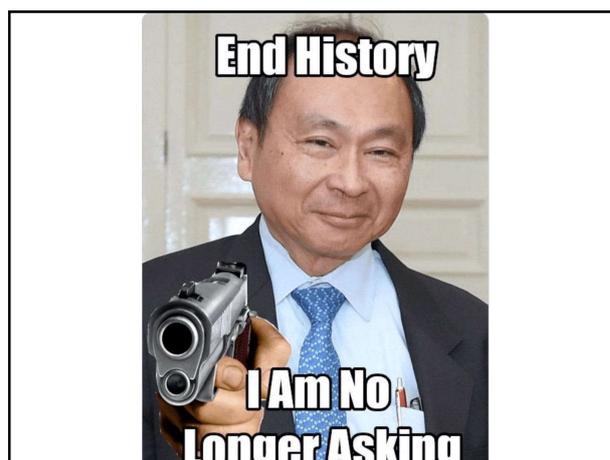
- Why don't the poor expropriate the rich in a democracy? Which of Putterman's explanations are most persuasive to you?
- What weight would you put on (a) incentives, (b) ideology, and (c) politics or other things?
- Do these weights differ by time period or country?

2. Indoctrination

- Are citizens indoctrinated to believe that private property should be inviolable and expropriation is wrong? Or is this something that is hard-wired in our brains?
- If there is indoctrination, how does it happen - at home, in schools, through religion? Can you give examples of the ways that we are convinced to respect the wealth of the rich?

3. Getting to embedded liberalism

- Why was it so hard for industrialized countries to find the postwar settlement? It seems obvious in retrospect – the rich get mostly free markets and the poor get a welfare state.
- Could the problems of the interwar period have been avoided? How?



4. End of history?

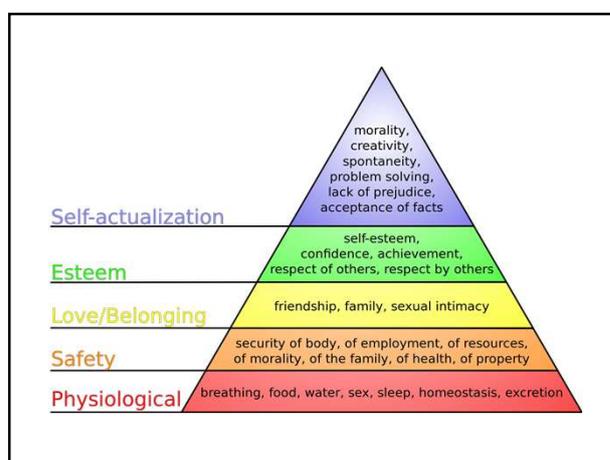
- Does the postwar settlement of competitive party democracy & the Keynesian welfare state represent the answer to the main political and economic questions of the modern world? Is it the end of history in Fukuyama's terms?
- What is missing from this solution? Can we do better than this? Or should we be happy that we have at least this much?

5. Breakdown of postwar settlement

- In 1983, Offe saw that the postwar bargain was breaking down. Was he right? Did the problems he saw come to fruition? Were there other problems that he missed? What were they?
- Recall that he points to new social movements, corporatism, and high taxes & high benefits suffocating the economy

6. Materialism & postmaterialism

- Are people more motivated in politics by material or non-material values? Do they tend to vote for parties whose policies will benefit them economically or for parties whose policies appeal to them in other ways?
- How has this mix changed over time? Are we headed towards a more or less materialistic politics?



Today

- Incompatibility of democracy & capitalism?
- Explanations for compatibility
- Democracy & capitalism pre-WWII
- Postwar settlement
- Is the postwar settlement breaking down?

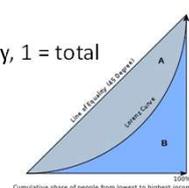
Incompatibility of democracy & capitalism

19th c. fears

- Thinkers of all stripes in 19th c. agree on what would happen if all citizens can vote
- The mass of poor will expropriate the minority of rich – very high tax rates, nationalization of land, business
- They differ on solutions
 - Mill (liberal): extra votes for the rich and educated
 - Marx (communist): rich will never allow democracy to happen until they are violently overthrown

Democracy versus market

- In democracy votes are distributed equally (one man, one vote)
 - Though consider US Senate, rotten boroughs
- In free market economy, wealth distributed unequally
 - Gini coefficient: 0 = total equality, 1 = total inequality



Equality of vote > inequality of wealth

- We have a referendum on the tax rate and subsequent redistribution
- If people voted based on pure short-term self-interest, a 100% tax rate and equal distribution would gain most votes
- Almost everyone would benefit except very top incomes

Fears of expropriation not fulfilled

- When countries become democratic, they don't tend to expropriate the rich (Western Europe, North America, etc)
 - In fact, newly enfranchised voters sometimes quite conservative
 - Though democracies do have larger welfare states
- Cases of expropriation (eg, communist countries) are not democratic

Explanations for lack of expropriation

The puzzle

- Why does it appear that democracy doesn't eliminate the market?
- Why are they compatible given incentives to expropriate?

Reason 1: Incentives

- In long-term, redistribution and expropriation might actually hurt the poor
- Income taxes reduce incentive to work for most productive
- Wealth taxes reduce savings and investment
 - Also capital flight and evasion, unpopular

Reason 2: Ideology

- Poor may be convinced that redistribution is wrong
- Moral legitimacy of wealth
 - Are people wealthy because of effort & talent or luck & cheating?
- Amenity value
 - We derive pleasure from Kardashians
- Lottery factor: I or children might become rich
- Ignorance: Not aware of other possibilities



Indoctrination

- Are citizens indoctrinated with these ideas by the rich?
 - Is media biased? Which direction?
 - What about schools? Were you indoctrinated to believe in sanctity of ownership?
- Three faces of power: decision-making, agenda setting, ideology

Reason 3: Politics

- Rich have more influence on democratic decisions than poor – can hijack political process
 - Rich more likely to participate in politics
 - Rich give more campaign donations
 - Going Galt/capital strike
- Most political systems limit majority rule
 - Thus tend to favor the status quo – minorities can block policy change

The reverse path: 18th Brumaire

- Capitalism destroys democracy
- Louis Napoleon seizes power with help of capitalists and financiers (1851)
- Capitalists fear workers and so repress, especially when workers organized



Reason 4: Other issues

- The poor care about income, but they also care about other things
 - Abortion, homosexuality, guns, immigration
- May vote for values candidates more than redistributionist ones
 - Is it false consciousness or genuine feeling?
- Is it true? Do poor vote against their self-interest

Democracy => Markets?

- Both based on principle of liberty
 - But democracy has equality and markets inequality
- Central planning requires strong restrictions on behavior => strong repressive state
 - Need to stop people becoming rich or leaving
 - Consider Venezuela's path
- But free markets may go with dictatorship
 - Both based on inequalities

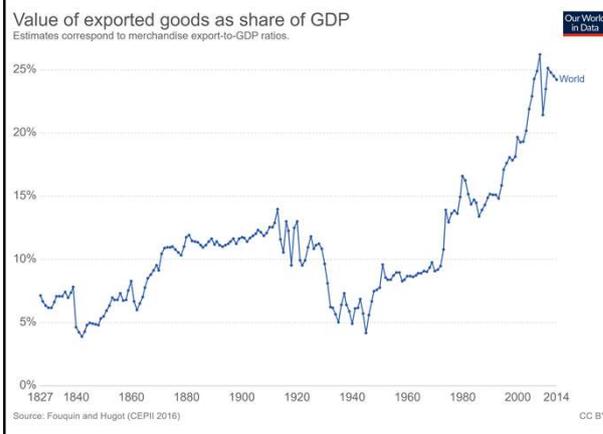
Capitalism and democracy

	Democracy	Authoritarian
Market	Almost all industrialized states + others	Much of developing world
Central Planning	None?	Communist states

Democracy & capitalism pre-WWII

The long 19th century

- High tide of economic liberalism
 - Expansion of markets and industrialization
 - Limited state intervention in economy
 - Most globalization until present
- But limited democracy
 - Workers & peasants mostly excluded
 - Franchise increasing but slowly



WWI and the end of the liberal era

- War as failure of old elites & old ideas
- End of era of peaceful coexistence and trade
 - Rise of economic nationalism and protectionism
 - Culminates in Great Depression
- Disappearance of liberal center
 - Radicalism on left – communists, Marxists
 - Radicalism on right – fascism

Challenge of interwar politics

- How to integrate lower classes into politics
 - Price of war often universal male suffrage
- Workers challenge hierarchical control of factories & capitalist order
 - Don't like wage labor & bosses
- Dominant liberal parties offer civil rights, but workers want economic and social rights

Two economic challenges for capitalists

- Reestablish legitimacy of owners and capitalism – some success
- Deliver the goods: strong growth, employment, security & wages – often fail
 - Traditional elites & liberals have trouble responding to Great Depression

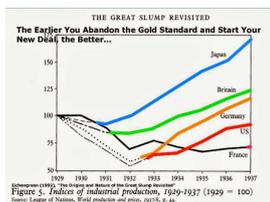
Justifying hierarchical control

- Scientific and productivity arguments to justify hierarchy
 - Taylorism = scientific management of production
 - Managerial mystique
- Ally with state to repress workers and keep out of power



But failed response to depression

- Great depression hurts workers badly
- Liberal state doesn't help
 - Commitment to gold standard and balanced budgets
 - Not willing to spend
 - But learning...



Fear of left => Right-wing politics

- Interwar left usually committed to revolutionary path to socialism
 - Bernstein's moderate social democracy becomes popular later
- Used to justify right-wing authoritarian rule
 - Mussolini comes to power to stop Reds
 - Hitler wants to destroy communists & socialists

Attractions of the right

- Polanyi argues that reaction to free market (double movement) can lead to left or right
- Fascism and traditional right-wing have genuine appeal in interwar period
 - Offer sense of community and protection
 - Aren't such a threat to traditional values as communism

Three interwar ideologies

- Liberal democracy has few answers
 - Only rights, no community or politics
- Communism attractive to a minority
 - But most revolutionary, threatening
- Fascism & right-wing most genuinely popular
 - Build on traditions & frustrations with industrialization
 - Present real solutions – sense of community

In sum

- Democracy and capitalism don't seem compatible during interwar era
 - Capitalism not benefiting workers esp. after Depression
 - Workers want to take control of factory floor
 - Workers represented by left-wing parties that support revolution
 - Right provides alternative national community
- Workers not well-integrated into politics

Postwar settlement

Postwar settlement

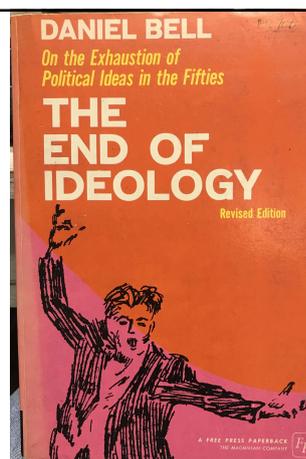
- Solution to problems of interwar era
- Capitalism in exchange for welfare state
- “Politics of productivity” – focus on economic growth rather than division of pie
- This time it works
 - Labor shows restraint – social democracy
 - Capital accept budget deficits

Nature of postwar order

- Economic order
 - Liberal international economy: free markets
 - Keynesian welfare state: government intervention and safety net
- Political order
 - Competitive party democracy
 - End of ideology

Why not before?

- Extremist ideology especially on right discredited by war
 - The End of Ideology
- New right dominated by centrist Christian Democracy
- Deradicalized left – creation of social democracy by Bernstein
 - WWII weakens unions
 - Cold War & anti-communism



Competitive party democracy as source of stability

- Mass participation organized through large-scale bureaucratic parties moderates radicalism
- Imperatives of winning elections
 - Need to appeal to largest # of voters
 - Need to form coalition govt with others
- Successful party needs bureaucracy, hierarchy
 - Professional leadership has different interests
 - Ordinary members deactivated

Mass Party versus Catch-all Party

- | Mass Party – Pre-WWII | Catch All Party – Post-WWII |
|---|--|
| • Large numbers of members who participate in party | • Lesser role of individual & stronger top leadership |
| • Claim to represent a social class - workers | • Electoral victory prime goal > ideological purity |
| • Strong ideology | • Deemphasis of class mission, more heterogeneous supporters |
| • Cradle to grave services and socialization - subculture | • Claim to represent nation |

Why does catch-all party emerge?

- Change in campaigning: money > labor, mass media
- Less social and professional stratification => weaker class divisions
- National societal goals > group interests
- Greater prosperity => less appeal of revolution
- De-ideologization of political life – everyone accepts rules

Keynesian welfare state (KWS) as source of stability

- Labor accepts free markets and private property in exchange for guarantees of employment and reasonable standard of living
 - Deficit spending to reduce business cycle
 - Welfare state as safety net
- Bargaining over share of pie, not nature of pie
- Without KWS, more intense social conflict and radical solutions to avoid wage labor

Changes in ideas

- State willing to take a larger role in economy
 - War and depression discredit old orthodoxies – gold standard, balanced budget, laissez-faire
 - New ideas from Keynesianism
- Desire for quiet, private life after politicization of interwar and war years

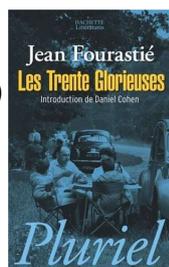


Re-embedded economy

- Polanyi claims that the best economy is one that is embedded in social order – not detached market
- Postwar order arguably re-embeds the economy
 - Market aimed at social ends
 - Ruggie: Embedded liberalism

Les trente glorieuses

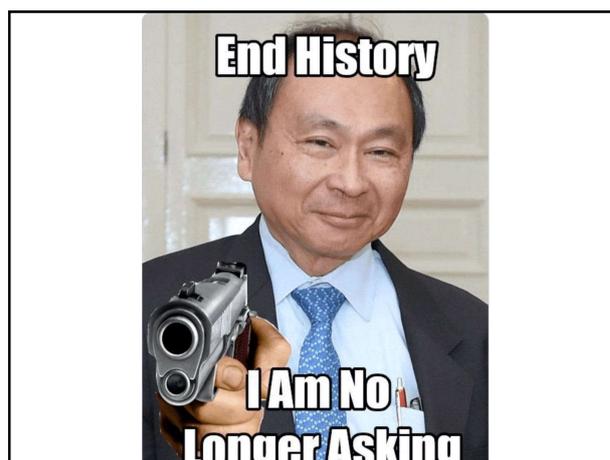
- The thirty glorious years – 1945-1975
 - High investment => high growth
 - Rising wages
 - Falling inequality
 - Modern life (cars, refrigerators, TVs) extended to all society
- Enables moderate politics



Is postwar settlement breaking down?

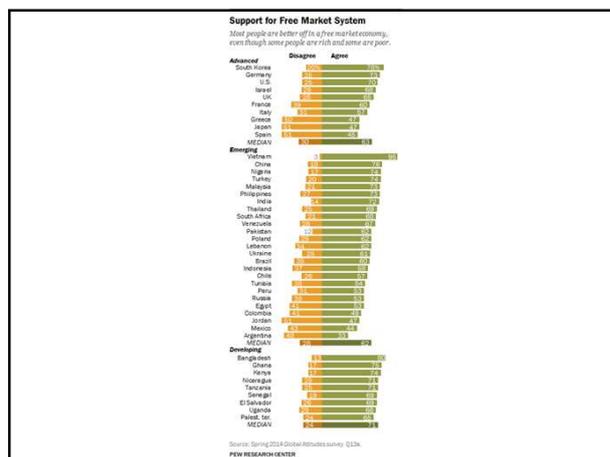
The End of History

- Written by Fukuyama in 1989 just before fall
- Triumph of democracy and capitalism as best way of organizing society
- What kind of triumph?
 - Weak claim: They have won the battle of ideas
 - Strong claim: All countries are/will be accepting them



Evidence

- Competing ideas have lost appeal?
 - Most countries call themselves democratic
 - How many support alternatives to market?
- Practical triumph
 - Fall of communism, Third Wave, but since?
- These forms best fit human desires
 - Democracy: desire for recognition by equals
 - Market: desire for distinction

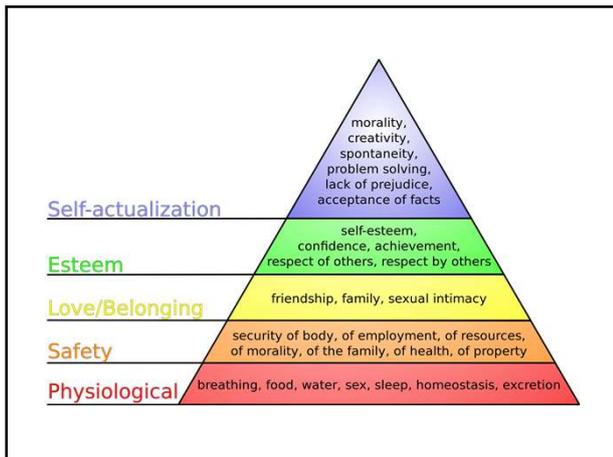


Is settlement breaking down?

- Competitive party democracy?
 - New social movements based on identity and demands for autonomy
 - According to Offe rise of corporatism, but maybe instead EU & democratic deficit
 - Cartelization of parties and decline of alternatives
 - Maybe add: rise of populism, nationalism, xenophobia, religion, regionalism?

Postmaterial values

- Maslow's hierarchy of needs
 - Postwar prosperity meets material needs
 - Young people socialized in this order move to higher order needs rather than material ones
- Postmaterial values: identity, environment, gender, sexuality
 - Also: religion, nationality, family?
- Have they replaced material interests?



Is settlement breaking down? (2)

- Keynesian welfare state?
 - Loss of incentives to work because of security
 - Too large a burden on state
 - High taxes suffocate middle class
 - Avoids creative destruction
 - Can't stop rising inequality

What happens next?

- After "30 Glorious Years" comes instability and change
 - Economic problems: oil, stagflation
 - Political difficulties: Winter of our discontent
- Is Competitive Party Democracy + Keynesian Welfare State solution to human problems?
- End of History or Something new? What is the next thing?