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Preface

Alex Brazier,
Editor, Democracy Series

This third publication in the Hansard Society’s Democracy Series considers the relationship between the most widespread political system in the modern world – democracy (however that may be defined) – and the most widespread economic system – capitalism (ditto). As is pointed out in our publication, around two-thirds of the world’s countries now meet the criteria for democracy while capitalism, especially since the fall of communism and the rapid acceleration of globalisation, is dominant over other economic models.

The main piece in this publication is written by Lord Dahrendorf, who analyses the argument that democracy and capitalism are in some ways intertwined in their onward march. While acknowledging that the two systems frequently appear together, he draws attention to the authoritarian capitalist regime in China, noting that, ‘a capitalist world would not necessarily be a free world’. Lord Dahrendorf also looks at the relationship between democratic institutions and global capitalism and what he considers to be the American misunderstanding about the relationship between democracy and capitalism.

The publication then contains four commentaries on Lord Dahrendorf’s piece. Professor Gerry Stoker (Manchester University) looks at the growth – often in tandem – of democracy and capitalism and considers the response to the challenges raised by the development of global capitalism. He suggests that we need ‘pragmatic reforms aimed at making the prospects for democratic governance at the global level more than just a daydream’. Ruth Lea (Centre for Policy Studies) considers the conditions that underpin successful capitalist economies and notes that although democracy is not a requirement, the necessary conditions for capitalism are more likely to be present in democratic societies than non-democratic ones.

Stewart Wallis, Director of nef (new economics foundation), looks at the effects of global capitalism pointing out that inequality between, and within, nations is now at unprecedented levels. Most fundamentally, he contends that the debate about capitalism and democracy must be seen in terms of the sustainability of the world’s resources, cites the enormous challenges arising from climate change and questions whether current institutions are up to the task of dealing with these challenges. Finally, Liberal Democrat Shadow Chancellor Vincent Cable MP gives specific examples of nations where democracy and capitalism have indeed transformed nations simultaneously (e.g. post-Soviet Eastern Europe). However, he
argues that democracy and capitalism cannot be considered twins but more closely resemble a marriage which, of course, sometimes fail.

In addition to these specific points, Lord Dahrendorf, and all the commentators, look more broadly at the issues raised by the relationship of democracy and capitalism. The Hansard Society is grateful to all the authors for their valuable contributions to what we believe is a timely and important debate. We would also like to thank the Department for Constitutional Affairs for its funding of this series.

We hope that you will join the debate on this crucial subject. The debate can be joined through the Democracy Series website, which contains updates, news and information on this and future publications: www.democracyseries.org.uk

Alex Brazier is Director of the Parliament and Government Programme at the Hansard Society and is a member of the Democracy Series Editorial Board
Contributors’ biographies

Lord (Ralf) Dahrendorf  KBE, FBA, social scientist and author, is a Cross-Bench Member of the House of Lords. He is Research Professor at Social Science Centre Berlin and a former Director of the London School of Economics (1974-84), and Warden of St. Antony’s College (1987-97) as well as Pro-Vice-Chancellor of the University of Oxford (1991-97). He was born in 1929 in Hamburg, Germany. He studied philosophy and classics at the University of Hamburg (Dr.phil. 1952) and sociology at the London School of Economics (Ph.D. 1956). He was Professor of Sociology at the Universities of Hamburg (1958), Tübingen (1960) and Konstanz (1966). From 1966 he held various public and political offices in Germany and was a Member of the Commission of the European Communities responsible for foreign trade and foreign affairs (1970-73) and for research, science and education (1973-74). In 1974 he moved to the United Kingdom as Director of the LSE and served on a number of public bodies. He is holder of 30 honorary doctorates from universities in 14 countries and is Knight Commander of the Order of the British Empire. Lord Dahrendorf is a regular contributor to newspapers and journals and author or editor of over 40 books.

Professor Gerry Stoker has been Professor of Politics at Manchester University since 2000. His research interests include governance, democratic politics, local and regional governance, urban politics, public participation and public service reform. He was the founding chair of the New Local Government Network, a think tank devoted to promoting a modernised and more democratic local government, and is currently a member of the board. His most recent publication is Why Politics Matters: Making Democracy Work, which won the Political Studies Association prize for the best politics book of the year in 2006.

Ruth Lea is Director for the Centre for Policy Studies. She is on the University of London Council, a Governor of the London School of Economics and a non executive Director of Arbuthnot Banking Group PLC. She was Head of the Policy Unit at the Institute of Directors (IoD) between 1995 and 2003. Prior to the IoD, she was Economic Editor at ITN, Chief Economist at Mitsubishi Bank and Chief UK Economist at Lehman Brothers. She also spent 16 years in the Civil Service in the Treasury, the Department of Trade and Industry and the Central Statistical Office. She writes regularly for The Daily Telegraph and has published a number of papers, including The 2006 Essential Guide to the European Union, Education and Training: a Business Blueprint for Reform and Healthcare in the UK: the need for reform.
Stewart Wallis is Director of nef (new economics foundation). Before joining nef in November 2003, he was Oxfam’s International Director (responsible for 2,500 staff in 70 countries and for all Oxfam’s policy research, development and emergency work worldwide) and their Livelihood Director. He was awarded the OBE for services to Oxfam in 2002. Prior to Oxfam, he worked for Robinson Packaging, Derbyshire as Marketing Director, the World Bank in Washington (Industrial and Financial Development in East Asia) and Rio Tinto Zinc. His interests include global governance, the functioning of markets, the links between development and environmental agendas, and new forums of enterprise.

Vincent Cable was elected as Liberal Democrat MP for Twickenham in 1997. He was Spokesperson for the Treasury during 1997-99, and then became Principal Spokesperson for Trade and Industry (1999-2003). He is currently Shadow Chancellor of the Exchequer and Deputy Leader of the Liberal Democrats. Prior to entering Parliament, he was Chief Economist for Shell International. Previous to this he had been Head of the Economics Programme at Chatham House, and Special Adviser to the Commonwealth General Secretary and the World Commission on Environment and Development. His most recent publications are Public Services: Reform with a Purpose (2005) and Multiple Identities (2005).
Globalisation, capitalism and democracy

Lord Dahrendorf

Openness in Uncertainty

Capitalism and democracy have one political philosophy in common. They are experimental methods of tackling human affairs. Both capitalism and democracy are open responses to the uncertainties of the human condition. They are open in the sense in which Karl Popper spoke of the ‘open society’ which eschews the false certainties of a planned economy or an authoritarian government. In order to achieve the greatest life chances for all, we must create institutions allowing change by trial and error. The market economy and the constitution of liberty are such institutions.

Thus capitalism and democracy have a common denominator, but they are not of one piece. For one thing, economics and politics have different objectives. Economic activity is about creating more provisions in the sense of goods and services, or ‘welfare’ in the economists’ usage of the term. Political activity is about people’s entitlements, that is the rules and rights which govern our status in society. Economics is about wealth and its growth; politics is about citizenship and its extension.

Provisions and entitlements overlap and impinge on each other. Modern democracies tend to promise wealth and try to deliver the promise by redistribution or demand stimulation or supply-side measures of legislation. Modern capitalism is riddled with political limitations ranging from taxation and wage controls to health and safety or environmental constraints all the way to versions of co-determination. Yet the two, capitalism and democracy, remain distinct.

This is important, and it leads to the starting point of the present argument: capitalism and democracy have much in common and are, in the modern world, intertwined in various ways, but they have to be seen as separate, often conflicting forces of openness in a world of uncertainty. Isaiah Berlin once pointed out that since the Enlightenment people have tended to assume that all good things go together but that this is in fact not the case. We have to accept and live with conflicts of desirable values. Assuming that capitalism and democracy are ‘good things’, Berlin’s approach is relevant to their relationship. Desirable as they both are, there is no necessary relationship between them. This approach informs the following consideration about capitalism and democracy in an age of globalisation.
The China Syndrome
By any definition the People’s Republic of China is a capitalist success story but not a democracy. To a large extent the same can be said of other Chinese societies like Singapore, or of those under Chinese cultural influence like Malaysia. Their economies are driven by profit-maximising private actors who operate in worldwide markets. At the same time, their polities are dominated by a single party or group unprepared to loosen, let alone abandon, the reins of power. Purists will point to the fact that Chinese capitalism is in some ways flawed in that the state intervenes in setting most of the parameters of business decisions by individuals or companies; but then it is hard to point to a capitalist economy which is not flawed in some way. There are also restrictive features of Chinese capitalism which entrepreneurs in the more classical market economies would not accept, notably with regard to ‘permissible’ information. Even Singapore, where capitalists like to trade, is not a state where the more enterprising among them like to live. Colonial Hong Kong and Taiwan are the only Chinese territories which combine capitalism with some democratic freedoms, and there is little sign that these will spread to mainland China.

Yet the belief is widespread in the older democracies that sooner or later China will either restrict its capitalism or extend its democracy. In fact there is a conviction – more Marxist than liberal in its economic determinism – that in the foreseeable future the success of capitalism will force democracy on China and other Chinese-influenced countries. The economic ‘real basis’ will in the end determine the political ‘superstructure’. The Tienanmen Square demonstrations were but the first swallows to augur a democratic summer. People who enjoy the choices of a capitalist economy will also wish to vote for, or against, their political leaders.

It is possible that such beliefs turn out to be right. There is no iron law of historical development. By the same token, it is also possible that the pre-stabilised harmony of capitalism and democracy does not exist. Already, capitalism and the absence of democracy have co-existed for a long time in the Chinese world. At the same time, democracy and a not-very-capitalist version of Fabian socialism have co-existed in the other great Asian nation, India, whose recent capitalist explosion owed more to globalisation than to democracy. The phenomenon warrants closer inspection.

Without doubt, the continuation of Chairman Mao’s anarcho-tyranny of the ‘cultural revolution’ type was not compatible with capitalism. Capitalist growth requires a degree of political stability. Even the freest market must allow its players some predictability. Probably this also means that capitalism and totalitarianism are not compatible. Totalitarian regimes rest on permanent mobilisation. Such mobilisation not only rules out a labour market but requires a largely planned economy in which regulated private property may continue to exist, but entrepreneurial initiative remains strictly confined to the objectives of ‘five-year plans’ or similar instruments of control.
Communism was by definition anti-capitalist, but fascism also, far from being the extreme form of capitalism, was in fact an anti-capitalist ideology and practice.

There is, however, another, more viable political system and that is authoritarianism. Authoritarianism can be described as a combination of oligarchy and apathy. A small political class often inspired, indeed created, by an apparently benevolent leader, governs unchallenged because the mass of citizens avoid political involvement. Some fascist countries, like Spain or Portugal, were more authoritarian than totalitarian and therefore left space for economic development. Some late communist countries were run by a nomenklatura which counted on the passivity of citizens. A different version of this mode of governance has developed in Asia. It even had an advocate in the Malaysian leader Mahathir Mohammed who espoused an ‘Asiatic mode of governance’, that is unpolitical citizens in a powerful state without opposition or freedom of speech.

China may well be moving in that direction. It has shed the cultural revolution and a totalitarian regime but kept the reins of power rather firmly in the hands of the Communist Party. While corruption may erode the authority of this oligarchy, and students returning from the West may demand free speech, it is at least conceivable that a population bent on economic success and little else will find authoritarianism quite a convenient system to live in. It is certainly a system which can last a long time.

If there is force in this analysis, the conclusion is serious. It is that there is in fact no compelling link between capitalism and democracy. Capitalism is viable and can be successful in at least two political contexts, the democratic and the authoritarian. If we want democracy to flourish, it is not enough to promote a vibrant market economy. A capitalist world will not necessarily be a free world.

When Democracy Disappoints

There is another side to the story of the disjunction of capitalism and democracy, and it is equally serious. Democracy does not make people rich. It does not even guarantee that the foundations and motive forces of a capitalism that benefits all are provided. Yet this is what people seem to expect. Missionaries of democracy at least hint that with the adoption of democratic institutions the conditions of growing wealth are in place. Many people who support the spread of democracy see it as a means to the end of greater prosperity. In countries which have shed illiberal regimes the belief is widespread among people that once they have the vote they have the entry ticket to the American dream as well. When disappointment sets in, they abandon their belief in democracy even before that in capitalism.

Two sets of examples illustrate the point. One relates to the Great Depression of the 1930s. It has often been argued that German (‘Weimar’) democracy collapsed as a result of the economic crash of the early 1930s and the depression which led above
all to mass unemployment. If democracy cannot deliver stable economic growth, some other political system must be found, preferably one with a leader who puts things right. To the present day, the link between anti-democratic forces and downward cycles of economic conjuncture is widely assumed to exist.

Yet this analysis is obviously implausible. Older democracies were at least as hard hit by the depression as Weimar Germany. In the absence of even a rudimentary welfare state the crash of the American stock exchange led many to desperation. Unemployment in Britain was at least as severe as that in Germany. Yet this did not lead to mass disenchantment with democracy. To be sure, there were fascist tendencies, from Henry Ford to Oswald Mosley. But people in the United States and in Britain, as well as in Sweden and Switzerland and a number of other countries, seemed to recognise that a crisis of capitalism does not have to become a crisis of democracy.

More recent experiences tell the same story. When communism collapsed in the revolution of 1989, those who took to the streets in Poland and Hungary and elsewhere wanted freedom and self-determination, but alongside the right to speak their minds and to vote they also expected some of the glitter of life under capitalism which they had gleaned on their television screens or on rare trips to ‘the West’. (The experience of post-war Germany with democracy first and the ‘economic miracle’ next did not discourage such expectations.) It therefore came as a shock that the much-vaunted ‘transition’ began with an economic valley of tears, with unemployment, company closures, disappearing state services and evident poverty. The forces which had fought for democracy did not find it easy to cope. The hopes of the early governments, the Mazowieckis and Havels, faded and, with them, the belief in democracy as the great saviour. Nostalgia, nationalism and populism gained ground, and many who had yearned for liberation from the yoke of communism now began to doubt the value of democracy.

It did not help that the kind of capitalism which won the day showed all the aggressive features of a great new force, the force of globalisation. Some benefited strikingly from the combination of the rapid privatisation of state assets with the extraordinary opportunities of global markets. But for every winner there were 10 losers, and again democracy was held responsible. Few things seem more difficult, and yet few things are more important for sustainable liberty than to separate capitalism and democracy in people’s minds. There are crises of democracy which can leave the advancement of the market economy unaffected, and there are crises of capitalism which should leave the stability of democracy undented; but this is not how most people see it. Because people fail to recognise that democracy continues to be a necessary safeguard of freedom even if capitalism passes through one of its periodic areas of turbulence, they vote and act in ways which threaten both democracy and capitalism.
Entr’acte on the American Misunderstanding
The misunderstanding of democracy which gives rise to disappointments that eventually threaten its survival is not just due to the belief that all good things go together. It has much to do with the American experience and its misinterpretation. In the United States democracy and capitalism did grow up together like twins, but many did not realise that they were at best non-identical twins. Loose use of language meant that in the end even American leaders believed that bringing democracy to the world meant by the same token bringing capitalism as well. In fact this is a serious misunderstanding which has confused American foreign policy from Japan to Iraq.

Democracy is a set of political institutions concerned with citizenship; capitalism is an economic culture concerned with prosperity. Neither of the two can achieve the objective of the other. The American misunderstanding that the two go together is therefore not just one by politicians but extends to scholarly debate and notably to the ‘economic theory of democracy’. Its seeds were brought to America by an immigrant, Joseph Schumpeter, but they fell on fertile ground. Kenneth Arrow and his disciples in particular tried to develop the theory that while, by contrast to economic success, political success has to be measured in votes rather than dollars, in essence the two processes can be analysed in the same terms. Little did the economic theorists realise that their approach implied circumstances which were uniquely American such as homogeneity (in relevant aspects) of the electorate, a two-party system and, last but not least, the American constitution. Even then the peculiar relationship between democracy and capitalism in the US was an historical accident, not the result of a programme of deliberate action and therefore not to be repeated.

There are economists of greater sophistication who have explored connections between political and economic factors more thoroughly. Amartya Sen, Meghnad Desai, Partha Dasgupta are examples. Sen in particular has shown that certain democratic rights, notably freedom of speech, can limit extreme poverty such as occurs in famines. But none of the economists of Indian extraction has claimed a causal relationship, let alone twin-like identity, of democracy and capitalism.

America was fortunate in experiencing the parallel advance of democracy and capitalism but the same cannot be expected elsewhere. The American experience is therefore no guide to others, especially not to those who have entered the modern age late.

Who Governs?
Capitalism is intrinsically a force which does not recognise borders. Democracy on the other hand had its heyday when it formed the constitution of the nation-state. That is why the process of globalisation since the 1980s was a triumph of capitalism and a threat to democracy. The simultaneous and universal availability of
information has opened up huge new spaces for economic activity, but there are no political institutions to define conditions and constraints for the new world economy. Capitalism has outgrown democracy.

These statements raise several questions, especially in the light of an analysis which sees capitalism and democracy as intrinsically separate dimensions of modern society. Why does it matter that advanced market economies and open political institutions operate in separate spaces? It matters for two sets of reasons. For one, economic growth of the capitalist kind requires a certain framework of rules which guarantee reliability and predictability. The market is itself a set of rules, and it could be argued that these should be set by institutions accountable to citizens. For another thing, capitalism has a certain fall-out which calls political agents to the fore. There are social consequences of capitalist economies which affect the status of citizens. Questions of employment and unemployment are obvious examples.

Why then should democratic institutions not simply follow economic forces to the wider spaces in which these operate? This is a difficult question to which only tentative answers can be given. The simplest among them is that democracy requires a *demos*, a people united by citizenship in the sense of both nationality and of basic rights. This quality of citizenship has never yet been developed perfectly anywhere. Throughout most of modern history citizenship rights were confined to a minority; even after the introduction of universal suffrage some remained excluded. Moreover, borders of communities which can be described as a *demos* were frequently contested; in significant parts of the world this is still the case. The nation-state of citizens in the full sense was, and is, the only space in which the conditions for a *demos* and thus for functioning democratic institutions are fully present.

This need not be the case forever, though attempts at creating effective democratic institutions beyond the nation-state have so far failed. This is notably the case with the most ambitious venture of its kind, the European Union. Its non-democratic character is in part the result of a construction which gives legislative powers to a Council not elected for the purpose and (at least so far as secondary legislation is concerned) to a Commission not elected at all. Moreover, electing a quasi-parliament in addition has not really helped. Its limited powers are further diminished by a membership whose national interests are strengthened by the largely national character of European elections. The peoples of the European Union clearly do not feel or act as one *demos* even though they may share certain interests.

What holds for the European Union is *a fortiori* the case in even wider and more disjointed political spaces. The Council of Europe, or the Organisation for Economic Development and Co-operation (OECD), or indeed the United Nations cannot be thought of as relevant spaces for general elections, common parties and candidates, and a united parliament which chooses and controls the executive.
Who then governs when it comes to decisions taken outside the space of the nation-state? How in particular can we make sure that such decisions are taken in a democratic manner?

This is arguably the key question of governance in our time. It is crucial above all in the face of globalisation. In trying to answer it we must beware of one error which is frequently made: governance does not mean effective and far-reaching control of (for example) economic processes. We must not demand of international governance what we would never concede to national governments. Global governance means the introduction and guardianship of those basic rules which civilised democratic societies would regard as necessary constraints on private powers. But who is to accomplish even that if supranational democracy is not a viable option?

One answer is to keep as much power as possible within (democratic) nation-states. There is much loose talk about the decline and fall of the nation-state. In fact, nation-states are likely to be with us for a long time to come, and not just as repositories of democracy but also as the key agencies to promote the social policies which are an indispensable part of citizenship. If only for these reasons, a principle of subsidiarity is required which places the burden of proof for transnational political action firmly in the hands of those who want to reduce or replace nation-states. However, keeping powers within nation-states and their (democratic) institutions in an age of globalisation is not without risk, and notably the risk of protectionism. More than ever, protectionism is a recipe for impoverishment and for illiberalism. If some of those attacking globalisation had their way, systems of economic controls all the way to rationing would threaten. Some large countries may be able to delay such consequences for a while; others may find economic protectionism a convenient back-up for authoritarian rule; but everywhere the risk and the probability would be that economic nationalism leads to significant losses of freedom.

What then is the alternative? Are we condemned to a period of ‘market fundamentalism’ with uncertain outcomes, or can global capitalism be tamed by new democratic processes and institutions? As we have seen, the familiar institutions of national democracies will not do. There is, however, an alternative. We can revert to the first principles of democracy and apply them in imaginative ways to wider spaces than nation-states. To highlight just a few relevant points:

- One key element of the liberal order is the rule of law. Establishing it was an arduous process in nation-states. It is even more arduous beyond national borders. However, gradually precedents are set for an international law that deserves the name.
• Democracy involves checks and balances to executive decisions. Legal institutions play a part in this, but regular auditing is as important. Creating regular auditing institutions and giving them the necessary powers is one of the main tasks of international organisations.

• A particularly difficult issue is to make sure that people’s views are introduced into decisions at every level. In the absence of elections and parliaments this has to be achieved in less formal ways. The media have a key role to play in this regard. This is also a role where non-governmental organisations (NGOs) are needed. Despite the risk of corruption for both media and NGOs they are for the time being the only democratic element beyond nation-states.

• One purpose of democracy is to make change without violence possible. Within nations this is achieved by changes of government through elections. It is hard to see an effective equivalent beyond the nation-state. Yet there is a need for controlled change in international organisations and associations as well. Perhaps a version of a ‘22nd Amendment’ (limiting office holders to certain terms) would be a possible beginning.

This is a modest list. It was intended to be modest. In relation to capitalism and democracy in the face of globalisation, the intention is emphatically not to invent institutions which run the world economy. Strong yet open nation-states combined with a limited set of international rules as well as checks and balances may be all that is needed to answer the question ‘who governs?’. Undeniably however, the fact that through globalisation capitalism has outgrown democracy is a challenge to the politics of liberty.

Winners, Losers, Democrats

Domestically as well as internationally the greatest challenge to the constitution of liberty arising from global capitalism lies in the fact that it has produced many winners but an even larger number of losers. Times of great economic dynamism are invariably and perhaps inevitably times of growing inequality. Certainly, what we call globalisation has had this effect both within countries and world-wide. Such bursts of inequality put a strain on a political system – and a world order – designed for gradual change. The conspicuous wealth of the few increases the resentment of the many. There is a scent of gunpowder in the air, of civic violence, terrorism and war.

Was, and is this inevitable? It should not be. Domestically, democracies should be able to deal with the consequences of global capitalism, although this requires a difficult combination of attitudes and policies. As we have seen, there is nothing to be gained by the attempt to stop the bandwagon of globalisation. Even if this essentially vain attempt were to succeed it would lead to impoverishment and
misery. The point is therefore to do the opposite and facilitate globalisation while at the same time creating opportunities for those initially neglected by the process in order to get them into the game and become beneficiaries. The issue is not (except at the margin) one of redistribution but of inclusion. It is neither acceptable nor necessary that the poor get poorer while the rich amass unheard-of riches but it requires action to make sure that a basic status of citizenship is guaranteed for all. If this does not succeed, (global) capitalism can destroy (national) democracy.

The international fallout of global capitalism raises even more serious issues. Among countries too there are winners and losers. In those parts of Africa which do not possess rare and therefore wealth-creating raw materials, economic conditions are getting worse as globalisation progresses. This raises great moral issues for the community of peoples. As in the national context however, the most critical consequences arise where capitalist progress is close at hand and yet elusive. It is not the poorest of the poor who turn to violence against those who have made it, but those who for one reason or another find the route blocked which they would like to, and in principle could, take. Theirs tends to be destructive violence without any other objective than that of hurting the winners. It was the source of anarchism in the past; it is the source of terrorism today which turns against a ‘West’ bringing half-desired but unreachable ways of life. It could turn as easily against indigenous winners.

There is no easy answer for the international community to deal with such new forms of unrest and violence. Could it be the spread of democracy to all parts of the world, the globalisation of democracy? So far the experience of the attempt is not very encouraging. Capitalism exports itself but democracy has to be exported by deliberate action, and such deliberate action tends to meet with resistance among reluctant recipients of the gift. How to export democracy effectively is one of the key questions to which an answer must be found. For the moment all we know is that the answer will not be either military or reliance on the effects of global capitalism.
At the beginning of the 1970s, when I first studied politics and started to read Ralf Dahrendorf’s insightful work, around a third of the countries in the world could be classified as meeting the criteria of democratic governance of universal suffrage, regular elections to choose government leaders and basic political rights. A dramatic expansion in democracy occurred in the last quarter of the 20th century leading to the claim that two thirds of nations now meet the criteria of democracy. But not much of that expansion can be put down to the promotion of democracy by mature democracies. In this light, Dahrendorf is surely mistaken to argue that ‘democracy has to be exported by deliberate action, and such deliberate action tends to meet with resistance among reluctant recipients of the gift’. People in different countries have struggled and fought their way to democracy with at best only inconsistent support from the West. Democracy is not a western gift to be exported but a universal value.

The great drive to democracy that dominated the last quarter of the 20th century started with the collapse of the European dictatorships in Portugal, Spain and Greece in the 1970s. Between 1979 and 1985 the military withdrew in favour of civilian governments in nine Latin American countries. Democratisation began to spread to previously untouched parts of Asia in the 1980s and 1990s. The Philippines saw the end of the Marcos dictatorship in 1986 and Taiwan, South Korea, Bangladesh, Nepal and Pakistan all became or strengthened their democracies in this period, although in the last case democracy did not survive. The fall of the Berlin Wall in 1989 and the collapse of the Soviet Union saw the start of a process that spread democracy throughout Central and Eastern Europe. In Africa, Benin led a charge to democracy in 1990, followed by a process that led to democracy being established in South Africa in 1994. Other African states also established democratic rule during this period.

Democracy has not relied on capitalism for its spread but rather on the near universal attraction of the value of self-governance and the protection of citizen rights that goes with it. Democratic governance exists in rich and poor countries and in countries with a range of cultures and traditions. Democratic governance is practised in countries with every major philosophical and religious tradition: Christian, Jewish, Buddhist, Confucian, Hindu and, indeed, Muslim. All this
suggests that comments about certain cultures not being suited to democracy are difficult to sustain. The region that is the missing link in the spread of democracy is the Middle East and North Africa, where in 2002 only two countries meeting the criteria of democratic governance could be found. But I think this reflects the politics of the region and the negative impact of past western influences and interventions rather than a cultural issue for the population. Public opinion survey evidence backs up this judgement that the idea of democratic governance is a popular form of governance in all parts of the globe. In particular the World Values Survey, a spectacular public opinion research effort covering over 80 nations, reveals the scale of the support for democratic governance. It indicates that many Muslims prefer the idea of democracy to authoritarian rule, as do clear majorities of the population in all other parts of the world.

As Dahrendorf points out, doing democratic politics has got tougher because of the emergence of global capitalism. But I agree with Dahrendorf that our collective capacity to influence the processes of globalisation has far from evaporated. We need to consider pragmatic reforms aimed at making the prospects for democratic governance at the global scale more than just a daydream. We could do more to engage in public education; citizens may be painfully uncertain about the institutions of democracy at local and national levels but they are largely ignorant of what the institutional framework and pressure points are at the global level. Secondly, and connected to this, there could be more transparency in the way that these organisations work through the provision of clear and accessible information. Political actors could do more to bring to the attention of their citizens the decision-making and practices of global institutions. National parliaments and assemblies could debate and scrutinise the actions of global institutions more thoroughly and effectively than they do. More support could be provided to civil society organisations so that they could speak more effectively and fairly for a full range of global interests. Capitalist globalisation threatens democracy but politics can and should be able to respond.

The danger to democracy posed by capitalism is in many ways more insidious than the immediate impact of globalisation recognised by Dahrendorf. The problem for the West is that while our capitalism goes on and on, our commitment to democratic practice among our citizens is showing signs of faltering. Mature democracies face a major challenge because of the scale of discontent and disengagement surrounding the formal political process and, more subtly, the adoption of forms of activism by citizens that provide multiple but thin routes into the political process. The troubling issue is that we have developed dominant forms of politics that are not sustainable as a way of conducting democratic governance. They feed a cycle of disaffection with democracy that ultimately runs the risk of undermining public support for democracy.
Capitalism is, because of its cultural impact, to some extent responsible for the bind we find ourselves in. Its rampant consumerism is squeezing our capacity for the collective thought and understanding that is central to democracy. Capitalism’s promotion of consumerism and individualism sits uneasily alongside the collectivism inherent to democratic politics. Making decisions through markets relies on individuals choosing what suits them. The collective processes that are essential to steer politics and government struggle to deliver against the lionisation of individual choice in our societies. Politics, if anything, attracts as much interest as before, but that interest has been infected by the impact of the increased prominence given to market-based consumerism and more intense individualisation in the culture of many democracies. As a form of collective decision-making, politics is, even in a democracy, a centralised form of decision-making compared to market-based alternatives. Democracy means that you can be involved in the decision, but you are expected to accept that decision, even if it is not necessarily your choice.

Politics as a form of collective decision-making relies on us using our voice to make our views known, in contrast to the market mechanism of exit where, if you are not happy with the result, you simply leave. If you do not like something you see in a shop you can go elsewhere, but in politics the only way to get something is to use your voice and that carries far more costs than simply walking away. But expressing your interest or opinion is only the start of a more general challenge in politics – that of communication. You have to not only make your views known, you also have to listen. Politics is not about individual choice; it is about collective debate. Within it, communication is a difficult, time-consuming and problematic business. Democratic politics involves two of the hardest human skills: listening carefully to the opinions of others and their expressions of their interests, and sustaining your participation when things do not go right the first time.

Dahrendorf is right to argue that sometimes democracy has been falsely sold on the grounds that it will make its adopters better off economically and socially. This is a double ‘con’ because not only are democracy and economic success not linked but also because democratic politics, even in benign conditions, cannot deliver what people want all the time.

Democratic politics is not the most edifying human experience. It is rarely an experience of self-actualisation and more often an experience of accepting second-best. It works through a complex process of mutual adjustment as politicians and officials, and others directly involved in government, attempt coping or manipulative modifications to their behaviour in the hope of inducing the right response from others. The discourse and practice of collective decision-making sits very uncomfortably alongside the discourse and practice of individual choice, self-expression and market-based fulfilment of needs and wants. As a result, the
expectations raised by modern capitalism create tensions within democratic practice in mature as well as newer democracies.

But my argument is that we can rethink the way that we do politics to address the challenges that we face. We can ride the tiger of consumerism, close the gap between politicos and citizens-at-large, confront complexity, and loosen the grip of cynical fatalism about politics. Dahrendorf argues correctly that we should abandon the idea that we can export democracy by force. I think we need to do far more to get our own practice right. We need to be able to lead by example and at the moment we are ill-equipped to do that. Getting our own house in order would do more than anything to promote democracy and bolster its standing in the 21st century.
Western-style democracies are not suitable for every country

Ruth Lea

There is much in Lord Dahrendorf’s interesting and enjoyable paper that is unchallengeable. Economics and politics do indeed inhabit different spheres and have different objectives. And, to state the obvious, capitalism, with all its variations, is an economic model, based on the private ownership of the means of production where goods and services are allocated through the price mechanism. Democracy, with all its variations, is a political model, based on rule by a demos – a people united in terms of citizenship and rights. Capitalism and democracy, therefore, inhabit different spheres.

Both capitalism and democracy can claim to be highly successful despite their flaws and inequalities. As Churchill said, ‘democracy is the worst form of government, except all the others that have been tried’. It could equally be said of capitalism that it is the worst form of running an economy, except all the others that have been tried. From a Western perspective this seems self-evident, though this view is not universally held.

Lord Dahrendorf is surely right when he says that democracy will not necessarily lead to successful capitalism. Any quick inspection of the necessary conditions for a successful capitalist economy would show that democratic institutions, per se, are not on the list. These conditions are well-known and, I believe, reasonably uncontroversial. They include a stable and peaceful political environment (no wars); broadly non-corrupt and fiscally prudent governments; efficient administrations; respect for property rights and the rule of law; open economies and market-oriented and business-friendly tax and regulatory regimes.

Even though democracy is not a requirement, capitalism’s necessary conditions are more likely to be present in democratic rather than non-democratic countries. But note that even though many democracies will have successful capitalist economies, others will not. China, on the other hand, is a highly successful capitalist economy for all that it lacks political freedoms. The political environment is stable and its administration encourages business. It fulfils the basic conditions for capitalism, though not for democracy.

It should also be noted that it is not necessarily the absence of democracy which damns those developing countries which have tragically failing economies. It is
because the basic conditions for business are comprehensively flouted. This is especially, but not exclusively, the case in Africa. Robert Mugabe’s corrupt regime in Zimbabwe and the tragic destruction of its once prosperous economy is frequently reported. But all too infrequently reported are the less dramatic difficulties faced daily by Africa’s businesspeople, Africa’s wealth creators.

The World Bank’s latest business survey of 155 countries showed that four-fifths of the 20 countries with the most difficult business conditions were in sub-Saharan Africa. Africa’s businesspeople face many obstacles when creating and investing in businesses, including heavy regulation and taxation, weak property rights and crippling start-up costs. In Sierra Leone business taxes can account for 164 per cent of the company’s gross profits. In Niger it costs 4½ times the annual per capita income to set up a business; in the Democratic Republic of the Congo the multiple is five. By comparison in the UK and the US the cost is less than one per cent.

The need for internal reform in many African countries is vital to help business, as the World Bank has rightly emphasised. Capitalism fails because the conditions for growth are absent.

Globalisation is often accused of creating winners and losers and, of course, in some ways it does. Global forces favour some countries’ products over others. Businesses, therefore, have to adapt or the economy will fail to thrive. ‘Winning’ countries, including China and India, ‘win’ because businesses are enabled to adapt and thrive. In ‘losing’ countries this is not the case. It is not globalisation that has wrecked Zimbabwe’s economy. It is Mr Mugabe’s brutal and destructive regime.

Lord Dahrendorf also, rightly, questions the ‘reverse causality’ of capitalism leading to democracy. China, some argue, ‘one day’ will change and become democratic. It may or may not assume the institutions of a western-style democracy. But, given its history and experience, it would not be surprising if it did not and continued with its own authoritarian but, nevertheless, stable form of government. The West may disapprove, but it is perfectly understandable from the Chinese perspective.

Indeed, to play devil’s advocate, one could argue that western-style democracies are unsuitable for many countries of the world – not least of all in the Middle East. Such countries, for historical, religious and cultural reasons, have different political models. Perhaps the West should gracefully accept that it does not have the monopoly of wisdom in governmental matters, rather than seek to impose democracy (whether by military or other means) on them. They are, after all, sovereign countries and the West should accept their right to run themselves as they consider appropriate, however trying or even offensive it may be. Western arguments for ‘bringing democracy’ to non-democratic countries can sound arrogant, if not neo-colonial.
I, therefore, have difficulties with Lord Dahrendorf’s view that ‘democracy has to be exported by deliberate action’. But his additional thought that ‘...such deliberate action tends to meet with resistance among reluctant recipients of the gift’ is surely only too glaringly true.

It is, of course, incumbent on all countries to abide by certain international rules, including respecting their neighbours’ sovereignty. But this does not require a new international framework. Rather it requires reform to the current inter-governmental, international organisations including the United Nations. Perhaps, to labour the point, such organisations will continue to include undemocratic and oppressive states as well as western-style democracies.

As my final point, Lord Dahrendorf states that reflecting the triumph of globalisation, ‘capitalism has outgrown democracy’, implying that a new ‘democratic’ world order is required to govern global capitalism. But this strikes me as quite unnecessary.

As global economic forces change then, of course, the governments of sovereign nation-states respond. This is surely what sovereign governments, democratically elected or otherwise, are meant to do. Some will respond with trade protectionism, though this is frowned on by the World Trade Organisation; others will trade freely. Some countries will adopt policies to attract inward investment and others will not. Nation-states are free to decide their own regulatory and tax regimes – even though they know they will have implications for their international competitiveness. This, I suggest, is their choice, even though some hotly competitive countries will be accused of cheating by others.

It is for nation-states to make the appropriate decisions, within a framework of mutually agreed rules policed by inter-governmental international organisations. Imperfect it may be, but nevertheless valid, as indeed Lord Dahrendorf seems to concede.
Sustainability is the real issue

Stewart Wallis

Ralf Dahrendorf poses the key question – can global capitalism be tamed by new democratic processes and institutions? His observation that capitalism can be viable in at least two political contexts – the democratic and the authoritarian – is well made, as are his conclusions that if we want democracy to flourish, it is not enough to promote a vibrant market economy. It is clear that a capitalist world will not necessarily be a free world. His analysis of the American misunderstanding of the different natures of democracy and capitalism is also helpful, though I believe too benign. In recent American foreign policy the ‘capitalist tail’ has clearly wagged ‘the democratic dog’, albeit under the cover of ‘democracy and freedom’.

My challenge is threefold. Firstly, I believe that his analysis of the failures of global capitalism does not go far enough. Secondly, if we are to effectively address those failures we need to look again at exactly what it is that we want the global economy to deliver. Finally, and most fundamentally of all, we have to address the basic reality that will change everything: our warming world.

‘Many winners and an even larger number of losers’ fails to effectively communicate the massive increase in inequality in the world over the course of the 20th century. At the end of the 19th century, the difference in income between the richest 20 per cent and poorest 20 per cent of people is variously estimated at between 3:1 and 6:1. By 1960, it was 30:1 and by 1997 it was 74:1. In 1998, the richest one per cent of people in the world received the same income as the poorest 57 per cent. The speed of growth in inequality appears unprecedented in human history and is mirrored within countries as well as globally. Even in an established democracy like the UK, the share of total income of the richest 10 per cent of the population has risen from 50 per cent 10 years ago to 60 per cent today. Inequality in South Africa grew massively after the introduction of democracy in 1994, and the standard of living of the poorest 50 per cent of the South African population has actually declined. And the huge leap in levels of global inequality is taking place against a picture of persistent global poverty. ‘The rising tide’ we were promised has failed to ‘lift all boats’. Half the world’s population is still living on less than US $2 a day. Dahrendorf rightly identifies the problem, but drastically underplays its scale and possible consequences. We are also left with the nagging question of whether ‘taming’ global capitalism could be enough to meet the scale of the challenge at hand, or whether the model itself is fatally flawed.
My second challenge to Dahrendorf strikes at the heart of the purpose of global capitalism. Increasing consumption and possession of material goods is supposed to increase welfare. However, in almost all developed countries, levels of life satisfaction or well-being are either plateauing or in decline. In the UK, for example, while GDP doubled between 1973 and 2002, life satisfaction remained resolutely static, and in fact has never regained its 1976 peak. Increased economic activity is not making us happier and in many developed countries we are seeing major rises in mental health problems and stress-related illnesses. Not only is economic globalisation creating ever greater inequality while failing to solve the terrible injustice of global poverty, it is not even making the fortunate few at the top of the economic pile any happier. Studies in the United States suggest that less than 20 per cent of the population are leading lives which could be described as flourishing.

There is, it seems to me, a fundamental confusion of means and ends. Growth in GDP is a means by which economic activity can be measured (and there are many critics of GDP as an effective measure) but what is the end of economic activity? Surely it is to promote collective and individual well-being? Or put simply, ultimately should not the economy deliver long and happy lives? An economic system obsessed with creating ever more ‘wants’ in those people whose basic ‘needs’ have been met by stimulating ever increasing levels of material consumption is one whose primary goal has been forgotten.

My final challenge is even more fundamental: it is the glaring omission in Ralf Dahrendorf’s analysis. At the beginning of the 21st century, we face a problem so big that it alters everything. We are coming up against the limits of our planet’s capacity. In an age of global warming, ‘business as usual’ is no longer possible. A recent report from nef (the new economics foundation), showed that the world as a whole is living beyond its available biocapacity. In the UK we are disproportionately responsible for the world’s failure to live within our environmental means. If the whole world consumed as much as the average UK citizen, we would need the resources of more than three planets like Earth. The last time that we looked, we only have one. Global capitalism has come up against an immovable limit – the resources provided by our planet’s eco-systems.

The signs of stress are clear. Global temperatures will rise by between 2°C and 6°C this century, depending on what action we take. Either way, above the two degrees level, the risks of abrupt, accelerated, or runaway climate change also increase. And the problem is not just that the Earth is getting warmer – most of our other ecosystems are in trouble. The recent UN Millennium Ecosystems Assessment showed that 15 out of 24 ecosystem services were in decline. Global capitalism has

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1 H. Shaw & N. Marks (2004), A well-being manifesto (London: new economics foundation)
been able to expand on the assumption that there were no limits – indeed macroeconomics does not recognise the same limits as microeconomics. What we are now facing is clearly ‘uneconomic growth’ – growth where the marginal costs to our planet and our future exceed the marginal benefits.

This problem also interacts with that of global inequalities in income. In the 1990s it took US $166 of extra global production and consumption to deliver just a single dollar for those living below the US $1 a day poverty line with enormous environmental impacts which counter-productively hurt the poorest most, for example in the upheaval from climate change. The ‘whole pie’ has to expand dramatically to make the poorest very marginally less poor, and it is totally impossible to expand the ‘pie’ to anything like the level needed given our clear ecological limits. If we wanted everybody on earth to have an income of just $1,000 a year – surely a modest aspiration – then on current income distribution and current resource intensity of growth, we will need the resources of 15 planets like Earth to make this possible.

A complex systemic problem of this type is going to require global co-operation on a scale never before attempted. The answer is clear – we have to limit the use of our scarce ecological resources (including the right to emit CO2) and share them more equally. This can be achieved by a judicious mixture of quotas, taxes and regulation and allocation of per capita rights to use these ecological resources to everybody on the planet. These rights could then be traded, leading to a massive redistribution of income and a simultaneous route towards sustainable living on our planet.

Our current international and national democratic institutions are clearly not up to the task at hand. We have to simultaneously increase the reach of democracy while curbing the excesses of global capitalism. We must challenge the policy-makers’ shibboleth and move rapidly to establish a ‘moral economy’. Such an economy would promote well-being in a way that was both socially just and environmentally sustainable. Markets and enterprises would continue to be key, but subject to greater democratic control at all levels and money would move from being ‘master’ to being ‘servant’.

Most may say this seems an unlikely scenario. Yet as we come up against the Earth’s limits we are left with increasingly less choice. The alternative may be catastrophe – both social and ecological and the emergence of global authoritarianism.

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Capitalist development and democracy are interconnected

Vincent Cable MP

Ralf Dahrendorf, with characteristic clarity and incisiveness, casts a sceptical eye over the argument that democracy and capitalism necessarily go together. His target is the hubristic ‘End of History’ optimism that systems of democracy and capitalism are so self-evidently superior that they will triumph, together, everywhere. They have in the Anglo-Saxon world and (latterly) in Europe. But, as he points out, successful models of capitalism are evolving, notably in China, without much evidence of democracy. And there are brave experiments in democracy which have failed because capitalism has been prone to crisis (as in interwar Europe) or has not delivered the material fruits of freedom (as is happening in many developing countries and, possibly in Eastern Europe).

Yet Dahrendorf perhaps devotes too much energy to savaging a weak, straw man. The idea – which he attacks – that democracy and capitalism are inseparable ‘twins’ is an extreme version of the argument. A looser and more plausible version is that they are mutually reinforcing: less like twins than a marriage; and marriages do, of course, fail. He is, in my view, too pessimistic both in his analysis and his examples. Successful, sustainable capitalist economies need an independent, depoliticised system of law and dispute settlement which autocracies usually lack; a supply of entrepreneurial, unconventional, independent-minded risk takers; a sense of long-term systematic stability which will outlast the regime of a ‘strong man’; and a collective willingness to accept that economies will reflect the market preferences of millions of consumers, not those of planners, however enlightened. Democracy is more likely to (but is not bound to) provide these conditions than any other system. Similarly, democracy can only flourish and survive if there is a wide, diverse range of independent sources of power – and wealth – beyond the state which successful capitalism will generate.

Dahrendorf worries that ‘globalisation’ – far reaching integration of economies and communications – could make it more difficult to reconcile democracy and capitalism since governments will find it difficult to deliver economic outcomes. But experience suggests that small, open, developed economies like the Scandanavians, Holland, Switzerland, Canada and, latterly, Australasia have historically performed very well in reconciling external economic pressures and domestic political demands. What is undoubtedly true is that when there is a broad
political consensus on the traditional ‘left-right’ issues and the role of capitalism, there is an emergence of what I have called the ‘politics of identity’ based on religion, race or language. While such new configurations undoubtedly pose a challenge to democracies they can be managed and in democracies like India the ‘politics of identity’ – based on language, religion and caste – has become institutionalised and has not stopped development or the growth of an overriding national cohesion.

More generally, Dahrendorf underestimates the extent to which the ‘liberalisation revolution’ – economic and political – is continuing and far from having run its course. East Asia, which Dahrendorf cites as the best example of successful capitalist development without democracy, has produced two exceptionally successful counter-examples: South Korea and Taiwan (and, of course, post-war Japan). Thailand is, I accept, a counter-counter example. China’s remarkable transformation in the last three decades is unlikely to stop here. Post-Deng, it has now evolved a peaceful and smooth mechanism for changing a civilian ruling elite, albeit within one party and China increasingly resembles semi-authoritarian, semi-democratic systems like the Mexican Institutional Revolutionary Party (PRI) of a generation ago which have yielded to greater pluralism with the growth of new centres of power and influence.

It remains a matter for conjecture as to whether the Chinese hare will ultimately prove to have greater stamina than the Indian tortoise, albeit a very sprightly tortoise these days. In a way which has confounded external critics, India has succeeded in making its democracy more meaningful – through the diversity of genuine federalism at state level – while pushing ahead slowly but inexorably with market-based economic reforms. Communist-led West Bengal has now joined the reformers. And while there are countries – Pakistan, Burma, Thailand – which have succumbed to authoritarian rule, the populous countries of Indonesia and Bangladesh are closer to the Indian model despite formidable obstacles.

Southern and, more tentatively, Eastern Europe both demonstrate a symbiotic relationship between economic and political liberalisation which membership of the EU has fostered. It is difficult now to see circumstances in which Spain, Portugal or Greece would revert to being authoritarian corporate states. And, while the fledgling democracies of Central Europe and the Baltics are struggling to contain populist politics, there is no sign of an abandonment of either democracy or capitalism (nor, too, amongst applicant countries in the Balkans or Turkey).

One of the more remarkable transformations is the way the three major Latin American countries – Brazil, Mexico, Argentina – have moved away from both the Caudillo tradition of authoritarian politics and the inward-looking economic nationalism which characterised their development for the last century. Chile, even
while Pinochet is still alive, has become indistinguishable from a Western European liberal democracy. Africa has the most doleful experience of both failed democracy and capitalist development but the more successful countries do both – Botswana, Ghana and, now, South Africa.

The major areas of failure are not difficult to explain. The Andean countries, led by Venezuela, most of the Middle East and Africa – and arguably now Russia – are characterised by what economists call ‘rent seeking’. Their wealth, such as it is, depends not on the success of capitalism but on the bounty of revenues from raw materials, particularly oil. The same structure leads to powerful governments (or state entities like Gazprom) which concentrate both wealth and power. Breaking out of a mutually reinforcing cycle of authoritarian rule and resource-based development is not easy though some countries are trying (like Nigeria).

Dahrendorf is right to belittle the simple-minded missionaries who try to export a crude package of market fundamentalism and US-style democracy. Their graveyard is in Iraq. But he is wrong to underestimate the remarkable spread of both successful capitalist development and more democratic styles of government, and their interconnection.
Bibliography


Recommended Reading

Toqueville, A.D. (2001) Democracy in America (Signet Classics)
What are the connections and conflicts between democracy and capitalism? Are they intertwined or should they be seen as separate forces? How should we regard the relationship between capitalism and democracy in an age of globalisation?

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