

In response to anti-establishment insurgencies from right and left, we have seen a sharpening of the debate on the clash of capitalism and democracy.

For Stephen Moore, co-founder of the Club for Growth and economic adviser to Donald Trump, "[capitalism is a lot more important than democracy](#)." In the eyes of another Trump backer, the Silicon Valley billionaire [Peter Thiel](#), the compatibility between freedom and democracy expired long ago. The 1920s was "the last decade in American history during which one could be genuinely optimistic about politics." Since then, "the vast increase in welfare beneficiaries and the extension of the franchise to women—two constituencies that are notoriously tough for libertarians—have rendered the notion of 'capitalist democracy' an oxymoron."

Essentially the same instinct—to defend capitalism against democracy—has also guided liberal elites in their defence of the established order against populist assault. For them, the upsurges of right and left in the US and UK, and the Brexit vote too, appear as monsters unleashed by an excess of democracy. The language of the "mob," of the "[ignorant masses](#)," has come out of the shadows. Democracy should no longer be trusted. It panders to the *demos*, a group that Plato had long ago shown to be fickle, irrational and paranoid, easily weaponised by demagogues.

The empirical flaw in these arguments is obvious. In reality, as [Astra Taylor](#) observes in respect of the United States, "our political system is far less democratic than it was a generation ago. Over the past 40 years, we've seen unions crushed, welfare gutted, higher education defunded, prisons packed to overflowing, voting rights curbed, and the rich made steadily richer while wages stagnated." Protests and populist political movements, she adds, "are signs that people have been locked out of structures of governance, not that they have successfully 'hijacked' the system."

These excerpts from the ongoing debate exemplify a broader phenomenon: the revival of the thesis on the incompatibility of capitalism and democracy. This notion was widely held in the interwar period, including by Karl Polanyi, as I discuss in detail in a chapter of *Reconstructing Polanyi*. (The other chapter topics are listed below.)

Polanyi's thinking on democracy and capitalism developed within a particular conjuncture, the interwar era. Prior to the twentieth century, democracy had been mistrusted by elites. It would give power to the poor and ignorant, enabling them to get their horny hands on the levers of government and rip apart the carefully tended hedges that partition the social order by class and rank. By Polanyi's day, democracy was making a breakthrough across Europe, under pressure from labour movements. But in the 1920s its further progress was, as he saw it, "prevented by the class structure of society due to the capitalist system." The expansion of the market system had summoned "widespread reactions and helped to create a strong popular demand for political influence of the masses," but "the use of the power so

gained was greatly restricted by the nature of the market mechanism." The result, Polanyi argued, was an impasse. Workers, armed with trade unions and political representation, defended themselves against the depredations of the market by electing parties to parliament that "continuously interfered with the working of the market mechanism." This prevented market forces from functioning properly, and their beneficiaries, above all "the captains of industry," reacted by seeking either to subordinate democracy to their interests or to abolish it. The incompatibility of democracy and capitalism, in Polanyi's judgment, lay behind the interwar crisis: Great Depression, fascism, war and all.

This sort of analysis was common currency on the left at the time. Socialists took it for granted that a conflict existed between capitalism and democracy. But with hindsight we can see that the conditions that sustained their view were quite specific: the simultaneous advance of parliamentary democratic government and the ascendance of social-democratic parties which placed their faith in the incremental extension of democracy into the social and economic spheres. The same conditions that favoured the institutionalisation of formal liberal democracy would also, it appeared at the time, support the progress of radical, social democracy. The political mobilisation of subordinate classes nourished reformist political movements and social democratic parties; these tended to favour egalitarian policies, which, in turn, enabled wider layers to participate in the political process, contributing to a further deepening of democracy. This virtuous circle fostered the illusion that a historical law was at work that would probably, even inevitably, propel society toward socialism. If in the 1930s these ideas were sorely tested, in other respects they gained renewed credence from the evidence of capitalism's dysfunctionality and decline.

Over subsequent decades, all these conditions were overturned. Liberal states fought a war 'for democracy,' and although it was followed by major social upheavals, no fundamental ideological challenge to managerial control emerged as had occurred after the previous war. There followed a cold war that pitted liberal-democratic powers against their communist enemies. For all the reforms of Roosevelt, Attlee and their confrères, they left intact the entrenched power of business elites whose systemic goal remained the accumulation of capital. In this conjuncture the belief that democracy is *impossible without* capitalism became a commonplace. Capitalism re-stabilised and entered a period of unprecedented growth, with welfare expansion and steady income growth. Democracy, it appeared to social democrats, was being successfully operationalised to tame capitalism.

Whereas in its interwar heyday the 'capitalism vs democracy' thesis had functioned simultaneously as an explanatory social-scientific tool and as a rallying cry for a political current (left social democracy), when the conditions of its emergence dissolved away, it too faded from the scene.

On the whole, the conditions of the post-war boom were not conducive to reflections on the incompatibility between capitalism and democracy. On the left, the more typical subject was the tensions and strains among society's institutional subsystems. Here, the classic text was Jürgen Habermas' *Legitimation Crisis* of 1973. Habermas was interested in the new grammar of crisis attendant upon the expanded role of states. States found themselves equipped to engineer a "class compromise": to smooth the volatility of the business cycle and to mediate

between capital's interest in maximising exchange value and "the generalizable interests, oriented to use values, of various population groups." In truth, talk of 'class compromise' and the overcoming of the contradictions of capitalism crises was exaggerated. The power of business elites remained intact, the contradictions erupted again shortly soon after publication of *Legitimation Crisis*, and the elites responded to the contradictions by pressing for rafts of reforms that later became known as neoliberalism. The neoliberal ascendancy witnessed, simultaneously, the roll-back of social-democratic gains in Europe, the elevation of the thesis on the correspondence of markets and democracy into imperial doctrine under Reagan and Clinton, and the 'second wave' of democratisation across southern and eastern Europe and South America.

For social democrats, the confluence of democratisation and neoliberalisation appeared paradoxical. They had traditionally assumed, not without reason, that the same conditions that promoted formal democracy—in particular, a shift in the balance of power to favour subordinate classes—would also advance the cause of social and economic equality. Instead, the 1980s saw the global spread of formal democracy alongside strong tendencies *away* from economic democracy. Hopes in a virtuous social-democratic circle faded. In its place, a vicious circle arose: inegalitarian policies marginalised and demobilised the poor, and cowed labour movements. Moral panics over the threat of excluded groups were deployed to justify the erosion of civil rights. All of this contributed to a widespread unease, and to a sense that the universalisation of democracy was accompanied by its trivialisation.

The trivialisation of democracy in neoliberal times served as backdrop to the temporary eclipse of the 'democracy vs capitalism' thesis. But more recently we have seen its most brilliant reinvention, by German sociologist Wolfgang Streeck. In a raft of articles and books, Streeck sketched out an original theory of *capitalist-democratic* crisis. This was reminiscent of the social democracy of Polanyi's day, not only in its sophistication but in its argument that contradictions between capitalism and democracy (in Streeck's phrase, "the highly limited compatibility of capitalism with democracy") have spawned a concatenation of crisis tendencies that seems set to bring capitalism to its knees.

Fittingly perhaps, in that he studied at the Goethe University in Frankfurt when Habermas taught there, Streeck theorises capitalist crisis as a combined product of economic destabilisation and political delegitimation. But whereas Habermas, writing at the end of an étatiste era, accentuated the ability of states to determine social relations, Streeck's eye is on the limits of political engineering. Capitalism possesses a "specific directionality": markets possess a tendency to expand. Like incoming waves around a sandcastle, they circumvent whatever institutional structures have been erected to keep them in check. In addition, Frankfurt School theorists erred in their depiction of capitalism as "a technocratic wealth-producing machine." It is better apprehended as "a site of class struggle from above, with highly class-conscious and profit-conscious capitalists."

Like Polanyi, Streeck interprets capitalist economic crises as investment strikes undertaken by owners of productive resources in response to the penetration of democratic politics "into their exclusive domain" and other restrictions upon their ability to exploit their market power to the utmost. He has applied this analysis to the Great Recession and the ensuing

uprush in public debt: these manifest “the ongoing, inherently conflictual transformation of the social formation we call ‘democratic capitalism.’” By democratic capitalism he refers to “a political economy ruled by two conflicting principles, or regimes, of resource allocation: one operating according to marginal productivity, ... and the other based on social need or entitlement, as certified by the collective choices of democratic politics.” Thus understood, democracy is “a regime which, in the name of its citizens, deploys public authority to modify the distribution of economic goods resulting from market forces.”

Under a democratic-capitalist regime, governments should, in theory, align these principles, but in practice they tend to “neglect one in favour of the other, until they are punished by the consequences: governments that fail to attend to democratic claims for protection and redistribution risk losing their majority, while those that disregard the claims for compensation from the owners of productive resources, as expressed in the language of marginal productivity, cause economic dysfunctions that will become increasingly unsustainable and thereby also undermine political support.” Exemplifying the latter was wage growth and welfare expansion during the *trente glorieuses*, which provoked a crisis of capital’s confidence. This culminated in the 1970s in a reluctance to invest and a growing “discontent on the part of ‘capital’ with democracy and its associated obligations.” The “normal condition of democratic capitalism” resumed—a condition governed by “an endemic conflict between capitalist markets and democratic politics.” Capital’s *revanche* took the form of neoliberalism, centred on securing greater protection of the market economy from democratic interference. This assuaged the owners of capital but at the cost of renewed legitimisation crisis—for the legitimacy of postwar democratic capitalism had come to rest on the premise “that states had a capacity to intervene in markets and correct their outcomes in the interest of citizens” and that they would act to extend some of the benefits of capitalism to those without capital, ensuring “steady growth, sound money and a modicum of social equity.”

The rise of the neoliberal regime, in Streeck’s analysis, led to, or at least exacerbated, three processes of degeneration. One was of the public sphere. As corporatist and social-democratic traditions of collective will formation found themselves subordinated to the logic of market choice, politics became individualised and “de-contextualized.” The public sphere was beset by corrosive tendencies, communities fissured and fragmented, and political acts came to resemble “acts of consumption, or of hedonistic individual utility maximization.” A second, operative primarily in richer countries, was the secular decline in the rate of economic growth and its replacement by “illusions of growth.” Here too, the process commenced in the 1970s. The need for states to simultaneously shrink (as demanded by capital) and to maintain legitimacy, responding to the interests of voters whose expectations were governed by victories notched during the long postwar, could not be squared. Processes of displacement resulted—in a sense, to “buy time”—from “the inflation of the 1970s, through the public debt of the 1980s, to the private debt of the 1990s and early 2000s.” The Great Recession revealed these strategies to have been at best short-term fixes, at worst, dangerous illusions. Thirdly and relatedly, globalisation and neoliberalism weakened the demos and strengthened the power of markets. “Since investor confidence is more important now than voter confidence, the ongoing takeover of power by the confidants of

capital is seen by centre left and right alike not as a problem, but as the solution.” This last process, Streeck shows, is exemplified in the European Union, which graphically illustrates the impasse that democratic capitalism has reached. His prognosis is further decay. “Disorganized capitalism is disorganizing not only itself but its opposition as well, depriving it of the capacity either to defeat capitalism or to rescue it. For capitalism to end, then, it must provide for its own destruction” – a process that is ubiquitously visible today.

In short, the early-twentieth century social-democratic thesis of ‘capitalism versus democracy’ has been reinvented by Streeck, but with a difference. The reinvention consists in his conception of capitalism and democracy as intertwined but rivalrous systems and his forecast of capitalism’s self-destruction. The difference is that Streeck possesses little, if any, faith in the forward march of democratisation or the inevitable dawning of socialism.

Streeck’s analysis is original and refined, but it faces two difficulties. One consists in the presumption that democratic-capitalist society is governed by two regimes of resource allocation, one of which is determined by profitability and marginal productivity, the other by social need, protection and redistribution. The latter regime is sustained by a particular mechanism: where political parties fail to attend to popular social demands they risk losing power. But even if we allow that such a mechanism exists, it is powerfully overdetermined by the other regime. For example, during the *trente glorieuses* when profits were buoyant, political parties of whatever stripe were able to preside over welfare expansion. During the leaner years since the 1970s, the opposite applies.

The other difficulty concerns Streeck’s ambiguous use of ‘democracy.’ Take for instance the claim that capitalist crisis is occasioned by owners of productive resources undertaking an investment strike “in response to the penetration of democratic politics.” If this refers loosely to organised pressure ‘from below,’ is ‘democracy’ anything other than a euphemism for ‘the lower orders,’ with ‘democracy versus capitalism’ a stand-in for class struggle? Or does it refer strictly to jurisdictions with liberal-democratic political systems? If so, why do economic crisis dynamics in democratic and non-democratic capitalist societies so plainly resemble one another? Consider Streeck’s claim that soaring public indebtedness following the Great Recession “reflected the fact that no democratic state dared to impose on its society another economic crisis of the dimension of the Great Depression of the 1930s,” and that this attested to political power being “deployed to make future resources available for securing present social peace.” This purported demonstration of the ‘capitalism vs democracy’ thesis applies equally to capitalist non-democracies – for example, China.

Although polemically potent, and not without heuristic purchase, the ‘capitalism vs democracy’ formula becomes problematic if it entails the assumption that capitalism and democracy exist as separate systems. This assumption is, understandably, widely held. It parallels the institutional separation of economy and polity, which is itself, ultimately, an institutional effect of capitalist relations – an argument I consider at greater length in ***Reconstructing Karl Polanyi: Excavation and Critique***

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