

GT 64 A: Democracy 1

Theme: DEMOCRACY AND THE ECONOMY

Topic: Democracy and Capitalism in the Developing

World: Compatible or Conflictive.

Democracy and capitalism have been seen as the panacea for the political development in the 21st century. However the form of democracy that is most widely called for is the liberal democracy. Embedded in the liberal democratic theory are the notions of equality and freedom. As a political theory liberal democracy is mostly conducive to the capitalist economic theory. With the existence of capitalism at the heart of the liberal democratic theory the achievement of freedom falls in the face of dire inequalities both in the political and economic sphere. For the developing world this situation is all too familiar, since for the most part they face the dilemma of achieving economic and political development at the

same time. Therefore in the developing countries democracy and capitalism exist in more conflict than compatibility and therefore reflect the need for a higher level of political development.

The liberal democratic theory embraces the following freedoms:

- electoral competition
- freedom of belief, expression, organization and demonstration
- protection from political terror and unjustified imprisonment
- a rule of law under which all citizens are treated equally and due process is secure
- political independence and neutrality of political institutions to maintain checks and balance
- an open pluralistic civil society
- control of the military

(Diamond. 2003)

Sartori further provides a breakdown of this liberal democratic theory. Liberalism deals with the protection of individual freedoms, as

mentioned above, while democracy deals with equality. Together they promote not just political equality, but also social and economic equality (1987: 386-7). Therefore, the freedoms being promulgated by the liberal democratic theory makes it attractive and thereby seemingly compatible with capitalism.

Capitalism promotes a predominantly market driven competitive economy in which individual or corporate private owners of the major means of production and distribution are free of state intervention to dispose of their holdings of profits accrued (Cunningham 2002:46). So in a capitalist society the markets coordinate and control the economic decisions. The main goal of the economic entities within these societies is economic gain in the form of wages, profits, interest and rent. The management skills are also guided by self interest incentives (Dahl 1998: 166 – 172). So from a theoretical perspective liberal democracy and capitalism appear quite compatible based on the notion of freedom, since capitalism provides the economic conditions necessary for the allocation and distribution of the freedoms of the liberal democratic state.

Gabriel A. Almond provides interesting perspectives on the relationship between capitalism and democracy. He states that while democracy *fosters* capitalism and capitalism *supports* democracy, democracy *subverts* capitalism and capitalism *subverts* democracy (1991: 467–472).

Historically, liberal democracy in all its present manifestations developed in post industrial societies that had maintained *substantive* levels of economic development. So the relationship between economic development and political development is *sequential*: *first* growth then democracy (Sirowy and Inkeles).

The capitalist system correlates with democracy in respect of the *freedom* they both promote and provides the economic conditions necessary *for* political development. In this way capitalism *supports* democracy as it makes *resources* available to the hands of those who are able to allocate and *distribute* them (Almond 1991: 468 – 469). On this same note, it can be said that democracy *fosters* capitalism. In light of the *fact* that through the activities of the market *inequalities result* in the allocation and *distribution of resources*,

democracy through the welfare system allows for a decrease in the inequalities. Inevitably for this condition to remain possible there has to be significant levels of economic growth to meet the demands of those who may not be able to respond positively to the activities of the market.

For economic growth to occur the conditions must exist where people are free to acquire and distribute their resources within the market (Goodel and Powellson 1982). The liberal democratic state can determine the survival and vitality of these conditions, given the open competition and predictability for which the political system allows. Within the liberal democratic state the political system is so organized that citizens can have safeguards against government interference and benefit from the extension and protection of civil liberties and basic freedoms. These will invariably generate the type of security necessary to encourage citizens to work, save and invest (Claude 1976). This also acts to release and foster the energies necessary to initiate change, entrepreneurial ventures and economic development.

However, one will also see that while liberal democracy may be compatible with capitalism for the purposes of economic growth and development from a theoretical standpoint, in practice they conflict for they are not able to fulfill the type of political and economic development that people need. The democracy that people chooses is highly dependent on their historical and present circumstances, but ultimately it will be one that affords both freedom and equality so that the needs of most, if not all, within the society will be met.

Berger commented that all democracies are capitalist, no democracies are socialist, but many capitalist societies are not democratic. The reasons for the first case have been alluded to earlier, that capitalism provides the economic conditions suitable for political development. The reasons for the second case are that market socialism offered only a limited form of democracy. There would be economic democracy within, but not between enterprises, where market competition would still apply. It promised enfranchisement for the employed and excluded those who were outside of the paid/employed population. It was not able to exercise

democratic control over the entire economy only over the micro-economic sector. Also market socialism required extensive state intervention which is contrary to the democratic principle of freedom to all, both market and state (Pierson 1977) |

One may argue that many capitalist societies are not democratic, because democratic governments tend to incapacitate market interests through its various regulations related to tax, buying and selling of products, labor rights and management strategies (Almond 1991: 468 – 472). In other words the indecisiveness that exists in the outplay of politics where government officials shift allegiances among policies for reasons based on political expediency serves as a detriment to the flexibility that the market interests may want to exercise.

An issue of dire interest to the discussion on the relationship between democracy and capitalism, however, is that of “all democracies being capitalist”. The Freedom House Report for 2003 shows that within Western Europe and the Anglophone states are all democracies; in Latin America and the Caribbean of the 33 countries

29 are democracies; in South America 11 out of 12 countries are democracies; in Eastern and Central Europe and the Baltic States 14 out of 15 countries are democracies; in the former Soviet Union 5 out of 12 countries are democracies, in East , Southeast and South Asia of the 26 countries 12 are democracies; in the Pacific Islands 10 out of 11 countries are democracies; in the Sub Saharan Africa 20 out 28 countries are democracies; in North and East Africa 2 out of 19 countries are democracies; and the predominantly Muslim countries 8 out of 41 countries are democracies. These figures account for 63% of the world states, which means that 63% of the world's states are capitalist.

Interestingly, while it has been argued that capitalism precipitates economic development and thereby create the conditions necessary for political and social development, the 2002 Human Development Report shows that between 1975 to 2000 the purchasing power parity (PPP) in Sub – Saharan Africa dropped to 1/14th of that in OECD countries, and the worst – off Sub – Saharan countries have incomes 1/40th less that those in OECD countries. In Latin America

and the Caribbean the average per capital income fell to 1/3rd of that in OECD countries and in the Arab States it fell to 1/5th (see Appendix 1). It should be noted that these regions mentioned above, that is, Sub – Saharan Africa, Latin America and the Caribbean, as well as the Arab States comprise a significant part of the developing world. The Report also shows that the share of the world living in extreme poverty fell from 29% in 1990 to 23% in 1999 (see Appendix 2), with Sub- Saharan Africa being the world poorest region.

It is apparent that the level of inequality worldwide is a cause for concern. Almond asserts that capitalism, through its reliance on and the dominance of large corporation produces a defective and impaired form of democracy.

This is as result of the fact that since the market is a social construct it will inevitably serve the needs and interest of the capitalists. Large corporations are money making machine; legally sanctioned entity whose only guiding value is greed; and whose only purpose is to generate wealth for its limited liability owners. These corporations pose a threat to developing democracies. Democratic governments

are sometimes forced to obey the demands of the capitalist market because they need the economic investments. In this case, the market influences the extent to which the democratic government is able to provide political and civil liberties to its citizens. Capitalism therefore, transforms democracy into a product and only those who can pay most will get the most out of democracy. This delineates from the true essence of liberal democracy, which is that of freedom and equality.

In the 2002 Human Development Report evidence shows that for the most part, public spending is biased towards the interest of the elites even in critical areas, such as, basic health and education (see Appendix 1) (HDR, 2003) . Also study in over 50 countries show that countries with higher income disparities have lower tax revenues and government spending than countries with evenly distributed incomes (Przeworski 1993). Brazil and the Russian Federation have some of the world's widest income disparities, for many Latin American countries disparities in income and education rose in the 1990's after another experiment with democracy. Likewise in the former Soviet

Union, Central and Eastern Europe and the Baltic's income inequalities increased drastically (HDR, 2002:60).

Max Weber conducted a study on the bureaucracy. He found that within the capitalist society there exists an elitist class. These are the leaders of public sector organizations and the modern economy. In their activities they produce larger, complex and numerous organizations, which in turn create more bureaucracy and not democracy. This bureaucracy creates layers of organization between leaders and the people and a new class of technocrats and bureaucrats.

The latter inadvertently becomes the new holders of power demonstrated through expertise, agenda setting, managing routines, and administering rules. They in turn widen the gap between the leaders and the people and with the resources of their organizations (wealth, information and influence) create a new source of power for the elites and disempowerment for the unfortunate masses (Buddan, 2003).

The brand of democracy being enforced by these groups is hazardous to developing countries. The current social policies of

mega corporations, such as NAFTA, the W.T.O, the World Bank and the United Nations seemingly unintentional, serve to restrict functioning democracies. In order to protect the interest of the wealthy nations, like the OECD they lock developing democracies into treaty arrangements that provide transnational corporations with the power to restrict the arena of democratic politics and allow them to manipulate the market. This can be seen in the relations between the United States and Haiti in the 1990s, in an attempt to alleviate the growing disaster that called forth the United States hostility and military coup the first democratic government followed the recommendation of the USAID- World Bank to create an economy based on assembly plants and agro export over land cultivation for local food consumption. Local rice production supplied most of the countries domestic needs, however with the new reforms this decreased to 50%. In 2002 the USAID withheld aid to ensure that the cement and flour mills were privatized for the benefit of wealthy Haitians and foreign investors (Haitian "Civil Society," according to the orders that accompanied the restoration of democracy), while

barring expenditures for health and education. Agribusiness receives ample funding, but no resources are made available for peasant agriculture and handcrafts, which provide the income of the overwhelming majority of the population. Foreign-owned assembly plants that employ workers (mostly women) at well below subsistence pay under inhumane working conditions benefit from cheap electricity, subsidized by the generous supervisor. But for the Haitian poor – the general population – there can be no subsidies for electricity, fuel, water or food; these are prohibited by IMF rules on the principled grounds that they constitute “price control.”

By such methods, the most impoverished country in the hemisphere has been turned into a leading purchaser of U.S. – produced rice, enriching publicly- subsidizing U.S. enterprises. Those fortunate enough to have received a good Western education can doubtless explain that the benefits will trickle down to Haitian peasants and slum dwellers – ultimately (Chomsky 2002).

Therefore, transnational corporation’s forces government to make trade – offs so that there will be investment into the local economies.

These “trade – offs” come in the form of inducements and sometimes covered up human rights violations. Many companies tend to withdraw from countries when they are not able to have their way. In 2002 a study was conducted by NAFTA in response to complaints made by telecommunications workers on illegal labor practices by Sprint in Mexico. However, about ½ of union organizing efforts were disrupted by employer threats to transfer production abroad (Chomsky 2002). Governments are more often than not deterred in their decision – making as they do not want the outflow of revenue. Inevitably this will only act to inflame social division and erode the capacity of the government quickly and effectively.

Held confirms this is in Prospects for Democracy:

Democracy protects the unjustified power and the unmerited wealth of the private owners of capital and excludes the majority from effective decision – making (1993:54).

In 1999 Gallup International’s Millennium Survey asked more than 50,000 people in 60 countries if their country was governed by the will of the people. Less than 1/3 of the respondents said yes, and only

1 in 10 said that their government responded to the will of the people (HDR 2002).

The consequence of this is that allocation of national income will be more likely biased toward consumption and away from saving, since governments fall victim to the numerous claims for shares of national resources and become preoccupied with issues of distribution (expansion of government, benefits and welfare policies rather than accumulation. It is difficult for democratic government to tolerate the degree of restraint in consumption necessary for maximizing the rate of growth in a developing economy (Nelson 1987). There is always a struggle to fulfill the needs of the people on the one hand, and the desperation to acquire the means to fulfill these needs from the leading elites on the other. When this happens there will be terms and conditions, unfortunately the government may have to compromise to protect the interests of the capitalist if the former needs favour in the form of investments from the latter.

Ultimately the question of compatibility is determined by what is being merged (Buddan 2003). While one may argue that liberal

democracy and capitalism are compatible, it is apparent that the latter cannot provide the social and economic conditions sufficient for political development. The welfare system in developed countries, such as the United States and Western Europe manages to mask the inequalities that exist in the system. Interestingly, the levels of growth in these states may be insufficient to meet the future demands of the citizens in the societies (Cunningham 2002).

Inequalities are exposed in developing countries because they are less liberal, since the market is inefficient in redistributing the wealth and the government must intervene in the affairs of the market to maintain its position in the political arena.

Evidently, the argument about compatibility is redundant and when one looks clearly at the global picture capitalism exists in conflict both in the developed and developing world, but condition of inequalities is more pronounced in the latter. The capitalism that is being promoted is a parasitic one, which is not only dangerous to development, but also saps the social capital that democracy needs

to develop, and ultimately tackle the problems of inequality worldwide.

For liberal democracy to achieve both freedom and equality for the people in which it represents it must transform itself into a social democracy that is geared toward human development, and capitalism must transpose itself into a social market theory that ensures non – exploitation of the masses by the capitalist elites and encourage economic growth to permit some increment for the expansion of the public services (Pierson 1977. Nations must become aware of the fact that while liberal democracy and capitalism may be seen as the panacea for the 21st century these concepts are not sufficient to provide the framework for democracy and development in terms of freedom and equality. Therefore, there exist the need for a higher level of democracy that emphasizes freedom and equality not only in the political realm, but also in the social and economic realm.

In the 2002 Human Development Report a number of recommendations were made to deepen democracy. It is believed that governance for human development have to extend beyond

creating and maintaining effective political institutions as this will allow human development to focus on more than raising income . In Latin America high income inequality and poverty coexist, and social capital is minimal. This has resulted in a growing distrust in democracy and a greater willingness to accept authoritarian rule and the violation of human rights. This emphasis on human development represents a challenge to capitalism to transform itself into a human philosophy geared towards equity and not just profitability. Research has shown that while democracy is more likely to survive when the economy grows and is vulnerable to bad economic performance ultimately democracy is its own legitimizing instrument and more dependent on other factors both cultural and social (Huntington 1987). This can be seen in the examples of Costa Rica, Jordan, Mozambique, Senegal and India which have shown that poverty is not a deterrent to democracy, and have expanded people's freedom and participation even more significantly than more economically advanced countries (HDR 2002:5). This emphasizes the importance of political culture. Pye in his study of Asian political culture found that political culture is remarkably durable and persistent and as such

affects governmental structure and performance, because of its rootedness both in distinctive national histories and the personalities of individuals; that the latter are primarily shaped by powerful early socialization experiences in infancy and childhood; and that political culture is essentially causally prior, that "cultural variations are decisive in determining the course of development (Diamond 1994:9)."

Also democracy should not be imported, but must be built by the people. This sheds light on the need for a democratic culture, since promoting democratic politics means expanding capabilities, such as, education to enable people to play a more effective role in politics and promoting civil society groups and other formal institutions to help democracy to serve its purpose of providing freedom and equality for all (HDR 2002:4-9). The development of democratic values will have greater efficacy where citizens can feel that they are able to make a difference. They will become more active rather than passive, participatory rather than apathetic, questioning rather than obedient, take direct responsibility for the affairs of the society, form

their own associations and eventually create social capital (Buddan 2003). In 2000 there were more than 37,000 non-governmental organizations and other civil society groups – nearly one fifth of them formed in the 1990's. Most developing countries have seen an even sharper increase in the number of domestic NGO's and non profits: in 1996 India had more than 1 million non profits, and Brazil had 210,000.

More than \$7 billion in aid to developing countries now flows through international NGO's, reflecting and supporting a dramatic expansion in the scope and nature of NGO activities (HDR 2002:5).

Tied to this is the need for independent and plural media that will be free from state control and from corporate and political pressure. This will further create opportunities for people to exercise their right to free speech, assembly and information. The media allowed for transparency in the 2000 Ghanaian elections and prevented any attempt to rig voting, bringing credibility to the announced results (HDR 2002:6-7).

People must be empowered to influence the decisions that affect them nationally and globally. In 2001 a global health fund was

launched to address an imbalance in health research. Malaria, for example, kills 1 million people a year, nearly all of them in the poorest countries. More and more developing nations are able to protest for their various freedoms. Under a strict capitalist system this would have been hazardous for the survival of investments within the country. The level of pluralism which is emerging today has been largely aided by new forms of collaboration between governments and civil society groups both locally and internationally. The argument for human development position the debate on democracy and capitalism into oblivion, as the democratic deficit which exists in the interplay of the market and the state creates inequalities that are detrimental to the survival of developing countries in the global arena. There are decreasing levels of national investment in the social programmes, such as education and healthcare and if these issues are not addressed then the millennium goals to eradicate world poverty by 2015 and also to demolish the

system where the rich gets richer and the poor gets poorer will not be realized. The debate was on whether democracy and capitalism were compatible, as indicated for developing countries in particular they exist in great conflict. Globally there needs to be a shift in focus from making democracy and capitalism work to promoting human development both in the political and economic sphere.

BIBLIOGRAPHY

Almond, Gabriel A. (1991). *Capitalism and Democracy*. Stanford: Stanford University Press

Claude, Richard (1976). *Comparative Human Rights*. Baltimore: The John Hopkins University Press

Diamond, Larry ed. (1994) *Political Culture and Democracy in Developing Countries*, London: Lynne Rienner Publishers

Huntington, Samuel P. and Myron Weiner (1987) *Understanding Political Development: An Analytic Study*, Boston: Little London

Gastil, Raymond ed. (1982) *Freedom in the World: Political Rights and Civil Liberties*, New York: Freedom House

Putnam, Robert (1993), *Making Democracy Work: Civic Traditions in Modern Italy*, Princeton: Princeton University Press.

GT 64 A: DEMOCRACY 1
Democracy and Capitalism
99 -012908

Satori, Giovanni (1987) *The Theory of Democracy Revisted*, Catham, NJ: Catham
Publishers.

<http://www.hoover.stanford.edu/publications/digest/003/diamond.html>

<http://www.asahi-net.or-jp/~zj5-gtt/sa80313.htm>.

<http://www.cyberjournal.org./cj/ikm/ND/sep96.fatefuldance.shtml>

<http://www.4essays.com/essays/CAPITALI.htm>