



Democracy and capitalism: The price of interconnectedness in the age of globalization

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Abstract

Over several millennia, democracy has undergone the influence of time and cultures, and has been recognized as both an effective and dysfunctional system. Given the influence of such factors, this paper discusses the relationship between capitalist development and democracy, and their essential categorical structure. What is the relationship between democracy and capitalism? Could democracy be possible in a capitalist society? How does the capitalist mode of production influence democratic values and institutions? Changes in the system of capitalism, associated primarily with globalization, have led to a divergence of democracy and justice, and, as a result, they questioned the ability of capitalist principles to bring various benefits to people. Governments are often disarmed in front of multinational corporations and the balance of power between them is far from ideal.

Keywords

Democracy; capitalism; inequality; dysfunctionality; Piketty

There are many empirical studies and theoretical models that consider the challenges of democracy, which leads to an increased complexity in integrating heterogeneous theories to analyze the issue. The problems of democracy are studied from different points of view and the ways to overcome these problems are approached in various scientific disciplines: political science, sociology, economics etc. The common feature of

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these studies is their compliance with the key conditions and guidelines for the functioning of democracy. Accordingly, the proper functioning of democracy is considered to rely on a complex relationship between democracy and capitalism. Some modern researchers call the relations benevolent, others – crisis. Let's try to better understand this connection.

Capitalism is a socio-economic formation on the definition of which there are centuries-old disputes. Society of capital (with its associated market economy, mass culture, psychology of consumption) can be defined as a free market, thus signaling the triumph of inviolable private property and property stratification to support the definition of Marx or Rand (Rand, 2011).

We assume that capitalism (from the Latin *capitalis* – the main, basic, fundamental) is the socio-economic organization of the industrial society. Capitalism has been continuously developed in Modern times from the 18^h to the 19th century, spreading out from Western Europe and North America, USA to many other countries. The main features of capitalism are: private ownership of the means of production, the domination of commodity-money relations, the possibility of buying and selling at free market prices, the division of labor, the ability of the capitalist to increase capital, appropriating profits by converting labor into goods, and the exploitation of hired workers by capitalists. The problem of capitalism derives from the last feature and it functions as the main driver of a struggle between the main social classes.

In human history, capitalism certainly played a positive role by improving the welfare of people, by stimulating scientific and technological progress, and by increasing productivity. Still, the ideology that supports the extraction of the maximum profit in the consumer society poses a change in the system of social values, thus contributing to the alienation of the individual. This ideology poses the problem of excessive production, in which the use of natural resources accelerates the process of depletion, amplifies the risk of environmental disaster and increases the differentiation of income. All these effects have led people embrace critical attitudes towards capitalism.

The criticism of modern capitalism has been very influential from the beginning of the 21st century, and especially since the financial crisis of 2008-2009. This economic crisis revealed the vulnerabilities of capitalism, amplified the dependence of people on the state and drew attention to the increasing level of inequality. The resulting inequality in per capita income is reaching its limit: “US income inequality has reached a point where there are concerns that it could hurt the economy” (Crouch, 2016, p.9). Russian and foreign researchers note the increasing problems of capitalism, which relate primarily to the functioning of capitalism as an economic system and point out the need for its transformation. The challenges of our time influenced the development of capitalism and certainly gave it a number of new features.

In an interview about the main problems of capitalism given to the “Economic sociology” Journal, Carroll said that we live in a world of a completely new situation, in a world which has no precedent in history due to its new capitalist mode of production: “Of course, capital flows, bankers and other key agents of capitalism, coordinating events on a global scale, have existed for a long time. But compared to earlier history, this is a

qualitative transition to something else that is much more, how to say, transnationalized” (Carroll, 2013, p.20).

The economic factor of national development is becoming geopolitical, which in turn creates a situation of monopolization of the economy by more economically stable countries, as well as by transnational companies. The last, in turn, affects not only production and economy, but also other aspects of society. The processes of monopolization in the world community have grown systematically and become one of the features of capitalism.

The modern world system based on a “capitalist world-economy” created the following situation: for the first time in the history of mankind the economy functions on a coagulated and inter-related system. But this achievement actually caused the crisis of capitalism. The contradictions of this system extend to various spheres, but Wallerstein highlights the economic domain with the “dual role of the agent of capital accumulation” (Wallerstein, 2001, p.115) and politics where “the oppressed are becoming more and more capable and ready for rebellion” (Wallerstein, 2001, p.115). In this case, the collapse of the modern system in the end is inevitable, and we must be ready for the formation of a qualitatively new system, which can be both progressive and regressive. According to the above-cited author, the first scenario “largely depends on how the two subordinates of the ‘crisis’ – ‘crisis of social movements’ and ‘crisis of sciences’ – will be resolved” (Wallerstein, 2001, p. 119).

In the light of such remarks, we can argue that, in this age of globalization and monopolization, inter-discipline is both the forefront of theoretical research and a practical solution to many issues and problems. Researchers approach the problems of capitalism in terms of financial development, surplus production and ecology, technical progress, decreased number of jobs, social inequality and uneven distribution of income.

Economic sciences acquire new facets by exploring the possibility of a new theory of rationality, ethics, utilitarianism, growth, economic democracy and globalization. Therefore, we can say with confidence that the problems of capitalism are related to the growing infusion of social and political aspects in the economic sphere. This process is connected to the creation of a conditionally called ‘post-economic system’, which in turn acts on the role played by capitalism in society.

Despite the existence of a wide range of studies that approach the problems of capitalist formation and work, researchers seem to agree that capitalism is inseparable from the social and political life. From the end of the 19th century, many claims were made that government “should play a more important role in ensuring the welfare and protection of the population and to develop the infrastructure of a modern economy and society” (Crouch, 2016, p.47). However, some perspectives are based on the assumption that capitalism is not simply obliged to interact with the state, and sometimes triumph over it. Still, when capitalism identifies with the state, it becomes the state (Braudel, 1993, p.63).

Let's move on to the relationship between democracy and capitalism. First of all, it is considered that these “two phenomena are incompatible: democracy seeks an equal distribution of political power (‘one person – one vote’), while capitalism operates on the

principle of ‘survival of the fittest’” (Khakimov, 2008, p.1). At the same time, democracy and capitalism are similar. Both allow citizens to freely choose, displace the government and engage in business. Moreover, both value the independence of authorities, self-regulation, and address the issue of inequality. Consequentially, democracy and capitalism put emphasis on the value of freedom. For the normal functioning of both democracy and capitalism, social freedom is necessary, because it forms the basis for development and it is a condition for diversity, both at a political level and at an economic one.

Some modern researchers call the relationship between democracy and capitalism positive, others crisis. Tognato believes that “a cultural sociology of the economy understands the relationship between capitalism and democracy in modern society in terms of the symbolic linkage of the economic sphere to the sacred center of society whereby the identity of society is coded” (Tognato, 2017, p.132). And then the links between democracy and economy not only contribute to the improvement of functional indicators in the economic sphere, but also help to transfer the economy and its institutions to the center, to root them in a collective identity and to make them more stable as a result of their cultural revival. Merkel in his interview for the issue “Democratic Theory”, devoted to the crisis of democracy, called insufficiently regulated capitalism as the creator of the crisis, which leads to the loss of representative democracies of their democratic content (Gagnon & Chou, 2014 p.4). For Schumpeter, the main danger to the functioning of capitalism is neither represented by low growth rates, inefficiency and high unemployment, nor by the process of rationalization and depersonalization of the family, free enterprise, private property etc. According to him, the danger to capitalism is related to the “deterioration” of large bureaucratic institutions created by democracy.

Inequality feeds discontent in society, resulting in distrust of democratic institutions.

“Half a century ago, a tiny upper-class group of wealthy Americans (0.1% of the population) controlled 7% of the wealth in the world's largest economy. And now-already 20%. Overall, in the United States, Europe, and China, which account for two-thirds of the global economy, 10% of the population owns 70% of all assets. Almost all the change went into the pockets of the middle class, which makes up 40% of the inhabitants of these countries” (Kalmykov, 2019).

The relationship between democracy and capitalism is not fundamentally new; the processes of democratization and the development of capitalism have accompanied each other throughout history. History shows that “periods of successful functioning of market economies lead to an increase in the requirements of democratization” (Harper, 2015, p.206). The richer the country, the more opportunities to create and maintain a stable democracy. However, capitalism has never been harmonious to democracy. There are significant differences inherent in their fundamental conception of society. For example, democracy provides citizens with equal political rights, regardless of gender, race, status. Capitalism also holds that rights should not depend on gender and race, but they are directly dependent on status and income. Another differentiation between capitalism and democracy is that the main actors in political decision making are accountable in democracy, but not in capitalism.

Still, Tocqueville considered that “when you start to consider the origins of the phenomena, it seems that the aristocracy is naturally born in the bowels of democracy itself” (Tocqueville, 1992, p.407). Indeed, if we consider the phenomenon of democratic revolution in society, we can draw a logical conclusion that its main task is to improve the living standards of the population, by means of industry and trade. This process brings innovation and produces the sustainable growth of large-scale industry led by newly-emerged form of aristocracy, which in turn is one of the most brutal aristocracy: “It is in this direction that the friends of democracy must constantly turn their wary eyes, for if the stable privileges and power of the aristocracy are ever again destined to subdue the world, it can be predicted that they will enter through this door” (Tocqueville, 1992, p.408). In other words, the main problem is the involvement of the aristocratic, financial elite, in the management of the state.

Heffe points out to the interdependence of social spheres. Education, science, art and health depend on the prosperity of the economy, but the economy itself depends on legal and political frameworks. Politics, for example, is dependent on tax revenues, and hence on the prosperity and development of the economy and market economy, that is capitalism. The interrelationship of social spheres is multifaceted, and it requires from democracy the art of fine governance. Democracy “is promising if it is able to ensure the prosperity of the economy and the judiciary, education, science and culture, medicine and technology, as well as many other areas of public life” (Heffe, 2015, p.61).

In this context, how do democracy and market economy complement each other? In order for the market to function properly and reach a new level of achievement, it needs credibility. As a rule, democracy relies also on a philosophy of the public good (Heffe, 2015). Therefore, only democracy contributes equally to the maintenance of the common good, freedom, equality and security of citizens: “The absence of democracy in economic life undermines democracy in all other areas” (Swift, 2014, p.76).

By considering the three levels of politicization and economization, Heffe comes to the conclusion that a new critical socio-historical hypothesis appears at the third level of economization. This is related to the emergence of a “network society” in which personal connections are important and “economics takes over politics or supplants it” (Heffe, 2015, p.92). Heffe cites in this context the concept of “supercapitalism” which was proposed by Reich to define a situation in which there is no “conspiracy of capitalists against employees”, but there are “both sides, entrepreneurs and ordinary citizens who help undermine democracy” (Heffe, 2015, p.93). In a situation of growing competition, consumers are looking for products at better prices, and various investment funds stimulate entrepreneurs to gain benefits and increase profits: “and since in this ‘game’ all parties send out representatives of their interests, parliamentarians are attacked by legions of lobbyists who seize political power in more or less subtle ways” (Heffe, 2015, p.93).

Some modern researchers associate the “game” of making a profit with the relations between liberal democracy and capitalism. Accordingly, Macferson discusses the freedoms of liberal democracy: the freedom could mean “the freedom of the stronger to deceive the weaker, following the rules of the market; or it can mean the real

freedom of all to use and develop their abilities” (Macpherson, 2011). This consideration supports the historical dependence of the political system on the capitalist economy. By taking into account the model of protectionist democracy, Macpherson analyzes the concepts of Bentham and Mill used to interpret how the issue of property qualification affects the policy of the country. Citizens are deprived of the right to vote on the basis of gender and age, as well as on the basis of property qualification. As a result, approximately 15% of the population will have the right to vote. However, such a model of liberal democracy worked successfully, the person was perceived “as he is, as he was made by the market society, and considered it, not amenable to change” (Heffe, 2015, p.69). Indeed, the model was imbued with the spirit of the capitalist market and its influence can be seen in subsequent models of democracy development. In today's world, the market forms a person, and therefore the market view continues to dominate, by equating “liberal” with “capitalist”. Therefore, liberals generally claim that capitalism and democracy need each other.

According to Muller, democracy and capitalism are systemically similar:

“Both systems rely more on the individual than on the collective; both encourage independence from the authorities in one way or another, and function best when the authorities are severely restricted in their actions; both enable free enterprise or remove the government if it has not lived up to expectations; both give people complete freedom to pursue their goals, which usually leads to significant inequality and a certain kind of chaotic (non-violent) that some find unpleasant. Finally, both systems are based on the fundamental (and even majestic) belief that people are quite capable of independently determining their interests and realizing them.” (Muller, 2006, p.200)

Despite this, capitalism and democracy are sufficiently independent of each other and can exist separately, with democracy and capitalism playing different roles. On the one hand, democracy benefits when it is associated with economic stability and capitalist prosperity. After all, the democratic idea has become “synonymous with economic prosperity” (Muller, 2006, p.200). On the other hand, capitalism also benefits from being associated with freedom and human rights.

To sum up the perspective on the relationship between capitalism and democracy, Muller believes that democracy protects owners from expropriation, guarantees competent legal assistance, promotes the greatest transparency of business, is better able to neutralize those groups of the population that can harm the economy, provides a rapid change of leaders, and at the same time democracy is recognized as the most stable system, which cannot but affect the stable development of the economy.

According to Crouch, the construction of the institutions of modern social policy, “made life easier for people in the harsh conditions of the market” (Crouch, 2016, p.103). On the contrary, the market created an impetus for the development of modern social policy instruments that were more relevant for workers. However, this situation does not solve the actual problems of the labor market, and neoliberalism seriously attacks the institutions of protection of workers. In the era of globalization, the probability of market disruption increases, as well as the destruction of labor law, trade unions and the welfare

state itself. The welfare state itself is an attempt to create a balance between democracy and capitalism, to smooth out “the most serious inequalities and to prevent corporations from oppressing ordinary citizens” (Swift, 2014, p.95).

At the end of the 21st century, it appeared that social policy may not take into account income inequality and the uneven distribution of economic capital still occupies a leading position among the problems of capitalism. The most acute challenge of the capitalist world in our time is inequality and the freedom to accumulate unlimited economic resources: “A prerequisite for a healthier democracy is the adoption of a strategy that will address economic (and therefore political) inequality” (Swift, 2014, p.76). Economic inequality leads to political inequality, and, consequently, democratic opportunities are limited by the gap between the rich and the poor, creating the following situation: “all are equal, but some are more equal than others” (Swift, 2014, p.91).

Russian researcher Kapustin, unlike other authors, does not equate democracy with capitalism, but he believes that they are “stuck together” on the way of their development. This adhesion “is due solely to the resistance of the masses to the forms of oppression and exploitation that capitalism carried with it” (Kapustin, 2012, p.37). As a result, under the conditions of democracy, capitalism has created a new social formation, which has a number of socio-economic problems. Capitalism controls the processes in this qualitatively new society. This “can be traced from the struggle for the spread of suffrage to the poor and working classes, which most strongly opposed, taking the example of England, from the advanced ‘Manchester’ bourgeoisie of the 21st century to the formation and prosperity of the social state after the Second World War” (Kapustin, 2012, p.37). Democracy is the price that capitalism pays for its existence, functioning and preservation. However, we will leave unanswered the question of what are the consequences of this relationship.

Certainly, capitalism has now taken a very stable position throughout the world, and there is a consensus that capitalism is inseparable from the social and political life of society, with which it is obliged to interact, and sometimes triumph over it by identifying itself with the state. Democracy and capitalism have similar features in terms of values and principles. Sometimes they are kept apart, but often they develop in parallel, since each of them creates favorable conditions for the development of the other. In reality, both democracy and capitalism are recognized as currently the most appropriate systems in politics and economy. We acknowledge that they are far from perfect and theorists recognize their shortcomings which still are less precarious compared to other economic and political systems. However, capitalism poses one of the greatest challenges of our time: capitalism is a diver of economic inequality, which generates social inequality and can endanger democracy itself. Similarly, other changes in the system of capitalism lead to a separation between democracy and justice, and as a result to its dysfunctionality, it might endanger the ability to bring various benefits to the people. If business authorities can stop this economic polarization, the West will have a chance to solve the problems through dialogue and protect the current model of social order from destructive conflicts.

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