Chapter 2

Capitalism and Democracy

Abstract
Since the inception of the discipline, the complex relationship between capitalism and democracy has been at the vanguard of political economy debates. This chapter unpacks these two key concepts and shines a light on the many complementarities and frictions between them. While democracy is based on the principle of equality (one person, one vote), capitalism allocates resources (if only ideally) based on ability, skill, merit, and productivity. We explore the interactions between capitalism and democracy and the tensions that these conflicting logics beget. To this end, this chapter reviews and conceptualises optimistic and pessimistic views on the questions if capitalism and democracy can ultimately coexist. We close the chapter with a discussion of democratic backsliding.

Capitalism, democracy, equality and inequality

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Few topics epitomise the study of political economy more aptly than its preoccupation with the tensions between capitalism and democracy. In the broadest definition of the field, political economy navigates and draws connections between the realms of the economy, politics, and society at large. Where the logic of capitalism with its relentless drive for accumulation, profits, and efficiency is married to the guiding principles of democratic rule, redistribution, and equality, fundamental contradictions can never be far away. Since the inception of modern political economy in the days of Karl Marx and Max Weber, over two devastating world wars, deep financial crises, the sharp re-emergence of unemployment and economic inequality, and the permanent threat of demagogic forces riding waves of public unrest, political economy has, at its core, been characterised by heated debates over the possibility of capitalism and democracy coexisting.

Think of democracy as a system in which decisions are made by the people that will be affected by them. While broad, this notion carries, builds on, and furthers political equality. Depending on the analytical perspective, democracy is either understood positively as the free and fair expression of the collective will of a defined group of citizens – ‘populist democracy’ (Schumpeter 1950) – or, as the protection of individuals (and, above all, minorities), from state tyranny – ‘liberal constitutionalism’ (Chomsky 2007). Whichever way you look at it, the cast-iron principle of democracy rests on the idea that *political* rights ought to be allocated equally according to the simple rule of ‘one person – one vote’. Where this principle is violated, democracy is in trouble.

Capitalism seems to work in a very different, almost opposite way. Capitalism comprises the organisation of the bulk of economic activity via the legal institutions of private property, contract, and money, and driven by the profit motive of individuals and firms (Friedman 1962). Its guiding logic rests on the idea that *economic* rights ought to be allocated unequally, not according to fundamental principles of equality, but instead – though often mainly in theory – following ability, skill, and merit. Even though these principles come in shades and are subject to the dominance of competing ideas of equality across different societies, no political talk show debating the issues of taxation, redistribution, unemployment benefits, public finances and debt, or the pension age will do without a conservative economist reminding their audience that incentives are key to economic efficiency, and that incentives usually require a healthy degree of inequality and hardship to produce innovation and a workforce to make goods and deliver services.

In this chapter, we explore the meaning of these two fundamental political-economy concepts of democracy and capitalism and analyse their complicated relationship. We provide a framework towards a structured analysis of the different views on the dominance of capitalism over democracy and vice versa, depending on the scepticism about or the belief in the efficiency of market forces. We will then rely on these insights to discuss if and how the contradictions between democracy and capitalism might evolve.

2.1. Democratic capitalism: Symbiotic twins or an estranged marriage?

In democratic countries, the economy and the polity represent the two main problem-solving mechanisms that societies can draw on (Almond 1991). What unites them is a common idea of equality and status. In a democracy, every citizen has, with few exceptions, the right to a vote in public affairs, and the right to voice their opinion within the boundaries of the law. In a capitalist economy, every citizen has the right to buy what they need and sell what they own (Wolf 2023). Functioning economies rely on free markets, because only the freedom of choice can generate the information and protect the incentives that markets need to flourish and remain dynamic architectures. And functioning economies rely on the democratic principles which provide people with the formal freedom to act as self-interested, self-determined producers and consumers. Without the other, ‘Democracy inclines towards toxic populism, just as Plato warned, [and] capitalism inclines towards self-serving oligarchy, just as Marx predicted’ (Runciman 2023).

This emphasis on individual freedom from both sides of the relation prompted theories that explored the directionality of the relationship between them in more detail. In *Capitalism, Socialism, and Democracy* (1950: 125-27), for instance, Joseph Schumpeter set out the central thesis that capitalism breeds democracy: ‘All the features and achievements of modern civilization’, including ‘modern democracy and egalitarian democratic reform, are, directly or indirectly, the products of the capitalist process’. Schumpeter proposed this directionality because in the emerging Western democracies of his time, the capitalist bourgeoisie of industrialists and traders emerged as the proponents of democracy and social inclusion. The bourgeoisie realised that democratic principles were, to a limited but important extent, instrumental in supporting the struggles of a rising middle class against the aristocratic rulers of the preceding feudal, landholding era (Elliot 1994: 282). Likewise, the idea was that democracy could initially only flourish if society had plural power centres – a principle championed by the idea of a free market without conglomerates. The highly concentrated economy that we know today seemed irreconcilable at the time with free democratic competition.

The twentieth century was in many ways a formative era for the relationship between capitalism and democracy, not least because the planned socialist alternative put the merits of the market to a decisive test. By that time, capitalism had already gone through ground-breaking evolutions as the rise of welfare states and other forms of state-led intervention had begun to structure markets into a more equitable shape. But comparisons and contrasts between different types of economies – the economic prowess of the socialist East and the capitalist West, of Maoist China and the Asian Tigers, of North and South Korea, of the United States and the Soviet Union, and of Eastern and Western Germany – proved very compelling. So compelling, in fact, that they ignited sparks of transformation in countries like Russia, with Gorbachev’s ‘perestroika’, and Deng Xiaoping’s promotion of ‘reform and opening up’ in China. Markets, involving free competition among independent, self-determined participants, seemed best underpinned by a political system that guaranteed these basic rights and freedoms (Gourevitch 1993). Based on that idea, the West quickly expanded trade relations with authoritarian regimes in an effort to induce political change. '*Wandel durch Handel*' ('change through trade'), originally championed by the German government but picked up by many Western allies, became the *leitmotiv* of global integration politics of the late twentieth century, reinforcing the general sentiment among global realists that a functioning market economy and a democratic polity could not survive without each other in the long run.

Upon closer inspection, however, democracy and capitalism may share a more estranged relation than the glory days of global liberalism suggest. Those more critical of capitalism have frequently pointed out that under democratic capitalism, governments are constantly faced with the challenge of satisfying demands for public services, prosperity and redistribution that are often incompatible with the outcomes of unfettered markets. This became clear during the late 1960s and 1970s, when rising public deficits, later also growing private debt, and staggering inflation rates constrained governments' room for manoeuvre. Against the background of this radically changed macroeconomic environment, the happy marriage of democratic capitalism sometimes looked more like a short-lived love affair. In fact, democratic politics and capitalist markets often ended up in fundamental conflict to one another; this tension could only, and probably only temporarily, be solved through economic growth and redistribution (Streeck 2011) – conditions that only seemed present during the Golden Age of capitalism, the *trente glorieuses* as the French labelled them, between 1946 and 1975 (Fourastié 1979; Shonfield 1965; Judt 2005; Eichengreen 2007).

Against the current backdrop of heightened macroeconomic uncertainty, political and economic instability, rising inequality, and perma-crisis, some Marxist scholars have made the point that democratic capitalism rests on two fundamentally conflicting logics of resource allocation: one based on the principle of marginal productivity where the free play of market forces determines the degree of *merit*; and another, revolving around the idea of *entitlement* where the degree of social need is determined through democratic politics, deliberation and negotiation. Under democratic capitalism, governments either play by the rules of both logics, or face the consequences of giving preference to one over the other. Ignoring the redistributive demands of their constituencies will likely end in punishment at the ballot box, while failing to play by the rulebook of marginal productivity and merit might create economic distortions and backlash from powerful elites, hamper economic growth and investment, and thus, again, undermine electoral support (Streeck 2011: 3). Whichever way they play the game, in other words governments seem to be caught in a nasty dilemma. Fortunately, political economy provides us with some useful heuristics to make sense of how this complex relationship could be dealt with.

2.2. The myth of free markets: How do capitalism and democracy interact?

You will have noticed by now that simple black and white thinking – though at times a useful analytical method to make complicated things appear more understandable – will rarely get us to understanding the many complex relationships that govern the political economy. This is no less true for the role of the state in the economy.

Much of the debate around the relationship between capitalism, democracy, and equality starts from the crude assumption that democratic institutions pursue equality through intervention by the state in markets, at the expense of economic freedom. From this perspective, inequality and economic efficiency produce a trade-off, and we could make normative arguments about a desired or optimal mix of the two. On one very end of this spectrum, ultra-liberal views would even posit that all it needed for capitalism to thrive was a shoemaker and a baker exchanging their goods and services (Nozick 1974; Smith 1776 [2021]).

But could you imagine a free market economy without a state? What would that look like? Diego Gambetta, an Italian sociologist, set out to answer this question drawing on confessions of eight Sicilian Mafiosi (Gambetta 1996). Markets require some form of guarantees of safe conduct to facilitate commercial exchange – a function usually provided by the state. Where democratic governance is weak and trust is in short supply, however, other actors rise to the occasion. Gambetta portrays the Mafia as a decentralised industrial conglomerate whose business model, if you will, lies in promoting and selling protection. No doubt, protection is an imperfect substitute for trust. But when trust is lacking, both consumers and producers usually benefit from having certain safeguards in place. Contrary to the common assumption, that the Mafia's business philosophy mainly involves extortion and coercion (forcing protection on 'customers' to evade harm inflicted by the 'protector'), it turns out that the Mafia's services are often actively and rationally requested and willingly paid for by producers and/or consumers. Privately provided protection cannot perfectly substitute for a lack of (democratic) state capacity. After all, the Mafia is not well known as a champion of free competition: it punishes those that do not willingly seek their services, and it considers violence an appropriate means of production. But the example of the Mafia suggests very strongly that a free-market economy cannot exist without the enforcement of some basic rules, whoever ultimately provides this service.

Instead of examining state activity in purely *quantitative* terms by asking *how much* a government intervenes in markets, we should consider the *quality* (or the nature) of state activity (Polanyi 1944 [2001]; Block 2005). For instance, when the Industrial Revolution led to the radical commodification of workers and resulted in serious hardship, and sometimes in social upheaval, institutions like the modern welfare state were created to protect the people from the most serious market disruptions. Importantly, these responses could be quite different, ranging from a social-democratically driven workers' movement in the Scandinavian countries, to Social Catholicism in Northern Europe, or the primacy of markets in liberal countries (Esping-Andersen 1990). How can we make sense of these varieties of interactions between capitalism and democracy?

Classical political economists proposed two ways to make sense of this important question. A Marxist version considers the state a repressive instrument that is used by economic elites to stabilise capitalism despite the hardship it creates for the working class. Marx considered this sort of ‘fake’ democracy a necessary stage before a ‘true’, worker-driven democracy could replace capitalism once and for all. The opposing view harks back to Max Weber and suggests that capitalism and democracy are linked by strong functional ties in the form of ‘elective affinities’ (*Wahlverwandtschaften*). Since capitalism survived the 1929 financial crash, the Great Depression, and the atrocities of the two World Wars, the Marxist view of democracy overthrowing capitalism faded. Clearly, capitalism was able to adapt and adjust to even the greatest challenges, and workers had too many, often cross-cutting identities that precluded a once and for all majority over well-organised capitalist forces. The Weberian view of a close functional link simply states that there was no hard causality between democracy and capitalism but that a strong empirical correlation existed, and that capitalism probably did better in democratic states while democracy thrived under free markets.

While insightful at a grander level, ultimately, these debates proved somewhat futile: too many factors seemed to condition the emergence and evolution of capitalist democracy. The grand theoretical narratives eventually appeared too sterile, not least because neither democracy nor capitalism are stable enough as systems and static enough as concepts. The discussion therefore slowly turned elsewhere: What is the range of possible relations between democratic government and free markets, and how do different schools of thought understand those differences?

2.3 The many shades of democratic capitalism

In their course on *Capitalism and Democracy*, our colleagues David Woodruff and Jonathan Hopkin from the London School of Economics and Political Science use an instructive framework to cut through a plethora of views on the question if capitalism and democracy can naturally co-exist. They boil down this large political economy debate to two overarching factors: Does market scepticism prevail over pro-market views, or vice versa? And is the relationship between capitalism and democracy conceived as reinforcing or undermining? This leaves us with four possible outcomes to organise a very broad academic debate (see Fig. 2.1).

Figure 2.1. The relation between capitalism and democracy: A framework

<Figure 2 here>

Source: Authors' figure; based on teaching material by David Woodruff (LSE). Reproduced with his kind permission.

We start with the *optimistic Left* in the NW quadrant of Table 2.1. While generally sceptical toward the market, there are really two left-leaning perspectives on the relation between democracy and capitalism. 'Optimistic' views hold that democracy has the power to tame, or even improve, capitalism. This idea of a benign, complementary relationship goes back to Enlightenment thinkers like Montesquieu, the Marquis de Condorcet, and others who stressed the 'civilizing' effects of capitalistic commerce on the behaviour and peaceful coexistence of people (Hirschman 1986). Pluralist scholars took this view as a starting point to draw causal connections between a state's rule of law and the constitution of its market economy. For instance, Robert Dahl (1990: 80) argued that

> 'it looks to be the case that market-oriented economies are necessary (in the logical sense) to democratic institutions, though they are certainly not sufficient. And it looks to be the case that state-owned centrally directed economic orders are strictly associated with authoritarian regimes, though authoritarianism definitely does not require them. We have something very much like an historical experiment, so it would appear, that leaves these conclusions in no great doubt.'

Statistical evidence lends some support to this view. For instance, 'social mobilisation' studies found strong, positive statistical associations between gross domestic incomes per capita and the quality of democratic political institutions (Lerner 1958; Deutsch 1961; Lipset 1959), because the basic logics of capitalism and democracy are mutually reinforcing. While markets structure humans' rationale for interaction and productive cooperation, the democratic polity provides the legal framework within which this interaction can take place. Class interaction thus became a positive-sum game: Workers buy what capitalists sell and both rely on the other for a healthy economy to thrive (Berger 1986).

This deal, which came to be known as the 'postwar settlement' between capital and labour (Lange et al. 1982; Gourevitch et al. 1984; Streeck 2011), required both sides to make some important concessions. The organised working class had to accept capitalist markets and property rights as the basic means of organising market exchange, despite the inequalities that relatively free markets might produce. In return, the capitalist class had to agree to basic tax-funded social security, including mass health provision and education, and steadily rising wages to protect workers from the calamities of the market economy. This compromise gave rise to the expansion of the modern welfare state, 'included a right of workers to free collective bargaining through independent trade unions' (Streeck 2011), and, for a brief time at least, even came with guaranteed (full) employment. Part and parcel of this process was investment in education, a key form of redistribution, which promoted human capital and economic growth (Lindert 2003).

This 'left optimism' view quite naturally requires a high degree of state involvement in the economy – in regulation, taxes, and social spending. This was justified because modern capitalism suffered from a fundamental problem: Since workers' wages will logically always only constitute a share of the total value produced by firms, workers will never be able to consume all the goods produced in an economy. This leaves a demand (or consumption) gap. Of course, this problem could be addressed through trade, and mercantilist countries that predominantly focus on export-led growth follow this strategy. But this solution cannot work for every country in the world at the same time. Netted out, someone must buy more than they sell. Hence Keynes, one of the fathers of this argument, made a powerful plea for government investment and spending to close the demand gap.

In sum, the Left optimism view rests on the idea that the equity-enhancing dynamics of democracy will allow capitalism to become more progressive while retaining its productive, and efficiency-enhancing tendencies. While very conscious of the inherent flaws of capitalism, it deems these flaws correctable. Robust democratic institutions and an activist state provide us with the tools to even out the inequitable outcomes that capitalism naturally tends to produce and thus help to make it sustainable.

On the same side of the political spectrum, but reaching the opposite conclusion, are the *Left-pessimists*, who see capitalism as inherently undermining the principles of democracy. From this perspective, capitalism and democracy are at best compatible for only limited periods. The key problem lies in the fact that an unequal distribution of economic resources, a hallmark of capitalism, must *ipso facto* negate the possibility of democratic equality. Karl Marx, the intellectual father of this line of thinking, argued that as long as capitalism and private property existed, the exploitation of the working classes would prevent the constitution of a democratic system worthy of its name. Only socialism based on the shoulders of an emancipated working class could bring about true democracy. Otherwise, economic elites, and the rich as a political group more broadly, would come to dominate society, powered by, among other things, the market concentration of mega corporations (Lindblom 1977; Dahl 1990). The fundamental principle of merit would drown in a rising tide of economic inequality (Sandel 2020).

At the heart of the pessimistic argument lies an endemic, and probably insurmountable, conflict between capitalism and democracy. This conflict becomes especially salient in times of low growth, when democratic governments are faced with the formidable challenge of converting ‘zero-sum into positive-sum distributional games' while lacking the economic resources to make all ends meet (Streeck 2011). In the absence of stable economic growth, the only way to solve this dilemma is the procurement of future resources for present use – and only two strategies will get you there. Either the government plays an active role as driver of final demand and borrows for consumption (the Keynesian solution discussed earlier), or private households go into debt instead to finance their consumption. But neither solution is sustainable: the state-led option creates economically unsustainable levels of public deficits and inflation, while 'privatised Keynesianism' (Crouch 2009) results in unmanageable levels of household debt that will produce financial instability and crisis.

The reply of these thinkers to the optimists is that the periods when these measures effectively alleviated the inherent conflict of democratic capitalism were also very special times: When growth was built on the back of unskilled labour (jobs that have nowadays either been exported to low-and middle-income countries or have disappeared altogether); when patriarchy dominated the economy, i.e. before the massive entry of women into the labour markets increased the heterogeneity of interests among workers and made collective organisation much more difficult; and when a devastating world war literally flattened the ground for rapid reconstruction and public investment (Runciman 2023). Absent these special (and far from desirable) conditions, the endemic conflict of democratic capitalism will be a formidable feat to overcome. In the short run, the inequities of capitalism could be alleviated by means of democratic redistribution and regulation, yet in the long run, the incompatibility of its competing logics will produce political, economic, and social conflict and instability, endangering the survival of capitalist democracy.

Conservative pro-market views (the right-hand side of Fig. 2.1) present us again with two distinct perspectives. The *right-optimists* who believe in market efficiency turn the argument of the market-sceptic optimists on its head: Democracy must not improve capitalism, but rather shield it from the perils of excessive political interventionism. In this view, democratic politics and the regulatory powers of democratic constitutionalism can serve to protect the free market of ideas, prevent rent-seeking by office-hungry civil servants, and limit short-sighted policymaking in defence of more efficient market-based resource allocation. In that sense, the constitutional aspects of democracy can (and should be constructed to) protect capitalism from populist democracy. Proponents of this view address the conservative dilemma that for capitalism to work properly, it requires a set of centrally enforced rules, by pointing out that democratic constitutions can effectively safeguard free markets and private property. For this to work, governments and political parties are mandated with the task to sell the capitalist model to the voters and engage in expectations management which will reinforce the very institutions that protect the capitalist system. In addition, economic crises can work as corrective mechanisms. Economic disturbances caused by excessive political interference are interpreted as the punishment of governments that fail to respect the autonomy and self-regulating properties of free markets. The same is true for the punishment at the hand of the markets, for instance, in the shape of rising premia on government bonds, which, if not contained, will eventually turn into punishment at the hands of the voter at the ballot box.

Iversen and Soskice (2019) add an interesting spin to this story. They argue that it is the aspirational middle classes of rich democratic nations that create a mutually beneficial relationship with capitalist markets. By funnelling public investment into research and education, by protecting the competitiveness of product markets, by securing macroeconomic discipline, and by means of redistribution through a large welfare state, political parties ensure that the middle class continues to serve as the electoral backbone that legitimises capitalist model. As a result, '[p]aradoxically, advanced capitalism thrives under democracy precisely because it cannot subvert it, and democracy thrives under capitalism because the middle classes are rewarded with education, good jobs, and upward mobility (if not for themselves, then for their children)' (Iversen & Soskice 2019).

Finally, among those who believe in the market there are *pessimists*, those who fear the very forces that their optimistic counterparts deem tameable. In their view, democracy will ultimately undermine capitalism: the dynamics of democratic politics will interfere with market incentives and economic stability. Proponents of this view are often called the neoclassical economists with Milton Friedman and Friedrich Hayek serving as their figureheads. But the basic idea (if often misappropriated) goes as far back as to Adam Smith, who famously argued that a thriving economy needed to be as free as possible from intervention. Again, that is not to say that capitalism can do without any form of political government. But because good capitalism is competitive capitalism, it requires a bare minimal scaffolding of rules and laws provided by competent (that is, hands-off) government officials. Conservative pessimists like Milton Friedman (1962) contend that redistribution and economic compensation which go beyond a bare minimum, will interfere with the price mechanism, distort markets, and create market inefficiencies, which will ultimately reduce the total welfare of society (Buchanan & Tullock 1962). Such assumptions are reinforced by ultra-rationalist theories like public choice, game theory, and positive political theory, which have employed market exchange and bargaining models to analyse how democratic decision making undermines efficient market allocation.

There is a very particular image of voters and their role in the democratic process, as well as a particular image of politicians, that underpins these deeply pessimistic views. Voters are *median voters* (Downs 1957; see also Chapter 3 in this volume): since the 'decisive' median voter is likely in the poorer half of the electorate, she will demand redistributive policies that will make her better off. As a result, the democratic process will give rise to governments that are focused on redistribution from the more to the less productive, while the state (in terms of its interference and activity) tends to grow inexorably in size (Meltzer & Richard 1978). The image of the politician complements this particular understanding of the political process as working against the efficiency of the markets. They are an 'opportunistic or myopic, in any event irresponsible, politician who caters to an economically uneducated electorate by fiddling with otherwise efficient markets and thereby preventing them from achieving equilibrium' (Streeck 2011). The implications of such views, thought to their end, are indeed quite dangerous for the legitimacy and stability of democratic institutions overall.

2.4 Real existing democratic capitalism in action

This framework helps us to think about two related sets of central political economy questions. The first one is, why do different countries follow different approaches to the question of democratic capitalism, and what are the policies that complement their positions; to what extent can politicians derive policies from each of the competing views? As highlighted in our introduction, the first question is a central one in this book. We will address it in chapter 5 on institutions, and when we discuss the welfare state and the role of elections and voting.

In the remainder of this chapter, we therefore want to focus on the second question: what explains countries shifting from one cell to another? This framework provides us with the conceptual background story to important political shifts in recent history that are at the core of historical political economy analysis. One such important shift concerns the evolution and trajectory of social democracy in Europe. European social democracy was founded on the 'left optimist' idea that capitalism could be meaningfully tamed through institution-building in the welfare state and through redistribution, while keeping the basic workings of capitalist market allocation intact. This optimistic stance is different from the Socialists, who never believed that capitalism and democracy could be married in the first place.

During the last three decades, however, social-democratic parties in Europe have shifted onto a much stronger pro-market path. Aggregate demand management, redistributive policies and the earlier promise of full unemployment were replaced by tight monetary and fiscal policies and activation policies that emphasised individual responsibility. One popular view, but which is not entirely uncontested, holds that this ‘third way’ strategy reflected a realignment of voter preferences. Deep-cutting structural changes in rich democracies after the crises of the 1970s weakened the blue-collar working class that had for many decades sat at the core of the social-democratic electoral coalition. The integration of women into the labour market and the transition to a so-called knowledge economy shrank the classic blue-collar working class and made coordination and mobilisation much harder. Others suggest that more complex, and more contingent developments paved the way for this turn right: the professionalisation of increasingly middle-class party cadres (Mudge 2018; Kiefel 2022); or the rise of quasi-libertarian, progressive but non-socialist ideologies (Kitschelt 1994; Beramendi et al. 2015).

Whatever the underlying reason, social-democratic parties moved from a Left-optimistic position towards the centre, which was reflected in the retrenchment of social welfare programmes. After a brief period around the 2000s when ‘third way’ social democrats won offices in many OECD countries, however, left-wing parties have struggled with continued defeats and a sharply deteriorating electoral base.

Puzzlingly, when economic crisis hit Europe, this did not lead to a shift to more left-pessimist positions, nor to a widespread revival of social democracy. Instead, it created the conditions for right-wing populist movements, which either combined an emphasis on national welfare with exclusive identity politics in many countries or are inspired by pessimistic pro-market, and often anti-democratic, views towards radical economic de-regulation, low taxation, and dramatically reduced social services.

Fig. 2.2: Number of countries experiencing autocratisation and democratisation since 1900

<Figure 2.2 here>

Source: Boese et al. (2021), p. 1206.

A shift from one quadrant in Figure 2.1 to another can, as this implies, have very real-life consequences for the constitution of political economies and their democratic systems. When we look at data on freedom and the quality of democratic institutions around the world – for example relying on the widely used *Freedom House Index* – we find that since the mid-1990s the 'civil liberties and political rights of one third of the global population have been substantially and increasingly reduced due to autocratisation' (Boese et al. 2021: 1207). Even worse, since 2010 the absolute number of countries that have moved toward autocracy has outnumbered those that are classified as democratising.

These data include countries that had previously either been on a positive track, and in some cases even countries with fully consolidated and long-standing democratic institutions that recently witnessed a political backlash, fuelled by the rise of populist leaders and the radicalisation of formerly mainstream parties (Hopkin 2020). Political scientists refer to such developments as 'democratic backsliding'. Sure-fire signs of democratic backsliding include questioning the results of free and fair elections, or their degradation altogether; restricting liberal rights such as the freedom of speech or the role of the press; undermining the rule of law, specifically the judicial branches of government; and an over-emphasis on national security, paired with scapegoating campaigns against minorities and foreigners. If we project the concept of democratic backsliding onto the framework of democratic capitalism, its threat seems greatest in the context of a move towards the 'right pessimist' corner of Figure 2.1.

But a closer look at the long-term data in Figure 2.2 reveals another interesting story. Autocratisation and democratisation at a global scale not only seem to move in waves over the course of the twentieth century (Skaaning 2020), but the strongest period of democratisation seems to have been in the early-to-mid-1990s. For proponents of the 'happy marriage' view on capitalism and democracy, this was grist on their mill, because it suggested that rapid globalisation and the spread of free markets around the globe went hand in hand with quickly improved democratic institutions. But developments since 2010, combined with apparent waves of democratisation and autocratisation, suggest that the ‘optimist view’ might be highly historically contingent. History provides us with a few examples of authoritarian forms of capitalism where free markets could thrive (at least for a while) without democratic elections: South Korea in the 1960s, large parts of Latin America in the 1970s, and perhaps also today’s Russia and China.

Taking these historical cases from around the world into account prompts us to end on a cautionary note. The relation between democracy and capitalism is often more complicated than suggested by the Panglossian story based on experiences in Europe, the US and the rich democratic West, where robust institutions could develop over decades of social conflict.

2.5 Conclusion

Political economy deals with many interesting puzzles. One of its most foundational concerns, though, lies with the complex relationship between capitalism and democracy. As we saw, democracy and capitalism seem to be governed by deeply contradictory principles: where voting rights are assigned following the principle of absolute equality (with some important exemptions), capitalism allocates resources by means of merit, productivity and efficiency (again, with some important exemptions). Yet, like an old married couple, they also cannot really live without each other. Where they live a more or less peaceful co-existence, think of the rich capitalist democracies of the common hemisphere, we might easily take them for granted. This should not ignore that their concomitant establishment required decades of social conflict, which witnessed some of the worst atrocities ever committed by humanity. Forgetting this depressive truth is a risk we cannot afford. Developments in Europe and the US in the 2020s, where the enemies of democracy seem steadily on the rise, remind us that we should never take the happy marriage of democracy and capitalism for granted. You really appreciate what you had, when it is missing.

The analysis of the relation between capitalism and democracy in this chapter closes the first part of this book, which covered the history of political economic thought, first historically and then thematically. The next three chapters will abandon these bird's eye discussions and concentrate on the raw material of political economy, the things that hold political economies as empirical phenomena together and incite change and – interests, ideas and institutions.

Figure 2.1

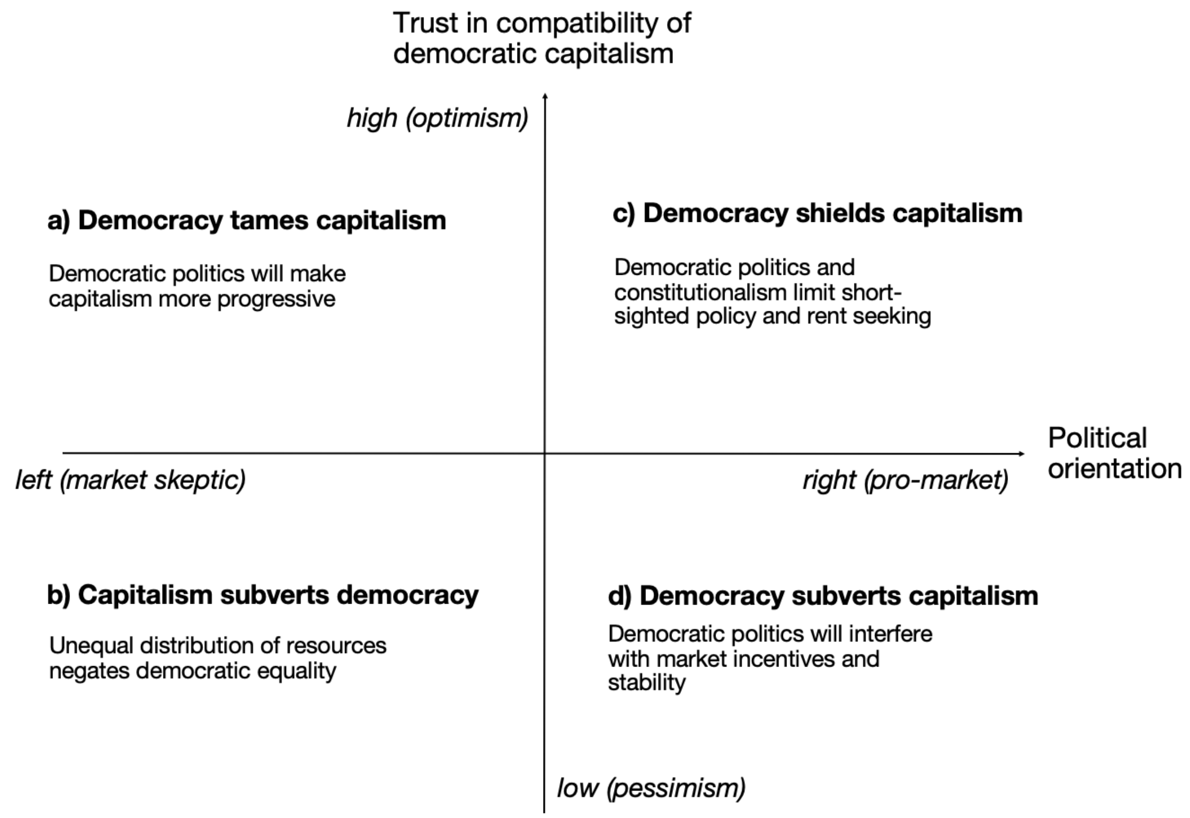

Figure 2.2