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The democratic crisis of capitalism: Reflections on political and economic modernity in Europe

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Peter Wagner*

Abstract

Are 'modern societies' necessarily democratic societies and capitalist (or: market) societies? This is what most of the social sciences of the post-Second World War period have assumed, while only some strands of critical, often Marx-inspired approaches contested this connection. This essay briefly reconsiders the link between democracy and capitalism both in theoretical and historical terms to then advance a hypothesis about the current constellation of political and economic modernity which seems to be marked by a paradox. On the one hand, both democracy, apparently spreading through 'waves of democratization', and capitalism, as the outcome of economic globalization, seem to be without alternative. On the other hand, current capitalism is highly crisis-ridden and democracy, at least in Europe, witnesses strong signs of disaffection.

In this light, the essay proposes to see the current constellation as the outcome of a democratic crisis of capitalism during the 1970s. The reasoning proceeds in five steps. First, we will reconsider theories that have assumed that there is a strong conceptual connection between democracy and capitalism. Secondly, we will briefly review the history of the relation between modern capitalism and modern democracy from their beginnings until the 1970s to refine the ideas about such conceptual link. These two steps, thirdly, will allow for an interim conclusion to understand the double crisis of the 1970s, of both capitalism and democracy, an understanding that opens the path to two observations – the fourth and fifth steps – on the current condition of global capitalism and the alleged global movement of democratisation. First, the developments of the past four decades can be seen as a transformation of capitalism in reaction to democratic demands. Extrapolating from this insight, second, one may ask whether there is not a basic tension between economic and political modernity, given the evident difficulty of keeping political citizenship connected to socio-economic citizenship.

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Modernity has often been equated with the institutional form of democratic market societies, most coherently in the sociological modernisation theory of the 1950s and 1960s and most widely by the widespread belief that political liberties are intrinsically linked with economic liberties. During the 1970s and 1980s, the assumptions about linear evolution and likely convergence of modern societies that underlie this view were widely and effectively criticized. However, the social transformations in the past two decades have led many observers back to the idea of an inescapable predominance of market organisation in the global economy, on the one hand, and of 'democratization' of politics across the world, on the other. Neo-modernisation theorists often start out from the conviction that there is no alternative to market society, or capitalism, and to democracy neither. In such view, the basic idea of linear evolution and convergence has recently acquired forceful new evidence.

A closer look does not easily or entirely refute this insight, but it does suggest that current modernity is ridden by deep tensions, with regard to both its economic and its political organization. On the one side, the spread of marketisation across numerous societies after the end of Soviet socialism as well as the emergence of a more deeply interconnected liberal-global capitalism are beyond doubt, but at the same time this capitalism is more

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crisis-ridden than its predecessors have been since the Great Depression of 1929. On the other side, the phenomenon that political scientists call 'waves of democratization' does seem to have enormous force, having now apparently reached the societies of Northern Africa and the Middle East who were considered to be unlikely candidates for democracy by many colleagues from the same discipline of political science. Alexis de Tocqueville's *Democracy in America* of the 1830s seems as topical today as Karl Marx and Friedrich Engels' *Communist Manifesto* of 1848. However, we have also witnessed disaffection with existing democracy, at least in the West, as well as a declining effective capacity for collective self-determination, as the democratic nation-state loses regulatory power when economic and cultural relations more and more frequently cross its boundaries. This declining governmental capacity is indeed sometimes seen as the main cause for citizen disaffection, a link rather strongly evident in contemporary Europe.

In this light, we need to return to, while rephrasing, some questions that have accompanied the analysis of modernity for a long time without being resolved. Towards this end, we propose the disentangling of key aspects of modernity, elsewhere called the core problématiques of modernity (Wagner 2011), to discuss anew the relation of democracy to capitalism, and the ways in which both can be considered as expressions of modernity. It seems relatively straightforward to assume that democracy is the prevalent political form of modernity, because democracy means nothing else than collective self-determination, with particular regard for the setting of the rules for the life in common. The comparative analysis of varieties of modernity, while important, can rather safely rest on this starting assumption, even though, as we will show, it needs to emphasize the range of varieties of democracy. It is somewhat less clear, though, that capitalism is necessarily the economic form of modernity. In as far as every modern self-understanding resorts to a

concept of autonomy, some authors do hold that a market economy best expresses economic modernity because it emphasizes the individual choices of the economic agents. At least two qualifications need to be added, though. First, market economy is not synonymous to capitalism. The former may be conceived as production and exchange by small individual producers, whereas the latter cannot be thought without wage-labour, thus a fundamental distinction between those who sell labour power and those who produce and sell other commodities, as all theorists of capitalism from Marx, Weber and Polanyi to currently Hall and Soskice (2000) and Boltanski and Chiapello (1999) agree. Second, the interpretation of autonomy as the freedom of the producer in a self-regulating market economy presupposes a prior separation between autonomy in economic matters and in political ones, which leaves the latter, even though its task is the setting of rules for the life in common, with nothing to say about the relation between 'states and markets', as it is often put. Historically, though, this relation was – and it still is – a matter of considerable dispute. As a consequence of these two observations, we need to state that both wage-labour capitalism and self-regulating market economy are specific and partial interpretations of economic modernity instead of being synonymous with, or identical to, the latter. And this insight opens the way to interrogating anew the relation between capitalism and democracy as a contingent one (for more detail on the general issue see Wagner 2008, ch. 6).

Why should there be a link between capitalism and democracy?

At first sight, there is no compelling reason to think that capitalism and democracy should necessarily co-exist. We know about numerous situations in history when capitalism flourished under non-democratic conditions and, though maybe more rarely in recent times, when democracy flourished under non-capitalist conditions. And indeed, the argument has been made that we refer here to two historically separate phenomena that, even though their emergence roughly coincided in time, have different origins, different underlying principles and, thus, different historical trajectories. Modern capitalism, in this view, emerges in England as the result of the Industrial Revolution (and of the related class struggle, in some interpretations), whereas modern democracy originated in France as a key item on the agenda of the French Revolution (Meiksins Wood 1999; see also Meiksins Wood 1996).

On some closer reflection, however, this view is rather implausible. In historical terms, there is too much of a coincidence between the two great revolutionary transformations to hold that, despite some spatial divergence, they are entirely disconnected. Both share an intellectual background in general Enlightenment thought that had widely spread, variations notwithstanding, across all of West and Central Europe and beyond, and specifically in the rethinking of politics, economy and society that was a key part of the Enlightenment programme. In particular, there was intense intellectual exchange between Britain, both Scotland and England, and France.

If we prematurely discarded the idea of a connection between capitalism and democracy, furthermore, we would deprive ourselves of the means to understand and analyse the current global condition of modernity. We face again a co-occurrence that, even if we may have difficulties in explaining or – for that matter – accepting it, is likely to be more than a mere coincidence. On the one hand, as stated at the outset, we witness since the 1970s that which political scientists call successive waves of democratization, adding up to what appears as an unstoppable process. And this institutional change is accompanied by a similarly inescapable discourse on human rights and democracy. From the 1980s onwards, on the other hand, we also observe the global diffusion of capitalism, to which allegedly 'there is no alternative' and which in its neo-liberal version is evermore shaping social practices.

For these reasons, it is more useful to accept the assumption that there is some link between capitalism and democracy. Paraphrasing Jürgen Habermas on a different matter, one might assume that there is some 'co-originality' of capitalism and democracy, that is, these phenomena have co-emerged historically and shown somewhat parallel developments since, but leaving open for the moment the precise nature of the connection. In a first step, we will reconsider theories that indeed have assumed that there is a strong connection, and furthermore that there is a strong conceptual reason that sustains this connection. In a second step, we will briefly review the history of the relation between modern capitalism and modern democracy from their beginnings until the 1970s to refine the ideas about such conceptual link. These two steps will allow for an interim conclusion to understand the double crisis of the 1970s, of both capitalism and democracy, an understanding that opens the path for getting a grip on the current condition of global capitalism and the alleged global movement towards democratisation.

Conceptual reflections: from determinism to structured contingency

The idea that there is a strong connection between capitalism and democracy has long existed and indeed accompanied the history of both phenomena. However, it has been held in two contrasting versions, namely the conviction that there is a natural link between capitalism and democracy, on the one hand, and the conviction that these two phenomena are naturally in tension with each other, on the other hand.

The former idea, most versions of which would indeed not refer to 'capitalism' but rather to 'market society', have their origins in the assumption that political liberalism, the normative political philosophy that supports liberal democracy, and economic liberalism, the normative theory that suggests the enhancement of the 'wealth of nations' if markets reign freely, are nothing but two sides of the same coin. Despite their specific origins in political theory, on the one hand, and political economy, on the other, the notion of such harmonious connection between political and economic institutions entered forcefully also into comprehensive social theories of 'modern society'. The most explicit version of such a theory is Talcott Parsons' view of modern society as being functionally differentiated. The organisation of markets, on the one hand, and politics and public administration, on the other, according to their own logics would lead to a performative superiority, and an increased capacity to adapt to novel circumstances, of the society that adopted such differentiation. Underlying such view is an idea of freedom as the guiding normative principle of modern societies. This wholesale adoption of this principle, and its translation into institutions, makes these societies both normatively and functionally superior to all other societies in world history.

More recently, doubt has grown about the adequacy of such theorizing even among its erstwhile supporters. In the early 1970s, concern had grown about the 'governability' of advanced democracies as a situation seemed to have been reached in which the unreserved commitment to democracy led to demands on the part of the citizenry of such a size that the economy could no longer satisfy the requests, leading to discontent and protest, on the one hand, and the economic problems that were then called 'stagflation', a co-existence of lagging growth with inflation, on the other (Crozier, Huntington and Watanabe 1975).

The opposite view that capitalism and democracy are naturally in tension with each other was held by critical theorists from Marx himself to the Frankfurt School of Theodor W. Adorno and Max Horkheimer to the neo-marxists of the 1970s. Across all variations, those theories held that a capitalist economy formed the basic structure of Western societies, whereas democracy was nothing but a 'surface phenomenon' (Adorno 1937, on Karl Mannheim). Temporary co-existence was possible, but in moments of crisis democracy would tend to be abandoned to safeguard the interests of capital. As Horkheimer famously said, who speaks about fascism cannot remain silent about capitalism. In stark contrast to liberalism, the underlying idea here is that capitalism is exploitative and alienating. Under conditions of true democracy, thus, it was likely to be overthrown by popular will – if such will could ever express itself fully.

This thinking, too, witnessed rising doubts within its own ranks – doubts that were in this case enhanced by the experience of longer time-spans during which capitalism did indeed co-exist with democracy. Starting with Antonio Gramsci's interwar reflections on the impregnation of state institutions with the logic of capitalism and thus the need for a long-stretched 'war of position' against capitalism, instead of a short 'war of movement' with quick victory,

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much of the work in this strand of theorizing was concerned with explaining the persistence of capitalism under conditions of democracy, culminating in the connection between 'welfare state and mass loyalty' (Narr and Offe 1975), that is, the observation that parts of the surplus value were distributed in the form of welfare securities in return for electoral loyalty to capitalist principles. True to its original mission, though, such thinking also needed to explore the limits of such a formula, which was found in the observation – in parallel to the idea of 'governability crisis' – that such distributive politics may have exhausted itself and that in its absence 'legitimacy problems of late capitalism' (Habermas 1973) would arise.

Both theories tend to derive necessary institutional consequences from underlying principles in far too determinist a manner. Those principles are rather open to interpretation and compatible with a variety of institutional forms. This can easily be seen by considering the historical fact that – we return to our starting observation – capitalism has co-existed for too long periods with non-democratic political conditions for the liberal theories to be easily accepted, and there has by now been too great persistence of capitalism under democratic conditions, even in times of crisis of the welfare state, for the critical theories to remain persuasive. Thus, a more nuanced analysis is required, and we will propose in the following a brief sketch of a historical sociology of democracy and capitalism in Europe as a step towards that end.¹ The question will be approached from two ends, starting with capitalism's relation to forms of democracy and moving on, in a second step, to democracy's relation to forms of capitalism.

¹ European history will be in the centre of the following observations, but this kind of analysis is extendable to a global history of democracy and capitalism, and some remarks on Latin America and South Africa will be made. A historical analysis of social transformations is required to capture the dynamics between socio-economic constellation and political form, which comparative case analysis is unlikely to grasp (see for probably the most elaborate such analysis Rueschemeyer et al. 1992)

Historical reflections: forms of democracy and capitalism up to 1970

For modern capitalism to emerge in Europe, first in Britain, at least three conditions seem to have been necessary: the granting or extension of commercial freedom that enabled or facilitated both the engagement in production or commerce by the employers and the sale of their labour-power by the workers – this is legal change often motivated by new forms of social and political thought that provided 'arguments for capitalism' (Hirschman 1977); the invention and diffusion of technology such that work increasingly came to mean the operation of machines rather than the manufacture of a product – the steam engine is the symbol of what became referred to as the Industrial Revolution; a social situation that either required or incentivated people to sell their labour-power instead of working for subsistence or creating their own employment – the enclosures in Britain are the most prominent example of the creation of such a situation. By the early nineteenth century, these conditions existed to a considerable extent in a large region of the Northwest of Europe, the region of early European capitalism. Inclusive democracy, based on the idea of popular sovereignty, though, did not exist in any part of Europe at that moment.

Between 1800 and the end of the First World War, therefore, capitalism flourished under conditions of extremely restricted democracy. Until what now appears as the 'first wave of democratization' led to universal male suffrage in numerous countries, and even to equal male and female suffrage in some, the political participation of the working class was highly limited, and female political participation even more so. European societies of the nineteenth century have often been called 'liberal' on grounds of some

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constitutional guarantees and the diffusion of a basic liberal imaginary, but they were hardly democratic.

From 1919 onwards, in contrast, fully inclusive democracies developed in highly organized form with mass parties, high political mobilization, high electoral participation and mass unionization. It is indeed striking to see how a principle that had been enunciated more than a century earlier and whose application had increasingly, but in vain, been argued for by the excluded groups of the population, was suddenly applied in numerous countries within a very short period. However, the granting of (male) universal suffrage at the end of the First World War cannot easily be seen as a step in a linear sequence of waves of democratization.² Many of these democracies were overturned – or cancelled themselves out (Karagiannis 2010) – in the rise of authoritarian, in some cases totalitarian, regimes such as in Italy, Germany and Spain, and the acquiescence with such regime forms in the run-up to and during the Second World War in Austria, Norway, Vichy France and less pronouncedly in other European countries. Thus, 'democratization' was followed quickly by a period during which democratic regimes are overthrown either in civil wars/military coups d'état or through mass parties that gained power in elections but cancelled democratic rules afterwards.

Democratic institutions were re-established mostly immediately after the Second World War. In many countries, they have remained stable since, even though military coups d'état abolished democracy in Greece (and many South American countries), and in Spain and Portugal the authoritarian governments of mid-century were long-lasting, before a new wave of democratization signalled the re-establishment of democracy from the 1970s

² The experience of war – in particular the First World War, but also the Second – is highly significant for the transformations of European societies that we discuss in this essay. Intending to elaborate a more general reasoning about the connection between capitalism and democracy, though, we neglect the consequences of these experiences for present purposes (for more detail, see Wagner 1994; Didry and Wagner 1999).

onwards. During all this period, capitalism continued to exist, with or without democracy, with the exception of the Soviet Union and, after the Second World War, the socialist countries of Eastern Europe.

For modern democracy to emerge in Europe, the specification of conditions is less straightforward than for modern capitalism. The imaginary of inclusive democracy became available, in principle, with the concept of popular sovereignty. But the ambiguity of the term 'people', which could refer either to all adult residents or to the lower classes, remained. The French Revolution was the moment when the street action of the people of Paris was connected with the expression of the popular will (Sewell 2005), but the widespread worries about the outcome of the French Revolution led almost immediately to the abandonment of such connection, to re-emerge only at the end of the First World War.

Thus, between 1800 and the late nineteenth century (in some countries later, until the 1930s), regimes with low levels of participation but strong aristocratic and oligarchic features co-exist across Europe with the liberal capitalism that emerged from the First Industrial Revolution. Enterprises are personally owned; many early capitalists are both inventors and organizers of production, and not rarely they see their relation to the workers in analogy to the father of a family in relation to children, the company being a large household. The spirit of capitalism resides in 'the bourgeois' and features the social ethic of devotion to work as a calling, as described by Werner Sombart (1920) and Max Weber (1904/5). The formation of working-class consciousness, from the 1830s onwards, challenges this interpretation, but remains a long time dominated.

Between 1890 and 1930, that is, during the period of the build-up and advent of the 'first wave of democratization', a combination of technical,

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organizational and economic changes transformed capitalism: the Second Industrial Revolution, focused on electric and chemical engineering and pioneered in the US and Germany; the 'managerial revolution' (Alfred Chandler), separating ownership from management; the emergence of 'finance capital' (Rudolf Hilferding), linking productive to financial organisations; the recognition of unions and the introduction of collective conventions; the 'scientific organisation of work' (F. W. Taylor); and finally the introduction of a new wage regime, gradually permitting workers to buy the products of their own work (Henry Ford). The sum of these changes has been described as the creation of a new accumulation regime (Aglietta 1976) of a mass-production, mass-consumption economy increasingly being referred to as Fordist capitalism. This is the capitalism to which Max Weber referred as 'modern' and as the one in which the 'spirit' of an underlying professional ethic had already escaped from the iron cage of occidental rationalism. It is, we add here, the capitalism that accompanies inclusive, organized democracy, but also the one that sees the temporary abandonment of democracy in early and mid-twentieth century Europe.

From the late 1960s onwards, the existing democratic rules were increasingly contested and placed under strain, leading to the diagnoses of 'governability crisis' and 'legitimacy crisis' alluded to above. At the same time, Fordist capitalism entered into crisis, leading to what we now know as the neo-liberal calls for de-regulation and, more critically, to the emergence of 'network capitalism' based on the 'third spirit' of capitalism (Castells 1996; Boltanski and Chiapello 1999). This transformation can be related to the diffusion of electronic information and communication technology, sometimes referred to as the Third Industrial Revolution. However, the transformation is also triggered by increasing dissatisfaction with and, possibly, decreasing performance of Fordist capitalism.

Interim conclusion: the democratic crisis of capitalism

We interrupt this brief double sketch at around 1970, because we intend to use it for the elaboration of a more nuanced set of hypotheses about the connection between capitalism and democracy, which will serve for understanding the most recent transformations of capitalism and democracy and the politico-economic constellation of the present.

First, capitalism can exist without democracy. Much of the nineteenth-century experience and the – often prolonged – periods of authoritarianism in various guises in the twentieth century demonstrate this rather clearly. However, the long co-existence of capitalism and democracy in Europe after the Second World War has tended to make us forget this historical experience and has generated the above-mentioned ideas about the necessary connection between the two phenomena. To understand the rather recent advent of democracy, it may be useful to recall two insights from the history of social and political thought that are rarely made explicit.

First, social theory and sociology were little concerned with democracy up to the early twentieth century. Scholars observed transformations of social relations that were captured by terms such as industrial society, working classes, capital and the like, but – with the notable exception of Tocqueville – seemed to have concluded with the critics of the French Revolution and the 'ruling classes' that changes in political form were undesirable and, in the critical view, unlikely to happen unless capitalism had been overthrown. This attitude has had a limiting impact on social theory that can still be felt today. This long neglect of the democratic possibilities of modernity, secondly, ended only after the arrival of extended or universal (male) suffrage. From the late nineteenth century, Italian scholars focussed in neo-Aristotelian or, as has more often been underlined, neo-Machiavellian fashion on the relation

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between the elite political class and the multitude. But only from 1919 onwards, democracy becomes a key concern of social and political thought, starting with Weber's last writings and leading to seminal works by authors such as Carl Schmitt, Joseph Schumpeter, Karl Mannheim, in the US by John Dewey, and by Antonio Gramsci – in some way also Rosa Luxemburg – among the few Marxists engaging this topic. Significantly, much of this thinking about democracy in the early twentieth century is very open and critical. Democracy is seen as a novel political form that is – or at least can be – highly problematic. It is only after the Second World War that the conviction that 'there is no alternative' to democracy becomes widespread.

Secondly, whenever capitalism exists without democracy, it will be exposed to a critique of exploitation and injustice, likely to be expressed through calls for inclusive, egalitarian democracy. If absence of democracy was characteristic of nineteenth-century capitalism, how should we understand the long dormancy of the democratic political imaginary and its breakthrough in the early twentieth century? Capitalism is a form of economic organisation that is marked by two features that are crucial for answering our question. First, it purports to solve the question of the satisfaction of human material needs – the economic problématique of modernity – by indirect means, by counting on the interest of the commodity producer in a context of production for markets. Second, it creates a distinction between a group of economic agents who decide about production and another one who are subject to the commands of the former group. These two features make it distinct from both the ancient economy, in which masters commanded slaves but production was directly oriented at satisfying needs, on the one hand, and from (market) socialism, in which everyone has a say in decisions over production, on the other. As a first consequence, a situation of lacking satisfaction of needs, given the capacity of the existing economy, becomes likely for three distinct reasons: deteriorating

living and working conditions during the rise of capitalism and exit from the preceding form of economic organization; exploitation in the sense of appropriation of the major share of production by those who command production decisions; and crises of market self-regulation that entail production below the possibilities and/or destruction of products that cannot be sold. While such a situation of dis-satisfaction, secondly, may in principle be addressed by a number of different remedies, an immediately plausible suggestion is that all those involved in, or affected by, the existing situation should participate equally in improving the situation. More briefly, if social problems persist in a context of domination and exclusion from participation, then equal collective self-determination – inclusive democracy – is a prima facie plausible and persuasive proposal for addressing these problems more satisfactorily.

Some qualified application of this reasoning, we suggest, goes rather far in explaining moves towards democracy under conditions of capitalism. This holds both for the 'original' and slow rise of democracy in nineteenth- and early twentieth-century Europe and for the end of the authoritarian regimes of the twentieth century. Similarly, one might consider the much-debated likelihood of the People's Republic of China's future move towards liberal democracy in this light, rather than applying some version of the simplistic argument of the necessary connection between market economy and democracy, between economic liberalism and political liberalism.

There is at least one further consideration to be made, though. The preceding reasoning may explain why the dominated classes call for democracy, but no reason has yet been provided why the dominating classes should yield to this demand. To some extent one may be able to count on the force of the argument – arguably there is a need for justification under conditions of modernity (see Wagner 2012, ch. 7) – but such force alone is unlikely to

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always prevail. Historically, we can recognize that the dominant class in capitalism has in two main ways been dependent on the dominated class. First, industrial mass production relied on large numbers of workers who needed to some extent to be willing to work, given that this was 'free labour', even though Frederick W. Taylor tried to dissociate will and performance at the work-place and Max Weber maintained that modern capitalism did not require motivation any longer. Strikes have historically been effective because the withdrawal of the willingness to work touches capitalism at its core. Secondly, emerging mass-consumption capitalism required workers to buy the products of their own production, which in turn necessitates effective demand in the double sense of having the means to buy and being willing to buy the commodities offered. Fordist capitalism, in brief, was the historical outcome of the combined effect of the considerations above.

Thirdly, when capitalism co-exists with inclusive democracy in bounded collectivities with strong internal social bonds, pressure on profitability can be high and lead to crises. The above reasoning, to turn it another way, suggested that the absence of inclusive democracy became a problem for nineteenth-century European capitalism and that the introduction of democracy helped easing some pressures on this form of economic organization, in terms of both increasing legitimacy and solving profitability problems – counter-acting the tendency of the rate of profit to fall, as Marx had put it, by creating a new accumulation regime. However, the new Fordist capitalism that acknowledged its need for support by the masses created for itself also a new set of problems, many of which were precisely problems with democracy.

We can distinguish two historical attempts at addressing this novel problem. First, the very introduction of inclusive democracy was fraught with fears of the dominant class about an imminent socialist revolution, based on the observation that workers' parties and trade unions were pressing beyond the

rights to formal political participation for the creation of economic and social rights that would indeed have limited the power of the dominant class. The early thinking about modern democracy, to which we alluded above, is radical and critical in underlining the risks that democracy brings for the established socio-economic arrangement because those fears were well recognized. The anti-democratic turns of the early twentieth century that often entailed the temporary cancellation of the just-inaugurated democracies were the first solution to this problem.

Second, the re-establishment of democratic political arrangements after the Second World War occurred under different auspices, to a large extent to be explained by the experience of class struggle, civil war and war that preceded it. In the most conflict-ridden countries, such as (West) Germany, for instance, most social and political groups adopt a moderate, accommodating stand towards the re-constitution of economic and political institutions, building what has become labelled a 'consociational democracy' in which rather different convictions and interests co-exist by virtue of them not being entered into the common, collective arrangements (for the term, see Lijphart 1975). In parallel, the theorizing of democracy changed form. On the one hand, democracy now became central to political thought, making post-Second World War political science being considered as 'the science of democracy'. On the other hand, much of this thinking was concerned with limiting the political passions suggesting, for instance, that a certain degree of citizens' apathy is a precondition for viable democracies (Almond and Verba 1963) or that organized representation will and should have the effect of filtering the more conflictive components of political debate so that they would not reach decision-making institutions (see Avritzer 2007 for a highly instructive account).

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Whereas the first experience suggested that democracy may be incompatible with capitalism, the second attempt was marked by the effort to demonstrate that democracy and capitalism were compatible – drawing conclusions also from the experiences of some Scandinavian countries and the United Kingdom, as well as the US, where this seemed to have been the case. By the late 1960s, however, this attempt appeared to have reached its limits.

Fourthly, the rise of what has become known as neo-liberal global capitalism can to a considerable extent be understood as the outcome of a democratic crisis of capitalism.

The decade from the late 1960s to the late 1970s witnessed a large number of apparently disconnected events that in their sum suggested that, against all prior assumptions, modernity had started to undergo a major social transformation. In brief, these events are: the students' revolt of 1968; the return of spontaneous and large-scale working-class action in 1968 and 1969; the end of the international monetary system as established in Bretton Woods; the defeat of the US armed forces in the Vietnam War; the first general recession of the so-called advanced industrial economies since the end of the Second World War in 1974/75 and the rising doubts about the effectiveness of Keynesian demand management; the rise of the Japanese economy to world-market competitiveness; the oil price crises in 1973 and 1979; the Iranian revolution in 1979; and the election of Margaret Thatcher in 1979 and Ronald Reagan in 1980 to government power in the UK and the US with neo-liberal, anti-union economic policies.

In terms of the sequence of events and action, this period can rather neatly be described as the move from the expression of a crisis through the workers' (and students') demands, the impossibility of resolving it through the established instruments such as concerted action between employers, governments and unions and Keynesianism, the deepening of the crisis through seemingly external events in East Asia and the Middle East, the

increasing reception of more radical measures such as monetarism and supply-side economics in economic-policy thinking, and finally the adoption of such measures in government policies. In more substantive terms, we witness the rise of democratic pressures on profitability, recognized also by critical scholars (Glyn and Sutcliffe 1972), because of dissatisfaction with working and living conditions, now more seen as alienating than exploitative (Boltanski and Chiapello 1999). But the outcome now was neither the creation of socialism, as hoped or feared in 1919, nor the abolition of democracy, as performed in the 1920s and 1930s, but the deflection of the critical concerns in a transformation of both capitalism and democracy.

In other words, the 'governability crisis' and the 'legitimacy problems of late capitalism' did exist, but they were resolved in a way that was rather unexpected by the early 1970s. The processes we now refer summarily to as 'economic globalization', namely neo-liberalism, de-regulation, structural adjustment, shock therapy, the terminology varying with the specific circumstances, entail a relative decoupling of capitalist practices from their national institutional embedding and, thus, an escape from the reach of democratically voiced demands. This escape means, in contrast to the first such experience, that the crisis could be addressed without – except for some cases – even temporarily abolishing democracy, but rather by transforming both democracy and capitalism.

Liberal society and citizen disaffection: capitalism and democracy after the 1970s

This novel situation is sometimes seen as beyond the reach of critique (most recently Boltanski 2009). However, even the current capitalism is not entirely

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structureless, not merely based on communication flows and ever-changing networks, as is sometimes maintained. Its former institutional framework has largely been dissolved, but it will not remain without institutional embedding to which needs for justification can be attached. Similarly, democracy may have lost or weakened its major institutional foundation, the nation-state based on popular sovereignty. The realization of the claim to collective self-determination has become much more difficult in a situation in which no evident collectivity exists that both claims such autonomy and is capable of exercising it. However, this claim has not for that reason disappeared, in contrast it may be more strongly voiced than ever – this is what the idea of 'democratization waves' is awkwardly referring to. We therefore need to review the constellation of democracy and capitalism after the most recent crisis and transformation.

If economic globalization means the relative decoupling of economic practices from the nation-state as the historical container of collective self-determination, this does not entail that these practices are entirely insulated from critique and demands, for at least three reasons: First, capitalism remains highly dependent on, and thus responsive to, the high-skill sector of the labour force (that sector from which demands of the 'third spirit' of capitalism arose, demands for autonomy and creativity). Secondly, capitalism remains dependent on large numbers of low-skilled, low-salary workers, which are now found globally, but not without repercussions such as global mobility and demands for global justice. Thirdly, such global capitalism is crisis-prone in the absence of regulatory frameworks – globally for instance in terms of uncontrolled financial flows, regionally and sectorially in terms of adjustments and relocations that generate contestation.

Recent changes in democracy, in turn, appear to have resolved the governability and/or legitimacy crisis that at first seemed unresolvable. First,

social demands were deferred either inconclusively, by reference to the absence of any alternative to obeying to the rules of the economy, or by shifts to other actors, such as the translocation to supranational or intergovernmental institution that are less exposed to legitimacy claims, such as the European Union or the International Monetary Fund. This displacement endangers any commitment to collective self-determination and is accompanied by the decline of programmatic mass parties that were expressing this commitment within the nation-state form. In turn, we see the emergence of a media-driven aggregate-preference democracy that was already long theorized by US political science.³

Secondly, current European democracies are more inclined to accept liberal-individualistic demands, from 'family policy' issues such as divorce, abortion and gay marriage to broader possibilities for individual self-realization in terms of practices of freedom of expression and communication of all kinds. While much of recent change may already appear to us as normal and self-evident, we only need to recall the climate of cultural consensus of the 1950s and 1960s with shared norms and values created and enhanced by national public cultural education and communication such as in state broadcasting and public schooling – once seen as an indispensable pre-condition for inclusive democracy. The situation, though, is noticeably different in Southern democracies, such as the South African or Brazilian one, in which

³ This observation stands in tension to the tendency, often observed, of recent political thought towards widening the understanding of democracy by emphasizing deliberation and participation over consent and representation. And indeed, this tendency emerged with the contestation of existing representative democracies from the late 1960s onwards and has not subsided since. Our diagnosis seems nevertheless valid for Europe, or for Northern democracies more broadly, given that the emphasis on participation and deliberation remained confined to academic debates and, with few exceptions, small strands within the citizenry. In turn, Southern democracies present a different picture. In numerous countries, disaffection with democracy has not taken place, and the recent advent of inclusive democracy, as in South Africa, or the return to it in Latin American countries has been accompanied by high-intensity participation and deliberation.

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the recent introduction or intensification of inclusive democracy goes along with expectations with regards to the exercise of collective self-determination.

Thirdly, this transformation of the relative emphasis on social versus individual demands is accompanied by declining rates of formal political participation and increasing dissatisfaction with government performance in Europe (Offe 2009). The latter, though, is until now rather inconsequential, leading to frequent election losses of government parties and the short-term rise of populist movements but not (yet) any major challenge to the acceptance of the democratic rules.

In short, the way in which a democratic citizenry is connected to capitalist practices can no longer be fully captured by the formula 'welfare state and mass loyalty', which applied to the 1950s and 1960s, but rather by a new formula such as 'liberal society and citizen disaffection'. The situation captured by that formula, though, is unlikely to be stable as it is highly problematic, for two distinct reasons.

On normative grounds, the abandonment of the principle of collective self-determination would transform modernity beyond recognition. Modernity is based on the commitment to both personal and collective autonomy and it requires some balance between the two. A situation in which the latter commitment becomes extremely weak does not appear to be sustainable over the medium and long run. As what may turn out to be a first example of many to come, the attempt at resolving the current financial crisis among the European states that adopted the Euro by imposing austerity policies on the, mostly Southern European, countries in budgetary difficulty has led to a socio-economically motivated mobilization not seen since at least the 1960s in Spain, Greece and some other countries. Speaking in functional terms, a savage global capitalism will enter into crises that create enormous social and

ecological damage, some of which is already obvious today. The insustainability of the lack, or weakness, of comprehensive regulatory mechanisms has persistently been argued by critics, from at least Karl Polanyi onwards, but is now highly visible. Movements for the 'self-defence of society' (Polanyi) have begun, reaching globally from the World Social Forum to Nobel Award winners in Economics, and the fact that their institutional impact has been minimal until now does not invalidate their significance given the overall constellation.

In the near and medium-term future, remedies for the crisis-proneness of the current constellation of capitalism and democracy can be found in two directions. One possibility is technocratic re-regulation performed by political (and business) elites in intergovernmental ways (as sketched and argued by Majone 1996 and Scharpf 1999). Such solutions are certainly necessary, but they are also very likely to be insufficient and they can and will meet local and regional criticism and resistance, because they will be designed in normatively problematic ways, not satisfying democratic criteria.

The other possibility, preferable but highly difficult to achieve, is the reconstitution of avenues of collective self-determination. In general, this is conceivable as either the revival of the nation-state as the political form that created the historical possibility of inclusive collective self-determination or as the recasting of this possibility in different spatial terms either larger, at regional or even global level, or smaller as the self-defence of communities widely visible in Latin America. Each of these avenues has specific problems that make it less likely or less desirable or both.

Global democracy, first, now mostly discussed under the term cosmopolitanism, seems most appropriate to a situation in which many economic practices have global extension or at least global consequences.

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However, there is extremely little historical experience of global deliberative practices so that the 'self' that is supposed to determine collectively its rules barely exists.

The revival of the national political form, secondly, is in question because of the double fact that precisely this form was found insufficient with regard to global markets and furthermore saw its democratic qualities weakened in the face of the recent transformation of capitalism, as argued above. It may be viable under two conditions, though: these nation-states need to be large polities with high levels of both production and consumption that may therefore have sufficient economic leverage to withstand impacts from the global economy. And they need to be polities of forceful and recent democratization experiences so that the above experience of citizen disaffection after losses of legitimacy does not, or only in lesser terms, apply to them. In combination of both reasons, Brazil and South Africa may be such cases – much more than the US or, until now, China, which fulfil the first but not the second criterion.

Finally, a regional reconstitution of democratic self-determination is what at least partially defines the project of European integration. The rather egalitarian federation of democratic polities to face common challenges in the present and for the future is a rare occurrence. Historically, we can point to alliances of city-states in ancient Greece or in the European middle ages, and more recently to the creation of the United States of America. In the present, however, European integration is the only case that has demonstrated significant advances in political integration and has for this reason sometimes be seen as a model for other world-regions, for which though similarly favourable conditions did not seem to exist. More significantly, the inability of Europeans to act convincingly in the face of the politico-military and financial-economic crises of the first decade of the millennium have cast

doubts even about the European prospects. As a consequence, the citizen disaffection towards national politics in Europe could in general not be counteracted by a transfer of legitimacy to European Union institutions, with the temporary exception of some member countries, such as Portugal and Greece before the current crisis or to some extent Italy, and some policy areas, such as environmental policy or gender equality.

For present purposes, this sketch of possible futures in the connection between capitalism and democracy will have to suffice. The actual future will be a combination of all these elements with a considerable likelihood of rather different avenues being pursued in different parts of the world and with a general risk of continued weakening of the democratic character of our societies.

A constitutive tension between economic and political modernity

We have started our exploration of the relation between democracy and capitalism 'symmetrically', introducing both the argument that these arrangements are naturally compatible and that they are in contradiction with each other. The experiences of the past half century seem to lean towards supporting the compatibility thesis, but we had to introduce significant concern about the quality of the kind of democracy that is compatible with capitalism. This latter step, thus, suggests that high-intensity democracy – inclusive and with high levels of deliberation and participation – does stand in a principled tension with capitalism, and maybe even with the predicament of economic modernity in general. In conclusion, we want to explore the reasons for such a concern.

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Despite the loss of its model character for creating a new viable connection between capitalism and democracy, Europe remains attractive for people in many parts of the world because of the comparatively forceful combination of work opportunities and protection from violence, persecution and poverty it offers. Legal immigration into Europe, though, has been made extremely difficult – not to say: impossible – for most people in the world, while illegal immigration under often life-threatening circumstances continues in the hope for a safe future life within Europe's boundaries. Legal and illegal immigrants are currently major contributors to the European economy, mostly in low-pay and low-qualification jobs in (often personal) services, mass-production or home industry and (often seasonal) agriculture. Many of these economic Europeans do not have European citizenship and little prospect of acquiring it for themselves (with somewhat better prospects for their children). Thus, current European modernity operates with a tightly defined and rather closed concept of political membership in democracy whereas it simultaneously entertains a flexibly open understanding of economic boundaries, schematically as follows: protecting agricultural production, demanding free-trade for industrial production, and selectively admitting labour without granting political citizenship.

Such asymmetric handling of economic and political membership constitutes a tension in the modern self-understanding. It may not be entirely without possibility of justification, but it is difficult to justify (for a discussion see the chapter on 'membership' in Walzer 1983). If we consider political modernity as at least tending towards collective self-determination based on equal participation of all its members/citizens (inclusive democracy), then a plausible secondary assumption should be that such a modern polity satisfies its material needs, that is: addresses economic matters, by drawing similarly on its citizens. Such an attitude is indeed expressed when one says that

modernity differs most strongly from non-modern settings by rejecting slavery, i.e. in my terms handling economic matters through non-citizens (Aldo Schiavone 1996 makes such an argument most forcefully).

If one looks at the history of the past two centuries, the centuries of the revival of the democratic commitment in the aftermath of the French Revolution, however, such doubly inclusive – political and economic – modernity was rather rare, maybe best represented by the Scandinavian countries between the 1950s (or even 1930s) and the 1980s. In most other circumstances, a significant part of the work for the satisfaction of material needs was performed by non-citizens: for much of the nineteenth century by non-enfranchised workers in Europe and slaves in the US or also Brazil; for the twentieth century by apartheid exclusion in South Africa; by colonial extraction in general; by imposing terms of trade by military or other means such as in the combination of British and then US imperial domination and free-trade ideology; and most recently (again) through large-scale immigration of people who are not and will not easily become citizens.

Such historical record seems to show that there is something we might call a constitutive problem of modernity, i.e. the inability of the most elaborate versions of political modernity to develop an inclusive/egalitarian – we may also say 'just' – way of dealing with economic matters. The democratic crisis of European capitalism, as discussed above, marks paradoxically both the assertion of demands for collective self-determination also with regard to economic matters and the exit from a form of modern polity, the inclusive democratic welfare state, that developed relatively high levels of both economic and political inclusion. To see whether this is a European event or signals a constitutive tension in modernity, we may need today to look beyond Europe. Brazil and South Africa have radically moved to inclusive and highly participative forms of democracy, but they struggle with

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elaborating an economic arrangement that is consistent with the political form, not least: that enhances economic inclusion and reduces social inequality.

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