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The growing tension between capitalism and democracy

By Harold Meyerson, Published: November 24

Do capitalism and democracy conflict? Does each weaken the other?

To the American ear, these questions sound bizarre. Capitalism and democracy are bound together like Siamese twins, are they not? That was our mantra during the Cold War, when it was abundantly clear that communism and democracy were incompatible. After the Cold War ended, though, things grew murkier. Recall that virtually every U.S. chief executive and every U.S. president (two Bushes and one Clinton, in particular) told us that bringing capitalism to China would democratize China.

It hasn't quite worked out that way.

Over the past year, in fact, capitalism has fairly rolled over democracy. Nowhere is this more apparent than in Europe, where financial institutions and large investors have gone to war under the banner of austerity, and governments of nations with not-very-productive or overextended economies have found that they could not satisfy those demands and still cling to power. The elected governments of Greece and Italy have been deposed; financial technocrats are now at the helm of both nations. With interest rates on Spanish bonds rising sharply in recent weeks, Spain's socialist government was unseated last weekend by a center-right party that has offered no solutions to that country's growing crisis. Now the Sarkozy government in France is threatened by rising interest rates on its bonds. It's as though the markets throughout Europe have had enough with this democratic sovereignty nonsense.

Lest you think I exaggerate, consider the interview that Alex Stubb, the minister of Europe for Finland's right-wing government, gave to the Financial Times last weekend. The six euro-zone nations with AAA credit ratings, said Stubb, should have greater say in Europe's economic affairs than the other 11 euro members. The political rights of Southern and Eastern Europe would be subordinated, essentially, to those of Germany and Scandinavia — or to credit rating agencies, which are threatening to downgrade France (thereby reducing the number of decision-making euro nations from six to five).

What Stubb is proposing, and what the markets are doing, is, in essence, extending to the realm of once-equally-sovereign nations the one-dollar-one-vote principle that our Supreme Court enshrined in its *Citizens United* decision last year. The requirement that one must own property to vote — abolished in this nation in the early 1800s by the Jacksonian Democrats — has been resurrected by powerful financial institutions and their political allies. To the nations of the European currency union, the "property" they need to secure their right to vote is a proper credit rating.

Yet this all seems very strange. The idea that there's a conflict between our economic and political systems is hard to accept, and not just in the United States. In Europe, too, it has been assumed that democracy and capitalism (at least, European social capitalism) go together. That's largely because both systems thrived in apparent harmony for the three decades that followed World War II. Profits rose even as wages increased and social benefits expanded. But what if that 30-year peace was the exception to the more common state of conflict between markets and the people?

That's the argument Wolfgang Streeck, the managing director of the Max Planck Institute for the Study of Societies, makes in the September-October issue of New Left Review. Streeck contends that, since the mid-1970s, governments have had to stretch to meet the conflicting demands of each system. In the '70s, governments pursued inflationary policies to help workers whose wages had abruptly stopped rising. In the '80s, governments, led by Ronald Reagan and Margaret Thatcher, tipped the other way by raising interest rates and unemployment and helping to break unions. In the '90s, a fatal compromise was struck: To compensate for stagnating incomes, private debt soared, with homeowners and consumers relying on credit extended by deregulated financial institutions. Public debt contracted (the United States had balanced budgets in the late 1990s). In the wake of the collapse of 2008, that dynamic has been reversed: Governments everywhere assumed the debt that their citizens could no longer take on by deficit-spending to counteract the Great Recession.

Now, the markets are striking back. Napoleon couldn't conquer all of Europe, but Standard & Poor's may yet. Conflicts between capitalism and democracy are breaking out all over. And Europeans — and even Americans — may soon have to face a question they have not contemplated in a very long time, if ever: Which side are they on?

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