

# Capitalism and Democracy

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Capitalism is a system of economic production and management that served many nations well for many decades; it helped economies to grow and opened new opportunities for workers, as it improved the living standards of billions of people worldwide. However, capitalism was hijacked around the middle of the 1980s by the so-called “free market system,” causing traditional capitalism to lose its dynamism and economic and social mission. And under pressure from the United States, the International Monetary Fund, and the World Bank, the free market system was imposed on most other nations, particularly the indebted and poor Third World states. But the prescribed “economic restructuring” programs devised by the IMF to fix the under performing and stagnating Third World economies have failed; restructuring programs have had only negative consequences; they caused the rich to get richer, the poor to get relatively poorer, and national economies to become more dependent on imports, and thus on foreign aid and loans to survive.

The Great Recession and the financial crisis of 2008 exposed the limits of the free market system and its many shortcomings; they proved that the system was incapable of creating enough jobs for the unemployed or distributing the fruits of economic growth and scientific knowledge fairly among social classes and nations. In response to the Great Recession, all affected states used the tools of the classical economic theory to revive their economies. Some states adopted expansionist policies to grow their national economies, which required the borrowing of tens of billions of dollars; others adopted policies to cut spending and reduce budget deficits and restructure their economies to make them more efficient and competitive. However, as will be explained later, both policies have failed to achieve their desired objectives; instead, they caused the public debt of almost all nations to skyrocket. A few years later, the ‘free market’ concept was changed to ‘market capitalism’ to keep the name that had acquired a good reputation, while emptying it of its social mission. The positive role that capitalism played in the life of western societies over the last century had caused capitalism to be ingrained in the brains of western people in general and the American people in particular as an integral part of their philosophy and way of life.

The capitalist system grew out of the institution of private property, which appeared with the dawn of the agricultural age as agriculture was being developed into an economic system and a way of life. Private property caused society to be divided into two distinct social classes; landlords who owned most of the fertile land and were generally rich, and peasants and farm workers who owned little or no land and were generally poor. Since land ownership enables the rich to create more wealth, and poverty denies the poor an equal opportunity to create as much wealth, a socioeconomic gap slowly emerged in every agricultural society separating the rich from the poor. The poor, as a consequence, were forced to work for the rich to survive, while the rich were able to accumulate wealth by exploiting and at times enslaving the poor and keeping them submissive. As the socioeconomic gap persisted and widened in society, the poor lost much of their freedom and power and social status, while the rich gained more freedom, power, and social status at their expense, because wealth enables its owners to gain more power, and power enables its owners to gain more wealth.

Since wealth usually translates into power, wealthy people can have more power and use it to influence societal change in their favor; people who lack wealth have little or no power, and therefore are unable to make a difference in their lives or the life of their communities. So, wealth facilitates the acquisition of more power; and power facilitates the acquisition of more wealth, making it very hard for the poor to gain either wealth or power and climb the social ladder. People with power and wealth are usually able to have more freedom to do the things they like to do and engage in various activities that enrich their lives; people with no wealth and power usually have little or no freedom to do what they prefer to do, and therefore are often forced to do whatever others ask them to do.

Due to the sociopolitical and socioeconomic role wealth plays in individual, group, and national life, it tends to drive people to work hard to make more money and use whatever wealth they gain to improve the quality of their lives and enhance their social statuses. On the other hand, the inequality and injustice that wealth and power usually create and perpetuate in society cause conflict to become a major characteristic of social relations, forcing the poor and the powerless to seek justice and struggle to gain freedom. Since the tribal man lived his entire life in a classless society free of political oppression and economic exploitation, the concepts of freedom and justice had to await the arrival of the agricultural age before they could be born and appreciated.

As agricultural tools and means of transportation and sea navigation technologies were developed during the agricultural age, trade expanded and capital began to play an increasingly active role in individual and societal life. Tools caused the productivity of land and labor to improve, and thus it enabled owners of tools to create and accumulate more wealth. During the industrial age, capital emerged as a major factor of production, enabling its owners to develop more efficient production technologies, expand manufacturing, diversify economic activities, and subsequently gain more wealth, power, and freedom. However, as capitalists were gaining power and freedom, the poor and weak were losing whatever power and freedom they had, causing their ability to create and accumulate wealth to be vastly curtailed. Nevertheless, the poor and weak did not surrender to economic exploitation and political suppression for long; they responded by organizing themselves into labor unions, developing a consciousness of their own, and revolting against their capitalist masters; and this enabled them subsequently to reclaim most of their lost rights.

Tools, machines, and production systems enable people to produce more of what they need using the same amounts of whatever resources available to them or produce the same as before with less time, energy, and resources. In both cases, progress is made because people get more of what they need and like to have; they get either more products or more free time to engage in creative activities that enrich their lives and the lives of other people influenced by their work. Meanwhile, as people use their tools they learn how to make them better and more efficient, appreciate their productive role, and develop new ones. And this in turn causes technological knowledge to accumulate enabling man to produce more goods and services, change socially and culturally, and make more material, cultural, scientific, and technological progress.

## Evolution of capitalism

The Industrial Revolution caused all industrial societies to experience a new wave after wave of economic change that led, within a century, to the transformation of the totality of social relations and living conditions in every industrial society; they transformed the social, economic, and political structures of industrial society. New economic arrangements evolved slowly where capital was separated from labor, and fairly large economic organizations emerged employing machines and large numbers of workers. These new production

arrangements instituted new relationships between people and machines, capital and labor, worker and worker, and urban and rural communities. The new economic system that emerged from this tedious process is what we call *capitalism*; a system characterized by dynamism and continuous transformation that “is unique in generating persistent and powerful tendencies to change.” (Robert Heilbroner: *21st Century Capitalism*, 1993 27)

Developments precipitated by the Industrial Revolution caused manufacturing to spread rapidly and the number of workers, suppliers, financiers, merchants, and entrepreneurs, as well as consumers, to multiply. As a consequence, traditional state control over the economy was weakened, and the new capitalist class was able to gain more economic power at the state’s expense. But despite the loss of state control, the economy kept functioning, production kept increasing, and the efficiency of allocating available natural and human resources and end products improved, causing financial returns to steadily increase. Consequently, it was concluded that the market has an “invisible hand” that guides its operations and that the logic of the market may be superior to that of any other economic management system.

Several factors had contributed to making the capitalist system as efficient as it proved to be. Six major forces had helped make this possible; competition among a large number of small enterprises and suppliers of raw material; a large and growing number of consumers that caused most markets to expand; a growing middle class tied to the manufacturing production process; political borders that limited the market freedom to national markets in the first place; government regulation of financial products and exports and imports, and labor unions that convinced capitalists to pay workers fair wages and social benefits. But with the arrival of the free-market philosophy and globalization, all forces that constrained the freedom of capitalists and regulated the markets had ceased to exist or function effectively.

As the industrial age advanced and economic activities diversified and labor productivity increased, the captains of the capitalist system at the time realized that they could not continue to raise profit margins and accumulate more wealth and economic power unless markets continued to expand. They also realized that expanding markets requires sharing some of the profits they were making with their less fortunate workers. Capitalists, therefore, felt obligated by self-interest to pay their poor workers more money to enable them to become

active consumers. As a result, capitalism became a force contributing to social change and social mobility, improving living standards, and encouraging technological and scientific progress. However, under the influence of the free-market philosophy and globalization, which is driven by greed and disrespect for the poor, the old capitalist system was forced to retreat, and the constructive social role capitalism played for generations ended. "One thing that is clearly not maximized by free markets is equality." (Weinberg: "Utopias," *The Atlantic Monthly*, June 2000) 108

By causing the productivity of land and labor to improve substantially, technological innovations financed by rich capitalists and large corporations enabled society as a whole to produce more and have more free time. People, as a result, began to allocate some of their free time to creative thinking and creative doing. Nevertheless, the concentration of wealth in the hands of a few powerful individuals and enterprises led eventually to deepening income, wealth, and power gaps in every capitalist society. No effective laws were enacted at the time to limit the reach of the rich and powerful and empower the poor and powerless workers. Consequently, organized religion re-emerged slowly as a social force promoting social justice and asking the rich and powerful to be more kind and compassionate.

Nevertheless, as the poor became aware of their social status, they began to organize and demand change, asking for a larger share of the economic pie. But no matter how much the poor may get, they always feel worse off compared to their rich neighbors. Awareness of the nature and extent of the socioeconomic and sociopolitical gaps separating them from the rich and powerful always leads them to feel deprived and frustrated, which often causes conflict to arise in the marketplace and society. While this awareness grew slowly and incrementally during the last century, it grew fast and became more pronounced with the development of the *infomedia* process in the 1990s and beyond. The word *infomedia* is meant to reflect the impact of the mass media and social media together because it has become very hard to separate their messages and intentions.

The desire to change fast and have more wealth and power led European industrializing states to compete with one another for new markets and foreign sources of raw materials. Competition consequently led to colonialism, which is an exploitative economic enterprise and a repressive political system in which all active members of the colonialist power had

willingly participated, making capitalists and politicians and workers and most members of the industrial society partners in that inhumane endeavor. Nevertheless, capitalism remained an efficient system to allocate resources, increase production, raise labor productivity, manage national economies, create national wealth, and distribute the fruits of economic and scientific progress in ways that benefited most people and caused living standards to rise. However, capitalism made both recession and inflation an integral part of the capitalist system; and thus capitalism caused all capitalist states to experience recurring recessions and inflation that led to widening the socioeconomic and sociopolitical gaps between the rich and poor.

While western capitalist states were making more economic, technological, scientific, and cultural progress and getting militarily more powerful, most other nations in the world were falling behind economically, scientifically, culturally, and militarily. Communism and its socialist system which was born in Europe in reaction to the exploitative motives and practices of capitalism, could not match the achievements of the capitalistic states; therefore, communism could not survive for long. At the end of the 1980s communism collapsed and the Soviet Union began to disintegrate, signaling the failure of the socialist system and central planning as a tool to allocate available resources efficiently and distribute economic benefits fairly. As a result of this development, the proponents of the free market system declared victory and moved quickly to convince, at times force most other nations to follow their lead. And this in turn gave rise to free markets and globalization. “This triumph has inaugurated—for the first time in the history of humankind—the reign of a single, acceptable way of viewing things in the area of economics, which is considered by its proponents as being universally valid, in both its premises and applications.” (Bessis: *From Social Exclusion to Social Cohesion: A Policy Agenda*, 1995) 13. Harvey Cox sees the free market through the eyes of its promoters as a god; “The market is becoming the only true God, whose reign must now be universally accepted and who allows for no rivals.” (Harvey Cox: “The Market as God,” *The Atlantic Monthly*, March 1999) 13.

Adam Smith was not only the first philosopher to understand the dynamics of an industrial economy and its social implications, but also the first to observe that economic progress brings with it not only wealth but income inequality as well. But this consequence was defended and justified at the time because wealth without inequality would lose its true

meaning, and the incentive for hard work would disappear. If the wealth of a nation, for example, were to be evenly divided among its members, hardly anyone would be tempted to work for another, and contentment rather than unfulfilled expectations would govern economic and sociocultural conditions. In other words, total equality of income and wealth would retard economic progress and hinder sociocultural transformation. In contrast, wide disparities in income, wealth, and knowledge usually lead to cultural and ideological polarization and economic marginalization that create sociocultural divides in society dividing it into conflicting groups. The persistence of such conditions usually deepens poverty and spreads crime; and often causes political instability and encourages radicalism and violence.

George Soros wrote a decade ago, "The capacity of the state to look after the welfare of its citizens has been severely impaired by the globalization of the capitalist system, which allows capital to escape taxation much more easily than labor can." Soros argued further that such a development carries with it the seeds of social conflict. (Soros: "Toward Global Open Society," *The Atlantic Monthly*, January 1998) 22-24. While social conflict is possible, the most likely outcome is the segmentation of national societies into competing sociocultural groups. Such segmentation undermines the shared cultural values and national identities that hold societies together, making desired societal change more difficult to conceive and harder to implement.

## Capitalism and free markets

In the second half of the eighteenth century, a new way of organizing manufacturing began to emerge in England, giving birth to an industrial revolution. Workers were brought to work together in one place for one master, who often was the sole owner of the means of production as well as the finished products. People, who worked for the new entrepreneur, were often landless and powerless laborers having nothing more than their labor to sell. Because of that powerlessness, workers were, especially during the first century of the industrial age, forced to work for long hours and live under intolerable conditions. When a man is forced to sell his labor because of need, he is more likely to lose self-esteem, and sometimes his dignity as well. and become vulnerable to exploitation, if not slavery.

The Industrial Revolution ushered in a new wave of change that transformed all aspects of life in every industrial state. For example, workers were no longer free to determine their work hours and how to perform their work; tasks were assigned, working hours were specified, regulations were articulated and imposed by capitalists, and hierarchical relationships within the workplace were established and enforced. Income was tied to work, making survival a function of work availability and worker's capacity to work long hours and endure the pain of performing repetitious, largely boring tasks. For the first time in history, the new worker could own neither the place of his work, the means of production nor the end products he produced. His only source of income was his labor, and his labor and time were the only commodities he could trade. The industrial man was transformed through manufacturing and money-making into a machine, causing work to become the focal point of life. **The industrial man works to live and lives to work**, causing life to start and end with work, even for rich capitalists. The economic system that emerged from this tedious, complicated process is what we call capitalism.

Developments precipitated by the Industrial Revolution caused manufacturing to spread rapidly and the number of firms, suppliers, workers, financiers, entrepreneurs, and consumers to multiply in a few decades. As a consequence, traditional and state control over the economy and its many activities were vastly weakened. But despite the loss of state control, the economy kept functioning, production kept increasing, the efficiency of both the allocation of resources and the distribution of goods and services steadily improved, and capital kept accumulating. Consequently, it was concluded that the market has an "invisible hand" that guides its operations and that the logic of a free market economy may be superior to that of any other economic management system.

Nevertheless, markets remained until the late 1970s subject to state regulations meant to keep markets competitive, facilitate the proper functioning of the forces of supply and demand, and protect the rights of workers and consumers. In the late 1970s and early 1980s, most financial and economic regulations were either removed or relaxed causing markets to become freer, but less competitive and thus easier to manipulate. And while the proponents of deregulation claim that free markets maximize efficiency and wealth creation, the facts on the ground prove that deregulation widens the wealth and income gaps and hurts equality, which seems to worsen with the advancement of economic and cultural globalization.

Capitalism is a system of economic production and management based on the private property of the means of production and the goods and services produced for sale and profits. In this system, capitalists, who usually own the means of production, hire people to work for them in factories and workshops in exchange for wages and other social benefits determined by the capitalists themselves. Workers have no control over how products are made or how to price and distribute them in society. Since the forces of supply and demand in such an economy tend to determine the value of each good and service, capitalism is considered by most economists the most efficient economic system that facilitates the allocation of available resources among the many alternative uses and users.

However, for the forces of supply and demand and thus capitalism to function efficiently and fairly, markets have to be competitive, producers and distributors and consumers have to be many, and information regarding the quality and prices of products and services and raw materials has to be available and accessible to all concerned parties. Otherwise, neither potential consumers nor owners of raw materials nor workers will be able to make intelligent decisions concerning what to buy and where to buy it, and where to sell their assets, and for how much.

Capitalism functions in four spheres of economic activity: labor that makes goods and services, firms that organize the production of goods and services, financial institutions that handle money transactions for all parties, and information that makes educated decisions regarding investment and consumption possible. While labor makes the goods and services that capitalists offer for sale, goods and services are usually sold to the highest bidder to pay labor for their work and make money for capitalists to accumulate, invest and enjoy life. The financial institutions, meanwhile, facilitate all transactions involving labor, suppliers of raw materials, buyers of goods and services, and taxes. Financial institutions also facilitate the borrowing of money by both investors and consumers to keep the system functioning and enable capitalism to produce more goods and services, accumulate more capital, build more personal and national wealth and meet the expectations of consumers and satisfy their needs and desires. Information collected by specialized agencies and institutions makes decisions regarding investment and consumption and credit rather easy.

In the wake of the disastrous Great Depression of the 1930s, western governments were forced to intervene to regulate markets, spend more money helping the poor and the unemployed, while assuming control of the process of collecting and disseminating information in society. An uneasy balance between the four spheres of activity was thus established and sustained for almost four decades. As a consequence, capitalism was transformed into an efficient economic system and a socially responsible institution; capitalism became an efficient socioeconomic machine accumulating capital, creating national wealth and jobs, while caring for workers and communities. In the 1980s, however, conservative forces on both sides of the Atlantic Ocean were able to control politics and redirect economic policies of the leading capitalist economies at the time (the United States, Germany, and Great Britain) toward the free market system; they also began to call for granting the forces of free markets the right to manage economic and financial affairs of nations without restrictions. Meanwhile, the information and communications revolutions enabled the free market forces to dominate the sphere of collecting, analyzing, and disseminating information. As a consequence, the rules that governed the old balance between the four spheres of economic, financial, informational, and labor activity was undermined, causing the system to lose its ability to be fair and socially responsible; it lost its desire and need to care for workers, or the communities or states were it functions.

In the wake of the collapse of communism and the disintegration of the Soviet Union in 1991, the proponents of the free market system declared victory and moved to convince most other nations in the world to follow their lead. "This triumph has inaugurated - for the first time in the history of humankind - the reign of a single, acceptable way of viewing things in the area of economics, which is considered by its proponents as being universally valid, in both its premises and applications." (Sophie Bessis, *From Social Exclusion to Social Cohesion: A Policy Agenda*) 13. Harvey Cox sees the free market system through the eyes of its promoters as a god; he says, "The market is becoming... the only true God, whose reign must now be universally accepted and who allows for no rivals." (Harvey Cox, "The Market as God," *The Atlantic Monthly*, March 1999) 18. However, the Great Recession revealed that free markets were unable to foresee either the mortgage or the financial crisis or manage their dire consequences.

## Free markets

A free market is a place and/or a space that gives the forces of supply and demand a free hand to determine the value and thus the price of every good and service on the market. Such forces tend to oppose government regulations and reject the right of any third party to intervene in setting guidelines for market competition or production relations or financial transactions. Therefore, a free-market economy is an economy where the forces of supply and demand dominate economic activity and determine the value of everything from labor to raw materials to money to information. But have the world ever had truly free markets?

When markets are truly free, the forces of supply and demand can communicate to producers the degree of consumer desire to purchase the intended good or service; and this, in turn, facilitates the allocation of available resources among the many alternative uses in ways that satisfy the desires of both consumers and producers. While consumers get the goods and services they like most, producers get the opportunity to produce what is in high demand and thus maximize their profits. And in the process, the utilization of resources is often optimized. Transactions that take place in the marketplace tend to determine the prices of goods and services offered for sale. When the demand for a certain good or service exceeds the supply, its price goes up; and when the supply of a good or service exceeds demand, its price goes down. But for such a process to proceed smoothly and allow the forces of supply and demand to determine the value of each good and service, the number of sellers and buyers has to be substantial and all transactions have to be free and transparent, which exists in theory but never in practice.

The promoters of the free market system claim that the freer the market is, the more prices will reflect consumer habits and desires, making the information that prices convey to concerned parties more valuable and reliable. Though this argument is correct to a great extent, the experience of capitalism proves that markets have never been as free as claimed or as efficient as desired. Monopolies and oligopolies and natural and engineered barriers to market entry have undermined the ability of markets to be truly competitive and thus able to determine the value of each good and service. Even exchange rates of currencies that were thought to have been determined by the forces of free markets had been subjugated to manipulation by major banks that colluded to fix interest rates and influence the relative values of currencies.

While markets have to be free of monopoly and oligopoly and barriers to entry, the promoters of free markets believe that people and corporations should also be free to form monopolies and oligopolies and cartels in the form of business alliances. The roots of the free-market philosophy that dominates America and many European states are to be found in the writings of economist Milton Friedman who influenced Prime Minister Margret Thatcher of Britain and President Ronald Reagan of the United States and led them in the 1980s to promote the free markets everywhere. But despite the failure of this system to perform as desired, the free market philosophy was able to spread to the sphere of politics, leading the US Supreme Court to grant corporations the right to spend as much money as they wished to help finance election campaigns and thus manipulate politics and corrupt politicians.

The emergence of the free market philosophy came at a particularly unfortunate time for the world in general and the United States in particular; it came as the American economy was passing through a transitional period separating the age of knowledge from the age of industry. Though the transition to the knowledge age is still incomplete, most western economies have shifted from the production of manufactured goods to the creation and marketing of services and information and financial products. Since these activities do not accumulate capital or create national wealth or many jobs, the western economies have become less able to function efficiently and less fair and socially responsible.

A market economy can function efficiently only in free societies that appreciate the role of government in regulating certain aspects of economic life to ensure the proper functioning of markets and the equity of the economic system. States usually intervene to regulate monopolies and oligopolies, prevent exploitation, provide equal opportunity, keep income and wealth gaps reasonable, protect the environment, and discourage socially undesired activities while supporting socially desirable ones that are not financially rewarding. The US experience between the 1940s and 1980s proves that state regulations were necessary for the proper functioning of markets and the protection of workers' rights and guaranteeing the quality and safety of products and services. When economic and financial regulations were loosened, the American economy became more vulnerable to economic and financial crises, and the free market forces were able to gradually dismantle labor unions, weaken the middle class, further widen the income and wealth gaps between rich and poor, and undermine the democratic system. Free markets without state supervision are wild markets that serve the

interests of the rich and powerful at the expense of the poor and powerless and pay no attention to the common good.

Society and economy are tied to each other by a cause-and-effect relationship. Each major action that is taken by either side and each substantial change experienced by it destabilizes the relationship, forcing the other to react to restore balance. But every reaction is in itself a new action taken by the other side that induces the first one to react similarly. Because of such dynamics, the relationship between the economy and society continues to change and languish in a state of imbalance. This makes the market economy both an economic system to manage the economic problem and a powerful force of societal transformation. Capitalism “has taken the form of waves of inventions that have altered not only the productive capabilities of society but its social composition, even its relationship to nature itself,” wrote Robert Heilbroner. (Robert Heilbroner, 21<sup>st</sup> Century Capitalism) 35

I believe that Marxism and the socialist system built before 1990 may have been the last attempt launched by politics to control economics. The collapse of the Soviet Union put an end to that system because socialism failed to live up to popular expectations and deliver on its promises; it also failed to undermine capitalism or empower the industrial working class. And with that failure, economics won its last battle against politics. Yes, economics has won the battle against politics, but not the fight with the world’s vanquished masses. Therefore, the struggle for freedom, justice, fairness, and respect for human rights and dignity will continue and make the war between money and ethics, greed and fairness, power and need a human tragedy that never ends.

In a capitalist economy, markets are largely regulated and competitive, and the system is geared toward the production of manufactured goods. In contrast, markets in a free market economy are largely unregulated and hardly competitive, and the system is geared toward the production of information and financial products. The first system, due to the nature of its activities, tends to accumulate capital, create good manufacturing jobs, and generate national, corporate, and personal wealth that tends to spread in society and strengthen the middle class. In contrast, the second system creates personal capital, but does not create national capital; at the same time, it works hard to weaken the middle class. And the wealth free markets create tends to be concentrated in the hand of a small business elite of

managers of large banks and corporations and insurance companies and hedge funds and media conglomerates. And while the first system facilitates social mobility and prevents the gap between the rich and poor from growing fast, the second limits social mobility and allows the socioeconomic, sociopolitical, and sociocultural gaps in society to widen and deepen.

## Evolution of democracy

Democracy is commonly defined as “a form of government in which the supreme power is vested in the people or their elected agents under a free electoral system.” (Webster’s Encyclopedic Unabridged Dictionary of English Language, 1989) 384. In a more general sense, it is “a state of society characterized by formal equality of rights and privileges.” (Webster’s Dictionary) 384. In 1861, US President Abraham Lincoln defined democracy as “government of the people, by the people, for the people.” In other words, democracy is a system of governance that regulates the relationship between the state and the public in a way that enables the governed to elect their governors and participate in making major decisions and empowers them to hold all representatives accountable for their deeds.

Democracy is not a stable and well-defined state of political affairs; it is an evolving sociopolitical process that affects and is affected by the dominant cultural values, the attitudes of people and their worldviews, and the prevailing economic conditions in society. Since cultures are products of life conditions that continue to change and live in a permanent state of transformation, the institutions of democracy are shaped by the historical experiences and changing socioeconomic and sociocultural circumstances that cause societies to move from one stage of development to another. And because different societies have had different historical experiences and live under different environmental and sociocultural and economic conditions, democracy expresses itself in varied forms and different political arrangements.

The origins of democracy and its basic principles of equality, justice, and accountability may be attributed to organized religion. Since its inception in ancient times, religion has declared that every person must answer to a higher authority or god. The three monotheistic religions of Judaism, Christianity, and Islam state that no one is exempt from God’s commandments and all people are equal in his presence. These principles ameliorated the status of slaves, at least in the eyes of God, and undermined the rationale for absolute power

of temporal authority. However, religion was unable to stop absolutism or prevent exploitation; it even allowed its teachings to be used to legitimize the tyrannical rule of kings and dictators and violate people's rights with impunity. To legitimize absolutism, many kings and emperors in older times embraced religion and claimed to be gods, or directly related to gods, or gods' representatives on earth authorized to rule in their names. By so doing, the rulers of those times were often able to use religion and its teachings and men to unify people, consolidate power, and establish dynasties that lived, in certain instances, for centuries.

As nation-states began to emerge in Europe in the 15<sup>th</sup> and 16<sup>th</sup> centuries, their rulers discovered that they had little power to challenge the Church, and therefore they were unable to consolidate their political powers without the active support of the merchant class and city dwellers. While the rulers needed the financial support of the merchants, city dwellers were particularly interested in protecting their social and political freedoms, for which most of them had paid a heavy price under the feudal system. And while all parties were cooperating to achieve shared goals, new ideas and changing economic conditions posed a challenge to both the theocratic state and the nation-state. "This challenge was first felt most poignantly by the Church, to the benefit of the nascent nation-states. But it would not be long before the despotic monarchies that had replaced the earlier communes would also lose their power, beset and overthrown by the new image of man, and not God, as residing at the center of things." (Charles Van Doren, *A History on Knowledge*) 158.

The Renaissance in Europe was an era of fundamental change; it paved the way for the transition of societies from the pre-industrial, predominantly agricultural times to the industrial age. It was an era of trade expansion, economic diversity, great geographical discoveries, religious reform, political restructuring, and great scientific discoveries and technological innovations. Kings and princes were interested in consolidating their political powers, while traders and city dwellers were interested in protecting their freedoms and economic interests. Consequently, the political and economic forces joined hands to fight and defeat the Church and its political authority and economic doctrine. Since the new state could no longer claim or wish to claim a religious mandate, it had to have the implicit, if not the explicit, consent of its citizens to gain legitimacy and rule.

Therefore, the interest of the merchant class in economic freedom, the city dwellers' interest in political and social freedom, and the rulers' interest in building states, armies, and national economies combined to lay the foundations for both capitalism and democracy. Describing the dynamics of change of that time, Paul Kennedy wrote, "There exists a dynamic for change, driven chiefly by economic and technological developments which then impact upon social structures, political systems, military power and the position of individual states and empires." (Paul Kennedy, *The Rise and Fall of the Great Power*) 439.

Within a century of the dawn of the Industrial Revolution, a new society with a new culture and a new economy gradually emerged in all industrialized countries; the new society had three distinct social classes, each of which was based more on interests and shared concerns and less on values and religious beliefs: a working-class, a middle class, and a capitalist class. Though relationships between these classes were generally more antagonistic and less cooperative, the middle and capitalist classes shared interests in expanding political and economic liberty. To protect this liberty and institutionalize its goals and organs, all classes accepted political plurality and participated in the development of democracy and its institutions. Economic liberty, therefore, was a catalyst that caused the development of both capitalism and democracy, which grew together and eventually became mutually reinforcing.

The intellectual origins of modern democracy are to be found in the political philosophy of the seventeenth and eighteenth centuries in the West. The leading political thinkers of the time emphasized the responsibility of governments to protect individual rights against the state, capital, and the encroachment of religion. The separation of religion and state in the middle of the seventeenth century had led to the recognition that individuals have legitimate rights that no power should violate while raising concerns that the state might confiscate such rights. The idea was to limit government intervention in people's lives, particularly in their pursuit of happiness, which meant at the time freedom and wealth. The government was also happy to see people concentrate on material gain rather than on religion, which still represented a threat to the secular state. But when the state tried later to reclaim the powers of the church and curtail people's freedoms, it faced popular uprisings, forcing it to retreat. Democracy, supported by a vibrant middle class and a productive capitalist system, continued to make progress and gain legitimacy well into the twentieth century.

Yet, despite the convergence of these factors and their role in consolidating the new trends of change, the gradual emergence of a conscious middle class in the nineteenth century was probably the most significant development as far as capitalism and democracy were concerned. The middle class soon became the major force behind industrial diversification and economic expansion, as well as developing and fostering a national culture, and advancing democracy. While capitalism provided the middle class with the economic opportunity to grow, democracy provided it with an effective tool to protect its political and economic interests under the guidance and supervision of the nation-state.

The development and control of a national economy by the state were meant to provide it with the resources to build and maintain an army, finance its many activities and programs, promote national culture, and please and appease its citizens. But the capitalist system that eventually emerged proved to be beyond any state's control. Capitalism, by its very nature, is driven by self-interest, not national interest, and is guided by certain powerful market forces that seem to be elusive and protective of their independence. "Capitalism is a process of creative destruction, as it builds, it destroys, causing conditions on the ground to experience one wave of change after another." Lester C. Thurow, "Building Wealth," (*The Atlantic Monthly*, June 1999) 62.

### Democracy's relationship to capitalism

The relationship between the political and economic processes moved slowly from a state of cooperation to a state of competition. It did not take long before the economic process was able to achieve societal eminence, using deeds rather than words and employing money and the power of lobbying and the mass media in the process. Money, without which neither the state nor politics could function properly, was used effectively to manipulate and at times buy politicians, making elections, particularly in the United States, an unequal contest between those who have money and others who do not. Senator Richard Durbin admitted in 2010 that the barons of the banking sector "frankly own" the US Congress. (Michael Kazin, *The Nation*, September 6, 2010) 17. The triumph of economics over politics in the age of globalization has been a significant setback for democracy and its principles as well as for capitalism and its social role in fostering the national economy, building the middle class and strengthening the state. As a result, the political process lost its independence and was forced to abandon

a good portion of its role, allowing money to determine what is fair and what is not, and what is in the national interest and what is not.

While politics was losing its independence and objectivity due to the influence of money, the state was losing its ability to care for its citizens or define the common good. At the same time, the public, particularly the middle class, was losing its sovereignty; it could no longer resist the temptations of the new luxuries of life and avoid debt and manipulation by the economic and infomedia processes. Moreover, capitalism, supported by a conservative political movement, began in the early 1980s to destroy labor unions, causing the middle class to lose much of its economic and political power. "It was unions that made the American economy work for the middle class, and it was their later decline that turned the economy upside-down and made it into a playground for the business and financial classes." (Kevin Drum, *Plutocracy Now*, *Mother Johns*, March/April 2011) 24. As a consequence of the decline of labor unions and the shrinking size of the middle class, democracy was weakened, its institutions were undermined, and its promises of freedom, equal opportunity, and fairness were shattered.

During the first decades of the 20<sup>th</sup> century that witnessed the Bolshevik Revolution of 1917, the socialist system instigated by Marxist ideas posed a serious threat to capitalism, compelling western democratic states to enact progressive tax laws, design new programs to protect the public, expand public education, empower workers, and create a welfare state to help the poor, the sick, the unemployed, and the elderly. Both the upper and middle classes provided, rather willingly, the money to finance the welfare state because they feared socialism, its premise of class conflict, and its promise of a classless society.

Decades later, neither the middle class nor the upper class was willing to continue to finance mushrooming welfare programs. While the financial price of such programs was increasing without an end in sight, communism was failing and no longer feared. To accomplish their objectives of lowering taxes and reducing spending on social programs, the upper and, to some extent the middle classes began to call for smaller governments, less state intervention in public life, less economic and financial regulations, and more restrictions on immigration. Money and the media were used as tools to manipulate public opinion, distort facts and derail elections, and pressure both the executive and legislative branches of the US

government to accommodate the demands of the rich. These were changes that paved the way for a new culture based on individualism where individuals and corporations have rights but little or no social responsibilities.

The 1980s witnessed the triumph of the conservative ideas that the upper and middle classes promoted not only in the United States under Ronald Reagan but also in Britain and Germany under Margaret Thatcher and Chancellor Helmut Kohl, respectively. A new “culture of contentment” soon emerged to tie the wealthy capitalists, the media barons and most public personalities, members of the upper and middle class, and the comfortable among the retired elderly. John Kenneth Galbraith described this alliance as a new, loosely connected group of unequal individuals sharing an interest in preserving the status quo and ignoring the poor, the common good, and the future for the sake of the present. (See John Kenneth Galbraith, *The Culture of Contentment*) 1-13. Consequently, the old capitalist system was replaced by a free market system designed to serve the interests of the rich at the expense of everyone else.

Under the influence of the free market system, and because of the pressure applied by special interest groups on behalf of the rich, the western welfare state began to retreat. Social responsibility toward the poor and the elderly and even the nation at large began to lose its appeal. “The fortunate and the favored, it is more than evident, do not contemplate and respond to their own longer-run well-being. Rather, they respond, and powerfully, to immediate comfort and contentment. This is the controlling mood.” (Galbraith, *The Culture of Contentment*) 6-7. It is this mood that caused poverty and all of the social ills associated with it such as crime, homelessness, drug addiction, ignorance, racism, violence, and disrespect for human life to spread slowly and become endemic.

In the 1950s, the leaders of the capitalist system, while competing fiercely with the political establishment to gain independence and more freedom, urged governments to give special attention to the needs and desires of the economic elite. One of capitalism’s stern advocates at the time, American banker J. P. Morgan, said in a testimony before a Senate subcommittee, “If you destroy the leisure class you destroy civilization.” Morgan defined the leisure class as “all those who can afford to hire a maid.” (*Arthur M. Schlesinger, Jr., The Coming of the New Deal*) 479. But by equating the leisure class with civilization, Morgan seems to have said, perhaps unintentionally, that no one in society counts except the rich. By

the end of the 1980s, the leisure class had triumphed, and the gap that separated it from the rest of society had become not only socioeconomic but sociocultural as well. A decade later, the leisure class had become the most dominant power in society controlling the three major societal processes, the economic, political, and infomedia processes.

In the wake of the dramatic ending of the Cold War in 1989, democracy and capitalism emerged as the most promising political and economic systems if not the only acceptable and legitimate ones. They appealed to the great majority of people everywhere, and particularly to those who lived the longest and suffered the most under the authoritarian rule of communist regimes. For decades before the collapse of communism, however, the western media was busy exposing most people of the world to the western culture and people's lifestyles and standards of living. As a result, people living under communism and dictatorships in most countries had become aware of the promise of democracy and capitalism years before the end of the Cold War. As communism collapsed under the weight of its failure, the largest international wave of democracy and respect for human rights followed; switching to capitalism was also a part of that wave. By the beginning of the twenty-first century, almost every state in the world had become a legitimate democracy, a democratizing state, or a state claiming to have established democratic principles.

However, authoritarian rulers, autocrats, and hard-core ideologues have continued to resist democracy, accepting only cosmetic political changes that lack substance, while welcoming the economic restructuring plans devised by the World Bank and the International Monetary Fund. The acceptance of certain democratic changes is driven by a desperate need to please the West so it continues to provide them with financial aid, not by any newly found belief in human dignity or individual freedoms. Such rulers still hope that the economic restructuring programs will enable market capitalism to deliver on its promise before political reforms take root and institute effective democracy in society. But no economic restructuring can produce real economic growth without social and political restructuring, and no genuine sociocultural transformation can take place without freedom. Even the prime minister of China has acknowledged in March 2011 that economic growth cannot continue in China without political restructuring. The surprising and unprecedented revolutions that swept the Arab world in 2011 are a testimony that no economic restructuring can succeed without sociocultural restructuring that includes political reform. Freedom, equality, the right to free

education, and justice are the essence of democracy as well as the basic conditions for societal development and scientific progress. (See Mohamed Rabie, *A Theory of Sustainable Sociocultural and Economic Development*, Palgrave Macmillan, 2016)

Today, nations that are industrialized or industrializing are either democratic or in an advanced stage of being democratic; nations that are agricultural or living in the pre-industrial age are either authoritarian or largely undemocratic. Societies that live in mature industrial and post-industrial ages are either non-ideological or moving away from ideology; societies that live in the pre-industrial times are either ideological, experiencing a revival of ideology, or still attached to certain outdated ideological notions. Nevertheless, since societies are being divided into sub- societies along sociocultural lines, each industrialized state has a group or groups that live in a different civilization and thus experience ideological revival. The American south is a good example of a sub-society living in a largely different age and experiencing a religious revival.

The triumph of economics over politics in the 1908s and beyond has made the political process a mere tool in the service of the economic elite. Democracy, consequently, lost its ability to do the things it was supposed to do; it also lost its vision as well as its social mission. Decades ago, Walter Lippmann said, "In the cold light of experience, he [the private citizen] knows that his sovereignty is a fiction. He reigns in theory, but in fact, he does not reign. Contemplating himself and his actual accomplishments in public affairs, contrasting the influence he exerts with the influence he is supposed to exert according to democratic theory, he must say of his sovereignty what Bismarck said of Napoleon III, at a distance it is something, but close to it, it is nothing at all." (Quoted in Richard Harwood, "The Messenger Shouldn't Bear all the Blame," *The Washington Post*, February 15, 1996) A21. Eric Alterman says, "When attempting to determine why the people's will is so frequently frustrated in our system, one must turn first and foremost to the power of money; the system is rigged, and it's rigged against us." (Eric Alterman, *Kabuki Democracy*, *The Nation*, September 2, 2010) 12.

The most serious problem facing all democracies today is the gradual deterioration of the status and power and confidence of the middle class. And what makes this problem even more serious is the fact that governing is increasingly being monopolized by a small rich, self-centered, largely isolated, and corrupt class. And because this class uses money and the

media to manipulate people and stay in power, democracy continues to fail people and gradually loses their support. Since money took over politics in the early 1980s, the middle class has suffered major setbacks that weakened its ability to play its traditional societal role. Industrial workers were pressured to abandon unions, industrial jobs were shipped overseas, and incomes have failed to keep pace with rising costs of living.

As a consequence, the scene in the West, particularly in America, has witnessed a sharp decline in the public trust of the major institutions of government. A survey of American public opinion conducted in January 2015 by Gallop indicated that public confidence in the three branches of government had reached unprecedented new lows. While confidence in the presidency had declined to 33 percent, confidence in Congress had sunk to 8 percent; and to 32 percent in the Supreme Court. In public schools, banks, newspapers, and big business, trust was 31, 28, 24, and 21 percent, respectively. (Jeffry M. Jones, confidence in US institutions still bellow historical norms, Gallop; January 15, 2015)

<http://www.gallup.com/poll/183593/confidence-institutions-below-historical-norms.aspx>

An analysis of public trust in the US government conducted by Pew Research Center, said, "Trust in government often, though not always, moves in parallel with satisfaction in the overall state of the nation. For the past half-century, the two measures have mapped very closely. Currently, just 19% say the government is run for the benefit of all – and an identical percentage says they can trust the federal government just about always or most of the time. The long-term erosion of public trust in the federal government has been mirrored by a steep decline in the belief that the government is run for the benefit of all Americans." (Beyond trust: how Americans view their government, November 23, 2015)

<http://www.people-press.org/2015/11/23/1-trust-in-government-1958-2015/>

The middle classes in the democratic West in general and in the United States, in particular, have become like a runner who runs on a fast-moving treadmill. He runs faster and faster just to stay in place and avoid falling off the track. But struggling to stay in place, while others keep marching along, accumulating more wealth and gaining more power, causes the middle class to become exhausted, weakened, dizzy, and disoriented. The unfortunate of the middle class who are particularly vulnerable because of their old age, poor health, inadequate

income, lack of knowledge, or minority status is falling off the treadmill track and joining the growing ranks of the relatively poor and powerless. A report on poverty in America published September 16, 2010, showed that the poverty rate was 14.5 percent in 2009 and the number of the poor has reached 44 million with some 170,000 families being homeless, and more than 30 million are still without health insurance.

There is no doubt that there are millions in America and most other countries who qualify today as members of a middle class based on their incomes. However, what makes a group of people a social class is not income only; they need to meet four conditions to form a class and be able to act as such. They have to have shared interests, similar lifestyles, similar values and outlooks, and, most importantly, a shared consciousness. These requirements are important in forming a class and helping its members to trust one another and work with each other. People who are considered members of the American middle-class today lack most of these requirements; they work for different and often competing branches of government, business enterprises, and not-for-profit organizations. Besides, some of them are highly educated sharing the same lifestyles and ambitions with the rich, and others are hardly educated but share similar conservative values and outlooks with the barons of the free market. Moreover, many of the American middle class are members of the armed forces and retired army and security and intelligence officers who tend to pursue interests and have views that differ from those shared by most other members of the middle class.

Nevertheless, the capitalist and democratic systems have produced many positive results that include countless scientific and technological innovations and cures for disease, as well as unprecedented economic growth; they have also produced high standards of living, tolerance and cultural diversity, social and political freedom, respect for human rights and protection for the environment, and vast improvements in the general quality of life; however, all of which have come under attack in the early 1980s. Greed and lack of social responsibility that drive the rich to squeeze the poor and impoverish the state and escape paying their share of taxes on the one hand, and apathy and contentment demonstrated by the poor and the powerless on the other, and the rapidly declining fortunes of the middle class have made both systems of market capitalism and democracy no longer serving the interests of the general public, and therefore they need to be restructured or replaced.

In light of the developments and situations reviewed in this chapter, it is easy to conclude that the American democratic system is no longer able to provide social justice and equality of opportunity. All systems, as explained earlier, regardless of their nature and objectives, have lives of their own that are destined to end one day. Such lives could be short or long, stagnant or dynamic, productive or unproductive, dull or interesting, but never perpetual. As they approach their limits, all systems come to require reform. While significant modifications may be sufficient in the short run, fundamental restructuring or replacement is inevitable in the long run.

Democracy in the West in general and in the U.S., in particular, has largely become a game played by the affluent for their benefits and according to rules they have developed to exclude others. "The rich and comfortable have influence and money. And they vote. The concerned and the poor have numbers, but many of the poor, alas, do not vote. There is a democracy, but in no slight measure, it is a democracy of the fortunate." (John Kenneth Galbraith, *Good Society*) 8. President Abraham Lincoln said in 1863 that democracy is "government of the people, by the people, for the people," not knowing that it will become within 150 years "government of the rich, by the rich, for the rich." In other words, American democracy has become a democracy of the masters, where the masters of society rule and their subjects merely serve. I believe that the old democracy has become a "*monocracy*," a word coined from democracy and money.

Since the traditional middle class in the West is slowly but methodically being dismantled rather than strengthened, and because the political party has lost its traditional role in society, the two major pillars of democracy are crumbling and cannot be saved without drastic change. Moreover, current trends of sociocultural, socioeconomic, and sociopolitical changes seem to indicate that the transition to the age of knowledge is creating new situations that serve the interests of the media, economic monopolies, and the rich and powerful only; and that these situations are least conducive to the revival or even sustenance of either the middle class or traditional political plurality. What we have today and is expected to have more in the future is sociocultural diversity, not a sociopolitical plurality, a weaker not stronger middle class, a more biased not fairer media, and more discrimination and bigotry and less tolerance.

While the actual and perceived conflict between socioeconomic classes in society is largely interest-related, the conflict between sociocultural groups is largely value-related. The first type of conflict lends itself easily to compromise, while the second does not, which usually precipitates deeper animosities and conflicts in society. Democracy, the mechanism to manage and resolve the conflict of interests, will have to be restructured to produce a new democratic model capable of reconciling conflicts of values with conflicts of interests. Therefore, the sociocultural plurality in the new model will have to play a major role in the political process besides traditional sociopolitical plurality, making power subject to sharing by all groups and classes, not left to the privileged and affluent to monopolize and exclude everyone else.

Nevertheless, the democratic system as a whole still enjoys legitimacy. But regardless of the sources of this legitimacy, history teaches us that no system of governance could continue to govern and enjoy public support for long without meeting the basic needs and expectations of its citizens, which tend to grow and change continuously. Because of such expectations, all democratic regimes are facing today increasing challenges from the inside.

Two major factors are helping the American democratic system maintain its legitimacy; lack of an alternative system of governance with a proven record of fairness and transparency and liberty; and the transformation of the democratic and free-market ideas into an ideology that has become an integral part of the fabric of the American culture. This transformation was engineered by the conservative elements of the Republican Party, promoted by the mass media, and financed by the business elite. Therefore, any attempt to restructure the American political or economic system has to consider the culture and the need to transform it.

Since the state came into existence thousands of years ago, men and women have continued to struggle to define and claim their rights. People have used religion, philosophy, manipulation, science, magic, and appeal to power to gain some of what they thought was theirs; at times they had to resort to violence to attain their legitimate rights. But despite their many sacrifices and great achievements in this endeavor, the struggle for freedom, social justice, and respect for human rights is still incomplete; it may never be completed. Democracy was one of our notable achievements on the way to freedom and social justice. And while it succeeded as a sociocultural value, its success as a political system leaves a lot

to be desired. As a value, democracy must be embraced and helped to deepen its roots in all societies and cultures. As a political system, democracy needs to be restructured to regain relevance and be able to carry out its noble mission.

*Since my motto is, "Knowledge not shared is Knowledge wasted," I ask all readers to recommend every article and book they like because it will help others. We all share the responsibility to make our world more hospitable to peace, social justice, and freedom; a lofty goal we cannot reach without spreading knowledge and awareness in every corner of our mother earth.*

**Prof. Mohamed Rabie** is a distinguished professor of International Political Economy; he taught at ten universities on four continents. He has published 52 books, 15 in English, one in Albanian, and the rest are in Arabic. English Books include four published by Palgrave Macmillan between 2013 and 2017: *Saving Capitalism and Democracy*; *Global Economic and Cultural Transformation*; *A Theory of Sustainable Sociocultural and Economic Development*; *The Global Debt Crisis and its Socioeconomic Implications*. Arabic Books include three of poetry, two novels, and a story; the rest is mostly academic books and collections of ideas and reflections. Prof. Rabie is president of the Arab Thought Council in Washington, DC, a member of the Arab Thought Forum, and a fellow of the Alexander Von Humboldt Foundation since 1992. Grants and scholarships financed his education from high school to completing his PhD. in 1970; grants covered studies in Jordan, Egypt, Germany, and America. He is the winner of the State of Palestine Lifetime Achievement Award for scholarly publications and several other awards. His writings and positions reflect a strong commitment to peace, justice, equality, freedom, human development, and social, cultural, economic, and environmental sustainability

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