http://www.foreignpolicy.com

How Capitalism Is Killing Democracy

By Robert B. Reich

September/October 2007

Free markets were supposed to lead to free societies. Instead, today's supercharged global economy is eroding the power of the people in democracies around the globe. Welcome to a world where the bottom line trumps the common good and government takes a back seat to big business.

It was supposed to be a match made in heaven. Capitalism and democracy, we've long been told, are the twin ideological pillars capable of bringing unprecedented prosperity and freedom to the world. In recent decades, the duo has shared a common ascent. By almost any measure, global capitalism is triumphant. Most nations around the world are today part of a single, integrated, and turbocharged global market. Democracy has enjoyed a similar renaissance. Three decades ago, a third of the world's nations held free elections; today, nearly two thirds do.

Conventional wisdom holds that where either capitalism or democracy flourishes, the other must soon follow. Yet today, their fortunes are beginning to diverge. Capitalism, long sold as the yin to democracy's yang, is thriving, while democracy is struggling to keep up. China, poised to become the world's third largest capitalist nation this year after the United States and Japan, has embraced market freedom, but not political freedom. Many economically successful nations—from Russia to Mexico—are democracies in name only. They are encumbered by the same problems that have hobbled American democracy in recent years, allowing corporations and elites buoyed by runaway economic success to undermine the government's capacity to respond to citizens' concerns.

Of course, democracy means much more than the process of free and fair elections. It is a system for accomplishing what can only be achieved by citizens joining together to further the common good. But though free markets have brought unprecedented prosperity to many, they have been accompanied by widening inequalities of income and wealth, heightened job insecurity, and environmental hazards such as global warming. Democracy is designed to allow citizens to address these very issues in constructive ways. And yet a sense of political powerlessness is on the rise among citizens in Europe, Japan, and the United States, even as consumers and investors feel more empowered. In short, no democratic nation is effectively coping with capitalism's negative side effects.

This fact is not, however, a failing of capitalism. As these two forces have spread around the world, we have blurred their responsibilities, to the detriment of our democratic duties. Capitalism's role is to increase the economic pie, nothing more. And while capitalism has become remarkably responsive to what people want as individual consumers, democracies have struggled to perform their own basic functions: to articulate and act upon the common good, and to help societies achieve both growth and equity. Democracy, at its best, enables citizens to debate collectively how the slices of the pie should be divided and to determine which rules apply to private goods and which to public goods. Today, those tasks are increasingly being left to the market. What is desperately needed is a clear delineation of the boundary between global capitalism and democracy—between the economic game, on the one hand, and how its rules are set, on the other. If the purpose of capitalism is to allow corporations to play the market as aggressively as possible, the challenge for citizens is to stop these economic entities from being the authors of the rules by which we live.

THE COST OF DOING BUSINESS

Most people are of two minds: As consumers and investors, we want the bargains and high returns that the global economy provides. As citizens, we don't like many of the social consequences that flow from these transactions. We like to blame corporations for the ills that follow, but in truth we've made this compact with ourselves. After all, we know the roots of the great economic deals we're getting. They come from workers forced to settle for lower wages and benefits. They come from companies that shed their loyalties to communities and morph into global supply chains. They come from CEOs who take home exorbitant paychecks. And they come from industries that often wreak havoc on the environment.

Unfortunately, in the United States, the debate about economic change tends to occur between two extremist camps: those who want the market to rule unimpeded, and those who want to protect jobs and preserve communities as they are. Instead of finding ways to soften the blows of globalization, compensate the losers, or slow the pace of change, we go to battle. Consumers and investors nearly always win the day, but citizens lash out occasionally in symbolic fashion, by attempting to block a new trade agreement or protesting the sale of U.S. companies to foreign firms. It is a sign of the inner conflict Americans feel—between the consumer in us and the citizen in us—that the reactions are often so schizophrenic.

Such conflicting sentiments are hardly limited to the United States. The recent wave of corporate restructurings in Europe has shaken the continent's typical commitment to job security and social welfare. It's leaving Europeans at odds as to whether they prefer the private benefits of global capitalism in the face of increasing social costs at home and abroad. Take, for instance, the auto industry. In 2001, DaimlerChrysler faced mounting financial losses as European car buyers abandoned the company in favor of cheaper competitors. So, CEO Dieter Zetsche cut 26,000 jobs from his global workforce and closed six factories. Even profitable companies are feeling the pressure to become ever more efficient. In 2005, Deutsche Bank simultaneously announced an 87 percent increase in net profits and a plan to cut 6,400 jobs, nearly half of them in Germany and Britain. Twelve-hundred of the jobs were then moved to low-wage nations. Today, European consumers and investors are doing better than ever, but job insecurity and inequality are rising, even in social democracies that were established to counter the injustices of the market. In the face of such change, Europe's democracies have shown themselves to be so paralyzed that the only way citizens routinely express opposition is through massive boycotts and strikes.

In Japan, many companies have abandoned lifetime employment, cut workforces, and closed down unprofitable lines. Just months after Howard Stringer was named Sony's first non-Japanese CEO, he announced the company would trim 10,000 employees, about 7 percent of its workforce. Surely some Japanese consumers and investors benefit from such corporate downsizing: By 2006, the Japanese stock market had reached a 14-year high. But many Japanese workers have been left behind. A nation that once prided itself on being an "all middle-class society" is beginning to show sharp disparities in income and wealth. Between 1999 and 2005, the share of Japanese households without savings doubled, from 12 percent to 24 percent. And citizens there routinely express a sense of powerlessness. Like many free countries around the world, Japan is embracing global capitalism with a democracy too enfeebled to face the free market's many social penalties.

On the other end of the political spectrum sits China, which is surging toward capitalism without democracy at all. That's good news for people who invest in China, but the social consequences for the country's citizens are mounting. Income inequality has widened enormously. China's new business elites live in McMansions inside gated suburban communities and send their children to study overseas. At the same time, China's cities are bursting with peasants from the countryside who have sunk into urban poverty and unemployment. And those who are affected most have little political recourse to change the situation, beyond riots that are routinely put down by force.

But citizens living in democratic nations aren't similarly constrained. They have the ability to alter the rules of the game so that the cost to society need not be so great. And yet, we've increasingly left those responsibilities to the private sector—to the companies themselves and their squadrons of lobbyists and public-relations experts—pretending as if some inherent morality or corporate good citizenship will compel them to look out for the greater good. But they have no responsibility to address inequality or protect the environment on their own. We forget that they are simply duty bound to protect the bottom line.

THE RULES OF THE GAME

Why has capitalism succeeded while democracy has steadily weakened? Democracy has become enfeebled largely because companies, in intensifying competition for global consumers and investors, have invested ever greater sums in lobbying, public relations, and even bribes and kickbacks, seeking laws that give them a competitive advantage over their rivals. The result is an arms race for political influence that is drowning out the voices of average citizens. In the United States, for example, the fights that preoccupy Congress, those that consume weeks or months of congressional staff time, are typically contests between competing companies or industries.

While corporations are increasingly writing their own rules, they are also being entrusted with a kind of social responsibility or morality. Politicians praise companies for acting “responsibly” or condemn them for not doing so. Yet the purpose of capitalism is to get great deals for consumers and investors. Corporate executives are not authorized by anyone—least of all by their investors—to balance profits against the public good. Nor do they have any expertise in making such moral calculations. Democracy is supposed to represent the public in drawing such lines. And the message that companies are moral beings with social responsibilities diverts public attention from the task of establishing such laws and rules in the first place.

It is much the same with what passes for corporate charity. Under today’s intensely competitive form of global capitalism, companies donate money to good causes only to the extent the donation has public-relations value, thereby boosting the bottom line. But shareholders do not invest in firms expecting the money to be used for charitable purposes. They invest to earn high returns. Shareholders who wish to be charitable would, presumably, make donations to charities of their own choosing in amounts they decide for themselves. The larger danger is that these conspicuous displays of corporate beneficence hoodwink the public into believing corporations have charitable impulses that can be relied on in a pinch.

By pretending that the economic success corporations enjoy saddles them with particular social duties only serves to distract the public from democracy’s responsibility to set the rules of the game and thereby protect the common good. The only way for the citizens in us to trump the consumers in us is through laws and rules that make our purchases and investments social choices as well as personal ones. A change in labor laws making it easier for employees to organize and negotiate better terms, for example, might increase the price of products and services. My inner consumer won’t like that very much, but the citizen in me might think it a fair price to pay. A small transfer tax on sales of stock, to slow the movement of capital ever so slightly, might give communities a bit more time to adapt to changing circumstances. The return on my retirement fund might go down by a small fraction, but the citizen in me thinks it worth the price. Extended unemployment insurance combined with wage insurance and job training could ease the pain for workers caught in the downdrafts of globalization.

Let us be clear: The purpose of democracy is to accomplish ends we cannot achieve as individuals. But democracy cannot fulfill this role when companies use politics to advance or maintain their competitive standing, or when they appear to take on social responsibilities that they have no real capacity or authority to fulfill. That leaves societies unable to address the tradeoffs between economic growth and social problems such as job insecurity, widening inequality, and climate change. As a result, consumer and investor interests almost invariably trump common concerns.

The vast majority of us are global consumers and, at least indirectly, global investors. In these roles we should strive for the best deals possible. That is how we participate in the global market economy. But those private benefits usually have social costs. And for those of us living in democracies, it is imperative to remember that we are also citizens who have it in our power to reduce these social costs, making the true price of the goods and services we purchase as low as possible. We can accomplish this larger feat only if we take our roles as citizens seriously. The first step, which is often the hardest, is to get our thinking straight.

Robert B. Reich, former U.S. secretary of labor, is professor of public policy at the University of California, Berkeley. This article is adapted from his book, Supercapitalism: The Transformation of Business, Democracy, and Everyday Life (New York: Alfred A. Knopf, 2007).