Capitalism and Democracy*

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Joseph Schumpeter, a great economist and social scientist of the last generation, whose career was almost equally divided between Central European and American universities, and who lived close to the crises of the 1930s and '40s, published a book in 1942 under the title, *Capitalism, Socialism, and Democracy*. The book has had great influence, and can be read today with profit. It was written in the aftergloom of the great depression, during the early triumphs of Fascism and Nazism in 1940 and 1941, when the future of capitalism, socialism, and democracy all were in doubt. Schumpeter projected a future of declining capitalism, and rising socialism. He thought that democracy under socialism might be no more impaired and problematic than it was under capitalism.

He wrote a concluding chapter in the second edition which appeared in 1946, and which took into account the political-economic situation at the end of the war, with the Soviet Union then astride a devastated Europe. In this last chapter he argues that we should not identify the future of socialism with that of the Soviet Union, that what we had observed and were observing in the first three decades of Soviet existence was not a necessary expression of socialism. There was a lot of Czarist Russia in the mix. If Schumpeter were writing today, I don't believe he would argue that socialism has a brighter future than capitalism. The relationship between the two has turned out to be a good deal more complex and intertwined than Schumpeter anticipated. But I am sure that he would still urge us to separate the future of socialism from that of Soviet and Eastern European Communism.

Unlike Schumpeter I do not include Socialism in my title, since its future as a distinct ideology and program of action is unclear at best. Western Marxism and the moderate socialist movements seem to have settled for social democratic solutions, for adaptations of both capitalism and democracy producing acceptable mixes of market competition, political pluralism, participation, and welfare. I deal with these modifications of capitalism, as a consequence of the impact of democracy on capitalism in the last half century.

At the time that Adam Smith wrote *The Wealth of Nations*, the world of government, politics and the state that he knew—pre-Reform Act England, the French government of Louis XV and XVI—was riddled with special privileges, monopolies, interferences with trade. With my tongue only half way in my check I believe the discipline of economics may have been traumatized by this condition of political life at its birth. Typically, economists speak of the state and government instrumentally, as a kind of secondary service mechanism.

I do not believe that politics can be treated in this purely instrumental and reductive way without losing our analytic grip on the social and historical process. The economy and the polity are the main problem solving mechanisms of human society. They each have their distinctive means, and they each have their "goods" or ends. They necessarily interact with each other, and transform each other in the process. Democracy in particular generates goals and programs. You cannot give people the suffrage, and let them form organizations, run for office, and the like, without their developing all kinds of ideas as to how to improve things. And sometimes some of these ideas are adopted, implemented and are productive, and improve our lives, although many economists are reluctant to concede this much to the state.

My lecture deals with this interaction of politics and economics in the Western World in the course of the last couple of centuries, in the era during which capitalism and democracy emerged as the dominant problem solving institutions of modern civilization. I am going to discuss some of the theoretical and empirical literature dealing with the themes of the positive and negative interaction between capitalism and democracy. There are those who say that capitalism supports democracy, and those who say that capitalism subverts democracy. And there are those who say that democracy subverts capitalism, and those who say that it supports it.

The relation between capitalism and democracy dominates the political theory of the last two centuries. All the logically possible points of view are represented in a rich literature. It is this ambivalence and dialectic, this tension between the two major problem solving sectors of modern society—the political and the economic—that is the topic of my lecture.

Capitalism Supports Democracy

Let me begin with the argument that capitalism is positively linked with democracy, shares its values and culture, and facilitates its development. This case has been made in historical, logical, and statistical terms.

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Albert Hirschman in his *Rival Views of Market Society* (1986) examines the values, manners and morals of capitalism, and their effects on the larger society and culture as these have been described by the philosophers of the 17th, 18th, and 19th centuries. He shows how the interpretation of the impact of capitalism has changed from the enlightenment view of Montesquieu, Condorcet, Adam Smith and others, who stressed the *douceur* of commerce, its "gentling," civilizing effect on behavior and interpersonal relations, to that of the 19th and 20th century conservative and radical writers who described the culture of capitalism as crassly materialistic, destructively competitive, corrosive of morality, and hence self-destructive. This sharp almost 180-degree shift in point of view among political theorists is partly explained by the transformation from the commerce and small-scale industry of early capitalism, to the smoke blackened industrial districts, the demonic and exploitive entrepreneurs, and exploited laboring classes of the second half of the nineteenth century. Unfortunately for our purposes, Hirschman doesn't deal explicitly with the capitalism–democracy connection, but rather with culture and with manners. His argument, however, implies an early positive connection and a later negative one.

Joseph Schumpeter in *Capitalism, Socialism, and Democracy* (1942) states flatly, "History clearly confirms ... [that] ... modern democracy rose along with capitalism, and in causal connection with it ... modern democracy is a product of the capitalist process." He has a whole chapter entitled "The Civilization of Capitalism," democracy being a part of that civilization. Schumpeter also makes the point that democracy was historically supportive of capitalism. He states, "... the bourgeoisie reshaped, and from its own point of view rationalized, the social and political structure that preceded its ascendancy ..." (that is to say, feudalism). "The democratic method was the political tool of that reconstruction." According to Schumpeter capitalism and democracy were mutually causal historically, mutually supportive parts of a rising modern civilization, although as we shall show below, he also recognized their antagonisms.

Barrington Moore's historical investigation (1966) with its long title, *The Social Origins of Dictatorship and Democracy; Lord and Peasant in the Making of the Modern World*, argues that there have been three historical routes to industrial modernization. The first of these followed by Britain, France, and the United States, involved the subordination and transformation of the agricultural sector by the rising commercial bourgeoisie, producing the democratic capitalism of the 19th and 20th centuries. The second route followed by Germany and Japan, where the landed aristocracy was able to contain and dominate the rising commercial classes, produced an authoritarian and fascist version of industrial modernization, a system of capitalism encased in a feudal authoritarian framework, dominated by a military aristocracy, and an authoritarian monarchy. The third route, followed in Russia where the commercial bourgeoisie was too weak to give content and direction to the modernizing process, took the form of a revolutionary process drawing on the frustration and resources of the peasantry, and created a mobilized authoritarian Communist regime along with a state-controlled industrialized economy. Successful capitalism dominating and transforming the rural agricultural sector, according to Barrington Moore, is the creator and sustainer of the emerging democracies of the nineteenth century.

Robert A. Dahl, the leading American democratic theorist, in the new edition of his book (1990) *After the Revolution? Authority in a Good Society*, has included a new chapter entitled "Democracy and Markets." In the opening paragraph of that chapter, he says:

> It is an historical fact that modern democratic institutions ... have existed only in countries with predominantly privately owned, market-oriented economies, or capitalism if you prefer that name. It is also a fact that all "socialist" countries with predominantly state-owned centrally directed economic orders—command economies—have not enjoyed democratic governments, but have in fact been ruled by authoritarian dictatorships. It is also an historical fact that some "capitalist" countries have also been, and are, ruled by authoritarian dictatorships.
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> To put it more formally, it looks to be the case that market-oriented economies are necessary (in the logical sense) to democratic institutions, though they are certainly not sufficient. And it looks to be the case that state-owned centrally directed economic orders are strictly associated with authoritarian regimes, though authoritarianism definitely does not require them. We have something very much like an historical experiment, so it would appear, that leaves these conclusions in no great doubt. (Dahl 1990)

Peter Berger in his book *The Capitalist Revolution* (1986) presents four propositions on the relation between capitalism and democracy:

> Capitalism is a necessary but not sufficient condition of democracy under modern conditions.
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> If a capitalist economy is subjected to increasing degrees of state control, a point (not precisely specifiable at this time) will be reached at which democratic governance becomes impossible.
>
> If a socialist economy is opened up to increasing degrees of market forces, a point (not precisely specifiable at this time) will be reached at which democratic governance becomes a possibility.
>
> If capitalist development is successful in generating economic growth from which a sizable proportion of the population benefits, pressures toward democracy are likely to appear.

This positive relationship between capitalism and democracy has also been sustained by statistical studies. The "Social Mobilization" theorists of the 1950s and 1960s which included Daniel Lerner (1958), Karl Deutsch (1961), S. M. Lipset (1959) among others, demonstrated a strong statistical association between GNP per capita and democratic political institutions. This is more than simple statistical association. There is a logic in the relation between level of economic development and democratic institutions. Level of economic development has been shown to be associated with education and literacy, exposure to mass media, and democratic psychological propensities such as subjective efficacy, participatory aspirations and skills. In a major investigation of the social psychology of industrialization and modernization, a research team led by the sociologist Alex Inkeles (1974) interviewed several thousand workers in the modern industrial and the traditional economic sectors of six countries of differing culture. Inkeles found empathetic, efficacious, participatory and activist propensities much more frequently among the modern industrial workers, and to a much lesser extent in the traditional sector in each one of these countries regardless of cultural differences.

The historical, the logical, and the statistical evidence for this positive relation between capitalism and democracy is quite persuasive.

Capitalism Subverts Democracy

But the opposite case is also made, that capitalism subverts or undermines democracy. Already in John Stuart Mill (1848) we encounter a view of existing systems of private property as unjust, and of the free market as destructively competitive—aesthetically and morally repugnant. The case he was making was a normative rather than a political one. He wanted a less competitive society, ultimately socialist, which would still respect individuality. He advocated limitations on the inheritance of property and the improvement of the property system so that everyone shared in its benefits, the limitation of population growth, and the improvement of the quality of the labor force through the provision of high quality education for all by the state. On the eve of the emergence of the modern democratic capitalist order John Staurt Mill wanted to control the excesses of both the market economy and the majoritarian polity, by the education of consumers and producers, citizens and politicians, in the interest of producing morally improved free market and democratic orders. But in contrast to Marx, he did not thoroughly discount the possibilities of improving the capitalist and democratic order.

Marx argued that as long as capitalism and private property existed there could be no genuine democracy, that democracy under capitalism was bourgeois democracy, which is to say not democracy at all. While it would be in the interest of the working classes to enter a coalition with the bourgeoisie in supporting this form of democracy in order to eliminate feudalism, this would be a tactical maneuver. Capitalist democracy could only result in the increasing exploitation of the working classes. Only the elimination of capitalism and private property could result in the emancipation of the working classes and the attainment of true democracy. Once socialism was attained the basic political problems of humanity would have been solved through the elimination of classes. Under socialism there would be no distinctive democratic organization, no need for institutions to resolve conflicts, since there would be no conflicts. There is not much democratic or political theory to be found in Marx's writings. The basic reality is the mode of economic production and the consequent class structure from which other institutions follow.

For the followers of Marx up to the present day there continues to be a negative tension between capitalism, however reformed, and democracy. But the integral Marxist and Leninist rejection of the possibility of an autonomous, bourgeois democratic state has been left behind for most Western Marxists. In the thinking of Poulantzas, Offe, Bobbio, Habermas and others, the bourgeois democratic state is now viewed as a class struggle state, rather than an unambiguously bourgeois state. The working class has access to it; it can struggle for its interests, and can attain partial benefits from it. The state is now viewed as autonomous, or as relatively autonomous, and it can be reformed in a progressive direction by working class and other popular movements. The bourgeois democratic state can be moved in the direction of a socialist state by political action short of violence and institutional destruction.

Schumpeter (1942) appreciated the tension between capitalism and democracy. While he saw a causal connection between competition in the economic and the political order, he points out "... that there are some deviations from the principle of democracy which link up with the presence of organized capitalist interests. ... [T]he statement is true both from the standpoint of the classical and from the standpoint of our own theory of democracy. From the first standpoint, the result reads that the means at the disposal of private interests are often used in order to thwart the will of the people. From the second standpoint, the result reads that those private means are often used in order to interfere with the working of the mechanism of competitive leadership." He refers to some countries and situations in which "... political life all but resolved itself into a struggle of pressure groups and in many cases practices that failed to conform to the spirit of the democratic method." But he rejects the notion that there cannot be political democracy in a capitalist society. For Schumpeter full democracy in the sense of the informed participation of all adults in the selection of political leaders and consequently the making of public policy, was an impossibility because of the number and complexity of the issues confronting modern electorates. The democracy which was realistically possible was one in which people could choose among competing leaders, and consequently exercise some direction over political decisions. This kind of democracy was possible in a capitalist society, though some of its propensities impaired its performance. Writing in the early years of World War II, when the future of democracy and of capitalism were uncertain, he leaves unresolved the questions of "... Whether or not democracy is one of those products of capitalism which are to die out with it ..." or "... how well or ill capitalist society qualifies for the task of working the democratic method it evolved."

Non-Marxist political theorists have contributed to this questioning of the reconcilability of capitalism and democracy. Robert A. Dahl, who makes the point that capitalism historically has been a necessary precondition of democracy, views contemporary democracy in the United States as seriously compromised, impaired by the inequality in resources among the citizens. But Dahl stresses the variety in distributive patterns, and in politico-economic relations among contemporary democracies. "The category of capitalist democracies" he writes, "includes an extraordinary variety ... from nineteenth century, laissez faire, early industrial systems to twentieth century, highly regulated, social welfare, late or postindustrial systems. Even late twentieth century 'welfare state' orders vary all the way from the Scandinavian systems, which are redistributive, heavily taxed, comprehensive in their social security, and neocorporatist in their collective bargaining arrangements to the faintly redistributive, moderately taxed, limited social security, weak collective bargaining systems of the United States and Japan" (1989).

In *Democracy and Its Critics* (1989) Dahl argues that the normative growth of democracy to what he calls its "third transformation" (the first being the direct city-state democracy of classic times, and the second, the indirect, representative inegalitarian democracy of the contemporary world) will require democratization of the economic order. In other words, modern corporate capitalism needs to be transformed. Since government control and/or ownership of the economy would be destructive of the pluralism which is an essential requirement of democracy, his preferred solution to the problem of the mega-corporation is employee control of corporate industry. An economy so organized, according to Dahl, would improve the distribution of political resources without at the same time destroying the pluralism which democratic competition requires. To those who question the realism of Dahl's solution to the problem of inequality, he replies that history is full of surprises.

Charles E. Lindblom in his book, *Politics and Markets* (1977), concludes his comparative analysis of the political economy of modern capitalism and socialism, with an essentially pessimistic conclusion about contemporary market-oriented democracy. He says

> We therefore come back to the corporation. It is possible that the rise of the corporation has offset or more than offset the decline of class as an instrument of indoctrination. . . . That it creates a new core of wealth and power for a newly constructed upper class, as well as an overpowering loud voice, is also reasonably clear. The executive of the large corporation is, on many counts, the contemporary counterpart to the landed gentry of an earlier era, his voice amplified by the technology of mass communication. . . . [T]he major institutional barrier to fuller democracy may therefore be the autonomy of the private corporation.

Lindblom concludes, "The large private corporation fits oddly into democratic theory and vision. Indeed it does not fit.

There is then a widely shared agreement, from the Marxists and neo-Marxists, to Schumpeter, Dahl, Lindblom, and other liberal political theorists, that modern capitalism with the dominance of the large corporation, produces a defective or an impaired form of democracy.

Democracy Subverts Capitalism

If we change our perspective now and look at the way democracy is said to affect capitalism, one of the dominant traditions of economics from Adam Smith until the present day stresses the importance for productivity and welfare of an economy that is relatively free of intervention by the state. In this doctrine of minimal government there is still a place for a framework of rules and services essential to the productive and efficient performance of the economy. In part the government has to protect the market from itself. Left to their own devices, according to Smith, businessmen were prone to corner the market in order to exact the highest possible price. And according to Smith businessmen were prone to bribe public officials in order to gain special privileges, and legal monopolies. For Smith good capitalism was competitive capitalism, and good government provided just those goods and services which the market needed to flourish, could not itself provide, or would not provide. A good government according to Adam Smith was a minimal government, providing for the national defense, and domestic order. Particularly important for the economy were the rules pertaining to commercial life such as the regulation of weights and measures, setting and enforcing building standards, providing for the protection of persons and property, and the like.

For Milton Friedman (1961, 1981), the leading contemporary advocate of the free market and free government, and of the interdependence of the two, the principal threat to the survival of capitalism and democracy is the assumption of the responsibility for welfare on the part of the modern democratic state. He lays down a set of functions appropriate to government in the positive interplay between economy and polity, and then enumerates many of the ways in which the modern welfare, regulatory state has deviated from these criteria.

A good Friedmanesque, democratic government would be one ". . . which maintained law and order, defended property rights, served as a means whereby we could modify property rights and other rules of the economic game, adjudicated disputes about the interpretation of the rules, enforced contracts, promoted competition, provided a monetary framework, engaged in activities to counter technical monopolies and to overcome neighborhood effects widely regarded as sufficiently important to justify government intervention, and which supplemented private charity and the private family in protecting the irresponsible, whether madman or child. . . ." Against this list of proper activities for a free government, Friedman pinpointed more than a dozen activities of contemporary democratic governments which might better be performed through the private sector, or not at all. These included setting and maintaining price supports, tariffs, import and export quotas and controls, rents, interest rates, wage rates, and the like, regulating industries and banking, radio and television, licensing professions and occupations, providing social security and medical care programs, providing public housing, national parks, guaranteeing mortgages, and much else.

Friedman concludes that this steady encroachment on the private sector has been slowly but surely converting our free government and market system into a collective monster, compromising both freedom and productivity in the outcome. The tax and expenditure revolts and regulatory rebellions of the 1980s have temporarily stemmed this trend, but the threat continues. "It is the internal threat coming from men of good intentions and good will who wish to reform us. Impatient with the slowness of persuasion and example to achieve the great social changes they envision, they are anxious to use the power of the state to achieve their ends, and confident of their own ability to do so." The threat to political and economic freedom, according to Milton Friedman and others who argue the same position, arises out of democratic politics. It may only be defeated by political action.

In the last decades a school, or rather several schools, of economists and political scientists have turned the theoretical models of economics to use in analyzing political processes. Variously called public choice theorists, rational choice theorists, or positive political theorists, and employing such models as market exchange and bargaining, rational self interest, game theory, and the like, these theorists have produced a substantial literature throwing new and often controversial light on democratic political phenomena such as elections, decisions of political party leaders, interest group behavior, legislative and committee decisions, bureaucratic, and judicial behavior, lobbying activity, and substantive public policy areas such as constitutional arrangements, health and environment policy, regulatory policy, national security and foreign policy, and the like. Hardly a field of politics and public policy has been left untouched by this inventive and productive group of scholars.

The institutions and names with which this movement is associated in the United States include Virginia State University, the University of Virginia, the George Mason University, the University of Rochester, the University of Chicago, the California Institute of Technology, the Carnegie Mellon University, among others. And the most prominent names are those of the leaders of the two principal schools: James Buchanan, the Nobel Laureate leader of the Virginia "Public Choice" school, and William Riker, the leader of the Rochester "Positive Theory" school. Other prominent scholars associated with this work are Gary Becker of the University of Chicago, Kenneth Shepsle and Morris Fiorina of Harvard, John Ferejohn of Stanford, Charles Plott of the California Institute of Technology, and many others.

One writer summarizing the ideological bent of much of this work, but by no means all of it (William Mitchell of the University of Washington), describes it as fiscally conservative, sharing a conviction that the "... private economy is far more robust, efficient, and perhaps, equitable than other economies, and much more successful than political processes in efficiently allocating resources. ..." Much of what has been produced "... by James Buchanan and the leaders of this school can best be described as contributions to a theory of the failure of political processes." These failures of political performance are said to be inherent properties of the democratic political process. "Inequity, inefficiency, and coercion are the most general results of democratic policy formation." In a democracy the demand for publicly provided services seems to be insatiable. It ultimately turns into a special interest, "rent seeking" society. Their remedies take the form of proposed constitutional limits on spending power and checks and balances to limit legislative majorities.

One of the most visible products of this pessimistic economic analysis of democratic politics is the book by Mancur Olson, *The Rise and Decline of Nations* (1982). He makes a strong argument for the negative democracy–capitalism connection. His thesis is that the behavior of individuals and firms in stable societies inevitably leads to the formation of dense networks of collusive, cartelistic, and lobbying organizations that make economies less efficient and dynamic and polities less governable. "The longer a society goes without an upheaval, the more powerful such organizations become and the more they slow down economic expansion. Societies in which these narrow interest groups have been destroyed, by war or revolution, for example, enjoy the greatest gains in growth." His prize cases are Britain on the one hand and Germany and Japan on the other.

> The logic of the argument implies that countries that have had democratic freedom of organization without upheaval or invasion the longest will suffer the most from growth-repressing organizations and combinations. This helps explain why Great Britain, the major nation with the longest immunity from dictatorship, invasion, and revolution, has had in this century a lower rate of growth than other large, developed democracies. Britain has precisely the powerful network of special interest organization that the argument developed here would lead us to expect in a country with its record of military security and democratic stability. The number and power of its trade unions need no description. The venerability and power of its professional associations is also striking. ... In short, with age British society has acquired so many strong organizations and collusions that it suffers from an institutional sclerosis that slows its adaptation to changing circumstances and technologies. (Olson 1982)

By contrast, post-World War II Germany and Japan started organizationally from scratch. The organizations that led them to defeat were all dissolved, and under the occupation inclusive organizations like the general trade union movement and general organizations of the industrial and commercial community were first formed. These inclusive organizations had more regard for the general national interest and exercised some discipline on the narrower interest organizations. And both countries in the post-war decades experienced "miracles" of economic growth under democratic conditions.

The Olson theory of the subversion of capitalism through the propensities of democratic societies to foster special interest groups has not gone without challenge. There can be little question that there is logic in his argument. But empirical research testing this pressure group hypothesis thus far has produced mixed findings. Olson has hopes that a public educated to the harmful consequences of special interests to economic growth, full employment, coherent government, equal opportunity, and social mobility will resist special interest behavior, and enact legislation imposing anti-trust, and anti-monopoly controls to mitigate and contain these threats. It is somewhat of an irony that the solution to this special interest disease of democracy, according to Olson, is a democratic state with sufficient regulatory authority to control the growth of special interest organizations.

Democracy Fosters Capitalism

My fourth theme, democracy as fostering and sustaining capitalism, is not as straightforward as the first three. Historically there can be little doubt that as the suffrage was extended in the last century, and as mass political parties developed, democratic development impinged significantly on capitalist institutions and practices. Since successful capitalism requires risk-taking entrepreneurs with access to investment capital, the democratic propensity for redistributive and regulative policy tends to reduce the incentives and the resources available for risk-taking and creativity. Thus it can be argued that propensities inevitably resulting from democratic politics, as Friedman, Olson and many others argue, tend to reduce productivity, and hence welfare.

But precisely the opposite argument can be made on the basis of the historical experience of literally all of the advanced capitalist democracies in existence. All of them without exception are now welfare states with some form and degree of social insurance, health and welfare nets, and regulatory frameworks designed to mitigate the harmful impacts and shortfalls of capitalism. Indeed, the welfare state is accepted all across the political spectrum. Controversy takes place around the edges. One might make the argument that had capitalism not been modified in this welfare direction, it is doubtful that it would have survived.

This history of the interplay between democracy and capitalism is clearly laid out in a major study involving European and American scholars, entitled *The Development of Welfare States in Western Europe and America* (Flora and Heidenheimer 1981). The book lays out the relationship between the development and spread of capitalist industry, democratization in the sense of an expanding suffrage and the emergence of trade unions and left-wing political parties, and the gradual introduction of the institutions and practices of the welfare state. The early adoption of the institutions of the welfare state in Bismarck Germany, Sweden, and Great Britain were all associated with the rise of trade unions and socialist parties in those countries. The decisions made by the upper and middle class leaders and political movements to introduce welfare measures such as accident, old age, and unemployment insurance, were strategic decisions. They were increasingly confronted by trade union movements with the capacity of bringing industrial production to a halt, and by political parties with growing parliamentary representation favoring fundamental modifications in, or the abolition of capitalism. As the calculations of the upper and middle class leaders led them to conclude that the costs of suppression exceeded the costs of concession, the various parts of the welfare state began to be put in place—accident, sickness, unemployment insurance, old age insurance, and the like. The problem of maintaining the loyalty of the working classes through two world wars resulted in additional concessions to working class demands: the filling out of the social security system, free public education to higher levels, family allowances, housing benefits, and the like.

Social conditions, historical factors, political processes and decisions produced different versions of the welfare state. In the United States, manhood suffrage came quite early, the later bargaining process emphasized free land and free education to the secondary level, an equality of opportunity version of the welfare state. The Disraeli bargain in Britain resulted in relatively early manhood suffrage and the full attainment of parliamentary government, while the Lloyd George bargain on the eve of World War I brought the beginnings of a welfare system to Britain. The Bismarck bargain in Germany produced an early welfare state, a postponement of electoral equality and parliamentary government. While there were all of these differences in historical encounters with democratization and "welfarization," the important outcome was that little more than a century after the process began all of the advanced capitalist democracies had similar versions of the welfare state, smaller in scale in the case of the United States and Japan, more substantial in Britain and the continental European countries.

We can consequently make out a strong case for the argument that democracy has been supportive of capitalism in this strategic sense. Without this welfare adaptation it is doubtful that capitalism would have survived, or rather, its survival, "unwelfarized," would have required a substantial repressive apparatus. The choice then would seem to have been between democratic welfare capitalism, and repressive undemocratic capitalism. I am inclined to believe that capitalism as such thrives more with the democratic welfare adaptation than with the repressive one. It is in that sense that we can argue that there is a clear positive impact of democracy on capitalism.

We have to recognize, in conclusion, that democracy and capitalism are both positively and negatively related, that they both support and subvert each other. My colleague, Moses Abramovitz, described this dialectic more surely than most in his presidential address to the American Economic Association in 1980, on the eve of the "Reagan Revolution." Noting the decline in productivity in the American economy during the latter 1960s and '70s, and recognizing that this decline might in part be attributable to the "tax, transfer, and regulatory" tendencies of the welfare state, he observes,

> The rationale supporting the development of our mixed economy sees it as a pragmatic compromise between the competing virtues and defects of decentralized market capitalism and encompassing socialism. Its goal is to obtain a measure of distributive justice, security, and social guidance of economic life without losing too much of the allocative efficiency and dynamism of private enterprise and market organization. And it is a pragmatic compromise in another sense. It seeks to retain for most people that measure of personal protection from the state which private property and a private job market confer, while obtaining for the disadvantaged minority of people through the state that measure of support without which their lack of property or personal endowment would amount to a denial of individual freedom and capacity to function as full members of the community. (Abramovitz 1981)

Democratic welfare capitalism produces that reconciliation of opposing and complementary elements which makes possible the survival, even enhancement of both of these sets of institutions. It is not a static accommodation, but rather one which fluctuates over time, with capitalism being compromised by the tax-transfer-regulatory action of the state at one point, and then correcting in the direction of the reduction of the intervention of the state at another point, and with a learning process over time that may reduce the amplitude of the curves.

The case for this resolution of the capitalism-democracy quandary is made quite movingly by Jacob Viner who is quoted in the concluding paragraph of Abramovitz's paper, "... If ... I nevertheless conclude that I believe that the welfare state, like old Siwash, is really worth fighting for and even dying for as compared to any rival system, it is because, despite its imperfection in theory and practice, in the aggregate it provides more promise of preserving and enlarging human freedoms, temporal prosperity, the extinction of mass misery, and the dignity of man and his moral improvement than any other social system which has previously prevailed, which prevails elsewhere today or which outside Utopia, the mind of man has been able to provide a blueprint for" (Abramovitz 1981).

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