
Democracy and Law. Research on democracy has long been a staple of WZB scholarship. Attention focuses on the parliamentary system, elections, political parties, the interaction of democracy and the rule of law, the social basis of political participation, and the democratically legitimated control of economic power. Democracy-related topics are explored primarily in the Research Area on the Dynamics of Political Systems, which is also closely connected to the WZB Rule of Law Center with its focus on legal aspects of democracy and governance.

Seeking a New Balance Is Finance Capitalism Endangering Democracy?

Wolfgang Merkel

Capitalism and democracy have proven to be the most successful economic and political systems in the past two centuries. Capitalism has swept the world since the collapse of Soviet state socialism after 1989 and the transformation of China's national economy. Resorting to barbaric means, only a few enclaves such as North Korea have resisted the triumphant march of capitalism and trends toward democratization. History, too, has shown that no developed democracy has ever managed without capitalism. The reverse is not true. National Socialist Germany, the People's Republic of China, Singapore, and the capitalist dictatorships of Latin America and Asia in the twentieth century illustrate that capitalism can survive, even blossom, under various types of political regime.

On the world scale, however, democracy's remarkable advance coincides with mounting criticism of the present state of developed democracies. Since the beginning of the twenty-first century, a growing number of theories and analyses assert that the world's mature democracies no longer represent anything more than "stages of decline" (Claus Offe), "postdemocratic moments" (Colin Crouch), or mere "facades" (Wolfgang Streeck). The main reason is the current form of capitalism, which is marked by hypertrophic finance capitalism. How compatible are capitalism and democracy? How profound is the incompatibility between democracy and capitalism in the latter's diverse western manifestations discerned as "varieties of capitalism." To what extent has capitalism become a challenge for democracy?

Summary: Social and political inclusion within capitalist democracies has been seriously damaged. The tension between capitalism and democracy is growing. Due to increasing economic inequality, the principle of political equality is in danger. Financial markets have limited the scope of government action. The state and markets both need to find a new balance between cooperation and control. All of these developments are major challenges for developed democracies. An early version of this essay, co-authored by Wolfgang Merkel and Jürgen Kocka, was published in the WZB-Mitteilungen 144, June 2014.

Inequality and participation

The very basis of political engagement—participation in general elections—is an issue. In 1975 an average of 85% of the electorates in western Europe went to the polls at the national level; in 2012, only about 75%. The decline in voter turnout is more dramatic in eastern Europe, where it shrank from 72% in 1991 to 57% in 2012. Even these numbers would be anything but alarming in the United States and Switzerland. Over the three decades from 1980 to 2012, the average rate of voter turnout in U.S. Congressional elections was a meager 45.4%.

The actual problem, though, is the social selectivity that coincides with this increasing absence of voters from the ballot boxes. The lower strata are becoming politically disengaged; the middle and upper strata are remaining. In the United States, approximately 80% of those who stated their willingness to vote in the presidential elections in 2012 had an annual household income of U.S. \$100,000 or more. Of the citizens with a household income of €15,000 or less, only one third stated their intention to vote. Accumulating evidence indicates that the American disease of excluding the lower strata is spreading to the European electorate as well. The principle of political equality is being undermined in terms of participation, representation, and policy.

Why do the lower strata of society no longer vote for political parties opting for redistribution? There had been phases of top-down redistribution after 1945, but the trend was reversed in the 1970s. Despite the insistence of the social democratic or other major parties of the political left that they represent the interests of these strata, that platform has more to do with maintaining their image as parties of “social justice” than with mobilizing the now often politically indifferent lower classes. If the governing parties of the left want to push through policies for the lower strata – expansion of education, establishment of a minimum wage, protection of the social welfare state, and higher taxation of the rich—they encounter the wealthier strata’s discursive or real threats. The main one is that of transferring capital and investments out of the country. For parties of the left in particular, this scenario poses a trade-off. If investors do relocate their assets to places abroad, jobs will be disappear, meaning less growth, less government revenue, less social investment, and ultimately fewer votes. The “third way” that most social democratic parties and governments have tried as a policy was simultaneously an attempt to adapt to their globalized economic environment. From a social democratic point of view it failed. The idea of redistribution has temporarily lost its most important advocate among the political parties.

There are also cultural fault lines. Lower strata (mainly men) are especially susceptible to authoritarian and ethnocentric policies. Examples are the populist right-wing parties of Scandinavia, Austria, and Switzerland. Voters in the lower middle class often vote cast their ballots for authoritarian and xenophobic parties representing neoliberal economic and fiscal policies.

The increasingly vulnerable state

The financialization of capitalism has compounded and magnified the state’s vulnerability. With the rise of financialization, the dependence of the production and trade sectors on the finance “industry” has escalated, as has the state’s dependence on capitalism. The state has partly disempowered itself since the 1970s by deregulating the financial markets. Governments and parties, which are voted out of office unless they deliver economic prosperity, have become ever more dependent on the decisions of major investors and their creditors – as clearly demonstrated by the financial and monetary crisis since 2008.

Financialized capitalism is incapable of sustaining itself on its own. Its survival depends on government interventions. But the crisis persisting since 2008 also reveals how much the democratic state has become hostage to powerful finance capitalism. The taxpayer is footing the bill. The banks, which were in a tailspin, were considered too big to fail. Given the manifold interlocking dependencies involved, it was feared their bankruptcy would result in a tectonic economic downturn. The policy-making community tried to prevent a collapse of those banks at almost any price, at least in Europe.

The crisis exposed the utter fragility of one of capitalism’s erstwhile keystones, the legal link of decision and liability. Blame for the crisis distinctly lay with the irresponsible speculating of banks and financial investors. But the government shouldered the responsibility for the consequences of the crisis by taking on soaring levels of debt, and it is still not obvious how to cope with it in the medium term. During the crisis decisions were also often made rashly, without suf-



Wolfgang Merkel is director of the WZB research unit Democracy and Democratization and professor of political science at Humboldt University of Berlin. His research interests include democracy and democratization, political regimes, social democracy and social justice. (Photo: David Ausserhofer)
wolfgang.merkel@wzb.eu

ficient parliamentary or congressional discussion, and thereby lacked proper legitimation. Deliberative procedures essential to parliamentary democracy were ignored.

Deparliamentarization and the strengthening of the executive

One of finance capitalism's notable features in the age of globalization and digitalization is the immense increase in the speed, volumes, complexity, and scope of financial transactions. In digitalized, computerized financial dealings, gigantic transactions require only split seconds. Indeed, the American political scientist William Scheuerman speaks of an "empire of speed." By contrast, parliaments need time to prepare, deliberate, and pass laws, leading to what the German sociologist Hartmut Rosa has termed the "desynchronization" of politics and economic activity. Democratic parliamentary decision-making and private economic transactions follow different temporal rhythms.

The acceleration in economic activity and society gives an advantage to those political institutions that act on the basis of decisionism, such as the executive branch of government, rather than deliberatively, such as the legislative or judicial branches. A special paradox involving democracy and crisis becomes apparent above all during crises. Drastic decisions taken during crises have what are often serious consequences for policy bearing on welfare and distribution. Those decisions are therefore precisely the ones that ought to be firmly rooted in democratic legitimation, yet the procedure that could bestow it gets sacrificed to time pressure.

The deterritorialization of decision-making on matters regarding the economy and economic policy in international and supranational contexts has become a problem for democracy, which continues to operate chiefly in the spaces defined by nation-states. The course of economic and political globalization has benefited the executive branch of governments at the expense of the territorially bounded parliaments. Parliaments are losing influence on legislation and on the control of executive power. At worst, they are reduced to merely rubber-stamping decisions made by the executive branch, which rams them through parliaments on the threat that no alternative exists. An example is what has been happening during the Euro crisis in donor and recipient countries alike.

The complexity of decisions on economic and fiscal policy is playing into the hands of the executive branch, which has a larger staff than parliaments do and can mobilize external expertise more quickly than they can. The average member of parliament is generally overburdened by the intricacies of financial policy and the implications of certain decisions, as publicly acknowledged by members of Germany's lower chamber, the Bundestag, during their hasty passage of the rescue packages arranged through the European Stability Mechanism. This erosion of parliament's role is not new. But the fact that parliaments are divested of any chance to gather information and then debate it is appearing as a new aspect of executive dominance. The executive has scored only a partial gain, however, for some of its decision-making power has quickly devolved to non-governmental actors: international committees of experts, central banks, hedge funds, and agents of global finance.

The marginalisation of society's lower strata

Why have the losers of deregulation and globalization not opposed this development? The constant threat that companies would transfer jobs to other countries and the attendant politically accelerated deregulation of the labor markets has sapped the bargaining power of the unions. Systematically and persuasively driven by liberal and conservative parties, this trend engulfed social democratic labor parties as well in the 1990s. In their search for the new middle classes from the service sector and for the median voter, they abandoned many political stances they had taken in the 1950s and 1960s. The center of attention

moved away from economic redistribution and gravitated to cultural, postmaterial, and ascriptive issues of identity, that is, to gender equality and the strengthening of ethnic and sexual rights among minorities. The economically privileged middle-class strata embracing liberal cosmopolitanism became focus groups. Unions came to be viewed as backward and out of touch with the age of globalization and postmaterialism. Whereas cultural discrimination was viewed (justifiably) as scandalous, the growing socioeconomic inequalities were deemed tolerable. In conservative and liberal parties, globalized finance capitalism was seen as desirable, even inevitable; in social-democratic parties, as no longer nationally tamable without a reduction of welfare, for which they would be punished on election day.

Drawing conclusions

The logics of capitalism and democracy are proving so divergent that tensions between them are bound to emerge, especially with respect to the attitudes that each spawns toward equality and inequality. The degree of inequality that is inherent in and productive for capitalism is difficult to reconcile with the democratic principle of equal political rights and opportunities to have a say. The message is not that capitalism is irreconcilable with democracy but rather that the coexistence of capitalism and democracy is most likely to succeed when a mutual balance of power, limitation, and interdependence is achievable. These dynamics are best illustrated by the developments in the final quarter of the twentieth century, when democratic political systems and variants of “organized” capitalism based on mass consumption and embedded in welfare states not only coexisted but reinforced each other.

Capitalist economic activity is the most likely engine of growth and prosperity, which in turn foster the legitimacy of the democratic polity in the eyes of its citizens. Capitalism, particularly in its combination with industrialization, has spurred demands, protests, and social movements, giving impetus to democratization even though actors of capitalism did not intend that outcome. The history of capitalism and democracy has repeatedly substantiated this dynamic over long phases.

Nonetheless, the accelerated rise of increasingly globalized and deregulated finance capitalism has partly fractured, partly reduced, and thoroughly complicated capitalism’s social and political moorings. The tensions between capitalism and democracy have heightened. Moreover, the thrust of protest movements has shifted from the economic to the cultural sphere. This change has its justification. But in its wake, economic disparities have spread again almost unchecked by social and political protests. All these issues confront democracy with challenges it is still far from mastering.

References

Kocka, Jürgen (2013). *Geschichte des Kapitalismus [The history of capitalism]*. Munich: C. H. Beck.

Merkel, Wolfgang, Ed. (2015). *Ist die Krise der Demokratie eine Erfindung [Is the crisis of democracy invented]? Wiesbaden: Springer VS-Verlag.*