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Democracy and Capitalism: Collective Action Theory and Structural Analysis

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As many researchers have remarked, there is an obvious connection between democracy and capitalism. A market economy and private ownership of the means of production constitute the predominant pattern in all modern democratic states. The purpose of this paper is to elucidate the exact nature of this connection.

The argument is built up in four stages. The first section comprises a short presentation and evaluation of two different theoretical approaches in the research on democracy: the structural and the actor- or choice-oriented. I conclude that the latter should serve as the starting-point of the analysis. I then seek to define the problems which arise here by means of some general theorems derived from the theory of collective action. Then, in the third section, a link is made with the structural theories; my ambition is to specify a number of external circumstances which pertain to the stated problems at the actor level and thereby explain changes in the actors' behaviour in favour of democracy. This done, I conclude by showing which of these structural relations just capitalism is considered to create.

What, then, is meant by democracy? I here concur with Robert Dahl's well-known definition of what he calls polyarchy, viz. a decision system in which broad participation – i.e. representative government via universal, equal suffrage – is combined with diverse political rights which enable public contestation – viz. political competition, right to oppose, to form organizations, etc. (Dahl 1971, 1 ff.).

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In other words, democracy signifies power sharing in its most extensive form: in principle all citizens are given competence to control the making

of political decisions. At the same time the methods which may be applied are very limited. The conflicts inherent in the system must be resolved in institutionalized forms and by peaceful means. 'Politics (in a democracy) consists not only of competition', says Dankwart Rustow: 'It is, above all, a process for resolving conflicts within human groups' (Rustow 1970, 358).

Two Approaches

Apart from the capitalism thesis – which will be presented in greater detail later – historical and comparative research has included many theories on different kinds of external relations which can promote (or counteract) a democratic development. According to the so-called modernization theory which prevailed during the politico-sociological vogue in the 1960s (Lipset 1960; Cutright 1963), the economic development level in terms of GNP/capita, the degree of industrialization and urbanization, etc., are the most decisive. Other researchers – following the tradition from Aristotle and Tocqueville – have instead emphasized the distribution of economic resources, particularly the dispersion of property (Dahl 1971; Vanhanen 1984). The absence of profound ethnic, religious or cultural cleavages in the population has also been adduced as prerequisite for democrary (Rabushka & Shepsle 1972; Jackson & Rosberg 1985). Moreover, mention has been made of the effect of the electoral and party system (Linz 1978, Powell 1982; Eisenstadt & Roninger 1984), the occurrence of federative systems (Diamond et al. 1986), the existence of autonomous organizations, so-called intermediate groups (Kornhauser 1959), the position of the central government – it may be far too weak or far too dominant – (Huntington 1965; Rokkan 1975; Usher 1981), the strength of the military (Dahl 1971), the position of the courts (Sklar 1983) and the regime's economic performance (Diamond et al. 1986).

These theories could certainly be assigned a highly varied empirical foundation: from relatively strong statistical connections to a simpler adduction of some (theoretically typical) historical examples. Nevertheless, all of them leave several not insignificant cases unexplained: democratic government is introduced and becomes established in certain quarters (and is abolished in others) where according to the predictions this was unlikely to occur (Dahl 1971, 68 ff.; Huntington 1984, 198 ff.; Pennock 1979, 207 ff.). This may be due to several circumstances. For a start, the majority of the said theories are rather limited as regards the explanatory factors which attract comment; for instance, they mention only certain economic relations and ignore others. More complex theories, where hypotheses of different kinds are interwoven, are still a rarity in the research field in question.

However, this is not the whole of the problem. Presumably the truth is also that too much attention has been paid to the discernment of general

structural causal connections and too little importance has been attached thereby to the scope which can be allowed for individual choice. Such an 'anti-deterministic' view has been vehemently upheld by Arend Lijphart, who for his part emphasizes the importance of the political leadership: democracy can burgeon – even under highly unfavourable external conditions – if the political élite actively works to build up an institutional system for tolerance and co-operation (Lijphart 1977, 2 ff. See also Linz 1978, 4 f.).

Lijphart was primarily concerned with such states as were marked by far-reaching cleaveges in ethnic, religious and even socio-economic respects. In these cases he considers that the solution consists in the creation of certain 'consociational' arrangements (grand coalitions, minority veto, proportionalism, and segmental autonomy), which promote a spirit of compromise and accommodation in political life. Yet already in his presentation it emerges that these methods are not wholly reliable (Lijphart 1977, 21 ff. and 224 f.); they seem to work in certain cases but not in others, nor can he provide any theoretically coherent explanation of this variation.

But the most interesting point in Lijphart consists not in the concrete solutions he recommends but rather in his emphasis of the room for choice for the actors involved: the to be or not to be of a democracy is a question of a deliberate action in which political will and androitness decide the issue.

We find a similar viewpoint in Dankwart Rustow. He describes the emergence of democracy as a process in which mutual confidence and a spirit of solidarity are gradually established. The development proceeds in stages. It begins when the political leaders enter into a kind of peace pact, whereby old antagonisms are set aside and replaced by a co-operation where 'diversity and unity' are to prevail. As Lijphart too has remarked, such a reconciliation often follows upon serious internal conflicts. This democratic pact is chosen as 'a second best' in order to prevent a deterioration for all. Then follows – if all goes well – 'the habituation phase', where through practice and learning a more genuine positive attitude is developed to the principles of accommodation and conciliation 'which constitute the foundation for the continuance of democracy' (Rustow 1970, 355 f.; Lijphart 1977, 228 ff.).

The problem of the research tradition represented by Lijphart and Rustow is that the questions pertaining to the actor theory which they raise are analysed in quite cursory and imprecise terms. No closer attention is paid to how the choice of the democratic strategy comes about, and what promotes the further development of co-operation. The heaviest emphasis is laid on the presentation of empirical examples which illustrate the main thesis *per se* (i.e. that the middle way of compromise proved feasible). Therefore, no general propositions in terms of actor theory have been

formulated concerning the course of the process in question. Under these circumstances it is understandable that Dahl, in his 1971 book, states that 'at present and for an indefinite future no explanatory theory can account satisfactorily for the beliefs of political activists and leaders' (Dahl 1971, 188, see also Pennock 1979, 237).

At the same time it is obvious that explanations of the emergence of democracy (as of many similar problems) need, as it were, a point of attachment on the actor theory level. The structural theories are simply incomprehensible if they are not linked to an account (of some kind) of the behaviour of the actors concerned – i.e. how this behaviour changes under the influence of external factors.[1] The question is how this linkage can be rendered clearer and more explicit.

As I see it, the pessimism which is expressed by Dahl in the above quotation concerning the possibilities of progress at the actor level is no longer wholly self-evident. In recent years, essential progress has been made in the area which could be called the applicable part of collective action research. These contributions have hitherto been used chiefly in the study of conflict-solving in international politics. But in my opinion the theorems in question can, in principle, also be used to illustrate the problem at issue here, i.e. how co-operation around the rules of democracy can evolve.

With the theory of collective action as starting-point the choice of a democratic mode of government may be analysed as a problem of co-operation – which is also closely akin to Lijphart's and Rustow's general view of the matter: in their opinion this very ability to create confidence and peaceful co-operation between different political decision-makers is crucial for the successful completion of the process. Let us therefore begin by visualizing some simple reference points in the said theory.

An Actor Theory Premise

We start from the figure below, which illustrates the benefit which actors expect to derive from co-operation.[2] As can be seen, the whole is expressed in a three-point scale, where each category is represented by one or two games which are defined in terms of the ranking of the outcome: mutual co-operation (CC), mutual defection (DD), unilateral defection (DC) and unrequited co-operation (CD).

A Strong tendency to co-operate	B Modest tendency to conflict		C Strong tendency to conflict
Stag Hunt (CC>DC>DD>CD)	Chicken (DC>CC>CD>DD)	Prisoners' (DC>CC>DD>CD)	Deadlock (DC>DD>CC>CD)

C = Co-operation D = Defection

When the situation follows Category A – represented by Stag Hunt[3] – the possibilities of bringing about co-operation are undeniably extremely favourable. For both parties have – if preferences are symmetrical – CC as the highest utility value. The only problem is to reach certainty that just this is the case (for if the one part co-operates and the other does not (CD) the result is poor). It is more difficult when the situation in Category B prevails, which is illustrated by Chicken and Prisoners' Dilemma. Here a unilateral defection is the prime objective and, what is more, in Prisoners' defection is a dominant strategy for the actors, i.e. it seems to yield the best outcome whatever the opponent does (since DC > CC and DD > CD). Thus it easily happens that mutual defection ensues, which gives a poorer result than would mutual co-operation (CC). Yet the realization of this fact yields a potential opportunity to bring about co-operation. This prerequisite does not, however, exist in the game called Deadlock, which here represents a strong tendency to conflict. In this case, as we see in the figure, not only is DC assigned the highest value and CD the lowest (as in Prisoners') but DD is also better than CC. The prediction is thereby simple. When the situation is of Deadlock character, the parties cannot by themselves bring about co-operation.

But in the other cases, in games corresponding to Categories A and B, this is possible in varying degrees. The problem is to establish the confidence in the opponent which is required in daring to choose the C strategy. In order to bring this about, in principle, the following methods are at hand:

1. The shadow of the future: iterated games.
2. Adopt flexible strategies.
3. Establish a rule system for communication and control.
4. Limit the number of decision-making actors.

In the first case it is a matter of the actors realizing that the game will be repeated, which means that the parties have to continue dealing with each other. Awareness thereof will impel them also to take future outcomes into consideration: if a party does not co-operate this time, there is a risk that the opponent will retaliate on the next occasion so that DD will ensure, whereby both parties lose. Yet if such a discounting of future outcomes is to have the desired effect of restraint, the players must be in equal positions. They must – to be brief – have the same interest ('stakes') in the different outcomes (with reference to both cardinal and ordinal values), which implies possession of similar resources: if the opponent's retaliation distresses me but little while my D strategy strikes him a far harder blow then our ideas of the menace in the future will naturally be far different. The incentive to co-operation, which a repetition of the game can provide, does not work if the one actor is far less vulnerable than the other.

The possibility of achieving co-operation can also be improved if the players make use of soft, flexible strategies. This is partly a matter of scope for increasing the number of possible outcomes. The main principle (which is closely akin to Popper's idea of piecemeal engineering) is that the players may not lock themselves in antagonisms pertaining to purely dichotomous courses of action. Instead they must endeavour to find new, intervenient options so that the possible outcomes assume the form of a scale (accordingly this concerns the application of the art of compromise). In addition, the flexibility of strategies deals with the approach to be adopted in the case of punishment, i.e. how to retaliate when the opponent deviates from the path of co-operation and plays D. The rule (according to Axelrod's 'Tit-for-tat strategy') is that a clear, resolute form of punishment should be applied but at the same time sufficient mercy should be shown to enable future co-operation.[4]

Furthermore, a system for information and control can be established. If this functions, the confidence between the parties which co-operation requires will naturally increase, especially if the institutions created are also used to inflict punishment for defection. All this in turn becomes simpler to achieve if the number of decision-making actors is small.

According to this simple summary of the general theory it is thus possible to reach a solution in situations corresponding to Categories A and B in the figure above. Yet it is presumably true that in order to establish a stable democracy, a preference structure represented by Category A is required, i.e. the interaction must have the character of games of the Stag Hunt type, where all the parties involved have CC as their first preference. For, as many scholars have remarked, democracy, if it is to endure, calls for a political culture which is characterized by community and tolerance – what Ernest Baker calls 'the Agreement to Differ' and what Herbert Tingsten means when he speaks of democracy as a supreme ideology (Baker 1942, 63; Tingsten 1960, 90 ff.). Democracy presumes, for its existence, a widespread consensus on certain fundamental values, and above all on the political rule system *per se* (Rustow 1970, 337. See also Pennock 1979, 239; Dahl 1971, 160; Powell 1982, 166 f.; Usher 1981, 48; Shumpeter 1942, 301; Moore 1967, 354).

The intermediate category, which is represented by Chicken and Prisoners' corresponds (at best) to the transitional stage of which Rustow speaks, i.e. the phase in which democracy is still very fragile. If this form of government is to be preserved, a high degree of parity is required between the parties – which at bottom pertains to the distribution of various resources essential for the outcome of the game – and the successful establishment of an at least technically functioning rule system together with an ability to limit the number of decision-making actors involved. Moreover, the responsible political leaders must have a flair for the for-

mulation of soft, flexible strategies. If one of these pre-conditions is changed for the worse there is a great risk that democracy will collapse.

The question which remains is how to emerge from the labile phase, which corresponds to Category B in the figure, and promote the strong tendency to co-operation which occurs in A and which we assumed to be the prerequisite for a stable democracy.

Thus the issue concerns how a change of preference in a more co-operative direction comes about. Some guidance on this problem too can be found in the literature on collective action. According to my findings the following, much abbreviated, may be said.

One explanation of why individuals change preferences is that they become influenced by the interaction itself. Experiments with diverse games have often shown that a kind of socio-psychological process takes place. The interaction gradually creates a feeling of fellowship between the actors, which is expressed in that each player not only considers his own material gain but also has a concern for the opponent's outcome. In other words, a change in values occurs. Thus a prolonged game situation not only has the (aforesaid) advantage that, from given selfish interests, it involves a threat which can promote co-operation; it can also contribute to alter the actors' interests towards altruism, unselfishness, which further eases co-operation. (Rustow's theory of how a deeper democratic fellowship burgeons could presumably, to a great extent, be interpreted in these terms (Rustow 1970, 358. See also Dahl 1971, 77).

Furthermore, the ranking of different outcomes can be disturbed by changes in the actors' perceptions of reality. This can occur via some kind of training which instils a more homogeneous cognitive view of reality (cf. Dahl 1971, 169 ff.; Pennock 1979, 245). But it can also ensue from practical learning during the course of the game. An actor perhaps discovers that a certain outcome – e.g. CC – involves some unforeseen, positive, side effects which impel him (still for purely selfish reasons) to esteem the co-operation strategy more highly in the future. (Those theories which address the efficiency of democracy – 'performance' – in an economic or a military respect deal with how the form of government in question can be re-assessed with reference to its side effects. Diamond et al. 1986, 9 ff.; Dahl 1971, 144 ff.; Rustow 1970, 359).

Moreover, preferences may be changed as a result of the advent of a new actor who represents a threat to the original players. The former contenders may therefore evince a strong interest in co-operation in order jointly to prevent a still worse outcome. (The striking spirit of co-operation which is often noticed before, and just after, the fall of an authoritarian regime – and which then soon wanes – illustrates what is meant. Przeworski 1987, 5 f.)

Furthermore, a new actor may intervene in the game itself and by

imposition change the actual rule system so that the former players are more or less compelled to co-operate. In the purest case this means that D strategies are simply prohibited. (Democracy was introduced by such a means in Japan after the War. The same method was also applied in many places in Africa in connection with its decolonization. A democratic constitution and free elections were frequently imposed as conditions for independence. Once the external actor had surrendered his authority, however, democracy was of very short duration in the majority of cases. Jackson & Rosberg 1985, 194 ff.; Huntington 1984, 196. See also Jackson & Rosberg 1986, 16). In other words, this method of changing preferences seems to stand and fall with the long-term maintenance of external force which implies an inequality of power which is *per se* hardly consonant with the principles of democracy.

The premises of the actor theory can be defined in approximately these terms. The purpose then is to specify the various structural relations which contribute to the maintenance of democratic co-operation according to the methods mentioned above, and which in certain cases can also affect a change of preferences in democracy's favour. For, as I believe, the structural theories mentioned above can be interpreted in terms of how different environmental factors of socio-economic, cultural and institutional character affect the actors' behaviour in the respects which I here seek to demonstrate.

External Conditions

I. A prime requisite for the promotion of co-operation is that the relations are long-term. But this has not only a temporal aspect, viz. that the interaction between the actors is repeated. It is also needful that the parties be more or less equal; both must be capable of effective retaliation if the opponent defects – an actor who cannot retaliate risks being permanently 'over-ridden'.

The point at issue in our case is the distribution of diverse resources which enable the parties to hold their own in the political struggle. If a large group in the society lacks such resources – or if they are very unevenly distributed to the group's detriment – it is difficult to bring about democratic co-operation (or any other form of power sharing).

Following Roland Pennock it can generally be said that the socio-economic context must be characterized as follows:

> (1) a democratic society must be an 'open' society; and (2) power must not be concentrated to the extent that individual autonomy ceases to be a significant force. . . . It must not have a class system that makes it extremely difficult for members of a rising class, whether it be

> the middle class or labor, to rise to positions of power and prestige. In Pareto's terms, it must provide for 'the circulation of the elites'. . . . Power must not all be concentrated in one identifiable and intercommunicating group of men. Otherwise, all the devices of constitutional government cannot be expected to prevent individuals and minorities – or even majorities – from being abused and exploited (Pennock 1979, 218–220).

As Robert Dahl and many others have remarked, the distribution of property and the relations marked thereby have a very strong influence here. For an economic superiority can easily be transformed into a political superiority. Individuals who have a very weak, dependent position in the economic respect usually cannot (or dare not) compete with their masters for political influence; especially if they are living on the pure subsistence level (Dahl 1971, 82 f. See also Eisenstadt & Ronninger 1984, 245 ff., and Pennock 1979, 235).

In an economy characterized by the following conditions such relationships will easily arise.[5]

- The production engenders considerable surpluses.
- Economy of scale confers substantial advantages.
- The production requires a considerable infrastructure (e.g. irrigation plants).
- New establishments on the market can be easily (or wholly) prevented.
- The type of production is largely similar (this counteracts conflicts of interest between different 'production elites').
- There is a good supply of (preferably unskilled and easily replaceable) manpower.
- The products require a low degree of processing.

Several of these circumstances often exist in traditional agricultural societies.[6] This results in a close interweaving of economic and political power which – in turn – gives rise to a cumulatively reinforcing power concentration (Dahl 1971, 54 f.; Lipset & Rokkan 1967, 44 f.).

However, as was just suggested, it is not only the terms of the economic life which are of importance in this context. A strong power concentration, to the detriment of individual and group autonomy, may also be engendered by a strong central government which wholly dominates the life of the society (Jones 1981, 233 f.). The state's external competence must therefore be limited to allow scope for an active 'civil society' which avails to make demands and constitute a threat to the ruling élite. As Samuel Huntington stated, there must be a balance between the input and output sides of politics. A large, well organized bureaucracy, or a strong military power can effect an imbalance of resources which places the democratic forces (on the input side) in a very weak position (Huntington 1956, 410 f. See also Dahl 1971, 50 f. and Diamond et al. 1986, 45).

Yet the input side in its turn can be strengthened in various ways.

Increased education and mass communications improve the common people's possibilities of political participation (Pennock 1979, 225). Moreover, the organization of so-called intermediate groups and the formation of parties with strong roots at the base level can further promote competition, candour and multiplicity in the political life (Huntington 1965, 424 f., Rustow 1970, 360; Diamond et al. 1986, 77).

Federalism or some kind of local autonomy may favour this development in several ways: such a condition results in a limitation of the competence of the central government and offers a political arena near to the people which facilitates political participation and organization (Lipset & Rokkan 1967, 53; Diamond, et al 1986, 35 ff.).

II. Nevertheless, the distribution of the political resources is not *per se* decisive. The democratic co-operation can also be hindered by the actors' inability to achieve political solutions which allow them to 'get round' the conflicts of interests which exist in the society. Thus it is a matter of the capacity to devise suitable strategies, i.e. to adopt a flexible, concessive attitude to potential conflicts, and also to take a soft line on punishment in the event that the other party deviates from the path of co-operation. In general it could be said that such an adroitness in relationships requires that the political culture – the system of norms that governs the participants – is in large measure open and instrumental. Holistic theories which penetrate all the stages of life – and thereby allow little scope for individual choice – are difficult to reconcile with a pluralistic government (Huntington 1984, 208. See also Diamond et al. 1986, 60).

Societies which are characterized by strong socio-economic, ethnic and religious cleavages constitute a well known problem in this context – especially if these coincide and function as mutually reinforcing. All such cleavages, however, do not seem equally difficult to handle. Ethnic and religious antagonisms are usually the most troublesome, since they have the character of an either/or dichotomy. In economic conflicts it is generally easier, by reason of the nature of the problems, to find some form of compromise; moreover the problems here are often more instrumental (Lipset & Rokkan 1967, 6; Usher 1986, 41 f. See also Lijphart 1977, 235 f.).

The way in which democracy is introduced may also be of importance. With respect to the future of this mode of government, it should proceed as gently and tolerantly as possible. Therefore a gradual change – what Huntington calls a transformation – is to be preferred to a replacement, which in the latter case signifies that the old élite is deprived of all political influence at one fell swoop. This may lead to bitterness and a desire for revenge which will constitute a long-term threat to the new form of government (Huntington 1984, 212 f.).

Moreover, applying a similar logic Adam Przeworski has argued that at the transition from an authoritarian, conservative regime, as is often the case, it is a great advantage if the new democratic government is right-wing or at least right of centre in nature: 'only when the left lost the first competitive election has the process of democratization not been preserved'. The same situation in reverse should prevail at a transition from a communist dictatorship: if a change is to occur, then the new regime must not have an anti-socialist image.

The strategy of gradual change should also pervade the substantial decisions made in the framework of democracy. Drastic measures which obviously threaten the fundamental values of certain groups may give rise to insoluble conflicts which undermine the tolerance and the at least rudimentary forms of solidarity which democracy requires:

> democracy can be established only if there exist institutions that would make it unlikely that the competitive political process would result in outcomes highly adverse to anyone's interests given the distribution of economic, ideological, organizational, and other relevant resources (Przeworski 1987, 9).

Or as Pennock says, 'if anything is worse than having dreams frustrated, it is to have present enjoyment taken away' (Pennock 1979, 234).

The possibility for compromise and reconciliation also depends in another respect on how much is at stake in the political life. In countries in which positions in the public machinery are crucial for the economic and social well being of individuals and groups, it is difficult to maintain democratic rule: 'competition for political power and office . . . is unlikely to be free where political power provides the only route to wealth and fame' (Pennock 1979, 220). A vigorous civil society, separated from political life, therefore appears advantageous also from the perspective discussed here: the possession or lack of a mandate to rule is not then a question of all or nothing.

The possibility of generating a spirit of conciliation and accommodation in the political interaction is also affected, as Lijphart in particular maintained, by the type of electoral system which is used. In general, it would seem that the proportional method is here to be preferred to the majority method. According to the latter the political struggle assumes in large measure the nature of a zero-sum game, which may contribute to a polarization of existing dissensions (Lijphart 1977, 38 ff. See also Lipset & Rokkan 1967, 32 f.). The segmental and regional autonomy, which Lijphart also recommends, are similar in essence; they constitute forms for a smooth solution of such conflicts in the society as would otherwise paralyse the process of political decision-making. For the methods of overcoming severe dissensions are not limited to purely substantial compromises (in the sense that a solution is sought 'half-way'). Other methods include 'log rolling'

(exchange of questions) and, so to speak, decentralization of the decision-making process inasmuch as the issue is removed from the (at least, central) political agenda. The forms of segmental autonomy suggested by Lijphart pertain to the second method (Lijphart 1984, 28 f.; Lijphart 1977, 41 f. See also Axelrod & Keohane 1985, 236 f.).

III. In order to facilitate confidence in and the protection of the parties which co-operation requires, a functioning democracy must be safeguarded by an extensive and stable rule system. It must be feasible to trust that elections will be properly conducted, that the executive power will be controlled so that improprieties are brought to light and those responsible duly punished, and that encroachments on the rights of individuals and groups are likewise prevented. In other words, democracy requires 'ein Rechtsstaat' where both political and civil rights are guaranteed. Furthermore, it is at least a major advantage if a purely administrative regularity (i.e. a rational bureaucracy in the Weberian sense) can be established (Elster 1987, 10; Sejerstedt 1984, 52 ff.; Hermansson 1985, 17 ff. See also Diamond et al. 1986, 76; Schefter 1977, 411 ff.).

The existence of an already institutionalized legal tradition of succession therefore represents a very important condition for democratic power sharing. Such a firmly rooted legal tradition is however lacking in many countries, particularly in newly established states. This being the case, there is a danger that wide participation and open competition will undermine the slight degree of political order which existed previously. As is well known, this is Huntington's thesis (Huntington 1968, 32 ff.), which is closely akin to the research on political history pursued by Stein Rokkan and Charles Tilly. The idea, in brief, is that democracy is only possible at a late stage in the process of state formation. It is necessary to attain 'statehood' (what Rokkan calls 'a strong centre') and a national integration which usually calls for a considerable concentration of power resources. Only when the said foundation is laid can the doors gradually be opened to political competition and participation (Rokkan 1975, 591 ff.; Tilly 1975, 34 ff.). And with the history of Europe as the template then the competition should, as Dahl maintained, take precedence over widespread participation (Dahl 1971, 33 ff.).

Huntington (and several others) have also heavily emphasized the need for a strong party system. For one reason among many, well organized parties, firmly rooted in the society, make it easier to establish a rule-bounded government (Huntington 1965, 424 f.; Diamond et al 1986, 37 ff.). The electoral system and other constitutional structures can in different ways have an impact in this context. The strong reason for majority elections is, as many studies have shown, that stable governments and highly institutionalized parties are thereby created (Powell 1982, 70;

Diamond et al. 1986, 22 f.). In the same way, the pure presidential system promotes a more stable, stronger central authority. But at the same time the party system is often weaker. Indeed the parliamentary order has the advantage that the internal community and organization of the parties are strengthened in that they have in the parliament a long-term responsibility for the government's existence – or (in opposition) for the offer of a systematic threat to it (Epstein 1981, 56; Lipset & Rokkan 1967, 31).

IV. In order to achieve co-operation it is usually simpler if the actual decision-makers are few. When the number is limited it is more likely that the actors will meet again, which promotes a greater awareness of the long-term nature of the game (the shadow of the future). Moreover, in a small circle it is often easier to devise soft, flexible strategies. In addition, it is far simpler to establish functioning systems for control and punishment: the possibility of discovering, and exacting liability for, breaches of rules or violations of agreement (so-called free riding) is of course greater when the actors are few.

For this reason a centralization (in the hierarchic sense) of the democratic decision-making process is to be preferred. In this perspective the representative democracy is undeniably more suitable than the direct. The desired effect can also be achieved by different kinds of corporative arrangement within the democratic framework (what Schmitter calls social corporatism): partly because the decision-making process is elevated to a central level (peak level bargaining), partly because the organizations involved are themselves usually strongly centralized (Schmitter 1974, 103 f.). The consocial democracy advocated by Lijphart has similar characteristics. The co-operation between parties and even organizations which is envisaged presumes a rigid elite culture: the decisions of strategic importance for the maintenance of the system must be made by a small circle of actors at the central level in the political system (Lijphart 1977, 99 ff.).

Moreover, from this starting point it is advantageous if the parties are relatively few in number. In this regard proportional election systems in general have a disadvantage vis-à-vis the method of majority elections. Nevertheless it is possible in the former to exert a limiting effect via the establishment of a threshhold or by the imposition of requirements for a fairly broad national affiliation among the parties which are admitted to the parliament (Diamond et al. 1986, 22 f. and 37 ff.).

V. Yet – despite these methods – the safest foundation for stable democracy lies in genuine popular support for the basic rules of the game. The democratic values must comprise an overall ideology which unites the majority of the citizens – and parties and organizations.

The problem is that so strong a co-operative spirit is just what is lacking in many cases. Therefore a change must occur in the general structure of preferences in the society.

As we have seen, a long-term interplay between actors may give rise to a socio-psychological process which results in the change of interests towards greater solidarity. In other words, interaction seems to promote social and value integration. Accordingly democracy, if this effect is strong, should be capable of developing in an evolutionary, self-reinforcing process. In this perspective it is undeniably an advantage if democratic forms of government are applied as early as possible in the development of a state: the period of interaction and inculcation will then be so much longer.[7]

Moreover, an economic and social 'modernization' may exert an encouraging effect in this context. Increased education, literacy and media exposure are usually accompanied by a greater openness and moderation in political issues. Improved material well-being and the growth of a (prosperous) middle class are expected to contribute to a corresponding reduction of the conflict level. Geographical relocation and urbanization, which mean that people forsake traditional, often closed, environments, are also thought to result in increased tolerance and greater placidity in the political life (Alford & Friedland 1985, 61 ff.). If the modernization is accompanied besides by organization – and if the internal structure of such organizations is democratic – this too may promote the spread of a culture of democratic co-operation. For, as Harry Eckstein remarked, there seems to be a 'general congruence between social authority patterns and governmental patterns' (Eckstein 1966, 239 f.).

Such social, and consequential politico-cultural processes of change seem, however, to develop very slowly. Old loyalties and traditional patterns, almost by definition, seem to be long-lasting. Usually the desired process takes several generations to burgeon (Pennock 1979, 215 f.).

Finally, a change of preferences in favour of greater co-operation can also ensue from the direct or potential intervention of an external actor. In the cases where the conflicts are very strong – in games such as Deadlock – the help of an outsider is absolutely essential to bring about co-operation between the original parties. But even at a lower conflict level this may be a strong incentive. The fact demonstrated by Göran Therborn that democracy has often been introduced in time of war (or just after) can be understood in this perspective (Therborn, 1980, 28 ff.).

Capitalism as an Explanatory Factor

After this general orientation we shall now scrutinize the particular thesis which postulates democracy's connection with capitalism. Drawing on the authors who have submitted thorough arguments in favour of this premise

I shall try to show which of the aforesaid structural conditions capitalism as an economic and social system is considered to generate.

However, it is worth mentioning at the outset that the thesis concerning the beneficial effect of capitalism has been strongly questioned. Authors with a socialist turn of mind such as Laski, Cole, Tawney and Wigfors have for their part remarked on the conflict which prevails between capitalism and democracy. Their arguments follow essentially two lines: firstly it is claimed that the economic hierarchy created by the market and private ownership is in direct logical opposition to the principles of popular rule which democracy represents. Furthermore, an empirical objection is put forward. There is in the capitalist society a wide and steadily increasing gap between rich and poor – those with and those without property – which promotes a growing inequality in political resources and which finally, unless the economic system is radically changed, can generate a conflict with outbreaks so violent as to lead to the collapse of political democracy. (The argument is summarized in Tingsten 1960, 166 ff.).

At the logical level these critics of capitalism undoubtedly have a strong case. The decision-making form of the market economy – i.e. the rule of contract – is obviously different from that of democracy. In a democracy all are allotted the same influence (according to the principle of one man, one vote) but on the market the economic strength decides the issue. On this fact there is little room for disagreement (Usher 1981, 78 and 96).

On the other hand, the later empirical assertion, which is of course of the most interest to us, can certainly be called into question. In connection with the said criticism – and often in direct polemic against it – authors such as Hayek, Schumpeter and Tingsten have proposed a diametrically opposite theory, viz. that a development away from capitalism, towards economic planning and extensive public ownership, would constitute a serious threat to the continuance of democracy.

One of the cardinal beliefs of these authors is that by reason of its strong element of competition and individual autonomy capitalism contributes to a diffusion of power in the society which creates a favourable foundation for political democracy. Joseph Schumpeter therefore has this to say:

> The bourgeois scheme of things limits the sphere of politics by limiting the sphere of public authority; its solution is in the ideal of the parsimonious state that exists primarily in order to guarantee bourgeois legality and to provide a firm frame for autonomous individual endeavour in all fields (Schumpeter 1972, 297).

The factor which is primarily emphasized is the need for a limitation of the external competence of the central government. Friedrich v. Hayek above all as therefore strongly warned against a transition to a comprehensive planned economy. Such a system would require a very far-reaching delegation of initiative and real authority to make decisions to the executive agencies, and in particular to the actual planning bureaucracy. The channel

of popular influence, the parliament, would soon lose control as a result of this structural imbalance. The executive authority and the planners would wholly dominate the scene and democracy would be degraded to only a formal procedure (Hayek 1944, 71 ff.). We find a similar analysis, with direct reference to Hayek, in Herbert Tingsten. In his view a planned economy, at the market's expense, would give rise to a cumulative process of power concentration which would finally also affect the political freedoms essential for democracy – e.g. the freedom of the press and the right to strike. For, says Tingsten, the logic of a planned economy dictates that the forces which may counteract a consistent execution of the planned objectives must be repressed. But this is not the only problem. A strongly concentrated and organized economic and political power in turn breeds passivity and fear among both the citizens and potential opposition parties. None dares seriously to rebel against the political leaders who rule over his livelihood (Tingsten 1960, 128 ff. See also Schumpeter 1942, 302).

As we can see, the premises of these authors are to some extent based on speculative conjecture: they propose scenarios for the future, on which we can hardly assert the possessing of much knowledge today. Yet they are far from alone in advocating the tenets which comprise the very core of the argument. The connection of capitalism with democracy via a limited central government and a general 'diffusion of power and influence' is also emphasized by Lindblom (Lindblom 1977, 162 f., 165). Moreover, we find a largely similar analysis in authors with Marxist leanings such as Barrington Moore and Göran Therborn.

According to Moore, the historical contribution of capitalism to modern democracy consists primarily in its dissolution of the closed local power monopolies which characterized the earlier, feudally dominated agricultural economy. The transition to a commercial agriculture and the emergence of a populous merchant class in the towns created a far more disparate, mobile, power structure which eventually enabled also peasants and workers to gain political influence (Moore 1967, 491 ff. See also Lipset & Rokkan 1967, 44 f.). Thus democracy can only develop, firstly, if the political hegemony of the land-owning upper class can be broken and, secondly, if a politically influential class of town-dwellers comes into existence:

> Without going into the evidence further or discussing the Asian materials that point in the same direction, we may simply register strong agreement with the Marxist thesis that a vigorous and independent class of town dwellers has been an indispensable element in the growth of parliamentary democracy. No bourgeois, no democracy (Moore 1967, 418).

According to Therborn's interpretation, the historical context under discussion is understandable in view of the impersonal market competition of capitalism and its lack of a single centre of power.

> Capitalist relations of production tend to create an *internally competing, peacefully disunited ruling class*. In its development, capital is divided into several fractions: mercantile, banking, industrial, agrarian, small and big. Except in a situation of grave crisis or acute threat from an enemy (whether feudal, proletarian or a rival national state) bourgeois class relations contain no unifying element comparable to the dynastic kingship legitimacy and fixed hierarchy of feudalism (Therborn 1980, 44 f.).[8]

In addition, Therborn emphasizes another factor of importance for the spread of power and political resources. Capitalism lays the foundation for a working class with a solidarity and organizational effectiveness which the subordinate classes in earlier modes of production could not attain. This movement – established in the form of parties and trade unions – has often taken up the cudgels in the struggle for political democracy (Therborn 1980, 43. See also Huntington 1984, 204 f.).

According to several authors, a society which is strongly coloured by the market – which means that many social and economic decisions are made outside the public sector – also has the advantage, essential for democracy, that the political decision-making process is thereby relieved of many well-nigh isoluble conflicts. Indeed, opinions are often deeply divided concerning the objectives which should be encouraged in social life. To allow the market to decide therefore involves a convenient method of overcoming – and politically tolerating – the existing conflicts of interest. As Lindblom says polyarchies combined with markets have 'been able to keep domestic peace only because in the main they facilitate a diversity of individual goal seeking' (Lindblom 1977, 165. See also Tingsten 1960, 129 f.).

This aspect of the relation between democracy and capitalism has been heavily emphasized by Dan Usher. The more critical decisions concerning the welfare and social position of individuals which the authorities presume to make, the greater the risk of major political conflicts. Accordingly, political intervention must be undertaken with great caution. What is possible to achieve is a gradual redistribution. On the contrary, drastic changes, involving an inversion of the relations between individuals and groups (which he calls re-assignments) are difficult to reconcile with democratic rule. For the minority – the injured party – can never be induced to passively accept such treatment. Instead of functioning as a peaceful form of conflict solving, politics gives way to strife between irreconcilable factions.

Usher holds that the simplest, most generally acceptable way of avoiding such destructive conflicts – also a menace to democracy – is to 'decentralize' to the market most decisions on social distribution (Usher 1981, 12 ff. and 42 ff. See also Mann 1986, 127).

The problem of a large public sector which dominates the life of the society is discussed in a similar perspective in Larry Diamond, Seymour Lipset and Juan Linz' recently presented study of the conditions for democ-

racy in the Third World. Their standpoint emerges from the following quotation:

> Although the evidence is not uniform, and other factors intervene to mediate the relationship, there is a strong tendency for state dominance over the economy and society to undermine democratic politics in developing countries. Among the least developed countries in Africa, this tendency has been most striking, because there extensive state economic ownership and control, and state mediation of social opportunities and rewards, occurs in a context where private sources of economic accumulation and socioeconomic opportunity are very poorly developed. Hence, upward social mobility, and the accumulation of personal wealth, depend on getting and maintaining control of, or at least access to, the state. . . . This raises the premium on political power to the point where no competing party or candidate is willing to entertain the prospect of defeat. The result is a zero-sum game, the politics of intolerance, desperation, violence and fraud (Diamond et al. 1986, 73).

The conclusion is that when much – or everything (as it is understood) is at stake in the political life, it is extremely difficult to apply the soft, conciliatory strategies which democratic co-operation requires.

Another merit of capitalism that has been emphasized is its purely economic efficiency. This social system, remarks Usher, has enabled an enormous material growth which has benefited not least the common people. It is indeed characterized by hirearchy, privilege and considerable class differences. But the gap between rich and poor is nevertheless moderate in comparison with most other types of society. What is more, the obstacles to social mobility are very low, in relative terms. Capitalism can thereby contribute to mitigation of the general conflict level in the society. Instead of an increased polarization it could, via an (at least in absolute figures) higher living standard for large groups and a general economic and social modernization, create the conditions for increased harmony in the political life (Usher 1981, 96. See also Huntington 1984, 104; Marshall 1977, 105, and Therborn 1980, 441).

Capitalism is thus said to possess several attributes which can promote democratic modes of decision-making: it contributes to a dispersion of political resources, facilitates the application of soft, concessive strategies, and can also via economic progress change the preference structure in democracy's favour.

There is, however, the already mentioned problem that the arguments are in some respects such, well-nigh prophetic in nature, that they do not lend themselves to testing. Moreover only a few of the authors quoted endeavour to adduce systematic, empirical evidence. Thus among those cited only Lindblom has considered the most obvious objection, viz. that the majority of the states in the capitalist world are *not* democratic (Lindblom 1977, 162). The connection is thereby *de facto* quite weak.

Otherwise very few researchers have tried to test the theses presented above via the compilation of comparative data. Nevertheless it may be mentioned that Kenneth Bollen examined the connection between democ-

racy and the dominance of the public sector (measured in public consumption in relation to the GNP). He found that his hypothesis – of a negative connection with a large public sector – was invalid (Bollen 1979, 576 and 582 ff.). The same conclusion is reached in a study by Jacobus Lettierie and Rob van Puijenbroek 1987, 19), who found no statistical relationship between the two variables (see also Pryor 1986, 310). One problem consists in the weakness of these data on public consumption, or at least in their inadequacy as regards the dominance of the government in the life of the society: nationalized production and different kinds of regulation (e.g. elements of a planned economy) should then be taken into account as well. Presumably similar results would be attained also with regard to such phenomena. The government's control of, and other interference in, industry are considerable in many Western countries and also in for example India.

It should be mentioned that Diamond, Lipset and Linz, who in the previous quotation emphasized the danger of a large public sector, later warn of unduly far-reaching, categorical conclusions: 'There are instances where extensive state economic ownership and control has not had obvious deleterious extensive consequences for democracy'. Apart from a general reference to the welfare states in Europe they also single out certain countries in the Third World which have had considerable public services and at the same time been democratic for a fairly long period (Botswana, Costa Rica, and to some extent also Uruguay). The differential in these countries, in the view of the said authors, consists in the existence of well developed institutional forms for control and punishment of corruption and other abuse in the public exercise of power (Diamond 1986, et al. 76).

This observation leads us to the more general factor which, according to Lindblom, can explain why the connection between democracy (which he calls polyarchy) and a market economy only exists in certain cases: it is only under liberal constitutional auspices that the two are tied together (Lindblom 1977, 162). In his analysis of the emergence of democracy in Europe and the USA, Moore reaches similar conclusions:

> This process had economic causes, though they were certainly not the only ones. The freedoms created through this process display a clear relationship to each other. Worked out in connection with the rise of modern capitalism, they display the traits of a specific historical epoch. Key elements in the liberal and bourgeois order of society are the right to vote, representation in a legislature that makes the laws and hence is more than a rubber stamp for the executive, an objective system of law that at least in theory confers no special privileges on account of birth or inherited status, security for the rights of property and the elimination of barriers inherited from the past on its use, religious toleration, freedom of speech, and the right to peaceful assembly. Even if practice falls short of profession, these are widely recognized marks of modern liberal society (Moore 1967, 429).

Consequently, if capitalism and democracy are to be compatible a third factor is required, viz. a developed system of rational law where both the

civil and political rights are guaranteed. The question of whether these legal prerequisites are actually coherent with capitalism is not, however, penetrated by any of the authors quoted here. As we have seen they point to a historical parallelism but make no mention of the nature and direction of the connection. Nor do they seek to explain the many cases where the said parallelism has not arisen, i.e. where there is a capitalistic economy but a very weak legal system, especially as regards political rights.

It is clear that a capitalistic economy presumes – or is at least greatly facilitated by – an ordered code of civil law. For a market can hardly function without certain rules of long standing which uphold contracts once made and the right to property (Usher 1981, 68; Marshall 1977, 93). According to scholars such as Eric Jones and Daniel Chirot, it is this very ability to establish such a legal foundation which made possible Europe's unique historical development, where individual freedoms have gone hand in hand with economic progress (Jones 1981, 225 ff.; Chirot 1985, 186 ff.).

But an elementary code of civil law also appears to be all that capitalism requires – for its own existence. Political rights, such as the right to organize and freedom of the press, etc., do not seem necessary for the development of the said economic system (the Europe of yesterday and the Chile and Taiwan of today – to mention but a few examples – undoubtedly support such a conclusion). We must obviously look to other kinds of theory to explain how these latter rights, which are indispensable for political democracy, came to be introduced in certain capitalistic states but not in others.

Clarity on the relation to the rule system is, however, not the only lack. Judging by our earlier survey of different kinds of conditions which can contribute to, or counteract democracy only some of these can be linked in any perceptible sense to the market as an economic and social system. The method of achieving co-operation which amounts to reducing the number of decision-making actors is not covered in the theory of capitalism in any of the versions reported here. As regards the points where there is a connection, much more remains to be said. Troublesome imbalances in power resources – or the absence thereof – may also arise from other causes. And the problem of finding flexible strategies to evade divisive conflicts is, as is known, beset by many difficulties – and even solutions – which hardly pertain to the presence or absence of capitalism. The same can be said of the possibility of changing the fundamental preference structure.

It is therefore wholly understandable that most market-oriented systems, after all, are not democracies.

NOTES

1. Analysis in exclusively structural terms leads in explanatory theory to that kind of reductionism known as 'the ecological fallacy' (Carlsnaes 1986, 106. Cf. Elster's discussion of the two filters (Elster 1979, 65 f.)).
2. The following general account of the theory is based on Axelrod (1984), Axelrod & Keohane (1985), Elster (1979b), Elster (1985), Oye (1985), Jervis (1985), Ullman-Margalit (1977).
3. This corresponds to what Elster calls the Solidarity game and Sen the Insurance game.
4. According to Tit-for-tat, the injured party should always retalitate and himself play D when the opponent has done so. But then C should be played again in order to invite a new co-operation. In experiments this strategy, in competition with several others, has proved to give the best result in the long run in the Prisoners' Dilemma game.
5. This account is based on Eisenstadt & Ronniger (1984); Jones, (1981); Mann (1986): Moore (1967); Usher (1981); and Vanhanen (1984).
6. The specific kind of production trend here seems to make a difference. Thus wool production appears to be more 'democratic' than wheat production – which requires less processing – or sugar production, which calls for economy of scale (Moore 1967, 419 f.; Usher, 35).
7. Lijphart's and Rustow's rather optimistic view of the possibilities of democracy seem to be based on such a belief. This contrasts with the far more pessimistic analyses presented by Huntington et al. (*vide supra*).
8. We find a similar analysis in Nicos Poulantzas, which, starting from Marx' study of Louis Bonaparte comments as follows: 'This inability of the bourgeoisie to rise to a political level, *sensu stricto*, derives from its inability to realize its inner unity: it allows itself to drown in factional strife without being able to realize its political unity from a common interest which is understood in a political perspective' (Poulantzas 1979, 321).

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