

ROUTLEDGE REVIVALS

Democracy and Capitalism

**Property, Community and the
Contradictions of Modern
Social Thought**

**Samuel Bowles
and
Herbert Gintis**



DEMOCRACY — AND — CAPITALISM



PROPERTY, COMMUNITY,
AND THE CONTRADICTIONS
OF MODERN SOCIAL THOUGHT



SAMUEL BOWLES
HERBERT GINTIS



ROUTLEDGE & KEGAN PAUL
LONDON

PREFACE

OUR THINKING about democracy and domination represents a fusion of three quite distinct strands of thought. One is the radical democratic tradition and its expression in the social movements of the 1960s and later decades. The second is liberal social theory and social science. The third is Marxism. Or perhaps more correctly put, our thinking has evolved through a sustained encounter between the hope and rage of the radical democratic movements of our time and the two now-dominant intellectual traditions.

The outcome of this encounter has been two convictions: a recognition of the multifaceted character of power in modern societies, and an appreciation of the centrality of learning and human development in the analysis of power and the rectification of its abuses. These may be considered novel concerns for those trained academically as economists, but this impression would be only partly accurate. The intimate relationship between political theory and economics dates back at least to Thomas Hobbes and the origins of liberal social theory in the seventeenth century. It is today expressed in the almost wholesale adoption of neoclassical economic thinking as the model, if not the actual analytical framework, of much political theory.

Not surprisingly, our critique of contemporary Marxian and liberal political theory is in important measure based on the shortcomings of the often implicit economic theory that underlies both. In the themes raised, if not in the content, our analysis of the predicament of contemporary democratic thought echoes the concerns of earlier writers on economics such as Adam Smith, Karl Marx, and John Stuart Mill.

If there is anything novel about our integration of economics and politics it is that, unlike the dominant tendency for the past two centuries, which has seen the infusion of political thinking with economic metaphor, we

Preface

propose the converse: a political critique of economic thinking and the importation of genuinely political concepts concerning power and human development into the analysis of economic systems.

Neither the complexity of the subject matter encountered in our studies nor the political defeats and disappointments of democratic political movements in recent years has diminished our conviction that the linkages between power, human development, and economic life are both understandable and—partly because they are understandable—susceptible to improvement. It is this conviction that has provided the impetus and the unifying principle in our own eighteen-year collaboration and for our publication of this modest contribution to the development of democratic thought.

Those who have taught us, criticized us, goaded us, infuriated us, and otherwise stimulated our research are too numerous to record here. But, even if inadequately, we would like to thank those whose criticism, advice, and assistance is reflected in the pages that follow: Robert Ackerman, Peter Alexander, Tariq Banuri, Harold Benenson, Charles Bright, Barry Clark, Joshua Cohen, Jean Elshtain, Ann Ferguson, Nancy Folbre, Gerald Friedman, David Gordon, Ian Gough, Philip Green, Jeanne Hahn, Susan Harding, Dolores Hayden, Ernesto Laclau, C. E. Lindblom, Elaine McCrate, Stephen Marglin, Chantal Mouffe, Bertell Ollman, Carla Pasquinelli, Nora Randall, Hannah Roditi, Richard Sack, Christine Di Stefano, Kathleen Stewart, Susan Tracy, Thomas Wartenberg, Thomas Weisskopf, Robert Paul Wolff, and Meg Worcester, as well as our students at the University of Massachusetts.

For financial support and hospitality we would also like to thank the John S. Guggenheim Foundation, the Institute for Advanced Study, the German Marshall Fund of the United States, the University of Massachusetts Faculty Fellowship, the University of Siena, and the Institute for the Advanced Study of the Humanities at the University of Massachusetts.

We would also like to thank Martin Kessler, Sandra Dhols, and David Graf of Basic Books for their insight and care.

PREFACE TO THE PAPERBACK EDITION

ACCORDING to *Genesis*, 11, there was a time when the people of “the whole earth had one language” and had begun to build a city and a tower extending past Heaven’s very door. But to curb the pretension of the people, the Lord descended to earth to “confuse their language that they may not understand one another’s speech.” They were scattered abroad and they left off building the tower.

The Biblical story seems curiously inverted in the late twentieth century: the voices of the powerful around the world are a cacophonous babel, asserting here the claims of private property or of scientific truth, and elsewhere of religious purity, patriarchal privilege, or racial supremacy. By contrast, the voices of protest against domination, whether raised in French, Zulu, Polish, English, Russian, Tagalog, Spanish or Chinese, increasingly draw upon a single language: the lexicon of rights.

There is an irony here. The *lingua franca* of the students of Soweto, of the shipyard workers in Gdansk, of the alternatives and greens in Germany, of radical workers in Europe and North America, of feminists the world over, or the 1987 constitution of Nicaragua cannot be traced to the *Communist Manifesto* or the discourse of revolutionary Marxism, but rather to the French Declaration of the Rights of Man and the American Bill of Rights, both products of the liberal tradition whose roots lie in the eighteenth century’s revolt against state absolutism.

A year has passed since *Democracy and Capitalism* first appeared. The liberal lexicon continues to be deployed against bastions of privilege in situations where, in a previous era, the language of socialist revolution might have provided the discourse of rebellion. It is perhaps not surprising that liberal ideology has attracted

dissidents in the Soviet Union, Eastern Europe, China and Afghanistan. But the environmental, peace, labor, and egalitarian youth movements of Europe, the human rights protests in Latin America and South Africa no less than the continuing struggle for democracy in the Philippines draw more from Mill than from Marx, more from Paine than from Plekhanov.

Yet while the voices of protest bear a liberal accent, the content of these initiatives is by no means foreign to the aspirations of the nineteenth-century socialist and anarchist visionaries. The emancipatory spirit which these new movements exhibit bears the unmistakable traits of their socialist ancestors.

The radicalized discourse of rights is the unwanted (albeit predictable) child of a liberal tradition which, by the late nineteenth century in the English-speaking countries, had come to focus almost exclusively on the rights of property and on a concept of freedom based on property. This version of the liberal tradition attains its apogee in Milton Friedman's virtually axiomatic identification of property and liberty in *Capitalism and Freedom*. But the doctrines of free trade, free contract, and the sanctity of property are part of a discourse which had once focused more on the freedom of religion and the inviolability of personal conscience, and which included a universal political idiom which quite as readily promotes political equality as class privilege. As labor activists, and national liberation movements, feminists, and opponents of racial privilege throughout the world have demonstrated, the language of liberalism can readily be transformed, and then deployed towards radical ends.

The quintessentially individualistic conception of rights promoted by liberal political philosophy might be thought to present an insurmountable barrier to this radical use of liberal discourse. But it does not. In practice, as we will show, the rights of citizens (or of persons generally), far from being God-given as the U.S. Declaration of Independence asserts, have been won through the collective struggles of the dispossessed, women, racial minorities and others. And the assertion of personal rights—of people of color to be treated with dignity, or of homosexuals to control their sexuality, or of workers to vote or to attain the right of association in labor unions—has represented one of the major forms of expressing and building the solidarity which renders radical democratic action effective.¹

The expansion of the discourse of rights challenges the coherence

of liberal discourse itself. For while embracing a form of political equality, liberalism protects the disproportionate power of the wealthy from its critics with a rhetorical zeal unsurpassed in the annals of political discourse. Yet wealth, as Marx stressed, is not simply a claim on income. Wealth is a form of domination of the dispossessed. The political structure of the capitalist economy, by any reasonable account, lodges vast power in the hands of a relatively small number of individuals and organizations. Wealth, as all economists recognize, commands goods through the exercise of purchasing power. But it commands people as well through the undemocratic structure of the modern business enterprise. This class relationship in production—central to Marx's view of capitalism and invisible in the liberal account—is, to announce a theme extensively explored in this book, a form of social power which under capitalism escapes democratic accountability. Capitalism, more than a system of resource allocation and income distribution, is a system of governance.

It is difficult to imagine that the language which so effectively pierced the pretensions of Louis XVI, George III, and Nicolas II, would not eventually be turned against the absolutism of Imperial Chemicals, IBM, and Fiat. The liberal political tradition provides no coherent response to the obvious question: why should the rights of ownership prevail over the rights of democratic citizenry in determining who is to manage the affairs of a business enterprise whose policies might directly affect as many as half a million employees, and whose choice of product, location and technology extends to entire communities and beyond?

The political critique of capitalism has until recently focused on the intimate relationship between wealth and political influence, and on the resulting capacity of the wealthy to circumscribe the choices of a democratic citizenry. Our focus in the pages which follow is less upon the state and more upon the structure of capitalist economy itself: on its workplaces, its markets, as well as its relationship to families and communities. Our assessment of these arenas adds a political dimension to the long-established critique of its pyramidal distribution of economic reward and social status.

Such a political critique of capitalism renders obsolete many of the traditional debates of political economy. Consider, for instance, the age-worn debate pitting the advocates of the market against those of planning. The socialist side of the debate, represented in the 1930s by the Polish (and University of Chicago) economist

Oskar Lange, apparently won the day by showing that in principle an ideal planned economy could allocate resources in a more nearly optimal manner than a perfectly competitive capitalist economy. But the rebuttal by conservative economist Friedrich von Hayed, and more recently by public choice theorists such as Gordon Tullock and James Buchanan, was well taken: market failure in capitalism is matched by a tendency towards bureaucratic sclerosis and the lack of accountability in central planning. Further, the information processing costs of any actual planning exercise, they observed, would be prohibitive when compared to the market's doubtless faulty but nonetheless decentralized and operable manner of informing buyers and sellers of the state of scarcities and wants. The disenchantment with the economic systems of the state socialism, which today spans the ideological spectrum, suggests that the conservative retort cannot be dismissed.

Even those who accept our assessment of capitalism as an undemocratic social order may thus rightly ask whether a democratic economy is feasible in the sense that it could attain levels of productivity and growth sufficient to allow an acceptable level of material welfare and free time or even to secure its long-term reproduction in a world of continuing scarcity and inter-state rivalry. Discussion of this subject has been marred by a tendency to view a democratic political structure of the economy as entailing the use of centralized planning rather than the market to govern allocation, the employment of moral incentives and cooperation rather than material incentives and competition to motivate performance, and reliance upon an informal participatory democracy rather than a hierarchical system of administrative decision making.

It should be clear, upon reflection, that there is no such simple connection between political democracy and organizational structure. Indeed, this confusion is reminiscent of the common eighteenth-century critique of democratic government on the grounds that democracy entails rule by the town meeting or the Greek city-state—a view belied by the highly complex character of modern representative democratic government. In point of fact, a democratic economic citizenry may decide to rely heavily on the use of markets both to empower individuals and groups as economic actors, and as an effective device for implementing social objectives.

Moreover, while there is every indication that political democracy builds the sort of loyalty and commitment upon which moral incentives thrive, this hardly entails the notion that material

incentives are either unnecessary or ethically undesirable. But the view that there is an ineluctable conflict between moral and material incentives, or between cooperation and competition, or that one of these modes can operate effectively in the absence of the other, is a quaint and anachronistic aspect of our intellectual heritage. It is belied by casual observation, historical experience, and a considerable body of social theory.

As Tocqueville long ago recognized, democracy has its own distinctive costs. These costs flow from the possibly excessive zeal and disarray generated when people manage their own affairs. It is little appreciated, however, that unaccountable authority has its own characteristic costs. There are enforcement costs, flowing from the need to induce people to obey laws and rules which they have not created or endorsed, and which may not be in their interests. *Democracy and Capitalism* explains why such costs are extensive and increasing in the contemporary era.

Enforcement costs include the surveillance and supervision of workers who have no reason to care about their bosses' concerns, the labor disciplining functions of the unemployed, and the erection of sophisticated security systems to protect the wealthy from the destitute. Indeed, the sum total of the labor involved in enforcing the rules of the game—guard labor in our terminology—is a significant portion of the total labor force: by a recent estimate, about one in four in the United States in 1984 (up from one in five 20 years earlier), or considerably more than are involved in producing capital goods for investment of all types.²

The economic promise of a democratic system of production and distribution is to significantly reduce the enforcement costs of the social order, transferring guard labor to productive work or towards the enhancement of free time for all.

Of course, democratic accountability in the economy generates distinctive problems of its own. Chief among these is perhaps the tendency towards technological conservatism and fear of innovation. Curiously one of the most appealing aspects of the capitalist economy is least stressed by its defenders among economists: the impressive ability of capitalist economic institutions to promote innovation.³

In principle there is no reason why a democratically organized economy could not be considerably more innovative than its capitalist rival. Indeed capitalist societies would seem to be in many ways hostile to innovation: credit is essential to innovation and is generally available in large amounts only to the wealthy; highly

selective educational systems further limit the potential number of innovators: widespread unemployment fosters worker resistance to new methods of production; profit-seekers often avoid research, the benefits of which cannot be appropriated and sold. The challenge to a democratic economy will be to maintain existing or design new systems of economic competition, entrepreneurial reward, and credit availability, fostering innovation and protecting economically creative individuals and groups against the rule of the majority.

The promise of the extension of personal rights over property rights is not merely feasible and abstractly desirable. Historical change itself is rendering economic democracy what may turn out to be one of the few non-coercive means of superseding the growing conflicts of advanced capitalist society. Indeed, the shift in the terms of debate on economic organization is more than matched by the vast change in economic and political conditions facing democratic social movements in the advanced capitalist countries. Three underlying trends seem particularly germane to this development.

First, the cost of producing, storing, and processing information has fallen drastically in the past two decades and will continue to fall. The information revolution thereby unleashed, vastly enhances the power of citizens and workers to control production and resource allocation in a decentralized manner. Yet at the same time it augments the capacity of states, businesses and other hierarchical organizations to monitor the activities and invade the privacy of citizens. Democratization may be the only effective means of protecting privacy and directing the information revolution in socially benevolent directions.

Second, production is increasingly carried out on a global scale. The assembly in one country of parts produced elsewhere to fabricate a commodity to be sold in yet another corner of the globe is still the exception. But in many industries it is already much more than a gleam in a corporate planner's eye. The information revolution and the associated reduction in transportation costs has contributed strongly to this trend. In the absence of social control over investment, the globalization of production challenges the sovereignty of the nation-state. For in effect it forces democrats to choose between the private control of investment, entailing ineffectual economic policy, and a democratic impotence, on the one hand, and the development of democratic institutions for the social accountability of investment on the other.

Finally, the twentieth-century has rightly been called the epoch of revolution. But the Chinese, Russian, and other upheavals are

matched by a silent revolution in the advanced capitalist countries: the disappearance of the peasant and the housewife as the dominant occupations in society. At the turn of the century in most of Europe and North America, well over half the adult working population were either farmers or homemakers (or both). These two occupations constituted a vast labor reserve for capitalist expansion, allowing the accumulation process to proceed through boom and depression without encountering the labor scarcity which would enhance the aspirations and the bargaining power of workers.

These two great labor pools—the home and the farm—are now substantially depleted. The prospect then is for a weakening of capitalist power at the center and perhaps another retreat of profit-seekers into the capitalist periphery reminiscent of Europe's fifteenth- and sixteenth-century expansion into Africa, Asia and Latin America following labor shortage resulting from the decimation of the European population in the later Middle Ages.

If a depletion of internal labor reserves makes the stick of unemployment increasingly costly for employers to wield, the control of work processes in Europe, North America and Japan will be forced to rely more on the carrot of commitment and participation or on the development of new sources of labor supply or forms of domination less dependent on labor abundance.

All three of these trends—the globalization of production, the information revolution, and the demise of the home and the farm as labor reserves for capitalist employment—will shape not only the debate on economic democracy, but the evolution of the ongoing clash of citizen rights and property rights.

Amherst, Massachusetts
April, 1987

Notes

1 Critiques of the intrinsically individualistic nature of liberal democratic discourse and hence its shortcomings as a tool towards socialist or radical democratic ends generally fail to distinguish between a political philosophy as a set of ideas and a political discourse as a form of social action and solidarity. We will return to this point in the pages which follow.

2 These estimates are contained in Center for Popular Economics, *The Economic Report of the People* (Boston: South End Press, 1986).

3 Having virtually no theory of entrepreneurship, neo-classical economics has stressed the timeless static allocational virtues of capitalism. Others, Joseph Schumpeter and Karl Marx, have been more attentive to the progressive dynamic properties of capitalism.

CONTENTS

PREFACE	<i>ix</i>
1. Present: Politics, Economics, and Democracy	3
2. Past: Citizens, Property, and the Clash of Rights	27
3. Economy: The Political Foundations of Production and Exchange	64
4. Structure: The Mosaic of Domination	92
5. Action: Learning and Choosing	121
6. Community: Language, Solidarity, and Power	152
7. Future: Postliberal Democracy	176
NOTES	214
INDEX	236

DEMOCRACY
— AND —
CAPITALISM

1

Present: Politics, Economics, and Democracy

THIS WORK is animated by a commitment to the progressive extension of people's capacity to govern their personal lives and social histories. Making good this commitment, we will argue, requires establishing a democratic social order and eliminating the central institutions of the capitalist economy. So stark an opposition between "capitalism" and "democracy," terms widely held jointly to characterize our society, may appear unwarranted. But we will maintain that no capitalist society today may reasonably be called democratic in the straightforward sense of securing personal liberty and rendering the exercise of power socially accountable.

"Democratic capitalism" suggests a set of harmonious and mutually supportive institutions, each promoting a kind of freedom in distinct realms of social life. Yet we will show that capitalism and democracy are not complementary systems. Rather they are sharply contrasting rules regulating both the process of human development and the historical evolution of whole societies: the one is characterized by the preeminence of economic privilege based on property rights, the other insists on the priority of liberty and democratic accountability based on the exercise of personal rights.

Our commitment to democracy is thus an affirmation of a vision of a society in which liberty and popular sovereignty govern both learning and history. Democracy, not the interplay of property rights, should provide the fundamental principle ordering the processes by which we become who we

are and by which the rules regulating our lives are continually renewed and transformed.

Except to argue that they are feasible and attainable, we will not seek to justify these commitments. Instead we will explore their implications for the way we think about the individual, about society, and about history. Although justification may be unnecessary, clarification of terms is surely in order. In practice we identify democracy with liberty and popular sovereignty. Liberty involves an extensive range of social life over which individuals have the freedom, and where appropriate the resources, to act, and to seek to persuade others to act, as they see fit, without social impediment. Ronald Dworkin has expressed this well:

Individual rights are political trumps held by individuals. Individuals have rights when, for some reason, a collective goal is not a sufficient justification for denying them what they wish, as individuals, to have or to do, or not a sufficient justification for imposing some loss or injury upon them.¹

Liberty thus entails freedom of thought and association, freedom of political, cultural, and religious expression, and the right to control one's body and express one's preferred spiritual, aesthetic, and sexual style of life.

By popular sovereignty we mean that power is accountable, and in some sense equally accountable, to those affected by its exercise. But popular sovereignty cannot be unitary. We shall argue that there are multiple centers of power in liberal democratic capitalism and indeed in most social orders, and that this pluralism of powers captures an essential aspect of the conception of a democratic society. We thus reject the concept of a unifying "popular will," and we take sovereignty as ultimately and irreducibly heterogeneous. In effect, democracy requires that both individuals and groups have trumps to play.

We will identify several modifications of social theory implied by a commitment to a democratic society. Our interests, however, are not exclusively contemplative. Our recasting of democratic theory as well as our reading of the tumultuous trajectories of democracy and capitalism over the past two centuries will commit us not to a democratic utopia, but to a broad historical project of making good the long-standing radical but thwarted promise of democracy.

Democratic institutions have often been mere ornaments in the social life of the advanced capitalist nations: proudly displayed to visitors, and

Present: Politics, Economics, and Democracy

admired by all, but used sparingly. The places where things really get done—in such core institutions as families, armies, factories, and offices—have been anything but democratic. Representative government, civil liberties, and due process have, at best, curbed the more glaring excesses of these realms of unaccountable power while often obscuring and strengthening underlying forms of privilege and domination.

But democracy does not stand still. Where democratic institutions have taken root, they have often expanded and deepened. Where a democratic idiom has become the lingua franca of politics, it has often come to encompass unwonted meanings. In the course of its development, democracy thus may challenge, indiscriminately and irreverently, all forms of privilege. The road from the eighteenth-century Rights of Man, which excluded not only women but most people of color as well, to the late twentieth-century civil rights movements, feminism, and the right to a job has been a tortuous one, but the route was amply prefigured even in the discourse of eighteenth-century liberalism.

When democratic sentiments begin to so encroach upon a fundamental social institution as to threaten its ability to function, democratic institutions will find themselves obliged to supplant it or to retreat. This situation precisely captures the present predicament of the liberal democratic capitalist societies of Europe and North America. The beleaguered realm is the capitalist economy itself.*

The post–World War II development of the welfare state and Keynesian economic policy gave notice that profit-making business activities would be monitored and that the capitalist corporation, while permitted a considerable expansion, would be subject to social scrutiny. The striking economic success of the liberal democratic capitalist societies in the postwar era attests to the advantages of this mutual accord of economic elites and citizenry. But the expanding claims of democracy proved to be the accord's undoing. By giving citizens the power to encroach upon the capacity of capital to invest profitably and to discipline its labor force, democratic institutions challenged the basic operations of the capitalist economy and sapped its dynamism.

Yet the welfare state and Keynesian economic policies had been carefully circumscribed; they did not give citizens the power to assume these critical

* By liberal democratic capitalist societies we mean those two dozen or so nations whose social life is structured by a limited state that extends civil liberties and suffrage to most adults and an economy characterized by production for the market using wage labor and privately owned means of production. We will return to this characterization in later chapters.