

### Democracy under stress: The global crisis and beyond

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Ursula J. van Beek  
Edmund Wnuk-Lipinski (eds.)

# Democracy under stress

The global crisis and beyond

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# The model of liberal democracy and varieties of capitalism

*Ursula Hoffmann-Lange*

## Introduction

As this book considers the possible impact of the Great Recession on global democracy, it is necessary to understand what democracy is and how it functions, what makes it desirable and preferable to other political systems, what its inherent strengths and weaknesses are, how it fares in various cultural contexts, and how it is linked to the market economy.

This contribution starts from the assumption that the model of liberal democracy is universally applicable and has the ability to ensure both social peace and political legitimacy. The model is by no means a prescription for a uniform set of political and economic institutions, as it can be adjusted to fit the specific cultural traditions of any country, but it suffers from an inherent tension between its two basic principles: liberty and equality. On the one hand, it requires the existence of a market economy, that is, a capitalist system, which necessarily implies inequalities of wealth. On the other hand, democracy has to ensure the equality of its citizens and this raises the question of whether equity should be limited only to political rights, such as equality of the vote etc., or whether it should also imply that democratic governments have a responsibility to reduce socioeconomic disparities. The topic remains highly controversial. Even so, the market economies of the consolidated liberal democracies are characterised by a good deal of government intervention into the market in favour of securing a basic standard of living for their citizens. Because liberal democracies are politically more flexible, ensure the existence of an open market of ideas and allow an electorate to vote inefficient governments out of power, they are also better equipped than authoritarian political systems to weather even deep economic crises without the threat of a decline in regime legitimacy and the consequent risk of political instability.

Democracy is inherently a continuous rather than a dichotomous concept. It is an ideal type of government in the sense that it can never be fully achieved in reality. In practice, even consolidated liberal democracies are in many respects deficient. They have biased systems of interest representation in public policymaking, low-level corruption is endemic (cf. *Transparency International*) and political parties frequently deceive citizens in electoral campaigns by making promises they will not be able to fulfil after they have

come to power. Still, even critical observers would probably agree that such violations of democratic norms are much less severe in established liberal democracies than in authoritarian regimes.

The initial question to ask is whether liberal democracy is indeed the best system for securing “the greatest happiness of the greatest number” (Jeremy Bentham) in the course of championing “life, liberty and the pursuit or happiness” (United States Declaration of Independence). The first and most crucial distinction between democratic and non-democratic polities lies in the method by which political leaders are selected. In a democracy this happens by means of regular, competitive popular elections that ensure elected leaders can be held accountable to the wishes of the citizens.

While competitive elections are the central criterion for a liberal democracy, many theorists have argued that such a narrow definition is insufficient because electoral procedures may unfairly benefit some competitors. Electoral rules may, for instance, prevent certain parties or candidates from running for electoral office because of unduly high requirements for candidate registration; constituencies may be of grossly unequal size or their boundaries may be unfairly drawn; high electoral thresholds may effectively bar the representation of minorities, etc. Likewise, governments can use their resources to prevent effective campaigning by opposition parties, opposition candidates may be harassed or even thrown into prison, etc. Most political scientists therefore agree that the existence of several parties and their representation in the national legislature is only a minimal requirement liberal democracies have to fulfil.

Robert Dahl (1998), a well-known theorist of democracy added other criteria to the list besides meaningful competitive elections, among them, fundamental liberty rights and the rule of law. According to another theorist, Guillermo O'Donnell (2004), the rule of law is an essential pillar of democracy, because it is the precondition of effective political rights, civil liberties and mechanisms of accountability. This is why most scholars of democracy distinguish between merely electoral democracies in which the rule of law is not effectively realised, and ‘embedded democracies’ that guarantee and effectively protect the constitutional rights of citizens.

In Central and Western Europe the development of the rule of law started in the Middle Ages and was already established at the beginning of the period of democratisation in the 19<sup>th</sup> century. It was, in fact, an important precondition for democratisation in that part of the world because it allowed citizens to form voluntary associations and political parties, which then became the driving force in mobilising the people to demand an expansion of the suffrage to ever larger parts of the population.

According to a famous thesis by Samuel Huntington, there have been three waves of democratisation. The First Wave started in the 19<sup>th</sup> century in Western Europe and North America, and then lost momentum in the period

between the two World Wars, as illuminated in this book by Dirk Berg-Schlosser. The Second Wave emerged in the wake of World War II and faded out between the 1960s and 1970s. The Third Wave was initiated in 1974 with the democratisation of Portugal, Spain and Greece. After the end of the Cold War, the Third Wave of democratisation spread to all regions of the world. While the First Wave was largely limited to countries that had achieved the rule of law before becoming democratic, the same has not been true for Second and Third Wave democracies. In many of those countries democracy was introduced without such a tradition and therefore lacked an effective and impartial public bureaucracy and an independent judiciary. This made the consolidation of democracy more difficult, because there were several challenges to be confronted at the same time. Moreover, many of the Second and Third Wave democracies have also been poor and lacked the financial resources to establish an effective bureaucracy and an independent judiciary.

A recent article by Nicholas Charron and Victor Lapuente (2010) argued that democratising countries that have already achieved higher levels of socio-economic development are better equipped to invest in the development of an effective public service, while democratic leaders in poor countries do not only have fewer resources at their disposal, but are also exposed to much stronger pressures to use the spoils of office for the benefit of their followers. New democracies in poor countries are therefore apt to experience a prolonged stage of poorly functioning institutions, high levels of corruption, intense social and political conflict as well as government instability. Such electoral democracies are frequently called *defective democracies* or *hybrid regimes*. According to Leonardo Morlino (2009), such hybrid regimes may persist for extended periods of time and can therefore not be considered as transitional regime types.

## (Liberal) democracy as a universal value

Historians of non-European cultures, advocates of multiculturalism, but most of all autocrats of all sorts have frequently claimed that liberal democracy is a model of state organisation that was developed in Europe during the period of the Enlightenment and cannot easily be transferred to regions with different cultural backgrounds. They have therefore denounced attempts by democratic governments and NGOs (such as Freedom House or IDEA) to promote democracy in other world regions as cultural imperialism. This argument is not particularly compelling, however, because almost no one has ever raised similar objections to importing technical products such as automobiles or telephones, and most critics have also not criticised the adoption of modern medicine or new production technologies on the basis that these were not invented in their own country or culture. The rejection of liberal democracy on



the basis that it is unsuitable for a particular country is mostly advocated by authoritarian political leaders intent on preserving their power, by orthodox religious leaders demanding a monopoly for their religious teachings, or by members of the well-to-do middle classes who fear that democracy will empower the lower classes and endanger their own privileged socio-economic status. Such criticism of democracy is thus primarily self-serving.

The fact that the model of liberal democracy was developed within a specific cultural context does not imply that it cannot be successfully transferred to regions with a different cultural background. Human history is replete with cultural innovations that have proven their viability in other cultural contexts. Medieval Islamic achievements in mathematics, the natural sciences, medicine and the arts, for instance, have left a deep imprint on the rest of the world. Moreover, many democratic values such as human dignity, tolerance, freedom of speech, equality before the law, etc. are not only elements of Judeo-Christian cultures but also of other cultures and religions.

The most compelling argument in favour of the universality of democratic values and principles, however, can be derived from anthropological assumptions. While a similar line of reasoning can already be found in earlier texts, such as the Federalist Papers or the writings of Ernst Fraenkel (1991), David Beetham (2009) has recently rephrased it in an especially elegant way. Beetham starts out from two fundamental assumptions. The first is that conflicts of interest over scarce resources are inevitable and that only the people themselves have the capacity to determine what is in their own best interest. "There is simply no single 'good' which can be shown to be the supreme end of public policy, unless this is couched in such vague and general terms (such as 'the welfare of the people') as to be either meaningless or open to multiple interpretations. Political decision-making is about hard choices between competing goods, or values or priorities, about which there can in principle be no clearly right and wrong answers." (2009: 283) Nobody can therefore claim to possess *a priori* knowledge about which course of collective action will be the best for achieving the public weal.

Beetham's second assumption relates to what he calls the "limited benevolence or altruism" of political leaders, implying that governments cannot be trusted to decide on behalf of the public interest because the pursuit of particularistic interests usually promises higher returns (2009: 286). Paternalistic ideologies claiming that certain philosophers, religious authorities, charismatic political leaders or experts can serve as 'guardians' (Plato) of the public interest because they are endowed with superior knowledge are therefore unfounded.<sup>1</sup>

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1 Ernst Fraenkel (1991) used pretty much the same line of argument by refuting the idea that it is possible to identify what is the best in the public interest 'a priori'. Instead, he argued that the public good can only be determined 'a posteriori' and can be best achieved by the free expression and accommodation of conflicting interests.

This implies that all individuals affected by collective decisions should also have the right to participate in them. Beetham concludes: “Now the point to make here ... is that this argument against paternalism and in defense of political equality does not stop at borders, or apply only to a section of humanity, but is universal in its reach. If it is valid for my country (wherever ‘my’ is), then it must be so everywhere” (2009: 286). Even so, democracy presupposes the acceptance of one single albeit centrally important value, which is the belief in the fundamental equality of all human beings, which in turn requires respect for their dignity. It is obvious that ideologies or religions that believe in natural inequalities based on race, sex or other ascribed traits will not easily accept this basic tenet of democracy.

The introduction of democratic institutions requires widespread, although not necessarily unanimous, elite support. Such support does not presuppose that all elite groups have to embrace the philosophical underpinnings of democratic theory. Dankwart Rustow (1970) argued that democratisation may instead result from the insight that it is the only viable solution for ending an inconclusive struggle for political dominance among competing elite factions, because it refers the decision on who should be in charge of the government to the citizens. This is especially likely to happen where it is difficult to predict which of the political camps enjoys more support among the electorate and none can rule out the possibility they might end up in the opposition. Under these conditions, the major elite actors may agree to introduce fair electoral rules and minority rights (Przeworski 1991). Democracy may therefore not result from a widespread belief in its intrinsic value, but primarily because it is considered as a means of conflict resolution. This latter possibility makes even more implausible the claim that it is not universally applicable.

## Determinants of liberal democracy: structure vs. culture

In his seminal article on the *social requisites of democracy*, Seymour Martin Lipset (1959) used statistical data to determine the relationship between democracy and the socio-economic structure of societies. Lipset concluded that democracy flourishes primarily in economically developed societies with a high degree of urbanisation and a high average level of education. His claim has remained controversial for three reasons. First, the statistical relationship between socio-economic modernisation and democracy is far from perfect. It cannot explain why some highly developed countries such as Germany and Japan became democratic at a relatively late point in time compared to countries at a roughly equal or even lower level of economic development, nor can it tell us why some poor countries such as India have been democratic for a long time. Since social scientific laws are probabilistic rather than determi-

nistic, however, such irregularities may be due to country-specific factors and do not invalidate Lipset's general conclusion.

Lipset's assumption of a causal relationship between socio-economic modernisation and democracy has been subjected to extensive empirical examination, which has generally supported it, even though that relationship is not as linear as Lipset implied and has also varied over time. And although empirical evidence confirms that GDP remains the single most important predictor of democracy, the Human Development Index (HDI), which also takes into account educational level and life expectancy, has even greater explanatory power. Diamond therefore recommended a modest reformulation of Lipset's thesis: "The more well-to-do the people of a country, on average, the more likely they will favor, achieve, and maintain a democratic system for their country" (1992: 468).

A more serious objection relates to the question of causality. Lipset could not convincingly demonstrate the direction of causality between modernisation and democracy. While it is highly plausible that socio-economic development is a precondition of democracy, it cannot be ruled out that causality (also) works in the opposite direction, i.e. that democracy fosters economic development. Although a number of empirical studies have been published that have tried to determine the direction of causality, the results are not conclusive, because the number of cases is simply too small and the number of other relevant causal factors is too large.

Finally, Lipset's structural theory has also been criticised for neglecting the impact of cultural factors, international influences and, last but not least, the behaviour of elites. A major challenge for modernisation theory comes from the theory of value change. Based on the results of the World Values Surveys, Ronald Inglehart and Christian Welzel (2005) have argued that human development leads to rising support for civic liberties both among elites and mass publics, and that this value change has increased the pressure for introducing democratic institutions in ever more countries. However, plausible as this may seem, human development is highly correlated with socio-economic modernisation, which makes it impossible to statistically separate the effects of structural and cultural factors.

## Institutional variants of liberal democracy

In many parts of the world the concept of liberal democracy is primarily associated with the institutions and policies of the United States. Conversely, dissatisfaction with US foreign policy, especially US interventions into the domestic affairs of other countries around the globe, influences the reputation of liberal democracy in the Third World. At the same time the knowledge about democratic values and principles among citizens in these mostly poor countries is

vague at best, and their authoritarian governments also try to keep it that way. Rather than being aware of the existing institutional variants of liberal democracy, many therefore loathe democracy because they believe that the democratic world is responsible for their own miserable living conditions.

In fact, however, aspiring democrats have an unlimited range of institutional options which allow them to devise a set of constitutional rules that promises the closest fit with their own politico-cultural traditions. Institutional choices have to be made with respect to three fundamental aspects. First, there is the choice between a parliamentary or a presidential system of government. In parliamentary systems such as Great Britain, Canada or Germany, legislative elections determine who will be in charge of the executive, which is in turn politically accountable to the legislature and can be removed from power by a vote of no confidence. In presidential systems which are prevalent in the Americas (United States and most Latin American democracies) the chief executive and the legislature are elected in separate elections for fixed electoral terms.

Both systems have their merits and drawbacks. In parliamentary systems the executive needs the sustained support of a parliamentary majority and can be replaced any time, thus ensuring that the policy initiatives of the government are usually supported by the parliamentary majority. On the other hand, a high degree of political fragmentation may prevent the formation of stable parliamentary majorities and may lead to governmental instability. Presidential systems with their fixed terms avoid this kind of instability. The separate elections for the chief executive and legislature, however, may produce *divided governments* with different parties controlling the presidency and the legislature, and this may in turn produce a stalemate between the two branches of government. This implies that the stability of both systems of government ultimately depends on the willingness of the major political actors to engage in political compromises. Democracy thus presupposes a consensus on basic rules of the game and even the best constitutional rules are not sufficient to ensure its viability where such a consensus is lacking.

The second important institutional choice relates to the electoral system. The basic choice is between plurality/majority systems with single-member constituencies and proportional representation (PR). While a plurality system which is mainly used in Great Britain and former British colonies (USA, Canada, Australia) tends to foster the development of a party system with only two major parties, one of which usually gains a majority of legislative mandates, single-member constituency systems with majority requirement (e.g. France) as well as PR systems (used in most parliamentary democracies) will usually result in multiparty systems that require (informal or formal) coalitions of at least two parties for majority formation.

A third basic decision pertains to the degree of centralisation of governmental power at the national level and the degree of autonomy granted to re-

gions. The strongest vertical separation of powers can be found in federal systems in which regions enjoy considerable autonomy for self-government. In unitary systems such as France, Italy, the Scandinavian countries, Israel and generally in smaller democracies, political power is instead concentrated in the hands of the national government. Federalism is especially suited for large or culturally diverse societies such as the United States, India or Canada, because it allows different ethnic or religious subgroups to govern their internal affairs without much interference by the national government.

It is evident that these three basic institutional choices open up a host of institutional options. Moreover, liberal democracies also differ a great deal with respect to their socio-economic structure and political culture. Cultural traditions may foster a preference for either a majoritarian or a consensual mode of decision-making (cf. Lijphart, 1999). While countries with a majoritarian culture such as Great Britain and the United States tend to prefer a strong executive based on narrow electoral majorities, those with a consensual culture (primarily Switzerland and Finland) tend to accommodate minorities by searching for broad-based compromises and by assigning veto power to independent bodies such as constitutional courts, central banks or regional and local governments.

## Liberal democracy and the economy

“Democracy and market-capitalism are like two persons bound in a tempestuous marriage that is driven by conflict and yet endures because neither partner wishes to separate from the other” (Dahl, 1998: 166). While this comment shows that democracy and a market economy tend to coincide, it fails to explicitly acknowledge that this relationship is not one of choice but of necessity. Liberal democracy grants individual liberty rights which also include economic rights. This connection between liberal democracy and a market economy is often not adequately acknowledged, however, especially since even some theorists of democracy have been known to claim that democracy does not predetermine a specific type of economic regime.<sup>2</sup> Many people continue to nourish the illusion that democracy can function without capitalism.

However, while both liberty and equality are fundamental principles enshrined in the democratic creed since the French Revolution, both are also in conflict with each other. The inherent tension between freedom and equality has been analysed by many political philosophers and political scientists. Giovanni Sartori’s treatment of this problematique is especially lucid and com-

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2 In 1992 the *Journal of Democracy* devoted an issue to discussing the relationship between democracy and capitalism.

elling (1987, Chapters 11 and 12). Sartori starts out by stating that political liberty is foremost *defensive freedom*, which implies the existence of constraints on the power of governments. Because it is an abstract concept and its benefits for the individual are not immediately tangible, its importance for democracy is often not properly appreciated. Most people have instead an intuitive understanding of equality, which they usually associate with economic equality.

Sartori goes on to emphasise that equality implies two different meanings, *sameness* and *justice*, and that both are not equally compatible with liberty. This is only the case for equality in the sense of justice, which implies equality before the law, equal respect and equality of opportunities. Since individuals are different, equality in the sense of equality of conditions would instead require unequal treatment.

These theoretical premises imply that democracy is incompatible with a command economy and that it imposes limits on the right of governments to encroach on the economic freedom of citizens. The upside of this connection between democracy and economic freedom is that democracy protects private property, the freedom to choose one's occupation as well as voluntary contractual relations among citizens. The downside is that free markets tend to produce economic disparities, which frequently violate intuitive norms of distributive justice. Moreover, they also tend to distort political equality, because economic resources can easily be converted into political resources.

Democracy does not mean a completely unrestrained free market, however. It has been frequently – and correctly – argued that below a minimal level of material security, education and personal independence it is not possible for citizens to effectively exercise their democratic rights. Governments therefore need to become economic actors in their own right and have the responsibility to provide for public educational institutions, a public infrastructure and at least basic welfare services.

Robert Dahl mentioned a second, even more important, reason for the necessity of government intervention into the market. A market economy without government regulation is impossible, because “the basic institutions of market-capitalism themselves require extensive government intervention and regulation. Competitive markets, ownership of economic entities, enforcing contracts, preventing monopolies, protecting property rights – these and many other aspects of market capitalism depend wholly on laws, policies, orders, and other actions carry out by governments” (Dahl 1998: 174).

There is considerable disagreement among political theorists as well as political practitioners about the acceptable degree of socio-economic inequality and the degree of government intervention into the market, which is deemed necessary to prevent socio-economic inequalities from becoming unacceptably high. Since the material wellbeing of the populace is of foremost importance for the legitimacy of any polity, conflicts over the economic order

and over the appropriate economic policies to achieve the *public weal* are therefore among the most divisive in democratic polities. Democracies have historically developed a variety of institutional solutions to resolve such conflicts and they differ considerably in the ways they regulate the economy. These variations can be reduced to a few main models, which will be briefly discussed in the next section.

An understanding of equality as procedural equality in the sense of meritocratic competition and equality of opportunity implies a preference for minimal government intervention into the market. This is the conception that has always prevailed in the United States. It stands in stark contrast to the mood prevalent in many other developed democracies – and even more so in poor countries – where demands for redistributive egalitarianism are more insistent.

## Varieties of liberal democratic capitalism

While many critics of the market economy have insinuated that there is one single model of *capitalism*, this assumption is far removed from reality. As far as government regulation of the economy is concerned, the literature tends to treat it as a continuous variable, ranging from a liberal to a coordinated market economy (Hall and Soskice, 2001). The logical end points of the continuum are a market economy without any political regulation on the one side and total government control of the economy on the other. A totally unregulated market economy is tantamount to market anarchy and implies that market power becomes the only criterion for determining the standard of living. People who have no marketable goods or services to offer will have to rely on their families or on the charities for their survival. On the other side of the continuum total government control of the economy would require the nationalisation of major parts of the economy, i.e. a Soviet-style command economy.<sup>3</sup> It is obvious that both are incompatible with liberal democracy. This means that the democratic end points of the continuum lie somewhere in-between these extremes.

With respect to welfare systems, Gøsta Esping-Andersen (1990) has distinguished three basic approaches that differ considerably in their capacity for *decommodification*.<sup>4</sup> In line with the belief that markets should be left alone as much as possible, the Anglo-Saxon model implies that the responsibility for personal welfare rests primarily with the citizens themselves and that the

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3 Lipset remarked that when all economic resources are under the control of the government, political power becomes the only source of status and wealth, which will severely curtail freedom and foster nepotism and corruption (1994: 3).

4 Decommodification denotes the degree to which the dependence on market-related income is reduced and income is instead based on legal entitlements.

public welfare system would only cater to the needy. Such *liberal welfare states* therefore rely on “means-tested assistance, modest universal transfers, or modest social insurance plans”, as well as subsidies for private health insurance, private retirement plans etc.

*Corporatist-subsidiary welfare states*, dating back to the late 19<sup>th</sup> century when Bismarck first introduced social insurance systems in Germany, offer comprehensive coverage to shield citizens from the risks of income loss due to poor health, unemployment, or old age. However, while this model has a partly decommodifying effect, because it ensures that citizens are entitled to benefits that reduce their dependence on market incomes, contributions to and benefits from social insurance plans are primarily tied to (previous) income. This type of welfare system therefore tends to reproduce existing income inequalities. The *social democratic model*, finally, is the most decommodifying in that all citizens are entitled to welfare benefits regardless of their income on the job market.

Among the consolidated democracies the degree of government regulation of the market is relatively low in the Anglo-Saxon countries as well as in Japan and Switzerland. In these countries the share of the GDP spent or regulated by the government is also lower than in the other established democracies (see Table 1). Yet their welfare systems differ in many respects. While for instance, the national health service in Great Britain is paid out of taxes and offers health care for all citizens free of charge, the US health system is largely left to the private sector. Until the health care reform of 2010 a relatively large percentage of the US population did not have any health insurance. Only a small part of the population profits from the two public health care programmes, Medicaid and Medicare.<sup>5</sup> While the 2010 health care reform introduced compulsory health insurance for all citizens, the majority of citizens below the age of 65 have to subscribe to rather expensive private health insurance plans.

At the other end of the spectrum we find the Scandinavian countries and the Netherlands with extensive government regulation of the economy and a well-developed welfare state. But over the last thirty years these countries have experimented with rather different new models for solving the financial problems of their welfare states, so their economic and welfare systems also differ from each other. This shows once more that the model of liberal democracy offers a wide variety of political choices with respect to both political institutions and the economic system.

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5 Medicaid offers needs-tested health care free of charge for the poor and Medicare is a subsidised health insurance plan for the elderly.



## Economic crises and the stability of democracy

In his seminal textbook *Political Man* (1960), Seymour Martin Lipset emphasised the importance of government effectiveness for the legitimacy of political systems. He defined effectiveness as the ability of the political system to “satisfy the basic functions of government as most of the population and such powerful groups within it as big business or the armed forces see them” (1960: 77). Later in the book, however, Lipset used a much narrower concept of effectiveness, as the following quote shows: “In the modern world, such effectiveness means primarily constant economic development. Those nations which have adapted most successfully to the requirements of an industrial system have the fewest internal political strains, and have either preserved their traditional legitimacy or developed strong new symbols” (1960: 82). He thus redefined effectiveness as primarily involving successful economic policy, and this is also how the concept of effectiveness has been understood ever since.<sup>6</sup>

Lipset’s analysis of the relationship between effectiveness and legitimacy has become conventional wisdom in the social sciences. His famous fourfold table identifies four different types of polities (1960: 81):

Legitimacy	Effectiveness	
	+	-
+	A	B
-	C	D

Consolidated democracies (A) (examples: United States, Sweden, Britain) are high on both effectiveness and legitimacy. Polities lacking in both (D) are inherently unstable and prone to breaking down, unless upheld by force (examples: Communist Hungary, the German Democratic Republic). Austria and Germany during the 1920s are mentioned as examples of relatively effective democracies which lacked legitimacy (C), because their systems of government were not held to be “legitimate by large and powerful segments of its population” (1960: 81). Societies of type C, however, may eventually develop into consolidated democracies, since “prolonged effectiveness over a number of generations may give legitimacy to a political system” (1960: 82). Lipset thus assumed that in the long run effectiveness may engender legitimacy.

Type B is particularly interesting, because Lipset assumed that high legitimacy would function as a safety valve, stabilising consolidated democracies even in times of poor economic performance. Lipset’s assumption has been

6 However, Lipset’s original concept of government effectiveness also included a well-functioning public administration.

corroborated by historical evidence. Although the United States, the United Kingdom, France and a number of smaller European democracies, primarily the Benelux countries, the Scandinavian countries and Switzerland, were no less severely affected by the Great Depression of the early 1930s than Germany and Austria, democracy survived in these countries because their democratic institutions enjoyed widespread legitimacy (see also Dirk Berg-Schlosser's chapter in this volume).

A more recent study by Przeworski *et al.* (1996) disputed Lipset's conclusions regarding the beneficial effects of democratic consolidation. Based on data for the period between 1950 and 1990, the authors concluded that the stability of democracy is primarily a function of socio-economic development. During that period no democracy in a country with a per capita income of more than \$6,000 broke down. Poorer countries were instead more likely to experience a breakdown of democracy, regardless of the length of time the country had been democratic. Since this latter study is more comprehensive and based on more systematic evidence than Lipset's, it shows convincingly that political legitimacy is not a sufficient safety valve against democratic breakdown in poorer countries in the instance of a prolonged economic crisis.

Since democracy and the market economy are closely related, and because democracies are more frequently found in socio-economically developed countries, the question arises whether it is democracy or rather the market economy that is conducive to economic growth. It is obvious that democracy will not automatically lead to economic success. There are several reasons why this might not be the case. The first and most important reason is that authoritarian countries are frequently characterised by collusion between political leaders and large private enterprises, whereby high profits accrue to both sides. The revolutions in Tunisia, Egypt and Libya in early 2011 made it once more abundantly clear that authoritarian leaders tend to exploit their political power to amass private fortunes. Neither side is therefore interested in ending their mutually profitable relationship after democratisation. Unless the old leadership is ousted and a completely new leadership takes over, the old networks tend to persist, which in turn undermines the development of a competitive and successful market economy.

In addition, most new democracies do not have a legal framework of market regulation nor a rule of law tradition, both of which are required for a properly functioning market economy. These drawbacks result in an extended period of institutional engineering and they require scarce resources, which are at the same time needed for alleviating poverty and stimulating economic growth. Many poor democracies therefore suffer from corruption, which is not only bad for the functioning of democracy, but also impairs the economic performance of a country. Corruption fosters the inefficient allocation of resources, impairs productivity and makes a country less attractive for foreign investors. It also contributes to inflating public budgets, because investments in large infrastruc-

tural projects promise personal profits for corrupt bureaucrats and politicians, while at the same time reducing the allocation of resources for the maintenance of the existing infrastructure (Tanzi and Davoodi, 2001).<sup>7</sup>

Authoritarian governments, in contrast, may promote the liberalisation of their national markets and stimulate economic success without at the same time liberalising, let alone democratising, their political system. Examples are the German Empire after 1871, Pinochet's Chile after the 1973 coup, or China over the last decades. While democrats of course hope that market liberalisation and the improvement of living conditions will eventually lead to increasing demands for democracy, economic success may also contribute to stabilising authoritarian political systems at least in the short run.

## The impact of the Great Recession on the prospects for democracy

It is obvious that the politically problematic side-effects of the close association of democracy and a market economy can severely compromise support for democracy in a deep and prolonged economic crisis. The fundamental flaws of a market economy become more obvious in economically hard times. Disparities in income increase, bargaining conflicts over income levels and the distribution of wealth intensify. At the same time tax revenue decreases and in turn limits the ability of politicians to compensate for income losses by initiating new programmes to increase the demand for labour. Under such adverse conditions the disproportionate political influence of the business sector comes under increasing public scrutiny and the hardships incurred by members of the lower classes nourish feelings of frustration as well as doubts regarding the social balance of democratic politics.

Globalisation is also a factor. It props up the disproportionate political clout of private business, because the "increasingly unrestrained movement of capital between nations has the potential to reduce the policy autonomy of governments while strengthening the political bargaining power of capitalists" (Bernhagen, 2009: 116). It is therefore not surprising that both globalisation, and even more so the global financial crisis of 2008-2009, triggered widespread criticism of capitalism. Public opinion surveys show a decline in the belief that a market economy is the best system for achieving fair allocation of economic resources (e.g. Globescan, 2011). Many people believe that the greed and irresponsible behaviour of a small group of managers in global finance were mainly responsible for the crisis. There is also a widespread perception that this small group has profited disproportionately from the deregulation of the mar-

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7 Tanzi/Davoodi (2001) also mention that corruption primarily hurts small and medium-sized enterprises that do not have the means to pay high bribes multinational corporations have.

kets, which allowed them to invent complex and seemingly safe financial products and so lure unsuspecting small investors (including local governments) into buying those toxic products. Governments had to intervene with loans to the order of billions of US dollars to save financial institutions that would otherwise have collapsed. Many observers expect that the less well-to-do will have to pay the bill for these excesses, because the public debts incurred to fight the crisis will eventually lead to tax hikes and inflation. The ensuing dissatisfaction is not only directed against financial institutions, but also against the governments of the rich democracies because of their failure to regulate the financial markets, which could have avoided a crisis of this magnitude.

Interestingly enough, and contrary to expectations, this drop in support for free markets has been most pronounced in countries in which support was already very low before the onset of the crisis. The sharpest drop in support in six of the world's leading economies was noted in the US and Britain.<sup>8</sup> While primarily dealing with the effects of globalisation on advanced liberal democracies and not directly with the current crisis, Jude Hays's (2009) analysis provides a plausible explanation for the sharp drop in US and British levels of belief in the beneficial effects of the market economy. The author claims that for a long time democratic governments have quelled public criticism of globalisation by a policy strategy, which he calls 'embedded liberalism'. People working in globally non-competitive business sectors have been shielded from the adverse effects of increasing global competition by a mixture of unemployment benefits and active labour market policies.

However, the policy of embedded liberalism depends primarily on sufficient tax revenue for financing such expensive public programmes. Hays argued that globalisation will affect more deeply majoritarian democracies such as, for example Great Britain or the United States, which have the most open market economies, than democracies such as the Scandinavian countries or Austria, which have corporatist economies. Majoritarian democracies are more likely to suffer from rising levels of unemployment, because their open-market policies make it easier for businesses to move their capital to wherever they expect to realise higher returns; and they also have more lenient regulations for dismissals of redundant work force. At the same time they rely primarily on capital taxes (rather than on income taxes) and cannot increase revenue accordingly, because raising these taxes would drive capital out of the country. In order to balance their budgets, governments of these democracies will therefore have to cut public welfare programmes, which will in

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8 At the same time, confidence in the market rose in Germany and China. France and Turkey are especially interesting cases because they are 'anti-capitalist outliers' with an exceptionally high level of scepticism about the benefits of a free market economy (*Economist*, 07 April 2011). Despite the relatively low number of respondents included in that poll and the lack of corroborating evidence, the results are sufficiently robust to prove that the economic recession following the financial crisis has indeed affected support for the model of market economy.

turn result in declining support for their open market policies. This vicious circle is likely to become even more pronounced during recessions.

Corporatist countries with more restrictive regulations for protecting employment and more balanced tax systems based on both income and capital taxes have been less affected by globalisation and therefore are also less vulnerable during a recession.

In a recent analysis of the impact of the global economic crisis, Larry Diamond (2011) found that the crisis has not led to many breakdowns of new democracies. His analysis shows that the reversals back to authoritarian patterns of the last decade mostly happened when these countries were doing economically rather well, citing in particular the oil-rich countries Nigeria, Russia and Venezuela. Conversely, those Third Wave democracies that have been hardest hit by the Great Recession have shown a remarkable resilience. Rather than turning against democracy, voters in these countries have instead tended to punish incumbent governments and to vote new – and frequently even rightist rather than leftist – governments into power. However, Diamond also notes that the danger is far from over and that a prolonged global recession might damage the prospects of democracy in the poor Third Wave democracies.

In a similar vein Marc Plattner argued that the global economic crisis “has posed some difficult challenges for defenders of democracy and of free markets”, but that its consequences have been limited so far (2011: 31). The author concedes that the responsibility of the advanced democracies – and especially of the United States – for precipitating the crisis has the potential “to discredit not only capitalism but the democratic political framework with which it is associated”. At the same time he concludes that the crisis has been even more devastating for authoritarian systems – with the exception of China – whose poor economic performance has undermined their weak legitimacy even further. The uprisings that have taken place in the Arab world since the publication of Plattner’s article confirm the accuracy of his observation.<sup>9</sup>

While it is still too early to draw firm conclusions about the long-term impacts of the Great Recession on economic development and on support for democracy and the market economy around the globe, the key economic indicators for the fourteen consolidated democracies included in the following Table 1 provide some preliminary insights. They confirm that all of these countries suffered a considerable decline in GDP growth in 2009. With the exception of Australia and Poland,<sup>10</sup> all of them had negative growth rates in 2009.

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9 Plattner critically observes, however, that the emerging market democracies, in particular Brazil, India, Indonesia and South Africa, are primarily intent on boosting their economies by cultivating trade relations with authoritarian systems such as Iran, Russia, China or Venezuela and show little solidarity with democratic nations when it comes to voting in favor of human rights or against abuses of power by authoritarian governments at UN meetings (2011: 26-38).

10 For reasons of this exception see chapter by P. Mohr, pp. 63-64.

Table 1: The impact of the global financial crisis on economic indicators in 14 liberal democracies

Country	GDP growth <sup>1</sup>				Total general government expenditure as % of GDP <sup>2</sup>				Public budget surplus/deficit as % of GDP <sup>3</sup>				Government debt as % of GDP <sup>4</sup>			
	2007	2008	2009	2010	2007	2008	2009	2010	2007	2008	2009	2010	2007	2008	2009	2010
Australia	3.8	3.7	1.3	3.3	33.4	35.3	n/a		1.7	0.4	-4.0	-3.3	14.3	13.6	19.2	23.6
Canada	2.2	0.5	-2.5	3.0	39.4	39.8	44.1		1.4	0.0	-5.5	-4.9	66.5	71.3	83.4	84.4
Finland	5.3	0.9	-8.0	3.2	47.3	49.4	56.0		5.2	4.2	-2.7	-3.3	41.4	40.6	52.6	58.4
France	2.4	0.2	-2.6	1.6	52.3	52.8	56.0		-2.7	-3.3	-7.6	-7.4	70.0	75.9	87.1	92.4
Germany	2.7	1.0	-4.7	3.6	43.6	43.8	47.5		0.3	0.1	-3.0	-4.0	65.3	69.4	76.5	79.9
Japan	2.4	-1.2	-5.2	3.0	35.9	37.1	n/a		-2.4	-2.1	-7.1	-7.7	167.1	173.9	192.8	198.4
Netherlands	3.6	2.0	-4.0	1.7	45.3	46.0	51.4		0.2	0.5	-5.4	-5.8	52.0	66.0	69.4	74.6
Norway	2.7	1.8	-1.6	1.5	41.1	40.6	46.3		17.7	19.3	9.9	9.5	58.6	56.7	49.5	51.8
Poland	6.8	5.0	1.7	3.8	42.2	43.2	44.4		-1.9	-3.7	-6.8	-7.9	51.8	54.5	58.5	63.9
Slovenia	6.8	3.5	-7.8	1.0	42.4	44.1	49.0		0.0	-1.8	-5.8	-5.7	30.0	29.7	44.1	49.9
Sweden	3.3	-0.4	-5.1	4.1	51.0	51.5	54.9		3.5	2.2	-1.2	-1.2	47.4	46.7	51.9	51.3
Switzerland	3.6	1.9	-1.9	2.7	32.3	32.2	33.7		1.7	2.3	1.2	-0.7	46.5	44.3	42.2	42.1
United Kingdom	2.6	0.5	-4.9	1.6	44.0	47.4	51.6		-2.8	-4.8	-11.0	-9.6	47.2	57.0	72.4	81.3
United States	1.9	-0.0	-2.6	2.7	36.8	38.9	42.2		-2.9	-6.2	-11.3	-10.5	62.0	71.1	84.4	92.8

1 **GDP annual growth in %:** Annual percentage growth rate of GDP at market prices based on constant local currency. Aggregates are based on constant 2000 U.S. dollars. Source: *World Bank*: <http://data.worldbank.org> for 2007-2009; for 2010 estimates from the *CIA Factbook* (<https://www.cia.gov/library/publications/the-world-factbook/rankorder/2003rank.html>)

2 **Total general government expenditure as % of GDP:** Expenditures by general government on compensation of employees, subsidies, social benefits, social transfers in kind etc. Source: OECD, 2011: *National Accounts at a Glance 2010*. Paris: OECD: 60-61.

3 **Public budget surplus/deficit as % of GDP:** Net lending/net borrowing, surplus (+), deficit (-). Source: *OECD - <http://dx.doi.org/10.1787/gov-dfct-table-2011-1-en>*

4 **Government debt as % of GDP:** General government gross financial liabilities. Source: *OECD - <http://dx.doi.org/10.1787/gov-deb-table-2011-1-en>*

Thanks to the swift implementation of major government programmes to save failing financial institutions and to stimulate economic growth, growth rates were back in the positive range in 2010. This can be seen in the second and third sections of the Table. The figures confirm that total government expenditure as a percentage of GDP rose sharply in 2009 and that the public budgets were strongly affected by either declining surplus or increasing deficit rates. The last section of the Table shows the total government debt, ranging from 23.6% in Australia to nearly 200% in Japan.

Overall the Table indicates the existence of considerable differences in the economic policies of consolidated democracies. In order to assess the full impact of the crisis and the effects of different economic policies to cope with it, more detailed empirical studies will be needed. In any case, it has to be assumed that despite the global economic rebound in 2010, the current crisis is far from over, because the bill for increased government spending will only have to be paid in the years to come.

## Conclusions

As the above discussion shows, while the model of liberal democracy is based on a number of common premises, it also allows for a broad range of institutional patterns to organise a democratic polity. This means the model can be adopted by countries with different cultural traditions and historical experiences. The model is based on universal principles and values.

It should have become equally obvious that liberal democracy requires some form of market economy, because political liberties also include economic liberties. However, the existing liberal democracies are not the puppets of a bunch of capitalists, as critics have frequently claimed. Table 1 shows that the governments of advanced liberal democracies control between one third and one half of the overall national income. Democratic governments therefore have sufficient clout to reduce the most flagrant disparities produced by free markets, to actively promote economic development, to invest in a functioning public infrastructure and to introduce protective measures for the economically less advantaged. However, the increased mobility of private capital has also made it more independent from decisions of national governments and thereby increased its political influence even further.

While the wealthy consolidated democracies can be considered strong enough to cope even with major political and economic challenges, the poor Third Wave democracies are much more vulnerable because their political institutions and party systems are not as well established, democratic value orientations are not as deeply rooted in their political culture and they have fewer economic resources to cope with income losses in a recession. But the most vulnerable are authoritarian systems. Their political legitimacy is based exclu-

sively on their ability to secure acceptable economic outputs and therefore poor economic performance has a much more adverse effect on their legitimacy.

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