



## The Political Economy of Neoliberalism and Illiberal Democracy

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### Abstract

*The unprecedented opportunities missed at the end of the Cold War have come back to haunt and taunt us in the form of misshapen ideologies and misconceived policies. Discredited notions discarded by history once again raise their heads to be finally buried or bury us. Despite the rhetoric of the Washington Consensus, the fall of the Berlin Wall, the collapse of communism and dissolution of Soviet authoritarianism did not mark a final vindication and victory for Western democratic neoliberalism. They only removed the antagonist who had compelled Western ideologues to moderate their actions to counterbalance the obvious humanistic appeal of socialism. Blinded by their own propaganda, theorists, politicians and the general public have embraced a course that threatens the stability and sustainability of Western society. Globalization, financialization, global mergers and acquisitions, shadow banking, international tax havens, the policy bias favoring energy-intensive automation, maximizing share-holder value, state capture, oligarchy and plutocracy have fueled soaring levels of economic inequality and insecurity. More importantly, they have shaken the roots of the social consensus that is the foundation of modern liberal democracies: polarizing and destabilizing society and throwing political processes into chaos. The notion that economics can be divorced and insulated from politics is an illusion. There is no economy without politics and law. A return to unbridled capitalism is threatening the culture of liberal values and the functioning of democratic institutions. Even mature democracies show signs of degenerating into their illiberal namesakes. The historical record confirms that peaceful, prosperous, free and harmonious societies can best be nurtured by the widest possible distribution of all forms of power—political, economic, educational, scientific, technological and social—to the greatest extent to the greatest number. The aspiration for individual freedom can only be realized and preserved when it is married with the right to social equality. The mutual interdependence of the individual and the collective is the key to their reconciliation and humanity's future.*

### 1. Challenges to Democracy

Democracy is under siege. Nations with a long history of liberalism are recanting on fundamental principles of secular democracy or embracing political sentiments that effectively undermine those principles. Fences are being constructed, both physically and

psychologically, along borders of previously open societies. Democratic elections have become the means for installing leaders with little respect for democratic values. The tolerance, openness and inclusiveness on which modern democracy is founded are being rejected by candidates and voters in favor of sectarian, parochial fears and interests. The role of the free press as an impartial arbiter of facts is being undermined by the rise of private and public news media conglomerates purveying political preference as fact combined with a blinding blizzard of fake news. Party politics has been polarized into a winner-take-all fight to the finish by vested-interests and impassioned extremist minorities trying to impose their agendas on a complacent majority. Corporate power and money power are transforming representative governments into plutocratic pseudo-democracies. Fundamentalists are seizing the instruments of secular democracy to impose intolerant linguistic, racial and religious homogeneity in place of the principles of liberty and harmonious heterogeneity that are democracy's foundation and pinnacle of achievement. Cherished ideals are thrown to the wind or given only rhetorical lip-service. The institution which has presided over the most remarkable advances of civilization in human history is frail and tottering.

The last quarter of the 20<sup>th</sup> century seemed to herald the ultimate victory of democracy. Between the mid-1970s and late 1990s the number of democracies rose from 45 to 120 in what Samuel Huntington termed the third wave of democratization. The third wave peaked in and suddenly veered from its evolutionary course. In what Larry Diamond termed "a democratic recession", elected leaders in Iran, Russia and Venezuela began reversing the gains of democracy through control of the media, manipulation of elections, suppression of political opposition, the rise of populists and autocrats, organized criminality, capture of the apparatus of government by economic interests, and other means.<sup>1</sup>

All this was not supposed to happen. Just twenty years earlier Francis Fukuyama had proclaimed the end of history in his famous book by that title. He had argued that the supremacy of Western liberal democracy signaled the endpoint of humanity's sociocultural evolution and the final form of human government. He traced a straight-line trajectory of political, economic and social progress that would eradicate the contending forces which had wrought violence and instability throughout the 20<sup>th</sup> century. The end of the Cold War, dissolution of the Soviet empire, the breakup of the USSR itself, the collapse of authoritarian communism in Eastern Europe and Central Asia, the reunification of Germany, and the momentous agreement of the superpowers to dismantle the enormous nuclear warheads under their control were supposed to lead to a world of peace, freedom and prosperity for everyone everywhere. By a classic domino effect, local and mostly peaceful revolutions in Eastern Europe replaced party bosses with democratically elected leaders, though all too often it was the same faces that appeared wearing different signboards. Overnight the geopolitical complexion of Europe and the world was radically altered. These astonishing events were followed in quick succession by the founding of the World Trade Organization, the rapid expansion of the European Union, an explosion of technological innovation and proliferation, and the birth of the Internet/World Wide Web as the first global social institution.

Many Western leaders and intellectuals began to interpret these events as the ultimate vindication of the dominant ideologies espoused by Ronald Reagan and Margaret Thatcher

during the 1980s. Descending on their Eastern counterparts, they celebrated the triumph of the Western economic and political system, boldly proclaiming the final victory of liberal democracy, the wisdom of the market, and the Washington Consensus. Dismissing Soviet President Mikhail Gorbachev's vision and heroism as the inevitable surrender to superior forces, they rewrote the facts of recent history to prove that the West had vanquished the enemies of neoliberalism by outspending the Soviet war machine, unleashing the creative forces of unbridled capitalism, denationalizing public sector enterprises and dismantling social safety nets which had elevated Western living standards to unparalleled levels over the previous decades. The heady euphoria of ideologues and newly liberated true believers spread wide and far. Communism was out. A new or rather old brand of capitalism discredited since the Great Depression was back in fashion and force. Naive former communist politicians, diplomats and academics changed sides, embraced the new orthodoxy and presided over the rapid sell-off of prime public property to former party leaders, an act of such criminal proportions that it was later labeled the greatest robbery in the history of the world. At the same time, the European Union and NATO, both eager to expand eastward, opened their arms to their neighboring erstwhile enemies. The pledge given by NATO to Russia to refrain from eastward military expansion was quickly forgotten and abrogated. The irresistible lure of Western integration led to the sudden breakup of Yugoslavia, before there was any time for thought regarding the aspirations of large minority groups in each of its former republics, a lapse in thought later repeated in Ukraine.

## **2. The Economics of Politics**

Few perceived that the end of political contention between East and West was preparing fertile ground for a new and even more insidious threat to Western democracy—a threat from within its own ranks. The self-proclaimed victors in the ideological battle of the previous half-century became intoxicated by their own heady brew. Warning signs began to appear. The founding of the WTO led to pressure on vulnerable developing countries to dismantle decades of trade policies designed to protect their fragile economies and marginally employed populations from the global onslaught. The lure of opening up the huge Chinese labor and consumer markets overshadowed the threat that it might ravage Western manufacturing. To counter the growing economic might of the EU, the US government pushed through the North American Free Trade Agreement, despite serious concerns of its impact on the domestic labor force. Meanwhile a similar cry was used to persuade national governments to relax the criteria for anti-trust enforcement, resulting in an avalanche of mergers and acquisitions that transformed predominantly national corporations into global conglomerates.

Within a decade the global market was transformed into a vast frontier for unregulated capitalism, a new wild west for land grabbing and profiteering, a global casino gambling with the stability and security of the global economic system for chips. Faced with intensified competition for global financial dominance, giant American financial service corporations persuaded their government to dismantle the barriers separating commercial and investment banking, which had shielded the domestic banking system since the 1930s. Shareholder value replaced customer service, commitment to people and social responsibility in corporate mission

statements. National pride in homegrown companies was undermined by a rapid movement of corporate headquarters to off-shore tax havens to avoid repaying a debt to the societies which had nurtured their rise. Giant hedge funds proliferated to escape the purview of regulators and tax authorities. Shadow banking expanded from \$1.3 trillion in 2011 to \$36 trillion in five years. Financial markets cut the bonds that had made them the lifelines and arteries for nurturing the real economy declaring financialization as the true religion of capitalism. According to one estimate, corporations are reinvesting just one to two percent of their assets in Main Street and a mere 15% of financial flows are now being invested in the real economy.<sup>2</sup>

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With equal suddenness, the heady days of the dotcom boom turned to bust in 2001. It took a war on two fronts in Afghanistan and Iraq to revive America’s economic growth and political self-confidence in the new millennium. Corporations began channeling their record profits into M&As, share buybacks, offshore tax havens and speculative investments. Capital investment in R&D, new production facilities and new jobs declined by 21 percent between 2000 and 2010.<sup>3</sup> A boom in real estate and commodity prices prompted former Fed Chairman Alan Greenspan to deny that any bubble was forming in the US economy, while his successor Ben Bernanke denied the existence of the global savings glut which sent hundreds of trillion dollars into orbit on the global markets in search of speculative returns. Such deniers were rendered baffled and speechless when the sub-prime mortgage crisis and the 2008 global financial crisis set in soon afterwards. Meanwhile throughout the first decade of the new millennium, there was growing realization around the world that rampant capitalism represented an even greater, and perhaps ultimate, threat to the global community in the form of what Al Gore mildly termed the ‘inconvenient truth’ of climate change.

The rest is recent history. Unprecedented doses of quantitative easing were poured on global markets to save the financial industry from the consequences of its own actions, while allowing millions of Americans to be dispossessed of their homes and jobs. The financial crisis gave way in quick succession to the Great Recession, the Eurozone crisis, soaring unemployment in Europe, levels of inequality that have not been seen since the Roaring Twenties, an economic slowdown that eventually stalled even the Chinese juggernaut, rising incidents of violence, terrorism and piracy by unemployed youth in developing countries, a much heralded Arab Spring which quickly degenerated into civil wars and military takeovers, the ravaging of Syria in the name of freedom, the sudden birth of ISIS, a flood of immigration from the Middle East into Europe, the rise of far-right political leaders and policies in Hungary and Poland, the dissolution of the opened borders of the Schengen systems, the reversion to autocracy in Turkey, the Brexit vote in UK to reverse the long ascent toward European integration, the transformation of American politics into a parody of modern democracy that would be enormously entertaining if only it were not so real, coupled with the recent onslaught of an opiate epidemic and a violent backlash of white supremacy.

This very brief impressionist sketch of important historic events during the last three decades is far from complete. It does not purport to do justice to the multiplicity and

complexity of the factors and forces that have driven political and economic developments during this period. *Rather it is intended to highlight the inextricable relationship between the political and economic trajectories of the West during this period, the resurgence of neoliberal economic theory and policy, and the consequent demise of democratic institutions. There is irony in this assertion. For during most of the 20<sup>th</sup> century, neoliberalism had been projected as the greatest proponent, strongest bastion and final safeguard for Western liberal democratic institutions.*

### 3. Missed Opportunities

Through the hindsight of mind's rearview mirror, the history of civilization can be explained either as a steady march of human progress or a long string of missed opportunities. A greater truth is that it is both at the same time. The French Revolution swept aside centuries of feudal oppression and inequality in Europe, only to accept Napoleon as emperor and conqueror of Europe. The American Revolution founded a democratic society of former colonies, but it could not translate the lofty ideals of the Declaration of Independence into the US Constitution by extending equal rights to women and slaves, thereby making inevitable the Civil War 70 years later. The Civil War united the American states under a strong federal structure and abolished slavery on paper, but it took another century for the Civil Rights Movement to convert political freedom into a modicum of social equality for millions of blacks. The sun never set on the British Empire in the early 1900s, but when the aspiration for freedom arose in British India and other colonies, the British Commonwealth missed the opportunity to transform its vast empire into the first viable instrument for global governance, a measure which may well have avoided the necessity of two world wars. The harsh conditions imposed on Germany by the Treaty of Versailles, the refusal of the US to join the League of Nations, and the persistent expansion of European colonial empires after the war were missed opportunities that led inevitably to the Second World War. The bitter lessons of the Great Depression ushered in the New Deal as an effort to humanize capitalism and protect America from communism, but the government soon reversed course in the face of strong ideological opposition. President Roosevelt died before he could guide the passage of a second bill of rights recognizing the right of the American people to employment and other economic benefits.

In spite of these and countless similar errors and omissions, when the most destructive war in human history ended in 1945, the leading nations of the world created an unprecedented opportunity. They agreed to the rapid dismantling of colonial empires and the founding of the United Nations. Mutual suspicion amongst erstwhile allies necessitated the adoption of an undemocratic system of governance. Authority was centralized in the UN Security Council with its five permanent members and veto power. This ingenious act of expediency laid the essential groundwork for the avoidance of another world war for seven decades, the progressive expansion of UN membership from the original 45 to 193 countries, and the establishment of a network of global institutions to address the common scourges confronting the human community. But the founders of the UN failed to capitalize on the political opportunity. The UN was quickly transmuted into a forum for political confrontation between competing

military alliances. Instead of global disarmament, international relations degenerated into political and military competition and proxy wars around the world, a 45-year Cold War, and a frantic nuclear arms race that led to the production of 70,000 nuclear weapons.

It is from this perspective that we need to reexamine the events which have occurred since 1990. It is necessary to consider whether they have been the inevitable result of intractable forces that could not otherwise be diverted from more catastrophic consequences or the result of a blind insistence on discredited ideas and archaic attitudes which are now leading back to a future fraught with consequences far more catastrophic than any they sought to avert. *For recent events suggest that the self-proclaimed victory of democracy and neoliberal economics is now in danger of undermining the very principles which liberal democracies hold most sacred.* The exponential ballooning of global financial speculation, corporate buy-backs, shadow banking, international tax havens, joblessness, income inequality, polarization of politics, public distrust, social intolerance, alienation and violence are economic and political vital symptoms of this dangerous misadventure.

#### **4. Intellectual Foundations of Political Economy**

The relationship between economy and politics has always been fraught with bitter controversy from early times when governments assumed authority over property rights, taxation and minting of currency. But at no time in modern history have the two functioned independently of one another. Governments have always regarded economy as the principal source of revenues and economy has always depended on government to frame laws and policies conducive to economic freedom and development, at least for a privileged class. But in recent times Economics and Politics have been widely perceived as two separate spheres of activity, knowledge and expertise, whose independence is fortified by intellectual theory and academic divisions.

The discipline of Political Economy had its origins in the time of Adam Smith, a moral philosopher whose primary concern was promoting the maximum welfare of the greatest number of human beings. Smith sought to determine the appropriate role of the state in the governance of the economy in order to eliminate the adverse effects of mercantilist state policies on the welfare of society. At the time the nascent industrial economy was largely considered a province for exploitation by the monarch in collaboration with a small, wealthy merchant class. The regulation of trade and tariffs was heavily skewed to favor higher revenues for the monarch and high profits for domestic traders. The mercantile system resulted in higher prices for domestic consumers, who were doubly penalized with higher domestic prices and restricted access to competitive imports. Smith was motivated not by an unshakeable faith in the wisdom of the market but rather by a clear understanding of how powerful domestic, political and economic forces could capture and utilize social power for their own benefit.

Economic thought developed in Britain during the heydays of the Industrial Revolution. It focused on the adoption of methods to increase productivity and lower costs by the adoption of industrial technology and organization coupled with the development of financial markets,

which generated benefit to workers in the form of more jobs and to consumers in the form of an increasing variety of inexpensive goods, as illustrated by the 99% fall in the price of cotton textiles following the mechanization of cotton processing and weaving. It is noteworthy that the British Raj in India, founded on the efforts of private entrepreneurs in search of profit, was transformed two centuries later into a political entity governed by the British Government to promote both the economic and political objectives of its expanding colonial empire.

Concern regarding the role and responsibilities of government for economy was revived by the spread of Marxist thought. Marx did not question the efficacy of the industrial model of production. But he did vehemently question how the benefits of that model would impact on the population at large, elevating a few capitalists to the status of a new aristocracy while reducing the teeming proletariat to a mere factor of production valued in terms of their horse power. The result he rightly envisioned was an enormous growth and development of economic power coupled with an increasing concentration of wealth and privilege in European society. He concluded that nothing short of political revolution could transform the prevailing economic system into one that truly promotes the welfare of the masses.

Repeated financial and banking crises during the 1890s and early 1900s revealed the extreme vulnerability of unregulated markets, compelling governments to establish institutions and a legal framework for regulation. One result was the establishment of the US Federal Reserve following the banking crisis of 1907. Another was the introduction of anti-trust legislation to prevent the unrestrained growth of monopolies. At the same time perceptive politicians such as Churchill foresaw the threat of communism and strongly advocated the popularization of insurance as a means to foster economic security for the masses.

At the same time, rapid industrialization vastly increased the collective power of the state to exert influence at home and abroad. Rising nationalism coupled with industrialization and colonial imperialism led to the First World War when Germany resorted to war as a means to catch up with older European colonial powers. Fascist and Communist governments seized control of the instruments of production to promote political objectives.

The threat of unregulated markets became undeniable when the Great Crash and the Great Depression forcefully thrust the relationship between economy and politics into the foreground. On one side, growing concern in industrializing societies over rising levels of urban poverty and unemployment and increasing assertiveness of organized labor provided fertile ground for the rapid spread of communist sympathies. On the other side, it led to Roosevelt's New Deal, which represented a massive effort to humanize capitalism by erecting a legal and political safety net and authorizing the government to intrude into all areas of the economy in order to protect the masses from the challenges posed by rising levels of poverty and unemployment.

The Second World War pitted an alliance of capitalist and communist countries against Fascist states united by their common reliance on the power of government and state apparatus to advance the economic and political power and interests of the nation state. Their aim was concentration of collective power rather than individual welfare. Following

the conclusion of World War II, the world powers split into two camps characterized as democratic market economies and authoritarian communist states. Communist intellectuals developed theories supporting the nationalization of all economic activities. In response, the market economies of Western Europe leaned heavily toward nationalization and social welfare measures to counter the communist threat. The confrontation between these competing intellectual positions was embodied in the political division of the world into competing economic and military blocs during the Cold War.

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The end of the Cold War led to the rapid spread of democracy in Eastern Europe and developing countries and an equally rapid transition of formerly communist countries into market economies. This presented an opportunity to synthesize a conceptual and institutional framework reconciling the competing viewpoints of the rival camps into a new paradigm. Instead, Western intellectuals seized the opportunity to proclaim final victory in the struggle to reconcile political and economic freedom with social justice and equality. Instead of accepting the insights perceived by both systems, it revived an extreme version of neoliberal doctrine that justified a reversal of the legal and political structures established since the 1930s to govern economy for the welfare of all citizens.

Rapid economic globalization during the 1990s spurred by the founding of the World Trade Organization accentuated this tendency. For the first time since the dissolution of colonial empires a half century earlier, business enterprises were presented with a huge unsettled and uncivilized economic frontier, a Wild West for commercial and financial expansion, unhindered by government regulation. Pitting one nation against the other competitively for their own benefit, the global market also enabled businesses to escape for the first time from oversight, taxation and regulation by their own national governments. The new environment was exploited to reverse a century-old effort of governments to combat and restrict the monopolization of markets. The explosive growth of mergers and acquisitions nationally and internationally over the past 20 years has led to a concentration of market power that has not been witnessed since the 1920s.

## **5. The Neoliberal Threat to Democracy**

The Mont Pelerin Society was founded after World War II by leading Western intellectuals horrified by the dual threat which authoritarian communism and fascism had posed to the fundamental freedoms of the democratic tradition. The seizure of industrial power by the state in the name of the nation, the party or the people had been a driving force for two world wars. The Society’s members rightly understood that private property and individual economic freedom had served as an essential condition and natural counterpart to political freedom in the rise of the West. Shocked by the facility with which modern economic and technological power could be turned into an instrument of mass destruction, its members committed themselves to freedom of expression, free market economic policies, and the political values of an open society as the only effective bulwark against totalitarianism. The term



'neoliberalism' has evolved over time and is applied to different doctrines, but in recent decades it has become identified with the doctrine of individual liberties and free market policies advocated by the Mont Pelerin Society, the Austrian School, the Chicago School, Milton Friedman, and the policies of Margaret Thatcher, Ronald Reagan, and Alan Greenspan.

The remarkable economic performance of the USA during and after the Second World War was testimony to the unparalleled prosperity that could be generated by unleashing the creative entrepreneurial energies of the private sector. In the light of this astonishing success, few were willing to consider the possibility that the same power which had been seized by the state to foster national ambitions could also be seized by private sector corporations and wealthy individuals for their own aims. After all, the conquest and rule of India had been carried out by the East India Company. The Government of Britain had only intervened after two hundred years to take control and possession of what private enterprise had accumulated.

Throughout the 20<sup>th</sup> century communism posed a challenge and threat to the philosophy of uncontrolled capitalism. Support for communism in many of the citadels of European democracy compelled political parties to recognize the powerful appeal of socialist policies that balanced individual freedom with social equality. Prior to the outbreak of the Russian Revolution, Churchill had recognized the threat in England and advocated social insurance as a means to counter it. Even in the citadel of capitalism, Roosevelt saw the rapid spread of communist sentiments among labor and the unemployed. The New Deal was America's attempt to answer the threat of communism by giving capitalism a human face. The popularity of social democratic policies in Western Europe after the war was a pragmatic response to the competition posed by its Eastern neighbors in which poverty and unemployment had been legally abolished.

So long as communism prevailed as a viable contender, capitalism was compelled to accept a compromise between individual freedom and social equality. But the sudden collapse of the communist party, the USSR, and the Warsaw Pact eliminated all competition and left an intellectual vacuum which neoliberalism was quick to fill with zealous conviction. By an irony of Nature, the intellectual consequence of resurgent neoliberalism has led to precisely the end which the founders of Mont Pelerin Society aspired to prevent. Rather than fortifying liberal democracy by ensuring economic freedom, unbridled economic power has become the greatest threat to political freedom.

Around the world, the power of money and commercial interests have infiltrated and taken increasing control of the powers of governance. Instead of fascist dictatorship or communist authoritarianism, democracies have morphed by various routes and means into oligarchies and plutocracies serving narrow exclusive economic elite. That power is being used to reinforce and increase the concentration of wealth and social power which free markets intended to forestall. The means of this capitalist counter-revolution assume various forms, both illegal and legal—from corrupt democratically elected governments leading in the extreme to state capture well underway in countries such as South Africa, rule by oligarchs in former Soviet Republics and the hijacking of secular democratic institutions by religious groups to the take-over of the independent media by corporate interests, democratic elections

largely determined by money power, regulatory capture of government policy dictated by private interest, and a revolving door of the elite between business and government. By another twist of irony, this counterrevolution is precipitating a revival of nationalism and retreat from the very principles of international cooperation and mutuality on which global markets and international institutions have been nurtured.

Much attention has been given to the role of religious fundamentalism as a reason for the erosion of democracy in developing countries. Much less has been given to the role of economic fundamentalism, which has been a primary driver in economically advanced nations since the end of the Cold War. Neoliberal economic doctrine is an orthodoxy masquerading as science. It is founded on a set of implicit values and premises that support the increasing concentration of all forms of social power. It merely changes the central lever from politics and economics.

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The rise of neoliberalism in recent decades, the seizure of political power by financial and corporate power in the form of corruption, regulatory capture and, in extreme cases, state capture represent a fundamental threat to the future of democracy. The globalization of economy has created an unregulated wild west for both financial and other commercial interests exploiting the absence of regulation at the international level to escape taxation and consolidate concentration of market power, using the threat of international competition to reduce national level regulation as well. At a still deeper level the roots lie in a conservative, positivist theory of law and constitutionalism designed to protect vested interests rather than universal human rights and principles of social justice.

It is no coincidence that the core of Donald Trump’s supporters is predominately drawn from the unemployed and low income white population without higher education, which has been hardest hit by NAFTA and the globalization of trade. A large section of mainstream Americans voted to repudiate an economic system which supported declining economic opportunity at its base and soaring inequality at its peak. The sudden outbreak of organized political protests and racially motivated violence by self-proclaimed white supremacists, neo-Nazis and the KKK at Charlottesville, Virginia in August 2017—so uncomfortably reminiscent of Germany in the 1930s—is a blatant reminder of how deeply the pain of economic insecurity can dig into the psyche of a disgruntled population and sweep aside decades of social progress.

Today we are starkly confronted with the failure of prevailing theories to address the fundamental relationship between economic and political power. There is pressing need for social theory that recognizes the fact that all forms of social power—economic, military, political, technological, educational and cultural—are interrelated and interchangeable. That theory must also explicitly address the fundamental question of to whom does that power belong and whom should it serve.

The neoliberal intellectual framework disregards millennia of human civilization and culture by justifying in veiled form a return to the law of the jungle and struggle of the

fittest on a global scale. The lessons of history and progress of humanity to date support a very different conclusion. The evolution from monarchy and authoritarianism to democracy clearly demonstrates that the widest and most equitable distribution of political power, social rights, education, access to information and technology to all citizens is the most just, viable, productive, prosperous, vibrant and creative system of government yet envisioned. Equally or even more so, the equitable distribution of economic power is a compelling necessity both to fulfill the ideals of democracy as well as to preserve it from dissolution into its illiberal perversions in all their namesakes.

## 6. Illiberal Democracy

There has always been a wide gap between the ideals of democracy and the way it is practised. But, in recent times that gap has broadened into a breach in which even the semblance of democratic principles of governance is being cast aside in exchange for dysfunctional, polarized, uncompromising, confrontational partisan politics.

Historically, democracy emerged in Europe as a reaction and response to arbitrary authority, vast inequality and the ruthless tyranny of feudalism, monarchy and colonialism. It gained further support as an alternative to the harsh imposition of autocratic state socialism and military rule during the 20<sup>th</sup> century. For several centuries, democracy has been able to position itself as the acknowledged champion of human rights, most especially the values of individual freedom and social equality.

The decline and failure of authoritarian governments since the end of the Cold War and collapse of communism have altered the balance of forces and practices. No longer confronted by competition from an alternative form of government that promised greater security and equality, democracy has gradually fallen prey to self-destructive tendencies from within. It is no mere coincidence that after 1990 income inequality soared in both USA and Russia to the highest levels witnessed since the Russian Revolution.<sup>4</sup> The resurgence of neoliberalism, the growing influence of money power in politics, the revolving door between government and business—five of Trump's appointees are former Goldman Sachs executives—the inordinate power of lobbyists, and a winner-take-all mentality of the momentary ruling party reflect a decline of the liberal values and democratic culture on which modern heterogeneous nation-states have been founded.

In his book *The Future of Freedom*, Fareed Zakaria applied the term 'illiberal democracy' to refer to countries in which the mechanisms and procedures of popular elections were not supported by the foundational cultural values of liberalism which constitute the heart and soul of true democracy. Zakaria traces the emergence of democracy from this culture of liberalism and draws conclusions of great relevance to our times. He points out that the institutions of democracy are only a mechanism. The results they generate depend on the ideas and values on which they are based. In the absence of liberal values, democracy can and does readily become an instrument for tyranny of an intolerant majority over different or dissenting minorities. The sudden demise of colonial empires resulted in an equally sudden effort by former colonial powers and other Western democracies to thrust, impose or cajole

developing countries to embrace democratic institutions before they had acquired the cultural values which are their base in consciousness. This resulted in countless failures, débâcles, and perversions. The history of the last seven decades is marked by a long series of national and civil wars that resulted from this hasty imposition on the unprepared.

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*“Democracy is not merely a mechanical set of laws and institutions. The external hardware of democracy is made viable and functional on the basis of social, cultural and psychological software.”*

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While Zakaria’s attention was largely focused on young democracies which had been taken over by populist leaders or orthodox clergy, the term ‘illiberal democracy’ is an apt description for the shift of politics in the former heartland of liberal democracy today. Brexit, election of Trump on an illiberal platform by a popular minority, and the retreat from internationalism in a number of European countries are recent manifestations of this phenomenon. So long as the problems of democracy were largely confined to young democracies and pseudo-democracies still learning, there was hope of finding eventual remedies for the shortcomings of the system. But the decline of democratic culture and practice in the heartlands of mature democracy is evidence that the passage of time will not be a sufficient solution to the problem. Even if Trump were removed from office tomorrow, the status quo would remain. Economic power has been infiltrating politics as the power behind the throne for decades and cannot be so easily deposed from its entrenched position.

Churchill is often quoted for saying, “No one pretends that democracy is perfect or all-wise. Indeed it has been said that democracy is the worst form of Government except for all those other forms that have been tried from time to time.” But does that really mean we cannot and should not strive to do better? The future of humanity depends on it. The achievement of the UN Sustainable Development Goals in a reasonable time frame is hardly possible without significant improvements in democratic governance at the national and international level. The World Academy’s quest for a human-centered development paradigm capable of addressing the pressing ecological, economic, political, social and cultural challenges of the 21<sup>st</sup> century is inconceivable without vast improvements in representative government. Effective response to increasing global financial insecurity, climate change, nuclear proliferation, unemployment and the retreat from international trade necessitates serious efforts to address the glaring shortcomings and injustices of democracy as it is currently being practised.

Much of the fault lies with those who have been the strongest advocates of democratic governance in recent decades. Under the leadership of the USA, the Western democracies seem to have forgotten the most fundamental principles on which stable democracies are founded. For decades they have purveyed democracy as a cure-all for every variety of national ailment and offered to transplant democratic systems to the unprepared with the speed and facility of erecting a new Coca Cola bottling unit or McDonald’s franchise restaurant. In the

process many seem to have lost sight of the fact that democracy is not merely a mechanical set of laws and institutions. The external hardware of democracy is made viable and functional on the basis of social, cultural and psychological software, without which it resembles real democracy no more than the Iranian theocracy or the People's Democratic Republic of Korea.

## 7. The Evolution of Democracy and Social Power

The ascent of humanity from small, isolated homogeneous communities to an interconnected and complex global society marks a long, slow, arduous and often violent process of social evolution replete with failed attempts, flawed experiments, backlashes and reversions to earlier forms, usurpations and perversions by entrenched powers that resist change or by disenfranchised groups impatient to seize power. Yet, taken as a whole, the progress of democracy presents a remarkable record of the incomplete march of humanity from barbarism to civilization and culture based on universal human values.

In the first of his ten volume *History of the English Speaking Peoples*, Winston Churchill narrates the long succession of events leading to the gradual formation of a national consciousness and national institutions in Britain during the centuries following the decline and fall of the Roman Empire. Wave after wave of foreign invasion from every direction led to a succession of new rulers in Britain. Each new ruling power exercised temporary suzerainty over the local population, only to be supplanted in turn by a new wave of invasion made possible and often encouraged by the suppressed and exploited local population anxious to cast off the old tyrant in favor of another one. Over centuries this process led to an increasing admixture and intermarriage between the immigrant and domestic populations resulting in an increasingly heterogeneous populace. It also left a deeply embedded racial memory of past suffering and a growing realization that the next conqueror was unlikely to be more humane or accommodating than the last. Gradually a consensus emerged among the existing families of feudal barons to forge an alliance in support of a common monarchy. During the course of five centuries, this process forged a unifying national identity among the heterogeneous communities of Britain, which eventually led to the emergence of a modern nation-state. History testifies to the fact that the process of social evolution and nation-building until now has taken place over long periods and under conditions of extreme duress. It should not be surprising to find that such difficulties persist among peoples who began the transition at a much later period of human history.

Each successive stage in social evolution involves a change in the consciousness and values of society, the means by which power and privilege are distributed, and the institutions it forges to give effective expression to them. The first fundamental necessity of each society is to ensure its own survival against external and internal threats. All higher values and ideals are necessarily subordinated to this existential objective. Survival necessitates the garnering of sufficient power within the community to fashion strong bonds of allegiance to the established system. The form of each society determines the means and principles by which it harnesses and distributes the potential power of the collective for the benefit of its leaders and members. This process in turn is the major determinant of the overall power of the society.

Early forms of the heterogeneous nation-state devised a number of mechanisms to ensure continuity and to resist the usurpation of power. The gradual evolution from feudalism to nationalism involved a continuous bartering of power and privileges between monarchs and feudal barons, securing allegiance to central authority in return for recognition of the rights and privileges of loyal supporters. In this manner, a *social process* of building consensus gives rise to a *power process* which defines the distribution of rights and powers at different levels of society. Historical experience testifies to the fact that *the wider that power is distributed, the greater the cohesiveness and effective strength of the society*.

The accomplishments of every society depend on their capacity to develop, release, direct, harness, and mobilize the energies, knowledge and skills of their people in an organized manner for purposeful activities such as self-defense, production, exchange, governance, communication, transportation and education. Earlier societies employed a variety of incentives and instruments of compulsion to direct the energies of their people in an intended manner, including threats of expulsion, loyalty to a brave or benevolent monarch, the promise of peace and security, the fruits of conquest, distribution of privileges and rewards, punishment for disobedience, and national pride. The evolution of governance leading up to modern democratic societies records the history of the human endeavor to devise more powerful and effective means of generating, developing and harnessing the social potential of their members to fulfill the goals and aspirations of the collective. Earlier systems achieved different measures of stability, resilience and power for conquest or defense, but no prior system has been able to match the extraordinary results achieved by modern democracies as an instrument for generating and purposefully directing social power. As an adaptive social mechanism, democracy is unmatched.

The remarkable power of democracy arises from its capacity to provide maximum incentives and opportunities for its individual members to develop and express their own energies and abilities in a manner that serves the interests of the wider collective. Tyrants and other forms of authoritarian government can compel obedience on pain of death to those directly under their supervision and control, but no other form so effectively internalizes the motivation for constructive contributions to the welfare of society as democracy. *The effort of modern democratic societies to develop the capacities and empower the actions of their members is the source of their unrivalled social power.*

Whereas in earlier times, power was largely concentrated and centralized in a small political or military elite and wealthy class, modern democracies have multiplied the centers and types of power supporting its growth and development. Today the overall power of a society very largely depends on its capacities for production, finance, transportation, communication, electricity generation, education, scientific research, technological development, health care system, employment generation, widespread distribution of wealth and social security for its citizens.

The role of democratic values and institutions in the generation and governance of social power has great relevance to recent events. The attempt to utilize the principles of representative democracy for the imposition of populist partisan politics or religious,

ethnic or linguistic mono-culturalism is fraught with danger. Democracy evolved as an instrument for effective multi-culturalism. The liberal principles on which it is founded are intended to protect the interests of minorities, not merely to reflect the will of a dominant majority. Elected democratic governments are expected to represent, serve and safeguard the rights of all citizens. Ironically, today the most effective symbol of the democratic spirit in world affairs is not the US presidential system or the British parliamentary system, but the Commonwealth, an intergovernmental organization of 52 nations, headed by Queen Elizabeth II, who presides above partisan politics of countless national political parties as representative of all her people.

## 8. Social and Cultural Foundations of Democracy

The evolution of the modern democratic nation-state arose from the gradual transformation in the way power and privilege are distributed in society through three stages of development. In the earliest stage physical factors were the major determinants—the power of the strongest warrior or group to lead, dominate and compel allegiance, the power of hereditary right based on birth and blood line, and the power of land as the principal resource for production were predominant in military empires, monarchies and feudal societies. The power of society was concentrated in the hands of a few and applied primarily to preserve the authority and privilege of its leaders. As society became more dynamic and productive, power began to move to the centers of commerce and new wealth. Monarchs came to depend on a thriving merchant class for support. Greater freedom of action and wider distribution of rewards proved necessary to encourage initiative and enterprise rather than mere allegiance and obedience among a wider population. With greater freedom, the society acquired far greater social capacity and social power and the sources of that power demanded an increasing share in the fruits of how power was distributed. Thus commenced the long struggle that led eventually to the supremacy of the Parliament over the monarchy in England and to the revolution in France. As a further consequence, republican France under Napoleon demonstrated that a nation of citizens fighting for the glory or defense of their country was far superior in strength to the armies of mercenaries available to the hereditary emperors of Europe.

The roots of modern democracy can be traced back to the development of constitutions and legal processes by which access and distribution of power in society came to be defined and determined on the basis of rights, universal values and principles of justice. The struggle for power sharing within society shifted from the battle field and court intrigue to the floor of parliaments, where new laws were framed to define the rights of citizens and electoral processes serve as the basis for the distribution and exercise of power. A culture of liberalism based on the freedom and rights of each individual citizen emerged as the seedbed for the development of the institutions of modern democracy.

This constitutive process gave rise to a set of impersonal principles for governance, power sharing and distribution of benefits to replace the impositions of personal preference by a monarch or authoritarian ruler. The laws arising from this process came to be framed by a legislative process, which in the measure the nation was a functioning representative democracy, reflected the consent and prevailing values of the society at large. *Thus, political*

*power was founded on social process and defined and circumscribed by legal, legislative, constitutive process. In democracy, law is the codification of the public conscience. To the extent the legislative process ignores or overrides or prematurely imposes new standards upon public conscience it risks undermining the authority of law and the democratic institutions on which it is based. Therefore, at all times the consciousness of the population is the final determinant of the functioning of its institutions.*

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*“Social evolution involves the progressive development of societies from a near exclusive emphasis on social conformity and blind submission to authority to a growing emphasis on recognition and empowerment of their individual members.”*

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Democracy is a sophisticated form of social organization devised to more effectively develop and harness the potential capacities of national communities and to more widely distribute and apply the social power it generates to promote the welfare of the entire community. The rise of democracy is one expression of a wider, more fundamental process of social evolution from small, isolated homogeneous communities to larger, open, heterogeneous nation-states living in productive exchange and harmony as members of the global community. Both the formation of the nation-state and the development of effective institutions of democracy depend for their basis on the simultaneous development of the consciousness of individual citizens and the conscious identity of the organized society. Neither by itself is sufficient.

The heterogeneous nation-state is founded on a culture of inclusiveness, tolerance and diversity. Without these three values, no nation-state can remain stable, secure and prosperous. In each stage of national evolution there is an inevitable tendency of entrenched sources of power to cling to or revert to earlier formulas of national identity drawn from history or fabricated from imagination, as in the case of the myth of Aryan origins in Nazi Germany or the current assertion by minorities in America that secular USA is a Christian nation, the desecularization of Turkey or the calls for redefining the identity of India—one of Nature’s richest experiments in heterogeneity founded on a culture of tolerance—as a Hindu nation. These claims are often founded on well-disguised vested interests, entrenched ignorance and irrational fear. Almost always they are based on a remarkable capacity to forget, distort or revise the history of a people to neglect the historical record, for in almost every case the present claimants to cultural domination were themselves earlier minorities admitted and assimilated into society by a tolerant majority.

## **9. Individual and Collective: Freedom and Equality**

A viable culture of democracy has to reconcile two sets of interests that are frequently juxtaposed as mutually exclusive—the rights of the individual and the rights of the collective. As discussed above, social evolution involves the progressive development of societies from



a near exclusive emphasis on social conformity and blind submission to authority to a growing emphasis on recognition and empowerment of their individual members. In reality the two terms—individual and collective—are always mutually interdependent. No society can survive, develop and evolve without the aspiration, imagination, foresight, leadership, courage and initiative of developed individuals whose vision and actions transcend the status quo as catalysts for collective progress. In turn, no individual can fully develop without drawing on the rich reservoir of social resources generated, organized and transmitted from generation to generation by the collective. Society is the source of all the values, knowledge, skill, leadership qualities and organizational skills required for the development of individual character and personality. Society supports the development of individual leaders who in turn support the development of society. The individual and the collective represent complementary rather than contradictory elements.

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*“Individual accomplishment is always the result of the cumulative achievements of the society as a whole.”*

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In earlier times the number of individuals who acquired these capacities and rose to leadership positions was severely restricted to a tiny military, aristocratic or economic elite. But the curve of social evolution clearly points toward an increasing dissemination of the capacities for leadership through education and the opportunities for leadership through freedom for social mobility. In 1861 a single PhD was awarded in the entire USA. Today more than 50,000 are awarded annually. All the powers developed by society over countless generations are now being made accessible to ever larger numbers of citizens to enable them to acquire the capacities for self-development and individual accomplishment that are needed for the further development of the society.

Freedom is the most essential value for the development of the individual and the vibrancy of society. That is why the most successful political and economic systems place such a great emphasis on creating the conditions that not only permit but also actively support the fullest development, empowerment and freedom of action of their individual members. The energy, vision, creativity, courage, innovation and initiative of individuals are the motor power for continuous development of the social collective. The society that gives and invests so much in its members expects and requires in turn that each individual member contribute to its further development and that of all its members, rather than seeking to accumulate and possess for personal benefit alone the fruits of all they have received from society. Therefore, hand in hand with freedom, social values and power structures require the sharing of benefits among the wider population. Only then can it preserve the stability, cohesiveness and harmony required for continuous evolutionary advancement. Modern democratic societies represent the most advanced model for balancing, reconciling and harmonizing the twin objectives of individual development and well-being with social harmony and welfare.

All manner of experiments have been established throughout history emphasizing one or the other end of the value spectrum. Fascism and communism demonstrated the tremendous power of subordinating the individual to the perceived interests of the collective. The former destroyed itself by the application of violence against other societies as well as its own

members. The latter destroyed itself by suppressing the creative and dynamic energies of its people. In both cases the centralization of social power ended by consuming the societies in which they were applied. Capitalism on the other hand has always tended to err in the other direction by placing inordinate emphasis on unleashing individual initiative without sufficient regard for the welfare of the collective. The excessive decentralization of social power as individual or corporate right for self-seeking individualism poses an ever-living threat to the stability and cohesiveness of democratic societies.

So long as democratic capitalism was confronted with competition from the economic security promised by communism, it was subject to self-imposed constraints to prevent excessive discontent among lower levels of society and intellectuals who favor social justice over acquisitive self-indulgence. Now that the competition has vanished, neoliberal ideologues have revived capitalism's destructive tendency to affirm the claim of the most talented and dynamic of its members to the full and sole benefits of labor. In reality individual accomplishment is always the result of the cumulative achievements of the society as a whole. We cannot think a thought or voice an idea or act for a moment without drawing on the rich social heritage of knowledge, skill, invention developed by countless generations of humanity as our base and support. The values of individuality and individual freedom are themselves part of that legacy. The values of society are the result of its social, cultural and psychological development. The expression of those values is primarily determined by the social organization of its political and economic systems and the relationship between them.

A mere compromise or balancing of the two sets of values can never represent more than a temporary, unstable solution resulting in alternative swings between the left and the right. The real solution lies in a reconciliation of the two sets of values at a higher level in which the egoistic individualism of each citizen seeking to maximize his own welfare regardless of its impact on others evolves into self-actualized individuality in which each person seeks to maximize his own well-being by serving the development of other individuals and the society as a whole. This is the reconciliation envisioned by Carl Jung, Abraham Maslow, Carl Rogers, Rollo May and other great humanistic psychologists of the past century.

This perspective may appear utopian. Transforming human character and behavior is surely too formidable a challenge for serious consideration. Yet the evolution of human consciousness has been the dominant undercurrent and driver of all advances in development, civilization and culture. One need not look back too far in history to the time when marauding hordes wiped out whole civilizations, colonial powers traded in slaves and claimed entire nations as their private property, imperial conquest by the rule of might was the presiding deity of the age, conflicts were decided on the battlefield or in the dueling arena rather than at the conference table or in courts of law, human rights were narrowly confined to the privileges of a tiny powerful elite, education was the luxury of the aristocrat and the clergy, truth was the monopoly of church or mosque denouncing all viewpoints contrary to its own, knowledge was the sole possession of pseudo-intellectuals spouting circular arguments that only affirm their own premises with neither fact nor experience to validate their claims, racial and gender superiority and inferiority were considered too obvious to debate, tyrants were respected for their might, wealth was the power of the collective possessed and dedicated

to the extravagant dissipation of a privileged few, falsehood in all forms was acceptable so long as it was cloaked as conventional wisdom. Those times are past, regardless of what today's small-minded demagogues-for-a-day may ardently wish for. It is time to move on. The history of the past two centuries affirms it. The aspirations of today's youth demand it. The destiny of humanity makes it inevitable.

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*“What is needed is a life education that consciously develops and unleashes the physical, social, emotional, mental and spiritual energies and capacities of each individual for entrepreneurship, creativity and well-being.”*

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These truths compel us to seek both in theory and practice a formulation that freely and equitably distributes all forms of social power to all human beings everywhere. That formulation alone can result in the greatest power for both the individual and the collective to pursue ever higher levels of human welfare and well-being. No other possible answer will enable humanity to successfully cope with the multidimensional global challenges confronting society today. Marx was right, humanity does need a revolution and it must start with an intellectual revolution that rejects doctrinaire truths proclaiming the exclusive validity of a limited partial formula and embraces an integrated perspective that reconciles individual freedom with social equality and justice for all.

In an age of ubiquitous mechanism that stretches around the globe and encircles the lives of each and every individual with the overwhelming burden of bureaucracies, systems, technologies and so many other form-confining procedural requirements, it is tempting to wish for a dismantling of all machinery that can liberate individuals from all encumbrances and leave us free to pursue our own destinies. Yet history testifies to the fact that one person's conception of unlimited freedom inevitably involves the imposition of arbitrary constraints on everyone else, as so vividly demonstrated by the conversion of financial markets into a global casino, international trade into a global cartel of monopolies, money in politics into an oligopoly undermining the very principles of freedom for all, and unbridled growth into the ravaging of Nature. It is equally tempting to think that a mere individual is almost powerless against the collective weight of impersonal mechanism. Therefore, it is worth reflecting that throughout history up to the present moment, the actions of individuals have always played an inordinate role in the evolution of the collective.

Today we once again witness with consternation the power of a handful of demagogues to challenge, retard and at least temporarily reverse centuries of social progress. At times such as these, it is necessary to recall that in the past other small groups of visionary individuals exhibited the power to inspire and unleash rapid social advancement. One such group was America's founding fathers. And among its remarkable members is the singular example of Washington, who as commander-and-chief of the Continental Army categorically insisted on subjecting his military authority to that of the nascent Congress. At a time when the American colonists sacrificed so much to overcome autocratic rule, they chose Washington

as their first president because he had so singularly exhibited the determination to place the authority, power and welfare of the collective above and beyond the personal authority, ambition, and prestige of its leaders.

## **10. Education and Social Evolution**

Leadership of this quality does not grow on trees or bloom in deserts. It is a product of the fertile soil of social enlightenment and cultural values. It cannot be manufactured, but it can be nurtured through education. But it cannot be achieved by a system of education that stamps out countless copies of mass produced citizens equipped with the standard intellectual programming, conventional wisdom and occupational skills required to serve as mindless cogs in the wheels of social machinery. It can only be achieved by a form of education that values independent thinking, development of personality and creativity far above memorization of facts and the ingestion or indigestion of prevailing theories and dogmas masquerading as knowledge. At a time when even the stability and security of the nuclear family are threatened, education is the most advanced means at our disposal to nurture the fullest development of each individual. For this purpose, professional education limited to stamping out citizen-employee equipped with the skill sets needed by our increasingly complex techno-society will not suffice. What is needed is a life education that consciously develops and unleashes the physical, social, emotional, mental and spiritual energies and capacities of each individual for entrepreneurship, creativity and well-being.

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## **Notes**

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