

---

# Capitalism and Democracy

BY ARTHUR E. FOULKES

---

I recently heard a prominent American politician tell how a “chill” went up his spine when he heard someone question the importance of democracy. How could anyone doubt the value of democracy? he wondered. Fortunately, he said, he soon realized that by “democracy” his (European) interlocutor really meant “capitalism.” Whew, he thought, that’s all right, then. But is democracy really more important than capitalism?

One immediate problem we face discussing democracy and capitalism is that both terms have different meanings for different people. For some people “capitalism” is synonymous with “corporatism” or “crony capitalism,” which combines nominally private enterprises with a highly interventionist political system—indeed, something like the U.S. system today. Likewise, “democracy” for some is synonymous with social and economic equality. For them, no democracy can exist when some people live in poverty, some cannot read, and others live in mansions or attend Ivy League schools.

For my purposes, however, democracy will be defined simply as “the people rule,” or, more specifically, “majority rule.” While it’s true that almost everyone would agree that democracy also requires certain guaranteed freedoms, such as freedom of the press, freedom of speech, and the right of habeas corpus, even these freedoms are subject to limitations when public opinion permits—as any number of examples from periods of crisis in U.S. history can demonstrate.

Capitalism, on the other hand, will here refer to a free-market economy with guaranteed property

rights—a laissez-faire society. Indeed, a free market is simply one in which the unhampered exchange of property titles can take place. Thus in a truly capitalist society, government’s role would be strictly limited to protecting property rights (including the right to our bodies) since virtually any other government activity would almost certainly involve the violation of those rights. Thus by this definition, the economic system capitalism necessarily implies a (classical) liberal political system.

Democracy, however, makes no promises regarding the size and scope of government. Indeed, it could be argued that democracy is inherently hostile to limited government since many citizens in a democracy (including many so-called “capitalists”) soon find they can successfully lobby government officials for subsidies, trade protection, and other legal privileges. Likewise, elected officials soon learn it is in their interest to strategically grant economic favors for their own political and electoral needs. As economist Randall G. Holcombe noted in

---

Indeed, a free market is simply one in which the unhampered exchange of property titles can take place.

---

“Liberty and Democracy as Economic Systems” (*Independent Review*), “[T]here are inherent tensions between democracy and a free-market economy that make it difficult to maintain a stable system. In particular, the ascendancy of democracy threatens the survival of the free-market economy, which was built on a foundation of liberty. . . . [T]he evolution of democracy has come at the expense of liberty.”

---

*Arthur Foulkes (arthurfoulkes@hotmail.com) is a freelance writer who teaches at Northwood University and Ivy Tech Community College in Indiana.*

Or as economist John Wenders wrote in *The Freeman*: “Democracy evolves into kleptocracy.”

The original design for the American government was one that attempted to combine limited democracy with limited government. But it didn’t take long for this ideal to begin to dissolve.

One of the first blows came when George Washington was president, during a debate over the meaning of the Constitution’s Necessary and Proper clause. Washington and a congressional majority planted some of the first seeds of big government when they accepted the argument of Treasury Secretary Alexander Hamilton, who contended that the clause (taken along with the fact that the Tenth Amendment’s reservation of state powers failed to include the word “expressly”) gave the federal government powers beyond those specified in Article I, Section 8. Hamilton’s vision won the day despite opposition from Thomas Jefferson and the Constitution’s principal author, James Madison, who feared that “such a broad interpretation of the ‘necessary and proper clause’ would allow the federal government a reach far beyond the intentions of the Constitution’s framers.” Within 20 years the Supreme Court would endorse Hamilton’s view.

Despite this and some other notable setbacks in the nineteenth century, for most of the first hundred years of American history, Congress, the president, and the courts took fairly seriously the idea that the federal government should be limited and that the Tenth Amendment—stating that any powers not delegated to the national government by the Constitution are reserved to the states or to the people—still had some meaning. The real damage came in the twentieth century. As the Cato Institute’s Roger Pilon told a Senate subcommittee in 2005:

---

Conventional wisdom still holds that the Progressive era was in large part a response to a growing monopolization and concentration of economic power in fewer and fewer hands around the start of the twentieth century. The exact opposite is more the case.

---

The great constitutional change took place in 1937 and 1938, during the New Deal, all without benefit of constitutional amendment; but the seeds for the change had been sown well before that, during the Progressive Era. . . .

Search the Constitution as you will, you will find no authority for Congress to appropriate and spend federal funds on education, agriculture, disaster relief, retirement programs, housing, health care, day care, the arts, public broadcasting—this list is endless. . . .

[T]he Constitution says, in effect, that everything that is not authorized—to the government . . . is forbidden. [The] Progressives turned that on its head: Everything that is not forbidden is authorized.

### How We Got Here

I recently asked a class of mine to speculate just how the United States moved from having a national government that Madison described as having powers that were “few and defined” to one that doesn’t hesitate to spend billions of tax dollars on everything from space exploration to “pro-marriage programs.” None of my students could say, but it is interesting to note that a significant shift away from liberty and toward interventionism came at the behest of so-called “capitalist entrepreneurs” during the Progressive period.

Conventional wisdom still holds that the Progressive era was in large part a response to a growing monopolization and concentration of economic power in fewer and fewer hands around the start of the twentieth century. The exact opposite is more the case. Unrelenting competition and market uncertainties led large business interests to lobby government for regulations designed to stifle their competitors. As Marxist historian Gabriel Kolko noted in his classic, *The Triumph of Conservatism*:

Competition was unacceptable to many key business and financial interests. . . . As new competitors sprang up, and as economic power was diffused throughout an expanding nation, it became apparent to many important businessmen that only the national government could rationalize the economy. . . . Ironically, contrary to the consensus of historians, *it was not the existence of monopoly that caused the federal government to intervene in the economy, but lack of it* [emphasis added].

Yet this increase in government power did not take place in a vacuum; public opinion had to allow it. As Robert Higgs noted in his important book *Crisis and Leviathan*, “Ideology, which some refer to more vaguely as ‘public opinion,’ must have played an important part, at least a decisive permissive role. . . . If people generally had opposed Big Government on principle, free markets could scarcely have been abandoned as they have been during the past seventy years.”

A related view takes the importance of ideology a step further by suggesting that the Constitution *never really limited the government at all*. Former FEE president Donald Boudreaux writes, “[T]he constitution is the dominant ideology within us—an ideology that determines what we permit each other to do, as well as what we permit government to do. No words on parchment . . . will ever override the prevailing belief system of the people who form a polity.”

In other words, ideas count more than articles and amendments. As the American people have come to expect more from their government, the size of that government has grown and their “constitutional tolerance” has grown with it, all but washing away America’s classical-liberal roots. Modern political leaders have found this to their advantage. As government expands, their political power and influence expand with it. Fewer and fewer aspects of life are left to private individuals, while more and more decisions are made by government officials. This may be called “democracy,” but it is clearly the substituting of the public and the political for the private and the voluntary—that is, the coercive for the peaceful.

As noted, many contemporary critics of capitalism believe a “true” democracy means a powerful state role in promoting economic equality, “fair” labor conditions,

“socially responsible” economic growth, and so on. Their plans always involve greater restrictions on private property rights and other personal freedoms. And while they believe they are promoting equality, their vision necessarily implies a tremendous *inequality* of political power. As economist Peter Bauer once noted, “The successful pursuit of the unholy grail of economic equality would exchange the promised reduction or removal of differences in income and wealth for much greater actual inequality of power between rulers and subjects.”

### “Fat Cats” for Capitalism?

To promote their case, many of capitalism’s critics assert that only corporate “fat cats” benefit from economic freedom. But as Madsen Pirie noted in his essay “Nine Lies about Capitalism,” “If capitalism really served the interests of businessmen, then more of them would be in favor of it.” As noted, some of the most damaging and powerful opponents of truly free markets have been, and continue to be, business leaders. This is unsurprising. When markets are free, businessmen are the servants of consumers and those who fail to satisfy consumers are ultimately doomed. Yet it is this uncertainty that leads to greater overall prosperity. The profit (and loss) system, so decried by anti-capitalists, is the springboard for constant innovation and greater productivity—in other words, improved living standards for everyone.

Democracy and liberty can coexist only if public opinion favors private property rights and individual freedom over coercion. Capitalism, not democracy, implies just this sort of liberty; democracy only implies that government is directed by mass opinion. Today, because liberty is often confused with the “right to vote,” true liberty is more and more threatened by expanded and expanding “democracy.” Yet, as John Wenders has noted (in words I would love to see emblazoned on a monument somewhere in Washington), “Freedom is not measured by the ability to vote. It is measured by the breadth of those things on which we do not vote.”

To limit the reach of government in a democratic system may indeed be limiting the reach of democracy itself. Yet this is no bad thing if by limiting the reach of democracy we are in turn securing liberty.

