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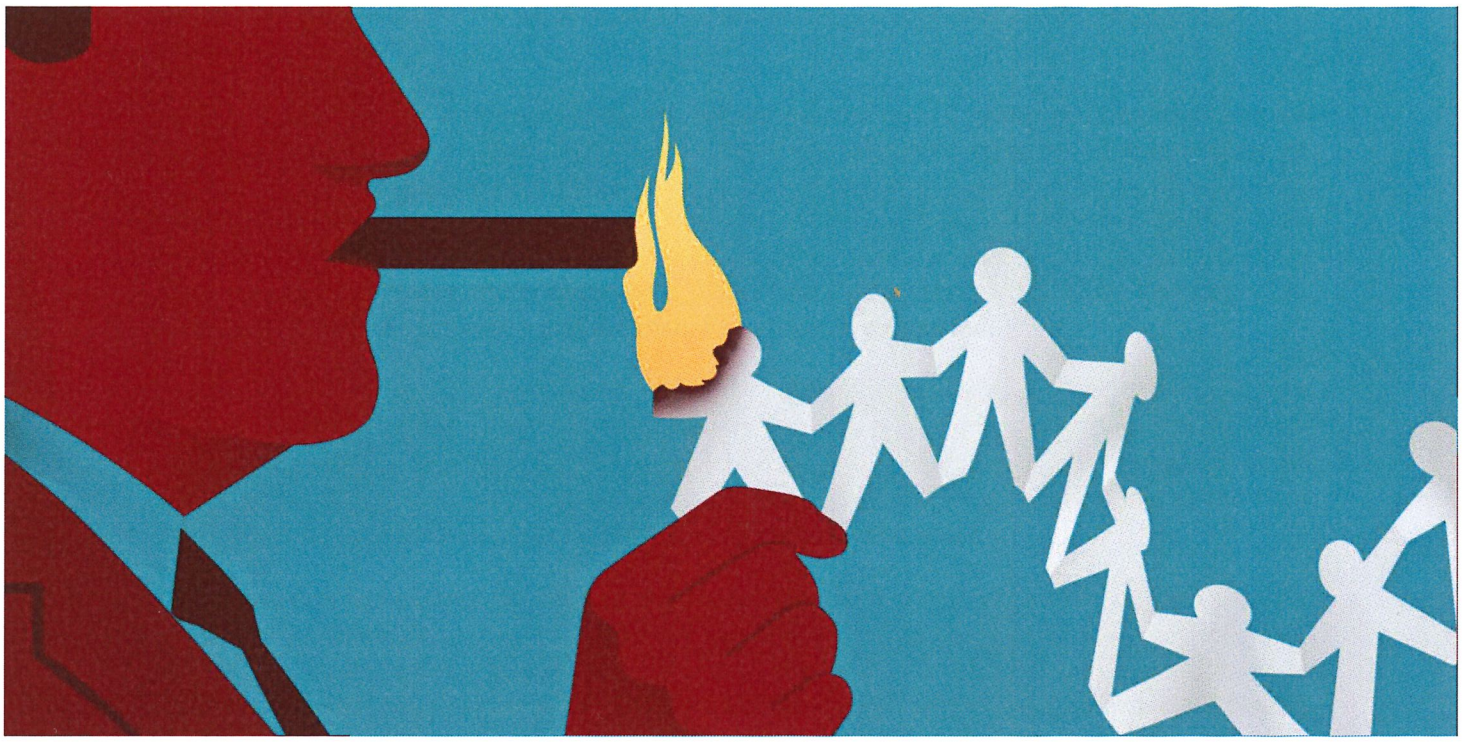


Illustration by Joey Guidone

The Big Idea Series / Democracy Under Attack

Do Democracy and Capitalism Really Need Each Other?

Ferreras, Isabelle, March 11, 2020, "Do Democracy and Capitalism really Need Each Other?, » Harvard Business Review. Access: https://hbr.org/2020/03/do-democracy-and-capitalism-really-need-each-other

Clearly not: Capitalism, as we can see across the globe, is compatible with all different kinds of political regimes: liberal democratic, communist, autocratic – and now illiberal democracies, too.

Democracy is a system of government based on the recognition that people are equal "in dignity and rights" and should therefore have equal political rights. This ideal can be applied to entities of any size.

Capitalism is also a system of government, but an unequal one. It grants political rights based on capital ownership. Its core institution is the firm, which is made up of two classes of investor: capital and labor. In capitalist firms, political rights to govern are held by capital investors only, through the legal vehicle of the corporation. The only citizens that matter in the extractive logic of the capitalist firm are those who own capital – in other words, shareholders. They exercise the power and reap the bulk of the financial returns, while labor investors (i.e., workers) are disenfranchised – and the planet's resources exhausted.

Capitalism is not naturally meant to support the free market*. The market is an exchange mechanism that is legally and culturally produced and secured by the state**. Its superiority in coordinating supply and demand has been proved, but it is seldom acknowledged that the market economy is compatible with both democratic and capitalist governments at the firm level. Capitalism and democracy both need markets, not each other.

This confusion has created the illusion that democracy and capitalism go hand in hand, when, in fact, they contradict each other. Today's political leaders (democratic or not) are scrambling to hide their powerlessness to reduce inequalities or save the planet in the face of transnational capitalist corporations. One result of this is crumbling democracies. We have a clear choice before us: either expand our democratic commitment to include corporations, through democratizing them internally (by including the representation of labor investors along the current representation of capital investors***), or forfeit our democratic rights to those who own capital – a possibility looming on the horizon, particularly in the United States.

* See Thomas Philippon, 2019, *The Great Reversal. How America Gave Up on Free Markets*, Harvard University Press
** See Steven Vogel, 2018, *Marketcraft*. *How Governments Make Markets Work*, Oxford University Press
*** See Isabelle Ferreras, 2017, *Firms as Political Entities. Saving Democracy through Economic Bicameralism*, Cambridge University Press.

Tenured fellow of the Belgian National Science Foundation, professor at the University of Louvain, and a senior research associate of the Labor and Worklife Program at Harvard Law School