

World at Democratic Crossroads: Seeking Institutional Insights

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Politics is, almost by definition, a contested environment. Different views confront each other, sometimes they even clash. Traditionally, a distinction exists between a conservative¹ Right and a progressive² Left, along with all sorts of intermediate combinations. The distinction relates to general views of the economy and of society but it has usually been the case that the better-off were conservative and the worst-off were progressive. This situation has changed. Not only the better-off are often more progressive than the worst-off³. Political participation – even just voting – has been declining in many countries, as if there was no point in trying to direct the polity in one way rather than another. At the same time, fits of socio-political anger are emerging spontaneously in several countries⁴. What they reflect is a general lack of confidence in the polity.

From a conventional view of democracy, this change is awkward. If things do not work, one would expect that it is up to policy-makers to adjust them. If they are unable to do so, one would expect people to vote for change. Although political scientists are usually better equipped to deal with these issues, economists who are willing to cross barriers may not only provide some insights about this apparent conundrum⁵. They may also get some insights on how economic theory relates to economic policy.

The will of the people?

The conventional view of democracy is that people vote to show what they want. The outcome of elections is the will of the people. Eighty years ago, however, Schumpeter (1994) disputed this view, pointing out its utilitarian theoretical background⁶. Indeed, much like the consumers of conventional theory, voters should be perfectly informed and perfectly rational in order to consistently draw up and express their will. Their political preferences should be given and the outcome of the elections should point to the best possible policy.

Schumpeter points out that the democratic process operates the other way round. It is political leaders who devise programs that aggregate voters. Voters choose among different selections of issues and priorities, coupled with propaganda, that leaders provide. Consequently, the rationale of the democratic method turns out to be different from what the conventional view suggests. It is not a linear mechanism whereby people in government must comply with the will of independent voters who can choose to recruit or dismiss them. Voters are not independent in that their choice sets are

¹ According to the Merriam-Webster, conservatism is “a political philosophy based on tradition and social stability, stressing established institutions, and preferring gradual development to abrupt change” (retrieved October 9th 2022).

² According to the Merriam-Webster, progressive is “one believing in moderate political change and especially social improvement by governmental action”.

³ A discussion of better-off progressives is in Piketty (2018).

⁴ At a more social level, consider the hostility towards immigrants in most Western countries as well as the rising importance of hate speech and hate actions. At a more political level, consider the rallies of the “*gilets jaunes*” in France, the January 6th 2021 event in the USA and widespread anti-vaxxer actions since the outbreak of Covid 19.

⁵ The issues that this paper discusses may provide a theoretical framework that encompasses at least some of Barbara F. Walter's (2022) items – especially people's loss of political status and factionalization - in her taxonomy of circumstances that undermine democratic institutions.

⁶ “However, these ‘theories’ about the sovereignty of the people and about delegation and representation reflect something more than an ideological postulate and a few pieces of legal technique. They complement a sociology or social philosophy of the body politic ... We may just as well designate this sociology or social philosophy, the product of early capitalism, by the term introduced by John Stuart Mill, Utilitarianism” (Schumpeter 1994).

framed by the people they must vote for. Schumpeter further suggests that political leaders do not just frame the choices but – at least to some extent - the very views of the voters⁷.

Given this dominant role of political leaders, Schumpeter suggests a range of possible explanations for the above mentioned changes in the way the political system operates. They relate to the human limitations of political leaders and to the degree of competition among them⁸. In so doing, he never considers that voters, and more generally people, are anything other than passive agents who must merely adapt to what leaders are able to propose⁹. He fails to consider that people may change to the point that their views are incompatible with what they previously accepted.

What is at issue is not only that people may lack perfect information and substantive rationality. It is that individuals are irreducible to utility functions. Every person is a manifold individual that comprises various groups of identities. Changes in the way people frame their identities may affect the functioning of the democratic process.

Let us distinguish three groups of identities. The first one is determined by exogenous circumstances such as sex, skin color and original nationality. The second group is chosen: marriage, political ideology, religious affiliation¹⁰. A third group may appear as exogenous to the individuals involved but is endogenous to the economy. It includes identities that emerge out of personal or socio-economic dynamics and that they must accept and put up with whether they like them or not: a physical impairment, a layoff, a war. Although a rigid distinction between these groups is not possible, in general you cannot change the identities in the first and third groups whereas you can act on the second group.

As people learn about life, they gradually self-identify in relation to the first two groups: they establish a hierarchy among all of their identities, thereby choosing those that have a dominant role¹¹. When circumstances lead to the insurgence of the third group's identities, individuals may encompass them in this hierarchy or they may have to redefine the whole hierarchy in what turns out to be an identity crisis. For many people, an important identity has been the social recognition of their economic and social status (Veblen 1994; Bourdieu 1984; Trigg 2001). Generally, this is associated to their position in a society's income hierarchy.

Shifting identities

What characterized recent decades in most Western countries is the dominance of neoliberal policies. They basically consist in establishing the institutions that allow the economy to function as much as possible like a textbook neoclassical market, with the proviso that government does not

⁷ "Human Nature in Politics being what it is, they are able to fashion and, within very wide limits, even to create the will of the people. What we are confronted with in the analysis of political processes is largely not a genuine but a manufactured will" (Schumpeter 1994: 263). Note, however, that while this view resonates with Downs' (1957) claim that politicians pursue the personal gains that come from being in office, so that parties formulate policies to win elections rather than winning elections in order to formulate policies, it is also consistent with statesmen and parties that envisage and propose a path towards a better world.

⁸ These accounts may have some grain of truth. The phenomena we are talking about, however, have to do with various countries and have been occurring especially during the recent decades. It is more reasonable to seek an explanation that they may all share and that is specific to the present historical period.

⁹ At the very least one needs to understand what makes voters prefer one leader rather than another.

¹⁰ John B. Davis (2011) labels these two types of identities respectively "categorical" and "relational".

¹¹ Dominance, here, does not only mean that one identity is more important than another. It also means that it may contrast it. Thus, an individual's dominant military identity ultimately neglects, or even denies, the implications of their brethren-loving religious identity.

interfere either with income and wealth distribution or with the balance of power among businesses¹².

A great many people suffered the economic consequences of these policies: low growth, unemployment, income and wealth redistribution and limited welfare provisions (Medeiros and Trebat 2022). The vanishing of the American Dream – not only in North America but wherever this ideology prevailed - forced them to make sense of this change. They had to reconcile the expectation of an economy that would allow them to progressively improve their living conditions and achieve social mobility with the dire facts of a lower standard of living and little or no prospects for their future and that of their children.

According to the democratic method one would expect this situation to be ideal for an alternative political group to contrast such a negative economic program. The fact, however, is that neoliberal ideology prevailed throughout. What distinguished different political coalitions, who basically agreed that the unfettered market was supposed to provide the resources society needed, was possibly, two distinct issues: whether, how and to what extent the government ought to deal with social issues by redistributing some of the resources that the market provides; whether to uphold or forsake civil rights.

People who suffer the consequences of neoliberal policies and who foresee no alternative to the status quo cannot deny their social decline. The conventional view of democracy would expect them to assess this situation according to their knowledge and their preferences. This is not as straightforward as it seems. Consider, for instance, a situation where firms can lay off workers only under very restrictive conditions. The subsequent introduction of a law that makes dismissals easier – possibly justified by the need to make the labor market more flexible – undermines the security workers have about their economic standing, thus also about their social status. It points to a possible inconsistency between their interests as workers and the supposed requirements of an economy that ought to improve their standard of living.

These workers may react in a variety of ways. First, they may oppose the enacted policy and, when it comes to voting, oust the present policymakers. An important condition, however, is that there must be an alternative policymaker that envisages a different policy. If this does not occur, it is the entire political establishment that ends up suggesting, albeit implicitly, that the “will of the people” is constrained by the absence of technically viable alternatives. Second, precisely because they foresee no alternative, they may acknowledge that the rules of the economy cannot be changed. In terms of democracy, they will support the policymakers¹³.

These two voting reactions – hostility and acceptance – are consistent with the rationale of the democratic process. Based on their understanding of the situation, people vote in favor or against those who enact specific policies. A third case is more complicated. Workers may have internalized the belief that if they struggle to improve their living conditions, the economy will eventually reward them. They may nevertheless realize that, despite their compliance with economic laws, they are failing to achieve their goal. Owing to the inconsistencies in what they feel they know, this situation leads to cognitive dissonance and to two sets of consequences. At a strictly political level, they face a dilemma. Either they vote for political leaders who seem unable to deal with their problems or they choose not to vote at all. At a more psychological level, they must deal with a declining social

¹² This definition differs from the conventional claim that they are the mere application of neoliberal theory to policy. A theoretical account for this is in Ramazzotti (2022).

¹³ Support may be active, because voters internalize the rules of the economy, or it may be disenchanted and passive: they simply give up voting because “nothing is ever going to change”. This pessimistic outlook need not be as bad as it looks if one follows Alain de Botton’s (2011) claim that “Pessimists can have a far greater capacity for appreciation than their opposite numbers, for they never expect things to turn out well and so may be amazed by the modest successes which occasionally break out across their darkened horizons.”

status that undermines their self-esteem. The most plausible reaction to this situation is that, rather than self-identifying primarily in terms of their (declining) social status, they focus on other dimensions of life that do not undermine their self-esteem. In practice they prioritize those identities that emphasize their “civic status”: religion, gender, ethnic group, race, community (as opposed to national) values, or national identity in contrast with other nations. Doubtless, they struggle not to decline any further in the socio-economic hierarchy – possibly by claiming their “rights” in opposition to those of other social groups – but they also redefine the way they situate themselves in society. In other terms, they assign a greater salience to identities other than their social status¹⁴.

This change, which parallels the new positioning of political coalitions described above, lays emphasis on the distribution of the scarce resources made available by neoliberal welfare policies – thereby often leading to a battle of the have-nots – and on action in favor, or against, civil rights. While this may improve the conditions of some minorities, it is most likely that social dispersion prejudices any joint struggle to change the social balance of power and the rationale of economic policy. The most likely outcome is that the absence of an alternative to the neoliberal setup leads to estrangement from the polity. The anger associated to social disruption occasionally builds up and leads to episodes of rebellion, which political groups within the neoliberal spectrum can take advantage of, albeit not offering a proper policy alternative.

While the sociological and political implications of this argument are straightforward, the question is whether they add anything to economic thought.

What does economics have to do with it?

Many critics of neoliberalism stress that its policies, and the consequences they lead to, are the outcome of inconsistent theories. They emphasize what these policies fail to do while downplaying what these policies happen to achieve: a change in the way people perceive the status quo, how they self-identify within it and how this impacts on society. Much like conventional economists, these critics acknowledge that economic policy affects the well-being of people but they do not take due account of how this effect feeds back on how people make sense of their condition and behave accordingly. In more abstract terms, they neglect the systemic openness of the economy, that is, its interdependence with society (Gruchy 1972; Kapp 1976; Tsuru 1993; Chick and Dow 2005; Chick 2017) and the relevance of knowledge in this context.

Adolph Lowe (2015; 1980) provided interesting insights on this issue. Although he did not explicitly conceive of the economy as an open system, he did stress the relation between policy and knowledge. He pointed out that “the strength of the linkage between public controls and micro-motivations is proportionate with the degree to which the purpose of such controls is, first, *understood* and, second, *approved* by those who are to be controlled.” (Lowe 2015: 335). He did not conceive of economic actors as passively adapting to incentives. Quite to the contrary, those actors had to be convinced about the appropriateness of whatever policy was to be carried out. Lowe, however, considered conviction not just in terms of persuasive arguments but as the outcome of purposive and factual policy action that affects how people look at their reality¹⁵. He pointed out

¹⁴ A more detailed discussion of these dynamics is in (Ramazzotti 2020).

¹⁵ He distinguished “Control [capitalized] as an operational principle from the controls of conventional economic policy. It is the essence of the latter that they [policymakers] take the behavior of the macro-units for granted, confining themselves to modifying the natural and institutional framework within which micro-actions take their course [...] Control as here understood refers to a public policy that concerns itself with the shaping of the behavioral patterns themselves – by influencing the purposive and cognitive motivations of the actors immediately, or in a roundabout way through reorganization of the system’s structure.” (Lowe 2015: 131).

that political leaders act on “cognitive motivations” through economic policy. Contrary to Schumpeter, policy was not a consequence of but a means to persuasion.

Following this approach, neoliberalism has maintained its hold on governments for such a long time not necessarily because neoliberal political leaders were more capable than others to convince voters. It is that neoliberal policy created the consensus that supports it.

Contrary to the view whereby the non-death of neoliberalism is strange¹⁶, the above discussion suggests that neoliberalism is successful in its pursuit of individualist values at the expense of a shared feeling of community. By forcing people to feel as isolated individuals, it prevents them from conceiving of any alternative to the status quo. Truly, it disrupts the link between people and the polity, thereby determining the phenomena mentioned in the introduction to this paper, but this can be considered a collateral damage if the ultimate goal is a more market-centered economy.

What neoliberal success suggests is that economic policy is not a mere application of a mechanistic theory. It must create the ideological and practical conditions for its persistence over time. In a progressive perspective, the ideological condition is a view of a better world that makes up for the failure of the “American dream”¹⁷. The practical one is the achievement of the distributive and welfare requisites that deliberative freedom requires.

This conclusion apparently leads to a dead end, however. If an economic policy determines the consensus that supports it or, at the very least, prejudices the insurgence of alternatives, how can one conceive of a policy change? In other terms, in order to oust those in power one would need to build up a consensus, but this apparently requires access to the policy tools that only those in power have. The discussion that follows suggests that this dilemma is misleading.

Which policymaker?

Contrary both to conventional and to Schumpeter’s views, governments are not the only policymaking agencies. Business, for instance, acts on the balance of power with workers by avoiding full employment¹⁸ and adopting technologies that reduce the control workers have on the overall production processes (Braverman 1975; Marglin 2002; Samuels 1977). It affects the composition of output by fostering technological development towards what is most profitable, as opposed to what is most serviceable (Veblen 1904). Firms choose the domestic and international “boundaries of the firm” that are most appropriate for their inter-firm and international bargaining power.

Unions, too, try to act on how the economy functions. They act on distribution and try to prevent delocalization of production. More generally, they try to prevent business from weakening their bargaining power. Consumer organizations act on the quality and/or composition of consumer demand – thus also of output. Other collective agents, such as charities or non-governmental organizations pursue specific power-related goals and, in so doing, affect the structure of the

¹⁶ Reference, here, is obviously to the title of Colin Crouch’s well-known book (Crouch 2011).

¹⁷ Drawing on Moggridge, Carabelli and Cedrini (2018: 1197-8) point out that “Keynes’s case for state support of art, public buildings, communal ceremonies marks ‘the beginnings of a revolution in the criteria for state action—away from Benthamism’.” Citing Keynes, they add that “The State has a duty to demonstrate that we can ‘change our civilization’” (ibid. 1198).

¹⁸ “Under a regime of full employment, the ‘sack’ would cease to play its role as a disciplinary measure. The social position of the boss would be undermined, and the self-assurance and class-consciousness of the working class would grow. Strikes for wage increases and improvements in conditions of work would create political tension. It is true that profits would be higher under a regime of full employment than they are on the average under *laissez-faire*; and even the rise in wage rates resulting from the stronger bargaining power of the workers is less likely to reduce profits than to increase prices, and thus adversely affects only the rentier interests. But ‘discipline in the factories’ and ‘political stability’ are more appreciated than profits by business leaders.” (Kalecki 1990: 351).

economy. They complement, substitute or even contrast what the government does, depending on what the latter's policy stance is.

These actions are not just traditional lobbying or think tank propaganda. The latter are an attempt to make (at least) one of the three types of democracy-related actors (voters, policymakers and economists) act according to specific interests. They interfere directly with the polity and only indirectly with the economy. A great deal of the action discussed above affects the economy directly and the polity only indirectly.

The existence of a plurality of policymaking agencies ought to avoid the concentration of power. The problem is that neoliberal governments undermined the power of unions both directly¹⁹ and indirectly²⁰. At the ideological level, their action was grounded on the claim that democratic governments reflect the will of the people, so that only the (legislative and executive) power that people vote for is legitimate²¹. Coupled with the emerging dominance of neoliberal economic views, they eventually forced many unions to acknowledge that Thatcher's TINA (There Is No Alternative) claim might be true.

Summing up, neoliberalism has reduced the living conditions of many people and enhanced social disintegration. It has prevented them from acting collectively in order to pursue a better society and, indeed, it undermined the very idea that a better society is possible. This favored political disenchantment and forms of rebellion that lack a political program.

Overcoming this state of affairs requires alternative policies and a perspective for the future. The former are not just measures that avoid the negative economic and social effects of neoliberalism. They must establish a social consensus in favor of change. This means: aggregating intersectional interests in order to avoid social disintegration and the battle of the have-nots and substituting the delusion of the American dream with the belief that a better world is nevertheless possible.

Appropriate policymaking need not be restricted to governments. It can and should involve other agencies as well, provided they realize that the only way to defend their sectional interests is to have an intersectional and inclusive approach.

From an economic theory perspective, this means that theoretical constructs provide a toolbox, not a policy. Economic policy consists in using those tools not only to pursue strictly economic goals but also to overcome social, institutional, political and cultural impediments to change.

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¹⁹ The most famous instance is Margaret Thatcher's confrontation with miners in 1984-5

²⁰ A typical example is anti-inflationary macroeconomic policies that increased unemployment, thereby reducing the bargaining power of the unions.

²¹ The implication of this view is that any countervailing power turns out to preclude the proper functioning of democracy. This apparently plausible argument would require people to have the capabilities - associated to education, health and decent living conditions – that allow them to take part in public affairs. This is exactly what neoliberal precariousness precluded.

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