

University of Vienna
Faculty of Historical and Cultural Sciences

**11th Gerald Stourzh Lecture
on the History of Human Rights and Democracy 2019**

Francesco Boldizzoni
University of Helsinki

**Democratic Capitalism
A Twentieth-Century Utopia?**

held on **15 May 2019**

Edited on behalf of the Faculty of Historical and Cultural Studies
by Thomas Angerer, Birgitta Bader-Zaar, and Margarete Grandner

The history of human rights and democracy is a major field of activity in which the Faculty of Historical and Cultural Studies at the University of Vienna is engaged. Gerald Stourzh, professor emeritus of modern history and one of the most renowned Austrian historians of his generation, has prominently positioned the history of human rights and democracy at the University of Vienna during nearly three decades of research and teaching. At the same time, his academic achievements in the field have provided profound and lasting incentives internationally. In the annual *Gerald Stourzh Lectures on the History of Human Rights and Democracy* distinguished scholars present new insights in this field and put them up for discussion.

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ISSN: 2219-2883 / ISBN: 978-3-902794-45-1

Abstract

Today the notion of democratic capitalism may appear to be a contradiction in terms. After the unraveling of the postwar social contract based on class compromise and the welfare state, we find ourselves at the mercy of predatory greed and widespread antidemocratic sentiment, while progressivism is in the grip of an unrelenting agony. To make sense of the times we must go to the root of the concepts of capitalism and democracy. It could, indeed, be argued that the two do not have much in common. Democracy existed long before capitalism and, moreover, capitalism has often prospered in nondemocratic contexts and times. Yet the fact remains that the aspiration to radical democracy, namely a regime of substantive equality among citizens, only emerged at the height of the Age of Revolution, just as Europeans became aware of the rise of the capitalist social order and its destructive and destabilizing power. Since then, capitalism and democracy have been locked together in a strange relationship of tension and interdependence. This lecture investigates whether some form of peaceful coexistence between the two may again be possible in the future, or whether the idea of social democracy should just be regarded as one of the great utopias of the twentieth century.

It is a tremendous honor to be asked to deliver the Eleventh Gerald Stourzh Lecture, and I am especially delighted to do so on the occasion of Professor Stourzh's ninetieth birthday. On this occasion, I will only be able to engage with a small part of the themes and problems that have animated Gerald Stourzh's immense scientific production, and this engagement will be mostly indirect. I nevertheless wish to offer my modest tribute to his passion for intellectual history as a method and as a form of civic engagement.

Glancing at the title of this lecture, "Democratic Capitalism," one might easily conclude that my subject is a contradiction in terms. Those who are familiar with Karl Marx's thoughts on primitive accumulation or Karl Polanyi's treatment of English enclosures know what I mean.¹ Capitalism – so the argument would go – embodies plunder and violence, whereas democracy is essentially a mechanism of interest mediation based on tolerance and compromise. Modern democracy, furthermore,

¹ Karl MARX, *Capital: A Critique of Political Economy*, vol. 1: *The Process of Production of Capital* [1867], ed. by Frederick ENGELS (London 1996), part VIII; Karl POLANYI, *The Great Transformation: The Political and Economic Origins of Our Time* [1944] (Boston 2001), 37-41.

would be seen to rest on the recognition of a variable set of rights and duties associated with citizenship (and sometimes even extended beyond citizenship), which capitalism tends to respect only to the extent to which these rights do not hinder the pursuit of accumulation.

The different origins of capitalism and democracy, and the general lack of overlap in their historical occurrence, would seem to confirm the oxymoron thesis. Democracy existed long before capitalism and, moreover, capitalism has often prospered in nondemocratic contexts and times. Yet, there was a period in their history when capitalism and democracy got along surprisingly well, cooperating in what was arguably one of the more ambitious experiments in human welfare ever attempted. The expression “democratic capitalism,” which here stands as an abbreviation for “social democratic welfare capitalism,” refers to that experience. Democratic capitalism was the economic and social model that reigned unchallenged in Europe after World War II until the mid-1970s, when it fell prey to increasingly strong disintegrative tendencies. It is important to understand whether the circumstances under which it emerged were exceptional or were instead the product of a broader historical process. To do so, we will have to go to the root of the concepts of capitalism and democracy, look at how their paths crossed in modern history, and finally reflect on the crisis of their relationship.

I.

Let us start with the concept of democracy. Neither ancient democracy – the direct and participatory democracy of classical Greece – nor modern representative democracy up to the twentieth century can be called “social democracies.” Social democracy is based on a particular idea of justice, whose elaboration was the troubled offspring of the nineteenth century. It is by no means coincidental that the nineteenth century was also the “age of capital.”²

It is difficult to find a text that fully conveys the idea of social justice associated with Greek democratic culture. In fact, the more elaborate theorizations of justice in classical Greece came from authors who had little sympathy for democracy. In the *Republic* Plato, after rejecting with contempt the instrumental and amoral vision of

² Eric HOBBSBAWM, *The Age of Capital, 1848-1875* (London 1975).

the sophist Thrasymachus, tells us through Socrates' mouth that justice is realized when each one "perform[s] one social service in the state for which his nature is best adapted" and is not "a busybody."³ This is unquestionably a conservative view, but it is also a meritocratic one. Plato simply accepted that humans were endowed with souls of different types and he thought that these innate differences ought to be taken into account for the good of the republic.

At any rate, we do not find any special sensitivity to social concerns even among the most fervent supporters of democracy. Take Pericles. In his famous panegyric on Athenian democracy delivered one year into the Peloponnesian War, as reported by Thucydides, Pericles states: "We see no shame in admitting one's poverty. What is blamable is the failure to escape it by working hard."⁴ It is clear, therefore, that individuals were deemed to be largely responsible for their material conditions.

Modern democracy, as it emerged from the Enlightenment, broke the "Great Chain of Being" of the Ancien Régime – I am using Arthur Lovejoy's famous image in the sense in which Professor Stourzh employed it in his essay on equality and inequality in Alexis de Tocqueville's thought. That Chain crystallized the hierarchical structure of a society divided into orders to which individuals belonged and from which they derived their personal identity.⁵ However, nineteenth-century liberal democracy, which Tocqueville saw already at work in America, still meant equality in a rather restrictive sense, as equality before the law. In Europe, too, many shared this aspiration. The French bourgeoisie, we are told in *The Old Regime and the Revolution*, had welcomed the 1789 Revolution precisely because they claimed for themselves the same rights and entitlements enjoyed by the aristocracy.⁶ Their problem was obviously one of recognition, not wealth. But the French Revolution also contained the seeds of a deeper and more radical change, which would take a long time to unfold. The bourgeois point of view, indeed, was not the only perspective on the new society. There were also those who thought that there was little to rejoice at in the dismantlement of the old hierarchies as long as class differences (to put it in modern parlance) were left unchanged.

³ Rep. 433ab.

⁴ Thuc. 2.40.1.

⁵ Gerald STOURZH, Tocqueville's Understanding of "Conditions of Equality" and "Conditions of Inequality". In: Gerald STOURZH, *From Vienna to Chicago and Back: Essays on Intellectual History and Political Thought in Europe and America* (Chicago/London 2007) 336-337.

⁶ Ibid. 342.

If, at the outbreak of the Revolution, commitment to equality meant commitment to formal equality, when the Jacobins prevailed the term came to be identified with equality of outcome.⁷ The 1789 *Declaration of the Rights of Man and of the Citizen* contained expressions such as “equal in rights” and “equal in the eyes of the law.” On the other hand, the *Manifesto of the Equals* from 1796, written by someone involved in François-Noël Babeuf’s conspiracy to overthrow the Directorate, referred to this as a “sterile legal fiction” and called for *égalité réelle* (“real equality”) in the spirit of the Montagnard Constitution of 1793, a text much indebted to Jean-Jacques Rousseau’s ideas.

In his *Second Discourse* (1754), Rousseau had rejected the assumption about the original equality of men, a mainstay for much of the natural law tradition, which included of course Hobbes and Locke. Formal notions of democracy, if they are to rest on a theory of justice, must assume that human beings have equivalent skills and need at most equality of opportunity to make use of them. Rousseau, by contrast, supported a substantive notion of democracy based on his observation that, in human existence, “natural inequality imperceptibly unfolds together with unequal associations, and the differences between men, developed by their different circumstances,” tend to affect their fates.⁸

But, at the end of the eighteenth century, the conditions were not yet ripe for this alternative point of view to take hold. Moreover, the vocabulary of political thought still lacked a category – an entirely economic one – that would prove essential to analyze the new reality, namely the concept of class. This would lie at the core of the great nineteenth-century divide between the bourgeoisie and the proletariat. The development of capitalism was the backdrop against which this class dialectic unfolded.

Before the Industrial Revolution, capitalism could not establish itself as a social order. Its logic operated within specific sectors and involved a limited fraction of the population. The concentration of the means of production in the hands of capital owners, the dependence of most workers on wages, the satisfaction of needs through contractual market relations were unknown phenomena until the advent of the factory

⁷ Mona OZOUF, Liberty, Equality, Fraternity. In: Pierre NORA, Lawrence D. KRITZMAN (eds.), *Realms of Memory: Rethinking France*, vol. 3: Symbols (New York 1998) 77-114.

⁸ Jean-Jacques ROUSSEAU, *Discourse on the Origin and the Foundations of Inequality among Men or Second Discourse* [1754]. In: *Rousseau: The Discourses and Other Early Political Writings*, ed. and trans. by Victor GOUREVITCH (Cambridge/New York 1997) 170.

system. The relationship between capitalism and democracy came into being when the capitalist social order became manifest, bringing with it its destabilizing power over human relations. The tense character of this relationship was immediately apparent. Democracy was now being invoked by the many as a means to curb the economic power of the few, who in turn sought to contain democracy's expansion.

II.

Although industrial development in France was more gradual compared to England, in the two decades between the inception of the July Monarchy and the 1848 Revolution new imbalances emerged in a society that was experiencing the first wave of urbanization and where Ancien Régime social and power relations were being replaced by those between the bourgeois and proletarians.⁹ Having left behind Babeuf's communist dreams, and the early nineteenth-century utopias of Charles Fourier and Henri de Saint-Simon, the generation of Louis Blanc and Victor Considerant went down the road of a pragmatic socialism aimed at empowering the working classes. The main debates in this period revolved around two issues: labor organization and the right to work.¹⁰ The point of departure was Pierre-Joseph Proudhon's shocking claim that "property is theft."¹¹ With this statement, Proudhon intended to debunk the theories of ownership based on the right of occupation as well as Locke's principle whereby ownership derives its legitimacy from labor, which, in his view, legitimized the law of the strongest. Locke's doctrine, moreover, overlooked the fact that society did not provide everyone with equal opportunities to work.

The French socialists believed that the factory system exacerbated original inequality by depriving workers of a part of the product of their toil. By paying them subsistence wages, the owners of the means of production grew increasingly wealthy. The idea that production was a collective effort, transcending the sum of individual efforts, reinforced the conviction that labor was underpaid, which represented the essence of the "theft." In other words, the workers were attributed an autonomous

⁹ On the nature and pace of French economic growth, see Jeff HORN, *The Path Not Taken: French Industrialization in the Age of Revolution, 1750-1830* (Cambridge, Mass./London 2006).

¹⁰ Elena ANTONETTI, *Il lavoro tra necessità e diritto: il dibattito sociale nella Francia tra due rivoluzioni, 1830-1848* (Milan 2004); Jeremy JENNINGS, *Revolution and the Republic: A History of Political Thought in France since the Eighteenth Century* (Oxford/New York 2011) 55-58.

¹¹ Pierre-Joseph PROUDHON, *What Is Property?* [1840], ed. and trans. by Donald R. KELLEY, Bonnie G. SMITH (Cambridge/New York 1994) 13.

capacity for cooperation. It was their capacity, rather than entrepreneurial coordination, that made production possible and conferred value upon the product. The proposals for reforming the organization of labor originated from this very premise.

Blanc's work, *Organisation du travail* (1840), represents the most elaborate and influential expression of these ideas. It proposed the establishment of *ateliers sociaux* ("social workshops"), cooperatives of production whose members would be at the same time workers and shareholders. The state was supposed to actively promote the *ateliers* by supplying start-up capital and supervising their operation, though not directly interfering with management decisions. The state should also encourage the association of firms within each production sector and eventually cooperation between different sectors. The extension of the principle of cooperative association would gradually suppress competition, which Blanc thought to be responsible for the imbalances of the capitalist economy.

The revolution of February 1848 presented the socialists with a unique opportunity for attempting to put these ideas into practice and fully realize the principles of equality and fraternity of 1789. Upon a proposal by Blanc, who was a member of the provisional government, the state made a formal commitment "to guaranteeing a job to all citizens."¹² A decree establishing the *ateliers nationaux* followed almost immediately.¹³ These would recruit large teams of unemployed individuals to public work programs ranging from road and railway construction to tree planting. The provisional government also appointed a commission to review the workers' conditions, the so-called Commission du Luxembourg.¹⁴

The management of *ateliers* soon turned out to be unviable due to the large amount of financial resources they required. In Paris alone they employed a workforce that was estimated by their general manager as being around 150,000 (the actual figure might be slightly less than that).¹⁵ Besides, it was not always easy to find new construction sites. The Commission, substantially devoid of decision-making power, was left in a state of impasse. Meanwhile the victory of the liberals in the April election (the first to take place by universal manhood suffrage since 1792) had changed the

¹² Émile CARREY (ed.) Recueil complet des actes du Gouvernement provisoire: février, mars, avril, mai 1848 (Paris 1848) 12.

¹³ Ibid. 18.

¹⁴ Ibid. 30-31.

¹⁵ Émile THOMAS, Histoire des Ateliers Nationaux (Paris 1848) 141.

political framework, relegating the socialists to a minority view. It was, in a way, the revenge of the more conservative sectors of rural France over Parisian progressivism. In June the new government, the Commission Exécutive, made the final decision to close down the *ateliers*, triggering the June Days uprising. The revolt's bloody suppression was chronicled in the *Neue Rheinische Zeitung* by Karl Marx and Friedrich Engels, for whom it became a proof of the absence of real alternatives to the revolutionary road to socialism.¹⁶

The next challenge for the “democratic revolutionaries,” as the surviving radicals liked to call themselves, came in the summer and autumn, when the Constitution of the Second Republic was written. This was expected to provide the general framework of rights and duties, and to outline the future role of the state in the economic and social sphere. The battle, both at the preliminary stage of the Constitutional Committee and in later debates at the National Constituent Assembly, revolved around the right to work. On the one hand, there were politicians like Considerant, who wanted it to be enshrined in the Constitution, thus creating a perpetual obligation for the state to ensure full employment. On the other hand, there was a majority who took a more moderate stance. This majority was not hostile to public intervention, albeit of an occasional nature, but it saw assistance as a mere moral duty. The arguments put forward by the two parties are exemplified by the heated debate of 11 and 12 September between Antoine Philippe Mathieu (representative from the Drôme and one of the leaders of the Mountain) and Alexis de Tocqueville.¹⁷ For Mathieu, if work is a necessity upon which existence depends, this necessity must be protected by a right. Otherwise man will never be really free but subjected in various ways to those who can provide him with a living. Moreover, if freedom finds expression in private property, and property is acquired through labor, the state must put all citizens in the condition of becoming owners. In this way, Mathieu was turning the traditional conservative rhetoric on its head. He did not appeal to equality but to liberty, highlighting the dependence of the latter on the former. He conducted his defense of the right to work not against but in the name of private ownership.

¹⁶ Karl MARX, *The Class Struggles in France, 1848-1850* [1850], introd. (1895) by Frederick ENGELS (London 1934); cf. Mark TRAUGOTT, *Armies of the Poor: Determinants of Working-Class Participation in the Parisian Insurrection of June 1848* (Princeton, N.J. 1985).

¹⁷ *Compte rendu des séances de l'Assemblée Nationale*, vol. 3: Du 8 Août au 13 Septembre 1848 (Paris 1850) 946-948, 964, 968.

According to Tocqueville, on the contrary, the recognition of the right to work would require such a strong governmental interference with the economy as to suppress individual freedom. In order to guarantee this right, the state would have to turn itself into an entrepreneur and gradually become, by means of taxation, “the sole proprietor of all things.” The recognition of the right to work would necessarily lead to state socialism or “communism.” Tocqueville concluded with the famous exhortation that “the February Revolution must be Christian and democratic, but it must on no account be socialist.” The words of a radical liberal like Alexandre Ledru-Rollin could do little to undermine this caricatured representation of progressivism and to reassert the secularity of the state.¹⁸ The specter evoked by Tocqueville haunted the French bourgeoisie and led the Assembly to act cautiously. In the end, a compromise text was approved but one that was certainly closer to the sensibility of the liberals. It did not establish any rights to work or assistance but instead mentioned “duties” on the part of the state; a solution that left the government with a wide margin of discretion. The Constitution adopted on 4 November, under article VIII of the Preamble, reads: “The Republic ... shall, in the spirit of fraternal assistance, ensure the subsistence of needy citizens, both by providing them with a job, within the limits of its resources, and by providing assistance to those who are unable to work when family support is lacking.”¹⁹

Louis Napoleon’s coup d’état which, three years later, put an end to the republican experience, opened up a phase of paternalism in social policy but one without substantial innovations. Author himself of a pamphlet “on the extinction of pauperism” (1844), heavily imbued with Saint-Simonianism, in practice Napoleon III did not go much beyond tolerance toward mutual societies and strike actions. He was, indeed, aware that his power depended in no small degree on popular consent. The regime’s intellectuals, from Michel Chevalier to Frédéric Le Play, seemed to unanimously agree with the wishful thinking that an alliance between the forces of industrial progress, voluntary associations, and Christian values could solve forever the social question.

Only with the advent of the Third Republic did the ideal of a *république sociale*, that is, of a state committed to guaranteeing real equality to its citizens, find

¹⁸ Ibid. 969.

¹⁹ Constitution de la République Française (1848): <https://www.conseil-constitutionnel.fr/les-constitutions-dans-l-histoire/constitution-de-1848-ii-republique> (accessed 14 May 2019).

application.²⁰ But it was a gradual process, which underwent an acceleration from the 1890s. The interpretation of *fraternité* as a subjective feeling still overlapping with Christian charity, which we find in Tocqueville, by then sounded anachronistic. The Third Republic replaced such an ambiguous term with the secular and universal concept of *solidarité*. This was not the mere expression of an abstract ideal but drew its persuasive force from what social science was theorizing in those very years. Suffice to mention Emile Durkheim (1893), who argued that in modern societies cohesion depended on “organic solidarity,” or the interdependence of individuals, and presented the latter as a spontaneous outcome of social evolution.²¹

III.

The second stage of the encounter between capitalism and democracy took place in the wake of the spread of Marxism and the separation of social democracy from revolutionary socialism. Marxism gave European socialism a rigorous framework for understanding capitalism; a framework from which, however, Western European socialists were able to distance themselves in some important respects and at various critical junctures.

A first aspect concerns the interpretation of the fate of capitalism. The earliest steps away from orthodoxy were taken toward the end of the nineteenth century and Eduard Bernstein, one of the key figures of the German Social Democratic Party, provided a compelling justification for this move. In a series of writings, and most notably in *The Preconditions of Socialism*, he put forward the thesis that the expansion of world trade and the reduction of geographic distance had successfully redressed market imbalances and averted overproduction crises. Whenever a local crisis broke out, industrial cartels and the banking system were able to effectively contain it. Bernstein also noted how capitalist development, rather than causing growing social polarization, had in fact diminished it. The rise of a middle class of white-collar workers had fundamentally altered the dichotomy between capital and labor, softening class conflict. Volume III of Marx’s *Capital*, which Engels had managed to publish just a few years earlier in 1894, appeared to Bernstein to be an outdated text.

²⁰ Michel BORGETTO, Robert LAFFORE, *La république sociale: contribution à l’étude de la question démocratique en France* (Paris 2000).

²¹ Emile DURKHEIM, *The Division of Labor in Society* [1893], ed. by Steven LUKES (New York 2014).

Capitalism was here to stay. It was better to forget about prophecies of doom and focus instead on gradual reform.²² In his famous phrase, “the ultimate aim of socialism is nothing, but the movement is everything.”²³ This interpretation and its political implications, albeit initially met with great hostility within the SPD, in the long run prevailed.

A second aspect concerns loyalty to the institutions of the bourgeois state. At the beginning of the twentieth century, the idea made headway that socialism should be achieved without subverting the existing political order, so that the goal to be pursued became the election of a workers’ party to government, the “parliamentary road.” It was a path already followed by the English labor movement but was also increasingly popular among the German social democrats and their Austrian counterparts. After the turn of the century, Rudolf Hilferding was among the first to notice that monopoly and economic planning had replaced competition. Stabler conditions were being created where capital accumulation could, at least in theory, continue indefinitely. Since capitalism was not going to be undermined by its economic contradictions, overcoming it was for him essentially a question of political will. Hilferding believed that the proletariat had first to seize power through democratic struggle. Once in power, it could easily achieve socialism by taking advantage of the spontaneous tendency toward economic concentration, namely cartels and trusts already controlled by banks – what Hilferding called “finance capital.”²⁴ He had not given up Marx’s ideal of changing the world. He just wanted it to be changed by a velvet revolution, ideally bank nationalization.

Karl Renner, who was to become the first Chancellor of the new Austrian Republic after the war, represented the extreme pole of revisionism. Renner was now a long way from Marx. In 1916 he wrote: “Capitalist society, as Marx experienced and described it, no longer exists.”²⁵ Marx had described a stateless economy, and it could not have been otherwise. In his day, the economy was a private affair. Dominated by free-trade ideology, economic life was conducted anarchically and without major

²² Eduard BERNSTEIN, *The Preconditions of Socialism* [1899], ed. and trans. by Henry TUDOR (Cambridge/New York 1993). See also Manfred B. STEGER, *The Quest for Evolutionary Socialism: Eduard Bernstein and Social Democracy* (Cambridge/New York 1997).

²³ Eduard BERNSTEIN, *Evolutionary Socialism: A Criticism and Affirmation* [1899] (New York 1961) 202.

²⁴ Rudolf HILFERDING, *Finance Capital: A Study of the Latest Phase of Capitalist Development* [1910], ed. by Tom BOTTOMORE (London 1981).

²⁵ Karl RENNER, *Problems of Marxism*. In: Tom BOTTOMORE, Patrick GOODE (eds.), *Austro-Marxism* (Oxford 1978) 93.

interference from the government. Things had begun to change in the last quarter of the nineteenth century, with the dynamics already described by Hilferding. But only the experience of the war had shown how far state intervention could go. The war economy had seen the state committed to mobilizing and managing resources in a rational and efficient way, to planning production, and regulating distribution. According to Renner, it was difficult to imagine that this trend could be reversed, as it represented the culmination of a historical process.

Loyalty to institutions inherited from the bourgeois state was definitively reaffirmed at this critical juncture when, regardless of their divisions over the war, Western Marxists rejected any temptations to initiate a proletarian revolution. By the time of the war, most of them would rather subscribe to the “slow revolution” concept theorized by Otto Bauer, the leader of the Austro-Marxist movement: a peaceful, progressive transition supported by the will of the majority, which he thought would radically reduce inequalities without the need for further bloodshed and without compromising the functioning of the productive system.²⁶

Certainly, where Renner and Bauer saw a victorious state, orthodox Marxists would continue to see the executive committee of the bourgeoisie. In this intermingling of the state and the economy they saw nothing good but only a sign that capitalism, in this phase of its development, had appropriated the state and was using it for its own ends. The definitive break-up of the socialist world would be symbolically sealed by what was to happen in Russia in 1917. By 1918 Karl Kautsky, the doyen of the German social democrats, had become for Lenin “renegade Kautsky,” the enemy of the October Revolution.²⁷ In hindsight, one can see that Western reformist Marxism and Russian revolutionary Marxism were expressions of two different societies. The Bolsheviks did indeed make the Revolution, but they put an end to something that was not really capitalism but rather a post-feudal autocracy. This was replaced by a regime far removed from democratic ideals that would attract the criticism of Western Marxists for a long time. The social democrats, for their part, came to power in the newly-founded republics of Germany and Austria. In the 1920s even the French socialists overcame their traditional reluctance to join bourgeois governments by

²⁶ Otto BAUER, *Der Weg zum Sozialismus* (Berlin 1919).

²⁷ V. I. LENIN, *The Proletarian Revolution and the Renegade Kautsky* [1918], In: *Lenin: Collected Works*, vol. 28 (Moscow 1965) 227-325.

agreeing to pursue a “socialist management of capitalism,” while “socialism itself,” as Donald Sassoon puts it, “was relegated to a distant future, ‘nebulous and mythical’.”²⁸

Translating theory into practice was not easy for anyone. The early history of Western-style socialism’s relationship with power is almost everywhere a story of division and often frustrated ambition. The beginnings of the Weimar Republic are emblematic. They were marked by the splitting of the Social Democratic Party, the bloody repression of the Spartacist uprising, and the substantial inability to alter the preexisting economic power relations. Equally short-lived was the government experiment of the Austro-Marxists. Unable to appeal to the peasantry and middle classes of a largely rural country, they succumbed to the reactionary forces everywhere except Vienna.²⁹ But what matters is that the groundwork done in this period did not go to waste. As European bourgeois states evolved into full-blown liberal democracies based on universal suffrage – a process that was far from smooth as it had to overcome the terrible trials of the interwar decades – it was natural for social democracy to offer itself not as an alternative to liberal democracy but as an extension of it.

IV.

Let us now come to what was undoubtedly the happiest phase in the relationship between capitalism and democracy. In 1949, at a time of unparalleled optimism in Britain, sociologist T. H. Marshall gave a lecture in Cambridge on the concepts of citizenship and social class, which soon became a book.³⁰ This text is a standard reference for those who interpret the modern welfare state as the outcome of a process of progressive extension of rights in society. Marshall’s thesis is that the eighteenth-century civil rights movement for personal liberty, freedom of speech and thought, and private ownership, along with the nineteenth-century struggle for the rights associated with representative democracy (such as male voting rights and the rights of political participation more generally), led more or less automatically to the twentieth-century

²⁸ Donald SASSOON, *One Hundred Years of Socialism: The West European Left in the Twentieth Century* (London/New York 2010) 53.

²⁹ See Richard BREITMAN, *German Socialism and Weimar Democracy* (Chapel Hill, N.C. 1981); David F. CREW, *A Social Republic? Social Democrats, Communists, and the Weimar Welfare State, 1919 to 1933*. In: David E. BARCLAY, Eric D. WEITZ (eds.), *Between Reform and Revolution: German Socialism and Communism from 1840 to 1990* (New York/Oxford 1998) 223-249; Jill LEWIS, *Fascism and the Working Class in Austria, 1918-1934: The Failure of Labour in the First Republic* (Oxford/New York 1991).

³⁰ T. H. MARSHALL, *Citizenship and Social Class* (Cambridge 1950).

quest for social rights, or universal rights to welfare, thus gradually erasing class differences. This process went hand in hand with the empowerment of the working classes fostered by the late-nineteenth century recognition of the right to collective bargaining. This interpretation could remain unchallenged until the last quarter of the twentieth century, when earlier achievements were called into question and economic inequality began to grow again. But we will talk about this later.

In a less deterministic fashion, this new social contract that emerged in the aftermath of World War II may be seen as a class compromise between workers and capitalists. The workers accepted that ownership of the means of production would remain vested in the capitalists in exchange for substantial concessions from the latter. Not only did capital owners commit themselves to providing better working conditions, but they also agreed to pay higher taxes to sustain comprehensive social welfare schemes covering health care, pensions, education, unemployment benefits, child and elderly care, and so on. The state was both promoter and guarantor of this agreement, setting up the regulatory framework and the bureaucratic machine to implement it. Moreover, the state came to play a prominent role in economic life according to the formula of the mixed economy, whereby the public hand maintained full employment with the tools of Keynesian macroeconomic management and exerted a more or less direct control over strategic productive sectors.

The impact of the war had been strong. Much had to be reconstructed and the idea of “making a new start” offered the reformers a chance to overcome old resistances. The climate of the immediate postwar years, with genuine feelings of solidarity shared by those who had survived the catastrophe, gave entire nations the energy to write a new chapter in their history. This impetus came primarily from social democratic and labor forces, which now aspired to change capitalism for the better rather than to overcome it, but liberal and particularly Christian democratic parties were also supportive. The latter had every interest in containing the appeal that Soviet-style socialism exerted on the working classes of Western Europe. In short, a broad consensus was formed around the political objective of turning the liberal democratic state into a welfare state.

Postwar economic growth was certainly instrumental in sustaining these efforts, and above all in making them acceptable to everyone, but it is also true that, when governments committed themselves to such radical reforms, they had no idea of what the economic prospects would be. Britain, for example, was still under rationing.

It would, moreover, be reductive to see the new European social model as the mere result of a cold calculation, or even a response to the market failures of the interwar period. It was first of all a response to the challenges that modernization had posed since the eighteenth century. As such, it was meant to overcome three earlier interpretations of modernity, namely liberalism, Marxism, and fascism. Its social philosophy, as Sheri Berman writes citing Samuel Huntington, was “based on a belief that political forces should control economic ones” and aimed to “re-create through political means the social unity which modernization [had] destroyed.”³¹

The path taken by Britain and much of continental Europe in the aftermath of the war had been tried in Scandinavia as early as the 1930s. Sweden, in particular, had managed to swiftly recover from the Great Depression thanks to state intervention, becoming a model and an avant-garde for political and social experimentation. The Scandinavian social philosophy, however, had deeper roots. Rationalism and social optimism, which informed a distinctive approach to social policy, were a legacy of the Enlightenment. No less important was the Lutheran background of these societies. It had encouraged individuals to develop a strong sense of responsibility to the community, so that they got used to caring about the polity as a “people’s home.”³² The combination of the two created a fertile ground in which social progressivism could thrive.

A feature of the Nordic model stemming directly from rationalism was the pursuit of efficiency. The welfare state had to be efficient and this required combining it with a planning policy that pushed production to the level of technical possibilities. Contrary to free-market thinking, the architects of Swedish social democracy denied any contradiction between efficiency and equality. In the 1930s, Alva and Gunnar Myrdal’s recommendations rested upon five pillars: socialization of consumption, public planning of the economy, benefits in kind, preventive social policy, and investment in human capital.³³ Socialization of consumption, in particular, would modify income distribution in order to increase the capacity for consumption of certain social groups. This strategy was thought to be an alternative to the socialization

³¹ Sheri BERMAN, *The Primacy of Politics: Social Democracy and the Making of Europe’s Twentieth Century* (Cambridge/New York 2006) 7.

³² For a discussion, see Pirjo MARKKOLA, *The Lutheran Nordic Welfare States*, In: Pauli KETTUNEN, Klaus PETERSEN (eds.), *Beyond Welfare State Models: Transnational Historical Perspectives on Social Policy* (Cheltenham/Northampton, Mass. 2011) 102-118.

³³ Tim TILTON, *The Political Theory of Swedish Social Democracy: Through the Welfare State to Socialism* (Oxford 1990) 161-165.

of production that was pursued in other countries, as with the British nationalizations in the late 1940s. Unlike social insurance, the new social policy was preventive because it aimed to minimize the occurrence of poverty, unemployment, and illness.

In the UK, the Labour Party stood for election in 1945 with a manifesto titled *Let Us Face the Future*.³⁴ The text is filled with a sense of the momentous chance that was being offered to Britain to start from scratch. Many in the Party cherished the hope that the envisaged revolution in social welfare might lead the country to nothing less than a “New Jerusalem.” The experience of economic planning successfully carried out during the war justified some audacity in imagining that it might also work in times of peace and suggested that the nationalization of strategic sectors might no longer be a taboo. William Beveridge, who was director of the London School of Economics in the 1920s and 1930s, is sometimes credited for being the architect of the postwar British welfare state in connection with the famous report *Social Insurance and Allied Services* he produced in December 1942 for the wartime coalition government. But the actual development of the welfare state took a more ambitious path, departing from Beveridge’s idea of guaranteeing no more than a “national minimum” [living standard], an idea rooted in liberalism.³⁵ It was another LSE scholar, one much closer to the Labour party, Richard M. Titmuss, who provided a philosophical rationale for progressive social reform. Titmuss pioneered the teaching of social administration (also called social policy) in British universities and was a staunch advocate of the discipline in political circles. With him, the expression “social policy,” which came from German and was still reminiscent of the paternalistic, authoritarian attitudes of the Wilhelmine state, acquired an entirely new meaning.

Titmuss’s approach stemmed from the recognition of inalienable rights and addressed well-defined needs. These needs were thought to originate from “states of dependency,” which occur whenever someone is “not in a position to ‘earn life’ for themselves and their families.” Titmuss distinguished between “natural dependencies” such as the conditions of childhood, old age, and child-bearing, and “man-made dependencies,” determined by social and cultural factors. These man-made dependencies, which include unemployment and under-employment, tend to grow in

³⁴ *Let Us Face the Future: A Declaration of Labour Policy for the Consideration of the Nation* (London, April 1945).

³⁵ On Beveridge’s life and convictions, see José HARRIS, *William Beveridge: A Biography* (Oxford 1977).

modern times since it is the very division of labor that creates them.³⁶ Finally, he pointed to a last group of dependencies of a mixed nature such as physical illness and mental suffering. It was clear to Titmuss that, while the market can create states of dependency, it cannot provide an answer to them. In his remarkable last book, *The Gift Relationship* (1970), he argued for the moral superiority of the British National Health Service over the private health care system of the United States, based on the observation that treating health as a commodity undermined the citizens' sense of obligation toward each other. His example of blood collection in the US exposed the flawed nature of a system where people, instead of voluntarily donating their blood, were forced by economic necessity to sell it to for-profit organizations.³⁷

V.

In the 1970s, however, the fundamental tension between capitalism and democracy reemerged. The postwar social contract began to crumble. Industrial relations became increasingly conflictual while capital tended to escape from political control. In the 1980s and 1990s, the state gladly accepted the progressive downsizing of its functions. From being a bulwark against the power of capital, it became the architect of the processes of privatization, commodification, and deregulation that have marked the last three decades. During this period, the profit motive penetrated into sectors that were previously supposed to serve the public interest. Together with this awakening of capitalism's primitive instincts, inequality in the distribution of income and wealth, in Europe as elsewhere in the West, has increased dramatically.

In the eighties the political center of gravity shifted decidedly toward the right and social democratic forces experienced a series of disastrous defeats. In the nineties, when the left began to recover, it underwent a genetic mutation in an attempt to seize center ground. This ideological crisis was worsened by the collapse of the Soviet bloc. Social democracy could no longer define its own identity in contrast to actually existing socialism when the latter no longer existed. The dominant and seemingly unrivaled ideology was now neoliberalism. Analyzed by Michel Foucault in its early days, it can be defined as a doctrine and a technology whereby political power is used to reengineer society according to market principles. Neoliberalism shares with classical liberalism

³⁶ Richard M. TITMUSS, *Essays on 'The Welfare State'* (London 1958).

³⁷ Richard M. TITMUSS, *The Gift Relationship: From Human Blood to Social Policy* (London 1970).

the belief that the market order is supremely desirable. But, unlike its nineteenth-century predecessor, it holds that such an order is not spontaneous but has to be enforced on society as well as heavily policed.³⁸

The neoliberal doctrine was a long way in the making, so it is legitimate to wonder why it only took root from the end of the 1970s.³⁹ The economic situation undoubtedly helped its spread. Indeed, a hard blow to the social democratic consensus came from the exhaustion of the cycle of postwar economic growth whose occurrence had depended on a series of circumstances not easily replicable. Germany has a nice expression – *Wirtschaftswunder* – that renders the exceptionality of that phase in contemporary economic history. The most unpleasant consequence of the later slowdown of growth is that it put state budgets, also stretched by population ageing, under considerable strain.

But the economic situation should not be unduly blamed for decisions that, in the end, were political. Whatever the state of public finances, there are never inevitable choices in this domain, only choices that reveal priorities. What is certain is that economic stagnation triggered tax resistance. As profits declined, capitalists became increasingly reluctant to pay taxes. On the other hand, the sense of solidarity that united all social classes after the war had long since waned, while the younger generations embraced consumerist models. State capacity was further eroded by financial deregulation. Freedom of capital movements, which was not a gift of globalization but the product of deliberate policy under the “Washington Consensus,” made it easy for capital to flee to unregulated havens.

Another controversial explanation has to do with the impact of technological change. In the eighties and nineties, the world of blue-collar workers, who had long represented the electoral base of social democratic parties, was vanishing, and so too was the power of the unions. For a while the illusion grew that everyone could join the middle class. Third Way politicians rambled on about the coming of an information economy and knowledge society that would make every man his own employer. However, at the beginning of the new millennium it was pretty clear that the children of former factory workers had not become computer engineers or broker-dealers but

³⁸ Michel FOUCAULT, *The Birth of Biopolitics: Lectures at the Collège de France, 1978-1979*, ed. by Michel SENELLART (Basingstoke/New York 2008).

³⁹ On the origins of neoliberalism, see Quinn SLOBODIAN, *Globalists: The End of Empire and the Birth of Neoliberalism* (Cambridge, Mass./London 2018); Philip MIROWSKI, Dieter PLEHWE (eds.), *The Road from Mont Pèlerin: The Making of the Neoliberal Thought Collective* (Cambridge, Mass./London 2009).

call center employees and food delivery riders on precarious contracts and lacking the most basic protections.⁴⁰

Is what we are experiencing a temporary setback or rather the awakening from a twentieth-century utopia? It is not possible to give a definitive answer to this question, but we may try to interpret the signs of our time in the light of long-term historical trends. Whatever the factors at the root of the recent regression, the present conjuncture cannot be regarded as just a relapse into an earlier stage of sociopolitical development. The contemporary state, however bent to the interests of capital, still needs to legitimize itself. (Two centuries ago this was clearly not the case.) Voters do not peacefully accept the state's retreat from the social arena, which is why this retreat has only been partial. There is, in fact, a constant demand for social protection that calls for an unambiguous political response. A clear danger lurks behind this "double movement," though. If today's liberal democracy is unwilling or unable to effectively address socioeconomic rights, the chances are that this gap will soon be filled by illiberal forces. These forces do not have the power to disrupt the democratic order, but they certainly have the power to spread the poison of hatred and intolerance in our societies.

Let me put this question in more abstract terms, trying to draw some conclusion from these reflections. The breaking of the Great Chain of Being (which Durkheim would term "mechanical solidarity") led throughout the West to the advent of a society of individuals equal before the law. But, without being free from need, no one is really free. Having come into contact with capitalism, European political theory and practice evolved to the point of embracing the ideal, perhaps unattainable, of a substantive democracy. In its historical embodiment, social democracy broke the interdependencies between human beings generated by need and gave new dignity to social relations. This transformation of European democracy was an obstacle course. It was not a foregone conclusion, and in fact it did not happen elsewhere. In order to be accomplished, it had to draw on previous cultural resources, an aspect I cannot discuss on this occasion.

One's opinion as to whether this process is irreversible depends to a large extent on his or her interpretation of enlightenment, understood as the progress of the human mind. Here the choice is between Condorcet's optimism – an optimism

⁴⁰ Guy STANDING, *The Precariat: The New Dangerous Class* (London/New Delhi 2011).

professed in the face of the advent of the reign of Terror – and Walter Benjamin's pessimism as encapsulated in the allegory of the angel of history who turns his back to the future while he looks helplessly at a past reduced to a heap of rubble.⁴¹ It seems to me that the history of the past two centuries has abundantly proved that enlightenment cannot be taken for granted: the conquests of reason are made day by day and what is gained can easily be lost. Yet we cannot help but see that some progress *has* been made. If, in the capitalist era, the critique of the existing system becomes possible and has an audience it is because bourgeois liberties make it possible. It is the clash between formal equality, which has its political expression in civil rights and its economic expression in market exchange, and substantive inequality, which manifests itself in the asymmetry of power relations and in the distributive imbalances stemming from it, that triggers contestation. Such a critique was neither possible against the slave system of ancient times nor against the feudal system in the Middle Ages.⁴² That leaves the door to hope open. Socialism may not be inscribed in human nature but neither are greed, privilege, and oppression immutable features of social coexistence.

Citation:

Francesco BOLDIZZONI, Democratic Capitalism: A Twentieth-Century Utopia? 11th Gerald Stourzh Lecture on the History of Human Rights and Democracy 2019, online at <<http://gerald-stourzh-vorlesungen.univie.ac.at/vorlesungen/>> and <<https://phaidra.univie.ac.at/o:1069260>>

⁴¹ Walter BENJAMIN, Theses on the Philosophy of History [1940]. In: Illuminations: Essays and Reflections, ed. by Hannah ARENDT (New York 1955, reprint 2007) 257-258.

⁴² Todd MCGOWAN, Capitalism and Desire: The Psychic Cost of Free Markets (New York/Chichester 2016) 4.