

THE POLITICAL ECONOMIC FOUNDATION  
OF DEMOCRATIC CAPITALISM

*From Genesis to Maturation*

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*Parentibus gratiam habeo maximam, quod vita honestam me docuerunt,  
Filius ad vitam felicem beatanque agendam dedicatum,  
In memoria filiae carissae mae, quae morte luctuosa atque immatura e vita tam amata erepta est.*



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# Introduction

In order to fully appreciate the developments facing human society in the future, it is necessary to examine the developments to date today. This activity on its own requires a rigorous and comprehensive analysis of the past.

Studying such a complex topic requires the construction of a working dialectic capable of highlighting the myriad and often intertwined essentials that have evolved over the centuries to produce modern understanding. This is of particular relevance to the examination of the intricate social philosophic ideas of democratic-capitalism.

The at hand writing does not permit a definitive survey but it does allow an objective and constructive assessment of useful dialectic, tracing the beginnings and the development of the political economic occurrences leading toward the modern understanding of the concepts of democratic-capitalism. The present dialectical argument highlights the salient elements involved in the long historical interplay of antecedents, which shaped the modern conceptualisation forming the foundation of the body of knowledge. Such dialectic is not constructed independently; it is very much a collaborative exercise relying on both relevant historical observations, and innumerable germane commentaries, all of which have been put on record through time by scores of commentators.

By and large a democratic-capitalistic dialectic is *de facto* of European centrality, latterly an Anglo-American argument. Both of these singular and individual concepts, *democracy* and *capitalism*, came to prominence in the occidental tradition, and it is in this tradition they are best examined. Democracy is a political term connotative of a structured government where those that are being governed exercise the governance function collectively. Capitalism is an economic term supporting the perception that economic power is optimised when controlled by those with capital. These two diametrically opposed concepts, - one socially collective, the other singularly individual, - when taken together, form a plural tension system between independent opposite ideas. Consequently a dialectical argumentation on this topic requires a meticulous survey of all types of sources over time, by innumerable contributors, who each contributed in their own way to the general body of current understanding.

Throughout this work, reference has been given to those authors and to those works that have made this co-operational compilation of happenings

possible. If the ideas, thoughts, materials or concepts of others have been taken without direct reference, or, if references have been otherwise imperfectly presented, this has been unintentional and apologies are made herewith, for it is not the purpose of this exercise to do so.

As such an undertaking cannot possibly be produced single-handedly, it is appropriate to express direct appreciation to those who have assisted, each in their own way, from the European Economics Department of the University of Exeter, most especially the head of the Department, the late Dr. Fredrik Victor Meyer, for his long year academic encouragement, focusing me on explicitly applied political economic considerations, to the myriad of my own students through rigorous discussion and debate. Further appreciation is expressed to Dr. P. Whyllie for the initial mammoth rough draft construction, A. Burns, B.Sc., for encouragement and the diligent filing of manuscript fragments, the late Prof. David Monday of the Psychology Department, University of Maryland, European Division, - psychologist by profession, political-economist by proclivity, - for the friendly readings of sections with extensive collegial input, Mr. Mark Fleming who patiently read and reread the last copies making suggestions and cosmetic adjustments and Mr. Hamish Burns for the careful proof reading of the finished manuscript.

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## Foreword

In comparison to other mammals *Homo sapiens* is unique in his capacity to integrate. Over the millennia this has been a crucial part of the ability to survive. *Homo sapiens* are perhaps most distinctive at birth *in puris naturalibus*; void of any significant evidence of naturally given impulses -impulses being involuntary promptings to action independent of reason or experience, assisting him to integrate. Rather than instincts, human beings are born with reflexes of modest, albeit significant magnitude, these being complexes of co-ordinated reflexive actions - actions that result in achievement of adaptive ends without foresight or experience.

These reflexes contain the bases for the new born to achieve survival through interaction with other human beings, ultimately allowing integration into the human collectivity. They allow the child to integrate into adult society, first economically, then politically and ultimately socially. This nexus of independent activity provides the stuff and substance for the analytical development of noticeable political economic movement, quantified and qualified in the complex developed understanding of democratic-capitalistic thought.

### I

Consider a newborn child. The first significant reflex to develop is that of sucking, apparent when pressure is made to the lips. Sometimes this action first becomes apparent in the womb; in case it is late in developing, Mother Nature provides a few extra grammes of weight to keep the child nourished, independent of the placenta, until this reflex is acquired.<sup>1</sup> As the definition of economics has to do with the abatement of wants and needs, the sucking reflex is appreciated as being economic in nature. It is concerned with the most fundamental of all human needs: sustenance for survival.

Further observations of the child reveal that, at around eight or nine months of age, the developing new society member begins to tighten its grip

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<sup>1</sup> Dr Virginia Abgar, an eminent American anaesthetist, developed a schema for the evaluation of the health and general condition of newborn children. Twice, directly at birth and five minutes after birth, the newborn child is tested, evaluated, and scored (Abgar-Test) in five areas, (i) respiration, (ii) skin coloration, (iii) heartbeat and frequency, (iv) general overall and specific muscle tone and (v) reaction to various stimuli. The significance of the Abgar-Test is the assessment of the reflexive abilities requisite to a successful beginning of independent life.

upon the arm holding it when its eyes are exercised enough to focus on the floor some distance below. This could be described as a safety grip. A similar manifestation occurs when an unfamiliar person approaches a child's cot. Any unknown face or strange voice will provoke an automatic response from the infant: a cry of fear. Both this cry and the safety grip are evidence of a need for safety. Safety and security lie at the base of all political considerations.

Still further, at around eighteen months of age the child noticeably attempts to imitate adult language or attempts to clothe itself, evidence of an effort to emulate adult mannerisms and actions. Here the child is making rapid and noticeable headway into integrating itself cognitively into human society.

What is interesting here is that the first significant reflex, a reflex that has directly to do with self-nourishment, is very much an economic reflex - the abatement of needs and wants. This is the emergence of *homo economicus*. The second major phase or step undertaken by the infant along the way toward integrated adult society is prompted by the need for security; this provides the substance of activities defining *homo politicus*. The third major differentiating step is the attempt first to imitate then eventually to assimilate adult language and action becoming a fully integrated, constructive and contributing member of collective adult society, known as *homo socius*.

*Homo economicus*, *homo politicus* and *homo socius* are all present, and *ceteris paribus* - unless other factors interrupt the natural development of things - are sequentially ordered as indicated. These sequential steps, steps demonstrated by the individual while integrating into adult society, provide the basic dynamic process undergone by groups as they themselves integrate into expanded human society. This process is observable up to and including nations integrating together at the current time, integrating into expanded regional and ultimately global society. By the mechanic of this sequentially causal dynamic, differentiated patterns of human society integrate into comprehensive identifiable panglobal human society.

At the present time on the international level, this sequence of activities toward integration has been identified as the political economic considerations involved in the notion often propounded - and so universally misunderstood - of democratic-capitalism.

## II

For the scholar, the innumerable economic, political and social systems found throughout the contemporary active and rapidly integrating world, each with their individual nuance, create a very colourful and interesting presentation of solutions to the problems that arise in arranging human society. In the present period of merging global relationships, with ever-increasing degrees of interrelated global community, patterned international political-economic systems are developing, which are not significantly understood, either in reality or sufficiently in theory, by participants involved in the public debate. The convergences of regional thinking incorporated within the integration process create, either positively or negatively, an international understanding of democratic capitalistic thinking replete with a vivid interplay of ideals integrated into global systems. It is the human thinking that creates the backdrop for democratic capitalistic ideas to form into noticeable systems coming into play.<sup>2</sup> The global integration process produces political economic considerations accountable for the contemporary democratic capitalistic idiom.

Appearance can often be deceptive. In the case of democratic-capitalism, the expert understands that democracy, although some may think it new, is very ancient. In fact it is perhaps the most ancient of all political systems. Conversely, capitalism, which many erroneously assume to be of antiquity, is a decidedly unique modern economic system. Individual elements may have sustained a systemic development over time, but the composition of these elements into one totally whole capitalistic economic system is very new indeed!

To best appreciate the very active jostling of understanding at the present time, it is imperative to observe how today's events have developed. Through an appreciation of the historical dynamic, the present is highlighted in elevated relief. Only through combining yesterday with today are the dynamics of tomorrow visible as the further *locus standi* is formed by the present *locus situ*. The past is a necessary consideration for adequately analysing the present, and

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<sup>2</sup> The *modus vivendi* for human action may perhaps be adequately appreciated best when such is considered in contrast to insect life. Here it is assumed that the premise for human activity, and ultimately further integrated human collectivity, is the fact that human beings consciously produce the means of their subsistence through socially organised labour. In doing this, human beings distinguish themselves from other animals. "A spider conducts operations that resemble those of a weaver, and a bee puts to shame many an architect in the construction of her cells. But what distinguishes the worst architect from the best of bees is this, that the architect raises his structure in imagination before he erects it in reality." *Capital* (Vol.1) New York, International Publishers, Karl Marx, 1967, p.178. It is of course characteristic that human beings collectively adapt the world around them according to their required needs, while other animals must adapt themselves to the demands of nature. This adaption process is what causes political and economic arrangements to develop between human beings, arrangements that can ultimately be termed systems.

the past and the present considered together become the imperative prologue to projecting the future adequately and effectively. Understanding exactly what this complex system entails requires by necessity the examination of the constituent elements, which developed as precedent in the contemporary system. This is the dynamic of a specific dialectic. Such dialectic is indispensable to prognosticate effectively any further advances of human society. Constant through time is man, and the human condition. Man's physical environment changes, frequently by his own actions. By holding man as constant, examining his movement through time up to and including today, one can begin to adequately portend the natural direction of his travel. <sup>3</sup>

### III

Politics <sup>4</sup> is the branch of ethics, which has for its subject the proper mode of governing a state, so as to secure its prosperity, peace and safety, and to attain as perfectly as possible the goals of civil society. The subjects incorporating any political consideration are the principles on which government is founded. These are the hands in which the supreme power may be most advantageously placed. These considerations embrace the duties and obligations of both the government and of the governed portions of society, and circumscribe the activities contributing toward the development and increase of the resources of the state, the protection of the rights and liberties of the citizens, the preservation of their morals and the defence of the independence of the state against foreign control or conquest.

The structure of the state, incorporating the functions of the state, is more or less the substance of economic considerations. The two are not to be separated. Obviously and naturally inherent, the development of the functions of the state has to do with the economic<sup>5</sup> consideration. This includes an

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<sup>3</sup> The assertion of the differences between human beings and other animals, which account both for the existence of a distinctly human society and for the historical evolution of political - economic arrangements through time, may be appreciated when one considers the stages of man's development. Karl Marx considered such development progressing from primitive communism, slavery, feudalism and capitalism to socialism. In a letter to Engels, Marx demonstrated how he slowly changed this thinking from an underpinning of the idea of social evolution that admits the emergence of new qualities through its own internal dynamics, coming from Hegelian dialectical logic, to a more naturalistic foundation. Impressed with Darwin's *Origin of Species* Marx concluded, 'During the last 4 weeks ... I have read all manner of things. *Inter alia* Darwin's book on *Natural Selection*. Although developed in the crude English fashion, it is the book which, in the field of natural history, provides the basis of our views.' (Letter from Karl Marx to Friedrich Engels, London, 23 December 1860, in *Karl Marx/Friedrich Engels: Collected Works* (Vol.41, p.232), International Publishers, New York 1975.

<sup>4</sup> Taken from the classical Greek root, *Polis*, meaning 'city' or 'state'.

<sup>5</sup> Taken from the classical Greek root, *Oikonomia*, meaning - *oikos*, a 'house', *nomos*, a 'law'.

understanding of the nature of wealth, and the principles or influences of actually determining its production, distribution, exchange and consumption within the constraints of the community considered. Alongside these considerations are their practical or ethical aspects, which may or should be adopted by the community in these inception so as to attain certain economic ends or political ideals. Economics, as a theoretical discipline, aims at explaining those uniformities in the economic activities of society, which are not the result of deliberate design but are the product of the interplay of the separate decisions of individuals and groups.

Until the time of Adam Smith, the two aspects of political economic thought were not distinguished, but on the whole it was the second aspect, which the term political economy indicated. Political economy was regarded as part of the art of government and meant in the political sphere the same as domestic economy in the sphere of the household; namely an adaptation of the economic resources for the good of all concerned. Adam Smith made no explicit separation between the science and the art of political economy. He regarded them both as parts of the same inquiry, but he treated them in fact separately and thus laid the foundations of the modern empirical science.

N. W. Senior<sup>6</sup> in 1837 was the first writer to make a clear division of political economy, into (i) the theoretical which 'explains the nature, production and distribution of wealth', (ii) the practical, 'to ascertain what institutions are most favourable to wealth'. Some years later in a treatise written originally for the *Encyclopaedia Metropolitana*, and conscious that he was narrowing down the traditional meaning of the term, he proposed to focus the name political economy on the theoretical branch, leaving the practical branch of the theory to be absorbed into the general practical art of government. He did this, not because he failed to recognise the importance of government action in the economic sphere, but because investigation in that sphere could be pursued like investigations in any other; quite independently of the practical applications, which might be made of the knowledge thus gained. He further insisted that the practical applications of economic truths for the purpose of furthering the general welfare of human society was not the business of the economist, but of the statesman,

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<sup>6</sup> Nassau William Senior (1790-1864) born in Compton Beauchamp, Berks, schooled at Eton, studied classics at Magdalen, Oxford, and was called to the bar (1819) and was professor of political economy at Oxford (1825-30, 1847-62). He intermittently worked on governmental commissions and authored papers and served as Master in Chancery. He travelled and wrote much, being remembered for his masterful contributions to the emerging discipline of modern political economy studies.

who in framing legislation must have the view of the welfare of the state as a whole, taking into consideration many factors other than merely economic ones.

The scope of political economics has an important bearing on the much controverted questions of the method of economic investigation, *viz* whether the method should be 'deductive', which in political economy means mainly basing conclusions on certain fundamental facts of human nature, or whether it should be 'inductive' and historical, arriving at conclusions only after a study of all the pertinent and relative facts.

#### IV

In its essence, the science of political economy is nothing more, nor anything less, than a branch of the study of man. It is the science concerned with the study of man making his way through life, employing his economic, political and social self to satisfying the requirements of his needs. Man is a creature with many needs, which he seeks to satisfy by applying his labour to the nature by which he is surrounded.<sup>7</sup> These needs are not a fixed question, but grow and change with the ongoing development of society, and man's devices for their satisfaction receive a corresponding development.

Through the growth of these needs<sup>8</sup> and of the devices to satisfy them, the economic development of mankind is traced. Accordingly political economy is regarded here as the systemic and comprehensive study of the phenomena connected with human society's concern with the abatement of human needs. Although economic factors have played a role in the development of human society for as long as there have been societies, there was no real science of political economy until a comprehensive analysis of economic factors was constructed first coming to the fore with modern political economists of the sort

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<sup>7</sup> The abatement of these needs provides the very animus for all of human society's interaction and, at least according to one philosopher (Thomas Hobbes found in his *magnum opus* ;*Leviathan*), this interaction is projected *bellum omnium contra omnes*. Man (term used herein incorporating both the male and female gender referring to the species homo sapiens as a unit) must transcend the helpless animal state and exert a significant effect on his environment, and by so doing may have an innate tendency to achieve superiority in constructive ways. 'Striving for happiness and health...are part of the natural equipment of man...All organisms have an inherent tendency to actualize their specific potentialities.' Fromm, E. *The Art of Loving*, New York, Harper & Row 1956, pp vii, 29; Fulfilling this human potential is not easy, it requires a developed general determined impulse to preserve oneself against threat and attack, - a benign aggression nature, and a capacity for non-organically motivated destructiveness that serves no rational defensive purpose as such, malignant aggression. "The more the drive toward life is thwarted, the stronger is the drive toward destruction; the more life is realized, the less is the strength of destructiveness." Fromm, E. *Destructiveness is the outcome of un-lived life.; Escape from Freedom*, Holt, Rhinehart, & Winston, New York 1941 p207.

<sup>8</sup> Needs are generally considered as biologically induced longings and contrast with wants, which are generally sociologically induced. Needs, when not satisfied, result ultimately in the termination of the organism. Wants, when not satisfied, create frustration. There is a limit to human needs supporting life, however human wants in contrast thereto are essentially limitless.



of Adam Smith and his French forerunners in the 18<sup>th</sup> century. Yet while political economy did not exist as an independent and comprehensive branch of human knowledge before the 18<sup>th</sup> century, much attention had been given to particular historical economic facts and events. Various economic problems had received great and serious attention throughout time before the discipline began as a study itself. However, post-Adam Smith, the science of political economics has generally incorporated the systematic study of these varied facts and rationales.

Political economy concerns in the contemporary global system are taking on more and more holistic proportions as more and more are falling in the orbit of democratic capitalistic thinking. Either through desire, emulation, revolt or invasion, the dominance of the economic system of capitalism and the political system of democracy is unavoidably prevalent. The economic energies in its creation are fully subsuming smaller more delicate cultures of economies and governmental traditions, and leaving them as but a memory in the footnote of a rapidly changing history. Both a push and a pull are evident, a push by larger entities from without demanding change of smaller units, and a pull of smaller entities wishing to be numbered in the ranks of the larger, changing from within.

The powerful forces involved in the regulation of human affairs have carried norms and institutions of a decreasingly relevant liberal order into the modern period. Yes, every advancement is met by conservative factors attempting to hold back change in order to capture more adequately a lost priority, but in vain, for the momentum of forward movement is great. The interplay of past with the future, in the present, creates the dynamic of human societal change, change driven by political economic interplay, the rational tumbling and turning together as human society advances.<sup>9</sup>

Early twenty-first century events have shown there is a pressing need to wholly integrate the study of economics with the study of politics, requiring both to be examined historically to determine and deepen an understanding of the

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<sup>9</sup> This dynamic for change in the thinking of man in human society, identified as his realm of thought or 'noosphere' was first identified in modern times by Herbert Spencer (1820/1903) who speculated about the ideas of evolution and the progress of man's created world before Charles Darwin published *The Origin of Species* (1859). Nonetheless, his ideas received support from Darwin's theories and the general application of ideas such as 'adaption' and 'survival of the fittest' to social thought became eventually known as 'social darwinism'. Spencer was the principal proponent of evolutionary theory in his day and initially was known for adapting evolutionary theory to philosophy and the study of human society (synthetic philosophy). Spencer saw human life on a continuum as the culmination of a lengthy process of organic evolution. He saw ideas, through time, coming together and in conflict with each other - only the strongest idea would survive, subsuming the weaker, an intellectual survival of the fittest operating on the principle of adaption, mutation and change. See Spencer's major works, *The Proper Sphere of Government*, London, W.Brittain, 1843, *First Principles*, London, Williams and Norgate, 1864, *The Study of Sociology*, New York, D.Appleton, 1874 and especially *The Factors of Organic Evolution*, London, Williams and Norgate, 1887.