

# We have allowed the free market to hollow out our democracy

By Democratic Audit

*The unwinding of the post-war consensus saw a string of changes to the way states and markets interact, with some in particular profoundly altering the balance of power between democratically elected Governments and international capital. **Bryan Gould** argues that we have allowed our democratic institutions to be hollowed out, and our societies to be transformed beyond recognition by powerful and unaccountable free market forces.*

It was just over twenty years ago, in 1989, that [Francis Fukuyama](#) proclaimed “the end of history” in his famous essay of that name and proclaimed the more or less permanent triumph of the West – of what he called “liberal democracy”.

He argued that the defeat of fascism four decades earlier and the decisive rejection of communism signalled nothing less than the end-state of human political, economic

and social development – a state so clearly the best of all possible worlds that it was doubtful that anyone could be found to resist or criticise it in any serious way.

Liberal democracy, he thought, combined a political organisation in which everyone had the right and opportunity to make their voices heard, an economic organisation which – through the magic worked by the free market – guaranteed to everyone at least a reasonable share of the riches produced by an efficient and responsive economy, and a social organisation in which a natural balance was struck between self-interest and community awareness.

Today, we cannot expect an account of the immediate future to be accurate in all respects when it is read twenty-odd years later. But one of Fukuyama’s more obvious failings was his reluctance to recognise that what he described as economic liberalism was not the only form of economic organisation that could partner democratic political organisation. He saw the “free market” and democracy as not only compatible but as mutually supportive, and this perception was to him so natural and self-evident that he saw no need to argue it.

The market – more or less unfettered – was the natural equivalent in economic terms of political democracy, achieving the same dispersal of economic power throughout society as democracy achieved in political terms. He saw no need for democracy to act as a restraint on the economic outcomes determined by the market, and he saw no danger that the “free market” might in some ways prove inimical to effective democracy.



*President Reagan with Margaret Thatcher, architects of the end of the post-war consensus (Credit: [www.ukberi.net](http://www.ukberi.net), CC by 2.0)*

That confidence was helped greatly in the last two decades of the twentieth century by what appeared to be a conclusive resolution of a contentious debate within western countries and economies themselves about the form that a market economy should properly take.

But by the 1970s, a real debate had opened up, so that the received wisdom of the immediate post-war years was subject to new challenge. New ideas began to surface; the individual, rather than society, was seen as the pivotal point of human endeavour and progress; writers like [Hayek](#) and [Nozick](#) questioned the need for or appropriateness of an extended role for government or the acceptability of meddling in “free” market solutions; redistributive taxation, the provision of taxpayer-funded benefits to the disadvantaged, and the power of organised labour came to be seen as obstacles to economic growth rather than as guarantees of an equitable distribution of wealth; economists like Milton Friedman questioned the efficacy in peacetime of [Keynesian intervention](#) and promoted the idea that macro-economic policy was really just a simple matter of controlling the money supply in order to restrain inflation; while global developments such as the [oil-price shock](#) of the early 1970s meant that inflation rather than full employment was seen as the primary issue for economic policy.

What had been regarded as the “post-war consensus” had begun, in other words, to unravel. That process was helped along – especially in the United Kingdom – by the awareness of what seemed to be an increasingly difficult economic conundrum; how was the welfare state to be maintained in the face of the pressing need to improve competitiveness and productivity so as to meet the challenges of newly efficient rivals? In the late 1970s, “stagflation” – the failure to secure an acceptable rate of growth, combined with the threat that even if a faster rate of growth could be achieved, it could be only at the cost of higher inflation, was seen to present (in the absence of any disposition to use the exchange rate to improve competitiveness) an impassable brick wall and dead end.

By the 1980s, many of these issues had been resolved in favour of the “free market” reformers. Many of their ideas had been carried into government by Ronald Reagan and Margaret. The two leaders made common cause at the beginning of the penultimate decade of the century in taking a step whose significance perhaps even they did not fully grasp at the time. The portentous decision was taken in the US and UK to float their currencies and to remove exchange controls. The way was now clear not only for an explosion in international trade and foreign investment, but for a determined assault by international capital on the political power of democratically elected governments across the globe.

The ability to move capital at will across national boundaries not only meant that international investors could bypass national governments but also enabled them to threaten such governments that they would lose essential investment if they did not comply with the investors’ demands. This shifted the balance of power dramatically back in the direction of capital, and set the seal on the triumph of those “free-market” principles of economic policy that became known as the “Washington consensus”.

“History”, in other words, had continued to unfold. Our civilisation has been transformed by the triumph of the “free-market” ideology. Western liberalism, which had informed, supported and extended human progress for perhaps 700 years, has now been supplanted by an aggressive self-interested doctrine of the individual which leaves no room for community and cooperation. Even the victims of this comprehensive and fundamental change seem hardly aware of what has happened.

Fukuyama failed to recognise that the threat to western democracy came from within those democracies themselves. It came from the greed and self-interest of the rich and powerful, but also from the quiescence and apathy of that much greater number who forgot what democracy meant and the value that it delivered to them and who are left confused and puzzled as to what has gone wrong. We have instead allowed the substance to be sucked out, so that only the shell, the forms, of democracy remain. The West has lost its way because we have not cherished and made a reality of the democracy that was our most valuable protection and greatest achievement.

*Note: This article represents the views of the author, and not those of Democratic Audit or the London School of Economics. Please read our Comments Policy before posting.*

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