

ARE CAPITALISM AND DEMOCRACY STILL COMPATIBLE?

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Abstract. *Whether capitalism and democracy are still compatible depends a lot on how each is defined, how they are practiced, and where you are looking. In the West, especially the US and Western Europe, capitalism and democracy grew together. This period saw the rise of the welfare state—free markets coexisted with public education, healthcare, housing, and infrastructure. In the U.S., the "American Dream" was built on the idea that capitalism gave everyone a shot, and democracy protected their rights. Here are some pros and cons regarding the compatibility between capitalism and democracy! Both systems theoretically value individual rights—capitalism through economic freedom, and democracy through political freedom. Capitalism thrives on market competition, while democracy relies on electoral competition. Both are mechanisms for accountability. Both systems are flexible and can evolve—democracy through new laws and leaders, capitalism through new technologies and business models. Capitalism tends to generate economic inequality. Over time, wealth can translate into political power, threatening democratic equality. Large corporations can wield significant influence over political decisions (e.g., lobbying, campaign financing), undermining democratic processes. Markets often reward short-term profits, while democracies (ideally) look out for long-term public good—climate change being a major example. If people feel the capitalist system leaves them behind economically, they may disengage from democracy or support authoritarian alternatives.*

Keywords: *capitalism, democracy, political philosophy, economic history*

INTRODUCTION

Capitalism and liberal democracy are two of the pillars of modern civilization, which were born at about the same time in the Netherlands and Great Britain, in the 16th-17th centuries. The founders of liberalism were two British philosophers: Thomas Hobbes and John Locke. The key word for each was freedom: political freedom and economic freedom. They elaborated the principle of separation of powers in the state: the executive power represented by the king and the government, the legislative power represented by the parliament, which drafts the laws, and the judicial power that guarantees the rights of citizens. The Glorious English Revolution consecrated liberal democracy in 1688. The British philosopher Adam Smith gave us the best description of capitalism in his book *The Wealth of Nations*. One of his ideas is that the market economy is the only chance for poor people to improve their condition. (Smith, 2011). But I have written more about the beginnings of capitalism and liberalism in several previous articles. (Lungu, 2021)

MATERIAL AND METHODS

The topic is difficult, because it addresses the relationship between two of the faces of modernity, capitalism and liberal democracy. The bibliography is enormous, and the approach will be interdisciplinary: political philosophy and economic history. We will mainly use the books and articles of the greatest British historian Nial Ferguson and two of the greatest American economists, Nobel Prize laureates, Daron Acemoglu and James Robinson.

RESULTS AND DISCUSSIONS

But let's return to the fundamental question of this paper: are capitalism and democracy still compatible? They are compatible, but there is a tension between them, especially in our days. Capitalism and liberal democracy are disputed, although they ensure economic prosperity and political power in the world for the United States of America and the European Union.

"In the public eye, capitalism is associated with everything that has gone wrong in the world. For many, and not just adherents of the anti-capitalist political religion, the word itself is synonymous with the ultimate evil. Wherever you look, capitalism doesn't seem to have many friends or allies—despite the fact that it has been the most successful economic system in human history." (Zitelmann, 2023)

How strongly the media inflames the subject of inequality and the "gap between rich and poor" was demonstrated by the remarkable success of the book *Capital in the Twenty-First Century* by the French economist Thomas Piketty, published in 2013. Piketty criticizes the fact that today the "distribution of wealth" is not at the center of economic theory. "The problem of inequality must become central again". (Piketty, 2015)

Capitalism does not make us all equal. The insane ambition to make all people equal defines socialism. Obviously, people are not equal, but unique. Each person is unique, therefore different physically, in terms of options, in terms of ideas, in terms of passions, in terms of aspirations. The society in which we are all made equal by force is an anti-human one. (Manac, 2014)

"If people were like ants, we would not care at all about human freedom. If individuals were, like ants, uniform, interchangeable, devoid of specific personality traits, why would we care whether they were free or not? Who would care whether they live or die? The glory of the human race is the uniqueness of each individual." (Rothbard, 2025)

Even communist China accepts the capitalist economy in six of its regions, where 500 million people work: Shenzhen, Shanghai, Guangzhou, Zhejiang, Hainan and Hong Kong. These regions are not capitalist in the Western political sense, but they function with many capitalist economic characteristics — such as private ownership, profit motives, foreign trade, and market-driven industries. It remains to be seen how capitalism will evolve in a country where there are no political freedoms.

Writing about the Woke ideology, Zitelmann says: In the past, advertising was a tool for increasing sales. Then, advertisers began to see themselves as artists. Today, they see themselves as missionaries for a "better world." (Zitelmann, 2024)

In his article *We're All State Capitalists Now*, Niall Ferguson argues that **state capitalism**—a system where the government plays a dominant role in the economy—is becoming more prevalent globally, especially in Western democracies. He is concerned that Western countries might start resembling China's authoritarian state-capitalist model, sacrificing innovation, efficiency, and individual freedoms. (Ferguson, 2012)

"It would be normal to say that Apple would not have become what it is without China. But China would not have become what it is without Apple," McGee writes in his book "Apple in China." The author describes how Apple transferred industrial know-hT and created a huge class of Chinese engineers and managers, training millions of local workers. In return, China offered Apple a cheap labor force, a flexible regulatory environment – and an increasing dependence on the goodwill of the communist regime in Beijing." (Radu, 2025)

"In 1927 the French philosopher Julien Benda published "The Treason of the Intellectuals"—which condemned the descent of European intellectuals into extreme

nationalism and racism. The situation is different in the United States of America,...) For nearly ten years, rather like Benda, I have marveled at the treason of my fellow intellectuals. I have also witnessed the willingness of trustees, donors, and alumni to tolerate the politicization of American universities by an illiberal coalition of “woke” progressives, adherents of “critical race theory,” and apologists for Islamist extremism” write Nial Ferguson in his article “The Treason of the Intellectuals”. (Ferguson, 2023)

Although there is a large middle class, capitalism is disputed by the Woke and Black Lives Matter movements. These movements see capitalism as the absolute evil and want it abolished. But these movements are Marxist, they are far left.

Many far left activists argue that capitalism has historically benefited from and perpetuated racial and economic injustice. The legacy of slavery, segregation, and labor exploitation is often framed as foundational to American capitalist growth.

Woke and BLM-aligned voices frequently challenge how wealth and political power are concentrated in a capitalist system. There's a belief that capitalism allows corporations and elites to shape policy in ways that maintain racial and class hierarchies.

Economic inequality is often linked with race, gender, and other identities in intersectional critiques. Activists call for redistributive policies, such as universal healthcare, housing, debt relief, and reparations for Black Americans.

Some parts of the movement are skeptical of corporate "allyship" (e.g., companies promoting BLM slogans while exploiting labor or lobbying against workers' rights). This view sees corporate support for diversity or BLM as often hypocritical.

But the main battle in the US is between Republicans, who are conservatives, and Democrats, who are liberals. Neither Republicans nor Democrats dispute capitalism! The difference is how much the state gets involved in the economy and regulates capitalism. Republicans want to leave capitalism as free as possible, and Democrats want more regulations.

Republicans want lower taxes, and Democrats want higher ones. Democrats say that capitalist prosperity should benefit as many people as possible. Also they say that higher taxes are needed so that the state has more money for health, education, and social assistance for disadvantaged people.

American conservatives criticize liberal democracy for several reasons, often depending on which branch of conservatism is speaking (e.g., traditionalist, populist, libertarian, or nationalist). Their critiques aren't always aimed at democracy itself, but rather at what they see as the excesses or failings of modern liberal democratic system.

Some conservatives argue that liberal democracy promotes moral relativism and undermines traditional values (e.g., religion, family, patriotism). They may see policies like abortion rights, LGBTQ+ inclusion, or secularism in public life as symptoms of liberal democracy's "value neutrality."

Populist conservatives often believe liberal democracies are dominated by unelected bureaucrats, corporate elites, or cultural institutions (media, academia) that are out of touch with ordinary people. Critics might say that the "deep state" or liberal institutions frustrate the will of the people

Some conservatives argue that liberal democratic ideals, especially when tied to globalization and internationalism, erode national borders and identity. Opposition to international institutions (like the UN or EU) or immigration policies seen as compromising national integrity.

Libertarian conservatives worry that liberal democracy sometimes leads to “mob rule,” where majority decisions infringe on individual rights or constitutional principles. They may criticize progressive laws as unconstitutional, even if passed democratically.

Some conservatives argue that liberal democracies enable welfare states and wealth redistribution that discourage personal responsibility and free markets. Opposition to universal healthcare or tax increases framed as “socialist” or “anti-freedom.”

Conservatives sometimes argue that liberal democracy has become synonymous with progressive ideology, rather than a neutral system of governance. They may see the promotion of diversity, equity, and inclusion (DEI) as a political project embedded in the system itself.

The situation is different in Europe where debates on capitalism and liberal democracy are not as extensive. After World War II, the creation of the **welfare state** was the goal of Western European states. The welfare state is seen as a social contract: citizens pay taxes, and the state guarantees protection against life’s risks (illness, unemployment, old age, etc.)

So far, the welfare state has been a success in Western Europe. The best example is the Scandinavian model, with high taxes, generous social services, and an emphasis on equality and full employment.

The book *Why Nations Fail: The Origins of Power, Prosperity, and Poverty* by Daron Acemoglu and James A. Robinson argues that the key reason nations succeed or fail is not geography, culture, or natural resources, but rather their political and economic institutions.

Nations with **inclusive institutions** tend to be rich and stable; those with **extractive institutions** tend to be poor and unstable. Economic success depends on **political institutions** that are inclusive and allow **broad political participation**. (Acemoglu, 2019)

The book shows how colonial powers established extractive institutions in places like Africa and Latin America (focused on exploitation). In contrast, settler colonies (e.g., the U.S., Canada) developed more inclusive systems, especially where European settlers made up a significant portion of the population.

Inclusive institutions:

- Encourage participation in economic and political life.
- Protect private property.
- Provide a level playing field.
- Allow people to make their own choices and profit from their labor or innovation.

Extractive institutions:

- Concentrate power and wealth in the hands of a few.
- Limit access to opportunities.
- Often involve corruption, monopolies, and suppression of dissent.

In 1989 Francis Fukuyama predicted that the “end of history” would occur when all countries embarked on the path of economic liberalism and political liberalism, in other words capitalism and liberal democracy. Just 5 years earlier, Robert Kaplan had offered a radically different picture of the future in his article “Imminent Anarchy.” (Acemoglu, 2020)

But in a 2018 article titled “*Why Does Technology favors Tyranny?*”, Yuval Noah Harari makes another prediction about the future, arguing that advances in artificial intelligence herald the arrival of “electronic dictatorships” in which governments will be able to monitor, control, and even dictate how we interact, communicate, and think. “Artificial intelligence could erase many practical advantages of democracy and erode the ideals of liberty and equality. It will further concentrate power among a small elite if we don’t take steps to stop it.” (Harari, 2018)

The tensions between democracy and capitalism are more than evident today. Democracy is egalitarian, capitalism is not. If the economy does not work, the majority may choose authoritarianism, as happened in the 1930s, and if the distribution of the economy's gains becomes too unequal, the rich can transform democracy into plutocracy. Throughout recent history, the near-equal distribution of income has played a vital role in legitimizing capitalism and stabilizing democracy. (Bodea, 2017)

Will capitalism reconcile with democracy, revitalizing the liberal tradition, or will it abandon it, as it already did between the two world wars? Even if we are in a different moment in history, the resurgence of the extreme right and populism in parallel with the weakening of the political actors of the post-war democratic transition put capitalism in front of strategic decisions. (PIRVULESCU, 2019)

CONCLUSIONS

Starting 500 years ago, capitalism has remained the economic system that produces the greatest prosperity. Even a communist country like China has adopted capitalism in six of its regions, where 500 million people work.

The political framework in which capitalism has developed best is the liberal democracy in Western Europe and the United States of America. After the fall of communism in 1989, the countries of central and eastern Europe chose capitalism and liberal democracy.

Capitalism has made the United States the most powerful nation in the world. The most important high-tech companies are American. But can capitalism become a threat to liberal democracy?

High-tech companies *can* become a threat to liberal democracy under certain conditions. A small number of tech giants—like Google, Meta, Amazon, and Apple—hold significant control over the flow of information, online commerce, and digital infrastructure.

However, high-tech companies are not *inherently* threats. It depends on how they are regulated, how transparent they are, and how their technologies are used. Strong democratic institutions, oversight, and civil society can reduce many of these risks.

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