

Market and Democracy: Friends or Foes? Theories Reconsidered ¹

Péter Gedeon

Professor, Department of Comparative and Institutional Economics, Corvinus University

Budapest

E-mail: pgedeon@uni-corvinus.hu

The paper examines theories on the relationship of market and democracy. Four theorems may be distinguished: (1) The necessity theorem: market (M) is the necessary condition of democracy (D) ($[M \rightarrow D]^+$). (2) The inequality theorem: market undermines democracy ($[M \rightarrow D]^-$). (3) The optimality theorem: democracy is the optimal condition of market ($[D \rightarrow M]^+$). (4) The disability theorem: democracy undermines the market ($[D \rightarrow M]^-$). My question is whether these theorems include or exclude each other. After the reconstruction of the four theorems I examine the six possible combinations of them. My conclusion is that the theory stating that market and democracy mutually reinforce each other is compatible with the theory discussing the conflicts between market and democracy: the two theories do not constitute a logical contradiction. This analysis assists in understanding why the relationship of capitalism and democracy may be relatively stable: the selectivity of democracy and the political restrictions of market do not undermine, do not eliminate economic and political freedom, but sustain it in a modified form.

Keywords: market, capitalism, democracy, political freedom, political equality, market inequalities, economic winners, economic losers

JEL-codes: B25, D02, P16

1. INTRODUCTION

¹ Csaba (1997) and Coyne (2007) published papers earlier with similar titles. However, the content of these publications is different from that of my paper. Csaba deals with the relationship of market and democracy within the context of the postsocialist reform process; in his blog, Coyne argues that economic and political freedoms belong together. I do not address the first issue and write about the second in more detail in this paper.

The connectedness of market economy (capitalism) and representative democracy is the dominant structural characteristic of social development in Western Europe and North America. Theories looking at the relationship of market and democracy reflect upon this connection. I write about these theories. I do not ask the question which theory the relationship of market and democracy better in modern capitalism, instead I focus on the relationship of different theoretical statements that seem to rival with one another. Consequently, this paper does not try to analyze the relationship of market and democracy, but the relationship of different *theories* dealing with the relationship of market and democracy. I ask the question whether the different theoretical statements about the relationship of market and democracy are compatible with, or contradict, one another. First, I define the concepts of market and democracy, then I reconstruct the different theoretical statements about the relationship of market and democracy in a stylized form. This is followed by an examination of these apparently contradicting statements in order to find out whether they really contradict one another or not. The final section concludes the paper.

2. THE CONCEPTS OF MARKET AND DEMOCRACY

Both market and democracy can be considered as mechanisms of coordination.² Market is a particular form of the coordination of economic actions, democracy is a particular form of coordination of political actions. In Kornai's book (Kornai 1992) representative democracy is not listed as a coordination mechanism, but self-governance is. Self-governing coordination can be interpreted as a concept describing direct democracy, however, it can also be extended to representative democracy, since this coordination mechanism allows for vertical relationships and for an electoral process that puts decision makers into power (Kornai 1992: 123-124). Representative democracy is the political mechanism of transforming individual choices into collective ones, therefore it can be interpreted as a coordination mechanism.

“Markets, in short, are organized and institutionalized recurrent exchange”, says Hodgson (2008).³ Markets may exist in any society but become the general and dominant coordination mechanism of economic activities only in capitalist society. Market serves as an institution of *competition* among economic actors. Non-market societies were trapped in a

² The concept of coordination mechanism was coined by János Kornai. See Kornai (1984; 1992: 122-139).

³ See also Kapás (2003) about the theories of market in economic science.

dichotomy of competition for wealth against preserving social integration. Only market society (capitalism) makes it possible for individuals to compete for wealth without threatening with the disintegration of society. Economic competition becomes possible because market as a coordination mechanism separates the integration of the economy from that of society. Different authors representing rival schools of thought seem to agree on this point.

Marx wrote that in precapitalist societies it was the community and in capitalist society it is money that organizes economic activities. “Money [...] directly and simultaneously becomes the *real community* [*Gemeinwesen*]” (Marx 1993: 225.). In capitalism the impersonal market mechanism constitutes the social connection of individual economic activities. This is what Marx (1990: 187) called reification:

Men are henceforth related to each other in their social process of production in a purely atomistic way. Their own relations of production therefore assume a material shape which is independent of their control and their conscious individual action. This situation is manifested first by the fact that the products of men’s labour universally take on the form of commodities. The riddle of the money fetish is therefore the riddle of the commodity fetish, now become visible and dazzling to our eyes.

Polanyi identified capitalism with market society. In market society the economy is not embedded in society. The coordination of economic activities is done not by social norms but by the self-regulating market.

A self-regulating market demands nothing less than the institutional separation of society into an economic and a political sphere. Such a dichotomy is, in effect, merely the restatement, from the point of view of society as a whole, of the existence of a self-regulating market. (Polanyi 2001: 74)

Hayek, similarly to Marx, describes the *spontaneous market order* as an impersonal mechanism that cannot be understood and regulated by those individuals who create and maintain it. People are unable to extend a deliberate control over the price mechanism. “Its misfortune is the double one that it is not the product of human design and that the people guided by it usually do not know why they are made to do what they do” (Hayek 1945: 527). The market frees the coordination of economic activities from the direct rule of social norms. Since the market is an impersonal mechanism of resource allocation it can be neither just nor unjust (Hayek 1993a: 70).

Following Lockwood (1964), Habermas argued for a distinction between system integration and social integration. For him the economy (and also the polity) is the sphere of impersonal coordination as opposed to the social life world that is the sphere of social integration ruled by social norms. “The market is a mechanism that ‘spontaneously’ brings

about the integration of society not, say, by harmonizing action orientations via moral or legal rules, but by harmonizing the aggregate effects of action via functional interconnections” (Habermas 1987: 115). The market order is the domain of norm-free sociality.⁴

These different definitions of the market describe it as the coordination mechanism of capitalism. This notion of the market assumes the dichotomy of market society versus non-market society and define the market as an impersonal mechanism of coordination. The rule of market coordination is based on the separation of the private and the public sphere of society, on the formation of an autonomous private sphere in society. The emergence of the private sphere in society, its separation from the public sphere, makes it possible for economic actors to engage in the accumulation of economic wealth expressed in a monetary form and to sell their labor. The commodification of labor becomes possible just because in capitalism those who work with capital are socially constituted as private persons who may sell their labor. The actors of a market economy are private individuals who have the *autonomy* to make economic decisions. Therefore market coordination simultaneously assumes the *freedom* and the *formal equality* of economic actors. Economic actors are free because they enter transactions voluntarily and not under the compulsion of political force. Economic actors are also equal because they are treated in the same way by the law and not according to their social status. At the same time this formal equality assumes the existence of *substantive inequality* because the impersonal market mechanism will make some economic actors richer than others.

In this paper, when I use the category of market, I will refer to capitalism (market society) that made market coordination the general mechanism of economic coordination.

Democracy is a specific form of coordination of political activities. It is the specific feature of the political sphere that those who possess political power make *binding decisions* on the members of the political community on the basis of the monopoly of the means of violence. In a political democracy these binding decisions are linked to the decisions made by citizens. Citizens decide to delegate power to their representatives via democratic elections. Therefore the concept of political democracy assumes the *freedom of choice* of citizens: voters decide freely how they vote. The concept of political democracy also assumes the *political equality* of citizens. In representative democracies political equality means equality before the law, equal right to vote (each citizen has just one vote) and to be elected. Political democracy

⁴ Habermas (1987: 114) refers to Luhmann when he uses the term of norm-free sociality (normfreie Sozialität).

as a coordination mechanism aggregates the individual decisions of citizens into a collective political decision through the procedural rules of elections.

In a representative democracy, according to Schumpeter, citizens decide about who should be given the right to make binding political decisions on the basis of the monopoly of means of violence.⁵ Political democracy is the institutionalization of *competition* for power. Political democracy is able to introduce competition for power into society, without disintegrating it. Political democracy is the coordination mechanism of *peaceful* transformation of power among the members of society.⁶ At the same time, political democracy is an *impersonal* mechanism for exercising power. Within political competition, the individuals who exercise power can be substituted for each other, power is not ascribed to the persons who exercise it and the failure of the incumbent executive does not mean the failure or collapse of the political system.

This definition of democracy does not deal with its specific forms, instead it grasps the common features of these specific forms. Consequently, the concept of political democracy is built on the dichotomy between democracy and dictatorship and anchors in the Schumpeterian *procedural* concept of democracy, it does not associate *substantive* contents related to political inputs and outputs with the concept of democracy.

In this paper when I use the concept of democracy, I will refer to a form of political coordination that institutionalizes party competition in order to transfer power from citizens to their representatives.

3. RIVAL THEORIES ON THE RELATIONSHIP OF MARKET AND DEMOCRACY

One may distinguish four theorems⁷ about the relationship of market and democracy:

⁵ “And we define: the democratic method is that institutional arrangement for arriving at political decisions in which individuals acquire the power to decide by means of a competitive struggle for the people’s vote” (Schumpeter 1994: 269).

⁶ See Mises (1996: 150); Popper (1971: 124); Hayek (1993b: 5); Lindblom (1977: 133); Przeworski (1999: 23).

⁷ Beetham also writes about four theorems in his essay (Beetham 1993). Out of these four theorems, two overlap with those in this paper: these two are the necessity and the disability theorems. In Beetham’s analysis, the other two theorems are the analogy theorem that states that democracy should be understood on the basis of an analogy with the market and the superiority theorem that argues that the polity can never be as democratic as the market. The overlap is partial mainly because Beetham’s research question and program is different from those in this paper. Beetham wants to develop a critical analysis of the ideology that captures and limits our thinking about the understanding of politics. He seems to resent if this thinking tries to explain politics on the basis of the logic of the market within the framework of a liberal theory. Therefore he reconstructs four liberal theorems that can be criticized in

- (1) The necessity theorem⁸ ($[M \rightarrow D]^+$): market (M) is the necessary condition of democracy (D).⁹
- (2) The inequality theorem ($[M \rightarrow D]^-$): market limits democracy.
- (3) The optimality theorem ($[D \rightarrow M]^+$): democracy is the optimal condition of market.
- (4) The disability theorem¹⁰ ($[D \rightarrow M]^-$): democracy limits market.

These theorems are summarized in Table 1.¹¹

Table 1. Theories on the relationship of market and democracy

causal relation	supportive (+)	antagonistic (-)
M→D	<i>Necessity theorem</i> Market is the necessary condition of democracy There is no political freedom without economic freedom	<i>Inequality theorem</i> Market limits democracy Market inequalities overwrite political equality
D→M	<i>Optimality theorem</i> Democracy is the optimal condition of market Democracy is the institutional safeguard of market freedom (rationality)	<i>Disability theorem</i> Democracy limits market Democracy is used to limit economic freedom (rationality) and/or equality

Source: author

3.1. Necessity theorem ($[M \rightarrow D]^+$)

The necessity theorem says that market is a necessary condition of democracy. Economic freedom is the necessary condition of political freedom. Market and democracy fit structurally together: they both institutionalize individual rights. There is an internal relationship between economic freedom that guarantees private autonomies that are the foundations of market transactions of individuals and political freedom that guarantees the political rights (freedom of speech, freedom of assembly) that are the foundations of political democracy (Beetham

a way that theoretically opens up the possibility of political action denied or assumed away by the liberal theory.

⁸ This term has been borrowed from Beetham (1993: 188).

⁹ In the titles of the theorems M stands for market, D stands for democracy, \rightarrow stands for causal relationship. + is the sign of positive, - is the sign of negative relationship.

¹⁰ I took this term from Beetham (1993: 188).

¹¹ The idea of this table comes from Offe who deals with the relationship of market, democracy and the welfare state in two tables. His first table is about theories on the relationship of market and the welfare state, his second table is about theories on the relationship of democracy and welfare state (Offe 1987: 505, 510). I instead drew the third table on the relationship of market and democracy. Since Offe did not reflect on this third possible pair of concepts he did not create this third table.

1993: 189). The separation of the private and the public sphere in modern societies is based on this *structural fit*: the emergence of capitalism is linked to the emergence of the dual subsystems of private economy and political community. In other words, the emergence of democratic capitalism separates the competition for wealth from that for political power.¹²

Both market and democracy are the institutionalizations of competition among individuals. As North, Wallis and Weingast point out, a non-market economy limits economic competition by denying free access of individuals to economic resources and organizations. Therefore it does not allow for the emergence of political competition based on free and equal access to political resources and organizations: the elites that are able to monopolize economic resources are also able to limit political competition. They need to limit political competition in order to preserve their economic privileges (North et al. 2006: 32).¹³ On the other hand, market competition and political competition reinforce each other, say North, Wallis and Weingast. The open access economic system as a system of economic competition supports the open access political system as a system of political competition. In an open access economic system the individuals may set up a great number of private organizations that will contribute to the political representation and protection of private interests. Under the pressure of market competition the economic position of individuals cannot be fixed and safeguarded, due to the market forces of “creative destruction” these positions are open to a constant change. In a market economy the allocation of resources is regulated by the impersonal price mechanism. Therefore, those who exercise political power will not control the allocation of economic resources and the primary distribution of income. In an open access economic system those individuals who exercise political power cannot appropriate a constant flow of economic rents that could have been directly used for limiting political competition. Also, in an open access political system party competition may be more robust and effective (North et al. 2009: 24–25).

There exists a causal relationship between market society (capitalism) and political democracy. Modern representative democracy is the product of the emergence of private economic activities and the market order. Democracy is a tool in the hands of new private

¹² “The kind of economic organization that provides economic freedom directly, namely, competitive capitalism, also promotes political freedom because it separates economic power from political power and in this way enables the one to offset the other.” (Friedman 2002: 9.) Olson also finds this structural correspondence important: “They [democracies] also have the extraordinary virtue that the same emphasis on individual rights that is necessary to lasting democracy is also necessary for secure rights to both property and the enforcement of contracts. The moral appeal of democracy is now almost universally appreciated, but its economic advantages are scarcely understood.” (Olson 1993: 574–575).

¹³ A similar argument can be found in Acemoglu and Robinson (2012: 284–285).

actors to protect their autonomies against the state by imposing limitations on the exercise of political power. According to Schumpeter “modern democracy is a product of the capitalist process” (Schumpeter 1994: 297). “No bourgeois, no democracy” says Moore (1974: 418).

The necessity theorem does not assume a symmetric relationship between market and democracy, because it acknowledges that the market is a *necessary but not sufficient* condition of democracy. In other words, the market supports but does not guarantee political freedom (see Beetham 1993: 189).¹⁴

3.2. Inequality theorem ([M→D]–)

Market limits democracy. The market creates economic inequalities and for this reason undermines *political equality*. Democracy functions selectively, because in practice the principle of one voter - one vote is getting injured. Although procedurally it is true that each vote has the same weight, still it may happen that one vote will count more than another one. This statement is descriptive and not normative, it explains why the procedurally given political equality may be damaged in the democratic process.

Downs connects this theorem to the problem of *information*. In the world of perfect information political equality based on the equality of votes does hold. “[...] in a world where perfect knowledge prevails, the government gives the preferences of each citizen exactly the same weight as those of every other citizen” (Downs 1957: 139). Therefore “[...] the equality of franchise is successful as a device for distributing political power equally among citizens” (Downs 1957: 139). However, the assumption of perfect information is an unrealistic one. In the real world information is imperfect, consequently the equality of votes does not exist. In order to make a choice voters need information that is not given but has to be acquired. It needs the mobilization of resources. Since the market allocates resources in an unequal way, those who are better off gain advantage and may influence the choices of those voters who are worse off. “As a result, equality of franchise no longer assures net equality of influence over government action. In fact, it is irrational for a democratic government to treat its citizens with equal deference in a world in which knowledge is imperfect” (Downs 1957: 140).

Hayek points out that in modern representative democracies the principle of limited government is in conflict with that of the limitlessness of the majority rule of decision.¹⁵ In the

¹⁴ This asymmetric relationship between capitalism and democracy was already dealt with by Lindblom (1977).

¹⁵ “A majority of the representatives of the people based on bargaining over group demands can never represent the opinion of the majority of the people. Such ‘freedom of Parliament’ means the

fight of the two principles the former is defeated by the latter. In representative democracies the winner of elections faces no constraints in the exercise of executive power. At the same time the requirement to get the majority of votes makes political democracy vulnerable against particular interests: in order to maximize votes the actors of political competition undertake the representation of particular interests. Consequently, the working of representative democracy may become selective (Hayek 1993b: 128-129.).

The theory of structural dependence of the state on capital also points out the selective bias of political democracy. In capitalism, the decisions of the actors both in the private and the political sphere are determined by the structural dependence of economic and political actors on capital, as summarized by Przeworski and Wallerstein (1988) in their excellent paper. In the economy the welfare of market actors is determined by the allocation of resources which is dependent on private entrepreneurial decisions. Entrepreneurs react to the decisions of other actors: if these decisions limit the profitability of investments they may postpone or change their investment decisions in a way that will have negative effects on consumers. Therefore, in order to avoid the fall or the absence of the rise of their welfare these other actors are compelled to anticipate the reactions of entrepreneurs to their decisions, that is to constraint their own demands or actions in order to preserve the benefits they may have due to the decisions of private entrepreneurs. In their summary, Przeworski and Wallerstein point out that this is also true for political actors: political decision makers are also structurally dependent on capital. The incumbent political actors in a democracy want to be reelected, consequently they care about the effects of their political decisions on the welfare of voters. If these decisions hurt the private interests of entrepreneurs, the consumption of voters may be reduced due to the changes in private investment decisions and consequently the chances of reelection of incumbent politicians will also be reduced (Przeworski – Wallerstein 1988: 11-14).¹⁶ “[...] Vote-seeking politicians are dependent on owners of capital because voters are.” (Przeworski – Wallerstein 1988: 12.)

It follows from the thesis of structural dependence that political actors will pay attention to the interests of the actors personifying capital even if these private actors do not do anything in order to push their interests. Lindblom supplements these *structural* arguments with *instrumental* ones by pointing out that in a capitalist society not only employees, but also

oppression of the people. It is wholly in conflict with the conception of a constitutional limitation of governmental power, and irreconcilable with the ideal of a society of free men” (Hayek 1993b: 134).

¹⁶ See also Miliband (1969), Block (1977), Offe (1975), Lindblom (1977).

employers organize their interest representation (Lindblom 2001: 247).¹⁷ However, the different actors within the private sphere will be able to mobilize resources in order to increase their influence on political decisions in an unequal way. The interest representation of private entrepreneurs will be more successful than that of other interest groups because they are able to mobilize more economic resources in service of their political aims than others, argues Lindblom.¹⁸

The inequality theorem focuses on one specific aspect of the conflict of market and democracy. The theorem refers to *substantive* outcomes of the market process, not to the *formal* characteristics of the market related to the institutionalization of the autonomy of individual choice. In other words, it looks at the relationship of market and democracy from the perspective of *economic inequalities*, not from that of *economic freedom*. It shows how market inequalities may overwrite the *procedurally* defined political equality of democracy and how they will be able to influence the *outcomes* of political democracy.

3.3. The optimality theorem ($[D \rightarrow M]^+$)

Democracy is the *optimal* condition of market. Non-democratic political systems may also establish and protect those private autonomies that are necessary for the working of capitalism, however, they will do it less efficiently than democratic political systems can do it and just for a limited period of time, says the optimality theorem.

The establishment of political competition will prevent *political* elites to monopolize economic resources. Acemoglu and Robinson (2012) show that in a democracy the actors of the private economy are able to protect their economic autonomy against the state only because they can rely on the political competition of elites who are dependent on the vote of citizens. Due to political competition, the political actors will not be able to eliminate private autonomies and market competition.¹⁹

Acemoglu, Johnson and Robinson (2004) argue that democracy is the best institutional safeguard of market freedom because it offers a solution for the *commitment problems* of

¹⁷ The distinction between structural and instrumental power can already be found in Miliband (1969). See also Hacker and Pierson (2002: 280–281).

¹⁸ “Inequalities in income and wealth create inequalities in opportunity to run for office, in launching candidates, in capacities to use the mass media to influence voters, in lobbying, and in social interchange with party and government officials. Because market systems produce inequality of income and wealth, they obstruct democracy” (Lindblom 2001: 236).

¹⁹ “Inclusive political institutions, vesting power broadly, would tend to uproot economic institutions that expropriate the resources of the many, erect entry barriers, and suppress the functioning of markets so that only a few benefit” (Acemoglu–Robinson 2012: 77).

political authority. Since there is no higher authority above the state that would be able to tie the hands of governments in the exercise of power, the commitment of political authority becomes a problem. How can those who exercise political power be prevented from using it to reallocate economic resources in a way that is advantageous only for them? If the state promises not to use its power for the purpose of redistribution, is this commitment credible? Capitalism and market coordination require the state to respect private economic autonomies (property rights, in the first place). Both democracies and dictatorships seem to be able to commit themselves to respecting private economic autonomies but the commitment of dictatorships is less certain than that of democracies, because in a dictatorship this commitment is tied to the *person* of the dictator and his personal decisions, while in democracies it is tied to the impersonal *mechanism* of democratic competition.

In democracies with the separation of powers there will be a functioning Rule of Law that limits state power, consequently the commitment of the state to respect private autonomies does not depend on the changes about who personally exercises power and how the personal preferences of political decision-makers change (Acemoglu et al. 2004: 3-4). In dictatorships the dictator stands above the law, while in democracies the executive power is limited by the rule of law. Therefore, those incentives and constraints that inform property rights and the rules of contracts may significantly be different in democracies and autocracies, say Clague and his co-authors (Clague et al. 1996: 246). In dictatorships market actors may easily develop a symbiotic relationship with those who exercise political power and may be able to constrain and distort economic competition, set up and maintain barriers to market entry (Acemoglu 2008: 35-37).

The coexistence of non-democratic political system with market order is unstable, because it connects contradictory logics, argue Acemoglu and Robinson (2012). Consequently, sooner or later this connection must break up. One possibility is that the extractive (non-democratic) political system prevails and those who exercise political power will use it to extract rents from the economy, in other words, they transform the order of market competition into an extractive economic system based on monopolies. The other possibility is that market competition prevails, the actors of the private economy become strong and in order to defend the inclusive economic order (market competition) they will be able to transform the political system into an inclusive (competitive) one (Acemoglu – Robinson 2012: 78-79).

These arguments already connect the optimality theorem with the necessity theorem that focuses on the structural correspondence of market and democracy. I will come back to this connection later in this paper.

Lindblom also says that democracy supports capitalism, however he connects this argument to the inequality theorem. For him it is the *overwriting of political equality* and not the presence of political freedom and political competition that explains why democracy supports capitalism. The inequality theorem points out that democracy represents economic and political interests with a bias, that is selectively. Democracy reinforces capitalism just because the interests of business, private owners are overrepresented in the political system. In other words, if democracy would not work selectively in favor of business, that is if there existed political equality, democracy would not support capitalism, or democracy would even undermine the market order (Lindblom 1977: 168-169). This final statement takes us to the disability theorem.

3.4. Disability theorem ([D→M]-)

This theorem has a strong and a weak version. The early strong version stated that capitalism and democracy were *incompatible*, because in democracy market losers would organize a majority coalition that would turn political power against private ownership and market coordination and would put capitalism to an end (Przeworski 1991: 53–54). Facts do not confirm this strong version. The relationship of capitalism and democracy proved to be stable against the protests of losers. However, the disability theorem did not disappear but was transformed. The modern, weak variant does not talk about the incompatibility of capitalism and democracy but about their *conflictious coexistence*. The question in this case is not whether democracy eliminates capitalism but how democracy undermines or weakens capitalism (market order)?

Market coordination generates income inequalities, the distribution of income by the market creates winners and losers. The disability theorem infers from the existence of market inequalities that democracy constrains the market: both *winners* and *losers* may want to use democracy in order to constrain the market order.

The main business actors, that is the winners, are able to realize their economic interests with the mediation of the political system. Particular industries may apply for state regulation in order to limit entry, that is competition, argues Stigler (1975: 114). The large corporations of different industries are interested in the stability of the market, in the limitation of entry and they are able to achieve their goals (Fliegstein 1996: 661). On the other hand, Schattschneider argues that it is not the representatives of big business (the winners) but those of smaller firms push the state toward economic regulation. He says that the losers are interested in changing or modifying market outcomes through state regulation. The winners, large firms, are happy

with the income distribution resulting from market coordination, therefore they do not want to modify it (Schattschneider 1975: 37-39).²⁰

The losers of the market allocation of resources may constrain the autonomy of market coordination and weaken the economic institutions of capitalism through democracy. Free market economy and democracy do not mutually reinforce each other, to the contrary, political democracy must lead to the limitation of market freedom, says Dahl (1993: 259-260). Since the incomes of market actors are not going to be equalized by the market and some will have higher income than others, the losers will use their political power represented by their votes to improve their economic situation: they will want to limit market freedom and redistribute market incomes via state intervention (Dahl 1993: 267). Since democracy is the political competition of political actors who want to maximize votes, assuming the existence of universal franchise they will have strong incentives to capture the votes of losers and offer state intervention in exchange, argues Dahl (1993: 277-278).

An alternative formulation of the disability theorem is offered by Claus Offe. Offe characterizes the relationship of market and democracy as a conflict between economic rationality and political legitimacy. Under the pressure of democratic legitimacy politicians increase redistribution, limit the autonomy of the market and overburden the state in order to satisfy voters. The conflict of market and democracy is coded into the structure of modern capitalism: due to institutionalized state intervention capitalism simultaneously relies on two problem-solving mechanisms that contradict each other: market coordination on the one hand and politicization of economic decisions on the other hand, **says Offe**. Capitalism is based on the *separation* of system integration (market coordination) and social integration (political democracy), however, state intervention, the welfare state *connects* these two forms of integration and unleashes the intervention of social integration into system integration (Offe 1990: 83). “There is the attempt to free the spheres of production and distribution from politics – and to take back this depoliticization at the same time.” (Papp 1983/1984: 147).

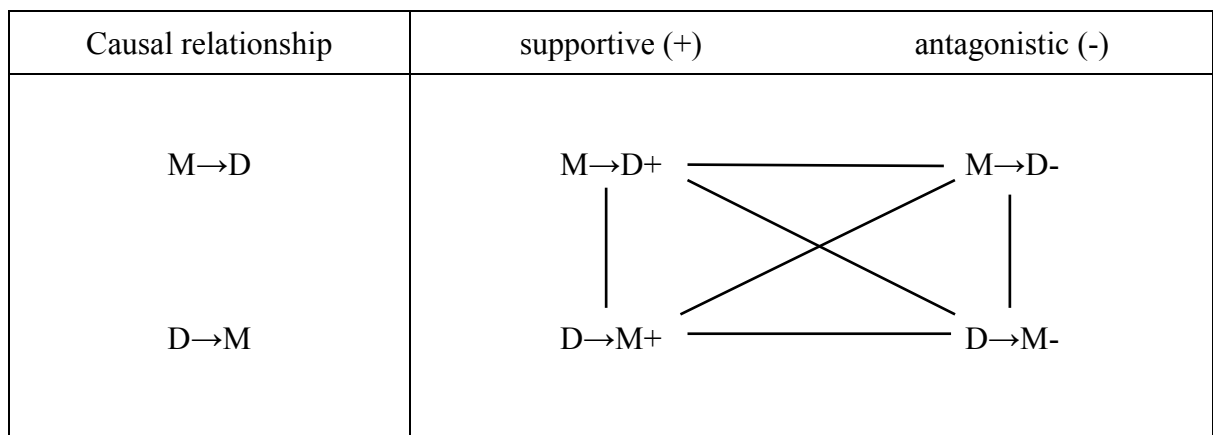
The disability theorem focuses on one aspect of the conflict between market and democracy, namely how the outcomes of the democratic political system may modify the outcomes of market order by the *political limitation of market autonomies*.

4. DISCUSSION: THE RELATIONSHIPS OF THE FOUR THEOREMS

²⁰ “Since the contestants in private conflicts are apt to be unequal in strength, it follows that *the most powerful special interests want private settlements* because they are able to dictate the outcome as long as the conflict remains private” (Schattschneider 1975: 39.)

How are the four theorems connected? I order them into pairs and examine the relationship of each two elementary theorems within each composite thesis. Figure 1 shows that the pairwise combination of the four theorems leads to six composite theses.

Figure 1. The combinations of individual theorems



Source: author

4.1. Thesis 1 on the mutual compatibility of market and democracy ($[M \rightarrow D]^+$ and $[D \rightarrow M]^+$)

Market supports democracy and democracy supports the market. The two statements are in harmony and reinforce each other. Thesis 1 says that capitalism and democracy serve as conditions for each other. Economic freedom is a necessary condition of political freedom, political freedom is the optimal condition for the defense of economic freedom. The structural fit of capitalism and democracy makes democratic capitalism a *stable* economic-political order.

North and his co-authors call this structural correspondence *double balance*.²¹ The theory of double balance states that the open-access economic system and the open-access political system are mutually contingent and they reinforce each other (North et al. 2009: 24.). In open access orders economic and political competition strengthen each other.²² Due to

²¹ Double balance is “a correspondence between the distribution and organization of violence potential and political power on the one hand, and the distribution and organization of economic power on the other hand.” (North et al. 2009: 20.)

²² “[...] open access and entry to organizations in the economy support open access in politics, and open access and entry in politics support open access in the economy. Open access in the economy generates a large and varied set of organizations that are the primary agents in the process of creative destruction. This forms the basis for the civil society, with many groups capable of becoming politically active when their interests are threatened. Creative economic destruction produces a constantly shifting distribution of economic interests, making it difficult for political officials to solidify their advantage through rent-creation. Similarly, open access in politics results in creative political destruction through party

impersonal market competition the political elites of a limited access political order would lose their economic resources coming from monopolistic rents and this would undermine and endanger the existence of the ruling political coalition (North et al. 2009: 41). In reverse, in an open access political order due to political competition the economic actors are able to preserve economic competition, limit or prevent those political interventions that put it into danger.

Acemoglu and Robinson also emphasize the elective affinity between the patterns of political and economic order: extractive political institutions coexist with extractive economic institutions, while inclusive political institutions build a coherent whole with inclusive economic institutions by creating a virtuous circle (Acemoglu – Robinson 2012: 76–77, 276). They reflect on three important mechanisms of the virtuous circle between inclusive economic and political institutions.

First, the plural, competitive political system does not allow for the concentration of political power in one hand. This way the inclusive political order makes it difficult to eliminate the inclusiveness of the economic order. The plural political system supports the rule of law that imposes legal constraints upon all political actors and protects the autonomy of the private sphere, the working of market coordination against powerful political actors. The rule of law protects political equality and eliminates the arbitrary use of power.

Second, the inclusive economic system, that is the market order, eliminates the direct connection between political position and economic gain. Therefore, the economic elite may become interested in the support of political democracy, just because it separates the accumulation of economic wealth from the political position of individuals.

Third, the inclusive political system leads to the emergence of a public sphere that is independent from those who exercise political power. This public sphere is instrumental for the organization of those actors who protect the inclusive economic order against political threats (Acemoglu – Robinson 2012: 283–284).

Kurki defines the combination of the necessity ($[M \rightarrow D]^+$) and the optimality ($[D \rightarrow M]^+$) theorems as the thesis of complementarity. She distinguishes four variants of the theory of complementarity: (1) capitalism and democracy necessarily complement each other;

competition. The opposition party has strong incentives to monitor the incumbent and to publicize attempts to subvert the constitution, open access in particular” (North et al. 2009: 24–25). I have to note that the authors do not identify the open access order with democracy. They accept the minimalist definition of democracy as a system of political competition among political parties. However, this competition may formally exist but may be made substantively empty at the same time (North et al. 2009: 137). This is an important issue, but for this paper it is enough to see that all open access orders are democracies although not all democracies are open access orders.

(2) capitalism and democracy statistically complement each other; (3) capitalism and democracy are functionally similar to each other; (4) capitalism and democracy complement each other by chance (Kurki 2014: 124-128). I think that these four variants can be aggregated into two. First, (1) and (3) belong to each other, since they posit an internal relationship between the two theorems – complementarity by necessity leads to functional similarity and vice versa. Second, (2) and (4) can also be aggregated, because they assume instead of an internal and analytical connection an external relationship between capitalism and democracy – be it statistical coincidence or pure chance. The theories put into variant (4) are at the same time rather heterogeneous, this variant contains causal explanations about the relationship between capitalism and democracy that may fit better and can be regrouped into variant (1). Therefore the thesis of mutual compatibility incorporates into itself Kurki's variants (1) and (3) and also partially (4).

To sum up, the two elements of the thesis of mutual compatibility analytically presuppose each other, both state the internal connection and the structural fit of capitalism and democracy. This mutual correspondence is based on the joint existence of the actors' *freedom of choice* in the *private* sphere of the economy and the *public* sphere of the polity.

4.2. Thesis 2 on the partial non-compatibility of the market ([M→D]+ and [M→D]-)

The market is simultaneously the condition of, and the limitation on, democracy. The separation of the private and public sphere of society comes into existence with the emergence of capitalism. This separation makes democracy possible in the first place, because it creates private autonomies and new individual rights that are set free from the former status hierarchies. The outcome is the social distinction between the private individual (bourgeois) who is the actor of the economy and the citizen (citoyen) who is the actor of the polity. This distinction is the condition for the exercise of democratic rights and the constitution of political equality. The individuals are constituted as citizens, as equal members of the political community just by distinguishing their private (economic) existence from their public (political) existence. On the basis of this distinction, we can consider individuals to be equal, we do not let their *economic inequality* overwrite their *political equality*.

At the same time the separation of the private and public sphere will constrain political equality and lead to a *selective* functioning of democracy. The reason for this is that political equality does not eliminate but underwrite private economic inequalities by constituting the

sphere of equality as the sphere of polity *outside* of the sphere of economy.²³ Consequently, the material inequalities of the private sphere will have an influence on the exercise of political rights in the public sphere.

Thesis 2 does not contain logical contradiction, instead it argues that *freedom* and *equality* come into conflict in democracy. The market has a positive effect due to market freedom and a negative effect due to market inequalities on democracy. *Procedurally* political equality exists, since all citizens have equally one vote, but the politically equal citizens will be able to mobilize resources in order to influence voter's preferences to a different extent, because the inequality of citizens as private individuals prevails in the private sphere of society.

If the assumption of perfect information is dropped and it is taken into consideration that the market economy creates and maintains economic inequalities, it can also be understood that the principle of equal votes may be undermined. The votes and preferences of those citizens who are better informed and mobilize more economic resources will count more than those of others.

Thesis 2 states that voters' freedom of choice is *formally* secured, but the *material content* of these choices may be influenced by the economically powerful few. Both statements seem to be true, there is no logical contradiction between them, since the first statement refers to political *freedom* and the second to political *equality*.²⁴ The two theorems of the composite thesis 2 about the non-correspondence of the market equally reflect the structural separation of the market economy and political community. The two units of this thesis target the simultaneous togetherness and conflict of political freedom and political equality that comes into existence as the consequence of the emergence of democratic capitalism. In democratic capitalism economic freedom calls for political freedom and economic inequality results in substantive political inequality (the selectivity of democracy).

4.3. Thesis 3 on the partial non-compatibility of democracy ([D→M]+ and [D→M]-)

Democracy is simultaneously the condition of, and the limitation on, the market. This thesis is the reversal of thesis 2: democracy simultaneously protects and limits capitalism, the autonomy of the private sphere. There is a logical contradiction between the two parts (the two theorems)

²³ This argument was formulated by Marx (1978) as a criticism of capitalism.

²⁴ This distinction between freedom and equality is also emphasized by Beetham in a way that fits thesis 2: "in considering the causal relationship between the market and democracy, we should be careful to distinguish different aspects of the market. As a system of power dispersal, it is conducive to the maintenance of political freedoms; as a systematic generator of inequalities within and between countries, it is destabilizing to democracy" (Beetham 1993: 192).

of the thesis only if we use the *strong* version of the disability theorem ($[D \rightarrow M]^-$). In this case democracy and capitalism *exclude* each other, since democracy will be the instrument to put an end to market order, consequently democracy ceases to exist as a condition of market economy. The optimality theorem ($[D \rightarrow M]^+$) falls.

However, if we accept the *weak* version of the disability theorem there will be no logical contradiction between the two elements of thesis 2. In this case both theorems may be true because the protection and the limitation of the market order may complement each other. The first part of thesis 2 which is the optimality theorem, says that democracy is the condition of capitalism because it introduces constraints on the exercise of political power. Democracy limits the activities of the state by protecting the rule of law, and as a consequence it maintains the separation of the private and public sphere of society and safeguards the private autonomies of the market order.

If we interpret the disability theorem as a theorem about the political influence of the market *winners* who want to constrain the market order, it will not contradict to the optimality theorem because the political limitation of the market ($[D \rightarrow M]^-$) in this case does not mean the elimination of the autonomy of market coordination; to the contrary, the political regulation of the market will be a specific (limited) form of market autonomy that will be reinforced by democracy ($[D \rightarrow M]^+$) and support the interests of market winners.

If we interpret the disability theorem as a theorem about the political influence of the market *losers* who want to constrain the market order, the disability and the optimality theorems will still remain compatible. In this case the disability theorem shows that the extension of the franchise in democracy leads to extended state intervention into the economy. Universal franchise gives voting right to market losers. In the system of democratic party competition in the framework of which parties try to maximize their votes, the supply of welfare state programs may help them to extend their voter bases to new groups. As a consequence, the state intervenes into the economy and compensates market losers. Welfare states do constrain private autonomies but protect the market economy. The compensation given to market losers on the basis of the limitation of the market order will protect capitalism against the political attack of losers by reconciling them with this market order. From this it follows that the disability theorem about constraining the market is subordinated to the optimality theorem about protecting the market. In other words, the theorem about the conflict between capitalism and democracy is subordinated to the theorem about the compatibility between capitalism and democracy.

4.4. Thesis 4 on the compatibility of democracy and the incompatibility of market

([D→M]+ and [M→D]-)

Democracy is a condition of market and market is a constraint on democracy. These two statements do not contradict, to the contrary they reinforce each other. Democracy safeguards the autonomy of the market order, the functioning of market coordination, states the optimality theorem ([D→M]+). However, the inequality theorem ([M→D]-) assumes that the market constrains democracy because it overwrites political equality. It may seem that the combination of the optimality and the inequality theorems contains a circular reasoning along the following lines: a weakening democracy will not be able to protect the market to the same extent and will weaken market coordination, a weaker market coordination will limit inequalities and strengthen democracy, a stronger democracy will strengthen the market order, a strong market order will weaken democracy, a weak democracy will weaken the market order, and so on. The paradox does not hold because the two theorems refer to two different dimensions: the optimality theorem talks about *freedom of choice* and the inequality theorem talks about the damages done to political *equality*. The market may constrain political democracy but it does not mean that any damage is done to political freedom, to voters' freedom of choice. The latter does exist even if the equality of votes does not.²⁵ What is more, if we accept Lindblom's variant of the optimality theorem, we get to the conclusion that it is exactly the selectivity of democracy that supports market coordination. Formal (procedural) political equality may result in substantive economic inequalities and it means that on the basis of market inequalities, democracy may provide advantages to particular private interests. Therefore, democracy protects the market just because the market order makes democracy selective. The winners of market competition are interested in the defense of democracy because democracy selectively supports the winners and weakens politically those market losers who could have constituted danger to the market order. Consequently, thesis 4 also subordinates the theorem about the conflict between capitalism and democracy to the theorem about the compatibility between them.

²⁵ Vanberg (2005: 33–43) emphasizes the importance of this distinction. He introduces the concept of *choice individualism*. He says that both market and democracy need to be examined as orders based upon the freedom of individual choice and not as the domain of aggregated utility maximization. Choice individualism analyzes market and democracy on the basis of a procedural logic and not on the basis of substantive outcomes.

4.5. Thesis 5 on the compatibility of market and incompatibility of democracy

($[M \rightarrow D]^+$) and ($[D \rightarrow M]^-$)

Market is a condition of democracy and democracy is a constraint on market. This thesis is the reversal of thesis 4. The necessity theorem ($[M \rightarrow D]^+$) states that the freedom of market coordination is the necessary condition of political freedom and equality. The disability theorem ($[D \rightarrow M]^-$) states that political democracy will put constraints on the market order.

The disability theorem can be interpreted in two ways. First, if we consider the political decisions of the economic *losers* of market competition we may conclude that the political freedom and equality of voters leads to the policies of diminishing economic inequalities. Vote maximizing politicians will compensate the losers of market competition via welfare state redistribution. In this interpretation the two theorems are compatible. Democracy may constrain but does not eliminate market autonomy, the constraining effects of democracy on market remain constrained. The market order is modified but not eliminated, the freedom of individual market choice remains and may serve as the basis of the freedom and equality of individual political choice.

Second, if we focus on the economic *winners* of the market order, we may argue that the winners will want to use democracy in order to constrain market coordination. Constraining market coordination will provide economic rents for the winners. In this case the disability theorem will not be connected to the necessity theorem but to the inequality theorem ($[M \rightarrow D]^-$). Winners will be able to constrain the market through political decisions if they are able to constrain the equality of political choice through their influence on voters. This effect is captured not by the necessity but the inequality theorem and by the combination of the disability and the inequality theorems. This combination is the content of thesis 6. In other words, in this case thesis 5 is referred to and translated into thesis 6.

4.6. Thesis 6 on the mutual incompatibility of market and democracy ($[M \rightarrow D]^-$) and ($[D \rightarrow M]^-$)

The combination of the inequality ($[M \rightarrow D]^-$) and the disability ($[D \rightarrow M]^-$) theorems leads to the statement that the market constrains democracy and democracy constrains the market. Dahl aptly calls this relationship *antagonistic symbiosis* (Dahl 1998: 166). “Democracy and market-capitalism are locked in a persistent conflict in which each modifies and limits the other” (Dahl 1998: 173). This thesis is the mirror image of thesis 1. Thesis 1 does not refer to the *conflict* of market and democracy, thesis 6 does not reflect on the *mutual correspondence* of market and democracy.

The two theorems combined by thesis 6 may be true at the same time. Whether they are internally connected or not depends on how the disability theorem is interpreted. If in the framework of the disability theorem the focus is on economic *winners*, we get to the statement that the winners are able to limit economic competition by political means because they are able to mobilize economic resources in order to make democracy more selective. Economic inequalities may be translated into political inequalities and vice versa. In this case the disability theorem is successfully linked to the inequality theorem ($[M \rightarrow D]-$) on the basis of the assumption about the internal relationship between the two. However, it is important to keep in mind that market *inequalities* and political *inequalities*, the selectivity of political democracy may support and reinforce each other but it does not mean the elimination of economic and political *freedom*. The constraints on market coordination and political democracy are established without eliminating the freedom of economic and political choice. In other words, these constraints exert their influence not against but on the basis of those procedural rules of market coordination and political democracy that establish economic and political freedom as it is argued in thesis 1.

If in the framework of the disability theorem the focus is on economic *losers* we get to the statement that due to market induced economic inequalities losers may be able to use democracy against the market order relying on their protest votes. Democracy constrains capitalism in order to compensate the losers. This statement assumes that the market did not make democracy selective. Although losers are able to mobilize less economic resources, political decisions still do reflect the interests of losers, because the inequalities created by the private sphere of society were successfully separated from the political sphere of democracy that establishes *political equality*. In this case the argument about the negative effect of democracy on the market (disability theorem - ($[D \rightarrow M]-$)) is based on the necessity theorem ($[M \rightarrow D]+$) and not on the inequality theorem ($[M \rightarrow D]-$), because the statement about the political strength of losers assumes that *losers use their protest votes successfully*, therefore political freedom and equality prevails against economic inequalities. There is no mechanism that would successfully transform the majority votes of losers into minority votes, that is democracy will not work selectively. In other words, focusing on the losers' influence on the market order the disability theorem is internally connected to the necessity theorem ($[M \rightarrow D]+$) and rejects the inequality theorem ($[M \rightarrow D]-$). In this case thesis 6 is referred back to and translated into thesis 5.

5. CONCLUSION

The analysis of the four theorems and the six composite theses leads to the conclusion that the relationship of capitalism and democracy is not external, they are internally related. Lindblom shows that although democracy is related to capitalism, capitalism may not be related to democracy (Lindblom 1977: 161-169). The relationship between market and democracy is not symmetric. However, an internal relationship does not have to be a symmetric one.

The theoretical controversy about capitalism and democracy did not bring up arguments that exclude each other. Thesis 1 argues about the *mutual compatibility* of capitalism and democracy. Theses 2 to 5 focus on the *conflict* between capitalism and democracy without going beyond the assumption about their compatibility. Therefore, thesis 1 is compatible with theses 2-5. Thesis 6 is the opposite of thesis 1. Thesis 6 states that capitalism and democracy mutually weaken each other. Is there a logical contradiction between thesis 1 and 6? I argue that it is not the case because thesis 6 does not just deny but also relies on thesis 1. However, following Lindblom, the thesis about the mutual compatibility between capitalism and democracy does not or should not imply that capitalism and democracy are necessary and sufficient conditions for each other. Almond (1991: 473) is right, “democracy and capitalism are both positively and negatively related, they both support and subvert each other.” It can be added that the negative and positive relationships between capitalism and democracy are not symmetric, the conflict between capitalism and democracy comes about and remains *within* the framework of mutual compatibility. As thesis 1 argues, there is a structural compatibility between capitalism and democracy because both the economic and political coordination mechanisms map the separation of the private and the public spheres of society: both market coordination and democracy may work just because they are separated from the other coordination mechanism. This separation creates economic and political freedoms that serve as a basis for market order and political democracy. At the same time this separation is the source of tensions and conflicts between capitalism and democracy, mainly due to the effect of private economic inequalities on political equality. The thesis about the mutual reinforcement of capitalism and democracy and the thesis about the conflict between them can simultaneously be stated because the dimensions of unity and conflict are different: unity refers to freedom, conflict refers to inequality.

Is there any practical relevance of the analysis of, and conclusions drawn from, the theoretical controversy about the relationship of market (capitalism) and democracy? My point is that it may help to understand the *stability* of democratic capitalism. Those theorems that assume a negative relationship between market and democracy point out that capitalism and democracy mutually weaken each other and may conclude that democratic capitalism is fragile,

it is not sustainable, it will break down. However, the theorems and theses that thematize the conflict between capitalism and democracy still rely on those theses and theorems that thematize the mutual compatibility of capitalism and democracy. The selectivity of democracy and the political constraints imposed on market order may not undermine democratic capitalism because they may *retain economic and political freedoms in a modified form*. As a consequence, we can also understand why democratic capitalism *may remain stable*. However, two caveats should be made.

First, the theory about the stability of democratic capitalism argues that the tensions that exist between capitalism and democracy can and will be contained by them. This conclusion may be correct, but only under specific social conditions. In other words, the theory about the stability of democratic capitalism describes relatively well the relationship of economic and political order in modern Western societies. By maintaining the separation and the working of economic and political competition these societies could develop the relative stability of democratic capitalism.

Second, none of these arguments should be read as a theoretical proof that excludes the possibility of the *regression* of democratic capitalism. The implication of thesis 1 ($[M \rightarrow D]^+$ and $[D \rightarrow M]^+$) is not that democratic capitalism cannot backslide but that if it happens it will *distort both capitalism and democracy*.²⁶

REFERENCES

- Acemoglu, D. (2008): Oligarchic versus Democratic Societies. *Journal of the European Economic Association* 6(1): 1–44.
- Acemoglu, D. - Robinson, J. A. (2012): *Why Nations Fail: The Origins of Power, Prosperity and Poverty*. New York: Crown Publishers.
- Acemoglu, D. – Johnson, S. – Robinson, J. (2004): Institutions as the Fundamental Cause of Long-Run Growth. *National Bureau of Economic Research Working Paper* 10481.
- Almond, G. A. (1991): Capitalism and Democracy. *PS: Political Science and Politics* 24(3): 467–474.
- Beetham, D. (1993): Four Theorems about the Market and Democracy. *European Journal of Political Research* 23(2): 187–201.

²⁶ The analysis of the theories of market and democracy from the perspective of the regression of democratic capitalism is a subject I dealt with in another paper that focuses on the postsocialist transformation. See Gedeon (2017).

- Block, F. (1977): The Ruling Class Does Not Rule: Notes on the Marxist Theory of the State. *Socialist Revolution* 7(3): 6–28.
- Clague, C. – Keefer, P. – Knack, S. – Olson, M. (1996): Property and Contract Rights in Autocracies and Democracies. *Journal of Economic Growth* 1(2): 243–276.
- Coyne, C. (2007): Capitalism and Democracy: Friends or Foes? Guest blogger, *The Economist*, August 27.
- Csaba, L. (1997): Market and Democracy? Friends or Foes? *Arbeitsberichte – Discussion Papers* No. 9.
- Dahl, R. A. (1993): Why All Democratic Countries Have Mixed Economies. In: Chapman, J. W. – Shapiro, I. (eds): *Democratic Community: NOMOS XXXV*, New York: New York University Press, pp. 259–282.
- Dahl, R. A. (1998): *On Democracy*. New Haven: Yale University Press.
- Downs, A. (1957): An Economic Theory of Political Action in a Democracy. *The Journal of Political Economy* 65(2): 35-150.
- Fligstein, N. (1996): Markets as Politics: A Political-Cultural Approach to Market Institutions. *American Sociological Review* 61(4): 656–673.
- Friedman, M. (2002): *Capitalism and Freedom*. Chicago: Chicago University Press.
- Gedeon, P. (2017): Capitalism and Democracy in the Postsocialist Transformation. Basic Concepts. *Society and Economy* 39(3): 385-407.
- Habermas, J. (1987): *Theory of Communicative Action, Volume Two: Lifeworld and System: A Critique of Functionalist Reason*. Boston, MA: Beacon Press.
- Hacker, J. S. – Pierson, P. (2002): Business Power and Social Policy: Employers and the Formation of the American Welfare State. *Politics & Society* 30(2): 277–325.
- Hayek, F. A. (1945): The Use of Knowledge in Society. *The American Economic Review* 35(4): 519-530.
- Hayek, F. A. (1993a): *Law Legislation, and Liberty: A new statement of the liberal principles of justice and political economy. Vol. 2, The Mirage of Social Justice*. London: Routledge.
- Hayek, F. A. (1993b): *Law Legislation, and Liberty: A new statement of the liberal principles of justice and political economy. Vol. 3, The Political Order of a Free People*. London: Routledge.
- Hodgson, G. M. (2008): Markets. In: Durlauf, S. N. – Blume, L. E. (eds): *The New Palgrave Dictionary of Economics*. Second Edition. Palgrave Macmillan.

- Kapás, J. (2003): A piac mint intézmény – szélesebb perspektívában [Market as an Institution – from a Broader Perspective]. *Közgazdasági Szemle* 50(12): 1076–1094.
- Kornai, J. (1984): Bureaucratic and Market Coordination. *Osteuropa Wirtschaft* 29(4): 306–319.
- Kornai, J. (1992): *The Socialist System. The Political Economy of Communism*. Princeton: Princeton University Press and Oxford: Oxford University Press.
- Kurki, M. (2014): Politico-Economic Models of Democracy in Democracy Promotion. *International Studies Perspectives* 15(2): 121–141.
- Lindblom, C. E. (1977): *Politics and Markets: The World's Political Economic Systems*. New York: Basic Books.
- Lindblom, C. E. (2001): *The Market System: What It Is, How It Works, and What to Make of It*. New Haven: Yale University Press.
- Lockwood, D. (1964): Social Integration and System Integration. In: Zollschan, G. K. – Hirsch, W. (eds.): *Explorations in Social Change*. Boston: Houghton Mifflin.
- Marx, K. (1978): On the Jewish Question. In: Tucker, R. C. (ed.): *The Marx-Engels Reader*. New York, London: W. W. Norton & Company, pp. 26-52.
- Marx, K. (1990): *Capital: A Critique of Political Economy. Volume One*. London: Penguin Books.
- Marx, K. (1993): *Grundrisse: Foundations of the Critique of Political Economy (Rough Draft)*. London: Penguin Books
- Miliband, R. (1969): *The State in Capitalist Society*. London: Quartet Books.
- Mises, L. (1996): *Human Action: A Treatise on Economics*. San Francisco: Fox & Wilkes.
- Moore, B. (1974): *Social Origins of Dictatorship and Democracy: Lord and Peasant in the Making of the Modern World*. London: Penguin Books.
- North, D. C. – Wallis, J. J. – Weingast, B. R. (2009): *Violence and Social Orders: A Conceptual Framework for Interpreting Recorded Human History*. Cambridge: Cambridge University Press.
- North, D. C. – Wallis, J. J. – Weingast, B. R. (2006): A Conceptual Framework for Interpreting Recorded Human History. *NBER Working Paper* 12795.
- Offe, C. (1975): The Theory of the Capitalist State and the Problem of Policy Formation. In: Lindberg, L. N. – Alford, R. – Crouch, C. – Offe, C. (eds): *Stress and Contradiction in Modern Capitalism: Public Policy and the Theory of the State*. Lexington: Lexington Books.

- Offe, C. (1987): Democracy against the Welfare State? Structural Foundations of Neoconservative Political Opportunities. *Political Theory* 15(4): 501–537.
- Offe, C. (1990): *Contradictions of the Welfare State*. Cambridge: The MIT Press.
- Olson, M. (1993): Dictatorship, Democracy, and Development. *The American Political Science Review* 87(3): 567–576.
- Papp, Z. (1983/1984): A „jóléti állam” problémái – szociológiai nézőpontból [The Problems of the “Welfare State” - from a Sociological Perspective]. *Medvetánc* 4(1): 141–160.
- Polanyi, K. (2001): *The Great Transformation*. Boston: Beacon Press.
- Popper, K. R. (1971): *The Open Society and its Enemies. Vol. 1*, Princeton: Princeton University Press.
- Przeworski, A. (1991): Political Dynamics of Economic Reforms. In: Szoboszlai, G. (ed.): *Democracy and Political Transformation: Theories and East-Central European Realities*. Budapest: Hungarian Political Science Association, pp. 21–74.
- Przeworski, A. (1999): Minimalist Conception of Democracy: A Defense. In: Shapiro, I. - Hacker-Cordón, C. (eds): *Democracy's Value*. Cambridge: Cambridge University Press, 23–55.
- Przeworski, A. – Wallerstein, M. (1988): Structural Dependence of the State on Capital. *The American Political Science Review* 82(1): 11–29
- Schattschneider, E. E. (1975): *The Semisovereign People: A Realist's View of Democracy in America*. Hinsdale: Dryden Press.
- Schumpeter, J. A. (1994): *Capitalism, Socialism and Democracy*. London: Routledge.
- Stigler, G. J. (1975): *The Citizen and the State: Essays on Regulation*. Chicago: University of Chicago Press.
- Vanberg, V. J. (2005): Market and State: The Perspective of Constitutional Political Economy. *Journal of Institutional Economics* 1(1): 23–49.