**Preface**

This book aims to examine the links between capitalism and democracy in the context of globalization of third millennium human societies. Expresses the gaze of an economist trained in a systemic, multidimensional and dynamic vision of the social sciences. The interrelated historical-structural changes of capitalism and democracy can be framed fruitfully in this epistemological approach.

The critique of capitalism is the central focus of the argument. Capitalism is understood as a system of power and domination that has structured economic life and modelled the culture of Western societies for at least two hundred years.

The economic theorizing that has dominated the academic life of these societies -born with capitalism by the hand of Adam Smith- was focused on the study of self-regulatory capacity of markets to allocate productive resources efficiently; expresses the values of liberalism that has prevailed as an economic and political worldview. The epistemology of social sciences that, since then, has triumphed in the West has a consistent distinctive feature: parcelling of social reality in order to study it through different disciplines. This fragmentation of scientific outlooks has favoured self-regulation of markets and installed the drive for profit as counsellor of economic life. The success of this economic system that has conquered the world lies in its ability to increase the productive power of human labour and in this way to nourish the hope of prosperity supported by market mechanisms.

However the historical evidence shows that social inequality, human exploitation and environmental depredation are scourges that seem inherent in the functioning of the economic system. Also the tremendous productive power developed by capitalist techniques has changed the meaning of war between nations, leading to massacres and genocides in the twentieth century; by its magnitude; they are unprecedented in the history of mankind.

This book raises the need to change the epistemological and ideological focus of the topic under analysis, breaking disciplinary compartmentalization in order to jointly studying the evolution of the economic, political and cultural systems of contemporary Western societies. An ideological feature of the study of the links between political system and economic system in the West has been the opposition between the notions of State and market. The two extreme positions have been, on the one hand, the Manchesterian liberalism of the nineteenth century, defender of a minimal State and promoter of the virtues of the free market, and on the other hand, the communist movements that culminated in the Russian Revolution and the establishment of the Soviet Union. During the twentieth century, the first of these ideological trends based on the self-regulating virtues of the market collapsed with the crisis of the thirties, and the second fell by the failures of the Soviet regime, the inefficiencies of its mechanisms of State management and contempt for the civil rights and liberties

Since the late twentieth century until today (2012) we have witnessed the return of market fundamentalism from the hand of mega transnational corporations. The proposed approach in this book is to study critically the framework of the capitalism-democracy relationship, historically located in this global era.

Based on the rather abstract and timeless dichotomy between State and market, this study chooses to deepen the theoretical and historical links between democratic State and capitalist market, which are the proper structural parameters of Western societies where we live. Secondly this page with maximum determination attacks the dogma of self-regulation of the markets, barricaded in a false concept of economic freedom which stigmatizes the State as the symbol of all the inefficiency and authoritarianism.

The fundamentalist preaching in favour of self-regulation of markets and companies fits into a theoretical and ideological discourse that attempts to minimize the influence of the State, and, if it is possible, to dispense completely of it. In fact, as this is absurd and impossible the struggle for refusing protection of the State is covering an effort to colonize or dominate its institutions to put them in the service of corporate transnational power. As corporate capitalism cannot dispense of the State regulations, it presses to make these regulations to be favorable to suit their purposes. The mechanism of lobbying (lobby) operates in parliaments with procedures bordering on bribery or other forms of corruption.

That is precisely the historical picture that today we are already witnessing not only in the peripheral regions but also in major hegemonic powers of the Western world. The current recessionary crisis that began almost five years ago demonstrates the growing subordination of government to the interests and policies of large corporations of global capitalism..

The central point that systemic and institutional social science approach highlights, is that capitalist markets require democratic States to assign economic resources not only effectively but also with justice. The values that are supported through the capitalist market reflect an instrumental rationality and microeconomic profit, while the values that sustain the democratic State (in some of its possible versions) through aims to reflect a moral rationality aimed at promoting human development, by meeting the needs and promoting the freedoms that make it possible.

The study of the profit motive is a core wire conductor of the dynamics of capitalism. Profit is the goal and *raison d'etre* of money used as capital. Buy to sell, and accumulate profit through the market is its magic formula.

In the origins of Western civilization Aristotle sounded the alarm to distinguish between natural or necessary chrematistic aimed at procuring use values, and profit-oriented chrematistic oriented to increase the amount of money controlled by professional traders.

The most gravitating entities that profit and accumulate in the XXI century are no longer natural persons but large corporations that have subordinated the causally macroeconomic notion of output growth, and the microeconomic notion of accumulation of lucrative capital. If companies make profits and expand the total product, macroeconomic aggregation of these results is considered the main synthetic indicator of growth, even if this growth blasts the environment or is distributed unfairly and regressively. Vaguely it tends to identify the average measure of social progress and human development.

The most gravitating entities that are profiting and are promoting capital accumulation in the XXI century are not, any longer, natural persons but large corporations that have causally subordinated the macroeconomic notion of output growth, to the microeconomic notion of accumulation of lucrative capital. If companies make profits and they manage to expand the total product, the macroeconomic aggregation of these results is considered the main synthetic indicator of growth, even if this growth is deteriorating the environment or is distributed unfairly and regressively. In a vague and inaccurate manner these trends are identified with the average measure of social progress and human development.

The company looks for capitalist profit as a mechanism to expand its private power, but from the point of view of the democratic State, profit should be understood as a signal capable of directing the productive enterprises in certain directions. This reading of the social significance of profit is essential to understanding the links between capitalist markets and democratic States. However, the issue has not been studied, precisely by the reciprocal compartmentalisation between economics and political science and the recalcitrant rejection of orthodox market in front of any attempt to steer or regulate the social use of corporate profit.

Capitalist companies make private use of profit for their own strategic purposes, while society as a whole benefits only to the extent that enterprises generate more lucrative goods and services required for the common good.

The political system is the main alternative source of power capable of channelling macroeconomic profits and making them serve socially legitimate human ends. But the political system cannot override or subrogate the functions of economic power exerted through the markets. The macroeconomic profit is understood as a measure of the available surplus in capitalist societies for the promotion of new productive enterprises. It is responsibility of the democratic societies through the political system to guide the social uses of the surplus (Prebisch 1981).

Socially the democratic State can steer the fate of the surplus (profit) of businesses, both through the market (public companies), or from outside the market using its regulatory and fiscal powers. The welfare states of Western Europe did it in the post-war period (to some extent, at least), with expansions of the social product which reached unprecedented levels in equity and dynamism.

However in the last two decades of the twentieth century, mega-corporations aided by emerging, rapidly globalized information technologies are spreading at world scale their production chains and value systems. Since then national democratic States have been losing much of their control over the overall surplus (profit) of transnational corporations and their investment decisions.

It should be understood that corporations such as these lack moral rationality because they are not human beings even if they have legal personality, possess property, and exercises contractual power. They are organizations that operate as artefacts or social mechanisms prepared for profit and accumulate, and can only be channelled through regulatory and fiscal mechanisms.

When these mechanisms are absent or governments lack the power to impose them, then emerges the evil face of capitalism: profiteering with drug trafficking, trafficking in women, children and undocumented migrants, arms trafficking, environmental degradation, etc.

Is function of democratic governments reorient the corporate surplus (profit) towards public goods that meet basic societal needs of the population (clean energy, consumable water, food, education, care of children, generation of decent jobs, international cooperation with the poorest and most oppressed nations, etc.).

There are currently two essential data to understand the modus operandi of the XXI century neoliberalism: First, monetary and financial instruments have been globalized and have become independents of any democratic control. And second the regulatory functions of the democratic state and its fiscal policies, as used during the Keynesian era, have been supplanted by the dogma of the self-regulation of markets and the prevalence of monetary policies

This radically reduced the power of governments to develop public policies. The neoliberal strategy to maintain fiscal balances was to reduce costs and not increase the tax burden. The neoliberal monetarist recipe for stimulating the economic growth is to maintain low interest rates and relax controls on private investment banking, which favours real estate speculation throughout the developed world. That was how the mortgage crisis in the United States began. The collapse of the great American banking system (with conspiratorial tolerance from its government which had provoked the crisis), has spread to all developed western states, and governments had to assume deficit and debt positions to rescue private banks.

In this way the macroeconomic vicious circle that was generated is dangerously eroding the economies of Europe. The recessive process unleashed aggravates fiscal deficits. Since the European Central Bank expressed reluctance to buy government debt, private speculators took over the business, inducing fluctuations in risk premiums that produce high profits to them. To this purpose they are responsible for generating alarmist rumours about the solvency of the countries that are victims of these speculative attacks. They make use for this purpose of risk rating agencies, and some media. Thus the public alarm, deliberately promoted, favours the application of speculative mechanisms that exacerbate financial instability of European countries.

In the United States, still the hegemonic centre of world capitalism, the 2008 crisis gave place to new monetary policies. The US central bank also not lends money directly to the government (does not purchase treasuries) and the treasury department (finance ministry) does not increase the tax burden or generate public spending to stimulate growth. As an alternative to these more traditional of Keynesian policies, the Federal Reserve (Central Bank) implements a policy of quantitative easing (quantitative easing) by transferring money to the big private banks in exchange for financial assets of all types possessed by this. Said more directly, the central bank serves the rescue of the big private banks increase in their reserves and maintaining minimum interest rates. As despite this facility, the private banking does not increase its loans to the productive sector, the result of these behaviours is to promote a global stock market bubble, which strengthens the position of speculators, and ultimately harms economic, cultural rights and social life of "ordinary citizens".

As the policy of the European Central Bank is even more restrictive than the Federal Reserve, and in the case of the EU still lack a fiscal union, the speculative mechanisms have emerged with increased virulence creating a vicious circle of economic recession, social crisis, and political turbulence.

In particular, the European macroeconomic vicious circle is that, first the current recession aggravates the fiscal deficit; Second, neoliberal policies aim to close this gap by reducing public spending and selling treasury bonds to private investors; Third, the reduction of public spending depresses aggregate demand; fourth, depression of aggregate demand aggravates the recession; and finally, the biggest recession aggravates the fiscal deficit, restarting in this way the depressive cycle and European economies sinking into a fast debt.

The likely outcome of this downward spiral resembles the growth of cancer cells in a healthy body. The proliferation of these cells ends up producing the death of the body but the cancerous tissues also die. That is the Pyrrhic victory driven by the markets trying to control public policy of states, and the "socializing" of losses charged to the destruction of the welfare State.

The crisis generated by financial capital, first became in an economic crisis (recession), then a social crisis (unemployment and poverty) to actually lead to a political crisis. Consequently an adequate assessment of the current situation requires a systemic analysis that includes all dimensions of the crisis that has by no means ended. It also requires recognition of the priority of the political sphere over the economic sphere, or, said more precisely a priority of democratic states over capitalist markets.

To overcome this perverse financial picture, a form of subordinating the private purposes of capitalism to the public purposes of democracy, is on the one hand, toughen social control over corporations (especially the banking sector and financial transnational) and on the other hand, stimulate profitable productive enterprises of goods and services that meet the basic needs of the majority of citizens with priority over preferences, desires and / or individual whims of minorities with distributive privileges. The first element of this strategy means a strengthening of the regulatory power of democratic States in the economic sphere, and, the second, the development of strategies and public policies aimed at promoting distributive justice, and technical progress environmentally responsible.

This diagnosis, brief and superficial of the current global crisis is an example of the dialectic struggle between capitalism and democracy where both subsystems (as history proves) in long-term not only are opposites but also compliment each other. Overcoming contradictions bypasses the removal of any of them, but by a synthesis that exceeds their fundamental contradictions. The alternative raised here is that of subordinating the institutions of capitalism to the institutions of democracy. The democratization of associated culture with the spread of information technology can support these options.

The notions of system and institution are a fundamental epistemic framework on the reflections that follows, but the systemic approach adopted here puts human beings at the centre of the historical process. It is they who can articulate and give full meaning to the social systems and institutions.

It should finally, explain in more detail the systemic and institutional features of the vision proposed here.

A system is conceived here as a complex object whose components are joined together by relatively stable and interdependent links that constitute its structure. It could be abstract, as a scientific theory, or as concrete as the universe we inhabit. Specific systems have a physical basis and are inherently dynamic. A human society can be seen as a particular social system, whose components are composed of human beings or human beings associations (Mario Bunge 1999).

We can choose four main subsystems in every human society that keep one correspondence with four dimensions present in every human being. The typically human dimensions, that Aristotle (1995) highlighted are on the one hand, the rational animal, and on the other hand, the socio-political animal (zoon politikon).

According to the correspondence suggested between the human dimensions and the basic social subsystems, humans can alternatively be studied as : a) gregarious animals (interacting in biological and environmental subsystems), b) instrumentally rationals ( capable of possess, of producing and exchange instruments, generating economic subsystems), c) morally rationals (capable to generate ethical codes and subtle languages that allow us to build information, communication and knowledge in the field of cultural subsystems), and d) from a sociopolitical angle (we subordinate to regulatory powers build collectively through political subsystems)

Social relations are here conceived as human interactions based on reciprocal behavioural expectations arising from the existence of institutions. Institutions are technical rules (instrument-person relationship) or social (person-person relationship) internalized in the actual behaviour of the actors. The positions occupied by social actors in institutions determine decisive degree of freedom and the power they wield. The theoretical streams of Institutionalism from North America and from historical structuralism have contributed significantly to develop this notion of power institutionalized or structured.

The political subsystem will be interpreted as the generator of formal institutions that fix the regulatory structure; and the cultural subsystem could be understood as the generator of the informal regulatory structure of all human society. The position of the social actors in institutional structures is the foundation of power (or powerlessness) which they reveal in their social relationships.

Institutions structure social life, and are multidimensional. They may be cultural (such as language), economic (such as production techniques or forms of ownership), political (such as rights and duties of citizens), or biological-environmental (such as standards in the practice of human reproduction).

We must distinguish between the notion of institutions and the notion of organizations (North 1993). The objectives of the organizations and associations are also multidimensional: can be economic (and companies), or political (as in government offices), or cultural (such as schools or churches), or socio- biological (such as hospitals).

Under this systemic and institutional vision the book is organized as follows.

The first part is supported on one side on the notion of power, and on the other side on the Aristotelian notions of justice in order to scrutinize the main features of the relationship between capitalism and democracy. It emphasizes, moreover, that capitalism and democracy on theoretical terms can be studied as pure types, or in an alternative manner, as dynamic subsystems, interdependent historically interrelated.

The second part examines on a schematic manner the themes (in current debates on political philosophy) that characterize liberal democracy that was originated in modernity. On the other hand it aims to sketch the ideal of a comprehensive democracy that is multidimensional and collect the republican heritage of classical Greco-Roman roots about justice (virtue practiced towards others). Within this same part, are examined the basis and philosophical theories of value of different scientific currents in economics devoted to the study of capitalism. The aim of this part is to open spaces for debate between political philosophy and economic philosophy regarding the links between capitalism and democracy.

The third part presents what might be called an "Aristotelian" theory of power and domination. Also it proposes a retranslation of the four causes (or four explanatory strategies) of Aristotle to contemporary language of causality and of systems under the version of Argentine philosopher Mario Bunge.

Follows from there an itinerary which, starting from the Aristotelian economic philosophy, passes through the visions of Hegel and Marx, to reformist and pragmatic approaches of Keynes. Again it is an invitation to reopen the debate on economic philosophy.

The fourth part deals with the academically hegemonic western economic theory, and highlights the underlying ideology of neoclassical general equilibrium models; examines its simplifying assumptions, and characterizes them as instruments of legitimation of capitalist self-regulated markets.

The fifth, starting from the founding fathers of classical economics, explores schematically and descriptively, the role that in some theoretical proposals (outside the neoclassic theory), played the notions of power and domination. Classics and Marx explored the asymmetric power of social classes; Veblen and Commons the asymmetrical power of institutions; Keynes the asymmetrical power of aggregate demand; Schumpeter the destabilizing power of the innovative entrepreneur; Galbraith the asymmetrical power of the technostructure; Myrdal the asymmetrical power amplified by the accumulative causations.

In the sixth and final part is introduced a personal (probably heterodox) interpretation of Latin American historical structuralism and its systemic basis strongly associated with the notions of power and distributive justice. In this context the impacts of globalization in Latin America are raised, and the current validity of the centre-periphery vision. Finally, some strategies based on a strengthening of democracy and multidimensional integration of nations at Latin American scale are suggested.

Almost all chapters are based on drafts and notes corresponding to different lectures that have been dictated in academic centres of Latin America, the United States (Stanford) and Europe (Universities of Barcelona and Paris). Some sections have used arguments and reflections from essays and articles written during my long tenure as a researcher and consultant at the Economic Commission for Latin America (ECLA) and the Latin American and Caribbean Institute for Economic and Social Planning (ILPES) or, in occasional consultancies practiced in other organizations such as the United Nations Development Programme (UNDP), the World Trade Organization (WTO) or the United Nations Conference for Trade and Development (UNCTAD).

When a chapter maintains in a high degree the contents of the original, and it was published somewhere, I mention in a footnote the name of the publication in question, but in most cases it simply are class notes of my own authorship that have been deeply reformulated. Finally I hope that this reformulation of these notes will remain useful to my students that, constantly, are motivating and stimulating my intellectual life.