

**BRATISLAVA INTERNATIONAL SCHOOL OF LIBERAL ARTS**

# **Democratic State in the Era of Supercapitalism**

**BACHELOR THESIS**

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# **Democratic State in the Era of Supercapitalism**

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**Nikola Revická**

## **Declaration of Originality**

I hereby declare that the bachelor thesis was entirely my own work, with the help of my tutor and I have identified sources and citations that are used in the text properly. All the sources that are used can be found in Bibliography, which is attached at the end of this work.

Bratislava, 30 April 2013

.....  
Nikola Revická

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## Názov: Demokratický štát v ére superkapitalizmu

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### Abstrakt

**Kľúčové slová:** demokracia, post-demokracia, superkapitalizmus, finančný kapitalizmus, globalizácia, štát, demokratický proces rozhodovania, Goldman Sachs, lobing.

Táto bakalárska práca sa venuje relevancii používania termínu demokracia v časoch, kedy kapitalizmus rastie do globálnych rozmerov a nadobúda schopnosti, ktorými vie ovplyvňovať chod aj štátnych politik (kvôli týmto novým črtám kapitalizmu práca používa termín *superkapitalizmus*). Demokratický spôsob rozhodovania je do značnej miery oslabený vplyvom nadnárodných korporácií na politickú sféru. Tento vplyv sa prejavuje lobingom, účasťou korporácií vo vládných inštitúciách, sponzorovaním politických kampaní alebo aj spravovaním inštitúcií verejného sektora. Tieto spôsoby neznačia zánik demokratického štátu, aj keď jeho funkcie sa do značnej miery menia pod vplyvom superkapitalizmu. Práca preto navrhuje používať termín post-demokracia a pozerá sa bližšie na úlohu (post)demokratického štátu.

Práca využíva už dva spomínané teoretické koncepty – superkapitalizmus a post-demokracia. Relevancia týchto konceptov je testovaná na príspevkoch Petra Evansa, ktorý argumentuje, že úpadok štátu nie je pravdepodobný a Michaela Goodharta, ktorý navrhuje spôsob, akým by sme mali nazerať na vplyvy globalizácie na štát a demokraciu. Záverečná časť sa venuje prípadu americkej investičnej banky Goldman Sachs, ktorá otestuje relevanciu post-demokracie a superkapitalizmu v praxi.

Revická: Democratic State in the Era of Supercapitalism

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## Abstract

**Key words:** democracy, post-democracy, supercapitalism, finance capitalism, globalization, state, democratic decision-making, Goldman Sachs, lobbying.

The thesis investigates the relevance of using the term democracy in times of capitalism growing to the global extent and gaining enough power to influence also the state-level policy making (because of these new features of capitalism, the paper uses the term *supercapitalism*). Democratic decision-making is weakened by the multinational corporations' interference in the political sphere while using lobbying, by presence in the governmental institutions, by financing political campaigns or by managing the public sector institutions. However, this does not imply the disappearance of democratic state, even though its functions might change under the influence of supercapitalism. Therefore the thesis argues that it is more useful to talk about post-democracy and looks closer to the role of (post)democratic state.

As suggested above, the paper introduces the concepts of supercapitalism and post-democracy. The relevance of these concepts is tested on the contributions of Peter Evans, arguing that the eclipse of the state is not likely to happen, and of Michael Goodhart, suggesting the way how we should investigate the globalization's impact on state and democracy. The last part presents Goldman Sachs, the American investment bank, which examines the concepts of supercapitalism and post-democracy in real life.

## Preface

The development of capitalism and democracy seemed to go along, as one was giving the preconditions of the other one, even though their goals were different – the goal of capitalism is profit and of democracy it is democracy itself. At some point, these two started to depart and as Milton Friedman suggests, the separation of political and economic freedom implies that one has the power to offset the other. Eventually, capitalism is growing to a global extent, while democracy has difficulties with growing above the national level. The influence of globalization on the policy-making is a current issue. The thesis primarily looks to the role of democratic state in times of supercapitalism, when democratic decision-making is weakened by the growing influence of the transnational corporations on the policy-making.

The reason for choosing this topic was the observation that the social security of the citizens is nowadays weak, while the options we have as the consumers are way above our needs. At the same time, there is this feeling that what we, as the citizens, value in common disappears and so do our capabilities diminish (maybe because the attention is paid to other domains, as for example to the social security which is actually reflecting the way *we* secure *ourselves*, rather not relying on state's support).

The paper introduces two concepts – supercapitalism and post-democracy. For the examination of the relevance of these concepts the evaluation method is used. The concepts are tested on the American investment bank Goldman Sachs and for this purpose the case study research method is applied. The thesis is also working with the analytical method.

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## Content

<b>Declaration of Originality .....</b>	<b>ii</b>
<b>Acknowledgement .....</b>	<b>iii</b>
<b>Abstrakt .....</b>	<b>iv</b>
<b>Abstract.....</b>	<b>v</b>
<b>Preface.....</b>	<b>vi</b>
<b>Content.....</b>	<b>vii</b>
<b>Introduction.....</b>	<b>9</b>
<b>Politics and Economics .....</b>	<b>10</b>
1.1 Why Does State Need Corporation? .....	10
1.2 Why Does Corporation Need State? .....	11
1.3 Capitalism and Democracy .....	12
<b>Introduction to the Theoretical Concepts.....</b>	<b>14</b>
2.1 Finance Capitalism.....	14
2.1.1 Top Ten Companies Ruling The World .....	15
2.2 Democracy .....	15
2.3 Supercapitalism .....	16
2.3.1 Democratic Capitalism .....	17
2.3.2 SUPER capitalism .....	17
<b>Democratic State and Globalization.....</b>	<b>20</b>
3.1 Peter B. Evans .....	20
3.2 Michael Goodhart.....	22
3.2.1 Implications of Evans' contribution .....	27
3.2.2 Post-Democracy.....	28
<b>Case Study: Goldman Sachs .....</b>	<b>31</b>
4.1 The Early Times of the Goldman Sachs.....	31
4.2 Goldman Sachs Illustrating Post-Democracy and Supercapitalism.....	32
4.2.1 Glass-Steagall Act (1933).....	32
4.2.2 The Repeal of the Glass-Steagall Act.....	33
4.2.3 Goldman Sachs and the Financial Crisis 2008 .....	34
4.2.4 The Troubled Asset Relief Program .....	36
<b>Conclusion .....</b>	<b>39</b>

5.1 Relevance of Using the Term Post-Democracy in The Era of Supercapitalism	39
5.2 Implications .....	41
5.2.1 Supercapitalism .....	41
5.2.2 Post-Democracy.....	42
<b>Resumé .....</b>	<b>43</b>
<b>References .....</b>	<b>45</b>

## Introduction

The conditions of the international market enabled capitalism grow to a global extent. In the past, capitalism and democracy used to develop along but it is highly disputable whether it can be true also nowadays, when the growth of capitalism has a remarkable effect on democracy. The last financial crisis in 2008 triggers many debates on the future of capitalism and they are usually ended with the question marks, as the reckless behavior on the financial market resulted in governments massive pouring of the money into financial systems. The purpose of the paper is to investigate the role of democratic state in times of so called ‘supercapitalism’, term introduced by Robert Reich, and to find out whether we can still talk about democracy. The paper argues that democratic decision-making is weakened by the growing power of the multinational corporations and financial institutions to a large extent. Therefore the role of democratic state in the era of supercapitalism is under dispute. The thesis pays attention to the main impacts of supercapitalism on democratic state, the compatibility of these two and therefore looks closer to the relevance of using the term “democracy” in times when the balance between these two disappears.

The methods used for these purposes are the case study research method, the analytical method and the method of evaluation, for examining new concepts and theories examined in the paper.

The first part is paying attention to the relation of the politics and economics and asks which one of these comes first. The second chapter presents and explains the concepts with which the thesis is operating, namely: democracy, finance capitalism and supercapitalism. The third chapter is looking closer to the position of a state in globalization and to the problem of looking at globalization and its relation to democracy. The discussion is using the arguments of Peter Evans and of Michael Goodhart. The following part introduces the case of the American investment bank Goldman Sachs and describes the key actions taken by the corporation which had a significant influence on the society not only in the USA. In this section, the concepts of supercapitalism, post-democracy and the arguments of Evans and Goodhart are applied and examined, and the relevance of these are tested.

## Politics and Economics

“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.”

Milton Friedman, *Capitalism and Freedom* (1962)

Democracy and capitalism are closely interconnected; it means that in case that one changes it necessarily influences the other one. Democracy is under constant pressure as the capitalist market grows above the national level and globalizes. Even though the essential characteristics of capitalism do not change, as it grows to the global extent and as it necessarily has to cooperate with the state-based institutions, it influences democracy to a remarkable extent. As the companies grow and become corporations, their influence on the society as a whole grows too - they provide citizens with jobs, consumers with goods and services, and consequently the way the market works creates disparity between poor and wealthy. Eventually, market is influencing policy-making by creating new conditions and circumstances with which a state is concerned and with which it has to cope (social security and aid, pensions, protection of rights...). It seems like we moved away from a democratic state of old days as global market has become a determinant of the state's position both within and outside the country. What is the role of democratic state which is working in the world where the economy is growing to a global level? Is democratic state democratic if it is constantly being influenced by the globalized market? These are the questions which the thesis tries to answer.

### 1.1 Why Does State Need Corporation?

The close relation of corporations (or financial institutions) and of political power is not balanced anymore: the case of a country restricting the proper functioning of a company might end up in withdrawal of the company from the country which does

not create the “appropriate” conditions for it to operate. This might be one of the causes of a higher unemployment affecting the social policy of the country, so the country *has* to create and to maintain the appropriate conditions for the multinational corporation to function. The situation like this one is one of the indications that the multinational corporations and financial institutions, if powerful enough, can dictate the rules of game. This might be the result of the countries becoming dependent on the corporations which are providing jobs, products and services and tax revenues, and therefore they are necessarily participating in the social stability (through employing *citizens* and providing *consumers* with the accessible goods and services).

## 1.2 Why Does Corporation Need State?

The corporations and the large companies seek the means to pursue their interests, and one of the most important one is to have an access to the policy-making in order to keep their position on the market and to make profit. The state is responsible for business environment which might be business friendly or hostile. Companies prefer low taxes, stable legal environment, underregulation and possibly subsidies and market protection. Eventually, it is in their interest to adjust the rules of game for more appropriate conditions to operate. The corporations can get access to the policy-making by the presence in the governmental institutions, by managing the public sector institutions, by financing the political campaigns or via lobbying. It is in the interest of the political officials to have their campaigns financed and by the corporations sponsoring them; they get closer to the decision-making process. The example of this is can be the American investment bank ‘Goldman Sachs’, especially by presence in the U.S. government consequently influencing the American policy making. By the presence in government a corporation can assert its interests directly. Consequently, democratic decision-making is weakened and therefore democratic country is in this case only an illusion, as citizens have only a little or no power to influence that. Even if they could have a word in that, state’s dependence on market is undeniable and it would be argued that it is happening for a well-being of a country.

The other very important aspect of how is corporation dependent on state is on what values the political system is based. Development of the liberal democracy is an example of this. It is based on recognition of individual rights and freedoms where the decision-making process is democratic (taken directly or by democratically elected representatives). Liberal democracy gave birth to economic liberalism by admitting economic rights and freedoms. Thanks to liberal democracy, capitalism could grow and flourish also above the national level (to the global extent, as we experience nowadays).

### 1.3 Capitalism and Democracy

Capitalism and democracy have developed along and one was giving the preconditions to another one. More specifically, the political and civil rights became adopted and tolerated since the end of the eighteenth century and later on (officially after the Second World War) were followed by the acceptance of the economic, social and cultural rights (The Social Justice Committee). However, this would not be enough for a capitalist market to grow and to develop to the international extent and to create a place where strong multinational corporations can work – economic liberalization, as a contrast to protectionism, enabled it to grow to a global level. The liberal democracy wave came from the USA which was a country without an aristocratic parentage. For that reason the individual rights were easier to demand and assert there. One of the most important features of the liberal democracy is a general electoral participation of the citizens having access and a word in the policy forming. Colin Crouch, a British professor of governance and public management, claims that we cannot talk about the democracy of old days because the mutual journey of democracy and capitalism reached the level from which these two are departing and consequently cannot cooperate as they did in the past. The reason of that, according to Crouch, are different goals of these two. (Crouch, Colin Crouch - Post-Democracy, 2009)

As André Gorz says “...the goal of capitalist production can only be the growth of capital itself...” (Gorz, 1973) . For democracy, in its very meaning “the rule of people”, the goal is to have a government representing the demands of common

people and therefore the goal is democracy itself. As mentioned in the section *Why Does Corporation Need State?*, democratic policy making can be broken by the influential corporation getting access to the ruling organs and directly asserting its demands. As the following chapter will illustrate – it seems that the balance between people as consumers and as citizens is broken. Based on these observations it can be assumed that the economics goes before democratic politics and from this can be derived the unbalance between those two. The answer to how is capitalism of today different from the one which went along with democracy will be given in the following chapter.

## Introduction to the Theoretical Concepts

The purpose of this section is to introduce the main theoretical concepts used in the thesis and to clarify their meanings within the framework of the paper for the further understanding of the analyzed phenomenon.

### 2.1 Finance Capitalism

As M.L. Lachmann explains, the roots and the development of finance capitalism are in the shift “of the entrepreneurial function into the hands of ‘financiers’, investment bankers, i.e. intermediaries of the capital market, specialists in directing capital flows” (Lachmann, 1944). In other words, finance capitalism is a stage of capitalism characterized by finance institutions taking over the role of industrial capitalists, performing the economic domination and controlling the industry. *Industrial capitalism* can be said to be a predecessor of finance capitalism, in which the industry was controlled mainly by the private sphere dominating the production.

The aspects contributing to the creation of finance capitalism can be:

- The liberalization and globalization of the financial markets
- Deregulation of the finance sector (one of the examples is the repeal of the Glass Steagall Act initiated during the Clinton’s cabinet which is related to the interests of Goldman Sachs<sup>1</sup>)
- Financial innovations (new financial derivatives, new financial operations – securitization, short-selling, betting...)
- Preferential taxation (low taxation of capital gains, zero taxation of financial transactions, tax havens...)

Martin Wolf, a columnist in the Financial Times, identified main characteristics of finance capitalism:

1. The explosion of the financial sector
2. The shift from commercial to investment banking
3. The birth of new financial products and operations
4. The birth of new financial “players”

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<sup>1</sup> The repeal of the Glass Steagall Act is discussed in the fourth chapter.

## 5. The globalization and the speed of the market

### 2.1.1 Top Ten Companies Ruling The World

There are ongoing discussions supposing that the new born financial institutions are ruling the world. The Swiss researchers identified the *super-entity* consisting of the core institutions to which the biggest share of control is flowing. They came to their results by architecting “the international ownership network” together with calculating the control which each global player indeed has (Vitali, Glattfelder, & Battiston, 2011). The result of the research says that 19,45 % of the global financial network is controlled by top 10 companies and almost 40 % is controlled by the top 50 firms. The researchers also explain that the result itself is not surprising but what actually is, is that the top companies are cooperating: “the interest of this ranking is not that it exposes unsuspected powerful players. Instead, it shows that many of the top actors belong to the core. This means that they do not carry out their business in isolation but, on the contrary, they are tied together in an extremely entangled web of control,” (Vitali, Glattfelder, & Battiston, 2011).

The same research of the Swiss Federal Institute of Technology points out that out of the 147 top interconnected corporations almost all of the top 50 companies are representing the financial sector (Vitali, Glattfelder, & Battiston, 2011). This is one of the evidences proving the power of finance capitalism, where the control over the market was dominated by the financial institutions. For that reason, the thesis takes an example of the American investment bank Goldman Sachs, of which the influence on the policy-making is undeniable, as the paper shows.

## 2.2 Democracy

The word democracy comes from two greek words: *demos* meaning people and *kratein* meaning to rule, therefore what democracy literally means is the rule of the people or a majority rule. Joseph Schumpeter says that in the eighteenth-century philosophy, democracy was defined as “the institutional arrangement for arriving at political decisions which realizes the common good by making the people itself

decide issues through the election of individuals who are to assemble in order to carry out its will” (Schumpeter, 2003). In this understanding, the main goal of democracy is the common good which is to be wished by everyone what assumes that it is generally known what the common good is. This kind of the rule of the people, according to the definition, seems to be the most “democratic” possible. However, people are engaged with their well-being and therefore they *cannot* assemble with all the other fellow citizens to solve *every single* issue which needs to be solved. The promoters of democracy assume that people know what the common good is and conclude that they will choose the right representatives who will represent their opinions and interests. For decisions of a high importance there are other instruments how to involve everyone in deciding – by referendum and by petitions (Schumpeter, 2003).

What is actually disputable about this is the notion of knowing, or having the sense of knowing, what the common good is. At the same time, the assumption that whole society is able to agree on the means for achieving the common good, seem to be rather naïve than realistic. The same is for the elected representatives who might very likely have different notions of the common good and might use different rational arguments for asserting their understandings. Based on these difficulties with the classical definition of democracy, Schumpeter puts another one: “...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, 2003). This simple definition depicts democracy as a way of choosing government and therefore is universally applicable to the democracies of all kind, also of those of which the only common feature is the form of election.

### **2.3 Supercapitalism**

Supercapitalism is a term introduced by Robert Reich, an economist and a Public Policy professor who is also a prolific author. The concept of supercapitalism mostly deals with the changes both on the market and in the governments. In order to define what he understands by that it is important to look back to what he sees as a predecessor of it.

### 2.3.1 Democratic Capitalism

After the Second World War in the USA, democracy and the capitalist market were working very well together what led to both prosperity and to the extension of what we call democracy nowadays (suffrage became universal, the market became more responsive to the individual demands...). The main features of this period are the slow innovation and the stability of the market, although the market offered much more than ever before. Reich brought the example of the three big automobile makers – Ford, Chevrolet and Plymouths, who were the leaders in the car industry. Eventually they enjoyed their leading position on the market and wanted to preserve it. For that purpose the stability of the market was inevitable and consequently the corporations wanted to avoid any stoppages of the process. The strategy of “minding the people” (meaning guaranteeing them jobs, a higher share of profit) required negotiations with the government to care more about the blue collars<sup>2</sup>. From this point of view, it makes sense why Reich talks about this kind of capitalism as of a democratic one, even though the market was not so dynamic and the competition was not that challenging as it is nowadays. This reflected a relatively stable situation in the civic life as well – guaranteed jobs and a higher share of profit made *citizens* feel much surer about their lives and they did not have to worry about their future, as they do today. However, from the perspective of a *consumer* the market was not responsive to the demands enough (slow innovation). The same is true for the investors who had difficulties with finding beneficial deals and so their role on the market was relatively passive (Reich, 2008). However, it was democratic enough in the sense of regarding people as citizens and effectively responding to their needs and taking care of them.

### 2.3.2 SUPER capitalism

According to Robert Reich, this changed completely in the 1970's. The situation on the market has become different, as the companies have started to expand to the global extent. Competition among them has become much more intense and consequently the innovation was necessary if one wanted to keep his position on the market. From this point on, democracy and capitalism seem to be departing, as the market became more indifferent to people as to the employees and more concerned

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<sup>2</sup> Manually working laborers

about the profit determining companies' success. People as *consumers* and investors are doing much better in supercapitalism, as there are low prices, better deals, higher range of choice... (Reich, 2008). However, this is not true for people as *citizens* – neither a state nor a company could guarantee a long-term employment. Consequently the social security is much weaker than it was during democratic capitalism where the working labour was appreciated more. In supercapitalism, any stoppage can be quickly overcome and any employee can be replaced. It is true that if a citizen is concerned with his employment and does as much as he can for keeping his position and concentrates on preserving or improving his living standard, he is losing interest in politics as a consequence. This might be the result of a decaying democracy overwhelmed by supercapitalism, where the citizens are losing interest in valuing what they shared in common and where the system is responding to their needs as of consumers much more (Reich, 2008).

In supercapitalism, the game is spilled over into the politics as well – as the politicians are trying to find sponsors for their campaigns in order to get into government. This is where the interests of the politicians and of the corporations meet – the large companies are trying to get an access to the policy making, what can guarantee better conditions for them to operate (Reich, 2008). This weakens democratic decision making and so the balance between democracy and capitalism disappears. When looking back to the Schumpeter's definition of democracy<sup>3</sup> understood as the way of freely choosing and admitting the political power, this does not have to be necessarily true in supercapitalism. Officials in supercapitalism might seem like acting according to the people's will; the reality is that they represent the interests of the companies whom they thank for being in a government (Reich, 2008).

One can observe that there are much more democratic countries than there were thirty years ago, however with the opening of the markets and the extension of supercapitalism to these countries as well, it is highly disputable whether these are really functioning democracies or they are so only on the paper. The constantly globalizing world brought these negative side effects of supercapitalism and no country found a solution how to cope with them so far (Reich, 2008). In this case, using the term democracy, within the context of a country where supercapitalism is

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<sup>3</sup> page 16 of the paper

growing, is obsolete. Therefore it is important to define the form of establishment within the framework of which supercapitalism works.

Even though we can say that supercapitalism has become much more responsive to our demands as of *consumers* and investors, the opposite is true about the responsiveness of democracy - to what we want and need as *citizens*. From this perspective it can be assumed that the growth of capitalism is having a remarkable influence on democracy which changes to a large extent. Reich proposes an idea how to fix democracy or more precisely how to cope with the negative side effects of supercapitalism. His viewpoint will be presented at the very end of the thesis.

## Democratic State and Globalization

As the multinational corporations are gaining enough power to adjust policy-making according to their preferences, the role of state in globalization becomes highly questionable. The goal of this chapter is to look closer to the relevance of democratic state whose role is influenced by globalization to a great extent.

For this purpose, the thesis is using the arguments of Peter B. Evans, a professor of International Studies at the University of California who is a political sociologist concentrating his work mainly on the comparative political economy of development and globalization, and of Michael Goodhart, an assistant professor of Political Science at the University of Pittsburg.

While Evans holds that the eclipse of the state is not likely to occur, even though it is influenced by globalization to a great extent, Goodhart on the other hand looks closer to *why* globalization affects democracy and explains how this phenomenon is being analyzed and what is to be done for a better understanding of globalization's effects to democracy and state. Goodhart's contribution serves also as a possible response to Evan's account.

### 3.1 Peter B. Evans

In Evans' article *The Eclipse of the State?* the main question is whether the logic of the current international economy is enough to predict "the eclipse of the state". Evans thinks of the argument that the economic development is getting more and more intensified and crosses the national boundaries and consequently undermines the power of the state, that it is "leaving the state marginalized as an economic actor" (Evans, 1997).

In modern times, commodities are created in multiple national territories through the cooperation and integration of the actors involved in the process. It is only up to the private actors to choose the territory they will operate in. States can try to attract them somehow, however, they cannot determine the way the global network structures work. Evans explains Fred Block's account on the "dictatorship of international financial markets" (Evans, 1997) as the financial market having enough power to punish a state conducting "unwise" policy. The private financial traders have the

capacity to punish the state as the currency of it declines and the state's access to capital diminishes too. Nevertheless, Evans does not think that this is a proof of a state losing its authority as well as refusing the state eclipse simply because the state's dependence on trade is larger. He uses East Asian states as the example where we can observe the way how the states were interfering in the international market and so they substantiated the importance of the role of a state in the international market. According to Evans, we cannot talk about *low stateness* in the globalized market, as there is no logic connection between the global order and low stateness (Evans, 1997). He presents a concrete case of Singapore, a country which is extremely dependent on the international trade and on the external investments. Evans explains that it cannot be said about Singapore that it is a country with a weak state power. On the contrary, it is a clear example of a country with a strong and powerful state bureaucracy, as it could build up a framework, infrastructure and rules which attract transnational corporations to operate in it (Evans, 1997, p. 70).

Evans in his article explains that globalization can be understood as uniting two contrary elements – *national sovereignty* (base principle of the interstate system) and *economic liberalism* (which assumes that desire of states to exercise their sovereignty in international business will be suppressed). In his account, the extreme case – a state trying its best to improve the economic conditions in its country - is risky. It is so because state cannot know where the limit is and such an active state might become an economic “pariah”. This is why this kind of an economic intervention is not desired but so is not its opposite – a state indifferent and free from responsibility of what economic action do its citizens pursue. Therefore a state should keep some balance between intervening and staying aside the economic action (Evans, 1997).

Evans disagrees that globalized market can and wishes to operate in a stateless world and argues that the transnational corporations need a certain level of predictability in a system where they are about to operate. To this system inevitably belongs a system of formal rules on which the market can rely. At the same time, global market needs some kind of international financial system with responsible fiscal and monetary policies. As mentioned above, market has the capacity to punish states in case of breaking the rules. For that purpose it is necessary to have “interstate system in which

the principal national economies are under the control of competent and ‘responsible’ state actors” (Evans, 1997, p. 72).

However, as Evans says, it has to be admitted that globalization makes it more difficult for states to initiate economic action.

Some of the scholars might argue that the state institutions are weakening as the civil society is getting more powerful because such a strong civil society can come out only from a weak state. According to them, the rise of a civil society is driven by frustration and oppression. Evans, on the other hand, argues that a strong civil society is dependent on an effective state which can respond to society’s demands. The emergence of a strong civil society therefore does not imply reduced role of the state. As he explains, there is a ‘state-society synergy’, meaning that for the civic association to be successful in society it is necessary to have an efficient state concerned.

Peter Evan suggests that what is recently happening is a *transformation* in global economic interactions which does not lead to a stateless world and therefore stateness does not disappear with a growing globalization. However, one of the direct influences of globalization is a strengthening capital/middle class which is becoming more influential in policy-making. It is not an implication of a weakened state but the opposite – a state which is capable and strong and, most importantly, is necessary for the existence of capitalist economic interaction as well as for the effective functioning of a civil society (Evans, 1997).

### 3.2 Michael Goodhart

Michael Goodhart takes a different position while looking at globalization. In the article *Democracy, Globalization, and the Problem of the State* he suggests to look at the problem of democracy and globalization by posing instead of the usual question - how does globalization affect democracy? (which emphasizes the problem of globalization) - a different one - *why* does globalization affect democracy? As he explains, concentration on the other formulation might help us avoid confusion of measuring globalization against some kind of a historical baseline. The answer to the question – how does globalization affect democracy? – is clear, and, in Goodhart’s

words, uninteresting. Democracy is affected by globalization's influence on the state. Instead, he urges us to investigate "why globalization's impact on state influences democracy as it does and why democracy should *in principle* be affected by this shift in social relations to levels above or outside the state" (Goodhart, 2001, p. 544).

Goodhart says that the most specific threats to democracy which are usually being analyzed are: "the loss of economic policy autonomy; the increased demand for policies to counter the effects of markets and of open trade, coupled with an increasing inability on the part of states to provide such a safety net; the erosion of sovereignty and the growing importance of various inter- national and supranational regulatory agencies and quasi-governmental organizations; the decline in living standards and in the realization of social and economic rights; and, the growing ability of corporate capital, especially of international financial capital and of TNCs, to elude government control and regulation" (Goodhart, 2001, p. 531).

Goodhart explains that this is simplified and it is a sign of a confusion of what these "effects" of globalization cause (because they are almost the same as the definitions of globalization itself). He argues that we should think of these "effects" as of *disjunctures* or as of *democratic deficits* (Goodhart, 2001).

David Held, a British political theorist, explains that the disjunctures emerge "between the idea of the state as in principle capable of determining its own future, and the world economy, international organization, regional and global institutions, international law, and military alliances which operate to shape and constrain the options of individual nation- state" (Held, 1995). This according to him means that the state-based political institutions are not in accordance with supranational politics; therefore disjunctures represent the result of this. More specifically, disjunctures are the fields in which states are not having political control because of the inadequacy and incompleteness of political power. This is, as Goodhart explains, important while taking democratic point of view – these disjunctures are the constraints of democratic policy-making because there is no reach from the side of the competences of democratic institutions (Goodhart, 2001).

Democratic deficits, are used in relation to the transnational corporations and to the intergovernmental agreements. These supranational actors are gaining still more

power to practice the competences, which are traditionally known as performed by government, and are carried out beyond or above the national level. The competences of such international actors are, due to globalization, still getting larger in number and the decisions of these organizations are influencing democratic order in the national level because these decision-makings are concerning citizens. At the same time, they are breaking “the democratic norms of transparency, accountability, and representation” (Goodhart, 2001). Therefore we are talking about democratic deficits as of a democratic deficiency of supranational bodies and of disjunctures as of shortcomings of state-based democratic organizations. Democratic deficits are usually used as a criticism of political bodies on the international level formed by globalization. On the other hand, those who are criticizing the incompleteness and inadequateness of state power are looking closer and emphasize the disjunctures (Goodhart, 2001).

Goodhart in his article explains two ways how the scholars propose to deal with disjunctures and democratic deficits – one is *state reinforcement* and the other is *cosmopolitan democracy*. For state reinforcement – meaning exactly what it says – the way how to restore state’s power and to preserve democracy is by strengthening and re-articulating democratic interests at the state level. The advocates of the state reinforcement call for “imposing capital controls; raising corporate and capital gains taxes (which is only economically feasible once capital controls have been re-instituted); using the revenues these taxes generate to restore and extend the guarantees of the welfare state; and, protecting high-wage manufacturing jobs through restrictions on “unfair” trade competition with low-wage, low-standards economies” (Goodhart, 2001, p. 532). David Held is a proponent of a cosmopolitan democracy as a democratic answer to globalization. He and his followers understand globalization as a “phenomenon”<sup>4</sup> which is here about to stay and so it is important to deal with the issues it brings up, as economic integration; environmental, political, economic, social, cultural problems. All these issues need to be solved by some common integrated structures, of which goal is at the same time to preserve democracy, at both global and regional levels. The purpose of these organizations is to solve the problems

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<sup>4</sup> The word phenomenon is in quotes because it is being usually spoken of globalization as of something new. However, international flows of good, services, people, capital, intergovernmental agreements and transnational cooperation, technological development – these all are the centuries old phenomena, therefore the changes which globalization brought are hardly something new (Petrella, 1996).

with disjunctures and democratic deficits by reforming them by spreading and strengthening democracy. This is to be done by subjecting governance to the democratic norms and to extend them to the global level. David Held sees this happening with agreeing on a cosmopolitan democratic constitution, while other advocates of this solution see hope in the development of an international civil society. This kind of society has a direct influence to the policy-making and it has a weight in a public discourse (Held, 1995).

There is this “conventional wisdom” about democracy matching up with the sovereign state which globalization upsets. It seems like this conventional wisdom is based upon two assumptions – one is spatial and the other is normative. The former assumption is resting on a conviction that state encompasses politics and therefore it contains democracy as well and so it is about the area where politics is conducted. Goodhart claims that globalization disproves this assumption because this shift in social relations and interactions demanding supranational coverage, are in need of the governance at the global level. This is like that because democratic institutions are not able to reach that kind of level and consequently democratic deficit occurs when non-democratic organizations (as transnational corporations, intergovernmental agreements, non-governmental organizations, etc.) are exercising their power in the area affected by disjunctures. It seems like the cosmopolitan democrats, claiming that what has to be done is the strengthening and extending the competences of democratic institutions to the global level, and consequently there will not be a space for creating disjunctures and democratic deficit which come out of disjunctures, would agree on spatial assumption (Goodhart, 2001).

Normative assumption, on the other hand, takes state as an inevitable vehicle for democracy, for granted. This assumption holds that democratic deficits are emerging everywhere the supranational governance takes places. This is so because of the problem with democratic legitimacy of governance – which can be democratic only on the state level. According to this presumption, the adherents of the state reinforcement seem to be right – and what is necessary to do is the encouragement of democracy on the level of the state (Goodhart, 2001).

Goodhart argues that both these attitudes are not adequate enough because they both disregard the interconnectedness of these two approaches. As he explains, democratic

governance at the supranational level is mainly a problem of legitimacy, which is understood to come out of “the rightful democratic political community [which] is the state and the state is the location or site of politics” (Goodhart, 2001, p. 545). Therefore the extension of democratic organizations cannot be done without knowing if and how does legitimacy of these institutions lie on the *political* institutions (based on which the institutions develop). Goodhart emphasizes that we cannot try to strengthen democratic organizations while we did not find out the source of their legitimacy, which is disputable (Goodhart, 2001).

While asking the question – why globalization affects democracy – it is, according to Goodhart’s analysis, important to investigate “the origin and significance of democracy’s relationship with sovereign state” (Goodhart, 2001, p. 546). In order to study democracy and globalization, it is substantial to look how democracy works within and through the sovereign state and also whether the relation between democracy and state is necessary and straightforwardly crucial for democracy. The second point Goodhart is emphasizing is adopting a critical position toward modern understanding of democracy. The goal of this way of looking at it is finding out what is substantial for democracy and how to put it into practice. For that purpose, globalization cannot be perceived as a phenomenon threatening democracy but as a factor which pushes us forward to critically reevaluate democracy. Last point Goodhart emphasizes is that any conclusions about democracy in the context of globalization are to be exercised while regarding the normative and empirical statements, on which are these conclusions based. For being successful at this point, it is important to have “the best available empirical analyses of what is going on with our historical and conceptual insights in formulating democratic responses to globalization” (Goodhart, 2001, p. 546).

Goodhart concludes that “unless and until we better understand the normative aspects of democracy’s spatial and sovereign dimensions; we shall have no sound basis for deciding the matter” (Goodhart, 2001, p. 545).

### 3.2.1 Implications of Evans' contribution

Evans' article is of a great importance in regard to the position of the state in globalization process, when the economic development and the interdependence of the national economies cannot be overlooked.

Peter Evans himself says that the transnational corporations even though do not wish to work in a stateless world but instead they need some kind of predictability and a platform. This is only possible when there is a system of rules of game, so that the non-governmental organizations can rely on state in particular. It would not make sense to argue the opposite; however it is important to mention that states *are* dependent on the international market. The corporations can leave the country if the state is neither able nor willing to cooperate and to accommodate to the needs of the companies which are indeed increasing GDP, employing citizens, meeting demands of consumers, paying taxes... Therefore the state's dependency on the market cannot be taken lightly but, on the contrary, it calls to look closer to the demands of the transnational corporations and their influence to the decision-making of the state-based governance. If the corporations, necessary for the functioning of the country, have such a significant influence on the way the structure of the system of rule is done, democratic decision making seems to be to some extent superseded, and it is therefore disputable whether citizens have an influence on policy making. However, when it comes to politics, the pressure from the bottom is way smaller than the requirements needed to be done for the well-being of a country. It is true that many domains rest on how well the country is doing. Under these conditions it seems to be obvious that people's needs are being taken to the consideration from the "consumers" side of a thing rather than from the "citizens", what implies the subjection of understanding people as a source of legitimacy. Nonetheless, can we speak about democracy when what really matters is well-being of a country but with actually no direct approval of the means how to achieve this goal by civil society (regarding the election as a formal act after which the citizens' interest or demands are secondary)? Evans' representation of a working democracy seems to be understood as a strengthening civil society closely connected with an effective state which is able to respond to the demands of this growing capital/middle class. Eventually, he

understands society, which he calls capital class, as a group of workers and consumers. In any event, this prompts a dependency on the international market not only by state but also by people as consumers. Even though, to uphold Evans' opinion, citizenry is closely connected to consumerism and it can be argued that without satisfying one, the other will lose on importance and consequently, in this case, influence on decision making is weakening and it is questionable whether once when the country is well-off, citizenry will thence be strengthened too.

It seems to be that Evans in his account disregards the disjunctures and the democratic deficits created by globalization and looks at the state in this position mainly as being in some kind of a transformation, accommodating to the conditions made by globalization.

### 3.2.2 Post-Democracy

The point Michael Goodhart is making, to adopt a critical standpoint towards a modern understanding of democracy, is worthy of deliberation. Reevaluation of democracy, to which globalization is pushing us, seems to be of a big importance because that is the only way how to find out in what kind of democracy we are currently in and what is to be done to make it better (or at least to reevaluate its importance for us). Post-democracy is a concept introduced by Colin Crouch, who is a professor of governance and public management at the business school of Warwick University. The concept of post-democracy is compatible with Robert Reich's concept of supercapitalism because post-democracy similarly rises up with the growing political power of the corporations.

Colin Crouch sees a problem in the relation between democracy and capitalism. He explains that for economy to work well it is necessary to have a *flexible* and *uncertain* labour force. Democracy's purpose, on the other hand, is to give people *certainty* and *security* and so here comes a problem which is to be solved by "democratic capitalism". Crouch mentions also another problem of modern capitalism and its dependency on mass consumption. The thing is that capitalism wishes to have a flexible labour force and at the same time a stable mass consumption of a large number of people (Crouch, Colin Crouch - Post-Democracy, 2009).

Crouch says that post-democracy rises out of liberal democracy which understands mass participation in policy making as the electoral participation, created freedom for lobbying and prefers a policy making which is avoiding intervention of a capitalist economy. Post-democracy is defined as a model where *“while elections certainly exists and can change governments, public electoral debate is a tightly controlled spectacle, managed by rival teams of professionals expert in the techniques of persuasion, and considering a small range of issues selected by those teams. The mass of citizens plays a passive, quiescent, even apathetic part, responding only to the signals given to them. Behind this spectacle of the electoral game, politics is really shaped in private by interaction between elected governments and elites that overwhelmingly represent business interests,”* (Crouch, Post-Democracy, 2004, p. 4). Crouch explains that this definition is an exaggeration as is the traditional understanding of democracy; however he suggests that the elements of it are observable in politics and asks us to reconsider where on the scale of democracy and post-democracy we are moving. He suggests that even though the forms of democracy are still present, government and politics are becoming more under the control of elites, as they were in pre-democratic times. Consequently, the result of this is that egalitarian goals (meaning as even as possible division of social wealth and power) are moving away (Crouch, 2004).

Understanding democracy as democracy on one hand and non-democracy on the other one is, according to Crouch, not leading us to a meaningful discussion about the failures or weaknesses of a recent democracy; therefore he thinks that the concept of post-democracy is a good solution which helps us to explain frustration, boredom, and disillusion recent in this democratic moment (where negative freedoms are exercised more than the positive ones and so the emphasize is put to the negative sides in the forms of complaints, blame, negative activism, while for positive citizenship - discussions, formulations of demands and interests, development of collective identities - there is no interest because of this frustration). Post-democracy, as Crouch explains, is “post” because this period still has many crucial characteristics of democracy but some features of pre-democratic times and of democracy do not seem to be present in this time anymore (Crouch, 2004). Nowadays, “we have gone beyond the idea of rule by the people to challenge the idea of rule at all,” (Crouch, Post-Democracy, 2004, p. 21).

What is also very characteristic for post-democracy is that the political parties are mostly personality-based than a party programme-based. As Crouch suggests, this seems to be a feature of dictatorship rather than of democracy (Crouch, *Post-Democracy*, 2004).

One of the main causes which are moving us away from democracy is, as Crouch states, economic globalization. “Large corporations have frequently outgrown the governance capacity of individual nation states,” (Crouch, *Post-Democracy*, 2004, p. 29). As he explains, democracy did not keep the pace with economic globalization and did not manage any kind of national groupings to go hand in hand with economic growth. He says that this is a result of democracy having difficulties with rising to a global level. The European Union, according to him, is “a clumsy pygmy in relation to the agile corporate giants” (Crouch, *Post-Democracy*, 2004, p. 29). What also results of it is that the states are undermining their own self-confidence. Government is sub-contracting its functions to the private sector and consequently loses the competences and knowledge how to operate in certain domains. In Crouch’s words, in post-democracy “government becomes a kind of institutional idiot” (Crouch, *Post-Democracy*, 2004, p. 41) and becomes subjected by the private sector and other market actors.

Crouch explains that there is no better responsive and effective device than dynamic capitalist market and there is no reason to search for an alternative. On the other hand, we should find a way how to prevent the corporations to exercise that kind of power which is incompatible with democratic values. The fact that the public services are restricted by the private sector has to be taken seriously. As Crouch proposes, the purpose of both should be re-established so that one does not oppose the other. At the same time, the public sector’s idiocy of how to run a certain domain should be improved (Crouch, *Post-Democracy*, 2004).

## Case Study: Goldman Sachs

The thesis looks closer to the history of the American investment bank Goldman Sachs. This bank is an example of a company which is of the *too big to fail* kind and is famous for its influence on the market. The main question the thesis is asking is whether we can still talk about democracy and democratic decision-making in times when we can talk about capitalism as of supercapitalism which has enough power to influence the policy making. For examining this phenomenon, the case of Goldman Sachs and its connection with the American government is analyzed and explained.

### 4.1 The Early Times of the Goldman Sachs

In 1850, Marcus Goldman was a European Jewish immigrant coming from Germany. He was a clothing merchant - what was by that time an appropriate job for a Jewish immigrant, while the non-Jewish elite occupied the banking sphere. In a very similar way the Lehmans and the Lazards started their businesses too. What is today known as the Goldman Sachs started in 1869 when Marcus Goldman opened his proprietorship concentrated on selling and buying IOUs<sup>5</sup> in New York City. Goldman realized that what does a merchant's chief need the most is cash. At the same time, the rates on loans were high; therefore it was more advantageous to sell a promissory note or a commercial paper to Goldman. What he was doing seem to be very successful, according to Cohan's book he was making approximately \$250 000 per year what was a very nice income by the year 1869. In 1882, Marcus realized that the company needs a partner, since the price of the commercial papers Goldman was buying and selling was around \$30 million per year, and he was getting old. Samuel Sachs, the husband of Marcus' youngest daughter, became a partner and the company was since known as M. Goldman & Sachs. In 1894, the company had five partners, ten clerks and a handful of messengers as the capital of the firm was growing rapidly. Consequently they decided to open a foreign exchange department in Europe. When Marcus died in 1904, the firm was the leading commercial paper house on Wall Street

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<sup>5</sup> A promise to pay a debt, especially a signed paper stating the specific amount owed and often bearing the letters IOU (I owe you).

led by his son Henry and by Samuel Sachs. However, the Goldman, Sachs & Co. was interested in becoming a banking elite and Henry's vision was to transform the company into the underwriting business. "The idea of the business was that Goldman would get a fee for providing the capital to its clients and would unload its risk as rapidly as possible by selling the securities to investors" (Cohan, 2011). Goldman and Sachs were each of a different kind – while Sachs was conservative in risk taking and doing best to preserve his capital, Goldman was risking the Sachs' capital constantly. As Cohan explains, the tension this was causing became a company's integral part of DNA.

In 1914, Henry Goldman was asked by two members of the Wilson administration to design a Federal Reserve System and already at this point was Goldman Sachs saying to the politicians "how to do the job" (Cohan, 2011). Goldman's proposal of New York Federal Reserve Bank was realized and later on this became the most powerful reserve bank in the system. Until today, Goldman Sachs is one of the most important affiliations of the bank (Cohan, 2011).

## **4.2 Goldman Sachs Illustrating Post-Democracy and Supercapitalism**

As was mentioned at the beginning of the chapter, Goldman Sachs illustrates an example of a transnational corporation adjusting the rules of game according to its preferences. In order to examine the concepts of Reich (supercapitalism) and Crouch (post-democracy), it is important to mention the key events influenced by the actions taken by Goldman Sachs, which will be related to the discussed concepts and understandings in previous chapters.

### **4.2.1 Glass-Steagall Act (1933)**

The Banking Act of 1933, also known as the Glass-Steagall Act was adopted by Congress in 1933. The purpose of the act was to prohibit commercial banks from engaging in the investment business, what was a trend in the pre-depression era when the commercial banks were taking too much risk in *investing* the assets and *buying* new issues for resale to the public at the same time. This law was a response to the

Great Depression in 1929, which was most likely the result of the Federal Reserve System expansion of the money (increase of the money which was not covered with gold). Consequently, the inflation rate increased to approximately 63% in the years 1921-1929. The kickoff of the depression is dated as the “Black Thursday” in October 24<sup>th</sup> 1929, known as the *stock market crash* (Amadeo, 2010).

The Glass-Steagall Act was an emergency response to the bankruptcy of almost 5000 banks during the Depression. Because the general confidence in the banks was broken, Act’s purpose was to fix that and as a consequence, it forced the separation of the commercial and investment banking in order to prevent commercial banks to underwrite securities and at the same time it restricted investment financing to receive deposits (Glass-Steagall Act (1933)).

#### 4.2.2 The Repeal of the Glass-Steagall Act

Eventually, the bankers did not like the wall which was built between the commercial and the investment banking and they did not like choosing between operating in one sphere or another. It was the purpose of the Glass-Steagall Act to prevent the citizens’ money from risking them in the investments. The Act inflicted the reduction of the profit of the banking institutions and therefore after the Act came into force, the financial groups lobbied in order to repeal the Act. As their persistence continued over the years, the Act was reinterpreted and liberalized and finally repealed in 1999 by the Clinton’s administration. At that time, Robert Rubin was the United States Secretary of the Treasury and before that he worked in Goldman Sachs for 26 years. The Act was repealed, as the pressure of the banks and of their economic interests was too intense, even though it was generally known that the repeal can cause the creation of the financial conglomerates which will be difficult to control and whose activities will be almost impossible to monitor. Some thought and warned that these banks might become these *too big to fail* ones and because of their risky activities in an excessive extent they might fail. However, they knew it will be the taxpayers who will have to bail out them, and as a consequence the failure of the banks will have a global effect. Paul Wellstone, a representative of Minnesota in the Senate at that time, was an

advocate of this scenario but the pressure from the financial community was too big (Crawford, 2011).

Even though it cannot be definitely said that the repeal was the reason of the financial crisis 2008, as Crawford, a professor at the Borough of Manhattan Community College, says “the financial community and legislators may determine the factors that contributed to the financial collapse” (Crawford, 2011). So what the repeal caused was that it granted banks greater access to profitability through financial innovation. Although we cannot say that the repeal caused the financial crisis in 2008, it can be assumed that it made it much worse than it could be (as the fusion of the commercial and investment banking contributed to the growing housing bubble to the size it could not sustain). Consequently, the bankruptcy was a solution to get out of the failing sub-prime mortgage business and ends up in the crisis of credits (Jarvis, 2012).

With Rubin present in Congress during the repeal of the Glass-Steagall Act, the influence and the concern of the Goldman Sachs are the objects of the debates. Eventually, it was in their interest, as well as of other financial actors, to repeal the Act which was preventing them from operating in both commercial and investment banking. Eventually, they lobbied for the repeal in order to get rid of this kind of imposed regulation. Goldman Sachs also had the clients it did not want to lose. As Lloyd Blankfein, the CEO and Chairman of Goldman Sachs, has said for the New York Times – the aberration which Goldman Sachs took after the Great Depression, was the result of the Glass-Steagall Act. According to Robert Scheer, the growth of Goldman Sachs eight years after the repeal was 265 percent. Eventually, Goldman Sachs “aberration” was eliminated (Harrison, 2009).

The pressure of the financial institutions lobbying for the repeal illustrates the features of both supercapitalism and post-democracy, where states are unable to protect the common good and they understand the market’s needs as the priority.

#### **4.2.3 Goldman Sachs and the Financial Crisis 2008**

The credit crisis, as is referred to the financial crisis 2008, is a worldwide financial collapse involving terms as sub-prime mortgages, collateralized debt obligations,

frozen credit markets and credit default swaps which affects everyone. As Carl Levin, serving as the senior United States Senator says: “Investment banks such as Goldman Sachs were not simply market-makers, they were self-interested promoters of risky and complicated financial schemes that helped trigger the crisis. They bundled toxic mortgages into complex financial instruments, got the credit rating agencies to label them as AAA securities, and sold them to investors, magnifying and spreading risk throughout the financial system, and all too often betting against the instruments they sold and profiting at the expense of their clients” (Andringa, 2010). Eventually, Goldman Sachs made a lot of money while operating on the risky sub-prime mortgage market by selling the sub-prime mortgages to the hedge funds, banks, investors and other financial actors (as was uncovered in the *Hearing on Wall Street and the Financial Crisis: The Role of Credit Rating Agencies*<sup>6</sup>). This kind of financial activity, selling risky mortgages as playing a hot potato with a time bomb, might be said to be a conflict of interests of a country and of the market. It can be demonstrated this way, because it should be in the country’s interest to protect its citizens rather than to succumb to the pressure of the companies operating in the country. However, people did very well both as *citizens* and *consumers* before the crisis burst, many of them did poorly afterwards both as citizens losing their jobs and consumers not able to live as worthily as before the crisis.

Peter Evans says that it is in the private sector’s interest to operate in the system where the rules are set, what suggests some kind of predictability and stability on the market where the state is a guarantee of the preservation of the rules of game. However, the case study confirms the assumption that strong transnational corporations have a power to *adjust* the rules of game to its preferences. This is an implication of the citizens getting weaker in their capacities and at the same time, of the state surrender to the market. Even though the market can improve the well-being of the country, the role of the state is largely weakened, as the case study shows. It is therefore important to see on what pillars a state stands, in this case it is the economic interest which does not have to be a contrary to common good, but the means it uses to reach its goal are not democratic.

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<sup>6</sup> The document is available online: <http://documents.nytimes.com/goldman-sachs-internal-emails>

#### 4.2.4 The Troubled Asset Relief Program

In October 2008, Bush's administration introduced the Troubled Asset Relief Program, also known as TARP. The goal of this program was to curb the financial crisis. The TARP enabled the U.S. Treasury to buy the mortgage backed securities in amount of \$700 billion in order to create liquidity and to strengthen the money market. The bail out's purpose was to reduce the losses which could destroy the banks which were at that time owning the mortgages (Troubled Asset Relief Program (TARP) Information, 2011).

During the Bush's administration, Henry Paulson, an American banker, was the U.S. Secretary of the Treasury, formerly working in Goldman Sachs as a Chief Executive Officer. It is still an object of a discussion what was his influence on the TARP. The TARP was paid to the institutions (including Goldman Sachs) accomplishing the conditions given by the Treasury and the further investigations reveal the connection of the institutions to which the TARP was given to, to the location of the U.S. House Financial Services Committee (Pana & Wilson, 2012). While paying attention to this phenomenon of the politics determining the life of companies, the bankruptcy of the Lehman Brothers, Goldman Sachs' significant competitor, should be mentioned as there is an ongoing debate. The object of the discussion is Goldman Sachs short selling the Lehman Brothers' shares and there are speculations about Goldman Sachs' influence on the decision making of the Congress (while having Henry Paulson sitting on the U.S. Treasury chair) and consequently about Goldman Sachs' role in determining the life of their competitors (Forbes, 2012).

Apart from the political influence determining which organizations will get the fund, it is important to mention that the congressional oversight committee for TARP calculated that the Treasury paid for the Goldman Sachs stocks \$3.5 billion more than they were worth. What is even more surprising is the letter written in 2009 to the Goldman Sachs' shareholders saying that: "Looking back on 2009, it is impossible to know what would have happened to the financial system absent concerted government action around the world... Goldman Sachs is grateful for the indispensable role governments played and we recognize that our firm and our shareholders benefited from it" (Goldman Sachs 2009 Annual Report, 2009). After all this, it is possible only

with difficulties to disregard Goldman Sachs' connection to the U.S. government and the role it plays in the crucial economic decision makings. This phenomenon can illustrate Evans' understanding of a state as a still powerful element and thereby it implies the interdependence and the interconnectedness of a state and the market. At the same time, it confirms that the role of a state in policy-making did not disappear but that its competences and functions have transformed. But what is even more remarkable, the economic interests have subjugated the common good and democratic control over the economic power failed. It is a message of democracy, to protect what people value in common, hence the role of state *is not* strengthening as it fails to take care of the common good and succumbs to market's needs. At the same time, the case study does not imply that the civil society is strengthened in its capacity to influence the policy-making process. On the contrary, the decision taken by the government had a serious impact on taxpayers, thanks to whom the TARP could be released. Here it can be spoken about *democratic deficit* created by the transnational corporations (as Goldman Sachs) gaining power to perform the actions which are uncontrollable and untouchable by citizens (Goodhart, 2001). What is more, the consequences which such an actions has (as TARP), have a serious impact on citizens who have to pay for that, and state takes no action in protecting them. Consequently, as Reich suggests, it is obsolete to speak about democracy while supercapitalism is flourishing and for that reason, democracy is not able to respond to our demands as *citizens* (Reich, 2008). For these reasons, Evan's theory of a still-powerful state is not reflecting this case and consequently fails.

As Colin Crouch writes in *Post-Democracy*, large transnational corporations' capacity to govern certain domains has outgrown the capacity of the states. As a consequence, governments are inviting the companies to teach them *how to do the job*, what makes a state a subject of the private sector (Crouch, *Post-Democracy*, 2004). Eventually, Henry Paulson and Robert Rubin had the knowledge how "to take care of the market", as they were very well trained in Goldman Sachs, which is skilled enough to train its people and to make them good managers.

Michael Goodhart encourages us to look closer to the relation of democracy with a sovereign state and asks us to investigate whether democracy needs a sovereign state to work (and flourish). He suggests doing so for a better understanding of *why*

globalization affects democracy (Goodhart, 2001). Encyclopedia Britannica defines sovereignty as a characteristic of a body which has an independent authority over a defined territory, originally meaning *supreme power* (Encyclopedia Britannica). Eventually, it seems to be necessary for democracy to have a body protecting its values and right, in order to preserve its universality and legitimacy. In supercapitalism we cannot clearly speak of democracy while sovereignty itself is under dispute, as the transnational corporations *do* have the influence on policy-making. Goldman Sachs is illustrating an example of the influential corporation with a serious impact on the way the policy is done, and consequently affects the ordinary life of citizens.

## Conclusion

Conclusion of the thesis is divided into two parts – first one explains why it is more useful to talk about post-democracy in the era of supercapitalism and the other one summarizes the implications of these concepts, according to Robert Reich and Colin Crouch.

### 5.1 Relevance of Using the Term Post-Democracy in The Era of Supercapitalism

The main goal of the thesis was to find out whether we can still talk about democracy of old days in times of supercapitalism. Supercapitalism, according to Robert Reich, is understood as a kind of capitalism developed out of democratic capitalism, which is relatively slow in innovation, stable and more predictable than the market in times of supercapitalism. It is democratic because of a wish for predictability and stability which at the same time satisfied the needs of people as citizens – in order to avoid any stoppages of the production, jobs were guaranteed, and employees had a higher share of profit. In democratic capitalism, people were more or less equally understood and appreciated both as citizens and consumers. However, in supercapitalism the market grows to a global extent. The competition among the actors gets much more intense, what requires constant innovation, flexible labour force, and of course – profit. People as consumers and investors are doing much better in supercapitalism – the range of choice is wider, deals are better, prices are lower... On the other hand, social security and the competences of people as citizens are weaker as the corporations are influencing policy-making to get better conditions to operate. As suggested, the game is spilled over into politics as well, as the politicians need sponsors to get into politics. It is therefore questionable, whether we can speak about democracy, when the officials represent the interests of the influential corporations instead of speaking for and in citizens' interest (Reich, 2008).

As Peter Evans says, we should not think of state losing its competences and therefore to admit its eclipse under a pressure of globalization. On the contrary, we should understand it as a body which builds a framework for market to operate and which preserves the rules of game (Evans, 1997). Consequently, state's functions have

transformed but its role is not diminishing. The example of Goldman Sachs illustrates that an influential company can adjust the rules of game (the repeal of the Glass-Steagall Act, TARP), therefore the strong position of state, which Evans pictures, is highly disputable and his understanding of the still-powerful state in globalization fails, as it does not reflect the case.

Michael Goodhart asks us to take a critical standpoint towards democracy and to question our understanding of it, in order to see real influence of globalization to state and democracy (Goodhart, 2001). This is exactly what Colin Crouch has done and consequently formulated the concept of post-democracy. He defines post-democracy as a form of government where elections still exist and can change government but the role of citizen is passive. Behind the electoral game, decision-making is a result of an interaction between elites representing the business interests and the elected government. Crouch suggests that the egalitarian goals are consequently disappearing (Crouch, 2004, p. 4). In post-democracy, negative freedoms (blame, complaints, negative activism...) are exercised much more than positive ones (discussions, formulations of demands and interests, development of collective identities...) what is a result of boredom and frustration present in post-democracy (recent example of this frustration are the Occupy Wall Street movements). Other very important features of post-democracy are personality-based political parties and sub-contraction of the public sector's domains to the private sector because of government's inability to manage them. Goldman Sachs illustrates an example when government invites skilled people who know how to do the job, both in New York Federal Reserve Bank structuring and in the cases of Paul Rubin and Henry Paulson working as the U.S. Secretary Treasuries. According to Crouch, post-democracy is partly a result of economic globalization, where capitalism has outgrown the national stage, while democracy has difficulties with rising to a global level (as it is made for operating on the state level) (Crouch, Post-Democracy, 2004).

According to the contributions of Peter Evans, Michael Goodhart and based on example of Goldman Sachs, it can be admitted that the current form of capitalism has the characteristics of supercapitalism. For that reason, as the thesis examines, it is more relevant to use the term post-democracy, because what was defined as democracy is not present in the system.

## 5.2 Implications

### 5.2.1 Supercapitalism

The negative side effects of supercapitalism, like “widening inequality as most gains from economic growth go to the very top, reduced job security, instability of or loss of community, environmental degradation, violation of human rights” . . . , (Reich, 2008, p. 209) need to be fixed. Instead of trying to preserve democracy by making the business environment look more social and to force companies to behave a certain way, another way of dealing with supercapitalism’s side effects should be taken – fixing democracy. Many ways how to do it were proposed but the crucial point here is that no intervention will be helpful as long as the officials are dependent on the corporations “against” which the action is to be taken. As Reich says, “the system cannot repair itself from inside,” (Reich, 2008, p. 211). Therefore any initiative to how to make the corporations behave differently would be meaningless – because these kinds of actions are distracting from the real problems which are here to be solved. The job of corporate executives is to satisfy their consumers and so make money for their investors. As Reich explains: “The negative social consequences are the logical consequence of intensifying competition to give consumers and investors better and better deals,” (Reich, 2008, p. 213). For that reason the only solution how to make the negative side effects of supercapitalism stop is by making the better deals for consumers and investors illegal. The only way how to force the corporation to behave differently is by changing the rules of game. However, this initiation has to come out from the citizens because the companies are not interested in public good, while citizens should be (as it is a goal of democracy). Reich also emphasizes that we should keep in mind that companies are not people, even though it is often referred to them as being alive. Consumer, investors, executives have a right to realize their interests in democracy, however, no company has neither ethically, nor logically have a legitimate role in democratic decision-making (Reich, 2008, p. 223).

According to Reich, even though democracy is in decline in supercapitalism, it does not have to be there necessarily. “We can have a vibrant democracy as well as vibrant capitalism,” (Reich, 2008, p. 224). In order to achieve that we have to keep these two apart – as the purpose of capitalism is to get good deals for consumers and investors and the purpose of democracy is to achieve what we cannot reach as individuals. “The

border between the two is breached when companies *appear* to take on social responsibilities or when they utilize politics to advance or maintain their competitive standing” (Reich, 2008, p. 224). We as consumers and investors can reduce the social costs of supercapitalism by making the real price for the goods and services which we try to get as cheap as possible. At the same time, we should be aware of our rights as of citizens who have a responsibility to participate in democracy (Reich, 2008).

### 5.2.2 Post-Democracy

“The growing political power of the firm remains the fundamental change lying behind the advance of post-democracy,” (Crouch, Post-Democracy, 2004, p. 105). Crouch assumes that we do not wish to look for an alternative to capitalism because it is not likely that we would find any, or that we would be able to implement any other variant. As he says: “the search must therefore be for ways of retaining the dynamism and enterprise of capitalism while preventing firms and their executives from exercising power to a degree incompatible with democracy” (Crouch, Post-Democracy, 2004, p. 105). According to him, it is not true that by regulating the market we rob it of its dynamism, as in the past the politicians had the capacity to reduce the political impact of their business interests. At the same time, the politicians were able to sustain their effectiveness and wealth-creating. Crouch argues that the global policy is still concerned with breaking down the barriers to corporate freedom, what is the opposite of an action which should be taken. Crouch does not propose any concrete guideline how to cope with post-democracy. He suggests that we, as citizens, should reengage in the political process through discovering our shared identity and interests and expressing them through both political parties and special interest groups (Crouch, Post-Democracy, 2004). This broad suggestion can be followed by Reich’s proposal of realizing ourselves as citizens who have a responsibility to participate in democracy and from whom the action has to be taken to make the contemporary democracy thrive.

## Resumé

Cieľom bakalárskej práce je zistiť, či je relevantné hovoriť o demokracii v čase superkapitalizmu, čo je štádium, kedy kapitalizmus narástol do globálnych rozmerov a tým aj nadobudol schopnosť ovplyvňovať chod štátnych politík. Dôsledne sila medzinárodných korporácií rastie a do značnej miery vplýva aj na politickú sféru a tým oslabuje proces demokratického rozhodovania sa. Tento vplyv sa prejavuje lobingom, účasťou korporácií vo vládných inštitúciách, sponzorovaním politických kampaní alebo aj spravovaním inštitúcií verejného sektora.

V prvej časti sa práca venuje vzťahu politiky a ekonomiky, konkrétnejšie otázkam, prečo štát potrebuje korporácie a naopak, ako slúži štát trhu. Podstatou odpovede na prvú kladenú otázku je, že trh poskytuje ľuďom zamestnanie, služby a produkty, ale do veľkej miery prispieva štátnej ekonomike aj platením daní. Avšak ak štát nezabezpečuje dostatočne výhodné podmienky pre fungovanie trhu, spoločnosti môžu prestať operovať na danom území. Táto extrémna situácia je však veľmi nepravdepodobná, keďže v záujme štátu je mať nízku nezamestnanosť, stabilnú kúpyschopnosť a daňový príjem a tým prispievanie k prosperite krajiny. V záujme korporácií je v prvom rade zisk, ale aj nízke dane, stabilné podnikateľské prostredie, legálna ochrana trhu a udržanie štátnych regulácií čo najnižšie. Pre udržanie a zachovanie týchto záujmov je kľúčový štát, ktorý je možné získať si na svoju stranu už spomínanými spôsobmi, ako napríklad financovanie politických kampaní. Týmto spôsobom sa korporácie dostávajú bližšie k vládnemu rozhodovaniu, a teda aj k prispôbovaniu si podnikateľských podmienok. Veľmi dôležitým pre fungovanie a prosperitu spoločností je prostredie, aké štát vytvorí. Napríklad bez rozvoja liberálnej demokracie podporujúcej individuálne práva a slobody, by sa nebol býval rozvíjať ekonomický liberalizmus do dnešných rozmerov. Prvá časť taktiež definuje demokraciu a zamýšľa sa nad súladom demokracie a kapitalizmu. Taktiež rozlišuje medzi cieľmi demokracie (kde je demokracia cieľom samotným) a kapitalizmu (zisk) a uzatvára, že práve rozdielnosť cieľov je dôsledkom rozkolu týchto dvoch prúdov.

V druhej časti práca dokazuje na základe výskumov, že takmer dvadsať percent globálnych finančných sietí kontroluje desať top finančných spoločností a štyridsať

percent kontroluje top päťdesiat. Výsledky dokazujú neprehliadnuteľnosť pozície finančných inštitúcií na globálnom trhu, vďaka ktorým môžeme hovoriť z tohto pohľadu o finančnom kapitalizme. Na základe tejto charakteristiky súčasného kapitalizmu práca skúma koncept superkapitalizmu, ako následníka demokratického kapitalizmu. Základnými charakteristikami superkapitalizmu sú dynamickosť, inovácie, nestabilita a slabnúca ochrana občanov zo strany štátu. Na druhej strane superkapitalizmus poskytuje výhodnejšie podmienky pre konzumentov a investorov, ale občianska stránka chradne. Charakteristické preň je aj zainteresovanosť vo vládných inštitúciách, a teda slabnúca demokracia.

Tretia časť je zložená z príspevkov Petra Evansa a Michaela Goodharta. Evans je zástancom neupadajúcej dôležitosti štátu v súčasnosti a vysvetľuje dôležitosť štátu v budovaní silného ekonomického prostredia atraktívneho pre spoločnosti. Štát nevyhnutne do chodu trhu nezasahuje, ale vďaka vybudovanému systému má nad ním kontrolu. Goodhart sa venuje otázke *prečo* globalizácia ovplyvňuje štát a tým aj demokraciu a navrhuje, aby sme o vplyvoch globalizácie uvažovali v termínoch disjunkčúry (neschopnosť štátu aplikovať politickú moc a demokratické princípy na nadnárodnej pôde a ani na chod korporácií) a demokratický deficit (vzdialenosť nadnárodných organizácií/inštitúcií/korporácií od občanov, ktorej dôsledkom je, že sa nezodpovedajú občanom, ktorý na nich nemajú reálny dosah a nie sú tým pádom transparentné). Na vyriešenie tejto otázky Goodhart navrhuje nazrieť kriticky na súčasnú demokraciu. Pre tento účel práca overuje koncept post-demokracie, pre ktorú je značné, že aj keď sa vláda volí a občania majú moc ju zmeniť, občania zohrávajú len pasívnu, apatickú úlohu, a teda ich úloha je iba formálna. Za týmto dianím je politika výsledkom interakcie vlády s elitami reprezentujúcimi záujmy korporácií.

Štvrtá kapitola je venovaná prípadovej štúdií potvrdzujúcej koncepty post-demokracie aj superkapitalizmu. Práca vysvetľuje spojitosť americkej investičnej banky Goldman Sachs s americkou vládou, konkrétne zrušeniu zákona Glass-Steagall (oddeľujúcemu investičného podnikania od komerčného), a teda aj úlohe Goldman Sachs vo finančnej kríze 2008 a následne programu TARP (zachraňujúci banky po finančnej kríze 2008).

Záverečná časť obsahuje zhrnutie bakalárskej práce a následne prezentuje možný spôsob riešenia negatívnych dopadov superkapitalizmu, a zároveň aj post-demokracie z pohľadu autorov týchto konceptov.

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