

# The Second Constituency

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*All governments now answer to a second constituency of international investors. What does this mean for democracy? By Allan Abraham*

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In all democracies today, in addition to the well-understood constituency of the people, there is a second, invisible, and less well-understood constituency: that of international investors and lenders. Governments now answer not only to voters but also to investment banks, currency traders, and hedge fund managers. The influence of the second constituency is powerful and increasing as the world economy gets more integrated.

The difficulty when playing to both constituencies (people and investors) is that the interests of the two conflict. People want welfare, long-term security, and prosperity. Investors want higher profits—that is, an investment environment with low taxes, cheap resources, and easy labour and environment laws. Politicians promise the people what the people want to hear, but, when in power, find that keeping their promises tends to make the country less attractive to investors, who can take their money to where it earns them more. Low investment leaves a country strapped for cash in comparison to countries that are investor-friendly. It starts a race to the bottom among countries. Even developed economies, such as Germany's, in which labour and the environment are high priorities, are today drawn into the downward spiral.

## Choices made, choices foregone

Investment brings growth, jobs, and prosperity, and the popular orthodoxy tells us that improving the investment climate is the road to prosperity. It does not follow, however, that blindly improving conditions for investment will bring a society the results it desires—assuming, of course, that a society knows the results it desires. Knowing the

society a state is creating—and societies are continuously being created by choices made and not made—calls for political debate that is democratic and transparent. The current wisdom, however, promotes a uniform consumerist and depersonalized society, regardless of specific development needs and cultural differences. It is the ideology governments follow, either by choice, neglect, or because they are coerced into it and have no reasonable alternative. The choices made by governments today require that other choices are foregone. It is instructive to look at the choices made and the choices given up, and the effects they have on society and the political process.

- Organized labour and the environment are usually the first casualties of investor-friendly policies. Arguments for relaxing regulations are usually made, not from the perspective of the specific conditions of a society, but from a theoretical standpoint that gives economic principles primacy.
- Is investment being channelled into sectors important to a country's particular development needs? This issue is more important and crucial for technologically less-developed countries. Governments can direct investment into required sectors through well-coordinated commercial and financial policies. They are, however, forced to make sweeping legislative changes to encourage *all* investors. (This is usually called reform to take the sting out of the measures and provide a sense of inevitability about them.) Again, the justifications are abstract and academic.
- The short-term gains of investment are increased employment, a strong currency, and good growth figures. Long-term gains are development of particular economic sectors, and the improvement of technology, infrastructure, and services. Governments, keyed as they are into election cycles, tend to pay more attention to short-term gains. The long-term effects of current investment patterns are often ignored or not paid the attention they deserve. The indicators of success that are submitted for examination are short-term ones; the long-term effects rarely figure objectively

- in debates.
- As governments seek to lower corporate and business-related taxes, they are not only forced to cut public spending but to also transfer the tax burden to consumers (VAT, sales tax, wealth tax, gift tax, etc). People pay more because businesses must be subsidized.
  - Furthermore, as governments cut their public spending, people become increasingly dependent on private businesses for basic services such as health, education, and pensions. Since these services are organized on the profit principle, their quality becomes differentiated (cut costs to maximize profits, etc). The result is that the richest are able to afford the best quality of such services while the poorest get none or the lower quality. The state reduces its responsibilities to citizens, and businesses are given more opportunities to create wealth (without necessarily improving conditions in society).

Clearly, the interests of people and investors are opposed. Governments today quietly tailor policies to suit the interests of investors. Arguments used to explain investor-friendly measures are described as inevitable and pragmatic, and are based on a theoretical acceptance of market-driven societies as the only realizable model. Much of this attitude is due to a failure of democracy and the perception that this failure is a natural, in-built, and non-changeable feature of democracy.

### **How democracy fails the people**

Society and the people's interests do not need to be subordinated to those of investors. But this is exactly what has come about. It has happened because a perception has developed that societies can only be organized and thought of in terms of being market-driven economies. Governments elected by the people start with the assumption that in order to best serve the interests of society they must become competitive in the global economy. While this is a sensible goal in the short-term, it is a failure of democracy (understood as government by the people for the people) in two significant respects.

First, as the primacy of business interests is established in policy thinking and public perception, the interests of people become increasingly marginalized, and people start accepting their marginalized position in the political process as inevitable. The only power they have is to change a government at election time and hope that the next government will do better for them. For political parties, since there is no fundamental difference in ideology, political strategy comes down to discrediting the credentials of the opposition. The interests of the people fade from the political process.

Second, democracy as it is practised today is based on the four- to five-year electoral cycle. There is no clear longer-term framework or organizing principle within which these electoral cycles can be placed. As a result, the longer-term interests of a society are incidental and dependent on the outcome of short-term policies. Socialist measures, such as long- and medium-term planning and public sector industries, would be anachronisms in today's world. They were proven failures, but failures relative to capitalist systems tempered by social welfare and liberal worldviews. Today, there are no alternative systems against which democracy and market-based societies can be compared and found wanting, though several studies have shown the immiseration that capitalism brings, especially in developing countries. And so, democracy continues to be the symbol of a perfect political and social system. It is a word of such sublimity that the people of Iraq are today being murdered so that they achieve this mythic status posthumously.

### **The battering-ram of democracy**

For the reasons outlined above, democracy as a political system is the ideal vehicle for achieving the objectives of capitalism. Where political systems are resistant to the wishes of international capital and place the interests of the local society first, the states in which they exist are characterized as regressive (Venezuela), rogue (Afghanistan, Syria), evil (Iraq, Iran, North Korea), contemptuous of human rights (China, Cuba), and considered ripe for a dose of democracy. Accordingly, it is considered legitimate to deliver democracy by military force. We are now told that Iraq is on its way to becoming a democracy because a

non-compliant thug has been replaced by a compliant thug. Forget about the people being murdered daily in the new democracy. Afghanistan is apparently already a democracy because a former Unocal consultant is now the president of the country and has signed Afghanistan up for the Caspian oil pipeline project he helped design. Forget about the warlords running personal fiefdoms outside Kabul. In Palestine, where an exercise in democracy produced Yasser Arafat as president, the US and Israel, model democracies, refused to deal with him because, though he was responding to his people's aspirations when negotiating with Israel, he was dismissed as an unworthy peace partner for not skipping to his master's tune.

Democracy has nothing to do with freedom, human rights, or self-determination, but all to do with the promotion of the interests of capital. Let the word *democracy* not fool one. All one get's for it is a vote—and not even that in some democracies such as the USA. See democracy for what it is today—a cover for the second constituency. Democracy can regain its real meaning only if power returns to the people.

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**SIDEBARS**

**Dictatorship by Finance Merchants**

Globalization, as it has been advocated, often seems to replace the old dictatorships of national elites with new dictatorships of international finance.

– *Joseph Stiglitz, Globalization and Its Discontents (2002)*

**SIDEBARS**

**Disciplining States**

Countries...are basically forced to give up part of their sovereignty, to let capricious capital markets, including the speculators whose only concerns are short-term rather than the long-term growth of the country and the improvement of living standards, “discipline” them, telling them what they should do and should not do.

– *Joseph Stiglitz, Globalization and Its Discontents (2002)*

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**Opting Out**

But countries do have choices, and among those choices is the extent to which they wish to subject themselves to international capital markets.

– *Joseph Stiglitz, Globalization and Its Discontents (2002)*

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**Let the People Choose Their Policies**

Because alternative policies affect different groups differently, it is the role of the political process—not international bureaucrats—to sort out the choices.

– *Joseph Stiglitz, Globalization and Its Discontents (2002)*

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**Rules for Investors**

Preferential treatment should always be given to local direct investment...Investments may continue to be encouraged, but only if they have the effect of increasing local

**SIDEBARS**

employment with decent wages and otherwise serve to improve the quality of local life. All investors should respect basic human rights and protect the environment as top priorities.

– *John Cavanagh and Jerry Mander, editors, Alternatives to Economic Globalization (2004)*

**The Use of Democracy**

Defining democracy in terms of goals such as economic well-being, social justice and overall socio-economic equity is not...very useful.

– *Samuel Huntington, The Modest Meaning of Democracy (1989)*

**Democracy Lite**

Reagan created the National Endowment for Democracy (NED) in 1983 to manage this new foreign policy that sought to resolve the contradiction between capitalism and democracy, and to move from coercive to consensual mechanisms of control. It promoted a concept called polyarchy...

– *Roger Burbach, Jim Tarbell, Imperial Overstretch (2004)*

**Defining Polyarchy**

[Polyarchy] refers to a system in which a small group actually rules and mass participation in decision-making is confined to leadership choice in elections carefully managed by competing elites.

**SIDEBARS**

– *William Robinson, Promoting Polyarchy (1996)*

**A Theory of Democracy**

The state is the domain of the dominant classes, while the popular classes are incorporated into civil society under the hegemony of the elite...which is the formula for the exercise of consensual domination.

– *William Robinson, Promoting Polyarchy (1996)*

**Keeping the World Safe for Capital**

The hidden hand of the market will never work without a hidden fist. McDonald's cannot flourish without McDonnell Douglas, the designer of the US Air Force F-15. And the hidden fist that keeps the world safe for Silicon Valley's technologies to flourish is called the US Army, Air Force, Navy, and Marine Corps...

– *Thomas Friedman, The Lexus and the Olive Tree (1999)*