

## **New Pathways to Oligarchy: Towards a theory of oligarchic democracy**

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**Introduction** Any republican government could end up as an oligarchy, and in recorded history most of the republics became oligarchies. Aristotle distinguished between an aristocratic republic and an oligarchy, and between a polity and a democracy. Republican Florence was ultimately absorbed into the Duchy of Tuscany ruled by the Medici scions. Venice was unambiguously oligarchic throughout its history.

Aristotle described the constitution of an oligarchy and pointed out that if wealthy men held governing positions in a state, it is likely that they would become a closed ruling group and exclude ordinary people from all positions of power. Successive theories of republican governance were propounded in Europe as capitalism advanced. Most of these theories took it for granted that a good system of government would protect private property. Dissenting voices against the inevitable growth of inequality in social and political spheres were heard as the rule of property was being consolidated, but these voices were either ignored or violently suppressed, as at the time of the Cromwellian ascendancy that succeeded the English civil war or the Napoleonic regime that followed the suppression of Babeuf and his followers.

From the middle of the eighteenth century to the third quarter of the nineteenth century, we see the composition of the classics of an egalitarian democracy such as Rousseau's *Discourses*, Tom Paine's *Rights of Man*, Condorcet's and Godwin's writings, Mary Wollstonecraft's *Vindication of the Rights of Woman*, Tocqueville's *Democracy in America*, John Stuart Mill's *On Liberty*, and *The Subjection of Women*, and the thoroughly radical tradition of socialists led eventually by Karl Marx, Frederick Engels and Rosa Luxemburg.

On the other side, as democratic struggles advanced, there were both analytic and normative accounts of the inevitable degeneration of democracies into oligarchies and the absurdity of imagining a world without basic inequalities in civil, economic and political powers of different groups of people. As in the case of the originary discourses of Plato and Aristotle, the analytic and the normative were often conflated, especially in the writings of the determined opponents of socialism, such as Vilfredo Pareto and Gaetano Mosca.

In the Platonic and Aristotelian conceptions of the ideal polis, a minority of the citizens will lead a life of intellectual and virtuous pursuits, whereas the majority, all of whom need not be citizens, would be engaged in producing the goods that will be needed to sustain the good life of the minority (Taylor 1995, section IV). In the modern capitalist state the market mechanism supplemented by a capital-nannying state has achieved that separation between the citizens who really count and the majority who strive to produce the commodities that sustain the (hardly virtuous) life of the small minority.

One major difference between the Marxian conceptualization of the growth of economic inequality, leading to oligarchic formations, and the elite-centred conceptualization of Pareto, Mosca and Michels is that the former encapsulates an explicit dynamical process leading to increasing inequality, whereas the latter has a static ahistorical conception of the inevitability of oligarchic rule. Another principal difference is that in the structure and dynamics of inequality, the initial distribution of assets—as between different, fairly stable groups—and the market mechanism play a predominant part, whereas in most other theories, it is differences between individuals or fuzzily defined ‘elites’ or ‘interest groups’ that play the predominant part.

### **Strands in the analysis of oligarchy**

Tocqueville projected the inevitable advance of democracy in a modern commercial society. For him, democracy meant the flattening of traditional hierarchies. Marx and Engels celebrated the rise of capitalism out of the debris of feudal structures not only because it advanced the growth of productivity supported by advances in science and technology, but also because it tore away the veils that concealed inequality in the control of means of production between the owners of the means of production and those who were condemned to labour for generating profits for the owners. Bourgeois democracy was the political system that then secured this basic inequality in society.

Vilfredo Pareto was a pioneer in plotting the inequality of wealth and other possessions among individuals. That plot came later on to be known as the Pareto distribution. But he saw it not only as the result of random chance but as an application of social Darwinism that was needed to cure the society of toxic elements by starving out the unfit (Mandelbrot and Hudson, pp. 152-55).

The Schumpeterian theory of democracy, as outlined in Schumpeter (1947, chapters XXI-XXIII) is a complement to the Schumpeterian theory of competition. Schumpeter rejects what he calls the ‘classical doctrine of democracy’, partly by caricaturing it and partly by pointing out two major difficulties with the idea that parliamentary democracy can give expression to the will of the people. The caricature consists in attributing to the proponents of the classical theory the notion that there is an indisputably defined ‘common good’ and that formal democracy will always implement policies that serve the common good. In fact, practically all

the theorists of the pre-Marxian discourses on democracy were acutely aware of the divisions of society along various fault lines such as class, ascribed ethnicity, gender and education, and they believed in the necessity of value criticism in order to demolish the fault lines or to bring about a diminution of the damages caused to the general well-being of the people.

The two principal difficulties in institutionalizing a genuinely democratic mode of decision-making sketched by Schumpeter, however, are worth paying attention. The first is the role of crowd psychology that Le Bon sketched. The second is the role of media and advertising in influencing consumer and, by extension, voter choices.

According to Schumpeter (1947, p. 269), in the classical theory, “the selection of the representatives is made secondary to the primary purpose of the democratic arrangement which is to vest the power of deciding political issues in the electorate. Suppose we reverse the roles of these two elements and make the deciding of issues by the electorate secondary to the election of the men who will do the deciding... And we define: the democratic method is that institutional arrangement for arriving at political decisions in which individuals acquire the power to decide by a competitive struggle of the people’s vote”.

Schumpeter (Ibid, pp. 269-273) advances a number of arguments in favour of his definition. First, it provides an unambiguous criterion for identifying a democracy. “Second, the theory embodied in this definition leaves all the room we may wish to have for a proper recognition of vital fact of leadership” (p. 270). “Third, however, so far as there are genuine group-wise volitions at all—for instance the will of the unemployed to receive unemployed benefit or the will of the other groups to help—our theory does not neglect them. On the contrary we are now able to insert them in exactly the role they actually play’ (Ibid).

“Fourth, our theory is of course no more definite than is the competition for leadership... In economic life competition is never completely lacking, but hardly ever is it perfect” (Ibid, p. 271). Schumpeter’s definition would exclude some ways of securing leadership, such as by military insurrection, but “it does not exclude the cases that are strikingly analogous to the economic phenomena we label “unfair” or fraudulent competition or restraint of competition. And we cannot exclude them because if we did we should be left a completely unrealistic ideal” (Ibid).

According to Schumpeter, “the democratic method does not necessarily guarantee a greater amount of individual freedom than another political method would permit in similar circumstances. It may well be the other way round. But there is still a relation between the two. If, on principle at least, everyone is free to compete for political leadership by presenting himself to the electorate, this will in most cases though not in all, mean a considerable amount of freedom of discussion *for all*. In particular it will normally mean a considerable amount of freedom of the press. This relation between democracy and freedom is not absolutely stringent

and can be tampered with. But, from the point of view of the intellectual, it is nevertheless very important. At the same time, it is all there is to that relation” (Ibid, pp. 271-2).

“Sixth, our theory sheds much-needed light on an old controversy. Whoever accepts the classical doctrine of democracy and in consequence believes that the democratic method is to guarantee that issues be decided and policies framed according to the will of the people...” (Ibid, p. 272). However, ‘the will of the majority is the will of the majority and not the will of “the people”’. The latter is a mosaic that the former completely fails to “represent”’ (Ibid).

The above summary shows clearly that Schumpeter did not expect much of democracy. The election process might be unfair or fraudulent, and yet it would be democracy. The democratic state would not guarantee even that negative liberty which is the summum bonum of libertarian theorists. His model of democracy does not guarantee any of the substantive goods, such as education, health or employment with dignity that go into the making of a human being. He puts some faith in the association of competitive democracy and the freedom of press, but never pauses to enquire whether with the inevitable tendency of competitive capitalism to develop into oligopoly, there would be much freedom of press left. Finally, there is little room in this theory for discourses on the values that the society or polity might be promoting. Instead of trying to see whether the bluntness of majority voting principle could be whittled down, he uses it to dismiss any possibility of the polity pursuing some goals that everybody accepts.

This Pareto-Mosca model of oligarchic democracy which Schumpeter took over and developed was further theorized by James Buchanan, Anthony Downs, Gordon Tullock and other theorists of what might be called the Virginia School of political theory. But few of them recognized the economic processes that led to the institutionalization of oligarchy through apparently democratic choice. As an example of the almost deliberate elision of the underlying economic structures and processes in oligarchic democracy we can take the ‘median voter theorem’, attributed to Harold Hotelling and Anthony Downs (Mueller 1989, chapter 10). With single-peaked preferences of voters, if political opinion is plotted along a left-right dimension, it can be shown that candidates competing for votes will move towards the preferences of the median voter. However, if winning requires amassing election money to manipulate voter preferences, then the candidates will move their promises towards those who can give them the largest corpus of funds, and the government will move towards ‘the best democracy money can buy’. Such democracies will often generate voter apathy (Palast 2003). The voters might feel, to use the title of the book on American politics by Hightower (2000), ‘If the gods had meant us to vote, they would have given us candidates’,

### **Stochastic models of the rise of inequality and the Marxian notion of competition**

Pareto formulated his ‘law of income distribution’ in his *Cours d’Economie Politique* (1896-97/1971). But seventeen years before him, McAlister (1879) had presented the properties

of the lognormal distribution in a memoir of the Royal Society of London. He also ‘described a possible model of the genesis of the distribution from the chance combination of elementary errors and briefly demonstrated its properties of reproduction’ (Aitchison and Brown 1957, p. 2). While most writers trying to generate unequal distributions of the variable studied have relied on the law of proportionate effect—that is, the probability of transition of a variable to the next higher value is proportionate to the value of the variable—this assumption has led to the result that the degree of inequality of the distribution increases continually over time. In order to get out of this problem, Kalecki (1945) constrained the process by imposing a constant variance on it. In his 1936 prize fellowship dissertation Champernowne used separate matrices of transition probabilities for five separate "qualifications" of income (ability, physical capital, land, monopoly advantage, and good fortune) and suggested that transition matrices may vary systematically with original distributions. This dissertation was published only in 1973, with the addition of his 1953 article (Champernowne 1953).

We need to take account of certain institutional features of capitalism and the basic conflict between capital and labour about the share of the surplus in order to move from the personal distribution of incomes to class distribution of incomes. Furthermore, in order to get to a world in which income inequality goes on increasing we need to take account of those changes which can be characterized as capital-nannying policies. In formal electoral democracies such policies can be followed only by oligarchic regimes.

Hence after sketching the routes to increased inequality of class incomes, we will provide a rapid sketch of the ways in which rulers of a democracy in an unequal world effectively deprive the ordinary voters of any real choice of candidates or policies.

In a ‘pure’ capitalist economy, the laws of increasing concentration and centralization of capital were formulated by Marx in *Capital*, Vol. I (Marx 1867/1886). The former refers to the process by which a given firm expands its capital and productive capacity through the re-investment of the surplus within itself. The second refers to an expansion of firms through mergers with or takeovers of other firms. Financial factors play a major role in the latter process.

However, no economy is purely capitalist in the sense that competition takes place only on the basis of private actions unaided by changes in rules and regulations laid down by public authorities or by using corrupt and illegal methods. The dotcom and Enron crashes in the beginning of the twenty-first century and the financial crisis spreading out from 2007 have revealed repeatedly how rife corrupt accounting practices and corrupt manipulation of existing regulations have been in the USA, the country that has long acted as the leader of the capitalist world. Organized stock markets are a relatively recent phenomenon, even though its beginnings can be traced to the Amsterdam of the early seventeenth century. However, credit relations are far more ancient. With the rise of capitalism credit became a way of linking the present and the future in most transactions, but with the removal of restrictions on rates of interest and on the

mortgage of real property, it became a potent means of accumulation. Until the rise of central banking, the era of so-called free banking was an era of enormous turbulence in formal credit relations and economic activities. It is necessary to emphasise this, because there is an illusory perception in some circles that bank-based capitalism was somehow safer: it was safer only in those countries in which the government was prepared to regulate bank lending and was ready and able to act as the real lender of last resort. On the other hand, it is probably true that a reasonably strict separation of banks and stock market operations minimized the contagion between the two sets of institutions, preventing a financial meltdown.

Stock markets have been notorious for turbulence surrounding rumours and herd behaviour as well as deliberate manipulation and spread of misinformation by the operators and their associates.

In the Indian cases the pathways to oligopoly have been prepared mostly by

1. the initial highly unequal distribution of land ownership;
2. the tightly knit family control of big firms;
3. the giving away of public resources by politicians to favoured firms and individuals in the name of promoting development, including building of infrastructure (for example, the grant of enormous amounts of land to Maytas for building the Hyderabad metro line or the enormous oil and gas resources of the Krishna-Godavari basin to the Ambani brothers)
4. the systematic manipulation of government regulations as was done most adroitly by the late Dhirubhai Ambani, and in the neoliberal era
5. by salting away earnings in Mauritian joint ventures and reaping capital gains by routing them through a stock market virtually freed of most tax obligations.

The landed elite gradually diversified itself, moving not only into new businesses, but also into political and professional activities that would enhance or protect their dominance in rural society.<sup>1</sup> The consolidation of oligopoly and inequality in various forms has had an impact on the different regions in different ways, even though the essentially unitary structure of administration has continually modified the regional forces: Of course, from time to time the latter has served to effect the policies pursued by New Delhi. But such influences have not altered the basic movement towards an oligarchic democracy.

The influence of money power has been more and more blatant in recent times. Higher levels of education or advances in technology have, if anything, increased the propensity of businessmen to move into politics and politicians to use their positions to make more money. This was clearly demonstrated in the Karnataka assembly elections of 2008. Karnataka is a state which has been at the forefront of India's so-called economic miracle since the late 1990s. The

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<sup>1</sup> Some idea of how the landed elite and businessmen moved into positions of power in the new republic can be obtained from Bernstorff (1970) and Gray (1970).

state had a very significant presence of the public sector, going back to the days when most of it was part of the princely state of Mysore during the colonial regime. Compared with the north Indian states, it also had lesser degree of dominance by landlords. There was also some attempt to introduce pro-peasant land reforms in the 1970s. Moreover, the state benefited from the development of a number of relatively high-technology industries under the public sector such as the production of aircraft, the production of machine tools and of electronic goods, and a leading scientific research institution, the Indian Institute of Science (the latter predated independence).

From 1947 to 1983, the Congress party ruled Karnataka, with only a few interruptions of president's rule. It began losing its grip on the state from 1983, when the Janata party, with Ramakrishna Hegde as chief minister ruled from 1983 to 1988. Then there was an alternation in the control of the government between the Janata party or a breakaway unit, calling itself Janata Dal or Janata Dal (Secular) (JDS, in brief) and the Congress. Some of the Congress chief ministers became notorious for their corruption. The Congress party ruled the state between October 1999 and May 2004. The chief minister, S. M. Krishna, became a champion of neoliberal policy at the state level, while projecting an image of a clean and efficient administrator. In the election held in 2006, the Congress party lost its majority and formed a coalition government with the support of JDS. This coalition broke up, essentially because the son of H.D. Deve Gowda, the JDS chief wanted to become chief minister. The JDS (remember, 'secular'!) then formed a government with the support of the BJP, under a power-sharing arrangement. That power-sharing arrangement soon broke down, and after a few months of president's rule, elections were held in May 2008, with the result that the BJP obtained a majority in the state legislature and formed the government. This is the first time that the BJP obtained a majority in an election in a southern Indian state.

In the Karnataka elections of 2008, money and muscle power played a blatantly obvious part. From the data given by the Association for Democratic Reforms (KEW 2008) and by investigative journalists, it comes out that the *average* wealth declared by the candidates comes to more than Rs 20 million (remember that the per capita income of an Indian is less than one-thousandth of this figure) and the declared wealth of many candidates exceeded Rs 300 million and in some cases it was above Rs 1 billion (KELEC 2008; KEW1 2008; KEW2 2008; Sharma 2008). A very large proportion of candidates had a criminal record (nearly a fifth in case of BJP candidates, with the JDS and Congress following closely). The election took place in two phases. In the first phase, as many as 82 candidates reported a very steep increase in total assets between the 2004 Assembly Elections and the 2008 election. The average increase in assets was a huge 677% (KEW1). In phase 2, as many as 74 candidates reported a very steep increase in total assets between the 2004 Assembly Elections and 2008 election. The average increase in assets was a huge 465.6% (KEW2). This indicates the rapidity with which inequality of assets and incomes is increasing in India, and especially in the states that are supposed to be leading the

Indian economic miracle. These data are also a pointer to the nature of the candidates that the major right-wing and so-called centrist parties are fielding in the elections.

There are legal limits on how much one can spend in an election. But 'P.G.R. Sindhia, a veteran politician, said each of the candidates nominated by the three major parties, even on a conservative scale, spent an average of Rs 50 to 60 million. In quite a few constituencies, most notably the nine seats in the iron-ore-rich Bellary district (where the BJP won eight of the nine seats), the 28 seats in Bangalore (BJP 17, Congress 10) and in other urban centres, it is estimated that candidates spent at least three times that amount' (Sharma 2008). This would mean an expenditure of more than Rs 40 billion for the 224 constituencies in the State. Earlier, moneyed men used to finance parties. Many of them decided this time that they might as well fight the elections on their own and manage the pork-barrel (to use a US terminology) themselves. They got round the restrictions imposed by the Election Commission by distributing the money at night, getting local intermediaries to distribute liquor for the election workers and the electorate, and so on (KELEC 2008).

As the case of Karnataka illustrates, under the neoliberal regime, there is now very little difference in the economic policies or social origins between the BJP and the Congress or most other so-called secular parties allied with either the Congress or the BJP. In 2009, two Reddy brothers, both of whom are alleged to have amassed fortunes through illegal mining in the Bellary district of Andhra Pradesh, with the connivance of the TDP and Congress governments of that state and had gone on to win elections in Karnataka as BJP candidates, staked their claim to ministerial berths in the Yedurappa ministry. The publicity surrounding that claim revealed the nexus of illegality, money-making and politics under the dominant bourgeois parties.

The 2009 elections both to the central parliament and to the state assemblies further underlined the nexus between wealth, criminality and politics in India. A comparison between the data relating to candidates for elections submitted to the Election Commission in Maharashtra and Jharkhand, one of the richest (in per capita terms) and one of the poorest (in per capita terms) respectively reveals certain interesting patterns. First, the assets of the candidates are much higher in value in Maharashtra than in Jharkhand. Fully one hundred candidates in Maharashtra had declared assets above Rs 50 million, whereas the number of candidates with assets of 50 million and above was only seven in Jharkhand. Second, the highest value of assets of a candidate in Maharashtra was Rs 1269 million and there were 46 candidates with assets valued at above Rs 100 million. In Jharkhand the highest value of assets of any candidate was Rs 271 million and there were only two candidates with assets valued at Rs 100 million.

Furthermore, the percentage of candidates with criminal charges against them was higher in Jharkhand than in Maharashtra: among the successful candidates in Maharashtra, 143 MLAs out of a house of 288 had criminal records, whereas in Jharkhand 73% of the candidates had a criminal record in a house of 81.



Some of the criminality or illegality of candidates of major national parties in the richer states can be concealed through more skilful use of accounting or media manipulation or both. For example, Ashok Chavan, the current chief minister of Maharashtra, possesses declared assets worth Rs 166 million. He is supposed to have spent less than Rs 10,000 on publicity. But it was revealed by the *Hindu* that, in fact, full pages of advertisements in his favour had been published by a number of newspapers as news.

It would appear then that, just as in many of their economic policies, the ruling classes in India have out-liberalized the USA, so in the manipulation of laws and the media they have outpaced the Americans. The analysis of the nexus between money and criminality in India will add new chapters to the emerging corpus of work on oligarchic democracy.