

<p><b>Note:</b> <i>This is a substantially revised version of an essay for UCL's module POLS0032 Authority, Democracy and Resistance</i></p>
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# **Capitalists' communitarian duties not to obstruct democratic aims**

## **I Introduction**

Historically, there are numerous examples of capital strikes in functioning democracies. Such strikes allow capitalists to express their disapproval of a particular policy and sometimes to set back the achievement of democratic aims. For example, in 1981 French president Francois Mitterrand was elected to power on a socialist platform to implement a series of radical reforms such as the nationalisation of several key industries, including banking, and an increase of 40% in the minimum wage. Disapproving of his measures, many domestic and international companies cut down their investments in the French economy, i.e., they engaged in a capital strike. Eventually, President Mitterrand was forced to make a U-turn on his economic policy despite having won a majority on his platform (Bliek and Parguez, 2008).

Following Christiano (2010, 199-200), democratic aims such as Mitterrand's economic policy are defined as the objectives that best fulfill citizens' preferences subject to a feasibility constraint. On the other hand, I define capitalists as the directors and the shareholders of the largest companies in a particular country. With these definitions in mind, this paper adopts a communitarian perspective and argues that capitalists should not act in ways that set back the achievement of democratic aims. This duty is based on citizens' communitarian intergenerational obligations (Thompson, 2009) to preserve common pool resources. To support the last claim, I present an argument for why capitalists should see political equality as such a resource.

In defending this position, this paper proceeds in three stages. Section II presents Christiano’s argument (2010) for capitalists’ duty not to obstruct democratic aims by engaging in activities such as capital strike or flight.<sup>1</sup> In Section III, the base structure objection and Cohen’s (2008) reply grounded in personal duties of justice are discussed. The reply is rejected since these duties clash with more fundamental liberties. Drawing on game theory, Section IV lays out my argument for capitalists’ communitarian duties to preserve common pool resources (Ostrom, 1990) for the next generation. It also replies to a couple of objections to my proposal.

## II Christiano’s argument

Before presenting Christiano’s argument (2010) for capitalists’ duties not to engage in capital flight, I need to clarify several key points. For Christiano, certain duties entail stronger obligations on citizens than mere *civil* obligations. One example of the latter is obeying the law which follows from respecting a legitimate civil authority. However, Christiano has in mind other duties that can be more accurately described as entailing a *political* obligation (Parekh, 1993) that stems from capitalists’ respect for their co-citizens rather than respect for the civil authority. This distinction matters because many civil obligations are legally enforceable whereas most political obligations are not (Parekh, 1993, p.245).<sup>2</sup>

Christiano conceives of democratic decision-making as proceeding in three stages:

1. Firstly, citizens choose a preference ordering of democratic aims.
2. Secondly, a feasibility constraint to achieving these aims is independently determined.
3. Thirdly, the government implements the optimal policies given the preference

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<sup>1</sup>I largely use capital strike and capital flight interchangeably throughout this paper. More generally, they indicate actions that capitalists can take to obstruct the policies chosen by a democratic government.

<sup>2</sup>In addition, the distinction raises the question how Christiano justifies democratic *civil* obligations in the first place. For reasons of space, this line will not be pursued further.

ordering and the feasibility constraint.

Capitalists can, of course, affect the preference ordering in the first stage via the electoral process (Cohen, 2001). G. Alexander Heard (1960) has, for instance, argued for the importance of campaign finances in the electoral process, labelling such expenses as “the cost of democracy”. However, Christiano’s argument explicitly focuses on the possibility of influencing the feasibility constraint’s content in the second stage. For example, when a policy for higher taxes is considered in parliament, capitalists can threaten to withdraw their money from the country, i.e., capital flight. Such an action will make representatives reconsider the policy’s feasibility. Moreover, by focusing specifically on the feasibility constraint in the second stage, Christiano makes an argument about capitalists’ duties independently of whether or not they influence the electoral process. Thus, his argument holds even under complete equality in citizens’ ability to affect the preference ordering of democratic aims.

Given these clarifications, Christiano’s argument can be summarised as:

Premise 1 (P1): The government should implement the optimal policies given the preference ordering and the feasibility constraint.

P2: Capitalists can influence the feasibility constraint and prevent implementing the optimal policy.

P3: All citizens, including capitalists, have obligations to support government’s policies when it is not too costly.

Conclusion (C): Thus, capitalists have a duty not to obstruct democratic aims.

P1 follows directly from Christiano’s understanding of democratic decision-making outlined above. Relative to other citizens, capitalists can more easily influence the feasibility constraint by simply exercising their property rights as in the case of capital flight. The government will think twice before raising taxes which gives capitalists a greater say in selecting the optimal policy and so violates political equality (P2).

Furthermore, capitalists will usually not suffer huge costs such as becoming insolvent from these policies. Assuming that this is the case, all citizens should respect and cooperate in the implementation of optimal policies (P3). A civil servant will not be excused from *not* implementing a policy which she dislikes. Thus, capitalists as citizens have duties not to obstruct democratic aims (C1).

### III Base Structure and Cohen's reply

Many objections can be launched on Christiano such as the systematic luck objection (Dowding, 2003). It states that capitalists do not consciously aim to undermine policy but 'get their way' irrespectively as their wealth is so important for the functioning of a democracy, e.g., they pay taxes which are used for public services. So, they are simply systematically lucky rather than necessarily powerful. For reasons of space, I will not respond to this argument in depth but only note that even if capitalists are systematically lucky this does not mean that they cannot (and do not) use their wealth to influence the democratic process.

In my opinion, the strongest argument against Christiano is not the systematic luck objection but rather the base structure objection. It claims that duties of justice do not apply directly to individuals (Williams, 1998, 227-231). Rather, they apply to the base structure defined as the major social institutions distributing the main burdens and benefits in a society. On Rawls' account, the constitution, the economy, the legal structure and, controversially, the family (Okin, 1994) largely exhaust the base structure. Demands of justice should be regulating the rules selected by these institutions but not the choices which individuals made inside them. A society will still be just if people only adhere to the rules issued by the base structure and do not enforce the principles of justice in their own lives.

Applying this idea to Christiano, capitalists cannot have duties not to disrupt democratic aims since duties of justice do not apply to personal conduct. Assuming that the base structure is regulated by the principles of justice, capitalists will not be

violating any obligations by engaging into capital flight after tax increases because they are simply exercising their property rights and so their basic liberties.

In response, Cohen (2008, 116-150) argues that a society cannot be truly just unless individuals have personal duties of justice. Consider the perspective of the *talented* defined as the most productive individuals who earn the most. If they truly affirm the principles of justice, they will be willing to be as productive but at lower wages. This would improve the situation of the worse-off and make their society more just.

Individuals' personal ethos, i.e., whether they affirm the principles of justice, matters for how just a society is. What these personal duties imply for Christiano's argument is that capitalists have personal duties not to disrupt democratic aims. Their behaviour would be unjust as it violates political equality.

Replying to Cohen, I believe that personal duties may be too burdensome to individuals because their scope is unclear. On Cohen's account, they encompass not just the political sphere but also behaviour at workplace. For him, it would be unjust for pilots to strike for even higher wages, if they are already well-paid (Otsuka, 2001, 2). However, it seems that personal duties may also reasonably extend to occupational choice and here things start to look problematic.

Consider the following example. An ideal social planner discovers that my chosen occupation does not serve the principles of justice as well as another one. Would personal duties require me to change my occupation? Such a requirement can clash with my basic liberties which can reasonably include occupational freedom. Nevertheless, since such basic liberties should take priority over egalitarian considerations in a just society at least on Rawls' account, such a requirement on me is unjust. Thus, Cohen's reply fails unless he specifies the extent to which personal duties of justice can reasonably extend and what we should do when they clash with basic liberties. In the case of the capitalist who would like to engage in capital flight, they do not have a *personal* duty not to do this. The reason is that *personal* duties are not something that we would like to impose on citizens, given the potential clash with more fundamental liberties.

## IV Introducing Intergenerational Justice

The previous section postulates that Christiano's argument cannot justify capitalists' duties without being too burdensome to liberty. Thus, I propose a communitarian argument based on intergenerational justice (Gosseries and Meyer, 2009):

P1: People belong to communities.

P2: Members of communities have intergenerational obligations to preserve common pool resources (CPR).

P3: Political equality can be seen as a CPR from capitalists' perspective.

C1: Thus, capitalists have a duty to preserve political equality in the current generation, especially due to family considerations.

Before detailing each premise, note that I continue to argue in Christiano's framework. I assume the same process of democratic decision-making and that capitalists can only influence the feasibility constraint, i.e., there might be equality in the electoral process.

P1 is a standard communitarian premise. It assumes that people have special obligations to others in their community given the shared feeling of belonging.

Communities are also characterised by their existence before and after the current generation. This feature suggests an intergenerational aspect to the concept of community (Thompson, 2009). However, does it also imply intergenerational *duties* for preserving Common Pool Resources (CPRs) in particular?

CPRs are defined by two features (Ostrom, 1990). Firstly, they are *non-excludable*, i.e., nobody can be excluded from (over)using them. Secondly, they are *rivalrous*, i.e., overuse by one party reduces significantly the consumption of another party.

Conventional examples of CPRs include irrigation systems and natural resources in the territory occupied by the community in question. To justify communitarian intergenerational duties for preserving CPRs, it is useful to examine if the opposite holds: people of a community do *not* have such duties.

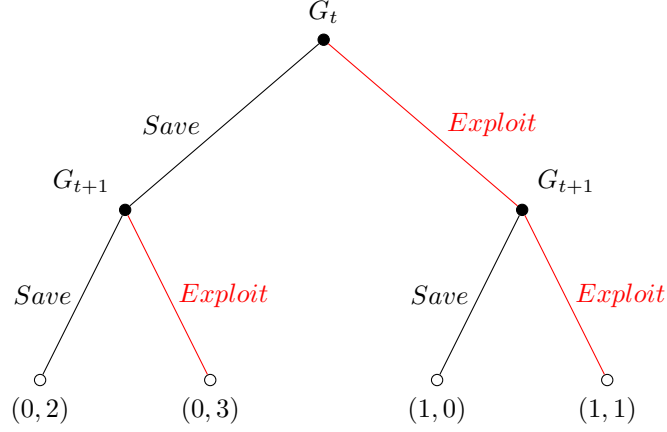


Figure 1: A Game of Preserving a CPR under the assumption of no communitarian obligations. In each payoff vector  $(u, v)$ , payoff  $u$  is  $G_t$ 's payoff and  $v$  is  $G_{t+1}$ 's payoff

We can investigate this claim by considering the following game (Figure 1). Generation at time  $t$  ( $G_t$ ) and Generation at  $t + 1$  ( $G_{t+1}$ ) have to decide between two actions: saving or exploiting fully a CPR.  $G_t$  prefers Exploiting over Saving, i.e., Exploiting is a strictly dominant strategy. In addition, it does not care about  $G_{t+1}$ 's preferences because we have assumed no obligation to preserve the resource. On the other hand,  $G_{t+1}$ 's preference ordering is  $(\text{Save}, \text{Exploit}) > (\text{Save}, \text{Save}) > (\text{Exploit}, \text{Exploit}) > (\text{Exploit}, \text{Save})$  where the first action is  $G_t$ 's action and the second is  $G_{t+1}$ 's action. I assume  $(\text{Save}, \text{Save}) > (\text{Exploit}, \text{Exploit})$  since the resource would be nearly exhausted in  $t + 1$  due to overuse in  $t$ .

Using backwards induction, it would be optimal for both generations to Exploit, even though  $G_{t+1}$  would *always* prefer to be at the node after  $G_t$  plays Save, where the resource was not overused. While this game is simplified, its results can be generalised for a finite number of  $n$  generations to show that it would be optimal for each to Exploit. However, from a communitarian perspective, this outcome is suboptimal since each generation would prefer if the previous one saves. Thus,  $G_t$  would prefer having duties to save CPR because this ensures that the previous generation also saves. So, assuming that we adopt the communitarian view, this result suggests intergenerational

duties to preserve CPR (P2).<sup>3</sup>

Introducing political equality into this picture, it is *non-excludable* because capitalists cannot be prevented legally from attempting capital flight as they are simply exercising their property rights and so exploiting political equality. Moreover, if  $G_t$  exploits these rights to prevent higher taxes even under perfect political equality in  $t$ , politicians in  $t + 1$  will be more weary of implementing such taxes because they will be aware of the potential response of capitalists. Since capitalists' interest would be given even greater weight in  $G_{t+1}$ , equality is further reduced.

In addition, various mechanisms for the transmission of social and economic status across generations that are well-documented empirically start to operate. For example, children of long-term unemployed parents will be more likely to be unemployed themselves (Macmillan, 2014). Moreover, there is various empirical evidence for intergenerational transmission of occupation (Bukodi et al., 2015) and earnings (Gregg et al., 2017). Unless there are policies to offset these mechanisms, inequality will inevitably increase which means that capitalists in  $G_{t+1}$  will control more resources than  $G_t$  and so have a greater ability to obstruct democratic aims if they want to. In that sense, equality is *rivalrous* and so all members of a community can consider it as CPR.

It may be objected that political equality is not CPR from non-capitalist majority's perspective. This group cannot influence policy via the feasibility constraint as easily as capitalists can. The reason is that they do not possess a tool such as capital flight to communicate their disapproval of government's policy. While they can organise strikes, for example, they will face collective action issues which would make the strikes less efficient than capital flight. I will not provide a detailed response to this objection for reasons of space. However, I will only note that even if political inequality is not a CPR for the non-capitalist majority, it remains a CPR for capitalists and this is what matters for the argument in this paper.

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<sup>3</sup>One interesting question here is whether we need to specify a contract to enforce cooperation across generations, even if we determine that this is the desirable outcome. In the example with finite generations  $n$ , we will need to enforce such a contract, as any outcome involving *(Save, Save)* is not a Nash Equilibrium and so it cannot be selected by rational players.



Assuming that this is the case, one may wonder why capitalists in  $t$  should be concerned about less political equality in  $t + 1$ . After all, people have complex identities and so they have commitments to various agents. So, community obligations should not be taking priority over other commitments. The director of the French office of a particular bank may argue that she has an obligation to managers of offices in other countries to engage in capital flight after Mitterrand's policy.

My response to this objection proceeds in two stages. Firstly, note a specific feature of political equality in which it differs from typical CPRs. If capitalists exploit equality in  $t$ , political equality becomes a private good in  $t + 1$ , i.e., both excludable and rivalrous. It will not be exhausted as, say, irrigation systems. Capitalists in  $t + 1$  will still be able to take advantage of the resulting political inequality.

Secondly, whilst capitalists have intergenerational communitarian duties to preserve CPRs, they also have such duties specifically towards their families (Thompson, 2009). However, since we assume the existence of capitalists, a market economy should also be in place. Moreover, assume that a capitalist exploits equality to prevent a policy in  $t$ . Under a market economy, despite transmission of advantage across generations, she will never be guaranteed that her firm will not be bankrupt in  $t + 1$ . So, her children and grandchildren will not necessarily inherit her privileged position which allows exploiting political *inequality* in  $t + 1$ . She risks harming her ancestor and violating her *family* intergenerational obligations. Thus, she has a duty not to obstruct democratic aims in  $t$  by exploiting the feasibility constraint.

## V Conclusion

Given the aforementioned, capitalists' duties cannot be justified by Christiano's argument without serious violations to people's liberties such as imposing burdensome personal duties of justice. However, if a communitarian perspective is adopted, capitalists can be shown to have intergenerational duties to preserve CPRs. Since political equality can be seen as one type of a CPR, capitalists have obligations not to

take actions harming political equality. Therefore, they do not have a right to engage into capital flight or strikes after a democratically chosen policy that they dislike. Moreover, such obligations can be sustained under complex identities which include commitments to agents other than a capitalist's own community.

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