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Neoliberalism, Populism and the Erosion of Popular Control in Contemporary Democracy

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Abstract: This paper explores the role of neoliberalism, the world's current economic system, in shaping the current democratic crisis and investigates the paradoxical relationship between free market and undemocratization. It argues that populism and populist autocracy are not the causes but symptoms of a deeper structural transformation. By linking neoliberal deregulation, monopolistic enterprises and the weakening of state authority, the paper shows how market autonomy can deprive average people of politico-economic power and freedom. Drawing on the Oceanic Games model, it explains how individually fragmented citizens become powerless against atomic players such as corporations and monopolies when the state no longer organizes popular interests into collective democratic power. The paper further argues that the 2008 economic crisis triggered public anger by exposing the inability of neoliberal institutions to protect ordinary citizens, which enabled populism to appear as an expressive response. It concludes that democracy cannot be restored by eliminating conflict, but by keeping political competition alive through democratic processes and allowing competing ideologies to check and balance one another.

Keywords: Democratic crisis; neoliberalism; populism; undemocratization; Oceanic Games; political economy.

1. Introduction

Many people believe that the world today is experiencing its largest democratic backsliding since the end of WWII. In fact, influential democracy indicators have shown a global trend of continuing democratic erosion over the past decades, evidenced by declining election fairness, restrictions on civil liberties, and the expansion of executive power [1][2]. Prevailing views attribute the democratic crisis to the rise of populism and autocracy. Populists believe that the current political system can no longer represent the interests of average people, thus aiming to regain popular control by seeking anti-establishment leadership to "drain the swamp." For instance, during the January 6 Capitol attack, supporters of Donald Trump stormed the Capitol in an attempt to overturn the 2020 election results [3]. The cynical populists' attempt to place the so-called "will of the people" directly above institutional procedures inevitably leads to populist autocracy, because the executive leader portrayed as the representative of popular interests consequently acquires enormous power and legitimacy under populist authorization. For instance, in Hungary, Viktor Orbán used populist rhetoric to justify weakening judicial independence and reshaping electoral rules in favor of his ruling party [4].

However, this paper argues that populism and populist autocracy are not causes but merely symptoms of the contemporary democratic crisis. Even some of the most recent political theories only trace populism to citizens' growing feeling that they have lost control over their own lives; for instance, factory workers who lose their jobs due to globalization or automation often find that neither elections nor governments seem capable of reversing these changes [5]. Yet this sense of helplessness, although closer to the root cause, is still a symptom. There should be deeper structural reasons that trigger populism, populist autocracy, the sense of "losing control," and broader democratic backsliding. This paper explores the role of neoliberalism—the world's current economic system—in the shaping of the current democratic crisis and investigates the paradoxical relationship between the free market and undemocratization.

2. Neoliberalism and the Retreat of State Authority

The post-WWII era witnessed the rise of two competing political and economic ideologies, namely neoliberalism and Keynesianism, which think fundamentally differently about the power dynamic between government and market. While Keynesianism perceives government intervention as a natural and inseparable part of the economic cycle [6], neoliberalism is concerned about the use of state-controlled economy by authoritarians in Russia and Nazi Germany as a means to oppress the people. For instance, neoliberalism's intellectual godfather Friedrich Hayek asserts in The Road to Serfdom that granting government control over economic decisions inevitably leads to the erosion of individual liberty and the rise of tyranny [7]. Hence, neoliberalism emerges to disentangle governmental expansion from the sovereignty of individual rights, promoting policies centered around free-market principles of deregulation, privatization, free trade, and reduced welfare spending.

Keynesianism initially dominated post-WWII economies, yet it gradually lost its influence during the 1970s due to its inability to explain or resolve the crisis of stagflation. Seizing the opportunity of Keynesianism's theoretical loophole, neoliberalism rose to dominate, a process accelerated by conservative politicians like Ronald Reagan and Margaret Thatcher [8]. Since then, neoliberalism has dominated the world's economy for over 50 years until now, fundamentally altering the relationship between democracy, citizens, and market by gradually shifting the market balance towards the expansion of market autonomy and the retreat of state authority. Neoliberal concepts have been so prevailing that many perceive the characteristics of today's economy, such as free market or minimal state regulation, to be foundational traits of economy, yet it is important to understand that they are merely characteristics of neoliberal policies but not universal truths by any means.

This paper argues that the dominance of neoliberalism plays an important role in the current democratic crisis, because its over-reliance on deregulation creates even more undemocratic political and economic relationships. It demonstrates that the absence of government does not guarantee freedom as neoliberalism assumes, but instead creates new shackles, namely the monopolistic enterprises. The rising monopolies, which ironically gain momentum from neoliberalism, exacerbate inequality and create an increasingly unbalanced power dynamic between citizens and market.

3. Liberty, Deregulation and Corporate Power

The reason why neoliberalism doubles down on deregulation regardless of its side-effects is that it fails to economically define the subject of "liberty." Neoliberalism simplistically assumes the so-called "individual liberty" to be one coherent entity, yet the reality is that the market is comprised of two fundamentally unequal players: the big businesses and mass citizens. While corporations are well-organized entities that can implement unified decisions, granting them large market influence, the concept of "people" does not exist in the market coherently because it is unequally difficult for citizens to take collective actions. The corporations are in nature superior and stronger in comparison with the individualized and scattered citizens. On top of that, by depriving governments of power to regulate the economy, neoliberalism also eliminates the government's role as a political organizer and facilitator for popular interest as a by-product, further consolidating the dominant position of corporations.

After all, the paradox of neoliberalism is that, while it emphasizes liberty as its core value, the implementation of neoliberal policies creates an environment that fundamentally disadvantages individuals as a by-product. This is undemocratization because neoliberalism results in the deprivation of politico-economic power and freedom from the average people and thus unequal footings between individuals and corporations. For instance, Amazon reported total revenue of $638 billion in 2024 [9] and spent tens of millions of dollars on lobbying [10]. After all, participatory power has become fundamentally unequal in the representative process in that monopolistic corporations have gained far greater influence than that of citizens' votes.

4. Oceanic Games and the Political Economy of Power

The concept of Oceanic Games in a formal model can offer some insight into how undemocratization derives from neoliberalism unintentionally. The Oceanic Games model describes a system where a small number of major players called "atoms" coexist with an infinite continuum of individually insignificant minor players referred to as the "ocean" [11]. Mathematically, the oceanic players are individual points within a continuum, for example, each single point $x \in [0,1]$. Every one of these players has measure zero and thus is completely negligible on its own. The atomic players, by contrast, are discrete players outside the continuum who possess positive weight by themselves and hence are mathematically "large" enough that their actions directly affect the equilibrium.

Such massive disparity between the ocean and the atoms accurately explains the disenfranchised position of individuals in free market economy. While individual citizens, consumers and voters are the "oceanic dots," the giant corporations, banks and monopolies act as the "atomic players," who possess enough coordinated resources to gain greater economic, political and social influence than any average citizen does. The monopolies have great control over capital, technology, and most importantly the wages of citizens, granting them power to directly shape the economy; they also control redistribution of resources such as political influence; and socially they shape not only consumer choices but also the worldview of consumers and what kinds of desires become mainstream. For instance, during the postwar suburban expansion of the 1950s and 1960s, the California highway system was heavily expanded through the influence of automobile companies such as General Motors and oil corporations like Standard Oil, gradually restructuring urban life around private car consumption while weakening alternative forms of public transportation [12]. In this sense, the market dominated by monopolies has transformed not only products or the economy, but also the very structure of social and political organization.

As shown by the model of Oceanic Games, a free market does not create a free people. It may relieve the people from governmental shackles, yet it places them under the new shackles of monopolies.

However, the model of Oceanic Games is not a deterministic model with a prescribed destiny. Individual players can instead become collectively powerful through aggregation into coalitions. Metaphorically, although no single drop matters, the mass of water does. Mathematically, coalitions emerge when infinitely many negligible oceanic players are grouped into a measurable subset of the continuum [11]. For instance, while each individual point $x \in [0,1]$ has no effective power alone, a collection of points such as the interval $[0,0.3]$ possesses positive measure, allowing the group to be capable of strategically interacting with atomic players.

5. Representation, Coalition and the Retreat of the State

In classical democratic theories, a representative government plays the role of such a coalition. Citizens could aggregate their preferences by selecting representatives through democratic processes to generate "a real unity of them all" [13], transforming the scattered voices of the people into a unified political force through democracy. Citizens can therefore gain market powers similar to the monopolistic corporations. For instance, during the New Deal, support from millions of unemployed citizens enabled Franklin Roosevelt to impose policies of financial regulation and welfare reforms in protection of labor interests.

However, the necessary condition for individuals to transform into coalitions is now absent because the government has been removed from its position to transform public voices into policy practices. An ideal neoliberal market freed from government is also freed from the will of citizens.

As governments internalize the belief that many forms of intervention are simply "beyond their responsibility" under neoliberal markets, the state gradually evolves to cease setting holistic economic agendas that reflect public will. Consequently, democratic processes no longer play the role of organizing collective social interests. Citizens are therefore left increasingly fragmented, while corporations remain highly organized atomic actors. In this sense, neoliberalism weakens not only the regulatory power of the state, but also its organizational and representative function within democracy itself. For instance, in the face of the AI boom, millions of American workers vulnerable to AI automation powerlessly find themselves gradually replaced by AI and losing their jobs. They are also voters, so in theory these votes will urge the government to protect them. However, under neoliberalism, governments increasingly regard strong intervention into the AI industry as economically undesirable or structurally impossible, causing democratic pressure from ordinary voters to fail to translate into substantial regulation or protection for workers. By contrast, France's national AI strategy presents AI as a domain of public policy linked to economic, technological and political sovereignty and to serving the economy and society [14].

6. The 2008 Crisis and the Rise of Populism

In our world today, despite the global rise of democratic backsliding of populism and autocracy, most political scientists and commentators have confidence that democracy remains resilient because democratic institutions continue to retain legitimacy, while citizens and civil society repeatedly mobilize to defend, restore, and regenerate democratic governance rather than abandon it altogether [15]. In this sense, the current democratic crisis derives not from the erosion of democratic processes, but from the world's current economic system—neoliberalism—which undermines economic and political democracy, alienating the public from meaningful economic and political control. This is a democratic crisis because neoliberalism damages popular sovereignty over economic and political issues.

However, neoliberalism has prevailed for over 50 years; if the current democratic crisis lies in neoliberalism, there should be a trigger that sparks its aforementioned deficits and consequently public anger, that is, the 2008 economic crisis and the following economic recession. During the 2008 economic crisis, millions of global citizens lost their homes and became heavily indebted. The crash revealed neoliberalism's Achilles' heel: financial deregulation encouraged excessive risk-taking and undermined long-term economic stability. Moreover, it made devastated citizens aware of the inability of the current politico-economic system in protecting their interests: not only did the recovery process focus majorly on relieving corporations rather than average individuals, but also regular democratic channels had been blocked from translating anti-bailout voices into policies. Instead of pointing at the system of neoliberalism, the public turned towards attacking the players in the system: government or big corporations. The failure of regular democratic channels pushed the public to resort to populism as its only expressive option. For instance, the Occupy Wall Street movement, embodied by the slogan "We are the 99%," reflected growing public frustration with a system perceived to serve financial elites rather than ordinary citizens [16].

Borrowing from Callison and Manfredi, "zombie neoliberalism" is a vivid depiction of the paradoxical persistence of neoliberal policies and market logic even after the 2008 financial crisis, as neoliberalism continued to govern society despite being intellectually and economically discredited [17]. The lingering survival of neoliberalism gave the average people no choice but to bypass the government in protection of their interests. Their solution is simple: to directly regain popular control through circumventing the seemingly dysfunctional representative institutions and seek anti-establishment leadership to "drain the swamp." Naturally, populism rose to power, resulting in democratic crises such as the breaking down of institutions. Populism discovers the problem of the absence of popular control, yet it fails to expose the root of neoliberalism. Ironically, the disorders created by populism further exacerbate undemocratization and act as a distraction from uncovering neoliberalism.

In brief, neoliberalism is the root cause of today's democratic crisis, while the 2008 economic crisis is the trigger that sparks it. Paradoxically, populism's oversimplified attack on government, which aims to resolve disenfranchisement, acts as another threat to democracy beyond neoliberalism.

7. Conclusion

Many people seek a democracy without conflict, believing that a single coherent voice means universal satisfaction. However, as Mouffe argues, democratic politics is inherently conflictual, and the absence of competing voices does not signify consensus but rather the absence of popular representation [18]. Democracy remains alive through the continuous competition among competing ideologies, which demonstrates that groups with diverse interests could all be represented and participate in public life. Yet the contemporary dominance of neoliberalism has increasingly narrowed the boundaries of political imagination by encouraging societies across the world to interpret political and social issues primarily through the logic of the market, while other visions of politico-economic relationship are dismissed. As a result, citizens are deprived of genuine political choice. If every political problem is assumed to have only one legitimate solution—the seemingly neutral "invisible hand" of the market—then democracy can no longer fulfill Rousseau's ideal of treating each citizen as an "indivisible part of the whole" [19]. Hence, the solution to both neoliberalism and the current democratic crisis is not to eliminate conflict, but to keep political competition alive by channeling it through democratic processes and allowing competing ideologies to check and balance one another. After all, democracy should be an unending struggle in which no ideology can ever claim permanent victory.

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