

# MAKING CAPITALISM FIT FOR SOCIETY



COLIN CROUCH



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For Joan

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Colin Crouch

polity

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# Preface

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Income inequality in the United States of America has reached such an extreme point that there are fears that it may damage the economy. These views are not just expressed by the ‘progressives’ who might be expected to have such opinions, but by the International Monetary Fund (IMF) and the Organization for Economic Co-operation and Development (OECD). This is a striking development, for three reasons.

First, the IMF and OECD are usually associated with orthodox economic opinion, which is either indifferent to inequality or, rather, favours it. Indifference is usually expressed in the cliché, ‘A rising tide lifts all boats’, meaning that if the rich are doing well, then the economy is doing well, so everyone gains and it does not matter if some gain more than others. Behind that usually lies an opinion favourable to increasing inequality, in the belief that growth happens when entrepreneurs have strong incentives to innovate and invest. Something extraordinary is taking place if experts at organizations like the IMF and OECD have started to fear that any such effect is now being undermined by the squeeze operating on moderate and lower incomes, while those of the wealthy, especially in the financial sector, continue to rise.



Second, despite these fears, the political and economic elites of most countries in the developed world remain committed to pursuing the same neoliberal policies that have produced this harmful situation. The USA may have been the global leader in the new inequality, but it is being widely imitated. Almost everywhere, inequality is rising, welfare states are being cut back, trade unions are declining in importance, employee rights are shrinking. At the same time, ever more public resources are devoted to saving the banking system that produced the financial crisis. Those who receive their incomes through financial speculation are being protected and become richer, while those who do so by working at more productive activities are having an ever tougher time.

The third striking fact is that these negative developments are not produced by ineluctable forces beyond human control, but are the results of political choices. True, certain more or less unavoidable factors in the global economy do not make it easy to avoid increasing inequality; but that makes it even more remarkable that so many political decisions gratuitously intensify rather than counter such trends. In particular, recent changes in taxation in most countries have tended to favour those on high incomes, whose pre-tax incomes have also been rising the most strongly. There are alternatives, not in the sense of utopian possibilities, but in real existing examples that we can see around us. However, these examples are themselves now being threatened by the onward march of anti-egalitarian orthodoxy.

These fears of the international organizations provide a remarkable check to the usual claim of anti-egalitarians, that those who complain about inequality are primarily motivated by ‘envy’. But there is another, equally powerful argument against that claim. While inequality of wealth does not necessarily hurt those outside the ranks of the rich, its political consequences do. If wealthy interests are able to convert wealth into political power – as is very often the case – they are able to distort both the market economy and democracy. That is a major preoccupation of this book. The collapse of

the Soviet Union made it clear, if it was not already, that capitalism is the only complex system known to us that can provide an efficient and innovative economy. But the financial crisis has revealed the potentially pernicious workings of some aspects of capitalism, its dependence on the state to rescue it at public expense from its own contradictions, and the growing inequalities that its elites seems to demand. All this creates reasonable doubt whether social and political arrangements can simultaneously provide a decent life for all citizens and satisfy capitalists' demands. Fortunately, during its history capitalism has shown a flexibility and adaptability that has enabled it to be compatible with several different kinds of society. This is one of the main characteristics that marked its superiority to Soviet communism. But it does not necessarily do this. Everything depends on the balance of power among diverse social and political interests, an imbalance that may leave (as today seems to be the case) capitalist interests dictating terms to the rest of society, but which, under other circumstances, may also enable other interests to exact compromises from them, as was the case in many Western countries during the heyday of the mid-twentieth-century welfare state.

Those compromises were mainly linked to the political force known as social democracy, associated with labour movements and worker-based parties, trade unions and various kinds of worker rights; more widely, with the impact that this movement, and also in some countries communism, had on other, rival political forces. Yet we do not find social democratic parties today confidently asserting a superiority of their approach, despite growing dissatisfaction with many aspects of capitalism. They are mainly to be found on the defensive, pessimistic and feeling themselves left behind by history. This is partly testimony to the overwhelming dominance of neoliberal orthodoxy, but partly because the social democratic vision requires some major adjustments if it is to assert its claim to be the alternative that can challenge that orthodoxy, reshaping capitalism so that it is fit for society, and presenting itself convincingly as a coherent actor or

party allied to economic change and innovation rather than offering only defensive protection from them. These are, however, adjustments, radical though they are, that should be within the reach of the social democratic tradition.

The aim of this book is to argue both why social democracy has this potential, and what adjustments it needs to make. These are a matter, partly of adopting new positions on change and innovation, of embracing stronger alliances and mergers with environmentalist and other new critical movements, but partly of recognizing and tackling the political power of accumulated wealth that is the negative result to which neoliberalism has brought us.

In two previous books, *Post-Democracy* (2003) and *The Strange Non-Death of Neoliberalism* (2011), I have tried to describe the problems presented to egalitarian democracy by recent developments in the global economy, and to look for the ways in which ordinary people might try to cope with and confront them. Many readers and reviewers have criticized me for offering little more than participation in citizens' initiatives, consumer movements and conscientious professional organizations with which to confront economic power. Where is my alternative strategy? My approach seemed sensible to me, as the number of one's readers who stand no chance of being able to do anything more than offer minor challenges vastly outweighs the one or two who might get anywhere near political strategy. So many books about politics spend their time exhorting political leaders who will never notice anything they say, talking right past their actual readers, who can do very little more about public events than cope with them. But my critics are right. One must always, following Antonio Gramsci, be a pessimist with the intellect but an optimist for the will. While to be naively optimistic is to experience repeated defeat and eventual disillusion, to be guided only by the pessimistic expectations that a scientific examination of reality often brings is to experience the inevitable defeat that comes from never having tried.

This book therefore departs from my others in moving to examine the real possibilities that exist for creating a better

world than that which is being offered by the wealthy elites who dominate our public and private lives.

To make the book accessible to general readers I have not cluttered the text with bibliographical references. A list of works referred to follows each chapter.

This book is published in German as *Jenseits des Neoliberalismus, Ein Plädoyer für soziale Gerechtigkeit*. Vienna: Passagen Verlag, 2013.

# Acknowledgements

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Several of the ideas in this book were first tried out in some public lectures that I gave during 2011 and 2012. I am grateful to those attending for questions and comments that helped me sharpen my ideas, though obviously none of them necessarily shares all or even any of the views I have expressed here:

- My valedictory lecture at the University of Warwick, 2 November 2011, ‘What remains of a public realm in a privatized society?’ I am grateful for ideas from the colleagues who participated in the subsequent conference on ‘Beyond the Public Realm’: John Bennington, Dorothee Bohle, Wyn Grant, Jean Hartley, Guglielmo Meardi, Paul Marginson, Glenn Morgan, Andreas Rasche, Ralf Rogowski, Philippe Schmitter, Wolfgang Streeck, Jonathan Tritter, Jelle Visser, Noel Whiteside.
- A lecture in the Ralph Miliband Memorial series at the London School of Economics and Political Science, 1 March 2012, ‘Social democracy as the highest form of liberalism’.
- The 2012 Cesare Alfieri lecture at the Facoltà di Scienze Politiche, University of Florence, 26 April

2012, 'Europa e problemi della mercatizzazione: da Polanyi a Scharpf'.

- The 2012 annual LEQS lecture at the European Institute of the London School of Economics and Political Science, 28 May 2012, 'A European asymmetry: making markets and dealing with their externalities'.
- A separate paper on 'Social democracy as the highest form of liberalism' presented at a conference on 'The next centre-left century: Lost or anew? American progressive-liberalism and European social democracy', organized by Policy Network and the Foundation for European Progressive Studies at Nuffield College, Oxford, 3 July 2012.

I also learnt a good deal that has been helpful in writing the book by my participation from 2009 to 2012 with excellent colleagues in the EU Framework Programme 7 project 'The Governance of Uncertainty and Sustainability: Tensions and Opportunities' (GUSTO) (contract nr 22530). Of course, any information or views I have drawn from the project are mine only, and do not necessarily reflect those of my colleagues, nor do they in any way represent the official opinion of the European Commission.

My final text has benefited from some very helpful criticism of an earlier version by Philippe Schmitter, John Thompson and anonymous referees at Polity and Passagen Verlag – though of course none of them necessarily thinks I have made a sufficient number of improvements.

I am grateful to my wife, Joan, for contributing to the ideas set out here in our endless, forty-five-year-long conversation, and for pointing out to me the many places in my original text where I failed to communicate clearly. Whether she did this enough, individual readers will have to judge.

# 1

## From a Defensive to an Assertive Social Democracy

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European social democracy needs to be shaken out of the defensive posture to which it has shrunk for several years now. It should not be in this position at all. Inequality is again becoming a major issue; the power of large corporations is producing a growing number of problems for consumers, workers and citizens; the neglect of collective needs is producing frightening problems of environmental damage. These are all areas where social democracy has strong positions, and where neoliberal capitalism is at its most vulnerable. We need to understand the paradox whereby, despite this, social democrats in most countries seem depressed, while neoliberals are triumphant; and to explore the changes that social democratic politics needs if it is to move out of defensiveness and reassert itself – alongside environmental and other cause groups – in a new alliance, more integrated than in mere red–green electoral coalitions.

Strictly speaking, the opposite of defensive is offensive; but to talk of an ‘offensive social democracy’ could well be misunderstood. The same would apply to ‘aggressive’. However, feminists have told us that, where men are aggressive, women are assertive. The ancient Greek word *demokratia* having been a feminine noun, she and her various adjectival sisters (social, Christian, liberal, democracy) can

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therefore claim only to be becoming assertive when they take an offensive position. Hence, I shall speak here of the need for assertive social democracy. If a political movement is to move from defensiveness to assertiveness, it has to find new, forward-looking interpretations of its historical vision, and has to demonstrate that it is the force most capable of bringing valuable innovation to society at large.

I am using 'social democracy' in its normal contemporary sense to describe political movements and parties that have as their historical mission the representation of normal working people, including, prominently, trade unions, by seeking major changes in the operation of a capitalist economy and the inequalities and social damage that they perceive it to produce. The parties are named variously Social Democratic, Labour or Socialist, but 'social democracy' has come to be used as something distinct from 'socialist'. Socialist movements are usually seen as seeking entirely to replace the capitalist economy and markets by a system of common ownership, meaning either the state or a cooperative arrangement. Social democrats, in contrast, accept the market and private ownership as the best means of conducting most economic business, but are deeply sceptical of the market's capacity unaided to achieve certain fundamental social goals. These goals concern: first, the need for all people to be able to enjoy a decent life, even if they cannot be very successful in the market, and with limited inequalities; and second, the need for human beings to be able to manage successfully certain shared, collective tasks. Social democrats are those politically active people who are willing to place constraints on and to shape the market mainly, though not solely, through the use of state or local government power, and in particular through the provision of public services as rights of citizenship, in order to realize those ends.

To repeat the opening paragraph in more detail: modern Western society has extraordinary collective needs and interdependencies. Climate change and other environmental problems, many of them products of our way of life, are



threatening that way of life itself, unless we can come together to find solutions. Our economies and societies are increasingly interdependent, bound together as we are through the globalized exchanges of goods, services and financial flows. These interdependencies appear as competitive national rivalries, but in trade the continued success of any one human group is usually improved by the success of everyone else. Sophisticated economies also need advanced infrastructures – transport and communications networks, resources of skilled labour, shared regulatory standards – that depend on collective effort. Western societies are also (in general) rich and can afford to do something about these collective issues while also leaving the great majority of individuals with well-provided private lives. But our societies are also becoming increasingly unequal, decreasingly willing to produce public goods or cover collective risks, while the products of increasing wealth reward an ever smaller minority.

Such a world might be expected to be highly receptive to the messages of social democracy. But, paradoxically, the dominant political ideology – neoliberalism – is leading public policy ever further in exactly the opposite direction: towards increasing attention to purely individual needs, especially those of a privileged elite, to the neglect of both collective ones and the concerns of the great majority. Further, still paradoxically but less surprisingly, our increasing global interdependence is accompanied by growing xenophobia and suspicion of strangers. Although in principle neoliberalism and xenophobia should be mutually incompatible, they appear as allies in many important right-of-centre individual parties or coalitions of parties in contemporary politics.

The answer to these paradoxes is found in the fact that the logic of politics is the logic of power, not that of the coherence of arguments. The contemporary logic of power has several components. I have written in more detail about this in my books *Post-Democracy* and *The Strange Non-Death of Neoliberalism*. I shall here just summarize the

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argument. One of the first consequences of economic globalization was to give the investors of capital increased choice over the parts of the world in which they could place their investments. Workers in the existing industrial countries found themselves competing for work with those in far poorer ones, where labour and social costs, business taxation and the provision of public services were far lower, but where production could now be profitably coordinated from headquarters in the advanced world.

Similarly, governments in the industrial world found their countries competing as investment locations with those whose governments offered investors the attractive features of lower tax rates, less regulation and bad labour conditions. This problem is not as overwhelming as it initially seems. For some activities, firms need the high-quality infrastructures and skilled labour forces that only countries with strong collective policies and high tax rates can provide – as we shall later see, an important component of the case for a confident, assertive social democracy. Also, after a time globalization means that at least some people in poorer countries begin to earn enough to start buying goods and services from the existing wealthy parts of the world. This is a process that has already begun, as, for example, Chinese customers buy German capital goods, British cars and Italian shoes. Nevertheless, the initial shock of globalization was to shift the balance of bargaining power between international investors on the one hand and nationally rooted governments and working classes in the advanced world on the other. This is where the ostensibly illogical alliance of neoliberalism and xenophobia found its rationale: neoliberalism wants unfettered global markets; if mass populations are engaged in mutual suspicion and intolerance, they are also unlikely to accept the transnational regimes that are the only institutions that might regulate these markets.

Second, along with this kind of globalization came the deregulation of financial markets. As we now know, this led investment bankers to develop a range of highly risky investment strategies that made a very small number of people very

rich indeed, but at the expense of destabilizing the entire global economy. The consequence was the Anglo-American financial crisis of 2008. This did not, however, bring the system of unregulated, high-risk finance to an end. So dependent have we become on the banking system that governments had to rescue banks from the difficulties in which they had put themselves, often meeting the costs by making cuts in social spending. Thus the poor were called upon to bail out the super-rich. Governments also encouraged banks to return to their earlier irresponsible behaviour, but with greater moderation, so that they might become solvent again. When it was being successful, the unregulated finance model was used to demonstrate that banks and markets together could resolve many of the world's economic problems, and that therefore social democracy's approach of regulated markets and strong social policy was not *needed*. Once the model had failed, the need to set it on its feet again was used to demonstrate that social democracy's approach could not be *afforded*. Heads, neoliberalism won; tails, social democracy lost.

Third, and pre-dating both these changes in contemporary capitalism, a major change had been taking place in the support base of social democracy. This had originally rested in the manual working class of manufacturing industry – in particular its male members. The entry into citizenship of this class represented the first moment in the history of organized societies when the mass of ordinary working people had been permitted to play such a role. It provided supporters for policies that recognized the limits of the free market if such people were to have a chance of having secure and decent lives. This class formed trade unions, cooperative movements, and socialist, social democratic and labour parties. But, starting in northern Europe and the USA from the early 1970s onwards, it started to decline in both absolute and relative size. Constantly improving productivity in manufacturing was reducing the need for large numbers of industrial workers; the early stages of globalization were shifting much manual work in manufacturing to the newly

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developing economies; and demand for various kinds of services increased, generating a different kind of work force. A major part of this new work force was engaged in producing public services: health and other forms of personal care, education, policing and security, public administration. These provided a new support base for social democracy, as the growth of public services was largely championed by social democrats. In particular it provided social democratic parties with female supporters, the majority of public-service jobs being held by women. The private services sectors proved more intractable, not because workers in those sectors were strongly attracted by other parties and forces, but because they have tended not to generate any strong political profile at all. This might seem to present an equal problem to all parties, but as the force that is challenging the main distribution of power in the economy, social democracy needs a positive, strongly identified support base. It is therefore affected asymmetrically by a general decline in political identity, compared with parties representing interests whose strength lies in the market and the economy themselves.

By the early twenty-first century both social democracy's support bases had been put on the defensive. The manual working class continued its irreversible decline, and public employees had been vilified by neoliberal politicians and publicists as parasites living off the taxes of hard-working people in the private sector. If money spent on public services can be portrayed (as it is in much neoliberal rhetoric) as money that might as well be placed in a hole in the ground, then what is to be said of the people who derive their income from putting it in the hole?

Conservative political interests face a major problem in democracies: how can forces which are designed mainly to protect the interests of the privileged attract the support that they need of a majority of people in the middle ranks of society? For much of the nineteenth and twentieth centuries part of the answer (alongside appeals to nationalism) was to point to the masses of property-less workers and paupers and argue that they would, in their envy, attack the property of

the lower middle classes as much as they would that of the rich. By the late twentieth century the property-less masses had shrunk to a tiny group, communism had collapsed and the old fears were no longer plausible. Conservative demonology had to invent new menaces. It has done this partly by representing the welfare state as something that takes money from the pockets of all working people, rich and poor alike, in order to give it to those who refuse to work, particularly to foreigners who have come into a country to take the jobs of natives (which they seem to achieve while also refusing to work). Public employees are then an additional menace, working inefficiently and on excessive incomes and with excessive security while busily expediting these transfers to the undeserving. Where socialist and social democratic politicians had once been depicted as the people leading the attack on all property ownership, they are today seen as those who, for reasons that are never really explained, want to engage in this transfer of funds to the feckless and foreign.

In reality, many contemporary social democratic parties have been off on a different path. As their two key constituencies – manual workers and public employees, and the trade unions that flourished only in these sectors – became problematic, many began to suspect that core constituencies, or historically reliable support bases, were not such a good thing to have after all. This produced the ‘Third Way’ of the British Labour Party, the *Neue Mitte* of the German SPD, the US New Democrats and several others. Social democracy completed its journey to becoming a movement seeking electoral support from anywhere in the society, and financial support mainly from corporate donors, for a general, classless project of ‘progressive reform’. It also abandoned any attempt at changing the political culture of the wider society, just trying to fit in with what market research told it were the prejudices of the existing culture. ‘Progressive reform’ had been a rallying cry of the liberal and later socialist left of the nineteenth century facing the deeply entrenched and often incompetent institutions of those who had been privileged over the centuries. It now became interestingly

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ambiguous. It referred to a need to rebuild and improve public services that had been neglected by conservatives pursuing low-tax agendas, but the working habits of the public employees delivering and organizing those services were equally seen as problematic, and in particular the trade unions that represented them. Third Way social democratic parties therefore ceased to say anything problematic about concentrated corporate wealth or even inequality.

These social democrats became first embarrassed at their old supporters, and then disconnected from and increasingly cynical about them. Occasionally one hears social democratic politicians talking about a need to 'reconnect' with their 'core constituency'. This rarely means returning to combating social inequalities; but is a code for a perceived need to be xenophobic, a need that their other constituency of public service professionals, they complain, tries to prevent them from meeting. They also feel themselves doomed to be curators of a political museum, protecting from the rude energies of the dynamic neoliberal world the decaying remains of exhibits labelled 'trade unions', 'labour rights', 'universal health service', 'social citizenship'.

### **The Problems of Neoliberalism**

The despondent state of social democracy does not mean that neoliberalism is enjoying great success – that is, in the real world of practice, as opposed to that of ideology. Not only has it experienced the great check of the 2008 crisis, but its absolutely central claim to popular appeal – that it replaces state command and control by consumers' free choices in the market – is increasingly revealed to be a sham. It is this characteristic that is today leading to legitimate doubt whether capitalism can be made fit for society, or whether it will reshape society to meet its own demands. Actually existing political neoliberalism, as opposed to the models of economics textbooks, is about enhancing the power of great corporations and wealthy individuals. This problem is general across several sectors of the economy, as