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Civic Capitalism.

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It is time now to move on from the mawkish (if necessary) analysis of the failings of the now infamous Anglo-liberal model of capitalism and from lamenting the absence of new thinking about what might replace it. The moment has arrived when we need to pin some colours to the proverbial mast, outlining a new model that will work better in advanced capitalist societies. This is a bold endeavour, fraught with difficulties, both intellectual and political. But, if we do not try to tackle it, we shall have no excuse if we look back in a few years and find that a bastard version of the old model still rules – and that the systemic weaknesses which the crisis exposed remain unresolved and threaten us still.

But what do we mean in this context by a *model* of capitalism? Nothing more, but also nothing less, than a coherent framework of societal and economic goals and priorities and a supporting set of complementary institutions that both reflect and give rise to a coherent and distinctive way of conducting the daily business of capitalist economies. It should possess a clear sense of the particular vision of the good society to which it aspires. In that sense it will be a model of development as much as a model of growth and it needs to reflect and build from a consistent and defensible conception of social justice. Lastly, such a model should be applicable to a range of advanced post-industrial economies, not just to Britain alone – as well as offering insight into the many problems which capitalist economies face together and for which coordinated collective action is required.

It is important also to emphasise what a model of capitalism is *not* – what it does not and cannot do. Specifically, it will not and cannot tell us exactly what policies to follow in detail in every situation. For example, whilst it might well insist both on the need to consider in a broad and inclusive way the wider societal and environmental consequences (or externalities) of economic policy choices and on the need to hold such choices to account in terms of societal notions of civic justice, it is most unlikely to tell us whether interest rates should rise or fall at a given point or at what level to set the aggregate burden of taxation. Similarly, it might suggest that a workable industrial policy is needed, but it will not indicate precisely which winners to back or even if backing winners is the best approach.

In other words, the task of setting out a new model of capitalism is more like designing a new car than offering advice to the driver from the passenger seat – and arguably there has been rather a lot of that already. It is also, critically, about offering a plausible narrative that explains to the citizens of our model capitalism what they are part of, how they might fit in, what gives their productive lives some meaning. Capitalism needs to be seen to have a moral purpose and we need to be as clear about that moral purpose as we can be; otherwise, as we have seen in recent years, it is in danger of degenerating into an ugly, brutal and profoundly unjust rat race.

Where, then, to begin? Political economy as a field has previously engaged extensively in discussion of ‘models of capitalism’ and ‘models of development’. There is a vast literature out there (Albert 1993; Hall & Soskice 2001; Coates 2000; Crouch 2005; Schmidt 2002; Seldon 1990). But the truth is that it has rather run out of steam in the last few years and remains limited to the exposition of a small number of quite crude ‘ideal types’ (some of whose exemplars have revealed themselves to be far from ‘ideal’ when seen in the context of the crisis). The analysis has also tended to be static and has not coped well with the new realities of regional and global economic interdependence (Hay & Wincott 2012).

In our present circumstances the obvious and best starting-point is surely the nature of the old model. It has unquestionably failed us, but there within its modern history lies the wreckage from which we have to re-build. In a previous SPERI publication (Hay 2013) one of us identified the following as the key features of this Anglo-liberal model:

- the hegemony of an assertive neoliberal ideology;
- an elite policy community increasingly trapped in its thinking within this narrow ideological framework;
- the wholesale deregulation of markets and the privatisation of financial management;
- a high and increasing dependence on the supply of cheap hydrocarbons, with seriously damaging environmental consequences;

- the systemic accumulation of debt and the increasingly pathological dependence of consumption (and, in turn, growth) on such debt;
- an accumulation of risk within the economic system, with growth over time increasingly associated with accelerating exposure to that risk;
- the absence of a coherent theory of society, or social well-being, beyond the sum of individual, supposedly rational goal-seeking;
- the consequent embedding of inequalities between and within countries; and
- a limited view of global governance as requiring little more than rules to manage competition between national economies.

A sensible, and realistic, next step in working away from this model might therefore begin by simply adjusting, and of course in some cases redressing completely, each of these nine features. What sort of a model might then emerge? If we follow through the logic of the thought experiment we have just proposed, we proceed quickly to the broad outline of a new model of capitalism characterised now by these rather different distinguishing features:

- the emergence of a more consciously held, open-ended and dynamic ideology that actually puts markets at the service of the public as citizens;
- a more interventionist role for the state animated by a sense of its civic duty;
- the coordinated re-regulation of markets and risk management both as a collective public good and an antidote to unstable growth;
- the need for sustainability and serious engagement with alternative models of energy use and resource conservation;
- the promotion of sustainable development built upon investment, rather than debt-fuelled consumption;
- the development of an alternative currency of economic success (both domestically and globally), taking us beyond the crude measurement and slavish pursuit of economic output alone;
- the integration into this alternative model of development of a genuine social dimension that opens up different and more civic social policies and partnerships;
- a shared commitment to reducing prevailing levels of inequality between countries and peoples; and
- the creation of more intensive and sophisticated, flexible and deliberative, mechanisms of global governance capable of serving, and in part also reflecting, the guiding intelligence of the global economy.

In the remainder of this paper we explore further each of these potential characteristics of a new model of capitalism. We see such a model as being appropriate to Britain and other advanced post-industrial economies. In the sections which follow we piece together a picture of this new model frame by frame in a cumulative and, we hope, ultimately coherent fashion.

A final initial question arises, however, even at this early stage: namely, what to call this new model? After all, labels matter. A new model has to be readily accessible, engaging, broad-based and capable of delivering palpable improvement in the quality of life and work for the vast majority of citizens – particularly, perhaps, those who have been so egregiously let down by the old model. But it needs to be more than just ‘populist’ in orientation, given that so much more is at stake here than the provision of more ‘bread’ and better ‘circuses’. In short, the new model of capitalism we need has to be productive and sustainable, as well as popular.

We think our model is best described as *Civic Capitalism*. Here we deploy the word civic in its simplest and most straightforward sense – ‘pertaining to’ and ‘working for’ all of us in society, not just as consumers, or rational egotists, or even voters, but rather as *citizens* of a democratic polity. In the process of calling for and articulating such an alternative we need to remind

ourselves that capitalism can and must be made to work for us. We can no longer be driven by its perceived imperatives and by those who have claimed for far too long – and, as it turns out, falsely – to be able to discern for us what capitalism needs. *It is time to ask what capitalism can do for us and not what we can do for capitalism.* If civic capitalism has a single mantra, then that is it.

Moving on from old ideological certainties

Ideology, these days, is a dirty word – rarely if ever a term of self-description and invariably only ever something others have. Partly as a consequence, many like to think that in the pre-crisis world we were not governed by ideological thinking and that, having spent so long weaning ourselves off it in favour of technically proficient economic competence, the last thing that we need now is to rediscover its merits. Both claims are wrong.

For the crisis, we argue, is as much a product of an unacknowledged ideology as anything else. Indeed, it was only in the context of such an ideology that the *laissez-faire* policies of market liberalisation favoured in the Anglo-liberal world could be seen as the very condition of good economic management. It is the crisis that reveals this as an illusion; and it is the crisis, and the lessons we draw from it, that requires us never to so mislead ourselves again. What this entails is not, however, ‘the end of ideology’, but rather the move from an unacknowledged, closed and static ideology to a more consciously held, open-ended and dynamic ideology – and, above all else, to one that puts the market in the service of the public, as citizens, rather than the citizens in the service of the market.

So what was the nature of the ideology that led us astray and how might the placing of citizens above the market and civic values above market values start to put things right? There are many things to say here. First, the dominant ideology in the pre-crisis era was largely technical in character – whether manifest in the investment algorithms of financial market actors or the benign mood music generated by the credit rating agencies or the light touch regulatory dispositions of the institutions of depoliticised economic governance. It was this pervasive ‘technicism’ that made it more difficult to discern, less visible for what it was and the more impregnable to contestation. Its formalism masked and hid from view its dubious economic premises and the benighted moral and political philosophy on which these typically rested.

Second, and more obviously, this background or *sotto voce* ideology was profoundly market-conforming in both its moral conviction as to the supremacy of purely market-based systems of allocation and its political timidity as to our capacity to regulate markets and compensate for market failure. The mainstream convinced itself that the market was synonymous with economic efficiency and was essentially self-regulating. As a consequence, there was little if anything that the state was capable of providing that was not better delivered through the free play of market mechanisms. This, of course, had consequences. Particularly insidious was the conviction (genuinely held, however misguided) that market-based systems of allocation were technically more efficient and that dynamic markets (particularly those characterised by financial innovation) were both so rapidly evolving as to be incapable of effective regulation and, conveniently, self-equilibrating anyway. It was precisely this combination of assumptions that led so many on the centre-left, just as much as more natural enthusiasts on the right, to the view that widening social and economic inequality was a necessary and acceptable price to pay for the growth with which it was (assumed to be) associated.

What is more, this view led, almost by default, to a form of ‘trickle-down’ economics. If markets were inherently efficient, then regulation (like any other form of state intervention) would merely suppress the potential for growth. Consequently, the optimal strategy was to free up the market in order to maximise the possibility of profitable accumulation – and to worry about the distributional consequences later. Of course, the left worried much more than the right about the inegalitarian price paid for aggregate wealth maximisation (or what passed in its name). Such anxieties took the form, in part, of concerns (and, somewhat less frequently, substantive policy innovations) about the state’s societal obligation to provide more equal access to the market and

to redistribute the proceeds of growth. But the problem was that any such redistribution was itself a form of state interference in the market – and hence, within the terms of the dominant ideology, a source of inefficiency and a drain on growth and wealth.

Finally, and perhaps most worryingly (at least with the benefit of hindsight), such genuine anxieties led in an apparently more comforting direction. Here the familiar refrain was that, even if its proceeds were unfairly distributed, since growth was so much greater than it would otherwise have been, the poor would still be better off – in absolute, if not in relative, terms. Widening inequality was, in short, the best that could be achieved – a necessary correlate of growth maximisation. But, as we now know all too well, we had allowed ourselves to be duped. Many really did think that we had ‘no alternative’; that market-conforming policies were good for us, for *all* of us; that markets were the best guarantors of the provision of collective public goods; that the algebraic alchemy of mainstream economic theory was all-seeing and could deliver the elixir of growth indefinitely – in sum, that the whole ideological framework of Anglo-liberalism did indeed underpin a stable and sustainable model of both competitiveness and growth (and, moreover, one that could be exported to the rest of the world).

That was then. We now know *all* of this to be wrong – and this revelation has profound consequences for how we think about ideology now. We highlight three lessons in particular as crucial for the civic capitalist alternative we propose. The first is that we must be far, far more wary of technocracy, managerialism and expert elitism. This is not how we have tended to think of our relationship with economic orthodoxy; but it is exactly how we must now understand our political dependence on mainstream economic theory. Economics, as the crisis reveals, is never a science (at least not in the lay sense of the term) and economic expertise is, as a consequence, a potentially dangerous thing. It is something that needs to be exercised carefully, held to account democratically and acknowledged for the political intervention that it always represents. Above all, we need to be aware of its inherent limitations – and not so easily taken in by the comforting thought that, although it is clearly a very difficult science, it is at least conducted (for the most part) by very intelligent people.

The second lesson follows directly from this. For once we acknowledge that markets are neither self-regulating nor self-equilibrating and that, as a consequence, market conformity is not so much the key to growth as the guarantor that any such growth is ultimately unsustainable, then the world looks very different. The state now emerges as integral to growth and, perhaps more significantly, to the sustainability of such growth. For it is the only body capable of regulating the market and such regulation is both the only means by which capitalism’s propensity for crisis can be held in check and the only means by which the market can be made to answer to the citizens it ostensibly serves. The state might not always have a very good record in market regulation and the dangers of state failure should not and cannot be understated or overlooked. But we simply cannot afford to assume that markets contain the capacity to regulate themselves and, in so doing, allow them in effect to regulate us.

The third lesson is a correlate of the first two. As soon as we acknowledge that the state is, in effect, the public goods provider of last resort, then we start to acknowledge its moral and political responsibility to us – as citizens. The state, in and through the governments we elect and in and through our capacity to hold them to account democratically, has a responsibility to us all to govern, manage and regulate the market economy and to deliver, in the process, outcomes we consider just and fair. The market is never and can never be a guarantor of equity or justice. Consequently, if we are to have social and economic justice it has to be imposed upon the market by the state in our name.

That is the very nature of civic capitalism – *the governance of the market, by the state, in the name of the people, to deliver collective public goods, equity and social justice*. However, for such a civic capitalism to be possible, we have first to believe widely that this is possible, desirable and indeed necessary. This, to be clear, does not entail that we adopt a new statist ideology by which we entrust to the state without question all that we previously assumed the market would provide for itself. But it does mean that we need consciously to move on from the old ideological certainties (of the benign and self-equilibrating nature of market rationality, for instance). Instead we need to espouse a different and a more open-ended set of values and

ambitions, a different ideology in effect – one of civic, indeed democratic, economic governance. Together, as citizens of a democratic society, we need to ask not what we can do for the market, but what we wish the market to do for us. This is, then, the first, and in many ways the most fundamental, building block of a new civic capitalism.

State intervention in the market as a civic duty

Clearly if we are to have a new capitalism worthy of the name, it must be a different capitalism to the one we have. As we have already suggested, this necessitates a different, and for us a more extensive and interventionist, role for the state. There are two obvious reasons for this. First, it is not possible to make the transition from one model of capitalism to another without the guiding hand of the state. Capitalism – as we now know but should really have known all along – does not put right its own biases. It does not auto-correct – it cannot ‘rebalance’ itself – and to think otherwise is to delude ourselves. But, second, the capitalism we have had is one in which the market has been in the ascendancy. We have conspired to produce, and subsequently come to suffer from, a capitalism unregulated, a capitalism unqualified, a capitalism left to its own devices, and one in which good outcomes could arise only serendipitously through benign neglect.

This will no longer do; we need to bring capitalism to account and that means building a new capitalism – a capitalism with an adjective, and one that we specify. And the reality is that the addition of an adjective, almost regardless of which adjective, entails state coordination – not just regulation, but regulation *for a societal purpose*. Our chosen adjective is ‘civic’ – we argue, as we have made clear, for a civic capitalism, a capitalism rebuilt to answer to the collective needs of the citizens it properly should serve (and should be made to serve).

The initial case, at least, for state intervention is easily made in the context of the crisis. For when banks go under we recognise that we have a collective public interest in ensuring that the logic of the market does not prevail – the logic by which the innocent become victims, losing all of their savings in the process. It is in moments like this that we rediscover an implicit political logic that for too long we have preferred to ignore – that the state is the collective or public good provider of last resort. When the market fails, when the bank goes under, it is the only authority to which we can turn. If there is to be any kind of justice in such moments it can only arise through the interventions of the state; markets, quite simply, do not care.

The implications of this, when we start to think about them, are profound. For belated intervention in this way – bailing out the banks and underwriting them with government funds (nationalising private debt) at the point of collapse – is very much the worst case scenario. If the state had previously been trusted to engage in effective regulation of the market, and been competent in such regulation, then there would have been no need for such bail-outs. And that is the point. A civic capitalism regulates the economy – and not just the banking sector – in the collective or public interest; it does not wait until a crisis strikes to intervene. But the argument here necessarily goes much further. This is not just about regulation to prevent unnecessary and dangerous risks being taken in the market which might compromise the life-chances of those reliant on market actors. It is also about acknowledging that, at root, the market is both un-coordinated and un-coordinating – and, as such, incapable of delivering collective public goods (for which read ‘what we want as a society’) in the absence of strong and coordinated governance.

One such public good, now increasingly widely acknowledged (and not just in Britain), is the need for an economy that is in some sense properly ‘balanced’ between different sectors and sources of growth. In Britain, of course, the debate has become especially focused on the urgent need for ‘rebalancing’, precisely because of the massive structural asymmetry between finance on the one hand and the productive economy on the other. Yet markets do not rebalance themselves, as the story of the British economy since the crisis manifestly shows (Berry 2013). With the help of a targeted stimulus package (a palliative injected directly into the veins of the

housing market), the unstable growth that characterised the pre-crisis bubble is back, however insecurely. Put differently, the growth we have today in Britain does not arise from 'rebalancing'. 'Rebalancing' needs concerted and sustained intervention that we palpably lack.

But, in order for the state to take on that role, we need a different politics – one that can be trusted both to discern the public good and to act upon it – a politics that is more visible and more deliberative, and indeed more visibly deliberative, a politics that is more open to the wishes of those in whose name it intervenes. That is a very tall order in most advanced capitalist democracies today. Political reform needs to accompany economic reform; indeed, the former may well be a condition of the latter. The basic point is that we need to be able to trust the government, if not to do the right thing all of the time (which is impossible), then at least to do what it does for the right reasons and with genuine and defensible motives. And that, too, is a long way from where we are now.

This, in turn, suggests the need to articulate a clear set of principles capable of guiding government intervention in, and regulation of, the market in the managed transition to a more genuinely civic capitalism. We insist, in other words, that we must find ways to articulate a strong conception of the 'civic' in civic capitalism – a sense of social justice and injustice against which government interventions might be assessed, combined with much greater visibility of the decision-making process, precisely so that we can all see, if we want to, that justice is, indeed, being done.

Specifying the content of such a conception of social justice is no easy task. From our perspective there are two elements to this. The first is to outline a minimum set of values we see as integral to the civic model of capitalism that we propose. The second is to generate the kind of societal debate about the model of capitalism we wish to build that the very notion of civic capitalism implies. For a civic capitalism worthy of the name entails a polity more open to the views of its citizens – a bringing of citizens into a more open political community. In terms of the former (the specification of core values), we would identify: equity, growth (or, better, economic development) whose dividends are more fairly and evenly shared, redistribution to correct market failure, economic and environmental sustainability, and a simple principle of international reciprocity (that we would not suffer if others did as we did). In terms of the latter, we need public deliberation, debate and consultation to draw out a set of societal or civic values that could guide the extent and purpose of the state intervention that is needed to construct and manage the type of capitalism we wish to build. This is a collective (and hence a civic) task – and one that is long overdue.

Regulation as the only antidote to unstable growth

One of the most important lessons of the global financial crisis is that we got – and indeed continue to get – regulation spectacularly wrong. For far too long we have thought of regulation simply as 'red tape' – an unnecessary imposition and an unwelcome and unwarranted interference leading, invariably, to tiresome, overbearing, cumbersome and inefficient bureaucracy. We inclined accordingly to as little of it as we could credibly get away with (the appropriate euphemism was 'light touch'). And, even if we carried a lingering doubt at the back of our minds about the probity of all of this, we comforted ourselves with the thought that this light touch and market-conforming regulatory disposition was at least growth-enhancing – in that the blind eye it invariably cast on potentially rather shady practices almost certainly contributed to higher economic output and, in turn, higher taxation receipts. It was, in other words, a 'win-win scenario'.

Shamed perhaps by their popular depiction as interfering meddlers pathologically predisposed to intrude into arenas they seldom understood (Hay 2007), the disposition of the regulators themselves was, far too often, also that of benign neglect. They, too, comforted themselves, this time with a slightly different thought – that markets, for the most part, were their own best regulators and market actors were in general better placed to assess the risks to which they exposed themselves than those seeking to second-guess their behaviour (Watson 2014). If that

resulted in an historically high ratio of private debt to Gross Domestic Product (GDP), then so be it: the markets, and the actors who breathed life into them on a daily basis, surely knew what they were doing – and, above all, they were making money ... lots and lots of money.

This was always wrong and it is an attitude and a disposition we can no longer afford as we seek to rebuild something better out of the ruins of the Anglo-liberal growth model. Interestingly, amongst the first to accept this and to call for a more precautionary regulatory disposition were many of the regulators themselves (or, at least, many of those on whose watch, as regulators, the crisis had unfolded – see, for instance, Bernanke 2011; Haldane & May 2011; King 2013). Chastened, presumably, by their experience and their incapacity at the time to prevent a slow-motion car crash unfolding before their eyes, many of them seem now to be of the view that the same cannot be allowed to happen again – and that, having in effect fallen asleep at the wheel once, it is their responsibility to ensure that those who replace them stay awake rather longer.

Unfortunately, to date at least, they have not found a terribly receptive audience amongst those in the advanced political economies who appointed them as regulators in the first place. It is not difficult to understand why. The truth is that there was always something in the argument that regulation has a certain propensity to suppress growth – or, at least, some forms of growth. And growth is, of course, what incumbent administrations (particularly those seeking re-election) crave above all else. High loan to value ratios, low capital adequacy requirements, high levels of consumer debt, cheap credit, sub-prime lending and mortgage-backed securities: all look like prime targets for a more precautionary regulatory regime. Yet, as long as the bubble lasted, each was a real source of growth – or, perhaps more accurately, a multiplier of potential growth.

Indeed, whether we like it or not, each has played a part in the putative 'recovery' of the British economy since the second quarter of 2013 and into 2014. That is precisely why such a recovery is spurious; it is not based on stable growth, but rather the re-inflation of the bubble whose bursting precipitated the crisis in the first place. This is why we need appropriate regulation – market-steering or market-limiting regulation capable of precluding the re-inflation of asset-price bubbles such as we have seen in the housing market. It comes, though, with a short-term price. For we have to accept that such regulation is not consistent with the consumer debt-fuelled recovery prompted in Britain by the Coalition government since 2013; instead it entails, and must indeed be an integral part of, a transition to a new mode of development or growth for the British economy.

So what might such regulation entail? Consistent with the model of civic capitalism we are seeking to outline, we propose five principles for sound economic governance and a more practical rule of thumb. The five principles are simply stated:

- (i) First, and perhaps above all else, we argue that regulation should not just be about tempering market excess; it needs to serve, and be seen to serve, a wider societal purpose – to help markets contribute to the growth model of the economy as a whole.
- (ii) Second, following Nobel Laureate Paul Krugman (2008, 2013), we suggest that regulation should be in proportion to the potential risk posed by the object of regulation. Krugman's focus here is the banking sector, but the principle is more widely applicable. He argues that banks should be regulated not against universal and rigid rules, but in proportion to their systemic significance to the financial sector as a whole. Thus, we do not so much need a rule that precludes banks from becoming 'too big to fail' (or too big to be *allowed* to fail), so much as a regulatory regime which ensures both that banks too big to fail do not fail *and* that the burden of regulation they would endure is a strong disincentive to them ever attaining such a systemic significance in the first place.
- (iii) Following almost directly from this, we suggest the need to adopt a principle of discretionary precaution in economic regulation. Effective regulation, whether of the energy market or the market for financial innovation, is most effective, not when it is rules-bound but when it is flexible, adaptive, intelligent and transparent. Regulators, as the crisis shows so effectively, need to be risk-averse – even if at times that has the effect of closing off potentially lucrative investment or growth opportunities. They need, in other words, to adopt a strong and consistent precautionary principle. But they also need the authority to

demand full and complete information disclosure from the institutions they regulate and a flexible capacity to respond dynamically to the risk assessments they generate on the basis of that information.

- (iv) A further principle follows, with particular significance for complex and dynamic markets such as those for instruments of financial innovation. It is that, in the name of precautionary discretion, we should adopt a presupposition against financial innovation in the absence of a strong counter-veiling case. It is often argued that it is impossible to regulate financial markets effectively since financial market actors themselves are typically at least one step ahead of the regulators. There are usually two elements to the argument: first, that the almost constant innovation in financial instruments allows market actors to side-step any regulatory rule or regime designed to hold them in check; second, and rather unkindly, that those who regulate financial markets have typically failed to make money in them and, as a consequence, are not well placed to anticipate the creativity by which rules are negotiated. Although there may be an element of truth in both propositions, this only becomes an impediment to effective regulation of financial markets if we have a presupposition of tolerance to financial innovation. This can and should be overturned.
- (v) Finally, we suggest that regulation (whether domestic, international or global) is best seen as a collective public good. As such, it needs to be delivered through a system that is both public and publicly accountable. Credit rating provides an excellent example and should be seen as part of the system of global regulation of markets and market risk. For credible and effective credit rating is categorically a public good – insofar as it serves either to reduce the risk to which financial investors expose themselves or help them better to assess and hence hedge against that risk. But, as the dynamics of the crisis showed so clearly, we cannot entrust such an important task to private ratings agencies with a clear financial stake in the assets they rate and with little or no retrospective responsibility and accountability for the public good they ostensibly provide. The reality is that there are a range of public or quasi-public bodies which could take on such a role. For example, with respect to the credit rating of sovereign debt, the International Monetary Fund (IMF) in its periodic reporting in effect already provides credit ratings (just ones not expressed in the standard metric form). It is surely time to dispense altogether with private credit rating as we strive to build more appropriate public structures for the regulation of the global economy.

This brings us to a more practical concluding consideration. Regulators need to be trained in disequilibrium thinking. As we argued earlier, mainstream economic theory today is, almost exclusively, equilibrium theory. In other words, whatever its value and whatever its influence, it has virtually no capacity to prepare us for disequilibrium outcomes – like crises. Most of the time that is fine; but regulation is there to prepare us for, and thus guard us against, the possibility of catastrophic events. Regulators, in short, need to assume the worst; they cannot afford to presume the best.

The need for sustainability

As we have already insisted, the civic capitalism we advocate is very different from the capitalism we are used to. One of the biggest differences and one of the greatest challenges is that our (alas, still aspirational) civic capitalism needs to prove itself to be sustainable – economically, institutionally *and* environmentally. The present crisis is a crisis of an unstable growth model and, at the same time, a more general crisis of the model of capitalism of which the former was an expression. But, even in the absence of the crisis, Anglo-liberal capitalism (like most capitalisms) was - as it remains - environmentally unsustainable. The crisis has perhaps made it easier to see what was already the case – namely, the urgent need to find a more genuinely sustainable model of capitalism and associated societal development. But the condition long predates the crisis. None of these challenges is easy; but that of ensuring environmental sustainability is undoubtedly the hardest.

Yet there are a number of things that can – and perhaps must – be said on this critical issue. First, there is a need for a certain modesty and humility in the face of the challenge and the choice we face. The brutal point is that we have done nothing – or nothing very significant – for far, far too long. Whether we failed to try hard enough or tried hard and failed is a moot point, but is also now largely academic. We simply cannot afford not to try harder now. And that means a grim realism with respect to our plight, combined with a sense of the magnitude of our inter-generational responsibility. In a way the crisis might prepare us well for that. But, in another sense, this is obviously not a good time to turn our attention to the environmental crisis – and the problem of growth itself. The hard truth is that it is clearly more difficult to make the case for less growth, or an alternative to growth as the global metric of economic performance, at precisely the moment when growth appears so hard to achieve in our own economies. But that is precisely what we need to do – and we need to do so successfully and on an international stage.

A second point is that we can no longer afford the indulgence and evasion of climate change denial. Whether malevolent and duplicitous or more simply a product of ignorance or wishful thinking, it can no longer be tolerated. If we think in terms of the planet's 'carrying capacity', then the evidence is unequivocal – and unequivocally appalling. To think in such terms is to start to gauge current planetary resource use in terms of the safe operating space for humanity with respect to the earth's biophysical subsystems. And what is startlingly clear is that, when we start to counter-pose current figures on environmental degradation with expert 'best approximations' of the planet's carrying capacity (the point beyond which we simply cannot go without threatening human life, certainly as we know it, on earth), we find again and again that we have already reached the tipping point. The results are summarised in the table below for a small sub-set of the planetary carrying capacities we might consider.

Earth system processes	Parameter	Boundary	Current level
Climate change	Atmospheric CO ₂ (ppm)	350	>400
Biodiversity loss	Extinction rate (number of species per million per year)	10	>100
Nitrogen cycle	Amount of nitrogen removed from the atmosphere for human use (million tonnes per year)	35	>120
Freshwater use	Human consumption of freshwater (km ³ per year)	4000	c. 3000
Ocean acidification	Global mean saturation state of aragonite in surface sea water	2.75	2.9
Landmass usage	Per cent of global landmass used for crops	15	c. 12

Source: Adapted and updated from Rockström *et al.* 2009.

Data like this show that we are already in the red zone (where current levels exceed planetary carrying capacity) with respect to a number of earth-system processes and are moving rapidly into the red zone in a number of the others. Of that much we can be sure. And such data are merely reinforced if we change perspective somewhat and look not at the planet's carrying capacity but our own ecological footprint. This measures, in effect, the land and sea mass necessary to support the resources a human population (such as a nation) consumes and to absorb the waste it produces. The most recent figures from the WWF's *Living Planet Report* (2012) show that the world average ecological footprint (2.7 global hectares per person) exceeds available land and sea mass (2.1 global hectares per person) by over 30 per cent. The figures for Britain and the United States are, respectively, 4.7 and 7.2 global hectares per person; that for Haiti, by stark comparison, is a mere 0.6.

A third point – and one that has a certain irony in the context of our wider argument – is that things would actually be worse still but for the global financial crisis. It is not often that one can say that; but, with respect to the environment, it is true. The crisis has arguably done more to reduce the pace (or at least slow the acceleration) of the process of global environmental degradation than anything directly intended to have such an effect. And that is because it has served to reduce aggregate global growth rates.

Yet we need to proceed with some caution here. For one's enemies' enemies do not always make good friends – and we can have environmentally unsustainable non-growth just as much as we can have environmentally unsustainable growth. Indeed, the story of the crisis is a story of the move from the latter to the former ... and perhaps back again. What such reflections remind us is how crucial the question of growth is to our capacity to respond to the challenge of the environmental crisis. Almost certainly, we will need to come to think of growth in rather different terms if we are to do anything at all to take us out of the red zone (and the time-lag effects, it need scarcely be pointed out, are very considerable indeed).

So how might we do this? For there are undoubtedly things we can do and we need to do them urgently – thinking, while we do so, of our duty of care to future generations. One of these is, on the face of it, deceptively simple (though one should not underestimate the political difficulties of what we here propose). It is that we should work collectively and globally to change the accepted currency of economic success, replacing the *convention* of growth (for that is all that it is) with something else, albeit something more complicated. In this process we need to devise a measure or index based on a more balanced and sustainable array of genuinely global (indeed, planetary) collective public goods whose promotion might eventually replace the blind and narrow pursuit of economic output as *the* global currency of economic success.

The point here is that it is not difficult to imagine what might be entailed in such an exercise. Alongside GDP data, we would need to build a new index of economic success – a compound index, inevitably, which might include things like changes in the Gini coefficient (in the direction of greater societal equality), changes in *per capita* energy use (rewarding increased energy efficiency and sustainability), changes in *per capita* carbon emissions and other planetary boundary statistics (rewarding the greening of residual growth) and perhaps a range of more basic development indices (changes in literacy rates and so forth). This alternative social, environmental and developmental or sustainable economic development (SED) index (either will suffice, for now, as a working name) would be recorded and published alongside GDP and would thus allow the production of a new hybrid GDP-SED index. Over a globally agreed timescale, the proportion of SED relative to GDP in the hybrid index would rise – from zero (now) to close to 100 per cent (at some agreed point in the future). And, of course, we would gauge whether our economies were 'growing', 'flat-lining' or 'in recession' according to the new hybrid index as, in effect, we moved from measuring economic performance in terms of GDP to measuring it in terms of SED.

The changes to our modes of living, over that period of time, would be immense – and would need to be immense. And they would be accompanied by a new set of roles for a new set of international institutions. In the process, structural adjustment would be decisively recast – no longer the mantra of neoliberal labour-market reform and privatisation but, instead, the reorientation of economies to promote sustainability according to the SED index. This may seem like a long way off – and it is. But, if we are even to begin to rectify our planetary imbalance, it is imperative – a necessary, but of course far from sufficient, condition of exiting the red zone.

But – and here we come to a crucial point – is the implication of this that we should abandon the search for growth today? Our answer is 'no': in fact, quite the contrary. What is required is a massive public investment in sustainable technologies and new public infrastructure (in transport as much as anything else). This can and will bring growth. But, far more importantly, it will create the resources that might allow us to make the transition to a more sustainable conception of societal and economic development and, in so doing, to build a capitalism better able to meet the long-term needs and ambitions of the citizens it must be made to serve.

Sustainable development through investment

A most urgent task for any new, incoming British government is to fix the growth model. Since the early 1990s Britain experimented, in effect, with a new kind of growth model – which we have termed Anglo-liberal and others ‘privatised Keynesianism’ (Crouch 2008, 2009; Hay 2011, 2013; Watson 2010). That model, as we have argued, was always unsustainable. Indeed, its pathologies were not difficult to discern for those willing to look for them. It relied on a low inflation/low interest rate equilibrium that could never endure indefinitely and it generated, on the back of that, a series of asset-price bubbles. The global financial crisis was, in large part, a story of the bursting of such bubbles – not just in Britain – and the transmission globally of the contagion through a variety of instruments of financial intermediation which had allowed banks and other financial institutions to take a stake in Anglo-liberal growth.

In particular, as is now widely accepted, Britain’s highly distinctive and, for well over two decades, largely successful growth model was based on the nurturing of a culture of conspicuous private consumption fuelled by ever rising levels of consumer debt. What made this possible was a combination of low interest rates, a competitive market for consumer credit and pervasive private housing tenure – the origins of each of which can be traced further back to the monetarist revolution, the demutualisation of mortgage provision (and the wider deregulation of financial services) and the extension of private home ownership in the early 1980s respectively. With such factors in place, this model generated sustained (if not sustainable) growth for nearly a quarter of a century, though at a relatively modest level in comparative historical terms.

Low interest rates reduced the effective cost of home ownership, though this had the side-effect of increasing demand in the housing market and hence prices. Ultimately, it was house price inflation on which the growth model was predicated – albeit, initially, without any conscious or deliberate strategy to promote it. For in a low interest rate world with low returns on savings, all the incentives – for those who could afford it – were to enter a rising housing market at the first opportunity. The housing market became an independent source of wealth for those able to run with it and, more importantly, a privileged point of access to credit for those prepared to release the equity accumulating in their home to fuel their increasingly addictive consumption habit.

In this way, asset appreciation and equity release became integral to growth. This is what is meant by ‘privatised Keynesianism’ – the heart of the Anglo-liberal growth model. Private debt – in the form of credit typically secured against property – became a demand stimulus to the economy, allowing higher levels of consumption, employment and growth than would otherwise have been the case. But this was always a fragile growth model. For it could only last so long as the low inflation/low interest rate equilibrium persisted. And, in the run-up to the crisis, this was shattered by steep rises in oil prices, reinforced by speculation in oil futures markets. The resulting interest rate hikes crashed first the American and then the British housing markets. The rest, as they say, is history – painfully recent history, but history all the same.

So what are the implications of this today? These come in two kinds – some immediate ones for the recent return to growth in Britain and some longer-term ones for the wider project of building a more sustained and more sustainable recovery consistent with the transition to a more genuinely civic capitalism not only in Britain but also across a number of advanced industrial countries.

The first implication is that, as we have already argued, Britain’s current recovery is largely an illusion and is dangerously unsustainable. Growth has, indeed, returned to the British economy since 2013. Yet this is a growth based on resuscitating, at least temporarily, the old unsustainable model of growth. The banks have been recapitalised with public funds and actively encouraged, through the ‘Funding for Lending’ scheme, for instance, to re-focus and re-concentrate the supply of credit on the housing market – and with some success. Growth has returned and house prices are rising, at least in the south-east of Britain. But the reality is that this is an inherently risky strategy – and one that is only imaginable in the short term (a pre-election gambit perhaps). The housing market is in fact significantly over-valued even after the recalibration of the crisis (especially if one looks at the question of affordability inter-generationally and at likely medium-term trends in interest rates). This means that we are dancing on the edge of the precipice again!

So what might a different incoming government in Britain do to put this right? Five practical implications follow directly from our analysis – each contributing to the transition from an unsustainable model of debt-fuelled growth to a more sustainable investment-led model of development.

- (i) *Politicising the cost of borrowing.* If the economy is to be 'rebalanced', then the government and the Bank of England need to be putting concerted downward pressure on the actual cost of borrowing (independent of the base rate), particularly in sectors where a clear link to the growth strategy for the economy can be made and substantiated. The banks have in effect been allowed to recapitalise themselves by charging commercial borrowers, mortgage holders and those servicing consumer debt a sizeable interest-rate premium, relative to the base rate, to compensate for their huge investment banking losses during the crisis. This is both intolerable and a significant drain on the growth prospects of the commercial and consumer economy. It has been said before, but remains true: the banks need to be named and shamed and held publicly to account for their behaviour.
- (ii) *From private to public investment.* Whilst such interest-rate premiums persist there is a strong argument to be made not just for private but for public investment in support of a clearly articulated growth strategy built on identifying and supporting a series of key export-oriented sectors. The cost of financing long-term public borrowing is significantly lower than for commercial lenders. Moreover, public infrastructure projects are likely to be critical to any reconfiguration of the economy towards a new (and more clearly export-oriented) growth strategy. Public investment – especially in infrastructure renewal – can be a highly cost-effective way of providing the public goods on which the transition to a new model of growth relies.
- (iii) *Hypothecated investment or growth bonds.* How might such investment be funded? There are many options which might be considered, but one is the use of public investment or growth bonds – a form of hypothecated government debt and, in effect, an ethical form of investment available to financial institutions and private citizens alike. The funds secured in this way would be earmarked for public infrastructural projects and might be distributed through a range of national or regional investment banks. In addition to infrastructure, these might fund sustainable technologies and the human capital to utilise such technologies.
- (iv) *Conditional deficit and debt reduction.* A further implication of the analysis presented here is that we cannot afford to consider deficit reduction as a goal in itself – and certainly not the principal goal guiding economic policy. Deficit reduction in a context of stagnant or negative growth is suicidal and threatens only to produce a vicious circle of declining economic output. But this is not to suggest that there is a simple choice to be made between deficit reduction and growth promotion – but rather that deficit reduction must be made conditional on growth. Any incoming British government would need not only to be clear about its strategy for securing growth, but also to make a strong, and public, pre-commitment to an explicit growth target and a linked, sliding, scale of deficit reduction (the greater the growth rate attained, the greater the deficit and debt reduction). This is the only way to ensure that deficit and debt reduction writ large does not even now turn a global crisis into a global recession in a manner analogous to the 1930s.
- (v) *International coordination of debt and growth management.* The economic case for conditional deficit and debt reduction is a very strong one, but it undoubtedly has its political difficulties. To announce the end of deficit reduction in one economy alone, especially in the current ideological climate and in a context of the timidity of financial institutions, would threaten a run on the currency and a steep rise in the cost of servicing (short-term) national debt. Consequently, it is imperative that steps are taken at an international (and, ideally, a global or at least Group of 20(G20)) level to agree a coordinated strategy for managing debt and growth – as well as, in time, for moving away from the crude notion of output growth as the predominant currency of economic performance.

These five points do not in themselves constitute a sustainable model of sustainable economic development for Britain or anywhere else, but they remain necessary steps in the direction of a more sustainable civic capitalism.

Towards an alternative currency of global economic success

As we have been at pains to show, the model of growth enjoyed by the British economy for the two decades before the crisis and the broader model of capitalism out of which it arose were always inherently unsustainable – economically, politically ... but also environmentally. The first and second sources of this instability are now widely appreciated and they feature prominently in the still ongoing and largely unresolved discussion of alternative future scenarios. But the third, though also well understood, is typically forgotten at precisely the moment that talk turns from crisis definition to potential solutions to our economic woes. That will not do. For the crisis gives us the opportunity – a rare, even unprecedented, opportunity – to reflect on and begin to put right *all* that is broken in our political economic model.

Above all, this means focusing on the steps required to build a civic capitalism that is environmentally sustainable. And this, in turn, means thinking about growth in a rather different way and posing some disarming and troubling questions. The first is exceptionally simply stated: is environmentally sustainable growth possible? Yet what is remarkable is how seldom that question is ever directly posed. In a sense it haunts progressive political economy – which, for the most part, would like to think of itself as green and yet at the same time seems decidedly (if often implicitly) pro-growth. We tend to assume (conveniently) that we can have environmentally sustainable growth and (even more conveniently) that, when we talk of growth (and of the strategies to attain or restore it), this is the kind of growth that we have in mind. But that will not do any longer: not least because, as we have already shown, humanity is now at an environmental crossroads, having exceeded in an alarming number of ways the planet's carrying capacity.

The story of our environmental crisis is the story, amongst other things, of symbolic breaches. On 10 May 2013, the Earth Systems Research Laboratory (an environmental observatory and part of the US National Oceanic and Atmospheric Administration), perched 11,000 feet up atop the Mauna Loa volcano in Hawaii, recorded its first ever average daily carbon dioxide level in excess of 400 parts per million (ppm) – the latest such breach (Carrington 2013). CO₂ levels last reached such levels some 5 million years ago! 400 ppm, just like every other such symbolic ceiling, was long considered an unattainable figure, a level we could simply not allow ourselves to hit – a kind of doomsday portent and the point at which we would need to become (if we were not already) very, very scared that the damage we had inflicted on the planet was likely to prove irreparable and irreversible. But it came and went, just like all the others, and most of us no longer give it very much thought. Indeed, we are becoming increasingly immune to such symbolic breaches – they lose their shock value as we become ever more familiar with the process of environmental and ecological grieving. The truth is, however, that we cannot carry on like this and, at heart, most of us now know that – even perhaps those who seek a kind of temporary solace in climate-change denial (though maybe that is too generous to them).

So where does this analysis take us? A potentially fruitful way to think about this is in terms of the 'carbon footprint of growth'. If we acknowledge that all growth has a carbon footprint – and that is perhaps as close to a truism as anything in this extended thought-experiment – then that suggests three potential types of response. We might seek to offset the carbon footprint (though, of course, that cannot work at a planetary level); we might seek to reduce the carbon footprint (by making our growth less environmentally damaging than it might otherwise be); or we might strive to reduce our dependence on growth and to promote other measures of economic success. Of these, it is the third, we think, which holds out the most prospect of realisation, although, interestingly, it is the least discussed. Growth, in a way, is a convention for measuring economic success. Indeed, it has become the global currency of economic success. And it is not difficult to see why. But all conventions can be re-thought – and there is a very strong moral and ecological argument for suggesting that growth should no longer be tolerated as the global standard by which economic performance is gauged. *Things could and can be different.* But what we almost certainly cannot do is to replace GDP growth at a stroke with some other measure of economic success; the transition would need to be managed carefully and cumulatively, and coordinated globally.

The basic idea for this has already been introduced. We described earlier how an alternative compound index (what we termed the social, environmental and developmental, or the sustainable economic development index) might slowly come to replace GDP as the international standard of economic performance and development. Here we explain in a little more detail – in five simple points – the underlying logic, what this might entail and how the transition might be made.

- (i) GDP is a simple but perverse measure of economic performance, especially in a context in which the planet's very carrying capacity is being exceeded. For it encourages environmental resource depletion and rewards population growth whilst giving no consideration either to the environmental externalities of output growth or the capacity of an economy to meet the needs of its citizens. In this latter respect, even GDP *per capita* is an improvement. But, ultimately, neither can be tolerated much longer as the global currency of economic success and the most basic measure of economic performance.
- (ii) But, if we are to replace GDP with an alternative and more sustainable measure of economic performance, it must be a more complex or compound index – an index, in effect, comprised of the weighted aggregation of a series of different indices. For it is only in this way that we can hope to capture in a single measure the various respects in which different and distinct national capitalisms can and must be made to answer to the needs and aspirations of their citizens. This is what we mean by civic capitalism.
- (iii) Some of those elements – and hence some of the measures within the index – are integral to the very notion of civic capitalism in so far as they relate to core collective public goods and the satisfaction of basic human needs. Amongst these we have already identified measures of social inequality (rewarding reductions in Gini coefficients, for instance), measures of health and basic welfare (rewarding, perhaps, improvements in life expectancy and reductions in the spread of life expectancies within a nation), changes in *per capita* energy use (rewarding increased energy efficiency and sustainability), changes in *per capita* carbon emissions and other planetary boundary statistics (rewarding the greening of economic activity) and perhaps a range of more basic development indices (rewarding improvements in literacy and numeracy rates and so forth). Yet, in the spirit of the civic capitalism we are seeking to build, other elements might more appropriately emerge out of consultation and domestic deliberation involving citizens themselves. The point is that there is space for quite a lot in a compound SED index of this kind.
- (iv) Yet this must, in the end, become a global index. Whilst individual political economies might well, in the first instance, wish to develop their own SED to measure and capture progress with respect to the values they are seeking to incorporate within their own civic capitalisms (and should actively be encouraged to do so), GDP needs to be replaced at a global level. This requires international coordination by new, or newly enabled, agents of global economic and environmental governance (either a revamped IMF or World Bank or a new agency designed for the purpose). In that sense what is required is the development of such indices domestically by governments willing and able to make the case for them as global indices on an international stage.
- (v) Crucially too, we must acknowledge that the transition from GDP to SED as the global currency of economic success cannot be instantaneous or rapid. We have some time perhaps to get this right, but we do need to start very soon.

What, finally, will be the consequences of such a transition for 'growth' as we know it now? That will depend in part on the specific contents of the SED index we settle on. But it is important to stress that the transition from GDP to SED does not mean a complete end to growth in conventional terms – even if it does mean an end to the fetishisation of such growth as an end in itself. Indeed, for many poorer 'developing' economies in Africa, Asia and Latin America to progress at all in SED, they will need to grow significantly *as well* in GDP and GDP *per capita* terms. What it does almost certainly require, however, is a more equitable distribution of the dividends of any such global growth. That, ultimately, is the test of whether civic capitalism can become global civic capitalism.

Bringing in the social dimension

We have focused so far on the political and economic aspects of the flawed, and now failed, Anglo-liberal model of capitalist development and of the 'civic capitalist' alternative that we have been setting out. But political economy, both as analysis and practice, does need also fully to embrace the 'social' dimension – much more so in fact than it usually does – and it is time now to turn to this aspect of the discussion directly.

There has, of course, always been a concept of the social bound up within the liberal model. It is familiar to us and is grounded in the notion of the rational, egotistical, self-seeking individual charting his or her way through life unencumbered by awareness of conditioning by society, let alone being ready and willing to bear responsibility for participating in it and ensuring its wider collective functioning. In Britain at least the idea was captured in Mrs Thatcher's observation that 'there's no such thing as society'. Whilst her remarks were, in a sense, taken out of context, the famous shortened quote is important. It has endured precisely because it encapsulates so brilliantly an attitude to the social that was (sadly) emblematic of neoliberal thinking not only in Britain itself but world-wide. In a nutshell, the view was that the social dimension in political economy need not be thought about or attended to, because it was a given that individual ambition, decision-making and strategy was at the heart of all things. Look after the political and the economic (above all, make the political answer to the economic) and the social will look after itself. How wrong can one be?

Of course, this will not do in civic capitalism, almost by definition. For, in this model, those selfish and free-standing individuals are transmuted into citizens with real rights and responsibilities. They constitute the society that capitalism must be made to serve. Indeed, we have already recognised this by calling for the development of a new international standard of economic performance beyond GDP to be known as the SED index. In this frame of reference, the key questions then become the following: how best to think through the social; how to incorporate such an understanding into a new model; and what to draw on intellectually to do so? There are various possible answers and they have varying merits.

One seemingly plausible move would be to turn to the concept of the 'quality of life', understood as a means of taking the discussion beyond notions of standard of living to embrace more qualitative indicators. Some of the work undertaken on this terrain is now based on 'life evaluations', wherein individuals are asked to assess and self-score their life on a scale in relation to certain specified experiences. It is unquestionably interesting and has opened up a lively enough debate about happiness, which even includes attempts to measure Gross National Happiness! But, in general, the life evaluation approach is descriptive, rather than prescriptive, and does not connect that well to the political arena.

Globally, the most widely used means of assessing the quality of life within countries is the Human Development Index (HDI) developed over many years by the United Nations Development Programme (UNDP) on the basis of Amartya Sen's (1993) work on the capabilities and functionalities of human beings. In a nutshell, the HDI is worked out by combining three measures of development: a long and healthy life; an education index that measures the extent of schooling; and a decent standard of living. One of us (Payne 2013) has written about this in more detail previously. Again, it is very interesting and certainly more subtle than measurement solely by reference to GDP. It comes up as well with some striking anomalies – the shaming fact, for example, that Britain, although the 6th largest economy in the world, could only crawl its way to 26th in the world in the HDI rankings in 2013.

Another recent attempt to develop a better way to incorporate the social into the practice of political economy appeared in the 2009 Report of the *Commission on the Measurement of Economic Performance and Social Progress*. This was headed by Nobel Laureates Amartya Sen (appearing again in our story) and Joseph Stiglitz and facilitated by the French economist Jean-Paul Fitoussi, following a commendable initiative to establish such an enquiry by then President Sarkozy of France. However, the Report itself has been widely considered to be disappointing.

As its title revealingly indicated, it separated the economic and social arenas according to the common practice that it was perhaps invited to challenge. All in all, its work has been judged by many of those working in the social indicators field as constituting 'old wine in new skins' (Noll 2011).

The truth is that the quality of life concept, although intuitively appealing as a potential new lodestar on this front, is rendered inadequate for our purposes precisely because it does not take us beyond a focus on the individual and his or her psychological assessment of their life experiences, no matter how much they are set up to embrace. In other words, social progress is defined only as the sum of the satisfactions, or otherwise, of all of the individual members of society.

For our purposes, it is preferable to draw on an approach that is more social (and, indeed, sociological) in flavour and inspiration, namely, the work being done by several scholars to assess the 'social quality' of society more generally. This derived initially from a book jointly published by W.L. Beck, Laurent van der Maesen and Alan Walker (1997) in the late 1990s. The main home of the school is the European Foundation for Social Quality (EFSQ) in Amsterdam, although it should be said that Alan Walker works at the University of Sheffield and is associated with SPERI.

In classic sociological fashion, social quality thinking conceives of society as providing the context for the exercise of individual agency and is thus able immediately to distinguish between societal and individual well-being (although recognising that the two are inextricably linked). This, of itself, is an important step-forward. The approach then goes on to identify the four main aspects of social quality:

- Socio-economic security, meaning that people must have the resources over time to cope with daily life in dignity, both in adverse and good times;
- Social cohesion, understood as the glue that binds society together and builds trust amongst its participants;
- Social inclusion, referring to the degree to which people are, and feel, integrated into institutions, organisations, groups of friends and kinship systems;
- Social empowerment, defined as the capacity of people to take advantage of the opportunities open to them as citizens and associated in consequence not only with their levels of education and health but also their subjective feelings about the extent and nature of their agency within society;

This is certainly an attractive package of ideas, although it still needs, and is rightly getting from its advocates, more elaboration and detail. Much of the current work of the EFSQ is now devoted to cross-European measurement of existing social quality in different countries. This is manifestly important in research terms, but it is to be hoped that the search for quantitative refinement does not excessively trump the conceptual development of the idea itself.

The reason for saying this is that it is immediately apparent that an embrace of the concept of social quality puts on the table a whole series of potential social policies that could be appropriate parts of a new civic capitalist model. These should really be taken forward by social policy specialists, rather than the two of us, but consider, for now, the merits of asking, and then answering effectively, some of the following questions. Should not economic policy in future be evaluated, at least in part, by what it does for the autonomy and agency of those experiencing it? Do mass lay-offs, as opposed to shared working in recessionary times, look quite the same from this perspective? Could not labour market and employment policies be better designed to facilitate the participation of people in the enterprises to which they devote many hours of their life? Is it the case that social policies cannot be devised to foster social solidarity in particular contexts, as well as to prioritise human dignity in schools, hospitals and work-places? In an internet age where so much raw information is so easily available, why cannot education policy be reframed to focus centrally on the gaining of a more meaningful sense of social empowerment by learners?

None of this is very radical. Yet it all flows from, and can be achieved within, a model of civic capitalism that sees the pursuit of social quality as a core and defining value. More detailed policy elaboration by appropriate specialists is clearly required to put some flesh on the bones highlighted above, but these bones must now be part of the new body, the new model of capitalism, that we need to build.

A shared commitment to reduce inequality

One of the few positive developments since the crisis has been the increased political salience of the question of pervasive inequality. Once the almost exclusive preoccupation of critics of contemporary capitalism, it has more recently emerged as a no less central concern of its staunchest defenders. *The Economist* magazine, always alert to the future prospects of the free market, ran a special feature on the inequality debate in October 2012 (Beddoes 2012). Then, in December 2013, President Barack Obama declared that the growing gap between rich and poor in the United States posed ‘a fundamental threat to the American dream, our way of life and what we stand for around the globe’ – so much so that reversing it had now become ‘the defining challenge of our time’ (Obama 2013). Most recently, in December 2013 in the run-up to its latest gathering in Davos, the World Economic Forum (2013) reported that its elite business members judged rising inequality to be the biggest threat to global prosperity over the next few years.

All of this is very revealing, because, for a long time, for far too long in fact, advocates of the Anglo-liberal growth model were generally content to ignore the evidence of the growing inequality that was piling up around them. The rich got hugely and flagrantly richer. The middle was ‘squeezed’ as their incomes stagnated in real terms over a period of decades and the consumerist life-style on which the growth model relied was maintained by their growing dependence on debt. As Joseph Stiglitz (2013) put it so well, continuing growth became ‘reliant on the bottom 80 percent consuming about 110 percent of their income’. At the bottom the poor struggled and many dropped out of society. In general, very few mainstream analysts worried about what the picture as a whole looked like and it was widely conceded that inequality as a political issue just did not get off the ground.

That was then. Post-crisis, we surely ought to think differently. The latest Oxfam briefing paper, released in January 2014, shows in crisp fashion just how bad things have got globally in terms of inequality (Oxfam 2014). We summarise:

- Almost half of the world’s wealth is now owned by just one per cent of the population.
- The wealth of the one per cent richest people in the world amounts to US\$110 trillion. That is 65 times the total wealth of the bottom half of the world’s population.
- The bottom half of the world’s population owns the same as the richest 85 people in the world.
- Seven out of ten people live in countries where economic inequality has increased in the last 30 years.
- The richest one per cent increased their share of income in 24 out of 26 countries for which we have data between 1908 and 2012.

What is more, the situation has worsened extraordinarily since the crisis. Oxfam also reports on new research carried out by Emmanuel Saez (2013) of the University of California, Berkeley, which shows that, ‘in the US, the wealthiest one percent captured 95 percent of post-financial crisis growth since 2009, while the bottom 90 percent became poorer’. This is social and political dynamite, or at least it ought to be.

However, there is another – possibly even more important – point to be made here. Inequality is not just the unfortunate outcome of a flawed growth model or even the consequence of the failure of a flawed growth model. It was actually one of the *defining features* of that model, one of the core characteristics that fuelled it in its hey-day and ultimately rendered it unbalanced and unstable. By allowing the rich to escape previously existing social constraints, by squeezing

the middle and by further impoverishing the poor, inequality played an important role – along with other factors – in creating the very economic mess the crisis exposed and from which we have still to extricate ourselves.

What, then, does such an analysis mean for the citizens that we have placed at the heart of our attempt to delineate a new model of civic capitalism? Three quick and simple points immediately follow: that this level of inequality is morally offensive to our collective sense of humanity; that it is socially destructive, eroding trust, increasing mental and physical ill-health and restricting social mobility; and that it is politically pernicious in the way it facilitates the ‘political capture’ of states by concentrations of wealth and corporate interests. These are crucial things to say. But, above all, we want in this part of the paper to make, and work through, a fourth, perhaps more complicated, point that is grounded fully in political economy. In a nutshell, we contend that, in addition, extreme inequality is economically damaging and actually undermines the stability and sustainability of capitalist development. A new model needs to be built upon a broader, more equal, social base in which the middle is not squeezed, but instead ‘settled’, perhaps even ‘satisfied’ (in a bow to those like the Skidelskys (2012) who have recently and tellingly invited everyone to think about ‘how much is enough’).

Importantly, too, because of the central role it played in the generation of the crisis, inequality cannot be left on the back burner until growth is safely resumed. This would be to fall back again into the familiar economic argument that the question of efficiency has to be separated from considerations of equity. The idea here is that the size of the cake has to be expanded to the maximum before we think about how to share it, the worry being that any attempt to bring about redistribution is likely to affect growth negatively by interfering with incentives. We do not accept this, taking the contrary view that alleviating inequality and promoting sustainable growth, far from being antithetical, are actually deeply intertwined and completely complementary.

In effect, political economy needs to reflect again on the question of the degree to which inequality is a precondition of economic innovation and development. Our intuitive answer is that some inequality is probably necessary to ensure that there are sufficient incentives to invest, produce and work, but that anything like the kind of inequality we have become accustomed to living with in fact threatens the broad social base on which sound economic development depends. This argument was in fact grasped for most of the twentieth century by those farsighted business leaders who understood that their workers needed sufficient remuneration for their labour to be able to buy the goods and services they were making. Put differently, they knew that you could not build successful capitalist development solely around the production and sale of yachts, expensive cars and luxury homes!

This insight was deployed to good effect by Joseph Stiglitz in early 2013 when he argued in *The New York Times* that there were four major reasons why inequality was ‘squelching’ the recovery. First, the middle class was ‘too weak to support the consumer spending that has historically driven our economic growth’; second, the ‘hollowing out of the middle class since the 1970s’ meant that they could no longer afford to invest in their future; third, the loss of this middle income was ‘holding back tax receipts’, especially since those at the top were so adroit in avoiding taxes; and, fourth, inequality was associated with ‘more frequent and more severe boom-and-bust cycles that make our economy more volatile and vulnerable’. This piece was much debated, and disagreed with even by fellow Keynesians. But Stiglitz was surely right to insist on the truthfulness and continuing relevance of a key element of Keynes’s own economic theorising, which was that middle and lower income citizens have a much higher marginal propensity to consume than the rich and very rich who he considered to be more likely to save than spend their enormous earnings.

In short, we need to rebuild as swiftly as possible the broader spending base on which capitalism used to sit prior to the crazed rush towards the extreme inequality racked up over the past several decades in most advanced countries. What is more, we know how to do it, because we have done it before – from the late 1930s onwards and into the post-1945 era. The methods are: progressive taxation of income and wealth; the serious pursuit of corporate tax avoidance on

a coordinated, global basis; the enactment of proper policies to require the payment of living wages; the public provision of universal healthcare, education and social protection to citizens; and the defence of the rights of workers within the law to organise themselves inside trade unions.

Can it be done again in hard times post-crisis? That will depend in the end on politics and the courage and vision of political leaders. We have shown, however, that the political economy of a broader, more equal, social base would increase growth, generate more taxes, reduce welfare spending, free up resources to devote to public investments and, generally, create a virtuous circle of civic capitalist development. After all, what is there not to like if you are not a member of the 1 per cent that has benefited so much from the neoliberalism of the past several decades? It is sound political economy, and it is a better morality play than the one we have been participating in.

Locating the new model within the global context

A new national model of civic capitalism has inevitably to be located and embedded in a global context. The extent and the complexity of the interdependence that has steadily grown between national economies and societies over the past half-century is such that this is now a truism, albeit one still too easily and too frequently overlooked in national policy debates. In fact, the kind of civic capitalism we propose would be still-born were it to emerge and be thought of purely at a national level. 'Civic capitalism in one country' is an oxymoron. Or, put slightly differently, the conditions of existence of civic capitalism are not exclusively, nor perhaps even principally, domestic.

In the final substantive section of the paper we turn then to a vital question, one that in effect oversees the whole debate about the possibility of moving forward towards a civic capitalist model of development anywhere. This is the matter of how we think about, as a means to reconfigure, what is usually called the system of 'global governance'. By this we refer simply to the loose mix of arrangements, institutions and rules that now exists at the global level with a view to giving some coherence and order to the diverse mix of policies and approaches to governance being followed across the many different states of the world.

The structures of global governance that we have inherited from the neoliberal era are actually very limited, both in scope and ambition. For some time the dominant view judged that little more was required than effective rules for managing competition between national economies. From this perspective, the IMF provided surveillance of financial risk and maintained the stability of the international financial order; the World Bank offered technical and other support to the development efforts of the poorer countries; and the World Trade Organization (WTO) negotiated an (ostensibly) ever more open global trading regime. It was also highly significant that the global management and amelioration of climate change has hitherto been pursued within a United Nations framework and has therefore sat outside the responsibilities of this interconnected set of global governance institutions.

That system can hardly be judged a great success today. Had it performed even the modest task for which it was designed, we would surely not have experienced the financial crisis of 2008-9 and suffered the subsequent Great Recession, and we would not now be witnessing the lack of progress in both the ongoing WTO trade round and the UN climate change talks. Clearly, something is not working – and, put in these terms, it has not been working for a long time. The fact is that the current neoliberal system of global governance is presently locked in a mode of endemic indecision. As we have seen, it was not that ambitious in the first place, but it does not seem any longer as if it can strike the deals that are needed to keep even its limited aspirations airborne. The shifting balance of power amongst the leading states in the world has made things just too complex and of itself necessitates the striking of a new deal. In short, we need something better, something more intensive and sophisticated as a system of global governance, something underpinned by a vision of how we want the world to be run, precisely

so that citizens in different countries can then decide how they want their political economies to operate on their behalf. The good news is that we know we can have this, because (once more) we have had it before – from 1944 to the beginning of the 1970s.

The key global governance institutions that we highlighted earlier – the IMF, the World Bank and the WTO – were all conceived as part of a vision for the restructuring of the post-Second World War order that was enshrined at the famous Bretton Woods conference of 1944. All of this is of course well known. But what is worth reminding ourselves is that the original vision, and indeed the initial working of the system, was much, much richer in aspiration and in practice than the narrower, more limited, successor to Bretton Woods that came into being during the neoliberal hey-day of the 1980s. Within the academic world this system was famously described by John Ruggie (1982) as a form of ‘embedded liberalism’, by which he meant that a significant measure of liberalism had been safely and securely grounded within the social and political orders of key participant countries. Within the world of political ideas more generally, it was seen to constitute the underpinning political economy of social democracy.

In a new era characterised by much greater openness and interdependence, we cannot hope to create a new ‘Bretton Woods’ simply by emulating the form taken by a series of bygone institutions. Many projects and thinkers have tried to do this over many years, and they have all failed. They have mostly tended to look back, rather than forward, which is actually what we now need to do. It is possible to begin to design a new package of rules and institutions for better global governance and to infuse that package with a spirit that is akin to that which drove the original Bretton Woods settlement and yet is at the same time firmly post-Bretton Woods in its grasp of changed realities.

In our view, the key question is a straightforward one. What might such a global hosting system for various new models of civic capitalism look like? We think better global governance would have to possess the following four characteristics.

- (i) It does need a renewed and extended vision. On this front, a great opportunity presents itself. This is the process already under way at the United Nations whereby the former Millennium Development Goals (MDGs) are being re-worked for the post-2015 era. Whatever one thinks of the limits and nature of the existing MDGs, they have been hugely influential in setting the tone of global ambition for more than a decade. After all, no fewer than 150 heads of state signed up to the Millennium Declaration in September 2000. We need now to take a step further forward along the lines proposed by Sakiko Fukuda-Parr (2010) who has identified what she describes as ‘the missing MDG’. In her view, this should be the goal of seeking to reduce inequality within and between countries. How apt! The post-2015 vision for global governance should be, genuinely, to ‘make globalisation more inclusive’ (and hence more global).
- (ii) It also requires a coordinating agency to steer the global political economy. Again, because of the panicky move taken by President George W. Bush (2008) at the beginning of the global financial crisis – at a time when he is supposed to have observed colloquially that ‘this sucker could go down’ – a G20 now exists at the level of leaders and heads of government. It has met eight times thus far and by common consent has fallen away in effectiveness and indeed unity following a highly promising start. Yet it is still there and it has the great political advantage of representing via its twenty member-states some 80-90 per cent of the world’s GDP and trade. As such, it has the capacity to steer and to provide the political will and muscle to underpin global governance. Accordingly, we have to work hard to think of ways to improve its current *modus operandi*.
- (iii) It must be grounded as well within a truly coherent set of global governance institutional pillars, all of which in effect take their political lead from the G20. The particular elements of this structure can be debated and changes in mandate are undoubtedly needed for some current institutions. For all that, the presence on the scene already of the IMF, the World Bank, the WTO and now the Financial Stability Board is a good starting-point. It should be remembered that these bodies are seen in US ‘tea party’ circles as constituting elements of an embryonic and dangerous global state that needs to be brought down. From our perspective these institutions should be defended and improved. But what does

urgently need to be added to the mix is a mechanism that can bring climate change directly into the global policy debate alongside issues of growth, stability and development. It cannot any longer be safely left outside the main tent. If this means creating a new global institution, then so be it.

- (iv) It would finally be greatly facilitated by much more deliberation, debate and argument about global choices and options. In other words, new 'top-down' moves, as above, must be complemented by equally important, new, 'bottom-up' initiatives. This is really vital and is often neglected – and it is integral, we think, to any project to make the institutions of global governance answer to a civic capitalist agenda. We mean deliberation both with a 'hard edge' (as illustrated, for example, in the debates between state representatives in the UN General Assembly and in the UN system as a whole), but also with a 'soft edge', as manifested in the activism of global civil society, in the global academy of ideas and also, although as yet to an insufficient degree, in the global media. This type of deliberation really does alter the climate of opinion in which 'mega-multilateralism' (Hoffmann 2014) can then do its business.

In sum, we argue that, by these various means, a reformed and improved system of global governance can both serve as the guiding intelligence of the global political economy *and* reflect to some degree a sense of the global popular will. Importantly too, it can also function as the incubator for the growth of a host of civic capitalisms. Inside such a world order they at least have a chance.

Conclusion

In the preceding pages we have travelled a long distance and covered a lot of ground – from the micro to the macro, from the local to the global, from the capitalism we have to the capitalism we might have and from the crisis within which we remain mired to the wholesale renewal of our institutions and the ideas which animate them which we see as the key to a sustained and sustainable recovery.

In the process we have sought to explain the need for a fundamental reform of the untempered Anglo-liberal capitalism whose crisis this is and to make the case for a more profoundly civic capitalism in its stead. Capitalism, we have argued, needs to be made to work for us – not least since the trust that, until recently, we were so happy to place in it has so palpably and poignantly failed to secure the collective public good over the long term. Capitalism, in short, has let us down – and we need to learn from the lessons of that.

We now know what we should probably have realised all along – that capitalism is far from inherently benign just as it is far from inherently self-regulating and self-equilibrating. It needs to be held to account and it needs to be effectively regulated if it is to play its rightful role in securing the collective public good. It needs to be made to serve us ... not us it. What we have sought to show in this essay is that making capitalism work for us is not only both possible and desirable, but that, as the crisis shows so well, it is and can be made good for capitalism too. There is no trade-off here as we previously fooled ourselves into believing. Unregulated capitalism does not regulate itself. It is not self-equilibrating and markets do not maximise growth and wealth – the size of the pie, in the familiar analogy – over the long term. Indeed, as we now see all too clearly, they just tend to ensure that, even if the pie grows, it goes off all the sooner – effecting those with the bigger slices just as much as those with less.

Finally, the concept of civic capitalism reminds us that we can be, and indeed have been, slaves to perceived capitalist imperatives – and that this has done us no good, bringing us to the brink of economic and environmental crisis. To resolve either crisis, let alone both, we need to think again – regulating and governing capitalism and capitalist markets for an agreed social purpose. That is what we mean by civic capitalism. The severity of our current plight – domestic and planetary – means that we have to build a new capitalism and we need to do so urgently. This is likely to prove a demanding and a painful process and the transition will be long and arduous. But we have a rare and perhaps a singular opportunity to get this right, a rare choice and the responsibility to

future generations which comes with that choice. In the recent past we entrusted that choice to the markets; we now need to reclaim it and to take responsibility for it ourselves. The argument applies widely, but to nowhere more forcefully than Britain. Quite simply, the British people and their future leaders need to devise together a design brief for such a civic capitalism. Our aim has been to set out, as we see it, some of the parameters of that debate in order to clarify the nature of the choice that faces us. The legacy will last for generations; at stake in our choice is the economic, institutional and environmental sustainability of our society. We can only hope that we all get it right.

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