

Social Europe Journal

Volume 4 • Issue 3
Summer 2009
www.social-europe.eu

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The Ethics of Capitalism



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Social Europe Journal is published
by the Global Policy Institute at
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Editorial



Henning Meyer

Head of the European Programme at the Global Policy Institute at London Metropolitan University and Editor of Social Europe Journal

CAPITALISM IS BACK at the centre of the political and intellectual debate.

In the wake of the current economic predicament, which clearly accentuated some of the major flaws of capitalism, this is hardly surprising. With this discussion the discourse about the nature of the state and its task to effectively regulate the economy has resurfaced too.

All too often, however, the capitalism–state relationship is examined in too superficial a manner. The daily politics we read about on the internet and in newspapers invites us to take a superficial look at fundamental issues that have a deeper complexity. We hear about emergency measures governments implement and arguments about systemic shortcomings in one place or the other. But one rarely hears from commentators who analyse the current situation beyond practical politics and broad criticisms of capitalism.

Therefore our goal in this issue of Social Europe Journal (SEJ) is to go a step further and address the deeper analytical level of the capitalism–state relationship against the backdrop of the unfolding economic events.

For this discussion of the ethical principles of capitalism and society we have assembled a

fascinating group of authors ranging from academics and public intellectuals to practitioners and politicians.

Also, we have published book reviews for the first time in the Journal's history. Christian Tenbrock of DIE ZEIT reviews a new book on the European Social Model that was the result of a project of the Friedrich-Ebert-Stiftung Warsaw. And our book review editor Stephen Barber examines one of the most ambitious books on democracy published in the last decades: *The Life and Death of Democracy* by John Keane.

Please also visit our website www.social-europe.eu. There you can debate all articles of this journal issue with other readers and browse our web-only content such as my Editor's Blog.

As always, we hope you enjoy your reading.



Contents

- 5 **Tasks of the New European Commission**
The Berlin Study Group Europe of the Friedrich-Ebert-Stiftung
- 8 **Capitalism and Christian Ethics**
Erhard Eppler
- 13 **An Economy without Ethics**
Jonathan Rutherford
- 18 **A New Start in Economic Policy – Beyond Financial Capitalism**
Friedhelm Hengsbach
- 23 **Ethics, Capitalism and the Managerial Aristocracy**
Alexis Brassey
- 27 **Morality and Capitalism in Sociological Perspective**
Sam Whimster
- 32 **The Ethics of Capitalism**
Karl-Heinz Klär
- 37 **No Freedom without Solidarity**
Gavin Rae
- 41 **Old and New Terrorism**
Peter R. Neumann
- 45 **What does Brussels Want?**
Christian Tenbrock
- 47 **The Fragility of Democracy**
Stephen Barber

Tasks of the New European Commission



The Berlin Study Group Europe of the Friedrich-Ebert-Stiftung

THE STUDY GROUP Europe of the Friedrich-Ebert-Stiftung has drawn up a list of tasks to be incorporated in the programme of the new European Commission over the next few years. Its detailed proposals should serve as a blueprint for political decision-making, as well as a set of benchmarks for the European Parliament and the European Council.

The following central policy areas are addressed: the social dimension; economic policy; taxation; financial markets; public service provision; energy and climate; a culture of civil rights, security and freedom; migration and integration; a Common Foreign and Security Policy (CFSP); and European Neighbourhood Policy (ENP).

The financial and economic crisis represents a window of opportunity for an active European Commission. The Barroso Commission has largely confined itself to managing the EU rather than acting as a driver of reform. The new European Commission will have to be measured by whether it will go beyond the necessary crisis manage-

ment. What the EU needs is a long-term paradigm shift towards a social EU with a sustainable approach to the economy and a global presence. This is key to the EU maintaining its viability, playing a role on the world stage and re-inspiring EU citizens about the European project.

1. The EU's economic and social policy needs a paradigm shift. Economic, social and environmental integration should no longer be regarded as in conflict. The European Commission ought to produce a report laying out 'The Costs of a Non-Social Europe' and present proposals for a change of course. This includes equal wages and working conditions for the same work at the same place. Protection of employment rights and the social dimension must be brought to the top of the EU's agenda. Besides the Posted Workers Directive this should also be reflected in a social progress clause in primary law.
2. Employment policy and economic policy must be given equal status in a reorientation of the Lisbon Process after 2010. The Integrated Guidelines should be oriented in particular towards promoting research and development, as well as fair and high quality education systems, environmental modernisation of the economy, a positive linkage between wage

'The EU's economic and social policy needs a paradigm shift. Economic, social and environmental integration should no longer be regarded as in conflict'

development and productivity increases, and the concept of 'decent work'. The need for national minimum wages must also be enshrined in the Guidelines. Particularly in a time of crisis it is important to strengthen economic democracy. The maintenance and promotion of high standards of workers' participation should be developed into a trademark of the EU.

3. Tax competition between EU member states undermines a fair tax policy. This is why we need a uniform basis of assessment and minimum rates for corporate taxes. As cross-border trading of financial products is becoming increasingly opaque, it must be regulated through the introduction of a Europe-wide tax on financial transactions.
4. The EU must set up an effective European supervision of the financial markets that overcomes the fragmentation of toothless supervisory structures. As a first step, cooperation between national supervisory authorities must be improved. On top of that, the establishment of a central European regulatory authority should be seriously considered. In particular, business policy should be more tightly bound to the attendant risk. To that end the Capital Requirements Directives have to be formulated more strictly and oriented towards long-term stability. Secondly, rating agencies, hedge funds and private equity funds have to be effectively regulated and controlled as far as possible at international level, but certainly at European level.
5. Since municipal provision of public services often conflicts with European competition and single

market regulations, greater legal certainty must be established at European level. It is fundamental for a social Europe that local authorities can continue to ensure, efficiently and cost-effectively, the extensive provision of essential services and high quality goods on an equal and non-discriminatory basis. In cases in which public services and other legal domains – such as subsidies and public procurement legislation – impinge on one another, priority should be given to the proper functioning of public services.

6. Security of energy supply must be enhanced by extending infrastructure such as electricity cables and gas pipelines, gas storage and terminals for liquefied natural gas. Besides the establishment of a solidaristic energy single market an energy security concept must also be developed in order to reduce one-sided dependencies. The EU finally has to make a determined effort to tackle the environmental reorganisation of the industrial society, as well as continuing to play a leading role in global climate policy.
7. In order to promote a common area of justice in the EU and to create a shared culture of civil rights the current Directorate General Justice and Home Affairs should be divided into two separate Directorates General presided over by their own Commissioners. A Directorate General for Home Affairs should be responsible for police cooperation, border controls, asylum and migration policy, and integration activities. A Directorate General for Justice should press ahead with the harmonisation of procedural rules in criminal law, the implementation of common guidelines in the pro-

tection of fundamental rights and data protection and better cooperation between judicial authorities in the EU member states.

8. The European Commission needs to give new momentum to the development of the European asylum system. This requires the further standardisation of the legal framework and procedures, as well as specific criteria for granting asylum. In addition, the concept of circular migration needs to be advanced. In order to avoid 'brain drain' effects in developing countries, migrants should be allowed to return to their home countries for longer periods without losing their residence status in the respective EU member state.

9. The EU needs a comprehensive and long-term foreign and security policy strategy that is supported by all the EU member states. It must take its bearings from the concepts of 'human security' and 'effective multilateralism'. The European Commission should play its part in the necessary reform measures within the framework of its competences. Above all, the European Parliament has to be involved in the decision-making process at an early stage in order to enhance the democratic legitimacy of the Common Foreign and Security Policy.

10. The European Commission should develop a coherent strategic approach to the European Neighbourhood Policy that reflects the interests of the EU as a whole. The European Neighbourhood Policy should be turned into a more attractive opportunity for cooperation especially for neighbouring states that have no immediate prospects of accession. A flexible approach to specific circumstances in the ENP partner countries should be as much of a priority here as the promotion of regional cooperation. A clear conditionality should be built into the process by which the ENP partner countries come closer to the EU, oriented towards the implementation of ENP action plans.



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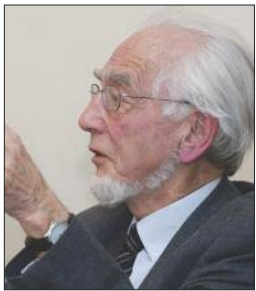
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Capitalism and Christian Ethics



Erhard Eppler

Former German Minister for International Development and founding chairman of the Social Democratic Party's Commission on Fundamental Values

I. As recently as 2003, in a – purportedly critical – introduction to neoliberalism, we read the following: ‘The left/socialist and church-based critiques of neoliberalism are in agreement that the market encourages a “destructive egoism”. Resistant to learning, the churches cultivate the idea of the fundamentally good, socially responsible individual, and look with biblical aversion (“You cannot serve God and Mammon”, Matthew 6, vv. 24-34) upon an economic order that is founded on – indeed, is presumably designed to produce – the selfish individual.’

Quite apart from the fact that the churches have been accused for centuries – and with more reason – of preaching that man is not ‘fundamentally good’ at all, but intrinsically sinful, this quotation shows how market radicals felt themselves to be in possession of a truth to which every system of ethics, including that of the churches, had to

submit. If the churches insisted on sticking to what they had been preaching for 2000 years, they were ‘resistant to learning’. They had closed their minds to the one and only truth.

So market-radical ideology fell foul of the churches with growing regularity, even though the latter’s usual attempts to reconcile conflicting ideas were never entirely abandoned. From the very beginning there was a conflict between Christian ethics and capitalism in any form. A visible sign of this was the medieval ban on usury.

All forms of capitalism are ‘founded on the selfish individual’. Capitalism consciously appeals to the individual’s inclination to acquire goods, to accumulate wealth, whether in order to be better protected, to have the wherewithal to lead a comfortable life in the future, or to count for something in society. The inclination can become an addiction, the accumulation of wealth an end in itself. This is what Christian ethics defined as covetousness, cupidity, or avarice (from the Latin *avaritia*).

The other driving force behind capitalist economics, apart from the individual’s striving for personal gain, is competition. Our fellow human beings are either our helpers or our competitors. As family mem-

‘Paul summarises the ethics of Christian charity thus: “Bear ye one another’s burdens, and so fulfil the law of Christ.” To the capitalist this must appear nonsensical’

bers, employees or customers they can help us, as competitors they can harm us and put the whole company at risk. Workers and employees, even when treated well, are still a 'cost factor'. And if they set up in business on their own, they become our competitors.

II. In the New Testament our fellow man is not our competitor but our 'neighbour'. The ethical code of the New Testament revolves entirely around this relationship with our 'neighbour'. Not because man is intrinsically a social animal, but because he is dependent on his fellow men, and cannot live without them, because this is the relationship that shapes his life. 'Thou shalt love thy neighbour as thyself.' Asked the question 'Who is my neighbour?', Jesus replies by telling the parable of the Good Samaritan. The Samaritans were not Jews, but despised foreigners. So our neighbour is not necessarily our biological brother or someone of like mind, but the individual who is most in need of our help and care.

In his *Letter to the Galatians*, Paul summarises the ethics of Christian charity thus: 'Bear ye one another's burdens, and so fulfil the law of Christ.' The contrast with the capitalist credo could not be more starkly formulated. To the capitalist this must appear nonsensical. How can an economy even function, let alone grow, if everyone is intent on bearing the burdens of others? Surely it is much more productive and cost-effective if everyone looks out for himself?

In capitalism everything has its price. And that price is determined by the law of sup-

ply and demand. Not so in the New Testament. Jesus tells the story of a 'householder' and owner of a vineyard, who goes out early in the morning to hire labourers to work in his vineyard. He promises them payment of one denarius for the day's work – the sum that a family needs to live on. Throughout the day, until the early evening, the householder continues to hire more labourers who are standing around waiting for work. He says he will give them 'whatsoever is right'. At the end of the day he pays them all one denarius, regardless of whether they have worked for twelve hours or one hour. This annoys the early birds in particular. The householder asks: 'Why be jealous because I am kind?'.² Each receives what he and his family need. To give any less would be mean. But this runs counter not only to the rules of capitalism, but also to the workers' own sense of justice.

For Erich Fromm, capitalism is about having, whereas the New Testament is about being. There could hardly be two value systems more diametrically opposed than the capitalist and the Jesuanic. Jesus even rejects the notion of taking thought for the morrow. The birds of the air do not trouble themselves about the future, even less so the lilies of the field: 'Yet your heavenly Father feedeth them.'

III. Right from the beginning, the ethical radicalism of Jesus of Nazareth was too much even for the Christian churches. When Christians became responsible for a state church – and therefore also for a state – compro-

mises were unavoidable. The Church acquired power, it became wealthy, it adopted a strictly hierarchical structure; orders were given and obeyed, advancement and punishment were meted out as the Church saw fit, tithes were exacted, and when it came to collecting them from impoverished peasants, charity was not the only motive at work. It was only ever individuals or monastic orders like the Franciscans who made a serious attempt to live out the ethical principles of Jesus.

These principles were always about the individual, not about society and certainly not about the state. It was fine for the individual to try and live by the precept that he should not take thought for the morrow – or for next year. But ruling a country required people to do precisely that. *Gouverner, c'est prévoir*. The temporal authority, supported by the Church, administered justice and enforced the laws of the land. People were often hanged for minor offences such as theft. This was far removed from the Jesuanic system of ethics: but then these were matters for which the Church was not directly responsible. It simply tolerated – and legitimised – what the 'secular arm' deemed right. From this flowed Luther's doctrine of the two kingdoms or realms.

When the Industrial Revolution created the new labouring class, first in Great Britain and then in western and central Europe, the churches' response for a long time was to focus on the needs of the individual. The poor were given alms, as they had been in the time of Jesus. The church authorities did not feel obliged

or entitled, nor indeed competent, to ponder – let alone judge – the fairness or otherwise of economic systems. And contemporary philosophers had other things to worry about.

Added to this was the fact that Christian morality in the 19th century increasingly became a pillar of middle-class respectability, to the point where it was difficult to distinguish between the two. And there was a clear divide between this middle-class respectability and the struggle for survival of the proletariat, which was seen either as a threat or as a charitable cause. The Papal Encyclical *Rerum Novarum* was not promulgated until 1891. That same decade saw the emergence within the Protestant church of a Christian socialism that no longer sought to protect the monarchy from the workers, but instead to protect the workers from those who would exploit them.

There is at least a clear recognition now that even economic systems need to be legitimised by ethical values. Although Karl Marx was interested in the dialectic of history and not in ethical judgements, all forms of socialism have seen themselves as morally superior to capitalism. Even the social market economy of Ludwig Erhard made some claim to moral authority. And when, towards the end of the 20th century, a market-radical ideology that had its roots in Great Britain and the USA spread throughout the world, it brought what might be termed a new morality into play. The principal catchword of this morality was ‘freedom’, especially in the confrontation with ‘socialism as it exists in

the real world’ – the idea being that it should not exist for much longer. For the rest, the market radicals promised everyone a life of affluence, in the long term at least. Of course, the rich needed to get richer first, but in time the ‘trickle-down’ effect would kick in and wealth would eventually trickle down to the poor. The new morality was assertively self-confident and aggressive. In contrast to the liberalism of a hundred years earlier, no apologies were felt to be necessary: greed was necessary and therefore good, even if many former comrades on the Left could not comprehend this. In 1900 a slogan like *Geiz ist geil!* (Avarice is sexy! – the slogan of Germany’s Saturn appliance-retailing chain) would have been ditched amidst public protest. For Catholics avarice is still a mortal sin – both the avarice that refuses to give and the avarice that cannot get enough. The surprising thing is that *Geiz ist geil!* met with so little protest.

IV. By now only hopeless dreamers still believe that if only we let the markets rule unchecked, a blissful future for mankind is assured. Now that these markets have lost unimaginable sums of money and our mighty financial institutions have had to be rescued by the state, that particular dream is over. Or it is for those who can tell the difference between dream and reality.

Now would really be the time to question the whole system. But the question is only ever put in a very tentative way, because nobody has an alternative functioning system to offer. A different kind of capitalism?

Preferably one that is ethically sound? With the striving for personal gain, but without the greed and the avarice? Driven by a healthy egoism, but not at the cost of consideration for others, for the company workforce, for environmental sustainability, for the proper functions of the state?

Countless lectures, seminars and books have been devoted to the subject of business ethics over the years. Even those who take seriously such efforts to establish ethical guidelines for business, and do not dismiss them as corporate window-dressing, have to admit that they have done little to check the excesses unleashed by market-radical ideology. Philosophers from Kant to Rawls, not to mention Catholic encyclicals and memoranda from the Protestant churches, have struggled to make headway against the tide of unfettered market capitalism. Sermonising seldom achieves its intended purpose. Why should this be any different in a society where the only thing that counts is success, and where it is sometimes not the worthiest individuals who succeed, but the most cunning?

Of course, moral reflection can be helpful. But it cannot turn a society that wants to win at any price, and by any means, into a society that values real achievement. It cannot even prevent the former from claiming to be the latter. Moral homilies are probably most effective when directed against manifest abuses.

At one time there was less corruption associated with the award of contracts. The game of seeking out tax loopholes has

‘Capitalism is constrained by reality and by its own mindset, which has always enjoyed a strained relationship with what is regarded in Europe as ethically permissible or desirable’

not always been so popular. And there were times when bankers knew what they had in their vaults, when they understood financial instruments and were able to assess the value of what they were buying. There is an ethical dimension to all this, and it can certainly do no harm if managers and entrepreneurs, and employees and customers too, are encouraged to reflect on their actions and choices. But it is not in itself a solution.

There is in fact no ‘problem’ here that could ever be satisfactorily ‘solved’. Capitalism is constrained by reality and by its own mindset, which has always enjoyed a strained relationship with what is regarded in Europe as ethically permissible or desirable – even if St. Paul’s ‘Bear ye one another’s burdens’ is now only a dimly discernible presence in contemporary moral discourse. The capitalist economic system would be inconceivable without the selfish desire for personal gain. The European ethical tradition, whether Christian or not, has always been about our fellow man and neighbour, about man living in community with others – from the family to the local town or parish to the community of nations.

This ethical tradition can prevent the child sitting next to us

in primary school from becoming our competitor. What it cannot do is prevent a businessman from distinguishing between helpers and potential helpers, competitors and potential competitors. We can and must prevent the commodification of all areas of life. But all attempts to de-commodify the economy are doomed to failure.

V. So as we contemplate the way ahead after the failure of market radicalism, statutory regulation will be more important than moral debate or preaching. Not because businessmen are deaf to moral arguments, but because all too often they (have to?) subordinate their laudable intentions to competitive constraints. At the end of the day they are also responsible for the people who have found work with them and want to stay in employment. Voluntary agreements undertaken by industry have not been brilliantly successful, on the whole. Market radicals were not trying to free capital from ethical restraints, but from legal checks. Their aim was not to do away with ethical principles – they had their own, after all – but to remove the ability of the state to construct a framework for the economy and the markets that was deemed appropriate to the needs of

politically responsible democratic majorities.

In actual fact we are talking about three frameworks – legal, social and environmental. The legal framework has to define precisely what is lawful and what is not, and what penalties await the law-breaker, in areas such as advertising, payment transactions, business procurement and corporate mergers. This framework now includes checks and controls designed to ensure that financial risks cannot be so cleverly masked by complex financial instruments that they are wrongly assessed by rating agencies, either deliberately or because even highly paid finance professionals cannot understand them.

The second framework is the social one. In Germany work on constructing such a framework was begun by Otto von Bismarck, when he made business enterprises contribute to the cost of insuring their workers. Henceforth they were to share the responsibility for ensuring that their employees were financially protected in illness and old age. Some argue today that these ‘non-wage labour costs’ should be shifted onto the taxpayer. But as long as the nation states continue to vie with each other in offering the lowest business taxes, this is not a good idea. Tax funding will only make sense if the EU member states, at least, can agree to set a minimum rate for business taxes across the Union.

A decade after Bismarck, the National Liberal banker and Prussian Minister of Finance Johannes von Miquel drafted another piece of the social framework by introducing progressive income tax to Germany.

Those who earned more would pay a higher percentage of their income for the benefit of the community at large. For most of the 20th century the progressive income tax model was accepted without question across the whole of Europe. The only argument was about how steep the progression should be. But in the age of market radicalism the gangsters, especially in the former communist states, have succeeded in dismantling this important part of the social framework. And to this day all the fine words of those who want to 'simplify' the tax system boil down to the same thing: the abolition of progressive taxation.

Naturally the social framework also covers everything designed to protect employees, including labour legislation, which balances the interests of employers against those of employees.

Another aspect of the framework in Germany is co-determination in the workplace, which has once again proved its worth at a time of crisis.

And finally, the environmental framework. Its purpose is to slow down global warming, prevent soil pollution and erosion, safeguard food standards, stop overdevelopment of the countryside and halt the extermination of wildlife species. But even this framework was viewed by market radicals like George W. Bush as just a fiendish plot by left-wing ideologues to put obstacles in the way of the free market. In actual fact this framework operates on market principles: anything that is environmentally harmful must be made economically unattractive, i.e. expensive. And what is environmentally desirable becomes the cheaper

option. Outright prohibitions are the exception.

This framework remains very much a work in progress. This is evidenced in the half-hearted attempts to reform the car tax, and in the furious opposition to environmental taxes which is backed by a majority of the media. The end of the market-radical era – which has not yet arrived for some, of course – creates an opportunity to establish an environmental framework that is strong enough and effective enough to make sustainable development more than just an abstract ideal.

VI. There are of course moral reasons why such frameworks should be established – and therefore why the necessary legislation should be put in place. At the Protestant Church Congress in Düsseldorf in 1985 the physicist and philosopher Carl Friedrich von Weizsäcker appealed for an ecumenical council for 'Peace, Justice and the Integrity of Creation'. If 'peace' is taken to include the civil peace that is increasingly under threat in many countries, and if 'justice' is also understood to mean social justice, then the 'conciliar process' that leads to peace, justice and the integrity of creation can be seen as the ethical basis for action that will only be timely and effective, as far as one can see, if it is enshrined in legal norms. Law needs to be underpinned by ethical standards. The business of politics, if it wishes to avoid a headlong rush into disaster, is to enact binding law and enforce it. That is what the state is for.

Capitalism with a minimal state presence was the aim of

the market radicals. It is now clear that this is not even good for the markets. And even less so for society, which can end up split and divided.

The capitalist economic system, especially in its modern globalised form, wields a great deal of power. It needs to be counterbalanced by some other form of power. This could be a civil society that is not subject to the laws of the market. But even a healthy civil society needs a functioning state that is capable of effective action. The fact that the market radicals wanted to dismantle the state and starve it of resources shows that they did not view it as their tool, but as an opposing power with its own agenda, its own sources of strength, its own goals and values. The important thing now is for the state to regain the strength to create the frameworks we need. And where the nation state is no longer capable of doing so, the European Union must step in. Before the 21st century enters its second quarter.

Endnotes

1 Willke, Gerhard (2003), *Neoliberalismus*, Campus, Frankfurt/Main, p.151.

2 Matthew 20, v 15 – here in the *New English Bible* version.

An Economy without Ethics



Jonathan Rutherford

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IN THE PARK across the road the boys hang out on the benches. Throughout the day and long into the night, when the call comes in one will cycle off up the road and return with the small wrap. It is a just in time, overheads free, networked, post post-fordist economy of primitive accumulation. A life selling crack or heroin is stripped down to exchange, profit, conspicuous consumption. It is a quick but dangerous route up the status seeking ladder of respect and a short cut for the excluded to the capitalist good life. Demand is inelastic and insatiable. Drug taking is driven by the two impulses that propel consumerism: desire freed from obligation to others, and the never to be satisfied search for peace of mind.

As Max Weber describes it, the impersonal, economically rational relations of business follow their 'own objectified

laws'.¹ The drugs trade is their purest expression. In this park on an autumn evening a market operates in the to-ing and fro-ing of the bike and the coming and going of strangers. At its centre is the absence of law and morality. What holds together its relations of exchange is the threat of violence. It is an economy without ethics and in this respect it exemplifies in extremis the neoliberal model of capitalism that has transformed the social order in Britain over the last three decades.

An Economy without Ethics

The historic crisis of Britain's old model of mass industrial production and the systemic failure of capital accumulation in the 1960s provided an opportunity for the right to establish a new hegemony. The 1979 Conservative government of Margaret Thatcher engineered the deregulation and restructuring of the economy, opening it up to the rapidly growing global financial markets. Its hegemony was secured by the sale of council housing and the promise of a property owning democracy. A new kind of popular compact between the individual and the market aligned the economic interests of individuals with the profit-seeking of financialised capitalism. Its individual market

'As Max Weber describes it, the impersonal, economically rational relations of business follow their "own objectified laws". The drugs trade is their purest expression'

‘Where the nation state had taken a moral responsibility for the welfare of its citizens, this new kind of market state promised them instead the economic opportunity to take care of themselves’

nexus displaced the old social welfare contract and provided a foundational structure for the new liberal market society of consumers. Change was facilitated by a state that was itself being privatised, outsourced and marketised. Where the nation state had taken a moral responsibility for the welfare of its citizens, this new kind of market state promised them instead the economic opportunity to take care of themselves.

In Britain’s low wage, low skill economy of limited opportunities, individual aspiration and economic growth were both driven by consumerism and sustained by the cheap credit of a dominant financial sector. The housing market became the epicentre of a casino economy that turned homes into assets for leveraging ever-increasing levels of borrowing. The lives of millions were integrated into the global financial markets as their savings, pensions and personal and mortgage-backed debt were expropriated by financial capital. A similar compact between the business elite and shareholder value engineered a massive transfer of wealth to the rich and became the unquestioned business model of the period.

The neoliberal compact not only accelerated the redistribu-

tion of wealth from labour to capital; it has been central to the modernisation of capitalism in its new phase of technological development. In the financial, knowledge and cultural sectors of the economy, new practices of capital accumulation co-opted the values of the 1960s counter-cultures of the young middle classes. The cognitive and emotional capacities of the individual are its productive forces. Self-expression, anti-establishment sentiment and emotional attunement to the world are forms of economic potential.

The expanding universities sector provides the communicative labour for production processes that extend beyond output to incorporate consumers in the co-creating of symbolic meaning. In this new economy, consumption involves the pursuit of experience and the aesthetic practice of assembling objects and meaning in the process of self-becoming. The economic raw materials of this effervescent form of capitalism are intangibles like information, symbolic meaning, sounds and images, sensibilities, social connections and styles of living. Its economic activities generate a cosmopolitan modernity of difference that is deepening people’s sense of individuality.

Traditional moral collectivities have been undermined as individuals reject imposed and universalist sets of rules and obligations in favour of an ethics whose styles are more in keeping with the ancient Stoic philosophers and their injunction to ‘spend your whole life learning how to live’.²

The individualisation of class and culture around these leading edges of technology driven production and consumption has been accompanied by the destruction of more collective ways of life. The collapse of the manufacturing industry, its outsourcing to low wage economies overseas and the emergence of a global division of labour have undermined the income base of the working class. In 1976 the bottom 50 per cent of the population owned 12 per cent of the nation’s non-housing wealth. By 2003 it had fallen to 1 per cent. In parts of the country the working class has lost its productive role. Sections of the population exist as a reserve army of labour either economically inactive or in casualised and temporary jobs. The decline of traditional forms of employment and the creation of class segments superfluous to the needs of capital have destroyed traditional working class cultures and their virtues.

Over the last three decades, the neoliberal model of capitalism has created a utilitarianism whose rational, economic calculation has contaminated all social relationships. Its creative destruction, its integration of personal life into market relations, the aggressive selling of cheap credit, and the destruction of cultural and moral inheritance have led to an economy without

ethics. Modernisation and the erosion of civic culture have opened a cultural and economic gulf between the liberal middle classes and the mainstream working-class population. The breakdown of trust and a sense of disenfranchisement amongst the electorate have led to a crisis in political representation. Anxiety and uncertainty are expressed in a sentimental mythology about the national past, and a populist intolerance of cultural difference.

The Enemy Within

In the wake of economic crisis, the neoliberal compact that promised freedom through individual market choice no longer commands popular confidence. The sense of a shared moral and cultural national life has been eroded. The old nation state social welfare contract is in tatters. What now is the ethical relationship of individuals to one another, to community and to the wider social order?

The neoliberal model of capitalism has accelerated the long historical decline of the puritan moral economy that underpinned the culture of British capitalism. Individual self-control, hard work and a willingness to delay or forego reward and gratification provided a social glue and the purposefulness of a national, imperial destiny. In its place neoliberalism has produced a multitude of individual stories without connection. Both Conservative and Labour governments have responded to this social fragmentation with an authoritarian populism and a search for 'enemies within'. The poor, welfare recipients, single mothers, immigrants, and young people

have all been scapegoats for anxieties about social disorder and incivility. The discourse of an underclass has been used to shift the blame for the structural redundancy and social exclusion of sections of the working class onto the excluded themselves. The humiliation of cultural defeat and economic deprivation has precipitated generational self-destructive addictions, mental illness, criminality and dysfunctional behaviour. But these are symptoms of our incivility, not its root causes.

The metropolitan middle class has also been accused of being the cause of national malaise. In 1970, the right wing, nationalist Tory, Enoch Powell accused the liberal intelligentsia of being an 'enemy within' and destroying the moral fabric of the English nation with its promotion of cultural difference and 'race'.³ Margaret Thatcher followed his example, laying the blame for moral decline on the counter cultures and permissive values of the 1960s. Tony Blair mimicked her in an opportunist attack on the 'Swinging Sixties' and its 'freedom without responsibility'.⁴ Most recently 'Red Tory', Phillip Blond has accused 'a self-hating cultural elite' and 'a newly decadent middle class addicted to its own pleasure' of having a contempt for tradition and virtue.⁵

Pilgrim's Progress

The middle classes play a contradictory role in modernity. They are the class agents of economic modernisation that historically undermines traditional community. At the same time they enforce the moral norms and social structures of their class privilege. They are the

defenders of the status quo, while pursuing utilitarian values that destroy it. These contradictions lie in the origins of capitalism and the emergence of a middle and trading class steeped in the culture of Puritanism. John Bunyan's *Pilgrim's Progress* (1678) begins with a man called Christian crying out, 'What shall I do?'. It is a question which symbolised the transition from a traditional society governed by providence and fate to the modern idea of personal destiny. The Puritan revolution initiated an idea of human community radically different from the Catholicism which bound individuals to the church through their bodies and emotions. Each individual was alone with a god who was recast as a transcendent and unknowable deity. The meaning of life was no longer fixed, but became a task of individual self-reflection and the examination and interpretation of god's word. It was a revolution which gave rise to a self-consciousness, and usurped the divine right of patriarchal authority.

From the days of the Merchant Venturers of Stuart England, Protestantism and its message of predestination was inextricably linked to the spirit of capitalism. Contracts established new forms of social relationships between men and replaced the rights, duties and reciprocities which had been a part of the family. Society was constructed on the rational deliberations of its male citizens, defined by relationships which were associational and secular rather than communal and sacred. 'Man' was governed by reason. But this defeat of divine rule provoked the ques-

tion of what now held individuals and society together.

Thomas Hobbes warned that unless another form of authority replaced it, life would not be worth living. Society would be precipitated into a war-like struggle of all against all.

The Scottish philosopher David Hume responded to Hobbes in his *Treatise of Human Nature* (1739-40). Social bonds were founded in feelings. Sociability and moral values were inaugurated by the flow of emotions – sympathy – between people. His friend, the philosopher Adam Smith disagreed. In *Theory of Moral Sentiments* (1759), Smith argued that sympathy – compassion, fellow-feeling – was necessary for the moral foundation of a commercial society. However, unmediated emotions of sentiment usurped reasonable behaviour and undermined the ties which bound people together. Sociability requires self-interest which distances the subject from both himself and from others: ‘We must imagine ourselves not the actors, but the spectators of our own character and conduct’. By 1776 and the publication of *The Inquiry into the Nature and Causes of the Wealth of Nations*, Smith is more doubtful of the social value of human feelings. The well being of all would be ensured by the emergence of disinterested competitive markets and contractual relations. Justice and the rule of law, not sociability, would be the ties which bound citizens to society.

Socialism and Ethical Life

Fifty years ago the socialist writer Raymond Williams published a short essay called

‘Culture is Ordinary’.⁶ It begins with an elegy to his working class boyhood in the farming valleys of the Black Mountains and the generations of his family who had lived there.

Williams describes a way of life which emphasised neighbourhood, mutual obligation and common betterment. He belonged to a class that gave him his personal resilience and social anchorage. It gave him a culture and political representation through the Labour Party and a trade union movement.

Williams knew that culture was shaped by the underlying system of production. He recalls how from the mountains he could look south to the ‘flare of the blast furnace making a second sunset’. He wrote at a time when his class was already undergoing momentous change, but he could not have imagined the day when there would be no second sunset and the system of production that had shaped his class and culture was turned into scrap. After that, what would come next?

We need to find answers to this question. Across Europe social democracy is in crisis. In the decade ahead the new technologies will continue to transform the economy creating a

diversity of economic structures, business models and forms of ownership. The effervescent quality of wealth creation will require diversity, flexibility and complexity. It will need to secure social foundations, but as a society we are politically demobilised and socially divided. A new politics of the left must galvanise the vitalism of the cosmopolitan cultures of difference while being an advocate for mainstream conservative culture. The two sensibilities are not necessarily mutually exclusive. They can divide along differences in age, class and region, but they also constitute the contradictory desires for freedom and security, the unpredictable and the familiar, desire and need, which exist within each of us. The philosophical debates on the individual and our relationship to society which inaugurated modernity remain central to contemporary politics.

Today we good citizens share a predicament with the boys in the park. We live our lives without moral guarantees. There can be no return to a common Christian culture as Enoch Powell would have wished. Nor can we secure a social cohesion through the

‘In the wake of an economy without ethics and in an age of secular individualism there is a need for allegory that will restore ethical meaning and cultivate representations of our commonality’

object of god as the theological orthodoxy of Phillip Blond seeks. We will only ever get hold of the world indirectly through representation in language. God, the sacred, the transcendent, the immanent are all simply metaphors for the 'unthought known', the excess of world over word. The Left died when it failed imaginatively, creatively, aesthetically and politically to help us in this act of reaching beyond our known selves.

A new left politics must return to first principles and address the big questions of how we live. We need a materialist politics of the individual living and producing in society that values the social goods that give meaning to people's lives: home, family, friendships, good work, locality, and imaginary communities of belonging. Its ethic of socialism is simple: 'the best life for each is understood to be that which is best for those around him'.⁷ The philosopher Charles Taylor echoes this belief in his argument that the desire for self-realisation lies deep in our culture. It involves the right of everyone to achieve their own unique way of being human. But it is not selfish individualism. To dispute this right in others is to fail to live within its own terms.⁸ It is an example of what Paul Ricoeur calls an ethical intention – 'the requirement of mutual recognition which makes me say: your freedom is equal to my own'.⁹

The progressive future belongs to a politics which can achieve a balance between individual self-realisation and social solidarity. It will be one that goes beyond a narrow concep-

tion of 'the political' to include aesthetic and cultural work. The importance of media, intellectual knowledge, art, music, poetry, image making, the spectacle, is that they give form to new sensibilities and forms of consciousness. They can give voice to the silenced and they create meaning where none has existed before. The aesthetic work of playing, dreaming, thinking and feeling makes the individual feel that life is worth living. What is it in music that exceeds its commodification? The Left does not ask such questions. Our philosophies have been shaped by a metaphysics that seeks to understand something by reducing it into separate elements for analysis. We have created an instrumental, technical and objectifying mode of thinking, in which thought attempts to assert mastery and control over the world. But the world, society, individuals, are more than the sum of their parts and we must find ways of speaking to them.

In the wake of an economy without ethics and in an age of secular individualism there is a need for allegory that will restore ethical meaning and cultivate representations of our commonality. In the past, intuitive attunement to the world was expressed in religious symbols and spaces of the sacred. They were constructed as timeless, changeless and undifferentiated representations of homogeneous ethnic cultures. Today the search for a new ethical relationship between the individual and society requires non-absolutist objects, practices and spaces in which our inner being finds an emotional connection to the world, and which foster coexistence with the others who

occupy it. Making them will not be religious, but it will be a civilisational achievement.

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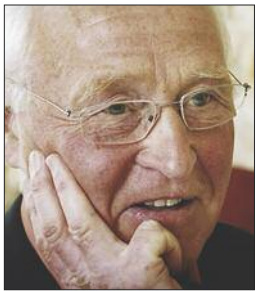
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A New Start in Economic Policy – Beyond Financial Capitalism



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‘GERMANY MUST GET moving’, the former German President Herzog demanded in 1997. Ten years later, this move has encompassed not only Germany, but gone through the entire world – but not in the way Roman Herzog imagined. Those who for thirty years preached that we should trust the self-regulating power of the markets and worshipped the lean state as the best of all possible states now suddenly have moved to doubt the markets’ power to heal themselves and call for the state to be their saviour.

Financial Experts search for the Errors

‘Certainly the banks have made mistakes’, Klaus-Peter Müller, the former boss of Commerzbank, admitted in an interview. But he stated exactly the same thing five years ago. He never said what the mistakes were. However, he sees the real cause of the crisis in a twofold failure by the state. After the speculative bubble of the 1990s, Alan Greenspan should never have operated such an expansionist monetary policy. And the Bush administration should not have let Lehmann Brothers go to the wall. But for the collapse of that bank, Commerzbank would have posted good results.

‘I can hardly bear to hear the word greed any more.’ That sentence is by Hilmar Kopper (former CEO of Deutsche Bank). If by these words he means that to explain away the financial crisis simply as the result of individual mistakes is itself mistaken, then one can agree with him. Because the moral outrage of voters stirred up by politicians with their broadsides of insults, or the pillorying of individual actors, are just as misguided as the fixation of public debate on the bonus payments to financial managers who have driven their banks to the wall.

Financial experts are right to direct attention to the miscalculation of risks which had grown exponentially alongside the innovative financial services, shadow banks, bank-free zones and the immeasurable extent of networking among the actors in the monetary sphere. Home owners, it was claimed, had miscalculated their long-term ability to keep up payments; dealers had forced mortgages on them in a wildly over-optimistic manner. Departmental heads in commercial banks allegedly failed to supervise and support their subordinates adequately.

Trading in derivatives, securitising loans and structuring them outside the banking supervisory body, founding off-bal-

Translated from the original German by the Friedrich-Ebert-Stiftung London

‘The natural limits of a barter or metal currency have been overcome since the banking system gained unrestricted power to print and lend money’

ance sheet companies as special purpose vehicles, insuring default risks and securitising them, and channelling supposedly innovative, but actually incomprehensible, uncontrollable financial services into the global financial cashflows to the extent they did, are now seen as demonstrating gullibility, naivety and irresponsibility. Nevertheless, public supervisory bodies had also largely tolerated such practices and assessed them in an unduly lax manner.

Systemic Errors

The search of the financial experts for errors does go beyond the normal microeconomic perspective, but it remains within the boundaries of the established financial sector. For that reason, there should instead be a search for the structural deficits of the capitalist financial regime.

The first point to mention is the ‘monetary revolution’. The elastic money supply, along with an unrestrained grab for ‘the earth as a global piggy bank’ is a crucial explanation of the dynamics of capitalism. The natural limits of a barter or metal currency have been overcome since the banking system gained unrestricted power to print and lend money, which in turn no longer imposes any lim-

its on the growth of the real production potential.

And for wealthy sections of the population in economically affluent societies, money is no longer used simply as a means of exchange, but also has assumed the function of a capital asset. As a means of storing and increasing value, it competes against property, consumer durables and stocks.

Secondly, the means for controlling the markets for goods and for capital are now diverging from one another.

Controlling the markets for goods, as reflected in price levels, is restricted by real factors of production and real purchasing power. Controlling the capital markets, especially those involving financial assets, is determined on the demand side by subjective future expectations, which are not restricted by any real barriers.

On the supply side, there is an absence of restraints on the potential of the banking system to create credit, especially as the limits imposed by the central bank, which previously also had constituted a barrier within the real economy, are being evaded. The results have become evident in recent years: The interplay between the expansive granting of credits by the banks and the explosive

expectations of the owners of financial capital that its value will automatically increase, have pushed one another up higher and higher. Thus the expectations of fictitious, credit-financed increases in assets were able to spiral speculatively upwards and divorced themselves from the economics of the real world.

Thirdly, the limitations on liability which were granted to Public Limited Companies (PLCs) were further undermined by the investment banks and financial investors, leading to systematic under-capitalisation. On the basis of an extremely low proportion of own capital, and the leverage effect of a high proportion of external capital, the yield on own capital could be expanded considerably.

International accountancy rules displayed values close to those of the market, but they were based more on fictitious expectations than on real capital gains.

Fourthly, the rivalry between two financial styles, the continental European and the Anglo-American models, has contributed to the crisis through the hegemonial dynamic of the US financial model. Michel Albert has called ‘Rhenish capitalism’ bank-dominated: Private commercial banks control industrial companies through granting loans, their own holdings and personal relationships.

Companies are managed by the interplay of all the groups active within them, which are oriented towards reaching a mutual understanding. The managers work at balancing the interests of staff, customers, shareholders, banks and local authorities. Systems based on solidarity and financed on a

pay-as-you-go basis provide assurance against the risks to society posed by old age, poverty and unemployment.

Anglo-American financial capitalism, on the other hand, is driven by capital markets. Markets for stocks and derivatives predominate, and collective actors (big banks, insurance companies, investment firms and financial investors) operate in them. Companies are a capital investment in the hands of the shareholders. Their value is determined using a purely financial indicator: the 'shareholder value', the balance of future financial streams, discounted to the present.

The managers work exclusively in the interests of the shareholders and therefore base decisions (and their salary) on the stock market price, which allegedly provides an authentic reflection of the company's value. The interests of staff, customers, local authority and state institutions are seen as secondary.

The State: Part of the Crisis

The state is neither the saviour from the crisis, nor the solution to it. The social crisis and the financial crisis are two aspects of the same failed economic, financial and social policy.

In Germany, the negligence of the Red-Green Coalition (1998–2005) reduced social security and deregulated the job market. It distorted the pensions, health and unemployment insurance schemes to the extent of destroying the system. Security systems which were supposed to guarantee a standard of living acquired during years of work, was cut back to the level of a socio-cultural

minimum for mere existence. At the same time, private, capital-financed provisions were advocated. There was a tendency to put the burden of social risks onto the individual, to privatise security which had been based on solidarity and to commercialise basic rights to work, income, involvement in society and appropriate access to educational and health goods.

Since the Otto Graf Lambsdorff/Hans Tietmeyer Paper of 1982, bourgeois elites have demanded flexible wage agreements, a reduction in job security and the establishment of a low wage sector. The Red-Green Coalition gave in to these demands – through a succession of laws to encourage employment, agency work, part-time and temporary work, and the undermining of job security.

The result has been documented by the 3rd Report on Poverty and Wealth of 2008: An increasing risk of poverty, the dramatic increase in non-secure jobs and in poverty even when people are in full-time paid employment. The divergence between income from profits on the one hand, and from wages on the other, and the divergence in amounts of capital owned, have further increased due to an asymmetrically designed fiscal policy.

More or less parallel to the deregulation of employment came the deregulation of the financial sector. During the second legislative term of the Red-Green coalition, the restrictions on stock market trading were loosened, trading in derivatives and special purpose vehicles was permitted, and the banks' profits from sales of their industrial holdings were made tax-

free. Hedge funds were permitted in the form of umbrella funds, and the securitisation of loans was fiscally supported.

These moves to relax the rules were justified by EU guidelines and the need to protect investors, but they were also rooted in the desire to make Germany competitive in world financial markets. Then the Grand Coalition (since 2005) did its best to support innovative financial services and sales channels and to give fiscal privileges to venture capital companies.

The German government was also quick to react to the howls of anguish from the financial elites. Did it feel itself a helpless victim to the pressures coming from the Irish, British and French governments? Did it fall for the apocalyptic picture painted by the mega-banks and the public financial supervisory authorities?

The way it reacted was similar to the excited performance of the stock exchange investors, that is, it acted in isolation, in a knee-jerk, exaggerated and spectacular manner. Hardly anyone contradicted Finance Minister Peer Steinbrück, whose first desire was to tidy up the scene of the accident before interviewing any of those responsible for the damage. And Steinbrück pledged that he would put out the fire immediately, even if it had been caused by arsonists.

But there was an alternative to passing round the umbrellas which were unfurled over an accident scene lost in fog. The political elites have become accustomed to using this cliché to cover up their notorious shortage of new ideas. Instead of attempting an across the

board rescue operation, the individual sources of the fire should first have been identified and extinguished in the most appropriate ways.

A careful search for evidence would have demonstrated that the ‘counterfeiters’ included mainly private investment banks, German Landesbanken (publicly owned regional banks) and those institutes which had already been hived off and abandoned by the banks which had owned them. The fact that the German government invited the arsonists to drive the fire engine gave them a privileged position in drawing up the state rescue package and thus protected them and the ministerial steering committee against any objections from the German Parliament. This cannot be reconciled with the basic norms of public opinion in a democracy.

The citizens’ suspicion of the collaboration between the government and the financial elites is well-founded. For the often quoted phrase ‘too big to fail’ would have justified the breaking up of the mega-banks and insurance companies, rather than the setting up of new mergers and take overs with public funds to create even larger financial giants.

Were there really no alternatives to the government’s rescue packages? Should the state have guaranteed not the banks, but only the savings held in the accounts of citizens who will never have the chance to live just from the interest on their capital? Should it have permitted rich households to suffer financial losses, and indeed reintroduced progressive taxation of their income and capital?

The state could have put its trust in liquidity assistance to be provided by the central banks, and pressed the powers-that-be among the financial institutions to make their own advance payments as a sign of mutual confidence, and as a measure of subsidiarity, to organise support among themselves and show solidarity. Obviously when Finance Minister Steinbrück quoted the phrase: ‘When the heavens cave in, all the sparrows are dead’, he was simply parroting the rhetorical clichés of the financial elites.

Scenario for the Future

The state’s decision-makers should as a first step be prevented from mobilising public financial resources which do not belong to them, and from stuffing them down the throats of those financial companies which provide them with the label of ‘systemic relevance’.

Distributing state stimulants to private banks so that they can restart those credit dealings which serve principally to increase the capital assets of an exclusive club of rich elites, subjecting successful companies to the dictates of instant profits from financial investors and at the same time forcing through a reduction in wage levels, cuts in

social service provision and the undermining of public finances – that just cannot be justified. Giving the kiss of life to financial capitalism will trigger justified unrest among sections of the population.

Secondly, large sections of the population are living in poverty. Elementary material needs are in short supply on a worldwide scale, and vital needs are not even being satisfied in affluent countries. Public goods to satisfy basic needs and rights are not available to an adequate extent. Financial capitalism serves mainly a private minority among the capital-owning class.

Increasing economic value-added and providing decent jobs should therefore be the primary objective of state policy. To achieve a fair distribution of the value-added, collective bargaining and social security financed on a pay-as-you-go basis of solidarity should be strengthened. In mature economies, the extreme dependence on exports and industry should be reduced, and ambitious ecological reconstruction alongside (public) work to help people should be expanded considerably.

Thirdly, a fair distribution of the economic value-added to those actors who worked together to create it is not possible

‘Should the state have guaranteed not the banks, but only the savings held in the accounts of citizens who will never have the chance to live just from the interest on their capital?’

without tackling the imbalance of economic power in capitalist companies. Those who own the means of production of course cannot make profitable use of them without employing the labour power of others. As a result, the labour force has the right to codetermination in economic and social matters. The elementary right to take decisions should belong to an equal extent to employees, shareholders and local authority or social bodies.

Social control of companies is the alternative to control by shareholder value and financial investors. A capitalism capable of being democratic in a society of equals beyond financial capitalism is the motto for a global new start, for the good of each and every one of us.

There are important grounds and respectable models on which to base such a new start. In 1947, the CDU in the British occupation zone formulated its Ahlen Programme, following economic collapse and in the midst of social turbulence. Its preamble states: 'The capitalist economic system has not done justice to the vital state and social interests of the German people. The content and objective of the new social and economic order can no longer be the capitalist striving for profit and power, but only the wellbeing of the people.'

After the peaceful revolution, the fall of the Berlin Wall and German unification, Pope John Paul II. asked in 1991: 'Is capitalism the only victorious economic and social system which is worthy of the efforts of the transformation countries, and which can be recommended to the developing countries?' His

answer is: 'A human alternative would be: To order the market through social forces and organs of the state and to order companies so that they become places of free work and participation. The western countries run the risk of seeing the failure of socialism as the unilateral triumph of their own economic system, and therefore of not bothering to undertake the necessary corrections to that system.'

Fourthly, financial markets should be de-globalised. Thus the hegemony of the US dollar must be replaced by a multilateral currency regime. Nationally, successful economic development depends on the existence of micro-banks, which network agricultural companies, manufacturing industries and companies providing service together – in a financial and cooperative way.

Fifthly, the G20 nations should regulate the financial markets more strictly, so that the money supply, the stability of the monetary sphere and the function of financial companies once again becomes a quasi-public good. The international financial structures thus serve the objective of improving the wellbeing and quality of life of the world's population, and especially of the world's poor.

In a global financial architecture, it follows that all financial services, all financial companies and all the locations where financial services are demanded and supplied, must be subject to public supervision and control. The possibilities for banks to create credit must be tied to strict conditions. To avoid speculative attacks on currencies, the exchange rates of the reserve

currencies should be stabilised and short-term cash flows should be taxed in a similar way to the movement of goods.

Angela Merkel, the German Chancellor, declares that the crisis is an opportunity. But this opportunity cannot amount to restoring financial capitalism. Economic democracy is the appropriate name for a new political start.

Ethics, Capitalism and the Managerial Aristocracy



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WE ARE ALL capitalists, in the sense that we may point to one thing or another and call it 'mine'. The Marxist notion that 'private property is theft' is all but dead outside of the most extreme and chronically naive positions.

It is often said that communitarian or communist ideology which espoused the principle of 'common ownership' was great in theory but ineffective in practice. This sentiment, however is self-evidently false. Any political ideology which does not work in practice is de facto a poor theory.

Having established that we are all capitalists in this particular sense, this article argues that in order to maximise ethical value within the macro-economy the private sector and its chief operating principle, the market mechanism, must be encouraged within a well regulated framework.

This article initially considers what it is we mean when we talk about 'ethics', followed by a discussion setting out how the democratic and legal

system in effect puts our sense of ethical values into a practical set of laws. This is followed by a positive assessment of utilitarianism explaining how capitalism is the only effective mechanism to achieve the optimum level of efficiency within any given economic paradigm.

Finally I offer a critique of the emergent managerial aristocracy which appears to be strangling private sector progress. I argue that this class of economic agent presents the greatest danger to the efficient progress of the macro-economy.

What are 'Ethics'?

Attend a course of moral philosophy or ethics at a University in the developed world and it would be explained there are three central theories. Firstly the school of deontology, led principally by Kant which suggests ethics are about duty and obligations. In order to be ethical one should 'love thy neighbour', for example.

The second major school of ethics is that of utilitarianism led by Bentham and Mill in the late 19th century. The crucial maxim here, being that ethics are simply about the maximisation of happiness for the greatest number.

The final system, if one can call it that, is described as 'virtue ethics'. This more vague construal, dates back to Aristotle's 'Nicomachean Ethics' and offers the idea that in order to determine what is 'ethical' or 'good' one has to do the right thing at the

'In a modern liberal capitalist economy, private enterprise, despite the more recent marketing phenomenon of alleged 'social concerns', has one simple goal: profit'

right time for the right reasons. In order to determine what might be the appropriate course of action in any given situation, one would be advised to consult a 'moral expert' who one would consider had the requisite skill to elicit what that might be on a case by case basis.

Of course there are many more conceptions of ethical value including the nihilists, the atheistic existentialists, the prescriptivists and the intuitionists as well as the anti-realists. What is common to a majority of the major theories, aside from nihilism is the idea that in order to gain an understanding of appropriate ethical behaviour one had to be able to either experience empathy for others or understand situations when one ought to have empathy for others.

This distinction is important given that there are a minority of individuals who have an impairment in their empathetic response, but who nevertheless understand that there are certain situations in which one ought to at least act as if one had empathy in a given situation.

The Capitalist System

Adam Smith points out in *The Wealth of Nations* that it is individuals collectively acting in their own self interest that creates an efficient economic system. The idea that acting selfishly is in everyone's best interest appears on the face of things to be counter intuitive, however, the idea can be explained in more modern terms.

What is evident from an analysis of Smith's economic model is its commitment to the principles of utilitarianism, indicating that this paradigm will give rise to the greatest happiness to the greatest number. In a modern liberal capitalist economy, private enterprise, despite the more recent marketing phenomenon of alleged 'social concerns', has one simple goal: profit.

All private commercial activity, regardless of sector or geographical

region pursues the goal of profit to the best of its ability. In order to maximise profits, however, one must be able to service the 'client' of any given enterprise to the best of one's ability and not only that, it must provide the best product at the most competitive price. This concept is known as 'productive efficiency'.

Companies who provide a substandard service or who charge too much for their goods or services will simply fail. In short, capitalism ensures that firms, in the pursuit of their own self-interest, must have the highest regard for their customer's wants and needs. The most successful enterprises attempt to 'delight' the customer in order to grow.

In addition to the benefits derived from 'productive efficiency', the market mechanism also benefits from the principle of 'allocative efficiency'. This principle ensures that what is produced by companies is determined by the customers. Customers signal their preferences by either expressing demand for particular goods and services or not.

Producers are aware of customer behaviour in virtue of their economic activity and adjust their supply in accordance with those preferences. In short, the market mechanism produces the goods and services which are demanded by the customers at the best quality and at the best prices.

It would, however, be incorrect to suggest this is the end of the story. The market mechanism does fail in a number of crucial areas.

Firstly, the only demand which will be taken into account is 'effective demand'. In other words the only people who are able to express their demand are those economic agents with money. Those who do not have any money, namely those in the developing world or those less economically advantaged have little to 'express'.

Secondly there will be a gross under-supply of 'public goods' such as health

and education and a potential oversupply of other goods such as drugs, cigarettes and alcohol. The capitalist system also has a tendency to polarise wealth by over-rewarding success and cruelly punishing failure with starvation, crime and death.

The problems of market failure and the cruel fatal effects of economic failure can to a certain extent be arrested by the introduction of the government sector. The raising of taxation effectively redistributes wealth from individual agents within the economy in order to provide crucial provision such as the police, fire and ambulance services as well as the army, education and health services.

Ethics and Law

The interplay of ethics and law within the economy delineates the extent to which economic agents are able to operate freely. One example of this is the development of the 'neighbour principle' developed by Lord Atkin in the establishment of tort law. Prior to the case of *Donoghue v Stevenson* 1932, it was not possible for a third party to a contract to sue a manufacturer for damages suffered as a result of negligence.

The law, however, accommodated the growing sense of unfairness at this state of affairs and was subsequently amended, initially in the Courts and eventually in statute. Another example is the establishment and legal recognition of Trade Unions, the plethora of discrimination legislation including the Sex Discrimination Act 1975, the Race Relations Act 1976 and the Disability Discrimination Act 1996.

As society develops a moral sense of fairness, laws are introduced to ensure that the capitalist agents within the system must comply with the new legislation. It appears that the modern capitalist system, with its recognition that self-interest requires a degree of redistributive taxation has the answers to all economic problems.

What went Wrong?

The increasing complexity of the post-industrial West led to the demise of the classic Marxist/Riccardian analysis of political economy. Capitalist enterprises developed in such a way as to create a new class of economic operator, an evolution from the owner/worker split of 18th, 19th and early 20th century model.

This managerial class became a necessary component of a system which required specialist 'executive' power to be delegated. The growth of multinational companies and the increase of 'shareholders', led to a shift in economic power away from owners to managers. Most 'owners' of the largest companies in the world are now the 'workers' themselves via their pension funds and life insurance policies.

The shift of power from owner to this new class of management eventually led to a hiatus of accountability. The massive increase in shareholders also led to a significant decrease in the extent to which managers were held to account. The rates of executive remuneration soared to grotesque multiples rendering Chief Executive Officers earning several hundred times the salaries of other company employees.

Executive incentive schemes were created by a cabal of insiders designed solely to enrich themselves at the expense of other employees and shareholders. Government attempts to constrain the rapid growth of these managerial aristocrat packages such as the Cadbury and Greenbury Reports were swept aside.

In 2008 it became apparent there had been insufficient regulation of the private sector managerial aristocrats. The government had lacked the political will or the understanding of the consequences of unchecked power in the boardrooms of our major commercial institutions. The consequences of unrestrained greed from a new economic class had wrought massive damage to a system envisaged by Smith, Hayek and other classical economists.

EUROPE THE FALTERING PROJECT

Jürgen Habermas, *Johann Wolfgang Goethe University of Frankfurt*

The future of Europe and the role it will play in the 21st century are among the most important political questions of our time. The optimism of a decade ago has now faded but the stakes are higher than ever. The way these questions are answered will have enormous implications not only for all Europeans but also for the citizens of Europe's closest and oldest ally – the USA.

In this new book, one of Europe's leading intellectuals examines the political alternatives facing Europe today and outlines a course of action for the future. Habermas advocates a policy of gradual integration of Europe in which key decisions about Europe's future are

put in the hands of its peoples, and a 'bipolar commonality' of the West in which a more unified Europe is able to work closely with the United States to build a more stable and equitable international order.

This book includes Habermas's portraits of three long-time philosophical companions, Richard Rorty, Jacques Derrida and Ronald Dworkin. It also includes several important new texts by Habermas on the impact of the media on the public sphere, on the enduring importance religion in "post-secular" societies, and on the design of a democratic constitutional order for the emergent world society.



192 pages / May 2009

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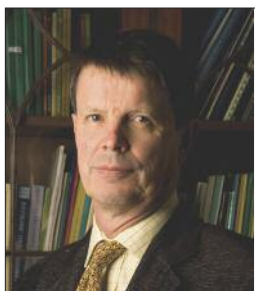
Conclusion

Utilitarianism or capitalist economics is the most efficient system for the allocation of scarce resources, however, it must be constrained by a legal system which expresses the ethical will of the people. The politicians who mediate the will of the people and create law which reflects our moral sentiments must work harder to ensure that the amorality of capitalism is constrained within those boundaries.

Those commentators who believe that we have witnessed the death of capitalism and long for a more socialist/communitarian mechanism have misunderstood the fundamentals of both human nature and the purpose and function of regulation. Capitalism with its ability to deliver both allocative and productive efficiencies has the capacity to ensure ever greater wealth creation, mediated by a system which encourages economic incentives.

However, a system which allows the managerial aristocracy to personally withdraw \$300 million from a bank (as in the case of Dick Fould, CEO of Lehman Brothers) will ultimately fail. This failure is not due to Dick's greed, for there will always be amoral agents in the economy, but rather due to the failure of the regulatory system which permitted him and others to do it.

Morality and Capitalism in Sociological Perspective



Sam Whimster

Professor of Sociology and
Deputy Director of the Global
Policy Institute at London
Metropolitan University

WHETHER neoliberals can claim that their form of free-market capitalism is a moral force is debatable (which from a deontological viewpoint is very debatable), but they certainly claim it is superior to all other forms of capitalism as well as socialism. This stands in contrast to social democratic and Christian democratic conceptions of capitalism which regard capitalism at best a pragmatic solution for the fulfilment of economic needs and at worst a source of immoral exploitation that has to be opposed and controlled. The economic historians, sociologists and commentators who traced the emergence of modern capitalism were in no doubt that a monstrous force was being unleashed upon the world. It was a beast that had to be tamed by passionate and organised commitment to social

justice, the redistribution of wealth, and the moral advocacy of politicians, religious leaders and social commentators. This led to the insistence that educational, religious and cultural institutions were at a minimum neutral in regard to the workings of market capitalism, and at maximum indispensable counterweights to the power of the market and human avarice.

Over the last two decades the argument which has dominated both economic and political discourse is that capitalism is at its best when left unconstrained. The stridency of 'greed is good' might have attenuated somewhat since the late 1980s, but the dogma of neoliberalism has become entrenched in North America, the European Union and its international satellite organisations like the World Bank and the IMF. If the market knew best, as the dogmatists of Chicago and the London School of Economics insisted, then the big beasts of capitalism had to be given their freedom, untrammelled as far as possible by regulations, taxes and political oversight. Neoliberalism justifies itself by its outcomes. It has produced sustained growth in the western world for almost two decades, and claims for itself a globalisation model that allowed capitalism and growth

'The neoliberal world view, welcoming of capitalism as beneficial socio-economic process, has forced out a previous, social democratic agenda that saw capitalism as inherently conflictual'

to flourish in southern hemisphere societies. While this might have been detrimental to older social solidarities, created new divisions between rich and poor, and operated working practices that were solely driven by profit maximisation, the end product – economic growth – justified the means by which this was achieved.

The neoliberal world view, welcoming of capitalism as beneficial socio-economic process, has forced out a previous, social democratic agenda that saw capitalism as inherently conflictual and as something that needed to be harnessed for other moral and political ends. Consider the fate of the ‘old’ Labour Party in Great Britain. One of its leading intellectuals from 1910 to 1970 was R.H. Tawney. As an economic historian his research into the origins of modern English capitalism itemised the dismantling of late medieval society and community, allowing commercial interests amounts of freedom that previously would never have been tolerated. Tawney showed that medieval economic life was based on notions of a moral economy. One manifestation of this was the canon laws that prohibited usury. It was morally abhorrent for one Christian to lend aid to another Christian and to benefit from that transaction by charging a sum of money in excess of the original loan. The force of this moral injunction lay in agricultural community where it was considered unjust for one farmer or peasant to profit from the misfortune of another.

The dynamics of modern capitalism uprooted a moral economy based on traditionalism and sta-

bility. The Puritan revolution of the sixteenth and seventeenth centuries eventually established religious toleration and with this political rights. The Anglican Church lost its old authority in holding the needs of community as sacrosanct over the desires of individuals. Despite its ascetic origins, the new Protestant religious liberty came to befriend commercial interests and the institutional restraints on the pursuit of wealth were loosened. Henceforward the moral economy was a contradiction in terms, especially after the upheavals of the industrial revolution and the licence given to the entrepreneur. But if economy was no longer moral, politics and the labour movement became a moral crusade for Tawney. The Christian ethic became a political *Gesinnungsethik*. What had been rooted in community instead became a profession of conscience articulated in politics, education and social reform. Tawney wrote: ‘Poverty is an Industrial problem, the Industrial problem is a moral problem’; ‘the social problem is a problem not of quantities, but of proportions, not of the amount of wealth, but of the moral justice of your social system’; ‘we need to choose (after the bosses are off the back of the workers) between less and more wealth and less and more civilisation’. This is a politics inspired by Christian moral imperatives that had to be vigorously deployed against a soulless industrialism. There is an explicit Christian morality here that Tawney realised in the educational community of the Toynbee Hall where he worked with William Beveridge and Clement Atlee. The religiously sectarian roots of the Labour Party are

quite diverse – to recall, for example Welsh non-conformism and widespread Methodism. But Tawney exemplified the assertion of a public good and of public duty as the antidotes to the selfishness of interests and mere pecuniary wealth.

Other more politically detached sociologists, like Durkheim and Max Weber, made considerable efforts to chart the effects of a modern dynamic capitalism on the social division of labour. From a moral point of view both Durkheim and Weber offer intriguing but different approaches. Weber deployed an extremely sharp cultural critique of modern capitalism. Like Tawney, he saw the origins of modern capitalism as being forged by a Puritan sensibility that raised hard systematic work into a *Lebensführung* that came to define modernity. For reasons of salvation, the Puritans adopted a rational and systematic approach to life, not for economic purposes but as a way of immunising themselves from sinful temptation. Puritanism, said Weber, created a monastic regime in the profane everyday world. This caused a step change in the already developing world of capitalist enterprise in the late medieval period. Modern industrial capitalism replicated the rationality structures laid down by the Puritans. Entering the twentieth century, Weber saw modern capitalism as an unstoppable global force. Modern capitalism triumphed because its practitioners still exercised a set of virtues inherited from their Puritan forebears. This is probably best described as an accountant’s

'In Durkheim's account of the functional nature of moral outrage, the deviant and the criminal are publicly punished, if not cast out. This has not happened, so far'

mentality based on probity, restraint, and a self-denying asceticism in the face of wealth. Prior to modern capitalism, a form of base capitalism oriented to immediate gratification and acquisition had existed throughout the world. The Puritan disciplined himself, and so transformed capitalism into an enterprise with rational budgeting, investment, and the calculation of return.

Weber's critique of this system was that it was soulless, that it rationalised and compartmentalised life itself, and in a famous phrase produced the 'iron cage' of modernity. In this sense capitalism was the product of an overdetermined or exaggerated moral habitus. Yet modern machine age capitalism was a thing apart from its human and extremely moral progenitors. Weber's realism insisted that modern capitalism was irremovable and he considered Marxist and all other revolutionary schemes as a form of romanticism. Nevertheless he did belong to the wider school of thought that saw capitalism as alienating some essential human spirit of spontaneity and expressiveness. Weber used the term disenchantment to describe this feeling. Ernest Gellner, in the 1970s, was able to point out that modernity was

turning out to have a diverse range of re-enchantments, indicating that capitalism was now compatible with hedonism and expressiveness.

From where we stand now, Gellner's benediction might have been premature. While the 1960s and 1970s did offer the possibility of high levels of consumption and its pleasures on a mass scale, the political conjuncture that produced those conditions no longer function in the same way. De-industrialisation, shifts in inequality, stagnant wages for both working and middle class occupational groups are characteristic of today's finance driven capitalism. Also, Weber's diagnosis of capitalism was based on an assumed affinity between the rational requirements of industrial capitalism and the personal qualities of those who led and directed that capitalism.

Bernard-Henri Levy recently commented that capitalism has not failed, but rather we have failed capitalism, and this has some resonance here. Modern capitalism and rationality were almost interchangeable terms in Weber's discourse. The finance capitalism of today has some startlingly irrational features and is no longer led by those who possess the requisite moral probity. Greed might be a psy-

chological motivation, but Weber would have regarded it fatal if carried through as a norm determining business practice. Greed and the acquisitive instinct are universal attributes. Modern capitalism succeeded by banishing the all too human and ushering in a bunch of business ascetics – the so-called Protestant virtues of hard work, delayed gratification and selflessness.

For Durkheim, economics and sociology are in conflict with each other in modern society. The modern market economy promotes individualism and egoism. But this dynamic increased the necessity for a counteracting moral community. Society, at some essential level, was defined by Durkheim as a moral community. Only moral forces act on the individual as an effective external control of behaviour. The modern individual has her own internal desires and, indeed, a greater freedom to pursue those desires, but it is the collective idea of morality that in a proper society is inculcated into the individual's thinking that produces moral actions. Collective ideas of nation, patriotism, family, religion, and civic sense fostered by education keep individual behaviour within moral boundaries.

However, capitalism itself is without morality, and in this Durkheim followed the English sociologist Herbert Spencer who argued that the rise of market capitalism followed an evolutionary logic. Spencer did not distress himself over the individualising effects of market society. For him they belonged to the process of social evolution. More individualism meant greater dif-

ferentiation, and this evolution represented progress. Progress is taken for granted as a 'good thing' but whether it constitutes moral behaviour is another question. The egoistic interest of individuals produces beneficial outcomes at the level of society. In this way, Spencer could ignore the moral concerns as articulated by Durkheim and Tawney. Spencer dispenses with morality since evolution produces progress and residual problems of morality belong to the sphere of interpersonal ethics. Certainly there is no justification for the state or government to interfere in the workings of the market and still less the calling forth of moral and social entities to combat an impersonal capitalism. Continuities between Spencer and contemporary neoliberalism may of course be drawn. In fact it was Spencer who came up with the idea of the self-organising capacities existing within society, an idea with as many deleterious consequences as Hayek's subsequent use of the idea.

Crises of capitalism trigger the moral question. The finance led economic crisis, which really gathered pace in the latter months of 2008, has caused an immediate response of moral outrage. Economic growth in all the major economies of the world has been stopped dead in its tracks and threatens to impose approximately 5 per cent drops in the current output of OECD countries. Taxation revenues are severely reduced because of the downturn, so that over the standard five-year forecast period all OECD governments will (after 2010) have to reduce their expenditure massively as well as increase

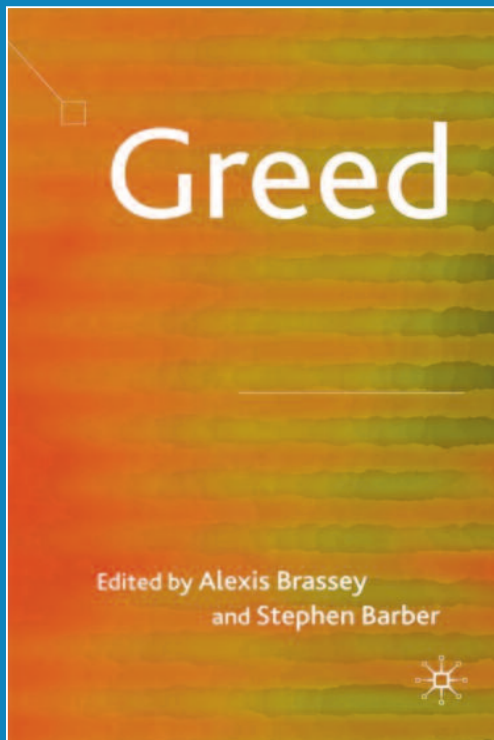
taxation. In all those countries that have undertaken financial liberalisation and opened national borders to free capital flows, the banking industry is suffering devastating losses. Many of these banks would have gone into administration as insolvent, had not the priority of central banks been to prioritise liquidity and to pour cash into the financial system. In the European Union the bank bailouts will cost the equivalent of 10 per cent of the EU's GDP. The opportunity costs of such bailouts, i.e. what else could have been done with such funds, are colossal.

Inevitably the moral outrage has centred on the greed, stupidity and hubris of business leaders in the banking industry and the failure of regulators and government to provide effective oversight. Few top bankers have lost their jobs and the public's indignation is further riled by the bankers maintaining their privileged position of influence on governments as the latter react desperately to the crisis. What has been clearly a pathological experience to society remains unpunished, which by any standards remains a strange phenomenon. In Durkheim's account of the functional nature of moral outrage, the deviant and the criminal are publicly punished, if not cast out. This has not happened, so far. In social democratic and Christian democratic countries, the moral reflexes of citizens have certainly been exercised, but justice has yet to be seen to be done.

However, it is worth pursuing a Durkheimian analysis a step further. One of the foremost neo-Durkheimians is the social anthropologist Mary Douglas.

She reformulated Durkheim's moral community as a boundary problem. There is not an absolute divide between the normal and the pathological. Instead societies reward those activities that maintain the boundaries of a society and punish those that threaten its boundaries. All societies, she reminds us, exist in a state of potential danger. Morality is the enforcement of social processes that protect the boundaries of a society. In simpler societies this amounts to preserving the integrity of the group or the tribe, and various rituals and taboos are observed to maintain the exogamy of the group against outsiders, and when these taboos are infringed the penalties are savage.

In complex modern societies there is no such thing as a simple group. Or rather there may be many separate simple groups co-existing alongside complex large groups. When Douglas, writing together with Aaron Wildavsky, analysed attitudes to environmentalism in the 1970s (in their book *Risk and Culture*), they came up with a cultural explanation of why certain groups showed little concern on environmental issues whereas others saw the protection of environment as fundamental. The latter group was absolute in their beliefs and recalled the boundary-maintaining mechanisms of primitive societies. Modern society is characterised by a variety of what may be termed circulating process – transport, the exchange of goods, the media – in a word, the complex mobility of modern society. Certain social groups are organised for the continuation and expansion of those activities.



Edited by
Alexis Brassey & Stephen Barber

Foreword by Nicola Horlick

In this timely and provoking new book, authors as diverse as Cary Cooper, Ken Starkey, Jocelyn Pixley, Stephen Haseler, Derek Wall and John Meadowcroft discuss the place of greed in our politics our economy our society, our religions and our culture.

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These groups are complex, are characterised by loose and flexible association, and are termed 'grids' by Douglas. The attitudes of members of 'grids' did not demonstrate strong feelings towards the protection of the environment and were reasonably complacent about dangerous activities such as driving fast. Simpler, more homogeneous like-minded groups, by contrast, can generate considerable outrage towards those activities they see as threatening to society.

Daniel Bell's *Cultural Contradictions of Capitalism*, written in the early 1970s, prophesied that the threat to contemporary capitalism would not come from the labour movement but from within the professional cadres of capitalism itself. Bell was steeped in Max Weber's analysis of the self-

denying and sober features of the entrepreneur. Something akin to Weber's moral discipline had been achieved in the decades after 1945 – in contrast to the adventurous and speculative capitalism before the war. Corporate America in the 1950s and 1960s had established well-functioning organisational hierarchy, it produced the company man and a structure of the firm that respected to an extent the distinction between shareholders and managers. What he espied in the cultural conditions was a loosening of the professional group because of the enchantments of the counter-culture. This was perceptive and predicted the coming of the young urban professional as a particularly new type of deracination. What it did not do was to predict the irresistible rise of

the investment bank which did so much to break the old corporate structure and to transform it, in Will Hutton's terminology, from a stake holding capitalism to a stock and option holding capitalism. Wall Street and the City of London became the epitome of the grid, the networking society of smart urban professionals. What is noteworthy about Bell's critique, especially now, is his real sense of horror and recoil against the pleasures and ways of enchantment. This was the revulsion of the abstemiously pure in the face of danger. Since the financial crisis has impacted upon just about all groups in society, we await to see whether a sense of collective group morality now emerges to protest against those who endanger livelihood and community.

The Ethics of Capitalism



Karl-Heinz Klär

First Vice-President of the PES Group in the Committee of the Regions and State Secretary for Federal and European Affairs of Rhineland-Palatinate, Germany

IN THE LAST couple of years, the world economy has been rocked by uncontrollable increases in agricultural commodities worldwide, the rollercoaster ride of crude oil prices and the global credit crunch that has led to the global economic crisis, plunging into negative growth even the most robust economies.

The EU economy has not been shielded against the effects of such profound crises, now being dragged into its deepest and most widespread post-war recession. With unemployment expected to rise to 27 million in 2010, statements by right-wing politicians such as former Czech Prime Minister Mirek Topolánek, who recently warned against the dangers of 'a paternalist state that will take care of everything at the cost of debts and higher taxes', encapsulate the spirit of misleading free market ideology, refuting

the responsibility of individual member states and the EU as a whole vis-à-vis the millions of unemployed Europeans.

Yet, since its inception just over half a century ago, the European integration project has been growing broader and deeper, creating a continent of peace, democracy, stability and prosperity. With its single market and currency, the EU has become a major player in the global economy. In today's enlarged Union, citizens can afford goods and services that would have been reserved for the rich only a few decades ago. Higher relative wealth and easier access to credit have largely contributed towards this development. So, what has gone wrong with the EU economy in the last few months?

A first tentative answer lies in the EU's growing role in the global economy and the close interdependence amongst world economies. What started in 2006 as a sub-prime mortgage crisis in the US, caused by the sharp rise in foreclosures, later resulted in a severe credit crunch and finally, in the present global financial and economic contagion.

A burning Question

So, whose fault is it? Is it capitalism in itself or a series of

'In a capitalist system, goods and services are not produced in order to satisfy desires of consumers or to give work to employees. It is the other way round'

short-term economic problems triggered by bad governance? Is the economic model to be blamed or the unethical behaviour of individual profiteers, driven by greed and collusion?

Before attempting to respond, this is what experiences going back nearly 250 years have taught us: capitalism is a profit-generating system, inherently regulated by profit. In a capitalist system, goods and services are not produced in order to satisfy desires of consumers or to give work to employees. It is the other way round. In capitalism, the workforce is used, production is organised and consumers are shaped in order to make profit. In capitalism, there is no other goal than profit, and there can be no other goal because profit-making is the essence of capitalism, it is its strength and advantage over all other economic systems in history. So capitalism is a simple one-goal system stimulating self-interest and exploiting some elements of human nature, not necessarily the best.

Within this context, it is worth acknowledging two extremely powerful forces behind the world economy: the relentless pressure on organisations to continually maximise earnings and the fiercely competitive markets supercharged by the internet. As this combination puts to the test the management skills of market stakeholders, the true question is whether the existing economic model allows for the protection of people from crises such as the one we are currently experiencing. I am afraid that the answer to this is negative.

According to Amartya Sen, 1998 Nobel Prize winner for his

contributions to welfare economics, the current economic crisis is generated by 'a huge overestimation of the wisdom of market processes'. This highly questionable wisdom has allowed for the commoditisation of food, with speculation in agricultural commodity markets running in parallel with the rising costs of gold, oil and essential metals. Amartya Sen has pointed out that famines occur because of the collapse of purchasing power rather than the lack of food availability. Last year's food riots triggered by food price increases were due to the greed of speculators, taking advantage of the lax regulatory system.

Indeed, people all over the world are paying the price for blind faith in market forces and unfettered speculation. It is also clear that the current crisis could only have been avoided if the existing economic system did not have such serious shortcomings. Which puts into question the very nature of capitalism in its current form and calls for its thorough overhaul.

I am not suggesting to throw out the baby with the bath water. Nor do I deny that there are some or even many ethically driven capitalists out there. But their individual stance is one thing and the relentless demands of the capitalist system is another.

In societies whose economies are organised according to the capitalist model, ethics emanate from different layers of society. However, regulation of capitalism beyond profit is introduced by the political process. The misery of the past 30 years is that the capitalist system has weakened the political system

and its capacity of law-making, even in decent democracies. In fact, non-economic systems within society, with strong and distinctive values of their own, such as education, science, health care and even religions or political parties of the left, have capitulated in the face of the capitalist rationale and its 'free market' ideology. Now, amidst the crisis, our societies may lack the intellectual and moral resources necessary to bring about change.

By this, I do not insinuate that the answer to the malfunctions of the capitalist system is regression to state-controlled markets. We need to consider long-term changes in order to update the current economic system so that it should no longer hamper the realisation of social values. Establishing a true social market economy is a job that remains to be done. To date, it is mostly a shallow notion, void of any true content. The issue is both ethical and economic: although the crisis has destroyed substantial fortunes, it has primarily affected those who were already vulnerable and it is the state through its different levels of governance that is called to remedy the situation. Before coming to concrete suggestions, let me give you an overview of what current capitalism, dominated by an excessively oversized financial industry, has cost European local and regional authorities.

Capitalism without Ethics: The Price paid by Local and Regional Authorities

The most severe malfunction of the banking system since the 1920s has had dramatic economic, social and political con-

sequences for individuals and households, workers and businesses, including small and medium enterprises, the linchpin of local economies, as well as all levels of government.

Local and regional authorities have been doubly affected: As borrowers, they have suffered the repercussions of credit becoming less available and more expensive; as credit providers, they have been called to take part in large bailout plans to salvage national and even regional financial institutions on the brink of bankruptcy. It is worth noting that the situation has been exacerbated in some member states where banks that traditionally provided loans to the municipal sector, have been affected by the crisis (e.g. *Kommunalkredit* in Austria, *Kommunekreditt* in Norway, *Dexia* in Belgium, France and Luxembourg). This situation has jeopardised the very solvency of local and regional governments. As a result, it is the provision of essential public services that is put at risk. Not surprisingly, a major effect of the crisis has been greater demand for social and welfare services. This has put local and regional authorities in the EU under significant financial pressure as they have to provide for citizens who have seen their income curtailed or have lost their jobs. What is more, payments on tax levied forward in 2008 now need to be reimbursed to tax payers who report losses and claim back the excess tax paid. It is self-evident that severe economic downturns such as the one we are currently experiencing engender loss on tax revenues. The volume of the actual loss very much depends upon the type of tax levied or

shared by the local or regional government in a given member state (personal income tax, company income tax, etc.), and the proportion of this income in total budget revenues.

Local and regional authorities have also suffered losses on investments. Although this has not been a widespread trend in the EU, it has had a devastating impact where it occurred. Take for instance the UK where the bankruptcy of Icelandic banks cost local governments €1 billion in financial investments, with further losses in unrealised income from interests. Likewise, local governments in Belgium were hit by the crisis of Dexia because they were shareholders of the bank through the Communal Holding. It is worth reminding that the Belgian Dexia SA received support worth €3 billion from the Belgian federal government, the three regions (Flemish, Walloon and Brussels-Capital) and the three institutional shareholders. For local governments, this translated into a decrease of share market value, weakening of their share in the bank and the loss of unrealised income from dividends. For those municipalities that had heavily invested in Dexia, the losses have been very substantial.

Moreover, as public and private investments in infrastructure and development projects have slowed down because of the crisis, local and regional development has also ineluctably slowed down. Last but not least, cuts in the staff of local and regional authorities have had a negative impact on local job markets, aggravating the social repercussions of the crisis.

Local and regional authorities

in my country, Germany, have not been spared from the effects of financial engineering and the bankruptcy of this incredibly 'innovative' financial industry. With most *Landesbanken* (German regional banks) close to collapse without the injection of billions of public subsidies and with the value of financial assets all too often tumbling down, it has been hard for those banks to withstand the additional losses resulting from the decline in economic output. As unemployment figures rise and more people depend on social benefits, German regional and local authorities are put under considerable financial pressure since social support for the poor is one of their key responsibilities. Despite the fact that the German federal government's economic stimulus package has earmarked around €10 billion for education and infrastructure expenditure at local level, there are even harder times to come for German local and regional authorities.

Amidst the crisis, the challenge for all EU member states lies in ensuring that central governments guarantee the provision of public services to their citizens and do not curtail public expenditure earmarked for local and regional authorities.

The Way forward

The lesson we should have learned from the financial and economic crisis is that financial markets are unable to operate smoothly in a poorly regulated environment. The 'Efficient Market Theory' has proved to be a fairy tale and the expectation that markets best regulate themselves when left to their own devices and without interfer-

ence by law and state regulation has paved the way to disaster. We will certainly be able to recover from this crisis, but not by sticking mindlessly to old habits and the spirit of a failed ideology. Therefore, what is urgently needed is a clear and pertinent regulatory framework both at national, European and international level.

Risk-taking has always been a quintessential ingredient for the success of capitalist entrepreneurship and productivity. After all, risk-taking is necessary for economic progress and growth, and as such, it should not be hampered unnecessarily but be soundly encouraged. However, in order for risk-taking to be manageable, there is a need for a trustworthy and transparent financial industry without obscure derivatives, untouchable tax havens and a shadow banking system that has grown on the margins of the official one and is out of regulatory reach.

The financial industry has grown exponentially since the 1980s, and this is an issue. Dealers and traders at stock exchanges around the world exert major not just economic but also political influence that goes against the principles of modern democracy. It is unacceptable that the fate of entire countries is in the hands of Wall Street or the City of London. Even a well functioning banking system cannot remedy imbalances in the allocation of resources, caused by an overgrown financial industry. 'Too big to fail' financial institutions, which are those most prone to reckless risk-taking, have proved to be innovative only in developing 'unusual' financial tools and establishing worldwide

gambling at the service of casino capitalism. Such institutions are highly dangerous for the health of the economic system and public finances. Therefore, pertinent regulation of these financial institutions, including hedge funds, private equity and all kinds of investment banking, is crucial. The same should also apply to derivatives and some of them, such as most of Credit Default Swaps, should be forbidden since no serious financial industry needs them.

Let us also not turn a blind eye to food speculation, a highly condemnable phenomenon. It is vital to call for the compulsory registration of hedge funds that invested in agricultural commodities futures and the establishment of a global food reserve, to be used in case of emergency.

Rating agencies are another burning problem. I believe that the EU should create a rating agency with a public statute so as to protect the agency's independent nature and avoid any conflict of interest, currently created by the fact that credit rating agencies are paid by issuers.

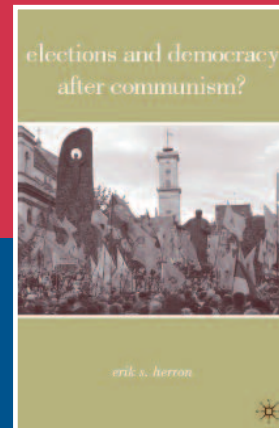
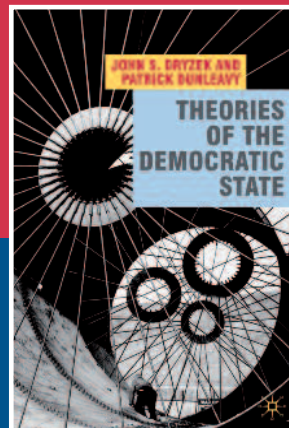
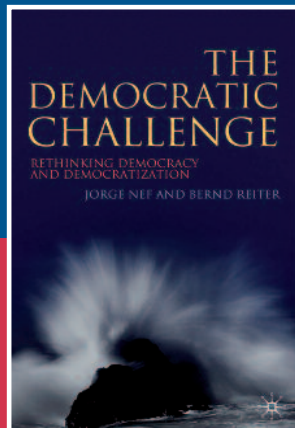
But it is not just the functioning of financial markets worldwide that needs to be revisited. Since they are interrelated with

the real economy, their deficiencies cannot be tackled in isolation. The current unprecedented crisis has huge social repercussions across the entire European Union and the world. As far as the EU is concerned, the way forward is coordinated action by the member states and the EU institutions in order to safeguard jobs and prevent mass unemployment. Promoting green growth will help us not only to reduce the impact of climate change and transform Europe's traditional economy to a carbon free economy, but also to create new jobs and increase the competitiveness of EU economies. We also need economic solidarity in order to better support those European regions suffering particular difficulties. This is essential at times of severe downward spirals with wage cuts and mass lay-offs squeezing consumption, the credit crunch blocking investment and public debts rocketing sky high. European solidarity is key to defending our European integration project, our Single Market and Economic and Monetary Union, undermined by national protectionism. Leaving member states on the brink of insolvency to their own devices has an

'In order for globalisation to work effectively and in the best interest of mankind, it must be protected from the excesses of freewheeling capitalism and its financial industry in its current ugly form'

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impact upon the entire EU and weakens its position as a global player.

Conclusion

The financial and economic crisis currently inflicted upon us will not end tomorrow. While revealing the defects of the current capitalist system, it is providing a rare opportunity to explore enlightened concepts for shaping our globalised world. Globalisation is more than an economic fact; it is a way of life and a necessity when it comes to addressing fundamental issues such as the sustainability of our planet. In order for globalisation to work effectively and in the best interest of mankind, it must be protected from the excesses of freewheeling capitalism and its financial industry in its current ugly form. Changes

in global governance – corporate as well as public – are both necessary and feasible. Time is ripe, but the opportunity must be seized courageously by socialists and social democrats. Otherwise, the predominance of the capitalist thinking in modern society will keep growing bigger, polluting even the last corners of independent social and intellectual life.

No Freedom Without Solidarity



Gavin Rae

Professor of Sociology at the Kozminski University in Warsaw. He is author of the book *Poland's Return to Capitalism*

DO YOU REMEMBER the moment when communism fell in eastern Europe? Most people will recall the dramatic events in Berlin in November 1989. Perhaps they will remember the overthrow of Ceaucescu in Romania or when Yeltsin defeated the coup in Moscow two years later. Yet communism ended here, in Poland, when twenty years ago the first semi-free elections were held in the former eastern bloc, leading to the creation of the region's first 'non-communist' government. It was here that the twentieth century ended and the twenty-first began.

On 4th June 2009 Poland commemorated the twentieth anniversary of the end of communism. The elite was desperate for this to be a time of unity, when the nation remembered its great achievements and how much life has changed. The media was filled with grey images from the past: of empty shelves and militia brutality. They wished to remind people, despite the

troubles of the present, of how bad things had been before.

In Warsaw exhibitions were placed in the street, happenings organised and pop concerts put on to draw the crowds. However, the real events were occurring elsewhere. In Gdansk, outside the shipyards (which have been under the threat of closure), the trade unions gathered to remember the fall of communism. The Prime Minister, Donald Tusk, was absent, although President Lech Kaczynski was at the historical site of the Solidarity struggle to gain political capital and stand alongside the shipyard workers.

South in Kraków, safely encosed in Wawel Castle, Tusk was welcoming foreign guests who would speak warm words about Poland and Solidarity. Less than 70 kilometres from Kraków, in the industrial city of Katowice, thousands of trade unionists were marching to demonstrate against the inactivity of the government in face of the economic crisis. All shows of national unity, behind the façade of Solidarity, had quickly dissipated.

The past two decades in Poland's history are told through two conflicting tales. The first is one of victory, freedom, opportunity and progress. Communism is remembered as a time when the creative, dynamic members of society were held back by the state and its drive to create a monolithic social existence. Communism meant not just repression and dictatorship but sadness, lost opportunities and absurdities – when the government's claims

'Communism is remembered as a time when the creative, dynamic members of society were held back by the state and its drive to create a monolithic social existence'

of industrial greatness conflicted with its inability to regularly provide basic consumer goods.

And so anyone who resists the forces of free-market capitalism is a conservative relic from the past. Those that defend their workplaces, industries, pensions or welfare services are restricting society's newly gained freedoms and opportunities. All these collectives are dying embers from the past, while the future belongs to the new 'free individual'.

This first version of history remained dominant throughout the 1990s and continued into the new millennium. All the main political parties, whether from the right or left, post-communist or ex-Solidarity, were subsumed into this overarching hegemony. And so it remained, right up until the centre-left government steered Poland into the European Union in 2004. But the transition had taken its toll. Poland had been the first post-communist country to recover from the post-transition economic collapse, inflicted upon all the countries in the region, and the first to return to its pre-1989 level of GDP.

However, unemployment soared (rising above 20% by the end of 1990s), huge social divisions appeared and public services crumbled. Those living in the countryside or declining industrial towns found themselves stuck in a cycle of poverty and despair, in total contrast to the growth that continued in the urban oases of globalisation. The slogan of the opposition – 'There is no Freedom without Solidarity' (*Nie ma Wolności bez Solidarności*) – had truly been forgotten.

It was in these conditions that the second story of Poland's road from communism gained prominence. The political consensus had been based upon an alliance between elements of the previous elite (now reincarnated as social democrats) with a section of the Solidarity liberal intelligentsia. The latter had largely been defeated and marginalised in the early 1990s, due to the

role they had played in introducing the shock-therapy economic reforms, with the 'post-communists' becoming the most coherent and stable force in Polish politics.

However, the social effects of the reforms connected to taking Poland into the EU, along with numerous corruption scandals, reduced this party to a minor political player. The disillusionment and anger felt by the 'losers of transition' were directed against the elite. Rather than the post-communist transition being one of freedom and opportunity, it became a story of corruption, nepotism and conspiracy. The elites of the opposition were seen to have conspired with those from the former system to create a new network of interests (*układ*) and secure positions in the upper echelons of government and business. Anti-communist sentiment mingled with social conservatism and xenophobia to create a conspiratorial description of post-communist deceit.

The centre of political power had shifted back from Warsaw to Gdansk. Not to the mass workers movement, that had attracted the attention of the world in the early 1980s, but to parties grouped around two conflicting factions who had been minor players in the Solidarity movement. Both were building their support through opposing the arrogant liberal elite in Warsaw and espoused replacing the young Third Republic with a new Fourth Republic. On the one hand, Citizens' Platform (PO) combined a radical free-market ideology with social conservatism; on the other, the Law and Justice Party (PiS) proposed a radical anti-communist policy, which supported rooting out those from positions of power who had 'collaborated' with the communist state.

In 2005 PiS won the Presidential election and emerged as the largest party in the parliamentary elections. It subsequently formed a government with the populist agrarian and nation-

alist parties and promised to decisively break from the previous course of reform taken since 1989. The boot was now on the other foot. The government directed its attacks not just against the ex-communist elite but also against the 'betrayals' of former Solidarity leaders.

For the first time since the end of communism the young, aspiring middle class faced a hostile authority. The Fukuyamian reality of post-communist life had always determined that political freedoms were synonymous with economic liberalism. This inevitably resulted in liberal tolerance becoming an element of economic privilege. The sight of the representatives of the provinces berating the ideals of cosmopolitanism, sexual freedom or political pluralism confirmed the cities' prejudices. In the cities we shook our heads in disbelief as the identical twins, who now held the two most powerful positions within the state, spoke of revenge and retribution.

It was this alarm that mobilised the urban voters to oust PiS from government in 2007. PO could activate voters from the cities, while PiS, who essentially continued the neoliberal course of economic reform, were unable to sufficiently galvanise the rural areas. Poland had once again stood up to the forces of reaction and division. For Poland has been misunderstood in the West. This is not an inward nation that wants to close itself from the rest of world, but one seeking its own domain within the global village. Its people

have done more than could have been expected to embrace the country's opening to the international economy and gain the skills needed to survive in its hostile environment.

This was given extra impetus after joining the EU. People moved west and capital flowed east. The economy boomed, unemployment declined and the cultures and fashions of the West became part of Polish life. Cheaper travel opened up destinations that were once only imagined and brought a new influx of tourists into the country. As a Brit in Poland I could see my stereotype shifting from being someone who drank tea at five o'clock to a binge drinker on Kraków Square.

The Kaczynski twins and their allies were not representative of these new optimistic times. Dissatisfaction was now more likely to be expressed through gaining work in Ireland or the UK, than raking up the histories of past politicians. In these conditions power was transferred to the more palatable version of Polish conservatism, with Tusk elected Prime Minister. His image is one that represents a more hopeful post-political age. He is better looking, more youthful and articulate and is able to hold his own at international summits and speak the language of diplomacy.

He promised that his government would create an 'economic miracle', through following the example of Ireland. These words are coming back to haunt him. Just as Poland had seemed to have found the recipe for economic and social advancement a new external enemy has arrived. Poland has not been affected by the global economic crisis like some of its smaller neighbours, who are more heavily exposed and dependent upon foreign trade and capital. In fact Poland is one of Europe's 'tiger economies' – growing in the first quarter of this year by a whopping 0.8%. But unemployment has once again crept back up into double figures and the cold hand of recession is

'Poland has been misunderstood in the West. This is not an inward nation that wants to close itself from the rest of world, but one seeking its own domain within the global village'

beginning to tighten its grip.

For two decades Warsaw had continued to develop, even while other parts of the country floundered. The city continued along its path of modernity, work remained generally plentiful and the benefits and rewards of globalisation became evermore available. However, this time it could be different. One result of the global credit crunch is that there is now a lack of capital moving around the international economy, with this scarce resource flowing back from the peripheries towards the centre.

The post-communist countries in central-eastern Europe are particularly exposed to this trend. Alongside industrial workers and agricultural producers, the jobs of the urban middle class, usually employed in the international companies that swept into the country, are now under threat. At present this reality is approaching anecdotally: stories of friends who have lost their jobs, companies that are cutting back, salaries that are being reduced. Its extent and depth is unknown – we sit tight and hope for the best.

Despite the pleas for unity, the twentieth anniversary of the fall of communism has exposed the divisions that run through Polish society. Virtually no one will question the historic role of Solidarity, the importance of John Paul II, the gains of living in a democratic system or the benefits of being part of an expanded European Union. The main beneficiaries of the transition to capitalism repeat these *ad nauseum* and present them as reasons for national unity. They try to remind society how it had stood together against a common enemy and at how this unity, this solidarity, had helped not just to transform Poland but the world.

Yet this is an exaggerated story, despite the elements of truth that it contains. By 1989 Solidarity was a shadow of the mass social movement of the early 1980s that had claimed 10 million members. The role of

Solidarity was an important factor in the end of communism, but it was not decisive. The system was collapsing from within, unable to compete with a global capitalist economy or keep up with the arms race instigated by Reagan. The Solidarity movement had arisen with such strength and force, precisely because the economic contradictions of this system were felt so acutely in Poland.

In face of these hardships a unity was found not through romanticist notions of the Polish nation but via a social force that could exert its own demands as the general will. For Solidarity was first and foremost a trade union, an organ of the working class. The tragedy of the past twenty years is that while everyone has wanted to climb upon the bandwagon of Solidarity, they have also attempted to dilute the real force and meaning of this movement. All attempts to replicate the unity of Solidarity, whilst excluding and marginalising the very social class that brought it together, are inevitably futile and dishonest. As one trade union banner read in Katowice: ‘We won your freedom, who’s going to win ours?’

Old and New Terrorism



Peter R. Neumann

Director of the International Centre for the Study of Radicalisation and Political Violence (www.icsr.info) at King's College London. He is the author of the recently published book *Old and New Terrorism* (Polity Press, 2009)

‘The idea of ‘new terrorism’ was often used as a slogan which signalled that things were different from the past but provided no real explanation of how and why things had changed’

TWO YEARS BEFORE the September 11 attacks against the United States in 2001, the pre-eminent historian of terrorism, Walter Laqueur, noted that a ‘revolution’ in the character of terrorism was taking place. Rather than the vicious yet calculated application of violence that everyone had become familiar with, the world was now confronted with terrorists whose aim was ‘to liquidate all satanic forces [and destroy] all life on earth’. Terrorism, according to Laqueur, had become catastrophic. Not only would the ‘new terrorists’ have no inhibitions about using nuclear weapons, their aim was to construct ‘earthquake machines’ and launch ‘artificial meteors with which to bombard the earth’.

None of Laqueur’s more outlandish predictions have come true. Nevertheless, Laqueur was not the only expert who sensed

that the nature of terrorism was changing. During the 1990s, many of the groups which had kept governments busy during the 1970s and 1980s had decided to abandon violence. The Palestinian Liberation Organisation (PLO) recognised Israel and renounced the use of terrorism. The Irish Republican Army (IRA) in Northern Ireland called a permanent ceasefire and entered government. And in April 1998, even the German Red Army Faction (RAF) finally declared its campaign to be over, announcing that ‘the urban guerrilla in the form of the RAF is now history’.

At the same time, new and more dangerous forms of terrorism appeared to be on the rise. In early 1993, a group of Islamist extremists led by Ramzi Yousef launched the first attack on the World Trade Center in New York, aiming to kill thousands. Two years later, a Japanese cult, Aum Shinrikyo, attempted to hasten the apocalypse by contaminating the Tokyo underground with the nerve gas Sarin. Just one month later, an American right-wing extremist, Timothy McVeigh, set off a large truck bomb in Oklahoma City which killed 168 people.

Though undoubtedly shocking in their scale and execution,

the September 11 attacks merely confirmed this trend. The trouble was that none of the (self-styled) experts could provide a coherent explanation for what was happening. What exactly did the 'new terrorism' consist of? Where did it come from? And how should it be fought? With the notable exception of the American scholar Bruce Hoffman, who traced some of the key developments with great insight and precision, the idea of 'new terrorism' was often used as a slogan which signalled that things were different from the past but provided no real explanation of how and why things had changed.

In my new book *Old and New Terrorism* I am trying to shed light on some of the questions which many experts have failed to answer. My investigation begins with a look at the three areas in which terrorism has changed.

First, terrorist groups have become more diffuse. Traditionally, many terrorist groups adopted hierarchical systems of organisation with clear lines of command and control. Even groups like the IRA and the Basque group ETA, which had decided in favour of a supposedly more flexible 'cell' system, were fully integrated into the chain of command. In the IRA's case, for example, access to explosives was controlled by the group's regional commanders, thus making sure that none of the cells could carry out a bombing without the leadership's knowledge and approval.

By contrast, the structures of the 'new terrorism' are far more difficult to grasp. They are often described as networks rather than as organisations, because

formal hierarchies have been replaced with personal relationships. What matters is not someone's formal rank but whom they know and what connections they can facilitate. Although truly 'leaderless resistance' continues to be quite rare, the difficulty in tracing terrorist attacks such as Al Qaeda's bombings in Madrid and London to any conventional 'leadership' illustrates quite how messy and confused terrorist group structures have become in recent years.

Another novelty lies in how terrorist organisations are increasingly transnational in orientation, not only reaching across borders but creating an entirely new kind of social space. For the 'old', territorially based groups such as ETA and the IRA, everything related back to the struggle in their homeland, even when they went abroad in order to buy weapons, train, or raise money. Al Qaeda, on the other hand, can be described as truly 'de-territorialised'. When studying Al Qaeda members, the French scholar Olivier Roy found that – typically – 'the country where their family comes from, the country of residence and radicalisation, and the country of action' are all different. Furthermore, the group's 'centre of gravity' has constantly shifted – often across continents – depending on where members and their leaders believe victory is most likely.

The second significant difference between 'old' and 'new' is the rise of religiously motivated terrorism. The ideologies of terrorist groups are often mistakenly thought of as existing in a space completely separate from

the (non-violent) political mainstream. In reality, terrorists' political ideas always reflect a given society's radical ideological currents, with the obvious difference that terrorists are pursuing their (radical) ends through violent means. It should come as no surprise, then, that – in the 1960s and 1970s – when most of the radical social and political movements were either Marxist or nationalist, these ideologies were also dominant among the terrorist groups of the time. Indeed, almost all of the 'old' European terrorists were one or the other – often, in fact, they were both.

In the 1980s and 1990s, however, religious issues gradually found their way back into the mainstream political discourse. Many scholars detected a 'religious revival' – manifestations of which could be found on all continents and in all religions. As with Marxism and nationalism in earlier decades, the rise of radical religiously inspired political movements came to be reflected in a number of religiously oriented terrorist groups. This included militant Christian anti-abortionists in the United States, Jewish extremists in the West Bank, the Buddhist inspired cult Aum Shinrikyo, and various groups in the Muslim world ranging from Hezbollah and Hamas to Al Qaeda. In fact, Hoffman showed that, whereas in the late 1960s, not a single terrorist group anywhere in the world could be described as religiously inspired, the share of religiously motivated groups had risen to nearly a third by the mid-1990s.

Finally, terrorism has become

more violent. Needless to say, even 'old' terrorists often killed civilians, and – occasionally – their operations were aimed at producing large numbers of casualties. But killing people, especially civilians, was secondary to the communicative effects that could be achieved through a particular act of violence. In the mid-1970s, the American analyst Brian Jenkins coined the well-known expression that 'terrorists want a lot of people watching, not a lot of people dead'. In the era of the 'new terrorism', the two considerations – violence and symbolic value – seem to have merged, with mass-casualty attacks against civilian populations being routine and intentional rather than 'mistakes' or 'exceptions' to be blamed on splinter groups or renegade elements.

There are plenty of statistics that bear out the rise of mass-casualty terrorism in no uncertain terms. Analysts may argue about exactly how steep the rise has been, but there appears to be a consensus that – however one manipulates the source data – the trend towards more mass-casualty attacks is consistent, significant and well-supported. For example, in the IRA's thirty year campaign, there were just seven incidents in which the group killed ten or more people. By contrast, Al Qaeda has an average of 16 fatalities per attack, with 9/11 alone killing more people than the IRA had killed in three decades.

It seems clear, therefore, that the 'new terrorism' hypothesis – even if sometimes exaggerated and misused – is not entirely without substance. In my view, many of the changes can be attributed to – and indeed are an

'In the era of the 'new terrorism', the two considerations – violence and symbolic value – seem to have merged, with mass-casualty attacks against civilian populations being routine and intentional'

expression of – globalisation and late modernity. Cheap travel and the information revolution, for example, have made it possible for terrorist groups to establish diffuse networks, spanning continents and allowing for an unparalleled degree of flexibility and operational reach. No doubt, the same dynamics have also contributed to different mindsets and identities that have permitted terrorists to expand into transnational space.

Furthermore, it is the dialectics of globalisation and late modernity that need to be considered and understood. While providing immense benefits for an increasingly cosmopolitan elite, they have produced political paradigms that revolve around particularist forms of ethnic and religious identity, which reject the universal, secular and liberal aspirations that late modernity and globalisation are meant to promote. Religiously motivated terrorism is one of the results.

As far as the increasingly violent nature of terrorist violence is concerned, media saturation and desensitisation – prompting terrorists to engage in ever more vicious acts of violence in order to get through to their 'audience' – undoubtedly play a role. At the same time, the rise of particularist ideologies, which

increasingly define entire populations as 'infidels' or 'others', remove the ideological constraints that would have prevented terrorists from employing violence against civilians.

Of course, it is important to maintain a sense of perspective. The transformation from 'old' to 'new' has neither been uniform nor has it been universal. Not all terrorist groups have suddenly turned into mass-casualty producing transnational networks. Some may have gone all the way, while others have partly transformed, picking and choosing from the menu of new options. This reflects the needs and strategies of particular terrorist organisations, and it also mirrors the peculiar ways in which the processes of late modernity and globalisation have unfolded. In my view, the consequences of 'new terrorism' are best understood not as a question of either or ('new' versus 'old') but, rather, in terms of degree ('newer' versus 'older').

The impression – frequently conveyed in the period immediately following the September 11 attacks – that the threat is unprecedented and that nothing can be learned from previous experiences is entirely untrue, therefore. Many of the long-established principles of counter-terrorism remain valid.

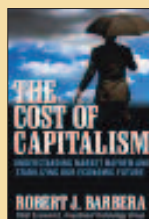
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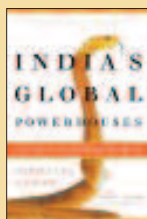
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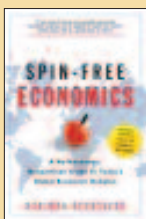
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Regardless of whether governments are dealing with 'old' or 'new', the aim must be to prevent terrorist attacks whilst maintaining legitimacy in the eyes of the population. In doing so, governments need to 'harden' potential targets; develop good intelligence in order to disrupt terrorist structures; bring to bear the full force of the law whilst acting within the law; address legitimate grievances where they can be addressed; and, not least, convey a sense of calm and determination when communicating with the public.

What's new is the need for government structures to become more flexible and adaptive, mimicking – as far as possible – the terrorists' network structures by pooling information across agencies and doing

away with some of the hierarchies that impede lateral thinking. Counter-terrorism also needs to become more international, building trust and cooperation between governments across borders and continents, which poses enormous challenges, especially when those governments are serial human rights abusers. Governments must engage in the kinds of virtual spaces – especially the internet – in which young people are being radicalised and recruited; and they need to find new ways of promoting messages that counteract and/or soften the particularist discourse put forward by violent extremists.

The risk of catastrophic or apocalyptic terrorism remains. This risk, however, is not new nor is it very substantial. Walter

Laqueur's idea of terrorists operating earthquake machines is science fiction, and will remain just that. This is not to trivialise the danger or, more importantly, its potential consequences. Policy-makers are right, for example, in taking every measure possible to avert terrorist use of weapons of mass destruction. But there is nothing to suggest that apocalyptic terrorism constitutes a 'trend' based on anything we have seen or observed in the past few decades. The new terrorism is more lethal and in many ways more dangerous than its predecessor. But, to paraphrase Mark Twain, reports about the end of the world have been greatly exaggerated.

What does Brussels Want?



Photo: Nicole Sturz

Christian Tenbrock
Journalist with DIE ZEIT (Germany)

Book Review



Diversity and Commonality in European Social Policies: The Forging of a European Social Model

Editors: Stanisława Golinowska, Peter Hengstenberg and Maciej Zukowski
ISBN 978-83-7383-347-0
427pp.

MAYBE NOW, IN the midst of the slump, is not the right moment in time to be pondering an integrated social policy for Europe, as other issues appear more pressing and the economic downturn seems to dominate everything. But maybe now is in fact precisely the right time to be considering these things: it is a time to remind Europe of its similarities, its traditions and its shared values. And it is a time to provide the European Union with a project that looks beyond the current crisis.

In a new edited volume, the Friedrich-Ebert-Stiftung has addressed this issue. In it scientists from western and eastern Europe describe different social models in seven EU member states and ask whether they could form the basis of a common European model.

The continent is tied together by a set of common values, whose most fundamental aspect is the striving for solidarity and equality, writes Peter

Hengstenberg, head of the Friedrich-Ebert-Stiftung in Warsaw and co-editor of the book. The Polish sociologist Stanisława Golinowska takes this even further. She claims that in comparison to the rest of the world, income inequality in Europe is on average lower and the role of the state in providing social security is far greater than in most other countries. European countries therefore show 'similarities that clearly distinguish them from other developed parts of the world.'

However, within these similarities there are diversities. The EU member states have always chosen to follow divergent paths. This does not only apply to the way in which they finance their welfare states. While the Danes do this predominantly through taxes, the Germans and Czechs instead tend to finance it through social insurance contributions. Generally speaking, great differences also exist in the way in which some nations use social policy simply as a means of retroactively correcting problems caused by the failures of the market (Great Britain), aiding mainly families and the unemployed (Italy, France, Germany) - or actively creating greater social equality through state intervention (Scandinavia).

These different approaches can lead to conflicts when the task of formulating a European social policy arises or even just when individual common measures are discussed. These conflicts have been intensified by the accession of central and eastern

‘The economic and financial crisis has drastically thrown the competence of free markets into question. Thus now should also be the time to reassess the primacy of the economy among the EU’s priorities’

European states to the EU, a process which has led to fears of social standards dropping throughout Europe - with Brussels leading the way.

Whether this anxiety is justified is questionable. In Estonia for instance, a country which is renowned for its economic liberalism, EU integration has contributed to maintaining the principle of solidarity and the universal character of the welfare state, according to Jolanta Aidukaite from Lithuania. The far-reaching social reforms of the past years should therefore rather be understood as an attempt to overcome the problems eastern and western Europeans alike are facing, writes Golinowska - the ageing society, the challenges of globalisation and the question of how a universal welfare state can still be financially viable. There are also great similarities in the answers that have been found to these dilemmas: Europe’s welfare states are generally less generous these days and are demanding more flexibility and individual foresight from its citizens.

But even these reforms are simply the result of national policies addressing their own internal issues. The authors of the new book agree that in the search for concrete solutions ‘Brussels’ is hardly playing an important role. The Czech Martin Potucek sums this up by saying that people are unsure what the EU really wants: ‘One side (of the EU) is calling for the fur-

ther liberalisation of trade, greater budgetary restraint and flexible labour markets... the other side talks of social justice, social rights and the fight against poverty.’ Both sides are difficult to reconcile. Golinowska claims that in EU politics social issues have so far clearly been subordinated to economic ones. ‘Free markets are seen as essential for economic success.’

But the economic and financial crisis has drastically thrown the competence of free markets into question. Thus now should also be the time to reassess the primacy of the economy among the EU’s priorities: Does a strong social policy, led by the state, really inhibit European economic competitiveness? Should social policy not be of equal importance to economic policy? Can the two not learn from and interact with each other, for instance in education? And if this applies to all of Europe, can the EU really afford to continue to leave social issues to the individual member states?

Sustainable economic growth can only occur when social and economic policies jointly provide a basis for social justice, concludes Peter Hengstenberg. In the crisis few people are interested in these connections. But once the crisis has passed, Europe will once again have to address the social question. When this occurs, it would help if member states learned from one another and the EU coordinated and pushed forward this process.

The Fragility of Democracy

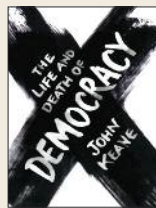


Photo: Rhydian Peters

Stephen Barber

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Book Review



The Life and Death of Democracy

John Keane
ISBN 978-0743231923
992 pp.

JOHN KEANE, PROFESSOR of politics at the University of Westminster and at the Wissenschaftszentrum Berlin, calls it 'serendipity'. A decade in the writing and the first attempt at a full scale history of democracy in over a century, *The Life and Death of Democracy* hits the book shelves with the sort of timing that no-one can possibly plan and for which many authors would gladly kill. Global economic downturn and the MPs' expenses scandal at home in Britain both challenge and reaffirm what democracy means to us and yet John Keane could not have anticipated their dramatic effects on politics when he began this book sometime in 1999.

This is an extraordinary book which tells us almost as much about the future of our democracy as it does about the past and the present. It shows us how fragile is democracy and reminds us that, despite its recent shortcomings, we rather like democracy and rather take it for granted. One startling fact highlighted early on in the book is that in 1941 there were only eleven functioning democracies in

the world. It also challenges our common understanding about its origins, arguing that rather than an invention of Ancient Greece, evidence of democracy can be found earlier in the Middle East. He considers the success of the European Union as 'the world's leading experiment in regional integration, a new multi-layered political community committed... to the principle and practice of fashioning cross-border democratic structures, some of them without precedent'. And the historical setting of this book into the present is as elegant as it is intriguing. Despite its near 1000 pages, it is bursting with detail, information, argument and fact not to mention quite a few jokes and some splendid images peppered throughout.

But it is the modern context that intrigues me. The global economic crisis has shown us both what can be achieved by the political process and also the limitations. While concerted efforts of governments across the globe has helped to address the banking crisis and recession, the fact is that our politicians no longer have autonomy over economic policy. There are undemocratic international bodies which exercise extraordinary power and influence over policy. And the power of global markets means that capital can flow across the world at the touch of a button in search of the best returns. Countries now conform to policies in which monetary policy is used to control inflation and maintain stable capitalist economic conditions.

Meanwhile, the British expenses row

‘The irony is that while politicians have become less ideological, some of the largely unaccountable, international bodies which exert influence over national policy are dogmatically wedded to a set of politically unpopular ideals’

has shaken our faith in the probity of politicians, just as voters across Europe likewise hold their own representatives in as low regard as at any time since the end of war as they learn of the activities of those who exercise power. One only has to look to the travails of Silvio Berlusconi to realise this is not an isolated issue. And in its analysis, this gets to a central proposition of this book: that we have moved into an era of ‘monitory democracy’.

Monitory democracy is about holding politicians to account to the extent of their day-to-day actions. For my mind, it does not necessarily hold to account politics and raises questions about exactly what it is that we are monitoring. In Britain, we all became rather interested in the departed Home Secretary’s choice of pornography after she inadvertently claimed a subscription as a parliamentary expense, but how much do we scrutinise the erosion of our civil liberties which is surely more important? The electorate now knows more about how MPs furnish their homes than they could ever possibly have wished, but I suspect they know very little about the Regulation of Investigatory Powers Act.

One unfortunate (and perhaps unforeseen) consequence of monitory democracy is that rather than making a better informed choice, the electorate has a tendency to stay at home on

polling day. Just look at the turn-out at the recent European elections. There is more monitoring, but fewer people really care about it. And while some of those who did vote, instead picked fringe parties, I’m not so sure we ever get away from elites – even if we find one more palatable than another.

I’m also left wondering just who would be a politician given this monitoring? We have monitory democracy to thank for uprooting politicians expenses in the British Parliament and it might lead to a clear-out of a hundred or more of the old guard of MPs who will stand down at the next election. But who will replace them? If recent years are any indication, it will be more of the same - this breed of relatively young, privately and Oxbridge educated, clever, on the whole rather decent, middle class, person who has never had a real job and who is driven into politics not through conviction or ideology but as a career choice. In the UK and across Europe we now have a political class which eschews ideology in favour of centrist governing. Indeed, politicians across the world now attend a handful of universities and share a common professional and social network. Even if we know what they’re up to in their most private of moments, I’m not sure this is better for democracy and I think the book agrees. In viewing the future, Professor Keane (or rather his muse) imagines a world in which ‘parties worked hard to aggregate interests. But often they did so at the price of blandly stated policies, vague, visionless visions, double standards and non-commitments... policy free politics’. We are of course already there as democracy becomes ‘less and less representative’. One Conservative MP claimed for the cost of clearing out the moat around his home. I am sure that moat owners are not representative of the population, but neither is this political class.

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the largely unaccountable, international bodies which exert influence over national policy are dogmatically wedded to a set of politically unpopular ideals.

Recent events highlight another danger the book foresees: the question of 'who monitors the monitors?' To assuage the electorate or at least the media, British MPs are passing over the self-monitoring role they have for their own affairs. An appointed body will monitor politicians' expenses. In a sense this is nothing new. Gordon Brown's first act as Chancellor back in 1997 was to hand over control for monetary policy to the Bank of England. The Tories now have a bizarre idea for doing a similar thing with fiscal policy. One might well ask why we need a Chancellor of the Exchequer? This, without mentioning the scores of QUANGOs and other appointed bodies which have been created in particular since the privatisation programme of the 1980s and indeed European level unelected regulatory institutions. The implications of monitory democracy could be quite undemocratic as the monitors have more power than the politicians who are all too eager to relinquish control in a Faustian bargain to win office. The democratic ideal is that no single body should rule; the danger is that nobody at all is responsible.

Like all good books, this one generates as many questions as it answers. It is full of argument, detailed research, context and thought. But despite its dire warnings and the rather depressing title, it is at its heart an optimistic book which celebrates our democratic traditions. It is a book which extols the cross-border, democratic, experiment of the European Union. And it is a book which encourages the reader to rejoice and grumble about democracy in equal measure if we are to protect a way of life that we fundamentally value.

Endnotes

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