ESSAY

Liberal social democracy, fairness and good capitalism

The left needs a new language to differentiate between good and bad capitalism; a radical, shared conception of fairness – based on equity rather than equality – can underpin an economy of reciprocity, proportionate reward and mutual ownership

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The European left is bewildered, in denial and in retreat. If electorates should have learned anything over the last two or three years it is that financial capitalism is a menace to itself and the economy and society beyond – and that governments are the peoples' friend. It is true that bankers are hardly popular, but opinion has not swung behind the liberal left. Instead, the enemy everywhere is government, debt and deficits – scant reward for being the saviour of the hour.

Opinion polls in Britain show that the majority believe that welfare cheats, immigrants and government waste are to blame for contemporary ills, with bankers a long way behind. It is not a dissimilar story across Europe. This is a tough climate in which to build any constituency for liberal left activism, and indeed the liberal left itself is not wholly certain what any such activism should be. What is socialism anyway? What would a good economy and society look like? And what would the popular values be that underpinned them? Does the left in any European country offer a convincing answer?

In this vacuum ugly nationalist movements are flourishing, and on the left one of the few dynamic elements are the greens. The conventional left needs to do a great deal better, not least for the working people it purports to represent.

I submit it needs to begin by thinking straight – and the task starts with addressing the left's relationship with capitalism. The European Parliamentary left is never going to socialise the means of production, nor should it aim to. There is no constituency or intellectual rationale for any such impulse, and even if there were the lesson of the twentieth century is unambiguous: socialisation does not work. It is economically inefficient and the handmaiden of authoritarianism. This does not mean there is no role for public ownership nor public action; far from it. But it takes place in a very different context – the struggle to create a good capitalism and an open society that has its roots in the European Enlightenment.

European socialism, properly understood as social democracy, is the descendant and custodian of the Enlightenment in an ongoing capitalist economy and society – not the shock troops of the European working class steadily taking over the commanding heights of the economy to transform economic and social relationships. It is a fundamental thought leap whose ramifications are profound, and is the dividing line between socialists and social democrats. Social democrats aim to deliver the best from capitalism; not transform it.

Good versus bad capitalism

The first opponent is, of course, capitalists themselves who like to claim that the avenue to economic dynamism is to let capitalism be true to its atavistic, red-in-tooth-and-claw

instincts; that to make a distinction between good and bad capitalism is fundamentally to misrepresent its character. Intriguingly, the one thing that über-capitalists can agree on with traditional socialists is that capitalism cannot change its spots.

However both are wrong. There is good and bad capitalism. There is the capitalism that through permitting productive entrepreneurs their due rewards, through challenging incumbent businesses and taking calculated risks with the new create the churn, flux and energy that even Marx acknowledged transforms the world. There is the capitalism that recognises that firms are social creations, and what mobilises men and women over time to invent, innovate and deliver to their markets is a shared sense of purpose; to do something great from which they make profits rather than sweat assets any which way they can to make a turn.

Such capitalism is not a force of nature: it is a social construction that has been created by a series of political choices over time. It is not independent of the social and political; it is embedded in them. It requires governments to keep markets open so that incumbents face challenge but also to invest in the array of physical, knowledge and social assets – from science and roads to strong families, social mobility and independent law – on which capitalism depends. It is public authority, mandate by democracy, that sets rules for how business ownership obligations are discharged, finance relates to business and how ordinary people are helped to survive the risks of life – unemployment, poor health, old age and disability. All this creates good capitalism – and the good society in which such capitalism flourishes. Above all, it is underpinned by a value system – fairness, proportionality and mutual respect.

Bad capitalism is the obverse; it is a universe of bloated incumbents, politically fixed markets, productive entrepreneurs forced to the sidelines and too little public investment. It cares little for the condition and risks of the people. The United States, I would argue, is in the gravest of danger of moving from a country where good capitalism broadly won out to one in which bad capitalism rules. The future of the 21st century will depend on whether this great country can find it within itself to resist the self-interested business incumbents, and their army of lobbyists, ossifying the US economy.

In Europe, the same struggle is being waged but in different terms. Although the European economy is unashamedly capitalist, there are no political forces overtly arguing for a good capitalism. By distrusting and opposing capitalism but without anything to put in its place, the left cedes the field to the right – or is so forced to show its pro-business credentials to earn credibility, neglecting to critique the current economic order at all to the extent that it loses touch with its own political base. The working class without a political champion then becomes prey for nationalists and the extremist right.

Fairness must animate the liberal left

The left has to understand what capitalism properly managed can deliver: and then to demonstrate that the paradox is that only the left can provide the political tension that biases capitalism towards the good. While the right is the indiscriminate friend of all capitalism, the left's mission is to hold capitalism's feet to the Enlightenment fire – and thus make it work best to meet the ambitions and needs of ordinary people. But this does not mean protecting every aspect of the European social model to the last; a good capitalism will need flexibility, adaptability and openness from its workforce insiders whose entitlements and privileges, especially among trade unions, can gum up the capacity of insurgents to challenge the powerful incumbent no less than capitalist monopolists.

For capitalism walks a tightrope. Its success depends on its capacity to unleash productive entrepreneurship that will deploy knowledge to advance humankind's productivity and well-being. But it is always perilously balanced between the dangers of being captured by

elites who want to use rigged and manipulated profits to sustain their status and position, and degrading into racketeering, exploitation and speculation. These can be bankers, infocapitalists and monopolists – but they can also be powerful trade unions. The paradox is that it is only a commitment to fairness that can keep it on the tightrope – and this is social democracy's essential and indispensable task.

Given what has happened over the last few years, to stress the role of fairness as capitalism's indispensable value in generating good capitalism may seem eccentric, even quixotic. The right hit back that only a saint or an innocent could be unworldly enough to call for fairness in capitalism. Of course capitalism, the survival of the fittest, is unfair. But then so is life. It is a lottery. Intelligence, talent, beauty and family background are all random. Some are born lucky and others are not. To demand fairness in any economy and society is an offence to how nature deals her cards. Fairness? Get real. This is more leftist moonshine.

But injustice is not a given, a fact of the lottery of life, or something that we simply have to accept to service the greater good of economic efficiency. It can be acted upon and reduced. The great secular – and, of course, religious – thinking has always been animated by the proposition that good things should happen to good people, and bad to bad. And they should happen proportionately and impartially. Human beings know that there is a link between intentions and actions, and they want to reward the good intentions and outcomes and penalise the bad. We passionately believe that one should receive one's due deserts in proportion to whatever good or bad one has contributed. It is telling that most civilisations have celebrated justice with a pair of scales, symbolising the proportional relationship of punishment for wrongdoing and just rewards for doing right. Fairness cast in these terms must be the value system that animates the liberal left.

Due desert and proportionality

The very foundation of morality is that all should get their due desert. A capitalism that tries to proceed as if these instincts are unimportant goes wrong very quickly – just as a socialism that finds no place for individual responsibility and human beings' powerful desire for just reward and just penalty also quickly descends into utopian impracticality. We cannot excuse individual conduct as the result of forces and structures beyond any individual's control. Social democrats should properly distinguish between the deserving and undeserving rich. They should also be prepared to distinguish between the deserving and undeserving worker – and the deserving and undeserving poor. Marx made this point to the French socialists in his critique of the 'Gotha Programme'. Too much leftism has migrated to a utopia where all bad outcomes are the result of "capitalism" – and never the result of individual indolence, cheating or lack of self-discipline.

Yet it is still true that capitalism without fairness becomes toxic. It fathers income and wealth that is vastly disproportionate to any accompanying economic and social contribution, and makes everyone beyond the gilded circle of insiders question why society allocates rewards so unfairly. People start to question whether vocational career choices – in farming, teaching, medicine or science – make any sense when society rewards them so lowly while rewarding finance so highly. The viral self-questioning at such unfairness percolates everything. The rise of single issue parties and political groupings – the English Defence League, True Finns, the Italian Northern League, the Dutch Freedom party or the Danish Folkeparti – organised in varying degrees around xenophobic suspicion of the foreigner cannot be explained by saying that Europe is suddenly more xenophobic, even more racist, than it used to be. It has happened because a sense of injustice has entered the bloodstream.

Europe lacks strong left-of-centre parties and accompanying bodies of belief to direct anger against the operation of capitalism because it has no language to differentiate between good and bad capitalism; instead anger is directed

against the foreign other – the Muslim, the European or the non-white immigrant. They have not contributed to the collective pot: it might be folklore but immigrants are portrayed as having immediate access to schools, housing and healthcare without having contributed. They are in effect perceived as cheats. Trust dissolves and suspicion rules – creating an atmosphere that corrodes economic and social relationships alike.

But to argue for any conception of good capitalism and the good society we need a shared conception of fairness that underpins them. At present there is none. The rich argue that it is fair for them to be so wealthy. Europe's rich increasingly believe they owe little or nothing to society, government or public institutions. They accept no limit or proportionality to their wealth, benchmarking themselves only against their fellow rich – an attitude perfectly embodied by the bankers' self-righteous defence of their extravagant and disproportionate bonuses. They will even threaten to leave Britain or Europe if their bonuses are reduced! Against this background philanthropic giving is declining; tax avoidance is rising; and executive pay is rising exponentially. All three are justified by the doctrine that the rich simply deserve to be rich. Meanwhile, the poor, in their view – and that of a virulent right-wing media – largely deserve their plight because they could have chosen otherwise. The poor could work, save and show some initiative. So why should we indulge them by giving them state hand-outs?

Which is why bank reform, although vital for both the stability of the system and to lower bonuses, only addresses part of the problem. Banks could not have acted as they did without wider deformations in our business culture and practice. But before anything can stick, the moral edifice that justifies the business elite's resistance to change must be challenged. The principle of "just desert" is a key part of European culture; it needs to be reasserted. The majority of Europeans are not flat-earth egalitarians. But neither do we believe that wealth is a signifier of personal worth in its own right. We believe it has to be earned, and believe the rewards should be commensurate with the discretionary effort. Proportionality is a fundamental value. Its trashing by those at the top of the financial and business community risks an angry populist backlash fuelled not by envy, as they airily claim, but by a visceral human instinct.

Luck and circumstance

A definition of fairness does not stop with due desert – it extends to a consideration of the role of luck, which plainly plays a part in any individual's fortunes. Everyone understands the importance of good and bad luck. There is option luck, the luck we have made ourselves through our effort and diligence; if people have worked hard for their good fortune, then their success and attendant wealth is fair. One of the reasons the US is more tolerant of disparities of income and wealth than Europeans is that there is a general – if misplaced – belief that their society is sufficiently open and that great wealth is merited. The US's rich tend to be rich through their due desert. But Europeans, living in an older continent where accumulations of wealth through birth are more obvious, are more suspicious. European culture is more aware that circumstance plays an enormous part in the reality of being poor, just as it does in being rich. This is luck we have done nothing to deserve – brute good luck. We cannot indulge the rich for being lucky enough to have the right parents any more than we can blame the poor for their parents.

The categories of brute good and bad luck are much better vehicles to carry the case for collective interventions than invocations to equality – the habitual way the left argue for, say, social insurance or inheritance tax. Nobody is convinced that pure equality is deserved; it might fail to reward effort or fail to penalise the shirker – the point that Marx made. But brute bad and good luck transcend such considerations; they are palpably part of the human condition and palpably part of our social dimension is to act together socially to relieve them. Suddenly the argument for the public provision of health or social benefits is

transformed. They are not "socialist", "liberal", or "leftist" but have much deeper roots – the mitigation of brute bad luck.

For example, nobody can know the character of their genomes or do anything about them even if they did; one's body's predilection for debilitating diseases – from cancer to dementia – is a matter of brute bad luck. Of course society should come together mutually to insure every member against the brute bad luck of poor health, just as it should the risks of unemployment, disability and old age. My own belief is that these benefits are entitlements, but to protect them from the right's charge that too many benefit claimants are making lifestyle choices or that public health provision is socialist I think it profoundly important that there should be a clear relationship between contributions and benefits. We pay in for our pension, health and unemployment benefit; it is our due desert to receive them – not a matter of state discretion to be means tested and screened.

Equally, using luck transforms the argument about tax. Inheritance tax, for example, is not a "death tax": it is a "we-share-in-your-good-luck-tax". Fairness also offers a means to lance the boil over immigration. Ordinary working class people react fiercely to the idea that the newly arrived immigrant immediately qualifies for the full array of social benefits – and especially housing – without having made a contribution. A fundamental canon of fairness is traduced. Immigrants should be given the opportunity to earn their benefits over time; full social citizenship rights are only an entitlement if they are earned by anybody of whatever ethnic background or religion. The argument is secularised and defused of its racial overtones.

But above all the mitigation of brute bad and good luck is why the left cares about social mobility – and why we make the case for the strongest and cleverest infrastructure of housing, education and training to help the disadvantaged live a life they too have reason to value. This may best be done by a web of intermediate social institutions – social housing trusts, independent colleges etc – rather than the central state; but the task must be executed as an act of social mobilisation.

Fairness and good capitalism

But if fairness principles – due desert, proportionality, good and bad luck – apply to the social realm, they also work effectively in the economic realm. Just as the social need is to create and sustain a web of social institutions built on reciprocal payments and benefits to mitigate risk, so there is a parallel economic need. The central weakness of the free market, über-capitalist case made by the economic and political right, especially in the US, is that it is wholly oblivious to the reality of risk and the unpredictability of the future. The genius of capitalism is its capacity to embrace the new in a constant process of experimentation, creating new modes of production from the advance of science and technology. But this is necessarily a highly risky process. Entrepreneurs can never know if their idea or enterprise is going to work. They are beset by risk and the knowledge that their hard work and innovativeness may not receive its due desert.

European economists from across the political spectrum – Hayek, Schumpeter, Keynes, Knight – have always been more keenly aware of existential uncertainty and how it creates instability and unfairness in capitalism than the US economic tradition which tries to abstract uncertainty from its theorising about capitalism. Economic agents hold rational expectations, for example, and markets always tend mechanistically to clear and to organise themselves in an optimal way. Markets are thus deified as near perfect – while even European pro-market theorists, like Hayek, would never make such an absurd claim. Keynes understood Hayek's point, that at heart capitalism was a brilliant discovery and experimentation process, very well: his point was that if as a result markets are unstable and beset by profound uncertainties, then perforce a democratic state has to act as a countervailing power to help capitalism deliver of its best.

Thus, the case not merely for active fiscal and monetary policy – especially in the wake of a credit crunch – but also for the state to be active in encouraging entrepreneurship and enterprise. Only the state can mitigate the risk that besets capitalist enterprise. Enterprise flourishes best if it can be nested in a web of institutions that mitigate risk – an innovation and investment eco-system – and the state has to make sure it exists, functions well and lubricate it with hard cash. Some of what is necessary may emerge spontaneously from the operation of markets – from venture capital to the insurance of high risk contracts. But much does not. Universities and research institutes that create new knowledge; technology transfer institutes; science parks; banks and financial institutions that support new ventures; institutes that provide workers with the appropriate skills; guarantees of prices far in the future that make vital investment in today's infrastructure economically worthwhile – all are necessary interventions in the so-called natural processes of capitalism to help enterprise better navigate risk and create wealth and jobs.

A good capitalism has thus two key properties – a system of business ownership in which the returns to owners and managers is proportional to the risk being undertaken rather than winners taking all, along with politically and socially constructed institutions that help mitigate risk, thus allowing more to be taken. The right's argument that successful entrepreneurship is about individualism, unconstrained property rights, low taxes and low regulation is baloney. Successful entrepreneurship occurs in good capitalisms where risk is mitigated and shared – and where owners acknowledge reciprocal responsibilities along with their rights.

The workplace and fair process

As the knowledge economy grows to dominate economic activity, there will be more risk and churn – and social institutions will have to change as well to accommodate it. The right is correct to argue that too strong entrenchment of workplace rights, like generous redundancy payments, creates yet more risk for enterprise. But their solution – to lower or abolish them – is too crude. It displaces risk onto ordinary workers. Instead the interconnected work, training and social security system needs to be redesigned – the case for "flexicurity". Workplace rights that deter new hiring and employment expansion may need to be curtailed, but only if substituted in three key ways.

Firstly, unemployment benefits must be increased so that workers in transition between jobs do not suffer damaging loss of income. Secondly, cash earmarked for redundancy payments should be spent on training every member of the workforce continuously; and lastly the government must guarantee work as an employer of last resort – rather as Roosevelt's Works Progress Administration did in the New Deal. Social democratic fairness demands no less – a good society in which good capitalism can flourish. Flexicurity is a fair way of managing and mitigating new risks – and the brute bad luck that will occur in a fast moving knowledge based economy.

And there is one last and perhaps most important dimension of fairness. People care enormously about fair process. They want voice; participation and impartiality of judgment – not only in the public realm, but also in the workplace. Democracy and the rule of law are of course crucial fairness processes – but so is effective workplace representation. The degree to which any country's political and media system allows the universe of opinions to be expressed and economic, social and political insurgents the possibility of challenging incumbents is the degree to which it is fair and legitimate. Few western democracies correspond to this ideal today – and the result is an economic and political silting up. Too much corporate power is going unchallenged, both by politicians and in workplaces. One of the best aspects of the European model is the system of workplace councils that at least obliges companies to consult and inform. Equally, too much of politics is predictable, as politicians balance entrenched interest groups rather than

express moral purpose and offer leadership. The left is as guilty – perhaps more guilty – than the right. But to do better requires both a moral anchor and a political project.

The popular appeal of liberal social democracy

The definition of fairness offered here is radical. It is about equity rather than equality; but it is no less demanding for that. It challenges the economic and moral questions that have been ignored over the last two decades – the tolerance of towering disparities in wealth and power and the blind faith in individualism and markets. It is, in my view, the value system than underpins liberal social democracy. It is liberal because it recognises that individual actions should be duly rewarded or penalised – but is social democratic because it wants, with proper accountability, to use social, collective power to mitigate brute good and bad luck. I submit it offers a route map for Europe's left to reinvent itself and win popular appeal. To repeat: fairness is the indispensable value that underpins both good capitalism and the good society, and it will be the foundation stone of any sustainable new order.

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