



Whose Line Is It Anyway?

The social market is the new buzz phrase. Charlie Leadbeater explains why and suggests what it should mean

Politics is converging around one central idea - the idea of the social market. Like cars coming onto a roundabout from different directions, the political parties are circling one another in their espousal of citizenship rights, their commitment to the public sector and their willingness to adjust to Europeanisation. All the parties are committed to a version of the social market - a socially responsible, economically efficient, market economy. The idea of the social market maps out what has become the high ground of British politics. It is the ground which has to be captured for a party to win power.

The elevation of the idea of the social market is the most important political consequence of the recession. We are in the midst of a shift from a decade when free market ideas were at the cutting edge, to a decade when politics will be organised around social market ideas. In the 1980s Thatcherism's aim was to create an unconscious society, a society in which it was possible only for individuals to have goals and make choices. Society was no more than the unconscious, unplanned outcome of millions of unco-ordinated social choices. The rise of social market ideas marks the start of an attempt to make society conscious again of the choices it can and should make.

At first sight it might seem improbable to claim that the social market maps the high ground of politics. It is an idea which has been knocking around in various guises for several decades. It originated among free market economists in Germany in the 1940s and became the touchstone of German politics in the 1960s under Chancellor Erhard. It was transplanted to Britain in the 1970s as a free market idea by Sir Keith Joseph before David Owen juggled with it in the 1980s. The social market is like an old pop song which is constantly being re-released by modern performers anxious to do cover versions of it.

The meaning of the social market is not at all clear. The inheritors of Joseph's tradition claim it as the neo-liberal idea that the most economically efficient and socially just policy is delivered by the most open and deregulated market. That is quite different from Chris Patten's vision modelled on the solidaristic market economies of central Europe such as Germany and Austria.

The content of the idea is very flimsy. It is not an economic theory. It has nothing useful to say about how interest rates should be set, taxes levied or public spending determined except in the most general terms. It is not a political ideology based on distinctive values. It is not backed by a body of analysis. The idea of the social market

is remarkably empty, no more than a political slogan.

Yet it is precisely that vacuity which has ensured its longevity as a rallying point for successive generations of politicians keen to adapt the idea to the political circumstances they face. Slogans gain tremendous power when they express a shift in the political centre of gravity. A political language can languish on the margins for years before suddenly acquiring currency when it articulates a deep-seated shift in political and social priorities. The free-market language of Thatcherism commanded the high ground of British politics in the 1980s by articulating disenchantment with the failings of the postwar settlement. Now it is the language of the social market which is articulating the aspiration to move beyond Thatcherism. The rise of the social market confronts politics with a central task over the next few years - how to create the conditions for a successful social market. Two conditions matter, and if they are not met the social market will be without foundations.

First, successful social market economies adopt a social approach to production. They recognise that production is a collective activity, which needs strong institutions bridging the divide between the public and the private to support education and training, the diffusion of technology and investment.

What makes social market economies work is not just a set of market exchanges but a dense web of partnerships, co-operative relationships, obligations and duties. In successful social market economies the hidden hand of the market is matched in importance by the hidden hand of their economic cultures which, for instance, determines the value they put on investment and education. Neither party fully recognises the extent of the institutional reform and cultural upheaval which will be needed to make the UK a successful social market economy in its approach to innovation and production.

Second, society should be organised around principles of social justice as well as market efficiency. The market will not be the sole mechanism for distributing rewards, resources, and life chances.

All the parties are committed to a more compassionate, caring Britain. But they are being repelled in that direction by the worst excesses of the inequalities created by Thatcherism. They have not been pulled to the social market by a positive conception of social justice which promises to change society.

Creating a successful social market economy will require a radical programme of modernisation which must sweep through Britain's institutions and culture. If it is code for pragmatism and caution it will be a complete failure.

What is at stake in this debate is the meaning of citizenship and community in a modern economy. It is about the rights and duties of citizenship which

can be sustained in economies open to the world markets. It is centrally about whether there is a strong enough idea of common, social interest to underpin approaches to both production and distributive justice in a modern society.

Politics has been brought to this point by the failure of earlier versions of the economic roles of citizenship and community. Under the Keynesian welfare state in the 1950s and 1960s there was a fairly clear connection between economics, community and citizenship. Economic growth made possible a social surplus, which funded collective public spending on education, health, housing and transport. Those social programmes underpinned the economy by boosting demand and providing the social foundations for the postwar political consensus. In the context of such predictable, well-managed growth it was possible to expand the idea of citizenship.

Citizenship has always had a political and constitutional content: our democratic rights and the right to equality before the law. But in the 1950s and 1960s citizenship took on a socio-economic character as well by including entitlements to welfare benefits, education and housing.

As a result the state and the public sector took on a much wider set of obligations to its citizens. It guaranteed them not just political rights but an economic safe haven, within which they would have a guaranteed minimum standard of living.

To establish that safe haven, politics and the state intervened in economics and the market. It was partly through the consumption of publicly provided goods that people expressed and realised their citizenship. A stable national economy was able to provide wider citizenship rights within a clear framework of commitments to collective provision.

This settled relationship between economics, citizenship and community could not be maintained. The broadening notion of citizenship could not be supported by a deteriorating economy facing mounting international competition. The notion of community and collective interests was undermined by social mobility, increasing social differentiation and simple sectarianism as people attempted to protect themselves against decline.

Thatcherism attempted a radical rewriting of the relationships. It attempted to constrain and discipline the notion of citizenship within economically affordable limits. It renounced any commitment to community other than the historic attachments of nation. It wanted to create a society in which people were more consumers than citizens.

It drew a sharp distinction between the political and socio-economic aspects of citizenship and set out to restructure both. Politically we became citizens of an increasingly centralised, authoritar-

ian state. Citizenship rights to welfare benefits and publicly provided goods had to be severely constrained to what could be afforded.

Thatcherism attempted to shift society away from politics to economics. Britain's economic decline was due to the politicisation of economic decisions. Tough choices were avoided. Companies which should have closed were kept going by subsidy. Trade union pay demands which should have been denied were accommodated. According to Thatcherism economic decisions had to be removed from the corrupting world of politics and returned to their rightful place in the land of economics. To achieve that the market had to dominate over the state as the mechanism for allocating resources. That in turn entailed a shift from the public to the private, from collective decision making to individual choices.

The aim was to create an economically dynamic, unconscious society filled by individuals with limited citizenship rights, little sense of community but an unlimited appetite for enterprise and consumption. Thatcherism maintained that only individuals could have economic goals. Society was no more than an arrangement to allow individuals to pursue these goals. We gather to make money from one another and fight wars but very little else. Society's well-being could not be consciously and collectively addressed. The state of society could be no more than the unplanned and unintended by-product of a myriad of individual choices. The economy can only be made dynamic by making society unconscious.

The emergence of the social market as the organising point for politics is the chief product of the failure of Thatcherism's vision. Politics is attempting to map out a new relationship between economics, citizenship and community. Five main factors have led to this point.

The first is the ascendancy of the market. It is now consensual that the market is central to any efficient economy. Central planning has been discredited as a means by which society should collectively seek to control its economic future. In future, any attempts to sustain citizenship and express community must be compatible with a market economy. The question is: what sort of market economy should that be?

The old polarities of markets and planning are irrelevant. The new poles of debate will be about whether the economy is free market or social market, protectionist or open to trade, borrower or lender, environmentally despoiling or ecologically responsible.

Two historic developments are meeting in the idea of the social. The ascendancy of market economies in the world economy and the collapse of planned economies. In the first clearing of the dust after a fundamental shift in the terms of political debate, people are

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searching for a way forward which would allow market economies to be socially conscious and responsible.

The second factor is the relative economic failure of the free-market economies compared with social-market economies. The leading free-market economies based on individualism, deregulation and unfettered financial markets - the US and the UK - are in the throes of recession. The stable social market economies in Germany and Japan are growing.

That short-term divergence in their fortunes is a reflection of much deeper developments. Social market economies are successful because they overcome the shortcomings of the market. They compensate for the market's tendency to overvalue the short-term. They are more able to take concerted, strategic decisions about the path of economic development they want to take as a society. This strategic capacity should not be confused with planning. It requires collaboration between the central and local state, banks and industry, large companies and their suppliers.

Take just two examples. The Germans have decided to target aerospace as a sector to expand into in the coming decade, to replace the declining growth provided by their car and electronics companies. That has been achieved by reorganising the entire German aerospace industry around Daimler Benz, with the collaboration of Deutsche Bank and under the sponsorship of the state. The German aerospace industry will in the next decade replace the British industry as the biggest and fastest growing in Europe.

The Germans spend more on research and development both in their universities and within companies. But crucially they have a web of intermediate institutions, funded by the public and private sectors, such as the Max Planck Institute and trade associations, which help to bridge the gap between universities and companies. These bridging institutions create the basis for more concertion and coherence in policy.

The links are cemented by a web of obligations and duties, rather than just contracts and exchanges of money. Successful economies have to foster both competition and co-operation.

The third factor is recoil at the moral consequences of the free market. This resurrection of social responsibility is taking several forms. But the common thread is the idea that society faces collective problems which it is either equitable or efficient to find collective solutions to. One source of concern is inequality, symbolised by cardboard city and the outcry over executive pay; another is the environmental and economic inefficiency of rundown public transport. There is a heightened sense of our obligations to poorer societies and future societies to whom we will bequeath our environment.

The common theme is that it is not

possible to completely privatise responsibility. Society's fabric cannot be maintained if people are constantly encouraged to opt out of obligations to anyone other than their family or employer. To win legitimacy a market economy must sustain a sense of community and belonging as well as delivering consumer durables.

The fourth factor is pressure to recast the relationship between citizens, society and the state. This is affecting both the political and the socio-economic rights of citizenship.

The agenda on political citizenship has moved in reaction to the centralisation and authoritarianism of Thatcherism. The threads of a new constitutional settlement between citizens and the state are emerging around proportional representation, a bill of rights, the renewal of local government and devolution. These reforms would rewrite the meaning of political citizenship. The single overriding relationship of citizen and central state would be replaced by a textured web of relationships between citizens and political institutions. The economic power of the state would be more dispersed but as a result the political system would probably provide the economy with greater stability.

The state as provider of services is also being redefined and with it the idea of citizen as consumer. The crisis of the public sector which Thatcherism located in the late 1970s is still unresolved. The public sector will be subject to wide-ranging reform in the coming decade, changing how services are provided, by whom, how they are paid for and what we are entitled to. The old notions of collective mass provision are giving way to ideas about choice and flexibility. These reforms will change the character of collective provision, the nature of citizenship rights upon the state and the way those rights are met. We are still searching for an economically sustainable way of meeting public responsibilities.

The final factor is Europeanisation. The social market has a particular appeal to Chris Patten as a device to close the gap between British free-market capitalism and the social-market capitalism practised in the German heart of central Europe.

But it is not just a device. It marks a complete change of focus for the Tories. In the 1980s they took most of their ideas from across the Atlantic. Now they are looking over the Channel for inspiration. Labour too has become more consciously European. It has tried to transform itself into a European social democratic party. The rise of the social market is a recognition that British politics will increasingly be organised around European issues.

Those issues will increasingly be about the nature of European citizenship and the character of the community. In the last few years European politics has been dominated by the economics of integration, the 1992 programme and

the terms for economic and monetary union. But in the next few years the agenda will move onto issues of citizenship: who will be able to claim what sort of rights as citizens of the EC as opposed to citizens of nation states? The terms of political union will define the constitutional rights of citizens. On the horizon are questions to do with European fiscal policies and the extent of social protection. The concerns of European politics will move on from the creation of a single market and a single currency, to social and political issues to do with the nature of European citizenship. British politics will have to be part of this movement.

So the social market has been elevated to the high ground of politics by powerful forces which have thrown up three basic questions. And the social market is an umbrella beneath which these questions shelter. How should a declining economy, prone to recession, be reorganised to instill dynamism and discipline? What are the rights of citizens, and how can they be delivered in an internationally competitive economy? What are the nature of the bonds which mean a society is more than a marketplace, and how can these guide policy?

The trouble is that the social market could either hide these questions or help to bring them out into the open. One version of social market politics would avoid these questions. It comes in various guises - Thatcherism with a human face, a return to corporatism, the renewal of the old Croslandite tradition of simply funding public services from a growth dividend. What these approaches share in common is a conservatism about the extent of reform required in British society. They see the social market as a stable, rather comfortable breathing space after the turmoil of the 1980s: the social market as a sort of lay-by in which politics can park itself for a rest.

This pragmatic social market approach would be a disaster. For if one thing is clear, it is that Britain needs continued radicalism to modernise itself. That is clear in the way its endemic economic weaknesses have tipped it into recession' it is also clear in the depth of the crisis facing the public sector. Tinkering will not be sufficient. Radical, root and branch reform is required. Rather than a static social market which just holds society at the status quo, we need a modernising social market programme with long-term ambitions to drive reform through the institutions and culture of society. To create the conditions for a successful social market, that reform programme needs to have two main aims.

The first is to create the social underpinnings of a competitive economy. That will mean combining government policy, with reform to the institutions of the economy and changes to our economic culture. They must move in tandem.

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The aim of formal government policies would be to create a much more developed framework of laws and institutions within which the private sector would work. The objective of public policy should be to create a public space around companies. So for instance, one vital legal move would be to alter legislation governing takeovers in order to move away from the deal making culture which so destabilises manufacturing companies. On the institutional front it would mean central and local government sponsoring the development of bodies which bridge the public and private sectors to transfer people, skills and technology between them. Britain needs stronger local economic institutions which would bring together employers and local authorities, politics and economics at the local level.

The institution which is most central to reform would be the company. Any viable social market programme must set out to radically reform the company. Although the political parties have policies on investment, industrial policy, education and training, none has a policy programme for the company as such. The last time the Left thought seriously about companies was during the 1970s debate about planning agreements. The debate in the 1980s was dominated by questions of ownership, privatisation and nationalisation, rather than about corporate responsibility and performance. As a result companies have got off rather lightly.

The main aim of such a policy would be to redress the imbalance in corporate obligations in the UK. British companies' main obligation is to their shareholders, the owners of their assets. In Germany and Japan the relationship with shareholders is only one of several obligations that companies recognise. In those economies companies are the heart of a web of relations which they have to maintain. There are obligations to invest in local economic development; environmental obligations; obligations to workers to provide health care, training and childcare; duties to help suppliers to develop their products and dues owed to other employers to collaborate in funding training or research and development. Companies must recognise their obligations to communities, but also be able to rely upon collective institutions to support them.

It will only be possible to create a more socially responsible economy with more socially responsible companies, which recognise social obligations as well as financial and economic ones.

These policy and institutional reforms need to move in tandem with cultural changes in our economic values and expectations. Economic cultures spread and reproduce ideas of what is economically virtuous. In the 1980s the source of economic virtue was consumer choice, either in making those choices or in meeting them. The 1990s will encourage very different ideas.

Economic virtue will be about conserving rather than consuming, investing in assets rather than running them down, valuing education and knowledge rather than glorying in skin-of-the-pants, cash-in-hand enterprise. German economic success is only partly attributable to its institutions. Much of it is due to its culture and values: training, professionalism and knowledge are more highly valued than in the UK. The Japanese approach to education relies upon a partnership of parental dedication and institutional discipline. Without change in the economic culture of society, people changing what they value and how they behave, it will be impossible to create a social market.

The second area which needs radicalism is the idea of social justice. Without a notion of social justice, the social market is morally vacuous, because it offers no alternative to the market as a way of determining people's life chances. This turns on the following questions. What scale of resources are available for redistributive policies? On what basis would resources be redistributed? What are the guiding moral principles, the new public ethics which would underpin the social market?

Should resources be distributed according to need, merit, or contribution? Should society be organised to realise individual choices and aspirations; is protection of the rights of the individual the basis for social justice? Or should society be guided by an idea of the collective good, those things which it shares to make it a civilised society and which in turn justify redistributive taxation? To put it crudely, does someone who is affluent transfer money to someone less affluent out of guilt or fear, from a recognition that as individuals they should enjoy equality of opportunity or because they are both members of a society which believes in certain minimum standards of treatment?

British society is too diverse, too fragmented to generate anything more than agreement on a minimal notion of the common good. Yet society must be more than a loose association, the only purpose of which is to help individuals to pursue their own narrow ends. What is needed is an approach which renews the link between individual rights and collective guarantees, a progressive individualism. A few general principles do seem to have some purchase and could be developed.

There is a deep rooted sense of fairness and proportion in British society. The unfairness of the poll tax was one of its great weaknesses. The outcry over boardroom pay has also drawn out this sense of fair treatment of individuals.

This commitment to a fair society entails a commitment to an open and meritocratic society of equality of opportunity. What is the point of education if talent and learning is then not rewarded? The old institutions of British society which are closed by prejudice

or privilege should be opened up. Making Britain a more open, less class-ridden, talent-based, meritocratic society, opens up a potentially radical popular agenda, one dedicated to breaking down the old establishment. It was this which lay behind the ferocity of Thatcherism's attack on the old establishment which had let Britain down. Major attempted to pick it up with his classless society slogan. This rich political vein of individual opportunity, creating the procedures for individual abilities to be equally developed and fairly rewarded, is waiting to be mined.

Where the idea of collective responsibilities should come into play is at two quite different levels where communities can define themselves and recognise their shared interests. The first is the local level where communities might be able to define themselves in contrast with the nation. It may be possible in localities, cities or regions to generate a notion of common interests which will remain elusive at the national level. So political reform to devolve power to more meaningful communities is a prerequisite for making possible a policy of social justice based on a recognition of common interests. These common interests will only be relevant to people if they are evident and open and that often means localised.

The second area where a notion of collective responsibility is clearly very powerful is in Britain's dealings with other societies. International issues have produced a tremendous upsurge in a sense of joint responsibility lacking over many domestic issues. There is also a developing sense of our collective responsibility to future collective generations. In these areas policies of social responsibility based on a notion of the common good rather than individual rights are conceivable.

In its journey from the free market to the social market British politics has just landed at the airport. A band of hopeful politicians, uncertain, bearing lots of luggage from the past are looking around for a guide. It is a sort of political package tour. Some want to go back to where they have just come from (No Turning Back Group), while some don't approve of holidays anyway (Campaign Group). There are the neatly dressed with their phrase books keen to make a good impression on foreigners (John Major and Chris Patten). There are others who realised some time ago that, like it or not, the social market package tour was the only way of getting to their destination - power (Neil Kinnock, the soft Left and most of the Labour Party). They are not that keen on the holiday but are convinced there is a jolly good booze-up waiting at the end. None of them are really prepared for what is awaiting them on the rest of their journey but they have little option but to continue upon it.*

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