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## 15 The civil state

### An alternative model of democracy and modernization

*Adrian Pabst*

#### Introduction

Does modernization thrive in conditions of democracy or autocracy? What is the relationship between economic and political liberalization? How do different types of democratic rule affect the economy and the well-being of citizens and societies? Following the partially failed transformation from state totalitarianism to market democracy and the ‘end of the transition paradigm’,<sup>1</sup> which alternative models of development are available to Russia, other BRIC countries and rising powers such as South Africa or Indonesia? Twenty years after the collapse of Soviet communism, the current crisis of liberal ‘free-market’ capitalism and authoritarian state capitalism provides a unique opportunity for both advanced economies and emerging markets to chart an alternative path – the civil state.

This chapter argues that both state-centric and market-driven models of modernization, which have been dominant since the late nineteenth century, have neither delivered vibrant democracies nor produced prosperous economies. Instead, both models have tended to favour a centralization of power at the expense of autonomous, self-organizing communities, localities or associations and a concentration of wealth in the hands of ‘old elites’ or ‘new classes’ (or both at once). In turn, these developments have led to the progressive ‘disembedding’ (as per Karl Polanyi) of the economy and politics from the social relations and civic bonds that ultimately bind society together.<sup>2</sup> Linked to this is the growing subordination of civil society and its intermediary institutions to the convergence of states and markets, a constellation that applies in different ways to liberal ‘market monopoly’ and authoritarian ‘state capitalism’.

These and other paradoxical notions suggest that the conventional categories of state *versus* market, left *versus* right or democratic *versus* authoritarian no longer provide an adequate analytical framework that can describe and explain the complex interaction of democracy and modernization. Instead of Fukuyama’s ‘end of history’ and a global convergence towards Western-style liberal market democracy, in reality we see post-democratic ‘market-states’ in the global North (including Japan and Oceania) and authoritarian ‘state-markets’ in the global South (including the BRIC countries and other emerging economies). While there is no equivalence between rival regimes and their ideologies, it is nevertheless the



case that both state collectivism and market individualism have in different ways brought about economic inefficiency, social dislocation and political polarization.

By favouring the collusion of big business and big government, both systems have undermined the associative ties binding together citizens and communities within and across localities, regions and nations. As such, the alternative to post-democratic 'market-states' and authoritarian 'state-markets' is a moral economy and a civil state. This alternative, which this chapter begins to outline, consists in pluralizing the central state, mutualizing the 'free market' and building a civil covenant that blends political representation with greater civic participation.

The first section discusses different strands of modernization theory, arguing that the current debate between state-centric and market-driven models of development neglects the importance of groups, associations and communities in building an economy that is embedded in social relations and serves the interests of both individual citizens and society as a whole. The second section suggests authoritarian state capitalism and post-democratic market capitalism are paradoxical political economies that do not fit the conventional categories of standard modernization theory. The third section draws on the traditions of pluralism, associative democracy and civil economy to develop the idea of a civil state that is based on the principles of reciprocity, mutuality and solidarity. The final section presents some concluding remarks.

## Modernization in question

### *Modernization theory and its limits*

From the outset, the proponents of modernization theory clashed among each other over the question of the sequencing of democracy and development. In his seminal article of 1959, Seymour Martin Lipset claimed that growth and development bring about social changes which in turn favour the emergence and proper functioning of the political institutions associated with democracy.<sup>3</sup> However, one can contend that this strand of modernization theory is wedded to a teleology of linear progress whose wider intellectual roots can be traced to mainstream Enlightenment thinking that is in crisis.<sup>4</sup> As Samuel Huntington suggested, economic development does indeed bring about profound social changes but without the right sort of political institutions, societies in transition tend to descend into violence and chaos.<sup>5</sup> Such institutions are essentially those of the American West: first, the strict separation of powers – by contrast with more mixed arrangements in much of Europe; second, the idea of a 'commercial republic' where contracts and rights bind citizens to each other and to the state – by contrast with an older European accentuation of universal, civic virtues embodied in concrete, particular practices. In many ways, Huntington's argument foreshadows Francis Fukuyama's thesis on the 'end of history', i.e. the triumph of US-style free-market capitalism and liberal, representative democracy – a claim that Fukuyama has partly repudiated and largely revised in his more recent work.<sup>6</sup> These differences notwithstanding, both Huntington and

1 Fukuyama emphasize formal institutions that uphold the primacy of the strong  
 2 state and the unbridled market over the democratically self-governing intermedi-  
 3 ary institutions of civil society. As such, their work is far more statist *and* free-  
 4 market than the Tocquevillian strand of plural, 'organicist' liberalism in terms of  
 5 voluntary self-associations and town-hall democracy on which democratic repre-  
 6 sentation and a vibrant market economy rely.

7 Marxist critiques of Lipset's teleological account are equally relevant but the  
 8 proposed alternative is no less misguided than the one that is advanced by Hunt-  
 9 ington and the younger Fukuyama. World system theorists like Immanuel  
 10 Wallerstein or Samir Amin and advocates of dependency theory like André  
 11 Gunder Frank, Fernando Henrique Cardoso or Faletto Enzo argue against the  
 12 mainstream versions of the modernization thesis that economically 'backward'  
 13 countries are stuck on the periphery of the global capitalist system.<sup>7</sup> This,  
 14 coupled with arguments about the 'imperialist logic of capitalist accumulation'  
 15 (Lenin) or 'uneven and combined development' (Trotsky), purports to explain  
 16 why the non-Western peripheral economies remain in a state of dependence and  
 17 underdevelopment vis-à-vis the Western core. However, world system analysis  
 18 and dependency theory fail to account for cases as diverse as Germany, (north-  
 19 ern) Italy, Japan, South Korea or Poland where more 'embedded' models of  
 20 market economy supported democracy and development. Key to their success  
 21 were close coordination between government, business and workers' representa-  
 22 tion, a robust industrial policy framework and a selective integration in the world  
 23 economy with a gradual opening to global competition. It is only in the late  
 24 1980s that some of these countries took a neo-liberal turn, which undermined  
 25 both democratic representation and long-term economic growth.

26 Moreover, Marxist critics put forward their own variant of modernization  
 27 theory that is just as deterministically driven by the utopian idea of boundless,  
 28 benign progress as it is oblivious to the economic, social and cultural costs of  
 29 state totalitarianism. Whether in its Marxist-Leninist, Stalinist or Maoist incarna-  
 30 tions, this system delivered neither universal emancipation nor popular prosper-  
 31 ity. By contrast with conventional dependency theory, Guillermo O'Donnell  
 32 recognized already in the early 1970s that different models of development  
 33 (which are variously more capitalist or more communist) promote not democ-  
 34 racy but rather 'bureaucratic authoritarianism'.<sup>8</sup> Here the crucial point is that  
 35 the fusion of the strong state with the free market is characteristic of both neo-  
 36 liberalism and state capitalism.<sup>9</sup> This provides yet more evidence in support of  
 37 the argument that both state-centric and market-driven models of development  
 38 undermine rather than strengthen the wider political and civic institutions that  
 39 are necessary for the flourishing of popular democracy, which combine partici-  
 40 patory with representative elements.

41 Following the third wave of democratization that swept across wider  
 42 Europe,<sup>10</sup> Latin America and Asia, modernization theory focused increasingly on  
 43 the causes and effects of transition. In many of these cases, transition either coin-  
 44 cided with a shift from central planning to free-market capitalism (as in the  
 45 former communist bloc) or followed periods of sustained economic growth (as

in much of Asia).<sup>11</sup> However, the initial euphoric optimism of a global convergence towards Western-style liberal democracy and market economy, which was anticipated by mainstream modernization theorists at that time, gradually gave way to a sobering realization – that the legacy of totalitarianism and/or military dictatorship was not simply an inefficient, corrupt economic system but also an atrophied civil society marked by mutual suspicion and very low levels of social capital.<sup>12</sup> Indeed, it was the atomization of communities and society that favoured the subsequent collusion of bureaucratic centralism, market individualism and state capture by (partly para-statal) criminal networks – all of which is characteristic of failed transition countries, as Mancur Olson’s work shows.<sup>13</sup> Moreover, the early strands of modernization theory failed to distinguish between the democratization of non-democratic systems and the consolidation of democracy. Evidence from around the world suggests that economic development is indispensable to consolidation but does not bring about democratization.<sup>14</sup> Thus, modernization theory seems to have come full circle, as recent research supports Lipset’s original thesis that ‘the more well-to-do a nation, the greater the chances that it will sustain democracy’.<sup>15</sup>

#### *Back to the ‘transition paradigm’ and democracy promotion*

Despite the ‘end of the transition paradigm’ (Carothers), certain strands of modernization theory never abandoned the agenda of democracy promotion that has shaped US policy-making since Woodrow Wilson – notably in recent times during the presidencies of Ronald Reagan and George W. Bush. A detailed discussion is beyond the scope of this chapter, but a brief analysis suggests that this sort of thinking defends a universal paradigm that views democratization as a specific sequence of stages in which elections assume overriding significance and for which there are no cultural or other preconditions, except a coherent functioning state. Thus, advancing democracy for transitional countries focuses on political structures and process but neglects the civic institutions on which democratic representation and markets depend. This section focuses on recent work that posits a causal relationship between democracy and modernization, arguing that sustained development requires a properly functioning democratic system.<sup>16</sup>

The main argument is the well-known claim that democracy is the ‘least bad form of government’. The reasons given by McFaul and others are as follows: first, it is suggested that democratic rule ensures greater accountability of rulers to people. However, this underplays the activities of lobbying groups and the capture of states by corporate interests. It also ignores the enduring influence of ‘old elites’ and ‘new classes’ that accrue power and wealth at the expense of the common, public good.<sup>17</sup> Second, it is claimed that democratically governed countries produce greater social welfare at similar income levels than authoritarian regimes. While there is evidence to support the efficiency argument, the literature on democracy promotion neglects not just income but also asset inequality. Both are positively correlated with the neo-liberal collusion of the strong state and the unbridled market that has favoured a concentration of wealth

1 among high-income groups and depressed real wages,<sup>18</sup> leading low-income  
2 groups to take on unsustainable levels of debt.

3 Third, democracies, so McFaul's argument goes, 'prevent abusive rule, con-  
4 strain bad government, and provide a way to get rid of corrupt or ineffective  
5 leaders' by alternating parties and presidencies in powers. This, in turn, is taken  
6 to foster political competition that helps to generate higher-quality officials in  
7 government and parliament. However, such a rosy view tends to ignore a whole  
8 host of structural problems that characterize different democratic systems around  
9 the world. Some of the most important problems include the institutional stale-  
10 mate caused by endless electoral campaigns and incessant elections at different  
11 levels, vested interests that block systemic reform as well as the convergence of  
12 party ideology and policy that contributes to voter apathy and the disengagement  
13 of the populace from mainstream politics.<sup>19</sup>

14 The other main argument in favour of introducing political democracy before  
15 economic development is that democratic rule stimulates and sustains economic  
16 modernization. First, it is claimed that democracy protects against economic dis-  
17 asters. It does seem that democracies and market economies avert catastrophes  
18 such as extreme famine and starvation linked to forced collectivization (as in  
19 Stalin's USSR or Mao's China). However, since the Great Depression of  
20 1873–96 liberal market democracy is correlated with an increasingly high fre-  
21 quency of financial crises that tend to be followed by recessions and mass unem-  
22 ployment.<sup>20</sup> Second, advocates of democracy promotion appeal to higher growth  
23 and greater prosperity, including trade liberalization, but the ability of 'young  
24 democracies' to benefit from the opportunities of the world economy crucially  
25 depends on their stage of development and their state capacities.<sup>21</sup> As the experi-  
26 ence of post-communist Russia illustrates, 'shock therapy' and the hasty intro-  
27 duction of unfettered capitalism under the guise of democratic rule fused state  
28 authoritarianism with oligarchic power, impoverishing the population and also  
29 weakening political institutions and administrative capabilities that were necessary  
30 for sustained development.<sup>22</sup>

31 Third, it is also argued that democracy is responsive to the basic needs of the  
32 population and protects property rights. By contrast, authoritarian regimes are  
33 accountable to a powerful rich minority that controls and accumulates strategic  
34 assets, if necessary by expropriation. While this fundamental difference does  
35 indeed hold in many cases, it is nevertheless true that in conditions of free-  
36 market capitalism democracies struggle to avoid increasing income and asset  
37 inequality, social polarization and the dispossession of workers (their land and  
38 their traditional networks of mutual support),<sup>23</sup> all of which undermines the  
39 social cohesion on which a vibrant democracy and market economy depend.<sup>24</sup>  
40 Liberal democracy may be no worse than authoritarianism at balancing redistri-  
41 bution and growth (and possibly a lot better), as Michael McFaul suggests, but  
42 this fails to address concerns that democratic systems often display an illiberal  
43 liberalism, which is at odds with the principles of freedom and rights.

44 There is another set of arguments that seem to support the thesis that modern-  
45 ization requires a fully-functioning democracy and that autocracies are in fact

bad for development, as China's case apparently suggests. The first claim is that democracies have on average a higher rate of economic growth than autocracies, but once again this ignores the specific stage of development. Second, either autocracies are responsible for socio-economic disasters (such as during Mao's Cultural Revolution) or else it is the withdrawal of the state from the economy that produced China's unprecedented growth. Linked to this is the assertion that China's regime today is more constrained in its ability to influence Chinese society than before Deng Xiaoping's economic reforms. But for all the reduction of rural poverty and the economic opportunities available to China's nascent middle class, it is also the case that China combines some of the worst excesses of state collectivism and market fundamentalism – a party dictatorship in control of a police state that licenses the ruthless exploitation of people through a permanent process of 'primitive accumulation' through dispossession.<sup>25</sup>

As the following section argues, phenomena such as 'Market Maoism' (or illiberal liberalism) suggest that the old categories of left *versus* right and state *versus* market, which are central to modernization theory, cannot explain the paradoxical political economies of post-democratic market-states in many economically advanced countries and authoritarian state-markets in many emerging economies.

### Paradoxical political economies

This section suggests that the concept of paradox is a useful heuristic device for analysing and evaluating specific political and economic arrangements. The notion of paradox rejects the normative primacy of the logic of dualism that characterizes all the modern binary opposites such as state *versus* market, left *versus* right, democratic *versus* authoritarian or liberal *versus* illiberal. This logic reduces real relations among citizens or between citizens and the state to nominal connections that take the form of constitutional-legal rights or economic-contractual ties. By focusing on rights and contracts, the logic of dualism tends to privilege the central state and the free market over all the intermediary institutions of civil society that are not exclusively for state-administrative or market-commercial purposes.

By contrast, the logic of paradox views groups and association as more primary than the individual and the collective. Across different societies and cultures, social bonds and intermediary institutions have traditionally been more fundamental than either formal rights or formal contracts. The activities of autonomous and democratically self-governing groups and associations are for social purposes and reasons of mutual recognition that – paradoxically – can serve both private and public interests. As the third section suggests, the primacy of associations and groups is the basis for the civil state and the moral market.

### Post-democratic market-states

Over the past 30 years or so, many sovereign nation-states with liberal-democratic constitutions have mutated into globalized 'market-states' that

1 exhibit post-democratic tendencies. Since the late nineteenth and the early twenty-  
2 twentieth century, sovereign nation-states sought to embed the economy by providing  
3 public investment and universal welfare. By contrast, globalized 'market-states'  
4 maximize client and consumer choice by opening up virtually all levels of the  
5 economy to international finance and trade.<sup>26</sup> This shift in sovereignty from an  
6 international system of nation-states to a global order of 'market-states' coincided  
7 with a structural transformation of the world economy and global governance.  
8 Indeed, there was a move away from the post-1945 Bretton Woods  
9 settlement of fixed exchange rates, regulated trade and capital controls towards  
10 the post-1971 emphasis on floating exchange rates, free trade and ever-higher  
11 capital mobility.<sup>27</sup> In turn, this transformation has further weakened the capacity  
12 of sovereign states to insulate their domestic democratic processes from international  
13 economic developments.

14 But far from undermining state sovereignty as a whole, advanced economies  
15 are increasingly integrated into a global system of economic and political governance.  
16 That system centres on 'market-states', multinational corporations,  
17 international organizations such as the IMF, the World Bank or GATT/WTO as  
18 well as supranational bodies like the G8/G20. States remain central to the exercise  
19 of sovereign power, as they retain the prerogative to negotiate and implement  
20 international agreements, laws and regulations within their respective  
21 jurisdictions.<sup>28</sup> Crucially, the executive branch of government – together with the  
22 higher echelons of central state administrations and a new class of supranational  
23 judges and arbitration courts – has concentrated power in its hand at the expense  
24 of the national legislature, the national judiciary and the national electorate.<sup>29</sup>  
25 Coupled with the influence of 'old elites' and 'new classes' (see above), political  
26 power has tended to become more centralized and wealth more concentrated in  
27 many advanced economies, as I suggested in the previous section. The concomitant  
28 lack of accountability, legitimacy and popular participation at the domestic  
29 level is part of the post-democratic tendency.

30 This is compounded by a process of 'self-corruption', as a democratically  
31 elected executive will claim the legitimate authority to exceed its own democratic  
32 mandate in the face of circumstances that could not be anticipated by that  
33 mandate and that the electorate cannot vote on, e.g. public bail-outs of private  
34 banks during the global 'credit crunch' of 2007–08. This process of 'self-  
35 corruption' extends to decisions at the supranational level of the G20, the IMF,  
36 the World Bank or the WTO – whether trade agreements negotiated by the EU  
37 (rather than its member-states) or rescue packages to avert sovereign debt  
38 defaults. Paradoxically, the dominant pillars of global governance have widened  
39 the gap between domestic democratic institutions and international economic  
40 decision-making, while at the same reinforcing the dependence of everyday  
41 market economies upon transnational capital. 'Market-states' provide the  
42 conduit through which both political sovereignty and economic transactions are  
43 at the same time increasingly intertwined with one other and gradually uprooted  
44 from the social relations and civic bonds in which they are traditionally  
45 embedded.

Here it is crucial to underline the paradoxical nature of 'market-states', as they do not fit into the binary poles of the political left *versus* the political right, the state *versus* the market or democracy *versus* authoritarianism that have been dominant since the American and the French Revolution. Instead, 'market-states' are characterized by a series of paradoxes: they combine, first of all, a strong state with a free market; second, centralized authority with dwindling power; third, greater popular demands with less civic mobilization and participation; fourth, less welfare with more state protection against risk. As Philip Bobbitt rightly remarks,

the market-state will live within three paradoxes: (1) it will require more centralized authority for government, but all governments will be weaker [...] (2) there will be more public participation in government, but it will count for less, and thus the role of the citizen *qua* citizen will greatly diminish and the role of citizen as spectator will increase; (3) the welfare state will have greatly retrenched, but infrastructure security, epidemiological surveillance, and environmental protection – all of which are matters of general welfare – will be promoted by the State as never before. These three paradoxes derive from the shift in the basis of legitimacy from that of the nation-state to that of the market-state.<sup>30</sup>

Thus, the 'market-state' fuses centralized bureaucracy with the extension of markets into the public sector and the private sphere. In consequence, the hitherto autonomous institutions of civil society and the mediating practices of civic culture have been largely absorbed into the 'market-state' and subordinated to the logic of formal contract and exchange value.

Moreover, a number of Western countries such as the US, the UK, France and Italy are moving in a distinctly post-democratic direction where representative democracy formally remains in place even after actual democratic practices weaken and power reverts to political elites that collude with corporate business and other unelected, unaccountable groups. Linked to Western post-democracy is the tendency for the centre-left and the centre-right since the end of the Cold War to evade a genuine contest of ideas in favour of endorsing a centrist *status quo* that sidelines fundamental public debate about systemic alternatives. Against the teleology of boundless and benign progress that defines (early) modernization theory and the literature on democracy promotion, Colin Crouch shows that even in economically advanced countries political development does not evolve in linear or cyclical ways but in fact exhibits a parabolic shape.<sup>31</sup> The post-democratic parabola describes the trend whereby politics becomes increasingly democratized for a period through such institutions and practices as extended voting rights, regular elections, and alternating governments of different ideological persuasion before the system mutates from within and undermines the civic bonds on which a proper democracy depends.

Among the indicators of post-democracy, there is, first of all, a marked decline in the number of members of political parties;<sup>32</sup> second, a collapse in the



1 membership of civic and fraternal organizations;<sup>33</sup> third, a long-term drop in voter  
 2 turnout;<sup>34</sup> fourth, the growing intensity and extension of a 'spectacular politics'  
 3 where political debate is superseded by a tightly controlled spectacle of endless  
 4 electoral campaigning, televised shows, media spin and other public relations  
 5 techniques that reduce citizens to passive spectators.<sup>35</sup> In this manner, the growth  
 6 and the continuation of democratic rule (as theorized by Robert Dahl's gradualist  
 7 path towards 'polyarchy')<sup>36</sup> are entirely compatible with the hollowing out of key  
 8 pillars of democracy such as popular participation and the common, public  
 9 good.<sup>37</sup> The collusion of big government and big business lends credence to  
 10 Sheldon Wolin's argument about the coincidence of 'the *political* coming of age  
 11 of corporate power and the *political* demobilization of the citizenry'.<sup>38</sup> Moreover,  
 12 contemporary liberal democracy fuses free-market economic managerialism with  
 13 authoritarian central state bureaucracy, thus flipping over into something like  
 14 'inverted totalitarianism'.<sup>39</sup> Here the point is *not* that democratic and authoritarian  
 15 regimes are synonymous or that representative democracy is simply replaced by  
 16 post-democratic plutocracy. Rather, the crucial argument is that representative  
 17 democracy formalizes and abstracts politics from the people it purports to represent  
 18 – a process that is reinforced by financial capitalism. This is so because political  
 19 representation becomes increasingly self-referential, emptying real  
 20 democratic participation of its content and combining liberal democratic form  
 21 with authoritarian methods to produce post-democratic market-states.

#### 22 23 **Authoritarian democracy and state capitalism**

24 The teleology of boundless and benign progress that is integral to early modernization  
 25 theory and democracy promotion can neither describe nor explain the  
 26 evolution of most 'transitional' countries over the past 20 years – with the exception  
 27 of some cases in Central and Eastern Europe, Latin America and Asia.<sup>40</sup>  
 28 Contrary to Fukuyama's influential thesis of a global convergence towards  
 29 Western models of liberal democracy and free-market capitalism, instead we see  
 30 a shift towards forms of authoritarian democracy and state capitalism. In  
 31 response to this trend, some have claimed that democratization has been reversed  
 32 and that a number of countries are reverting to pre-democratic forms of political  
 33 rule that are variously more authoritarian or more totalitarian.<sup>41</sup> Such countries  
 34 merely use democracy as a façade for the purpose of enhancing the regime's  
 35 legitimacy in the eyes of the domestic and the international public.<sup>42</sup> Others have  
 36 proposed a variety of partially overlapping notions of hybrid regimes such as  
 37 'delegative democracy' or 'competitive authoritarianism'<sup>43</sup> that fall into what  
 38 Thomas Carothers aptly terms the 'political gray zone' between proper democracies  
 39 and outright dictatorships. Key to this alternative approach is empirical  
 40 evidence showing that different political regimes are characterized by *both*  
 41 democratic *and* authoritarian elements in relation to elections, party competition  
 42 or media freedom. However, what is lacking from the idea of hybrid regime and  
 43 similar notions is a more developed conceptualization of the common logic that  
 44 underpins the 'different shades of grey'.  
 45

Indeed, neither notions such as hybridity nor theories that juxtapose contraries can explain *why* the same political system can encompass apparent, diametric opposites. The conventional opposition between democracy and authoritarianism is part of a rationalist construct that maps alternatives on a spatial spectrum according to a dualistic logic whereby more democracy equals less authoritarianism. However, here one can argue that the concept of paradox provides a useful heuristic device to analyse and assess certain specific political and economic arrangements that cannot be charted on the spatial spectrum. The idea of paradox views apparent opposites as part of the same logic. Applied to the discussion about modernization, this means that paradoxically more democracy can in certain circumstances lead to more – not less – authoritarianism. The idea of paradox also suggests that the real alternative is non-dual. Thus, democratization and development require non-democratic and non-market elements, as the following section briefly indicates.

The notion of paradoxical political economies can capture the peculiar nature of 'transitional' countries that are neither on a gradual path towards democracy and market economy nor moving towards autocracy and state planning. Paradoxes such as authoritarian democracy, 'state markets' or state capitalism contain within themselves the potential for simultaneous economic progress and democratization but also for economic regression and further authoritarian consolidation (or indeed both at once). Based on the concept of paradox, my argument is that a number of emerging markets and 'transition economies' are characterized by regimes that rely for their grip on power on a 'dual state' and a 'dual market'. The dual state consists of a formal, constitutional order and an informal, para-constitutional apparatus that operates a shadow government which undermines core constitutional provisions, subverts the legal framework and sabotages official policy.<sup>44</sup> Indeed, countries as diverse as Russia, China, India, Brazil, Venezuela, Pakistan and Indonesia have at different times sought to blend variants of democracy with state-controlled forms of capitalism. In fact, the mark of authoritarian democracy in many of these cases is that it combines liberal-democratic constitutions with authoritarian administrative regimes. Within such systems, the 'reserved domains' of military, bureaucratic and oligarchic power are neither properly constrained by the constitutional separation of powers or the institutional set-up of democracies (e.g. independent courts, functioning rule of law, etc.) nor are they subordinate to the primacy of civilian power. Instead, these reserved domains tend to be hegemonic, even if the interaction with liberal-democratic constitutions and institutions is indispensable to a full account of how such countries develop political and economically – as Richard Sakwa has shown in relation to Russia.

Similarly, the 'dual market' consists of a formal, official market economy (that is variously more statist or more liberal) and an informal, shadow state economy that is based on a patrimonial fusion of power and wealth – linked to competing factions within the ruling regime, state-controlled primary resources and corporations in the hands of both old elites and new classes.<sup>45</sup> This is true not just of the energy sector in Russia, Iran, Saudi Arabia and Venezuela but also of banking and

1 finance in countries such as China, Indonesia and (to a much lesser extent) Brazil.  
2 With formal or informal central state support, a wave of new multinational com-  
3 panies has surfaced and helped transform 'transitional' countries or developing  
4 economies into emerging markets.<sup>46</sup> Whether state-owned or privately managed,  
5 'national champions' such as Russia's Gazprom, China's Petroleum and Chemical  
6 Corporation (Sinopec), Mexico's Cemex (the world's third-largest cement maker)  
7 or Brazil's Companhia Vale do Rio Doce (one of the biggest mining companies)  
8 enjoy political support and pursue interests that are closely aligned with the aims of  
9 their respective governments. This, coupled with the massive banking bailout in the  
10 advanced economies of the West (including Japan and Oceania), marks a structural  
11 change that can be described in terms of state capitalism or, perhaps more accu-  
12 rately, 'state markets' – public ownership of (formerly) private assets and political  
13 control over economic processes.

14 Just as the two dimensions of the state and of the market interact with one  
15 other, so too the shadow government and the shadow economy collude with each  
16 other at the expense of the constitutional state order and the formal market mech-  
17 anism. Indeed, the continuous power shift away from the old west towards the  
18 burgeoning east has fuelled a vast, global 'shadow market'. That market is com-  
19 posed of the offshore financial economy and sovereign wealth funds amounting  
20 to (in 2008) US\$12,000 billion<sup>47</sup> – larger than the world's combined official  
21 reserve currency holdings. For example, the China Investment Corporation (CI)  
22 and the State Administration of Foreign Exchange (SAFE) – China's two main  
23 sovereign wealth funds – have promoted overtly political goals (such as persuad-  
24 ing various foreign governments to end diplomatic relations with Taiwan) and  
25 also protected the domestic banking system from foreign competition. Thus,  
26 sovereign wealth funds are hybrids that cover the vast spectrum of public-  
27 private structures and reflect the paradox of state capitalism, which is variously  
28 more authoritarian or more democratic.

29 The literature on modernization and development is of course right to empha-  
30 size formal conditions such as a genuine multi-party system, electoral competi-  
31 tion or the rule of law (including protecting property rights). However, what is  
32 missing even from the work on hybrid regimes is the crucial role of civil society  
33 and civic life on which a vibrant democracy and market economy ultimately  
34 depend. In addition to autonomous intermediary institutions, emerging markets  
35 and transition economies require a 'free space' between the state and the people  
36 wherein social bonds and shared civic practices can evolve in line with each  
37 country's specific tradition. Such bonds and practices are a necessary condition  
38 to embed both constitutional-legal rights and economic-contractual ties in civil  
39 society. It is this dimension that the following section on the civil state and the  
40 moral market seeks to outline.

### 41 42 **The civil state**

43  
44 This section combines the political theory of Karl Polanyi and Paul Hirst with  
45 the political economy of Luigino Bruni and Stefano Zamagni in order to develop

the idea of a 'civil state' and a moral market that can democratize politics and the economy and embed them in the social relations of civil society. Common to the work of Polanyi, Hirst, Bruni and Zamagni are three closely connected arguments.<sup>48</sup> First of all, the modern emphasis on the individual and the collective neglects the importance of autonomous, democratically self-governing groups and associations that mediate between the citizen and the state. Second, the active participation of groups and associations is indispensable to a properly functioning democracy and market economy. Third, the social bonds and civic virtues that provide the glue for civil society are needed to make constitutional-legal rights and economic-contractual ties work. The fundamental point that underpins these three arguments is that the practice of virtue is not limited to predominantly non-instrumental relationships such as family, friends or activity in the 'voluntary sector' but extends to the largely instrumental relations in the realm of politics and the economy.

#### *Pluralism, associative democracy and civil economy*

The shared intellectual roots of Polanyi and Hirst go back to nineteenth and early twentieth century critiques of liberalism and alternatives theories of pluralism.<sup>49</sup> Broadly speaking, the critique is that liberalism combines some of the worst aspects of individualism and collectivism. Laissez-faire capitalism reduces not only goods and labour but also land and social relations to commodities that can be freely exchanged according to their monetary market value. Linked to this is the primacy of subjective, individual rights over mutual duties and reciprocal responsibilities within groups and associations. Since unbridled commercial exchange requires a force to eliminate resistance to it and compensate for any failures (or 'negative externalities'), laissez-faire capitalism combines the 'free' market with the strong state. For example, statist welfare that is run centrally and based on uniform standards and targets is subservient to capitalism because it compensates for market failure but does not change the fundamental relation between capital owners and wage labourers.<sup>50</sup> As such, much of economic and political liberalism combines market atomism with state corporatism.

The pluralist alternative is, first of all, to eschew both capitalist markets and collectivist states in favour of voluntary and democratically self-governing associations that cut across the false liberal divide between the purely private and the exclusively public sector by cooperating with state authorities and market actors in the delivery of services such as health, education or welfare. As Paul Hirst puts it, this approach 'aims to strengthen government in and through civil society; thus civil society takes on many of the attributes of the public sphere'.<sup>51</sup> Second, political authority is more effective, efficient and democratic if it is decentralized in line with the principle of subsidiarity, i.e. devolving power to the most appropriate level that promotes democratic participation and protects the dignity of citizens. By contrast with centralization and exclusive central state power, pluralism shifts the emphasis to an association of agencies that share power through cooperative links according to necessity and contingency. Third,

1 the economy is not run according to the logic of 'free-market' competition or  
2 bureaucratic state planning but instead along more mutualist lines where firms  
3 are governed jointly by investor, managers and workers and financial investment  
4 includes a social purpose. Thus, the work of Polanyi can extend Hirst's idea of  
5 'associative democracy' by democratizing the market and mutualizing the  
6 economy. Maurice Glasman puts this well:  
7

8 The paradoxical idea here is that the greater the diversity of democratic  
9 institutions that entangle capitalism in relationships based on knowledge and  
10 mutuality, the better the chances of releasing the energies of the workforce  
11 and generating growth. The more workers have power, the more efficient it  
12 is; the more that local communities engage in banking, the more sustainable  
13 the returns. This is about breaking the logic of short-term returns, which  
14 undermines long-term development. I think that associative democracy has  
15 therefore to be complemented by a much more explicit notion of the possibil-  
16 ities and threats of capitalism, the logic of the market, and how to domesti-  
17 cate it.<sup>52</sup>  
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19 The idea of more mutuals or cooperatives instead of state-owned enterprise or  
20 private cartels/monopolies provides the link to Bruni's and Zamagni's 'civil  
21 economy'.<sup>53</sup> Indeed, this notion is based on the argument that the market can use  
22 resources efficiently and promote the common good effectively only if it is dis-  
23 ciplined by the habit of practising reciprocal and mutual virtues. If, by contrast,  
24 the market is equated with pure instrumentality, then human and social relation-  
25 ships are reduced to means that maximize individual utility and private profit.  
26 Since the state enforces rights and contracts, it is an integral part of the liberal  
27 market logic. Here Bruni and Zamagni show that the principle of contract that  
28 underpins the modern market needs to be supplemented by the principle of reci-  
29 procity because otherwise self-interest overrides and ultimately undermines the  
30 common good. Linked to this is the tendency of modern markets to commodify  
31 not just goods and labour but also social relations and land, a process that also  
32 cuts off production and trade from the common good that enhances rather than  
33 diminishes real utility and happiness. Thus, the tradition of civil economy, like  
34 pluralism, emphasizes the need to re-embed both the state and the market within  
35 a wider network of social relations that are governed by reciprocal virtues such  
36 as justice, solidarity, fraternity and responsibility.

37 More specifically, the idea of civil economy suggests three fundamental trans-  
38 formations. First of all, it fuses the principle of contract with the principle of  
39 reciprocity in order to produce arrangements whereby risk and profit are shared  
40 in more mutual ways. Second, it defends the argument that hybrid models such  
41 as cooperatives, mutuals or social enterprise combine higher long-term profits  
42 with a social purpose because they foster innovation and efficiency and therefore  
43 raise profitability through enhanced productivity – on top of higher job satisfac-  
44 tion. Third, the principles and practices of reciprocity and mutuality are not  
45 limited to the third, voluntary sector but also apply to the private and the public

sector. For instance, one can introduce employee-ownership in the delivery of welfare, education and health. Moreover, one can inject the 'logic of giving' into the 'logic of profit-making' by setting up businesses that link investment to charitable giving from the outset rather than as an option, e.g. building a new store and also social housing.

### *Building the civil state*

How to get from here to there? The alternative of a civil state and a moral market consists in pluralizing the central state, mutualizing the 'free market' and building a civil covenant that blends political representation with greater civic participation. First of all, to pluralize the state involves not just decentralizing political authority and central bureaucracy and devolving them to lower levels in accordance with the principle of subsidiarity. It also encompasses a much greater participation of groups and associations in the activities of the public sector. For example, associations could provide a wide range of public services by forming cooperatives and mutuals that use state funding to deliver education, health care or welfare. By contrast with free-market managerialism or bureaucratic statism, such associations would focus on members – 'owners' (e.g. regional or local government), workers and users.

There are concrete examples that combine universal entitlement with localized and personalized provision, including grassroots initiatives such as 'Southwark Circle' or 'Get Together' in London. Such and similar initiatives reject old schemes like uniform state-administered benefits, expensive and privately run services or purely voluntary 'befriending'. And instead of centrally determined target and standards, they propose models based on civic activity and community-organizing with the support of regional or municipal governments. Citizens join welfare schemes like social care as active members who shape the service they become part of rather than being reduced to merely passive recipients of a 'one-size-fits-all', top-down model. Southwark Circle works on the principle that people's knowledge of their neighbourhood, community and locality is indispensable to the proper provision and delivery of welfare. Services are delivered involving civic participation, social enterprise (like the company Participle), and the local council. In this way, intermediary models seek to blend individual, group and state action.

Moreover, the pluralization of the state extends to national industries or publicly controlled utilities by establishing public-interest and community-interest companies. Like cooperatives or employee-owned businesses, such companies operate on the basis of mutualist principles that involve their governance owners, workers and users. Public- or community-interest companies pursue not just private profit but also social ends by reinvesting their profit in the business and in the community instead of simply enriching the top management or institutional shareholders.

Second, to mutualize the 'free market' involves the diffusion of market power by breaking monopolies and monopsonies (excessive buying power through

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1 market dominance) and also by introducing more risk- and profit-sharing  
 2 arrangements in retail, banking and other sectors currently characterized by  
 3 cartels. Building a civil economy involves supporting professional associations  
 4 and other intermediary institutions wherein workers and owners can jointly  
 5 determine just wages and fair prices. Against the free-market concentration of  
 6 wealth and state-controlled redistribution of income, civil economy proposes a  
 7 more radical programme: labour receives assets (in the form of stake-holdings)  
 8 and hires capital (not vice-versa), while capital itself comes in part from worker-  
 9 and community-supported credit unions rather than exclusively from  
 10 shareholder-driven retail banks. Concrete examples includes, first, the Basque  
 11 cooperative Mondragon which employs over 100,000 workers who produce  
 12 manufactured goods, with an annual turnover of around US\$3 billion; second,  
 13 *Crédit Mutuel*, a mutualized bank which operates in several European countries;  
 14 third, the employee-owned partnership of John Lewis in the UK.

15 Finally, to ensure greater economic equality and political pluralism requires  
 16 not simply strong institutions of democracy and the rule of law but also the  
 17 whole range of civil society associations that embody the principles of mutual-  
 18 ity, reciprocity and solidarity. The task is to devise ways in which different polit-  
 19 ical models can enhance the mediating role of localities, communities,  
 20 professions and faith communities. One example is a revamped second chamber  
 21 of parliament that could be in part elected and in part appointed, combining  
 22 regional with professional and religious representation through the participation  
 23 of members who are elected by their peers. Such a mixed chamber would reflect  
 24 in some imperfect manner the virtue of 'mixed government' that the wider Euro-  
 25 pean tradition owes to the work of Plato and Aristotle.

## 27 Conclusion

29 The purpose of this chapter has been to provide a critique of mainstream mod-  
 30 ernization theory and to propose an alternative. I have argued that state-centric  
 31 and market-driven models have delivered neither vibrant democracies nor effi-  
 32 cient market economies. On the contrary, advanced economies have mutated into  
 33 post-democratic market-states and 'transition countries' combine elements of  
 34 authoritarian democracy with aspects of state capitalism. As such, these models  
 35 are at odds with the teleology of boundless and benign progress that is central to  
 36 the standards theories of democratization and development. Moreover, both  
 37 models of modernization promote in different ways a centralization of power  
 38 and a concentration of wealth that are incompatible with notions of liberty,  
 39 equality, justice or fairness.

40 In turn, it is conceptually more rigorous and empirically more accurate to  
 41 speak of paradoxical political economies that cannot be charted on the conven-  
 42 tional conceptual map of left *versus* right, state *versus* market, democratic *versus*  
 43 authoritarian or liberal *versus* illiberal. Instead of notions such as hybrid regimes  
 44 or theories that juxtapose contraries like 'competitive authoritarianism', this  
 45 chapter suggests that the concept of paradox provides a useful heuristic device to

analyse and evaluate certain specific political and economic arrangements that cannot be located on any spatial spectrum. The idea of paradox views apparent opposites as part of the same logic, such that more democracy or more socio-economic development can in certain circumstances lead to more – not less – authoritarianism or socio-economic regression.

In line with the idea of paradox, I have also argued that the real alternative to the standard version of modernization is the civil state and the moral market, which are embedded in the social relations of civil society. By shifting the focus away from the central bureaucratic state and the unbridled free market to groups and associations, this alternative shows that, paradoxically, democratization and economic development require non-democratic elements such as compulsory membership in professional associations and non-economic elements like the principle of reciprocity that translates into practices of mutual giving.

This chapter does not provide a set of specific policy recommendations. However, the discussion of the civil state and the moral markets outlines a number of principles such as reciprocity, mutuality and solidarity that are indispensable to policies that can provide an alternative to conventional ideas, which focus on abstract rules and formal institutions at the expense of universal ideas embodied in particular practices of virtue.

## Notes

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T&E PROOF

