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CHAPTER EIGHT

'Civil Economy': Blue Labour's Alternative to Capitalism

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MORAL ECONOMY

If the Labour Party does not look like an opposition ready to govern again, it is because it has so far failed to craft a proper political economy that recognises the nature of the current crisis and offers a realistic alternative. More than any other force within the wider Labour movement and British politics, Blue Labour has led the way in showing that the economic crash reflects a wider social and ethical crisis which has to do with a culture of incentives and rewards for vice – especially vanity and greed. (Dante had it right when he described the former as 'love of self perverted to hatred and contempt for one's neighbour' and the latter as 'excessive love of power and money'.) Accordingly the only genuine alternative is a renewed 'moral economy' that offers incentives and rewards for virtue, above all sympathy, forbearance and courage.[1]

Linking these and other virtues is the principle of reciprocity. For Blue Labour reciprocity is key because it outflanks in advance all the binary terms such as left vs right, state vs market or individual vs collective that are but diverse expressions of the same underlying logic: the disembedding of the economy from society and the re-embedding of social relations in a culture that is rationalist, utilitarian and transactional – as Karl Polanyi first diagnosed.[2] This primacy of politics and the economy over society is the mark of contemporary liberalism, notably the fusion of social with economic liberalism that has defined Britain's political consensus since 1997. While increasing individual freedoms and opportunities, liberal modernisation has also led to an economy that is dominated by debt and despair and a society that is characterised by ever-greater interdependence and atomisation.

By contrast, the principle of reciprocity underpins the social nexus that is more primary than the cash nexus or the power nexus. The focus on mutual recognition more than wealth and power chimes with popular English and British cultural traditions that never embraced the self-serving creed so characteristic of the new elites who consider themselves beyond the rules applying to everyone else. Contra false opposites such as selfishness and selflessness, recognising reciprocal needs and promoting practices of mutual assistance can help reintegrate ethics at the heart of the public realm while also avoiding a pious moralism and a misplaced cynicism as to people's most consistent motives.

Reciprocity is at the heart of the 'civil economy' tradition that has recently shaped Catholic Social Thought on which Blue Labour draws.[3] In this essay, my argument is that the 'civil economy' model provides the best alternative to its neo-liberal and Keynesian rivals. Beyond the rather sterile opposition between more market austerity and more state stimulus, neither neo-liberalism nor Keynesianism has much to offer in terms of breaking Britain's addiction to debt (both public and private) or enabling the country to compete in a global race to the top – in relation to excellence and to ethos. For the same reason, the 'civil economy' also goes further in building a post-crisis vision than the ordo-liberal approach that underpins the German 'social market economy' which was enshrined in the 2009 Lisbon Treaty. A 'civil economy' ties economic profit to ethical and social purpose, and it seeks to ethicise exchange by instituting just prices, fair wages and non-usurious rates of interest. In the same spirit, it replaces the separation of risk from reward with risk- and profit-sharing models which, for example, require the indexing of salary levels to growth in labour productivity.

In both respects it publicly requires an economic pursuit of honourable practice and genuine benefit rather than just abstract wealth and power. It argues that the seemingly utopian pursuit of the truly good is in natural alignment with the various goods of concrete flourishing (work, housing, food, health) and higher fulfilment (work satisfaction, subtle cuisine, beautiful environment, educational development) that human beings everywhere naturally seek. For this reason the 'civil economy tradition' believes that the real economic task is the shared coordination of all these pursuits in terms of a 'common good' which bends and integrates the vivid colours of social life – rather than washing them away in favour of the grey paste of utility.

Thus honourable behaviour – precisely because it inspires and runs with the natural grain of human endeavour – tends to foster higher innovation, higher productivity, higher growth and higher remuneration. All this is *only* utopian in terms of the current capitalist logic and liberal ideology, but it can be achieved under the carapace of a different set of ideas and institutions that combine novel incentives and rewards for virtue with punitive action for vice (e.g. revoking licences to produce and trade in the event of criminal behaviour) that would command wide assent. In this manner, Blue Labour rejects immoral capitalism and the liberal version of a supposedly 'fair' economy that benefits the few in favour of genuinely moral markets in which mutual obligations beget individual entitlement, trust – not compliance – enhances efficiency, cooperation is the basis of competition and workers' representation improves competitiveness. Thus Blue Labour's paradoxical politics can provide 'One Nation Labour' with an overarching narrative and a series of transformative policy ideas.

THE NATURE OF THE CURRENT CRISIS

Clearly the continual economic crisis does not foreshadow the end of capitalism. However, it both reminds us of something well known and reveals something new. It reminds us that capitalism is subject to a peculiar sort of periodic crisis: a crisis of speculation that is linked to the inner contradictions of expansion and contraction, notably the episodic over-accumulation of capital linked with declining rates of return, as Adam Smith recognised long before Karl Marx.[4] But the crisis also reveals that globalisation since the 1970s has so expanded and speeded up the processes of capitalist change as to engender something qualitatively different. More than ever before, global capitalism erodes the 'moral economy' of mutual obligations on which economic exchange ultimately depends. By further reducing everything and everyone to a tradable commodity, capital constantly expands the reach of the market into new areas and creates more opportunities both nationally and globally. But by the same token, it undermines relationships, reciprocity and responsibility, without which markets cannot generate lasting prosperity or combine private profit with social benefit.

Moreover, unrestricted movements of international finance now severely curtail government freedom of action in a way that puts popular democracy itself into crisis. The manner in which excess capital can be transferred from one part of the world to another and back again in a matter of milliseconds using high-speed computer trading has in large part generated the recent severe economic destabilisation and also expanded the possibilities for outrightly criminal behaviour.[5] In response to the collapse of the subprime mortgage market and the 2008 global 'credit crunch', national states bailed out transnational banks by taking over their debts in a manner that locks politics itself yet more tightly into this sheerly financial logic. In consequence, government has less and less regard for the specifically political ends of human well-being and interpersonal communication, while the long-term needs of the national polity and society are subordinate to the short-term interests of global wealth accumulation. The economic turmoil of 2008–9 had its roots in a much deeper political and cultural crisis that is fundamentally about values, not primarily money.

Indeed, popular protest such as the Occupy movement has been triggered not only by deprivation linked to the recession but also by moral outrage against all those in the public and the private sector who have betrayed traditional social norms and obligations of substantive justice and the common good – bankers, politicians, regulators, journalists, policemen and managers at institutions that used to enjoy high levels of public trust. More than six years after the financial crash, much of the country remains caught in a spiral of debt, demoralisation and despair. In the UK and elsewhere there is a growing, albeit inchoate, sense that 'Big Business' and 'Big Government' have colluded at the expense of the people. For example, the Corporation of London represents the interests of finance to the detriment of all vocational trades, strengthening the City's capture of the Treasury and the Treasury's domination of government policy, as Maurice Glasman has argued.[6] In this manner, the Corporation has turned London from a self-governing *civitas* at the centre of the British Commonwealth into the capital city of global finance.

Just as global finance is disconnected from ethical goals, so too the state has extended the rule of the political and the economic over the social. For half a century, governments of the left and the right have either replaced mutualist arrangements among workers with centralised, bureaucratic welfare or outsourced the delivery of public goods to private service providers – or indeed a fusion of both. In this manner, the elections in 1945, 1979 and 1997 led to settlements that ended up exacerbating the centralisation of power and the concentration of wealth which characterise the UK – with both income and asset inequality rising at exponential rates.[7] Moreover, during the boom in easy credit in the late 1990s and 2000s governments shifted debt from the public sector to private households.[8] After the crash, taxpayer-funded bailouts saved the banks but governments and families were left saddled with a debt burden that depresses the kind of sustained strong growth which alone can reverse Britain's long-term economic decline. That is why protesters have rounded not just on bankers but also regulators and politicians who have all been complicit in the bubble cycle of boom and bust that has imploded with such devastating consequences. From the outset, the economic turmoil of 2008–9 was part of a much deeper moral crisis that has to do with perverse incentives for vice such as vanity and naked greed.

BRITAIN'S BROKEN ECONOMY

The recovery that started in late 2013 changed the mood music but represents little more than a continuation of the pre-crisis model. After the longest downturn since the Great Depression of 1929–32, renewed growth marked a snap-back rather than a level change, as national output went up thanks to deferred consumer spending, cheap credit and house-price inflation in London and the south-east. With few notable exceptions, Britain still has a low-wage, low-productivity, low-innovation and low-growth model that is now undergoing a 'zero hours' intensification. It is true that certain manufacturing businesses are booming and that there are new industrial and manufacturing hubs and corridors in southern England. But if anything this adds to the deepening North–South divide. In any case, it is not yet sustained by sufficient long-term investment or by sufficient demand through wage growth in line with productivity, which remains very weak compared with other countries. We are seeing a slight revival of spirits after a long recession, not a genuine and lasting return to health.

On the contrary, the deep dysfunctions that have beset the British economy since the 1970s persist:

(1) A continual process of de-industrialisation has reinforced a two-tier economy and labour market that are increasingly divided between high- and low-skill groups; meanwhile middle-skilled groups such as former machinists and tradesmen lost their jobs and joined the army of cashiers and call-centre workers; the low-skilled (both indigenous and immigrant) form a new 'precariat' for whom opportunity and flexibility is synonymous with insecure employment and low pay.
(2) The rising costs of living that outstrip wage growth are closely connected with a monopoly or cartel capitalism that pushes up prices and cuts salaries; in this way, 'Big Business' and the super-rich extract rents, while the rest of society are confined to new forms of indentured labour.
(3) The growing precariousness and the increasing cost of living are further fuelling the vicious cycle of debt and demoralisation, with the poorest 10 per cent owing four times as much as they own in financial assets; millions are forced to choose between the exploitation of usurious payday loans and the humiliation of food banks.
(4) The excessive reliance on finance and other services reinforced a 'great risk shift'[9] – transferring insecurity from government and large businesses to small- and medium-sized enterprise and households; this, coupled with the separation of risk from reward, has concentrated the benefits in the hands of the super-rich, while farming out to the mass of people an ever-augmented share of the dangers attendant upon it such as hunger and homelessness.
(5) The process of privatisation, liberalisation and deregulation to which every government since Margaret Thatcher has subjected the country constitutes a massive transfer of previously public assets into private ownership; this transfer has resulted in 'the great divestiture', with levels of inequality and social regression not seen since the 1920s.[10]

Britain is facing the paradox of a richer economy with poorer people. By any historical comparison since the Great Depression of 1929–32, economic growth is low and long-term unemployment high. Those aged 18–25 or older than 50 especially struggle to find jobs, not to mention all those who are under-employed (in involuntary part-time jobs or on zero-hour contracts) and those who have given up on finding employment altogether (including those on disability benefits or in early retirement). Thus there is a very real prospect that this generation of 18–25-year-olds and their children's generation will be worse off than their parents' and grandparents' generation. Even some of the baby-boomers who are now retiring will be worse off than previously thought. Furthermore, the financial precariousness that was exposed by the crash combines with long-standing feelings of social dislocation and cultural disorientation to produce a dread of abandonment. All this adds to the support for populist forces on the radical left and the radical right such as UKIP.[11]

Crucially, Britain has joined a global 'race to the bottom' in terms of wages, employment conditions and low taxes on the top 1 per cent that reinforces the ever-widening income and asset inequality which characterises capitalism, as the French economist Thomas Piketty has shown.[12] Since wealth begets wealth, inequality trends are like a self-perpetuating upward spiral. While the wealthy now split between the super-rich and the super-super-rich (as corporate executives compete with billionaires to drive up the wealth spiral), the middle classes struggle to make ends meet and the poor are seen as surplus to requirements.

Beyond mere exploitation, we now live in an 'economy of exclusion' that treats unproductive people as 'outcasts' and 'leftovers', as Pope Francis rightly warned in his Apostolic Exhortation *Evangelii Gaudium*:

> [h]uman beings are themselves considered consumer goods to be used and then discarded. We have created a 'throw away' culture which is now spreading. It is no longer simply about exploitation and oppression, but something new. Exclusion ultimately has to do with what it means to be a part of the society in which we live; those excluded are no longer society's underside or its fringes or its disenfranchised – they are no longer even a part of it. The excluded are not the 'exploited' but the outcast, the 'leftovers'.[13]

Since Pope Leo XIII's encyclical *Rerum Novarum* in 1891, the tradition of Catholic Social Thought has consistently made the point that the dominant economic system is economically unsustainable and ethically indefensible – most recently in Pope Emeritus

Benedict's social encyclical *Caritas in veritate*. At present, the prevailing model does not even pretend to aim for higher purposes. It combines the nakedly honest pursuit of power and wealth for the few with a legal licence for objectively criminal, immoral behaviour that harms the many – as exemplified by the scandals in the financial services industry. Just as the cartel capitalism that characterises global finance (and indeed other sectors) reflects an egregious culture of greed, so too the only alternative is to create a new culture of virtue and ethos by linking profit to a wider social and civic purpose and thereby serving the common good – not just the short-term interests of the few.[14]

Transforming the 'economy of exclusion' requires the recognition that contemporary capitalism combines the resurgence of the importance of inherited wealth in a period of low growth with the newly excessive wages encouraged by the climate of 'meritocratic extremism'.[15] In Britain's case, this is best illustrated by the yawning gulf between executive pay and the salaries of ordinary workers (with top-to-bottom pay ratios of around 300:1 in the FTSE 100 companies) as well as the perverse 'bonus culture' that excessively rewards risky success, mere chance or even failure. In consequence, we see both nationally and internationally the emergence of a new 'aristocracy without honour'. Its continuity both with the debased aristocracies of the various *anciens régimes* and with the new moguls of nineteenth- and twentieth-century industry reveals just how little in the long term either Keynesian-style redistribution or neo-liberal trickle-down wealth have been able to temper the inegalitarian tendencies of the capitalist market.

However, contemporary capitalism is not 'the end of history'. Just as high wage demand tends to eat into profits, so, in the end, debt demand eats into the return upon capital in general. It is quite simple: someone has to pay up sometime; debts cannot be endlessly offloaded onto more and more fictional vehicles. Therefore the resort to debt by the few in terms of securitisation and hedging, in order to shore up capital returns in the face of excessively 'easy credit' to the majority (as with consumer loans, etc.) is not sustainable indefinitely or even for very long. Thus one cannot really do without the final securitisation of abstract wealth in concrete assets, i.e. real profits and real wages derived from real production and consumption of things with use-value, understood in however generous a sense. Hence our current impasse.

THE MARGINAL UTILITY OF KEYNESIAN, MONETARIST AND 'SOCIAL MARKET' MODELS

In response to the 2008 crash, there was much talk but little action about rebalancing and diversifying the British economy. Labour, the Conservatives and the Lib Dems still subscribe to a liberal economics that underpins both Keynesian and monetarist theories and also perpetuates the political pact with capitalism. Like political liberalism, economic liberalism privileges individual rights, commercial contracts and self-interest over interpersonal relationships, mutual obligations and social benefit, without which there can be neither a vibrant democracy nor a thriving market economy that benefits all.

Economic liberalism characterises not just late nineteenth-century laissez-faire but also Keynesianism and the neo-liberal combination of monetarism with fiscal austerity that has dominated politics in Britain since 1979. All three strands share a base commitment to the presuppositions of neoclassical economics that generated the theory of 'marginalism' on the basis of utilitarian ethics.[16] The quest for maximal utility is subject to the 'law of diminishing returns' because – beyond a basic subsistence level – we get progressively less satisfaction from increased consumption of the same basic item. Linking the Marginalist revolution in economics to utilitarianism is the idea of a single flattening quantitative calculus with which we can measure the 'value' of all goods and services, as they merely provide the same kind of stimulus for our soulless organism.

Thus the unnatural leaching of the economic realm can only be secured by the dominance of large primary powers that force all to think in terms of marginal quantification, and seduce the masses to consume more and more shoddy and temporary goods and processes whose appeal will indeed soon pale – causing them to seek to earn more in order to be able to buy a new variant of the same seductive sedative. Just this logic has led to the contemporary dominance of large producers and massified consumers – to the cartel capitalism of contemporary Britain with the 'big four' banks, the 'large six' energy companies, Rupert Murdoch's media empire and various conglomerates that dominate the high street in every town or city up and down the country.

The rise of 'clone towns' is directly related to the decline of independent shopkeepers, of small- and of medium-sized enterprises (SMEs), which tend to compete in terms of ethos and excellence as opposed to low prices based on poor wages and precarious employment conditions.[17] Mid-sized companies and a diversified economy were once the foundation of Britain's global success. Today family businesses and SMEs constitute the industrial and manufacturing backbone of Germany, Europe's economic powerhouse. The German model of a 'social market economy' that combines robust growth with high employment and social cohesion is now widely seen as the best alternative to Anglo-Saxon market capitalism and 'Asian-style' state capitalism.

At its best, the 'social market' model draws on a rich tradition of political economy that includes elements of Catholic Social Teaching.[18] Against both liberalism and Marxism, this tradition has sought to fuse ideas of the common good and human flourishing with new institutions and policies in order to entangle ineluctably the operations of both state and the market in the skeins of interpersonal relationships. There is much Britain can learn from the German model, especially in relation to co-determination and workers' representation on company boards, the role of regional banks in channelling capital into different sectors and providing crucial funds for SMEs, as well as the importance of vocational training and labour market entry – as Maurice Glasman has rightly argued.[19]

However, starting in the late 1970s the Germans adopted their own version of the neo-liberal settlement by reviving the post-1919 tradition of ordo-liberalism. By contrast with Anglo-Saxon capitalist anarchy that is policed by state coercion, the ordo-liberal model views the competitive market order as the best guarantor for economic efficiency and social justice.[20] For this reason, the overriding role of the state is to enforce central regulations that create the conditions (*Rahmenbedingungen*) for free and fair competition in the marketplace, on the debatable assumption that where these prevail they will automatically tend in the direction of equity and fair reward, following Wilhelm Röpke's illusory view that the grosser tendencies to inequality within a market system were but the result of a feudal hangover.[21] (In reality, capitalism relies upon, augments and de-ethicises pre-capitalist inequalities.) The ordo-liberal version of a 'social market' combines bureaucratic state control with an amoral economy that does *not* after all 'automatically' share the proceeds of export-led growth with ordinary workers, whose wages have stagnated for much of the past 15 years. These and other market failures are partially compensated by rationalised welfare and a significant role of the state in the direction of the economy.

It is nonetheless true that the German model still differs fundamentally from Anglo-Saxon capitalism that fuses a Benthamite utilitarian ethic with Rawlsian political liberalism. By contrast, ordo-liberalism weaves together a Kantian ethics of context-less duties with Weberian rationalist (and sternly amoral) statecraft and Bismarckian welfarism: strict rules, multiple layers of bureaucracy and a Prussian desire for more efficient and quasi-military management of civilian populations thereby become ever more the order of the day.

At its core, this compound combines a large measure of Kantian formalism with a dose of Schmittian decisionism. Indeed, it dictates rules to the rest of the eurozone on the heinousness of national debt based on over-consumption. Meanwhile, it regards itself as a justified exception by virtue of its effective economic sovereignty, and so as uniquely permitted to run persistent trade surpluses sustained by domestic under-consumption which is equally damaging. For these surpluses neither benefit ordinary German workers (who have seen their real incomes stagnate or even decline over the past decade), nor are they being reinvested in the peripheral countries. Thus the current version of the German social market economy runs against the interests of European workers, including those in Germany itself.

Whereas the social market economy tends to restrict the role of the state to providing a legal framework for the supposedly neutral operation of competition in pursuit of abstract wealth, the 'civil economy' alternative which I argue for in the remainder of the chapter requires that the state assist (and by no means can it perform this task alone) in crafting a different sort of market altogether. The purpose of a 'civil market' is not to engender growth as a purely quantitative sum, but the real wealth of human flourishing in every dimension – which dictates an imperative to a different sort of 'increase'. If such real wealth be pursued, then the first aim of all economic activity must be social benefit, with acceptable rates of profit related to such benefit, both in terms of proportion and rates of successful achievement. Accordingly, state promotion of economic development must naturally include as its heart an encouraging and rewarding of virtuous behaviour – understood not as a sort of moral addendum to purely economic activity but rather as a performing well of the economic more properly understood as the securing and distributing of human consumable and renewable benefit.

This encouragement would include the rewriting of company law in such a way as to foster the internal ethos of firms and professional associations and the putting in place of rewards for businesses that deliver both social benefit and a reasonable profit. In this fashion 'business ethos' and competitiveness would by no means be abandoned, but rather be more honourably and integrally redefined and then both worked-with and worked-through. This approach departs from the liberal myth of value neutrality and the ordo-liberal myth of impartiality that are both questionably ascribed to government. Thus models of 'civil economy' have a positive vision of the state as upholding the common good and popular participation in the polity in ways that involve democratic co-determination of society and the economy.

CATHOLIC SOCIAL THOUGHT AND THE 'CIVIL ECONOMY' ALTERNATIVE

In the face of the economic and ethical crisis of global capitalism, we need to learn from those traditions that always stood outside the totalising logic of modern politics and economics. It is here that Blue Labour's fusion of the 'civil economy' tradition with Catholic Social Thought (CST) can offer an altogether different story. A powerful new story that can challenge not just the stories told by the Labour Party since 1945 and by the Conservative Party since 1979, but the story told by liberalism since the late nineteenth century. A story that could propel Blue Labour's vision to the centre of Britain's polity, the economy and society. Such a vision centres on three closely connected principles: (1) defending the market economy against both capitalism and collectivism; (2) renewing cooperative competition in the face of monopolies, cartels and the bureaucratic compensation for market failure; (3) promoting the firm against capitalist corporations and national control of the economy's 'commanding heights'.

These and other paradoxical positions are not contradictory. Rather, they challenge the prevailing liberal ideology that can only think in terms of binary oppositions such as state vs market and cognate categories. This ignores the 'radical centre' – the realm of interpersonal relationships governed by the principle of reciprocity, which can variously lead either to more cooperative or more conflictual outcomes.[22] Blue Labour is pro-business *and* pro-worker precisely because it refuses to view capital and labour as inevitably opposed but instead sees them as estranged interests that can be brought together in a negotiated settlement through new civic institutions.

Common to the 'civil economy' tradition and CST is the defence of a moral market and a democratic state against both individualism and collectivism, which combine commercial commodification with central state dominance. Here it is important to explain our first argument above that both traditions insist on the fundamental difference between the market economy and capitalism.[23] The former means the division of labour, the freedom to work and to trade and the attempt to increase wealth in the real sense of trying to improve human life – make it more comfortable, exciting, various and fulfilling. By contrast, the latter denotes a permanent process of primary accumulation through dispossession and speculation linked to the concentration of wealth in the hands of the few and the double movement of abstraction and spatialisation that does not serve genuine human needs. If capitalism is about individual self-interest backed by the collectivist state, then the 'civil economy' is about the relational pursuit of both private profit and social benefit for the sake of mutual flourishing.

But how can we do that by labouring and trading in the market? The answer is that one can be both pursuing a reasonable profit for oneself, and at the same time trying to offer to other people a social benefit – in return for a social benefit that they are offering you. One can trade in real human goals as well as in hard cash. Likewise, a contract can be a reciprocal agreement about a shared goal and value, not just the joint meeting of two entirely separate individual goals.

The second element that binds together the 'civil economy' tradition with CST is the balance between competition and cooperation. Instead of the purely individualist and competitive contract that characterises capitalism, the market economy has a price mechanism that operates to a degree cooperatively as well as competitively. So, for example, it is not assumed that you would always charge the highest possible price that the market would tolerate. You might lower that price to help your neighbour because you did not want to destroy your neighbour and it would not even make *economic* sense to do so. Now even tough-minded economists are rediscovering this idea that so-called 'shared value' makes much more economic sense than maximising profit and supplementing capitalism with exercises in 'corporate social responsibility' that are little more than window-dressing.[24] As Pope Benedict XVI put it so succinctly in *Caritas in veritate*, 'in *commercial relationships* the *principle of gratuitousness* and the logic of gift as an expression of fraternity can and must *find their place within normal economic activity*. This is a human demand at the present time, but it is also demanded by economic logic'.[25]

Alongside this fusion of contract with gift, the civil economy is a vocational economy. People serve apprenticeships, and they are conditions of entry to professional associations or guilds. Adherence to vocation and the underlying ethos is also a requirement in order to be given and to retain a licence for production and trade. These guilds try to govern quality, treatment of customers and protection of workers. They confer dignity and genuinely value craft against both market commodification and state collectivisation. All this formed the operative basis for notions of just prices, just wages, just rates of interest and the restriction of usury – principles that have shaped the tradition of Catholic Social Thought since Pope Leo XIII's encyclical *Rerum Novarum* in 1891.

The third element that is common to CST and the 'civil economy' model concerns the nature of the firm and the market. If social recognition is fundamental also for the economy, then trust is basic for the economic firm. One could say (in line with the thinking of the seventeenth-century English Levellers) that it should constitute a sort of benign semi-monopoly which prevents the emergence of malign monopoly.[26] How so? Well on the basis of naked individualism, people strive for monopoly in order to produce the shoddiest possible products, buy the materials for those products as cheaply as possible and sell them as dearly as possible. In this way they undermine competitors and bad practice drives out good. But in the case of the firm that is a 'civil enterprise' or partnership between owners, managers, workers, consumers and suppliers, good practice can drive out bad in a tendency that is actually more stable and more profitable at once. One can see this for much of the history of a firm like the John Lewis partnership but also in those credit unions, mutualised banks and building societies that survived the de-mutualisation of finance as part of the 'big bang' in 1986. There are also many new examples, including social enterprises and 'fair trade' companies.

Such firms will tend to thrive in the long term, not by driving out *all* other competitors, but rather by forcing other firms to compete in terms of quality of produce, fairness of pricing and humane treatment of workers and customers. And a crucial aspect to 'quality of produce' is the fact that *real* goods (including 'relational goods' that we can only enjoy in common) are less subject to the law of diminishing returns. Habit dulls us to the appeal of the latest mutation of the chocolate bar from slender to chunky... But habituation only discovers ever *more* in the enjoyment of fine wines, beers, and ciders, and still more in the practice of fine cuisine and in all aesthetic and reciprocally enjoyed social goods in general.

Both CST and the 'civil economy' tradition insist that we can 'crowd out' bad behaviour and 'crowd in' good behaviour by creating incentives and rewards for virtue and good habits. Where might one locate such self-sustaining and intensifying good habits? One thing we ignore is that many elements of CST – opposition to usury, the just price, the just wage, guilds, corporations, distribution of assets, the primacy of land as sacred, solidarity and subsidiarity[27] – exist in certain degrees in many parts of the world where they have been tried and successfully tested, in particular Northern Italy and large parts of Germany that have adopted a form of constitutional corporatism that is neither statist nor merely propping up the neo-liberal market. Worker participation in management, control of entry conditions to labour by voluntary associations and high-status technical education are all predicated on the relative primacy of labour with respect to capital. And labour, not capital, is the dynamic factor, because it is to do with release of personal, creative human power. This is quite different from the negative freedom of the Anglo-Saxon will – for creativity goes along with the power to judge and discern the aesthetic and social value of one's product.

Other than parts of Italy and Germany, further examples for the successful operation of 'civil economy'-type models include Austria, the Basque country, as well as the new Economies of Communion.[28] The latter operate in Brazil, Portugal and elsewhere in the southern hemisphere, bringing together businesses, social enterprise and educational institutions in deprived areas so as to create a local economy that blends private profit with social purpose. Business profits are shared between three distinct kinds of purposes that are considered to be of equal importance. One purpose is to help people in need by creating jobs in neglected areas that have been abandoned by the central state and the free market. Another purpose is to institute a 'culture of giving' grounded in human relationships of mutual support. The final purpose is to sustain and expand businesses that combine efficiency with solidarity. Here the objective is to blend investment with charitable giving and to change the market from within by locating the logic of gift-exchange at the heart of ordinary economic processes. According to some estimates, some 735 businesses have joined such 'economies of communion', with a majority in Europe (notably Italy and Portugal) but also more than 245 in the Americas. Small numbers perhaps, but a concrete example of how ethical enterprise is good business.

In conceptual terms, a more moral market would also be a *more* genuinely free market: morality need not be just an external corrective to the economic sphere, as social-democratic pathos tends to assume. Another aspect of this moralisation of the market would be the genuine sharing of risk, which would remove the relative protection against risk currently enjoyed by the investor and moneylender as compared with both employees and consumers. But if the economics of egoism do not work for the firm, then it turns out that they do not work at any level whatsoever.

POLITICAL ECONOMY OF VIRTUE: SOME BLUE LABOUR POLICY IDEAS

It could be objected that in the aftermath of the crisis, no transformation is possible because of the sheer debt burden. The latter means we must ruthlessly retrench social provision, whilst withdrawing all restraints on the very market systems that created the recession. To this extent the objection is not wrong: austerity is a reality. The state of public finances and household debt is not acceptable. But this problem is precisely the opportunity to change things and to shape a new, fairer economic model. The post-crisis situation provides a space in which to transform both the operation of the global market and the central state. Blue Labour's blending of CST with the 'civil economy' tradition can offer a post-liberal political economy.

Above all, Blue Labour's 'civil economy' alternative refuses the logic of debt that characterises monetarist and Keynesian approaches, which merely differ on the relative balance of private vs public debts. Since the 1990s, Britain has witnessed a massive transfer of debt from the public sector to private households as a result of keeping wages stagnant and creating perverse incentives for ever-higher personal debts (zero-deposit mortgages, consumer loans, etc.). Neo-liberal austerity may reduce the budget deficit but it undermines the productive economy by slashing capital spending and failing to diversify away from finance – all of which actually depresses growth and thereby increases both public and private debt over time. Crucially, this treats debt as absolute and in some sense primary vis-à-vis assets, and it also privileges the interests of creditors over those of debtors. In this manner, the logic of neo-liberal austerity is of a piece with the separation of profit and risk between institutional investors and managers, on the one hand, and customers and employees, on the other hand.

By contrast, CST and the 'civil economy' model view debt in more relational terms and argue for models whereby unsustainable debt is either partially forgiven or converted into equity. In this manner, both profit and risk are shared more equitably among all the stakeholders: lenders and borrowers, investors and owners, shareholders and managers as well as employers and employees, producers and consumers and suppliers and sellers. Key to this is to create a genuine value chain with a virtuous circle of competition in both excellence and efficiency. That, in turn, also requires regional investment banks and a whole transformation of corporate governance. If implemented, we would begin to shift the economy away from an obsession with short-term results towards the securing of long-term interest and shared prosperity.

Moreover, Blue Labour's 'civil economy' alternative would address deficient demand not simply by either printing money (to offer cash handouts to the population) or by financing massive infrastructure projects from the centre. Instead, the economically more sustainable and ethically more effective option is to promote fair wages and just prices. That would include not only creating 'living wage' cities and regions, but also establishing a link between salary increases and productivity growth. That necessitates investment in vocational training and innovation, including Will Hutton's idea of a new public 'trust' for the pooling of technological knowledge to replace the current patenting system which favours large private corporations over small- and medium-sized businesses and social enterprise.[29] The argument that globalisation requires a cost 'race to the bottom' is economically and ethically non-sense, as developed economies will never be able to compete with low-wage countries such as Vietnam and Cambodia. On the contrary, the only route towards sustainable, high growth is to compete in both excellence (quality) and ethos.

As the first 'civil economist' Antonio Genovesi (a near-contemporary of Adam Smith's) showed in his seminal *Lectures on Civil Economy*, what matters is not the absolute cost of labour or the relation between foreign and domestic production of goods.[30] Rather, what matters is who you share your labour market with. Paying higher prices for locally produced goods not only encourages domestic manufacturing, industry and a greater division of labour within one's polity. Since traders are interconnected, it also raises real wages in all trades from agriculture and manufacturing upwards, promoting both higher productivity and greater justice. In this manner, we can realign fair wages with just prices and defend the interests of all stakeholders, including workers, suppliers and consumers (not just managers, shareholders and lenders) – as argued by the Catholic priest John Ryan who coined the term 'living wage'.[31]

Furthermore, the 'civil economy' alternative would break the over-reliance on unproductive finance by lining a national network of investment banks (constrained to lend within cities, regions and sectors, as Glasman has suggested) to a corresponding structure of professional associations that can offer vocational training and guarantee minimum standards of quality and ethos. Membership in sector-wide 'meta-guilds' would be a necessary condition for getting a professional licence to produce and trade, but employers and employees would be free to choose from among the various associations that make up the guild (to avoid a situation of monopoly). This would also diversify the range and kind of employers' associations and trade unions (both of which currently suffer from self-serving bosses and barons who neglect the interests of their ordinary members). The natural institution to bring together local councils, regional/sectoral banks and professional associations is the guild hall, which would represent democracy vocational at the local level in every city and every county – just like the city and the county hall would represent democracy locational (to extend Glasman's account of the two houses of Parliament).

Finally, the 'civil economy' alternative promotes virtuous businesses by rewriting company law to make social purpose and profit-sharing conditions for company licence (as John Milbank and I have suggested elsewhere)[32] and also by replacing the current incentive structure with a new system of awards and rewards. At present, we have a system that incentivises the privatisation of profit, the nationalisation of losses and the socialisation of risk. A 'virtue economy' can mutualise profit, loss and risk by fostering greater regard for shared interest, value and relational goods and also by providing proper reward for virtuous behaviour. Our current model is based on two elements: first, individual incentives that influence *ex ante* motivation – whether in the form of private sector performance-related pay and bonuses or in the form of public sector policies 'nudging' our behaviour towards greater efficiency and happiness; second, public prizes to acknowledge a specific contribution to society (including military medals and civilian awards for achievements in the arts, sciences, sport and public affairs).

The problem of the underlying logic is fivefold: (1) it sunders *ex ante* motivation from *ex post* outcomes, which leads to the perverse situation of rewarding failure (bonus payments and golden handshakes even in case of bankruptcy); (2) it privileges private self-interest and views social benefit merely in terms of indirect, unintended outcomes; (3) it designs incentives purely in extrinsic ways and reduces the question of reward to a principal–agent relation; (4) it separates monetary from non-monetary rewards, which divorces material value from symbolic worth; (5) it prioritises the individual and the collective over association, which perpetuates the primacy of states and markets over intermediary institutions.

To reward virtuous behaviour and promote an economy of both honour and regard, we need a system that breaks with the logic of private profit, national loss and socialised risk. Here the crucial point is that virtue is pursued for an intrinsic reason, and not for the sake of personal reward. Yet at the same time, virtuous behaviour may yield pleasure or even profit while also making a contribution to the common good. Thus there are good ethical *and* economic reasons for practising virtues. In turn, this means that virtue – the promotion of excellence and ethos – is part of a properly functioning market economy that produces prosperity for all. Thus, the government – in close coordination with employers' associations and trade unions – could rewrite legislation on contracts to promote virtuous behaviour by means of both awards and rewards. Awards refer to a public recognition of virtuous practices, i.e. an acknowledgement of intrinsically good activities that are *not* an expected (though hoped-for) counter-action within a contractual exchange where recompenses have been fixed beforehand. By contrast, rewards denote a public recompense for virtuous behaviour that blends self-interest with social benefit, including the possibility of a monetary recompense (e.g. tax breaks, preferential treatment in terms of government procurement or public service tenders, etc.).

Crucially, virtuous businesses could be given membership in certain professional associations that uphold more stringent standards, which could in the long term give a market advantage – thereby encouraging membership based on a competition in quality, excellence and ethos. Such a form of recognition combines immaterial awards with material rewards and overcomes the false separation of contract from gift that gave rise to the predatory economy of modern capitalism.[33] All these policy ideas reflect Blue Labour's paradoxical stance of being pro-business and pro-worker, and it charts a radically transformative middle path between the status quo, timid reform and a wholesale revolution that all go against the best English and British traditions.

NOTES

1. On the notion of 'moral economy' in English and British history, see E. P. Thompson, 'The moral economy of the English crowd in the 18th century', *Past & Present* 50 (1971), pp. 76–136; *idem*, *Customs in Common: Studies in Traditional Popular Culture* (London: Merlin Press, 1991).
2. Karl Polanyi, *The Great Transformation: The Political and Economic Origins of Our Time* (Boston: Beacon Press, 2001 [orig. pub. 1944]).
3. For the most concise statement of the 'civil economy' tradition, see Luigino Bruni and Stefano Zamagni, *Civil Economy: Efficiency, Equity, Public Happiness* (Bern: Peter Lang, 2007). On Catholic Social Thought and the 'civil economy' model, see Adrian Pabst (ed.), *The Crisis of Global Capitalism: Pope Benedict XVI's Social Encyclical and the Future of Political Economy* (Eugene, OR: Wipf & Stock, 2011).
4. Adam Smith, *Inquiry into the Nature and Causes of the Wealth of Nations* (London: Random Century, 1910 [orig. pub. 1776]), Book I, ch. 9.
5. For a vivid account, see Michael Lewis, *Flash Boys: A Wall Street Revolt* (New York: W. W. Norton & Company, 2014).
6. Maurice Glasman, 'A tale of two cities', Independent Labour Publications, 13 September 2012. Available at http://www.independen-

tlabour.org.uk/main/2012/09/13/a-tale-of-two-cities/ (accessed on 25 August 2014).

7. 'An anatomy of economic inequality in the UK', Report of the National Equality Panel (London: Centre for Analysis of Social Exclusion, London School of Economics and Political Science, 2010). Available at http://webarchive.nationalarchives.gov.uk/20100212235759/http:/www.equalities.gov.uk/pdf/NEP%20Report%20bookmarkedfinal.pdf (accessed on 25 August 2014).
8. Colin Crouch, 'Privatised Keynesianism: An unacknowledged policy regime', *The British Journal of Politics & International Relations* 11 (2009), pp. 382–99.
9. Jacob S. Hacker, *The Great Risk Shift: The New Economic Insecurity and the Decline of the American Dream*, rev. ed. (New York: Oxford University Press, 2008).
10. Massimo Florio, *The Great Divestiture: Evaluating the Welfare Impact of the British Privatizations 1979–1997*, new ed. (Cambridge, MA: MIT Press, 2006).
11. Robert Ford and Matthew J. Goodwin, *Revolt on the Right: Explaining Support for the Radical Right in Britain* (London: Routledge, 2014), pp. 143–82.
12. Thomas Piketty, *Le capital au XXI^{e} siècle* (Paris: Ed. Seuil, 2013), translated as *Capital in the Twenty-First Century*, tr. Arthur Goldhammer (Cambridge, MA: Harvard University Press, 2014). Piketty's analysis is key, if incomplete in crucial ways, and his proposed solutions are neither realistic nor desirable. See John Milbank and Adrian Pabst 'Capitalism in question: Thomas Piketty and the crisis of inequality', *ABC Religion & Ethics*, 6 June 2014. Available at http://www.abc.net.au/religion/articles/2014/06/05/4019629.htm (accessed on 25 August 2014).
13. Pope Francis, *Evangelii Gaudium*, Rome, 24 November 2013. Available at http://w2.vatican.va/content/francesco/en/apost_exhortations/documents/papa-francesco_esortazione-ap_20131124_evangelii-gaudium.html, chap. 2 (accessed on 25 August 2014).
14. For concrete policy ideas on how to transform the prevailing culture of short-term profit maximisation with a new culture of long-term prosperity, see the ResPublica report 'Virtuous banking: placing ethos and purpose at the heart of finance'. Available at http://respublica.org.uk/documents/ueq_Virtuous%20Banking%20Final%20new.pdf (accessed on 25 August 2014).
15. Piketty, *Le capital au XXI^{e} siècle*, pp. 47–57, 206–16, 259–74, 368–70, 468–71, 500–5, 596–9, 642–65, 701–14, 740–4, 941–50.
16. Ernesto Screpanti and Stefano Zamagni, *An Outline of the History of Economic Thought* (Oxford: Oxford University Press, 2005), pp. 163–95.

17. On 'clone towns', see the work of the New Economics Foundation, in particular Andrew Simms, *Tescopoly: How One Shop Came Out on Top and Why it Matters* (London: Constable, 2007).
18. Wilhelm Röpke, *The Social Crisis of our Times*, tr. William F. Campbell (Brunswick, NJ: Transaction, 2009).
19. Maurice Glasman, *Unnecessary Suffering: Management, Markets and the Liquidation of Solidarity* (London: Verso, 1996); M. Glasman, 'Politics, employment policies and the young generation', in A. Quadrio Curzio and G. Marseguerra (eds), *Rethinking Solidarity for Employment: The Challenges of the Twenty-first Century* (Vatican City: Libreria Editrice Vaticana, 2014), pp. 255–270.
20. See, inter alia, Alan Peacock, Alan and Hans Willgerodt (eds), *Germany's Social Market Economy: Origins and Evolution* (London: Macmillan, 1989).
21. John Milbank, 'The real third way: for a new metanarrative of capital and the associationist alternative', in A. Pabst (ed.), *The Crisis of Global Capitalism*, pp. 27–70.
22. Of course to promote reciprocity and interpersonal relationships is to risk being cheated upon, ripped off, exploited or otherwise being wounded by others. See Luigino Bruni, *The Wound and the Blessing: Economics, Relationships and Happiness*, tr. N. Michael Brennan (New York: New City Press, 2007). However, the liberal claim that we can insulate ourselves from such hurt by the impersonal forces of the market and the state merely reinforces a culture of mutual suspicion in which contract and law can become instruments of injustice.
23. On the difference between capitalism and the market economy, see Polanyi, *The Great Transformation*; Fernand Braudel, *Civilisation matérielle, économie et capitalisme, XVe–XVIIIe siècle*, 3 vols (Paris: Ed. Armand Colin, 1979); Martha C. Howell, *Commerce Before Capitalism in Europe, 1300–1600* (Cambridge: Cambridge University Press, 2010).
24. Michael E. Porter and Mark R. Crane, 'Creating shared value', *Harvard Business Review*, Jan.–Feb. 2011, pp. 2–17.
25. Pope Benedict XVI, *Caritas in veritate* (Charity in Truth), 7 July 2009. Available at http://www.vatican.va/holy_father/benedict_xvi/encyclicals/documents/hf_ben-xvi_enc_20090629_caritas-in-veritate_en.html, c. 36 (original italics) (accessed on 25 August 2014).
26. Antony Black, *Guilds and Civil Society in European Political Thought from the Twelfth Century to the Present* (London: Methuen, 1984), pp. 126–7.
27. See, inter alia, Pontifical Council for Justice and Peace, *Compendium of the Social Doctrine of the Church* (Vatican: Libreria Editrice Vaticana,

2004); Daniel K. Finn (ed.), *The True Wealth of Nations: Catholic Social Thought and Economic Life* (Oxford: Oxford University Press, 2010).

28. Lorna Gold, *New Financial Horizons: The Emergence of an Economy of Communion* (New York: New City Press, 2010).
29. Will Hutton, 'Britain's future lies in a culture of open and vigorous innovation', *The Observer*, 14 October 2012.
30. Antonio Genovesi, *Lezioni di commercio o sia di economía civile*, ed. F. Dal Degan (Milan: Vita e Pensiero, 2013); see also Adrian Pabst, 'Political economy of virtue: Genovesi's 'civil economy' alternative to modern economic thought', *International Review of Economics* 62 (2015), forthcoming.
31. John A. Ryan, *A Living Wage: Its Ethical and Economic Aspects*, rev. ed. (New York: Macmillan, 1914 [orig. pub. 1906]); and *Distributive Justice: The Right and Wrong of Our Present Distribution of Wealth*, rev. ed. (New York: Macmillan, 1927 [orig. pub. 1916]).
32. John Milbank and Adrian Pabst, 'The "Civil Economy" alternative', in *idem., The Politics of Virtue: Post-liberalism and the Human Future*, chap. 4, forthcoming – on which this chapter draws.
33. See Avner Offer, 'Between the gift and the market: the economy of regard', *Economic History Review* 50/3 (1997): 450–76; Geoffrey Brennan and Philip Pettit, *The Economy of Esteem* (Oxford: Oxford University Press, 2004).