

THANK-OFFERING TO BRITAIN FUND LECTURE

## Prosperity, Civility and Liberty: Can We Square the Circle?

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THE JEWISH REFUGEES whose generous thank-offering to Britain led along with a research fellowship to this series of lectures, knew what they were grateful for. It was their survival, of course, but it was more, a new life in a free and civil country. Britain did not have 'the best constitution ever written' (as that of Weimar Germany has been described, which Hitler tore up in one short session of the Reichstag on 23 March 1933); Britain did — and does — not have a written constitution at all; yet no one who came to this country as a refugee from persecution in the 1930s ever doubted that he or she was safe from arbitrary rule and protected by institutions as well as deeply engrained habits which an unbroken tradition had made more reliable than any basic law or constitutional court can guarantee.

I came to this country not as a refugee but as one who wanted to make this his home, and thus I have, in a different way, every reason to be grateful to those who received me with such generosity. What is it that attracted a German who had spent more than half of his adult life outside Germany when he came in 1974 but had also been deeply involved in German academic and public affairs? Liberty certainly had something to do with it. There is a quality of freedom which is more than elections and parliamentary debates and incorruptible judges and the chance to write a letter to an editor or even to stand on a crate at

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Speakers' Corner and harangue the bystanders. I suppose it has something to do with the absence of the ominous black cloud of doubt, even fear, which overshadows so much of life in other countries because it reminds them of violent storms of the past. It is the track record of the country and notably the sense that whatever illiberal sentiments creep into debate and behaviour, at the end of the day people will not allow the destruction of the liberal order to happen.

Then there is something else. Even the title of this lecture — to say nothing of my other publications — betrays my penchant for the family of words, indeed of ideas and institutions, associated with the city: citizenship, civilisation, civic sense and civic virtues, civil society, civility. Curiously, these words are not often used in British parlance. I remember a party leader saying to me: 'Unlike President Mitterrand I cannot go on television and start by addressing my audience as "Citizens and . . . and what, anyway?"' (I later discovered in the *Oxford English Dictionary* that there is actually an obsolete word, 'citizette.') Civil society is a concept more often used in the post-communist countries of East Central Europe than here. Perhaps awareness for the values of civilised living in civic communities has grown in recent years; there is now a Citizenship Trust; civic sense is mobilised for initiatives notably at the local level; civil society may yet come to compete with the stakeholder society for the hearts and minds of voters. Could it be that the words become more current as the values behind them seem to retreat? Is the discovery of citizenship, of civil society, of civic sense and civil behaviour a response to the experience of disintegration, to widespread anti-social behaviour and to the crude competition between individuals embodied in the 'philosophy' of *enrichissez-vous, messieurs?*

You will notice that I have not yet mentioned prosperity; yet in some ways it is at the heart of my argument. To be sure, many recent refugees have come to Britain for its relative prosperity as much as its liberty and civility. But while wealth-creation has preoccupied businessmen and politicians in this country for over a century now — ever since those obsessed with league tables observed that Britain was about to be overtaken by others — somehow not much was done about it. Beveridge, even Keynes, were the heroes and both were as concerned about social cohesion as about wealth creation. Britain may have started it all, with the industrial revolution, but having done so it soon indulged in the dream of an 'English Culture' that can survive the 'decline of the industrial spirit' and in this way even represents a 'future that works'

(to allude to the titles of two then much-quoted books of the 1970s by Martin Wiener and by Robert Nossiter).

The last fifteen years have swept such nostalgia away. Two great changes happened, not out of the blue, nor only through the deliberate action of governments, yet surprisingly, and certainly reinforced by political leaders. One is a great leap into modernity at the expense of all remaining traditional institutions; the other is a profound change of language, and more, from that of public-spirited, and often public-sector institutions, to that of business. Suddenly, the much-maligned and arguably least successful profession in the country, that of businessmen and managers, was given prime position and direct responsibility even for public institutions, hospitals and prisons, schools and research councils. In fact, both transformations, that of modernity and that of economism can be seen as the late, the very late, triumph of the middle classes in a country which was dominated by upper-class and working-class values longer than any comparable society.

The implications of this change are vast, though I cannot dwell on them in the present context. When I wrote my little popular tract *On Britain* fifteen years ago, I pointed to the ambivalence of social values and structures. Strengths in one respect are weaknesses in another, and vice versa. Britain's civility may not have been good for business, but the exclusive emphasis on prosperity has dented a great tradition of civility. Do we have to make a choice? Insofar as lectures have a purpose beyond edification and entertainment, this one is intended to explore ways of having the best of all worlds, of squaring the circle of prosperity, civility and liberty.

This is not a British problem alone, though here it arises from a peculiar angle. The problem is as world-wide as the process of economic internationalisation which has followed the information revolution and the globalisation of financial markets. When I first wrote about it, the resulting paper was presented to a fringe meeting of the Copenhagen Summit on Social Development. A translated version of that paper has been in the top six of the Italian bestseller list—non-fiction, I should add—for more than six months. At the same time the founder of the American Communitarian movement, Amitai Etzioni, gave it prominence in his journal *The Responsive Community*. The thesis also formed the background of the work of the Commission on Wealth Creation and Social Cohesion which I had the pleasure to chair. Its Report was recently debated in the House of Lords, and I have spoken about it on more than one occasion.

The core thesis is simple. Internationalised modern economies pose a social and political dilemma. In free societies, the search for competitiveness seems to damage social cohesion. If, on the other hand, such free societies choose to give social cohesion a higher priority, their competitiveness and with it their prosperity are at risk. Some countries, or at least their leaders, insist on competitiveness but do not want to sacrifice social cohesion and seem to achieve this by restricting political freedom. More and more people think that you can have two but not all three: prosperity and cohesion without freedom; prosperity and freedom without civility; civility and freedom without prosperity. What would need to be done to square the circle?

The thesis sounds abstract but is in fact very close to the experience of many. In fact, the rest of my lecture is the tale of three cities, in different parts of the world, admittedly unequal in size but each in its way a part of the story that needs to be told. To the three I shall then add a sketch of a fourth, not exactly a city on the hill, but one that approximates the unachievable and nearly squares the circle of prosperity, civility and liberty.

The first city is a small town in the Middle West of the United States of America. Twenty years ago, the engine manufacturer was at the heart of the lives of its 40,000 or so inhabitants. Most of them were directly or indirectly employed by the company. The local hospital thrived on company-supported health schemes. The local college benefited from direct donations and of course the ability of well-paid parents to pay fees for their children's studies. Famous architects were invited by the company to design public buildings. Sports teams and amateur orchestras, school trips and retirement parties and much else, including a well-known French chef to please the palates of visitors, all owed their wherewithal to the company.

Then the winds of internationalisation hit the happy township with gale force. In two waves, several thousand employees were made redundant. Many of them found other jobs—we are, one must remember, in America—but these were, and are jobs at half the previous income and without any of the old perks. The hospital closed most of its specialist departments; the college lost its standing with its distinguished teachers; what is left of fun and games is no longer public and communal but has withdrawn to the virtual reality of television. The company is still competitive and successful, but the town is a sad shadow of its former self.

The example may sound a little too neat to be true; my friend, the

chairman and chief executive of the company, would probably say that I overstated the change; moreover, the example is that of a one-factory town, and such towns have always been vulnerable. Also, American examples are unique in that they are set in a cultural environment unlike others, unlike in particular that of Britain. The capacity for job creation is but one relevant difference; the strength of civil society, and corresponding weakness of central government, is another. Yet when all is said and done, the city tells the Anglo-American story of the last fifteen years.

Turning to Britain, the emphasis of public policy was on creating conditions of competitive growth and encouraging entrepreneurs from both home and abroad to make use of this environment. The contribution of public policy to this end followed almost IMF style recipes (or were these recipes borrowed from the American experience in the first place?): (relatively) low direct taxation, (relatively) low non-wage labour cost, greater labour market flexibility, low entry cost for new companies, de-regulation, privatisation of state enterprises, in a word, the withdrawal of the State from the economic playing field. This environment allowed companies to become leaner and perhaps fitter; it opened the door to experimentation with allegedly optimal company sizes; it encouraged inward investment. Compared with those who took another route, the performance of the British economy in these fifteen years may not have been astounding; there certainly was no economic miracle; but Britain did better than was to be expected on past performance.

All this, moreover, was achieved under the auspices of elected governments and with the support of Parliament. Whatever the constitutional issues which have become a part of public debate may be, and however much Charter 88 and others may worry about civil liberties and democratic institutions, there can be little doubt that the constitution of liberty is basically alive and well in Britain.

If there is another side to this picture, it is social, and this is serious. Its most telling expression is the fact that in the mid-1990s, GNP growth is no longer an indicator of people's well-being. While governments still triumphantly produce macro-economic statistics, voters feel that something has gone wrong, or at least not gone right. The very concept of wealth has become an issue. (It has been that in the United States for some time, at least since Robert Reich, President Clinton's Labour Secretary, put it into the stark words that for the first time in American history parents have to tell their children that they will not be

as well off as they, the parents, are). Wealth, in the full sense of Adam Smith's use of the word, or better still, well-being is obviously not a direct result of competitiveness.

The reasons for this disjunction are many. One is that the class which expected to be the harbinger of a better future, the middle class, is the main victim of the new competitiveness thrust. From (very) early retirement, if not outright redundancy, to a flagging housing market, middle class disenchantment has many causes and facets. They even include the reduced services of the Welfare State which paradoxically—some would say, perversely—always benefited the middle classes as much as the poor. Another reason why competitiveness does not produce happiness is the weakening of stakeholder relationships in favour of the cruder cash nexus of shareholders who can buy and sell their interest all too easily. The diminishing role of local communities tells the story most dramatically.

Looking at the wider society, the most serious effect of a leaner and fitter economy is the new exclusion of large social groups. This takes a number of forms. One is, lateral exclusion, or with a more drastic word, xenophobia. Frightened citizens do not like strangers. Another form of exclusion is the new poverty. It is now widely recognised that flexibility, especially labour market flexibility, has side-effects. It may well be that the most flexible economies create more jobs than the rigid ones, but a significant number of these jobs are so low-paid that they leave their holders unable to sustain a decent standard of living. The figures produced by the Rowntree Trust about growing inequalities are most significant with respect to the absolute position of poverty among the lowest paid twenty per cent. Then there is the underclass of those who have lost all hope of being a part of the labour market, the political community, civil society. Some say that as many as ten per cent have dropped to this status. The figure of twenty plus ten would tally with the 40:30:30 society described by Will Hutton in his book, *The State We're In*: 40 per cent fairly secure middle class, 30 per cent in a precarious and shifting condition, 30 per cent excluded in one way or another.

The precise figures are important but not the main point of the argument. Nor is the threat of revolution the point. The excluded will not start a new revolutionary movement. The problem is, in the most serious sense of the word, moral. A society which claims to be civil but tolerates the exclusion of significant numbers from its opportunities, has betrayed the values on which it is based. The citizens of such a society cannot be surprised if its values are flouted not just by the excluded

themselves but by anyone who sees what is going on, and notably by the young. This is where the link between social exclusion and threats to law and order becomes apparent. It is not that the long-term unemployed let alone the single mothers of the underclass are the main perpetrators of crime (their main offence is for the most part to defraud an ineffectual social security system); the point is that the existence of such groups encourages others to ignore and then violate the civic values which are apparently no longer taken seriously.

The combination of greedy individualism and new exclusion is a high price to pay for macro-economic success in a free society. Our major partners in Continental Europe are as yet not ready to pay the price. They cling to what is variously called, *économie sociale* or *soziale Marktwirtschaft*, to a social market economy. In France or Germany or Italy, as in Britain, the constitution of liberty is an accepted framework. Democracy and the rule of law may not be as firmly anchored as in the Anglo-Saxon world, and may even have another meaning for many, but they are by and large beyond dispute. The difference is in the relative weight given to economic and social factors of well-being.

Another city comes to mind, somewhat larger than the one-factory town which I described earlier, and in Italy. While not a one-factory town, the beautiful place is basically a one-industry town. One way or another, everyone is connected with food-processing, including the production of machines for the purpose. The town is closely linked to its surrounding countryside where much of the food for processing is produced. It is justly proud of the quality of its products. But more, its economic community is as close-knit as its social and political texture. If any one of the dozens of small and medium-sized companies is in trouble, the others will help. Enthusiasm for the local football club is general, especially since it has become a contender for the national championship. The local radio and television station, as well as the leading newspaper, are owned by the industrialists' association. The companies also sustain a theatre and a gallery. People naturally like good eating for which the city is famous. It is indeed the envy of many.

And competitiveness? Global markets? Just recently, a trace of fear has crept into the European city. At first, confident producers would not believe that cheaper 'imitation' products could sweep the market; but when the first supermarket began to sell them outside the city boundaries, they began to wonder. Of course they believe that their tomato concentrate is better than tomato ketchup (of which there may soon be a

synthetic variety); but young people will insist on covering everything they eat in cheap ketchup and will not ever buy what our civic entrepreneurs regard as the real thing. Moreover, contrary to their peers in the French province of Champagne, they failed to patent the name of the city as a brand name; suddenly, 'their' products appear from all over the European Union and beyond. Even the largest of the many companies begins to worry. And so this apparently healthy and happy town runs into the problems which we can now observe all over the European continent.

The profound differences in economic culture between Britain and its European partners are often underrated. Despite the fact that the winds of globalisation are common to all, these differences are unlikely to go away. Companies on the continent are for the most part not simply profit machines for shareholders; even in published statistics, turnover is regarded as more significant than profit or market capitalisation. Companies are even ranked by the number of people they employ, the implication being that high employment marks a positive contribution to the social economy. As a result—or as a part of the same syndrome—people saw no particular problem in high taxes, high non-wage labour cost, a well-financed Welfare State, low labour mobility. For many, a pay-as-you-go pension system, or as Germans prefer to call it, a 'contract between generations' is maintained by which today's workers pay for yesterday's and pensions are therefore not funded. This may well be the key difference between economic cultures, and also the one which raises the largest questions at a time at which the working population is shrinking and the retired population is growing apace.

For not only is the second city of my tale beginning to worry, the entire social market economy of Continental Europe is under strain. Sweden's transformation in recent years has been commented on by many. A country which used to have no unemployment and a cradle-to-grave Welfare State (as well as prohibitive taxes which drove many of the most successful abroad) has undergone a dramatic transformation. In fact, this was, and is, traumatic as much as dramatic, for it touches the core of Sweden's self-image and national pride. Many think that Germany will have to go down the same road. There are certainly indications: large-scale redundancies in major companies; a serious debate about the attractiveness, or otherwise, of Germany for business; massive cuts in public expenditure; increasing individual contributions to Welfare State services. The list is long, and familiar, and the issues dominate public and political debate.

However, there is little reason for *Schadenfreude* on the part of those who have been through the purgatory of competitiveness already. The main themes of socio-economic policy-making are very different in Britain and in, say, Germany. (It must be noted in passing that this does not exactly help European integration.) But it would be wrong to assume that as each country tackles its own perils, we are all eventually moving to the same destination. Economic cultures run as deep as the cultures of language and literature, or of governance. There may be a certain degree of convergence but despite exposure to the same winds of internationalisation, pension systems, levels of taxation, welfare arrangements, the role of stakeholders, of local communities, and even the structure of firms will remain very different in the English-speaking countries from those who speak French or German or Italian or Spanish. It may be that the new democracies of East Central Europe will find that their dream of emulating the social market economies cannot be realised for lack of resources, and that they will have to move therefore in the Anglo-Saxon direction. One country, the Czech Republic, has already done so. In any case, a true convergence of economic culture in Europe is very unlikely for a long time to come.

East Central Europe of course is not just faced with the alternative of individualistic Anglo-Saxon competitiveness and the social market economy. There is a third mode of combining economic, social and political factors, a third city as it were. It is beyond doubt competitive, indeed it is often held up as a model for economic success in internationalising markets. But competitiveness and increasing prosperity is not all. The third city — larger than the other two, and in Asia — also places great emphasis on social cohesion. It actually has public policies explicitly designed 'to promote social cohesiveness'. One central element of these policies is a gigantic organisation which provides people with housing. More than eighty per cent of the population come under its control. People have to buy their apartments and cannot sell them without permission. Moreover, the housing agency places them in estates in which the various ethnic groups of the city are represented in proportion to their strength. Once resident in their housing estate people assume a number of obligations to look after others, and they are looked after themselves in case of need.

The organisation of housing is only a part of a comprehensive system of state-backed social control. Young people are guided through the educational system in accordance with their assessed abilities. If they make it to a university degree they are even likely to be sent out to

sea for cruises on ‘marriage ships’ with graduates of the opposite sex, in the expectation that they will breed a new generation of graduates. (Echoes of the eugenics debate among Fabians and other early social engineers a century ago?) The State determines not only in general terms but often in detail how people are to behave. They must not chew gum or throw away cigarette ends for example. Such laws are enforced rigorously. Even minor trespasses are punished by caning or prison sentences.

And of course this paradise without crime or unemployment, without eccentrics or dissidents is also a place in which political life is strictly regulated. The local papers report much about the evils of the rest of the world but only government pronouncements from home. Foreign papers are allowed in as long as they are compliant; if not, they are banned or sued. Those locals who tried to stand for opposition parties—and in two or three cases were actually elected to parliament—soon found their activities severely curtailed, if not cut short by trumped-up charges which ended them in prison.

This is the ‘Asia that can say no’ (to quote the prime minister of a State neighbouring on my third city). It is competitive and cohesive but certainly not free. It is, in the terms of political science, authoritarian. Authoritarian does not mean totalitarian; as long as people do their own thing, abide by the laws and abstain from meddling in public affairs, they are left unmolested. The temptation of such authoritarianism is not confined to Asia. I mentioned East Central Europe. The return of former communists to political power is at least in part due to the nostalgia of elderly voters for the orderly world of late communism with its full employment, institutionalised child care, secure if modest housing at low rents, complete welfare services, and the famous ‘niches’ of privacy in which people were allowed to enjoy their ‘inner freedom’ as long as they did not produce *samizdat* papers or support priests who refused to become poodles of the *nomenklatura*.

What is more, the temptation of authoritarianism is now widespread in the West. I have a growing file of utterances by Western businessmen and politicians, intellectuals and newspaper tycoons, which sound for example like this:

Singapore is not liberal but clean and free of drug addicts. Not so long ago it was an impoverished, exploited colony with hunger, disease and other problems. Now people find themselves in three-bedroom apartments, with jobs and well-cleaned streets. Countries like Singapore take the right way forward.

Those who offered their thanks to Britain when it gave them shelter will remember similar descriptions of Nazi Germany at the time of the 1936 Olympics, and of course Mussolini's promise to make Italian trains run on time. This is not to say that authoritarianism is bound to lead to totalitarianism. On the contrary, while totalitarianism is inherently catastrophic and therefore unstable, authoritarian government can last for a long time. A new authoritarianism may indeed be the main challenge to liberal democracy in the decades to come. If we are prosperous and secure, why worry about liberty?

The answer is that liberty is untidy and complex, it is full of disunity and conflict, it demands activity rather than allowing passive withdrawal, but it is the only condition which enables us to be our best selves and enhance the life chances of all. Karl Popper has put this well in his peroration on the open society: 'If we wish to remain human,' he said, 'we must go on into the unknown, the uncertain and insecure, using what reason we may have to plan for both security *and* freedom.' Long before Popper, Immanuel Kant in his 'Idea for a Universal History with Cosmopolitan Intent' had mocked man's dream of an Arcadia in which 'people, good-natured like the sheep in their pastures, would give their existence no greater value than their animal flocks have.' Fortunately (thus Kant) 'nature' has endowed humans with contradictions, and notably with that of 'unsocial sociability'. Humans want peace and quiet but nature knows better what is good for them: it wants conflict and change. This is what liberty means. How do we bring it about? By creating, says Kant, a 'civil society within the rule of law.'

This is a British Academy lecture, not a parliamentary speech or even an address to a fringe meeting of the United Nations. I feel free, therefore, to end with principles rather than policy prescriptions. Not that it would be difficult to present such prescriptions. They would range from incentives for long-term investment to reforms of the Welfare State, from a new approach to education based on individual learning accounts to an improvement of economic reporting by a wealth audit. However, behind such specific policy proposals there is the search for an application of Kant's vision and Popper's moral imperative to contemporary Europe, and to Britain within it.

The key to squaring the circle is strengthening, and in part rebuilding civil society. This is notably the task in Britain where much has been done to enhance economic competitiveness, and democratic institutions are still strong. By civil society I mean that texture of our lives with others which does not need governments to sustain it because it is

created by grass-root initiatives. Tocqueville called it democracy, though the institutional connotation is misleading. James Madison at the time of the foundation of democracy in America praised civil society as a guarantee of liberty because by being 'broken into so many parts, interests and classes of citizens', it curbs even majority rule. No word describes better the 'parts, interests and classes of citizens' which civil society is about than *association*. The creative chaos of associations coalesces as if guided by an invisible hand into the setting in which the greatest number find the greatest life chances. In economic terms, the market describes that setting; in political terms, it is the public. Nowadays, both are mediated in numerous ways; the days of simple markets, or indeed of the public assembling outside the town hall for debate and decision, are almost gone. But the principles of both are still valid. The market and the public are where the associations of civil society interact.

In other words, there is such a thing as society. What is more, there has to be if we do not want to end up in a state of anomy. The word 'association' also indicates the necessary element of cohesion in civil society. Apart from the indispensable framework of the rule of law, the associations of civil society represent values of trust and co-operation, and of inclusion. A civil society is a society of citizens who have rights and accept obligations, and who behave in a civil and civilised manner towards each other. It is a society which tries to make sure that no one is excluded, and which offers its members a sense of belonging as well as a constitution of liberty.

This is no Utopia. For a century after the Civil War the United States of America was certainly driven by the aspiration to be such a civil society. The same can be said for the United Kingdom during the larger part of the twentieth century. In Canada and Australia, but also in Sweden and Switzerland, other versions of achieving the same aspirations could be found. For a while after the Second World War, the entire First World was in these terms quite a good place to live in. The trouble is that so many of these statements now have to be made in the past tense. Somehow or other, either prosperity or civility or liberty (if not two of these or even all three) have taken a knock almost everywhere. That is why rebuilding civil society under new conditions is so important.

What then of the fourth city in my tale? First of all, it has to be a city. Whether it numbers 40,000, 180,000 or 2.5 million inhabitants, it must be an identifiable community with a strong sense of local commitment and institutions to match it. The city itself is an element of civil

society. In economic terms, a variety of companies of different sizes and branches of business is obviously desirable. More important, indeed essential for economic well-being is, however, a combination of competitiveness and stakeholder involvement. If one wants to avoid fashionable language one could say that companies need to seek arrangements which assure as far as possible their long-term success and engender relations of trust and commitment with all who are involved in their fortunes. This is actually what many companies are groping for today, and the best provide benchmarks for the rest. Individuals have to respond to the analogous dual challenge of flexibility and security. People's lives will look different than they did in the days of old-style careers in an expectation of full employment. Security is no longer built into the world of work, or of education for that matter; people have to carry it with and within them, which means that their entitlements have to be transportable, and their strength lies in their skills including the ability to go on adjusting and enhancing them. There are signs that women find it easier to cope with the new balance of flexibility and security than men; perhaps they had to do so earlier. In institutional as well as personal terms, associations in the narrow and the organised sense will play a major part. The tradition of voluntarism, of volunteering as well as charitable giving, will see a new flowering. The result will be untidy and imperfect, it will not do away with pain and fear, or with conflict, but it may point the way to a prosperous, civil and liberal world.

My first city was in North America, the second in Continental Europe, the third in South East Asia—it would be fitting if the fourth emerged in the country to which this thank-offering is given, Britain.