

The Boutwood Lectures  
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First lecture: The transformation of society

The world is restless under the sway of the idea that there is only one way to freedom and prosperity: the institutions and practices now established in the rich North Atlantic democracies. The world is right to be restless; there is a better alternative. Briefly to expound, to develop, and to defend this alternative is the single purpose of these two lectures.

In the first lecture, I discuss the reorientation of the dominant project in political economy and the remaking of institutions that this reorientation requires. In the second lecture, tomorrow, I turn from the second way writ small to the second way writ large, and explore the changes in the character of politics, of thinking about society and of moral experience that can and should accompany this institutional reconstruction. My remarks are untimely, in form as well as in content. In presenting them I am mindful of Voltaire's warning that those who lack the spirit of the age nevertheless have all of its defects. However, I cannot be useful to you unless I remain faithful to myself.

In this first lecture, I divide the argument into four steps. In the first step, I present a view of what has been the distinctive character of European social democracy as one of the two faces that this dominate project has presented to the world, a face that is now in the process of being disfigured, of losing its distinction. In the second stage of the argument, I criticize the outcome of the present redirection of European social democracy. In the third step, I outline an alternative. And at the fourth moment of the argument, I bring out the general vision that animates this alternative and further develop its character by contrast to other positions.

First, then, European social democracy. European social democracy was defined historically by a withdrawal undertaken for the sake of an advance. The European social democrats abandoned the attempt to reorganize production and politics. Retreating from these two realms, they attempted to rearrange distribution or redistribution. There they hoped to diminish economic insecurity and inequality.

Consider a view of this social-democratic compromise focusing on the common elements of the experience of social democracy in Europe, looking beyond

the enormous differences among the forms that experience took in different European countries. It is a view untainted by sentimentality and edification. Seen in a such a light, social democracy has been distinguished by the following attributes.

A first pair of features has to do with the protection of a core of social insiders against market instabilities. A relatively privileged segment of the labor force was protected against instabilities in the labor market through a high level of job security, accorded by law and contract. Managers and owners were safeguarded against instability in the capital markets, especially in the market for corporate control by arrangements promoting long-term stakes by banks and other institutional investors.

A second pair of characteristics has to do with the defense of business against competition. Small business was protected against competition by big business and by foreign enterprise. Thus, many of the European social democracies avoided, with some success, in town as well as in country, the squeezing out of the small-scale owner and entrepreneur. Family business, big and small, with its retinue of nepotistic practices was also defended against meritocracy as well as against competition.

A final pair of characteristics has to do with the large-scale management of the economy. National governments brokered distributive deals among the powerful organized interests, especially big business and organized labor. deals about wages and subsidies as well as about the way in which the benefits and burdens of major public policies would be shared. The organized representation of these interests to fashion such distributive social contracts is what came to be recognized as the institutional apparatus of social partnership. The practice of social partnership was complemented by the development and the maintenance of a high level of redistributive spending, paradoxically financed by the largely regressive, transactions-oriented taxation of consumption.

What has been the recent fate of European social democracy? It can be summarized in a simple movement. The first four characteristics have been sacrificed to the maintenance of the last two: social partnership and redistributive social spending, financed by regressive taxation. At the limit, the first five characteristics, including the institutional machinery of social partnership – all but one of the defining features of historical social democracy -- have been sacrificed to the maintenance of the last. A high level of redistributive social spending, has therefore become, by default, the final bastion, the residue, the ultimate line of defense of social democracy in its homeland.

Full-blown social democracy, with all six characteristics I enumerated, encouraged a high level of investment by firms in their own core work force. It stimulated such investment so, however, at the cost of restraints on organizational and technological innovation. It also assured a high level of job security to a major

part of the population. It gave that assurance, however, at the cost of deepening the gap between benefited insiders and excluded outsiders.

Conventional social democracy has therefore been in trouble: moral and social trouble as well as economic trouble. The two types of trouble -- costly restraints on innovation and cosseting of entrenched insiders to the detriment of insecure outsiders -- have most often come together in high levels of unemployment.

Social democracy needed to be reformed. Its reform through hollowing out, however, has merely generalized an insecurity from which only a Europeanized and internationalized elite remains protected. By their commitment to a high level of redistributive entitlements -- the last plank in the historical platform of social democracy -- the reformers claim to reconcile economic flexibility with social inclusion.

The resource transfers undertaken by a financially overstretched state are nevertheless an inadequate and fragile base on which to support the claim of inclusion. The outcome of the historical retreat of social democracy has been less the synthesis of flexibility and inclusion than the extension of insecurity. Most people remain bereft of the educational and economic means with which to reach the new commanding heights of the internationalized economy. The division between insiders and outsiders has been reinvented -- and internationalized -- rather than overridden.

A spiritual movement has accompanied the hollowing out of social democracy. This movement is the privatization of the sublime: the containment of energy and hope within the most intimate recesses of private experience and the abandonment of public life as a proper sphere for the advancement of large projects. In this circumstance, both high and popular culture have come to be dominated by fantasies of adventure, escape and empowerment. Such experiences invoke the very experiences denied in the humdrum worlds of politics and work. They express a lament over a sense of entrapment: awareness that the diminished life one lives is the only life one is ever going to live.

The hollowing out I have described has a name; it is called the third way. The third way is the first way -- the supposed one and only road to freedom and prosperity -- sweetened with the sugar of compensatory social policy. The doctrine of the Third Way exhibits the predicament of the progressives in the contemporary world. They have no program. Their program is the program of their conservative adversaries with a discount. They appear on the historical stage as the humanizers of the inevitable, unable to give more than trivial content to the idea of progressive social reconstruction today.

What complaints can we justifiably make against this evisceration of the historical content of social democracy? A schematic account of the segmentation of the economy in a confident, egalitarian social democracy like Sweden reveals the nature of the trouble. Imagine the economy divided into three sectors. There is the old economy of the traditional mass-production industries, struggling to make good in the face of low-cost world competition. There is a vital, prosperous new economy, steeped in flexible production and knowledge-intensive services. And there is a caring economy, especially of the young, the old, and the infirm. The caring economy has been the source of most new jobs, and most of them are paid for by government.

The fundamental mechanism of this three-sector system is that the money generated in the new economy and, to a lesser extent, in the old economy goes to government in the form of big tax checks. The government breaks these big checks into little checks and sends them around to the other people, particularly to workers and to clients in the caring economy.

This is an unsustainable operation. It is unsustainable practically because of the almost unlimited demands that social spending places on an ever-narrower social base of successful enterprise. Above all, it is unsustainable morally and psychologically. The social cement thins when people cease to know one another because they inhabit social worlds connected only by the transfer of money at a distance.

The three-sector system I have invoked has seen the concentration of the most desirable work -- jobs offering wealth, power and fun -- in the hands of privileged and global elites. The rest of society remains condemned to varieties of "make work," ennobled at times by the responsibility to care for others. The production system has been sundered from the practical organization of social solidarity. Although it helps pay the bills, it does nothing to uphold social union.

These problems can be addressed only by deconstructing and reversing the compromise that shaped historical social democracy in the first place. It is impossible to address them without reorganizing production or without changing the relation among the old economy, the new economy, and the caring economy. The reorganization of production, which historical social democracy abandoned, is in turn impossible without the creation of a high-energy politics. Such a politics is sustained by a high level of popular political mobilization. And it addresses the creation and the contest of alternative trajectories of cumulative institutional change.

Once we understand that the contemporary social democracies can solve their most basic problems only by redefining the original compromise, we can begin to recognize the weight of deeper concerns, cast aside at the formative moment of

European social democracy. These concerns are two sides of the same question. How is it that in the circumstances of the contemporary societies we can empower ourselves individually and collectively in ways that also connect us rather than reducing us to self-aggrandizement? How can we imagine and develop social connections that also empower us rather than trapping us in closed communities and fossilized traditions? It only when we begin to present to ourselves the task, or at least the possibility, of re-imagining and remaking the institutions of society that these larger questions can be again come clearly into view. Our interests and ideals in history are always bent under the weight of the practical arrangements that represent and realize them in fact. We cannot begin to re-imagine and redefine our interests and ideals until we also begin to experiment with their institutional expressions .

What is the alternative? I outline an institutional alternative, addressed to the circumstance of contemporary North-Atlantic social democracy, and described in its vocabulary, but intended, nevertheless, to reach outward. The alternative is not a blueprint; it is a direction. If in the circumstances of contemporary politics and thought I present a view that is remote from what exists, you may say that that is interesting but utopian. And if I present a view that is close to what exists you may say that that is feasible but trivial. And thus all proposals are made to look utopian or trivial.

This false rhetorical dilemma, which now inhibits and demoralizes the programmatic imagination, arises from reliance on a bastardized standard of political realism. This is the idea that a proposal is realistic to the extent that it is close to what already exists. This fake criterion of political realism is in turn the manifestation, in thought and in discourse, of our lack of access to a credible vision of transformation, of how structural discontinuity happens. In fact, a transformative proposal is the demarcation of a direction that can be imagined at many points close to what exists or far from what exists. It gains concreteness of texture through the description of the many next steps to be taken with the institutional and ideological material at hand. The direction I propose follows six main axes of transformation. These axes overlap or converge in a direction. It is, therefore, in this spirit that I propose the following outline by way of example, an outline of the next steps in the European circumstance.

The first axis is to finance and to facilitate the creation of novelty, of invention, of new forms of production and initiative. It is to prevent those who now control the crucial investment decisions from limiting the scope of this innovative activity. Three elements are necessary to the creation of the system I propose.

The first element is to marshal the saving of society, including its pension savings. An example of how to do so is to establish quasi-public venture capital funds at the margins of the traditional capital markets for investment in startup enterprises. Such funds would be competitively managed by a cadre of specialized fund managers compensated or prejudiced by success or failure.

A second element is to create along the periphery of the university system , with governmental support, a decentralized system of centers designed to facilitate the translation of scientific and technical knowledge into practical initiative. The result is to extend to the whole economy the familiar system of agricultural extension: of decentralized governmental help for the family farmer, above all technical support in the form of access to knowledge.

A third element is to encourage organization of a regime of cooperative competition allowing small- and medium-sized firms and teams of workers and technicians to compete in some respects while pooling resources in others. In this way, they can reconcile the benefits of scale and flexibility. The general intention of this first line of development is to affirm the ascendancy of the real economy over the interests and prejudices of finance, and more generally, to lighten the burden of the present structure of the economy in general and of the capital market in particular on the practice of permanent innovation.

A second axis of development in this proposal is the attempt to equip and to endow the individual worker and citizen. First, we endow him through the gradual generalization of a principle of social inheritance: everyone inherits from society or from the previous generation a basic set or fund of resources on which to draw on at turning points in his life. Second, we reorganize education on the basis of universally guaranteed minima of investment and performance and of a commitment to renewed mastery, in both original education and life-long education, of a core of generic conceptual and practical capabilities. Third, we define a form of flexible association between local and central government, providing for corrective intervention and reorganization when the minima fail to be satisfied.

The third axis of development in this project is to democratize the market. To democratize the market, not just to regulate it, not just to compensate for its inequalities by retrospective tax and transfer. To democratize it means progressively to decentralize access to productive resources and opportunities by the invention of new forms of decentralized allocation of capital and expertise and new forms of exchange. Such a project must begin in the rejection of the choice between the American model of arms-length regulation of business by government and the Northeast Asian model of centralized formulation of unitary trade and industrial policy by a bureaucratic apparatus.

The better way is strategic coordination between public entities and private firms that is decentralized and participatory and that is dedicated to the experimental coexistence of pluralistic trade and industrial policies. The responsible funds and support centers – intermediate between government and private enterprise – must be independent and accountable only in the long run to the society, through its political institutions. The second step of this effort to democratize the market is the gradual creation of alternative regimes of private and social property, co-existing experimentally within the same economy. Such regimes would begin in the different kinds of relations that would arise between such centers or funds and the firms they assist or among the firms themselves. The purpose of the effort to democratize the market is radically to expand the instruments and the varieties of initiative and innovation.

The fourth axis of this project is the development of the caring economy and its combination with the production system. We should combine voluntary and mandatory social service and facilitate the movement of individuals between the production system and the caring economy. In principle, every able person should have a position in both the production system and the caring economy. The objective of this effort is to ensure the practical organization of social solidarity in a fashion that directly engages people in one another's lives beyond the limits of the family.

The fifth axis of this alternative is to develop the institutions of a high-energy democracy. Such a democracy unites a high level of popular political mobilization with the acceleration of reform experiments. It sharpens the contrast and the contest among alternative projects for society. It tends toward a combination of the attributes of representative and of direct democracy. A high level of popular political mobilization requires devices such as the public financing of political campaigns, extended free access to the means of mass communication in favor of social movements as well as political parties, and ways to combine acceleration of the opportunity for the political transformation of society requires the invention of ways of combining central responsibility with local initiative. Such combinations of the central and the local allow decisive experiments to be tried out at the center but at the same time to be overridden or hedged by countervailing movements at the local level.

The sixth axis of this proposal is the independent and general organization of civil society outside the state. Only an organized society can generate alternative futures and act them out. The traditional apparatus of private law, of contract or corporate law, is an insufficient instrument for this organization of civil society. We must imagine a public-law framework entirely independent of government, making it easier for civil society to organize itself around neighborhoods, around jobs, and

around topics of common interest such as health and education. The purpose of this social law, in between public and private law, is not, as it was in the first half of the twentieth century in Europe, to dampen conflict. It is to excite difference and originality. It is to make us more godlike.

What spirit animates such a program? This proposal has its purpose the heightening of the powers of ordinary men and women. By the devices with which it furnishes them, it helps them find light in the shadowy world of the common place. The institutional and discursive structures that we build and inhabit make us who we are. They, however, are finite, and we are not. There is always more in us, more capability of insight, of production, of emotion, of experience, of association, than there is in them. It should form part of our purpose to create institutions and discourses that recognize, respect, and nurture disposition to live as content-shaped but also context-transcending spirits. Not just to replace one ordering of society and of thought by another, but to create orderings that invite their own piecemeal revision. Such arrangements and methods establish a more suitable setting for a person who is never exhausted by any organization of society and culture.

Our existential interest in making the world less hostile to our inexhaustibility converges with our moral interest in the equalization of social circumstance and with our material interest in the acceleration of practical progress. These interests do not converge necessarily and spontaneously; it is we who can make them converge by developing our ideas and our practices in a particular direction. In so doing, we slowly turn society into a mirror of the imagination. This is less the humanization of the inevitable than it is the divinization of humanity, translated into a series of institutional and discursive next steps, according to the circumstances and the materials of a particular time.

This ascent of humanity to more godlike status can be further defined in relation to classical liberalism, socialism, and to the dominant economic ideas about progress and growth. This is not an anti-liberal program. It rescues the classical liberal idea of the construction of the strong self while repudiating the classical liberal dogmatism about institutions. It says, in effect, we can respect one another only by refusing to sanctify, for the sake of our individual and collective self-construction, the established scheme of society. We should to so less become more equal than to become bigger, greater.

By contrast to classical socialism, this view rejects state control of the means of production as the means by which humanity can rediscover itself in work. Instead, it identifies the salvageable aspiration of socialism as the forging of collective solutions to the collective problems of humanity. In so doing, it turns the table on



what was the greatest historical defeat of the Left, the abandonment of the petty bourgeoisie and the dismissal of its central aspiration of modest prosperity, independence, and initiative. It remains the most powerful practical aspiration moving much of the world. We still need to respond to it in ways that disentangle it from the restrictive forms of small-scale production and that associate it with new forms of cooperation and solidarity.

What is the relation of this project to conventional ideas about practical progress or economic growth? In the short run, the basic constraint on growth is the relation between the cost of the factors of production and the opportunities for gain. In the long run, the basic constraint is the translation of knowledge, especially of technical and scientific knowledge, into practical initiative and invention. In the long medium run, however, the basic constraint on economic growth lies in the relation between cooperation and innovation.

A market is a simplified form of cooperation among strangers: unnecessary with there is high trust and impossible when there is no trust. Practical progress requires the combination of innovation and of cooperation. However, innovation and cooperation also interfere with each other. We advance practically by inventing regimes of cooperation that are relatively more hospitable to innovation. As a result, innovation need not threaten, nor be threatened by, the expectations and prerogatives embedded in the established cooperative regime.

Looked at from this standpoint, the whole point of the second way is the gradual development of a form of cooperation between government and private enterprise among firms, among groups, and among individuals that has built into it a bias toward experimentalism. In our institutions and in our machines, we embody everything that the mind is capable of repeating. It is the fundamental practical ambition of this project to save more of our time for the activities that we cannot yet repeat and therefore cannot yet embody in the form of machines. It is to intensify our experience; to render manifest palpable and fertile the decisive and dramatic character of lived human experience; to break the spell of formulaic repetition over life.

Great reform in modern history has generally depended upon crisis and calamity, and in particular upon war. Catastrophe has been the midwife of transformation. It is part of the ambition of this program to diminish the dependence of change upon crisis. However, the institutions the program describes do not yet exist; the dependence of transformation upon crisis persists. For this reason, a program such as the one I have outlined cannot advance in the practical circumstance of contemporary societies, in Europe or elsewhere, unless the cold calculus of

practical interest is modified and transfigured by a vision of unrealized human opportunity.

The European nations devoted the first half of the twentieth to slaughtering one another and the second half to drowning their sorrows in consumption. Toward the end of the twentieth century, exhausted by their sufferings and by their pleasures, they placed themselves in the care of politicians, entertainers, and philosophers who taught the poisonous doctrine that politics must be little for individuals to become big. Then the peoples of Europe fell asleep. If, in the first half of the twenty first century, they fail to awake, they may well remain rich. However, they will also be less equal, less free, and less great.