

Civilized Market Economy: Embedding Market Economy in Civil Society

Peter Ulrich

Professor emeritus of Economic and Business Ethics, University of St. Gallen (Switzerland)

ABSTRACT

Something must have gone wrong with the modern project of liberal society and market economy: economic progress doesn't any longer enlarge citizens' real freedom and improve the social situation. Rather, it develops inherent necessities which seem to turn against the weaker part of society. Especially in European countries, the welfare state is running behind, fighting against the symptoms of "exploding" social costs of private business. The challenge of today is to rethink the principles of a well-ordered society of free and equal citizens and to re-embed market economy into these principles, or in brief: to "civilize" market economy. From an ethical point of view, real civic freedom takes precedence over "free markets". Such a republican liberalism is essentially different from market liberalism. With the core idea of economic citizenship rights, a new perspective of emancipatory social progress comes into view.

THE AUTHOR

Peter Ulrich, born 1948 in Berne, Switzerland, has been Full Professor of Economic and Business Ethics and Director of the Institute for Business Ethics at the University of St Gallen, Switzerland, from 1987 to 2009.

After his studies in Business Administration, Economics and Social Sciences at the University of Fribourg (1967-71) and his doctorate at the University of Basle (1972-76), he worked four years as a management consultant in Zurich. Then he had a scholarship from the Swiss National Science Foundation and completed his habilitation thesis, which has been accepted by the University of Witten-Herdecke (Germany) for a *venia in „Economic sciences and their philosophical foundations“* (1986). Even before that, in 1984, he got an appointment as a full professor for Business Administration at the University of Wuppertal, Germany. In 1987, he was appointed to the first chair for Business Ethics at a German-speaking faculty in St. Gallen. In the subsequent years, he has developed his approach of *Integrative Economic Ethics* to one of the most acknowledged in the German and European debate. He has published 30 books and more than 200 papers, most of them in German language.

http://www.alexandria.unisg.ch/Personen/Person/U/Peter_Ulrich

E-mail: peter.ulrich@unisg.ch

Once upon a time in the early modern age, the leading thinkers of the enlightened middle class in Western countries had a dream: the dream of a society of free and equal citizens who respect and award one another the right to lead a self-determined good life and participate as responsible citizens in the “res publica”, i.e. in the public sphere of the community. What has happened to this emancipatory civic project with its goal of universal freedom in constitutional equality? The political parties that describe themselves as “liberal” or representing “middle class” have long bid farewell to that epochal project. The two-worlds-concept of “freedom *or* equality” defines the dominating neoliberal spirit of the times, instead of the idea of general and real freedom *in* civic equality. “Freedom or equality” is synonymous with “freedom versus equality” or “more freedom and less state”. Even the political left is infected by this strange polarity-thinking since it understands the social state only as a corrective against an economically restricted liberalism.

The central theme that I’d like to emphasize is as follows: Whoever only defends the social state achievements of the 20th century against the bourgeois-libertarian thought pattern remains argumentatively helpless in view of the trend-setting rhetoric about global “locational competition” (between industrial locations all over the world) and its inherent necessities. Rethinking the guiding ideas of true civic liberalism becomes crucial in that situation. This reorientation in ethical-political-economic thinking involves a new perspective of social progress that has practical reason on its side and therefore might be accepted by a majority sooner or later if we trust the enlightening power of rational arguments generally.

Let us start to a little conceptual venture on real freedom in equality in five steps. First of all, the history in which we stand must be clarified. As everybody knows, the present can only be understood as an historical result. Secondly, a civil society progress perspective can be envisioned beyond the false polarity “freedom vs. equality”. In a third step, conceptual consequences result for a “civilized” market economy. Fourthly, is all this consistent with the economic ratio, with the functional logic of the market economy? Lastly, I will briefly analyze whether this ideas have a real-political chance or not.

1. ON THE HISTORY OF THE CIVIC EMANCIPATION PROJECT

The liberal revolution advanced by the progressive (“leftist”) middle-class in 1848 was more successful in Switzerland than in any other country of Europe (Craig 1988). This revolution started from the two radical Protestant cities Zurich and Geneva. The emancipation of the modern *citoyen* from feudal dependencies cannot be separated from the economic striving for independence of the early *bourgeoisie*. Thus economic and

political liberalism were inseparable in the beginning. This integral orientation of the civic revolution characteristic for Switzerland has to do with the special republican tradition of a political culture of Swiss confederation legitimated from bottom to top as it is the case in a federalist grassroots democracy.

Early liberalism was a *republican liberalism* (Ulrich 2008: 276ff.) that allied the business spirit of the bourgeois to the civic sense of the citoyens and gained its strength from that alliance. The middle class was “state-supporting” because they recognized that no one but the constitutional state guarantees what is most precious for free and sovereign citizens: their citizenship rights. Speaking notoriously badly of the state – their state! – and stamping it as the essence of almost all evil (to be kept small) as “free market” libertarians (e.g. in the U.S. party which calls itself “Republican” but has lost its “republican” orientation) like to do nowadays would have never occurred to the leading liberal thinkers of the age of the founders.

This fatal tendency began with the increasing intensification of the social question. This occurred in the course of the “great boom” from 1848 to 1875 (Hobsbawm 1977), a heyday of unfettered laissez-faire capitalism with enormously high economic growth. This in no way solved the social problems; rather the problems exacerbated. This historical fact refutes all who still regard the cry for economic growth as the magic formula for solving all the social questions of our time. The working class movement that rapidly grew toward the end of the 19th century in all industrial countries achieved socio-political reforms against the middle and upper class. In the dilemma between the indivisible claim of its political-emancipatory project and its own particular economic interests, the well-doing middle class more or less decided for the latter. This was hardly a surprise. The republican-liberal synthesis broke apart. Unfortunately a vulgar economic liberalism “swallowed” the enlightened republican liberalism. The liberal-minded middle class changed from a socially progressive to a conservative force, abandoning its emancipatory project of a well-ordered society of free and equal citizens and leaving it to the working-class movement, social democracy and later other social movements.

From that time on the ideological task of covering up this fatal conceptual division and monopolization of the liberal emancipation project by particular interests fell to an economistic rhetoric of market metaphysics. This rhetoric is always invoked when real politics are strikingly inconsistent with the leading ideas of a well-ordered society of free and equal citizens as for instance since the “neoliberal” turn of Thatcherism and Reaganomics. It is especially today to conceal the partiality of a globalization policy aiming at a deregulated “locational competition” in open world markets, pretending fantastic chances to all countries and all people by this development: there seem to be no

losers, as everybody is said to belong to the winners. (The WTO and the “Washington Consensus” send their regards from the nineties.)

One of these usually unnamed partial “chances” consists in playing off the regulatory frames of markets and the different developed social state concepts against each other and submitting them to the exploitation logic of worldwide profit-seeking capital in the “locational competition”. The primacy of democratic policy that certain circles hate on account of its ineradicable goal of a just society of free and equal (world-) citizens can now be indirectly combated by referring to the “practical necessities” of the global markets.

2. SOCIAL PROGRESS – THE VISION OF THE CIVIL SOCIETY

A fatal birth-defect of the social state can be recognized from the history of its beginning in the end of the 19th century. In its inception, the social state largely pursued a compensatory social policy; as a mere corrective it runs behind the symptomatic consequences of an unbridled economic liberalism. Under the conditions of locational and regulatory competition, the social state fell more and more into conflict with the “economic logic” inherent to deregulated markets and was increasingly reproached for “economic folly” by the protagonists of free market economy – as if the social state itself was the *cause* of the “exploding” social costs of economic “rationalization”, and not its symptomatic *consequence*. The social state will lag behind again and again if it does not successfully unmask this alleged practical logic of economic necessities in an ideology-critical way. The challenge is to oppose the existing partisan development, which is damaging the public welfare, with an attractive societal alternative.

The ideology-critical starting-point in unmasking the market-radical neoliberal rhetoric consists in working on the term ‘freedom’ once more. The alternative is presented in the central theme of a well-ordered society of free and equal citizens. Freedom is the greatest possible equal real freedom of all citizens – or it does not deserve its name! This definition contains two constitutive moments that should be held apart: the moment of principled equality and the moment of the “real” quality of freedom.

On the first moment, the *principled equality of the claim to freedom*: In a truly free society, the legitimate freedom of any citizen always has its ethical limit in the equal claim of everyone else. Therefore the genuine liberal understands freedom as a precious constitutional asset to which all citizens are entitled as an inalienable civil right. He or she understands the republican equality of all citizens as a criterion of a liberal order. Such a

political liberalism (Rawls 1993) cannot be reduced to a pure economic liberalism or libertarianism (for a critique see Ulrich 2008: 147ff.). The ethical core of political liberalism that constitutes the emancipatory power of the civil society ideal is the deep conviction about the moral equality of all people in their humane dignity as subjects of self-determined thinking and acting. By awarding one another the “right to equal concern and respect” (Dworkin 1978: 180), we substantiate the strongest practical idea of universal and inalienable human and civil rights: human rights in the ideal moral community of all “cosmopolitans”, and civil rights as members of democratically legitimized constitutional states. Being a citizen in one state at least is a universal human right.

Now let us turn to the second moment of the civil society emancipation project, the *real quality of citizen freedom*. Real freedom means being able to choose over concrete possibilities or options in everyday life. Only one who can really choose can really live a self-determined life. Real freedom now depends essentially on the purchasing power in a more or less economized society. This is an inevitable consequence of complex societal division of work. Not only “city air makes one free” as the early middle-class pioneers said; rather enough money makes one free and independent. The social state claim of civil society appears exactly at this point. The constitutional equality of free citizens also inalienably presupposes guaranteeing “decent” socio-economic living conditions for everyone. This has to be seen as a presupposition of a truly civic and liberal society as far as otherwise the status and self-respect of a person as a full citizen is violated. The self-respect of the citizen is inseparably connected with his or her good experience of a really self-determined life as John Rawls has always stressed:

“The importance of self-respect is that it provides a secure sense of our own value, a firm conviction that our determinate conception of the good is worth carrying out. Without self-respect, nothing may seem worth doing, and if some things have value for us, we lack the will to pursue them.” (Rawls 1993: 318)

As Avishai Margalit (1996) showed in his book *The Decent Society*, such a society does not humiliate anyone with its rules and institutions, i.e. exposing people to the systematic experience of structural powerlessness and losing control over life as really free persons. A humiliated person loses his or her self-respect as a full citizen sooner or later. He sees himself more and more as an object of foreign decisions and less and less as an autonomous subject. The precarious experience of the impossibility of securing existence through work and earned income, especially the situation of involuntary unemployment, is very humiliating. A merely compensatory social policy can change little as long as it only has the form, unpleasant taste and negative connotation of charitable “public welfare” imploring the affected to be “humble” and “submissive”. For that state “public welfare”,

they must subject their most private daily possibilities to the discretionary decisions of the “social welfare offices”. This degrading experience is ultimately an expression of a (partially-) modernized authoritarian state and conflicts with the civil society principle of constitutional equality. The subject status of free citizens is central, not only money – as necessary as money is! The shame of many people in going to the social assistance office speaks volumes.

What point follows? An unabridged social progress means the expansion of the real civic freedom of everyone to lead a self-determined and “decent” life; and it should ultimately be seen in the declining need for social state transfers for “needy” persons, not in expanding material redistribution through compensatory social policy! This must not be mistaken: I do not join the cynical libertarian call for nothing but individual “personal responsibility” that fades out the structural presuppositions for the reasonable existential self-assertion and personal responsibility of citizens. Rather I plead for the gradual reorientation of social policy from the belated combating of material symptoms to combating the causal structural powerlessness of the weaker members of society by means of empowering (enabling and entitling) these weaker members to assert themselves with their own strength in the struggle for survival and lead a self-determined life. In a nutshell, *emancipatory societal politics is vital instead of compensatory social policy – for the greatest real freedom of all citizens.*

3. CIVIL SOCIETY AND THE “CIVILIZED” MARKET ECONOMY

What does “emancipatory societal policy” mean concretely under current socio-economic conditions? According to the republican-liberal model of a fully developed civil society, the neutrality of the political order toward the different ways of life is essential for the relation of politics and the market. If the economic and societal order would guarantee the same real freedom of all citizens to pursue their own design of the good life in the framework of a “reasonable pluralism” (Rawls), this order must not privilege one specific life script and discriminate against others but should be impartial and neutral toward all life scripts. The *structural partiality of the market economy*, however, runs counter to that guiding principle of political liberalism. This is a specific economic-ethics objection against the Rawlsian conception of political liberalism (Ulrich 2008: 227ff.). The inherent necessities of free market competition are in favour of entrepreneurial life scripts (in the broadest sense of the term) that completely submit to the competitive logic or even identify themselves with it according to the motto “Competition is great fun because I am a winner type”. Alternative scripts that seek the meaning of life in other categories than economic success and depend on certain emancipation from the practical necessities of

competition have a harder time than these “success maximizers” who invest their energy in “positioning” on the market. The harsher the competition, the more often the red card is played by the market and the more important becomes Max Weber’s (1930: 72) insight from 100 years ago: “Whoever does not adapt his manner of life to the conditions of capitalist success must go under or at least cannot rise.”

The civil society point here is not hard to see. *For the sake of the greatest possible real freedom of all citizens, “civilizing” the market economy is as vital as civilizing the state.* Liberals of all schools have always postulated civilizing the state but some of them are blind with regard to markets. Now, a “civilized market economy” (Ulrich 2010) has to be understood as a case of the civic rule of law as well. The independent logic of the market as a practical necessity is no longer an accepted reason for limiting the real freedom and equal opportunities of citizens and the justice of the rules of the game. Rather the opposite priority is crucial. *The free citizen is more important than the “free” market in a true civil society.* The German liberal thinker and former director of the London School of Economics, Ralf Dahrendorf (1996: 30), has made the point: “Citizenship cannot be marketed” – instead, the market economy has to be civilized, since the rights of the citizen are those unconditional rights which put the forces of the market in their place. This means that the primacy of (ethically founded) politics over the logic of the market is constitutive.

Thus, the ways of a republican liberalism aiming at a fully developed civil society are clearly different from the ways of an economic neoliberalism that relies only on open markets, hard competition and economic growth. Whoever does not completely succumb to this competition-conditioned mentality will probably agree with the following postulate: the forces of free enterprise competition should be bound in developed contemporary *economic citizenship rights*. (The category ‘economic citizenship’ includes all the members of a national economy entitled to reside and work in the country who actually live, work and pay taxes there; see Ulrich 2008: 240ff.)

Concretizing economic citizenship rights in the different dimensions of a “civilized” economic life is obviously an epochal project that has to be tackled democratically by mature citizens. Distributing economic citizenship rights – and no longer merely material goods – is essential for the emancipatory goal. This is the core of a “civic turn” of the social state question. Economic citizenship rights clearly aim at the material improvement of the conditions of weaker persons nevertheless, too. But they do this indirectly by primarily strengthening the chances of self-determination and self-assertion and thus civil status in “economic life”.

Access to education and know-how as much as access to capital and credit as presuppositions of entrepreneurship for everyone are rights that expand the options of autonomous economic activity. The founder of Grameen Bank's concept of "microcredits", Muhammad Yunus (1999), has been given the Nobel Peace Prize 2006 with good reasons, as "normal" banks hardly fulfill this function by their nature. Only persons who already have capital normally receive bank loans. Individual and collective rights of information, hearing and participation, at least in decisions on their jobs and working conditions, are likewise important for employees.

While these rights of economic activity help guarantee the status of full citizens *within* the market economy, a second dimension of economic citizenship rights will be increasingly vital in the future. This second dimension aims at fair chances for the partial emancipation of all citizens *from* the pressure of having to assert their own labor power as "entrepreneurs" at almost any price in the market competition. This is not a contradiction. Rather a balance of integration in the working life and emancipation from the compulsory free enterprise system corresponds to the very normal balance sought by free citizens between autonomy (in the sense of inviolable privacy) and social integration (in the sense of full participation in the "res publica"). We have not yet fully understood that this is also the presupposition for a really free and civilized "economic life". For the sake of this balance, the rights of economic activity need the complement of rights of civic status protection and participation.

These social rights of protection and participation are now understood as rights that partly liberate people from the "merciless" dependence on their success at self-assertion on the market. These rights eventually grant a reasonable possibility of a non-humiliating form of existence outside the normal working life to those who for whatever reasons cannot or will not become integrated in the market. "Non-humiliating" means here being spared stigmatization as failures and "welfare cases" and not being subjected to "special treatment" as a social problem group but claiming a universal, normal civic right without having to demonstrate a special justification or neediness. Thus the universalistic character of economic and social citizen rights is essential in the emancipatory view of real civic freedom. In the long-term perspective, this might be reflected in the goal of an unconditional basic income for all adult citizens (plus a minor amount for all children) as the Belgian social philosopher Van Parijs (1995) explained convincingly.

Such fascinating concepts for the future show how meaningful socio-economic progress is possible in our hyper-dynamic super-industrial society crazed on endlessly increasing productivity and growth and rather disoriented in relation to the practical meaning of the whole. They reveal that all the countries of the world, even the advanced OECD

countries, are still “developing countries”. These concepts can also be corroborated with recent findings on the global development problematic. Without money, nothing happens in development policy, of course; however with money alone, good socio-economic development is not pursued because empowerment of people for integration and partial emancipation from the market is essential. The Nobel Prize winner 1998 in Economics, Amartya Sen from India, emphasized this in his book with the appropriate title *Development as Freedom* (1999). Sen understands poverty and underdevelopment as expressions of a “capability deprivation”, that is the lack of “substantive freedoms he or she enjoys to lead the kind of life he or she has reason to value” (p. 87).

4. IS THE CIVIL SOCIETY VISION CONSISTENT WITH ECONOMIC REASON?

Economic citizenship rights must also be economically acceptable and reasonable. The term “economic reason” is obviously ambiguous. In a comprehensive practical sense of “rational economic activities”, the economy is a means and the good life and co-existence of citizens is the goal. Therefore we have to make preliminary decisions on the criteria of good socio-economic development by modeling the society we want to live in. We should not leave the determination of the goals of socio-economic development to economists who think in the narrow axiomatics of the neoclassical mainstream, because these “pure” economists are only experts for the means, not for the ends. Trite, uninspired and rotten political economism results from a confusion of means and ends. To give a drastic example: Some years ago Avenir Suisse (a bourgeois-liberal think tank in Switzerland) spread the thesis in all seriousness that “felt prosperity” must first decrease and direct democracy must be reduced so the Swiss will be ready to do still more for economic growth. In this way, the population could be subjected more easily to the compulsory system of deregulated markets and the corresponding pressure to perform...

No, the advocates of a well-ordered society of free and equal citizens do not think and speak that way! In the effort to counter such economic end-means distortion with an emancipatory socio-politics, however, one cannot pass by the practical necessity character of “locational competition”. The “civilizing” of global market forces amid increasing economic globalization is only possible on the plane of a supra-national globalization policy. As long as this supra-national policy is absent, socio-political reforms toward new economic citizenship rights must struggle under the dominant economic ratio that ultimately only enforces the efficiency of capital exploitation.

Anyway, experiences in third world countries as in Latin America show that even a narrowly conceived economic growth cannot occur in a sustainable way under conditions of an increasing social disintegration of society that excludes growing (!) parts of the population from participation in production and consumption. Mass purchasing power and domestic demand are chronically missing along with an attractive investment climate for profit-seeking capital worldwide on account of the symptomatic social restlessness and political instability of these countries. Speaking pointedly, a national economy cannot thrive without the people in the long run. The participation of the whole population in the increased productivity and the guarantee of an adequate existential security and fair possibilities of economic activity for all citizens are social presuppositions of a national economy in rapid structural change. Further development of economic citizenship rights can make an important contribution to that end.

5. DOES THE CIVIL SOCIETY VISION HAVE A POLITICAL CHANCE?

Lastly, we conclude our perspectivist thoughts with a brief assessment of their (medium-to long-term) realizability. The enlightened middle class – and remnants still exist in the old “liberal” parties – should open itself to the model of a fully developed civil society from the ideal interest in universal civic freedom or at least from intelligent association with the socio-economic presuppositions of sustainable economic growth. Sometimes agreeing on the means is enough in real politics despite diverging goals.

But the civil society programmatic of a “civilized” market economy starts much deeper. Coming out of the defensive in the social state debate and regaining the definitional power over “history-making” ideas are crucial. The terms ‘liberalism’, ‘freedom’ and ‘civil society’ that constituted the state-supporting strength of the once progressive middle-class parties have been largely subordinated and betrayed by particular interests, as we have seen. Today, the political space is very open for movements and parties that no longer defend a somewhat just or at least “decent” society simply *against* libertarian politics but programmatically surpass them with their own veraciously reinterpreted central themes as “freedom”, “progress” and “socio-economic reason”. This is certainly a demanding challenge since a genuine socio-political reorientation is necessary. Nevertheless, an ever expanding section of citizens who think in a modern and enlightened way is waiting for such a republican readjustment of the liberal-democratic society and the reasonable embedding of market forces in society in the sense of a “civilized” market economy.

BIBLIOGRAPHY

- CRAIG, Gordon (1988): *Triumph of Liberalism. Zurich in the Golden Age, 1830-1869*, London: Collier Macmillan.
- DAHRENDORF, Ralf (1996): „Citizenship and Social Class“, in: M. BULMER & A.M. REES (eds.), *Citizenship Today. The Contemporary Relevance of T.H. Marshall*, London: Routledge, pp. 25-48.
- DWORKIN, Ronald (1978): *Taking Rights Seriously*, Cambridge MA: Harvard University Press.
- HOBBSBAWM, Eric (1977): *Die Blütezeit des Kapitals. Eine Kulturgeschichte der Jahre 1848-1875*, München: Kindler.
- MARGALIT, Avishai (1996): *The Decent Society*, Cambridge MA: Harvard University Press.
- RAWLS, John (1993): *Political Liberalism*, New York: Columbia University Press.
- SEN, Amartya (1999): *Development as Freedom*, Oxford: University Press.
- ULRICH, Peter (2008): *Integrative Economic Ethics. Foundations of a Civilized Market Economy*, Cambridge U.K.: Cambridge University Press (German orig. *Integrative Wirtschaftsethik. Grundlagen einer lebensdienlichen Ökonomie*, 1st ed. 1997, 4th rev. ed., Berne/Stuttgart/Vienna: Haupt 2008.)
- ULRICH, Peter (2010): *Zivilisierte Marktwirtschaft. Eine wirtschaftsethische Orientierung*, completely renewed ed., Berne/Stuttgart/Vienna: Haupt 2010.
- VAN PARIJS, Philippe (1995): *Real Freedom for All. What (if anything) Can Justify Capitalism?* Oxford: University Press.
- WEBER, Max (1930): *The Protestant Ethic and the Spirit of Capitalism*, transl. T. Parsons, London: Unwin Hyman (German orig. 1904/05).
- YUNUS, Muhammad (1999): *Banker to the Poor. Micro-Lending and the Battle against World Poverty*, New York: Public Affairs.

KEY WORDS

Civilized market economy
Economic ethics
Economic citizenship rights
Republican liberalism
Social progress

Published in:

Alexander N. Krylov (Hrsg.): *Handbuch zur Europäischen Wirtschaftsethik – Business Ethics: Expectations of Society and the Social Sensitisation of Business*. Berlin: Berliner Wissenschaftsverlag 2016, pp. 257-266.