Commission of Inquiry into the Future of Civil Society in the UK and Ireland

After the financial crisis

The roles of civil society associations in growing a more civil economy

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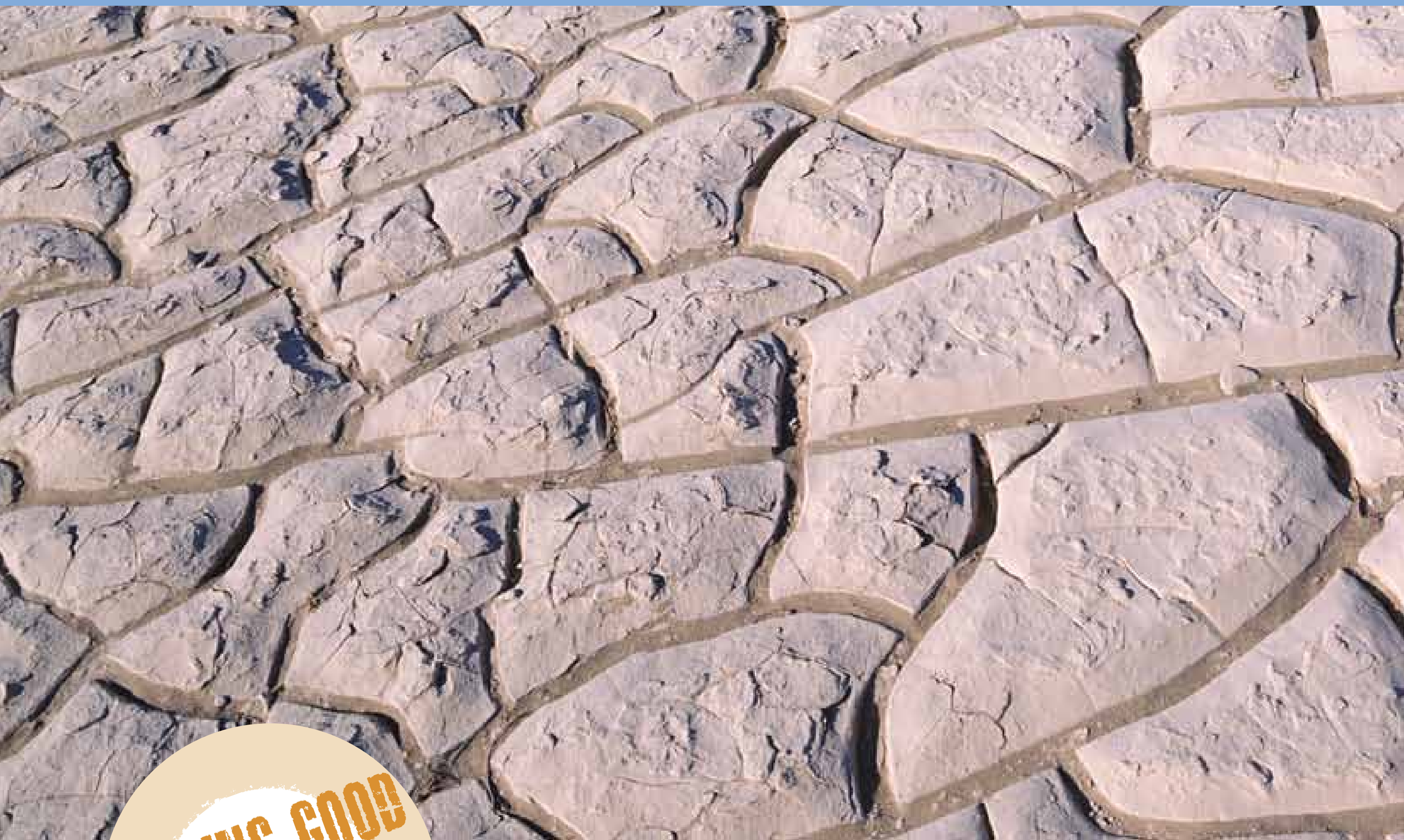

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About the Commission of Inquiry into the Future of Civil Society in the UK and Ireland

The Commission of Inquiry into the Future of Civil Society was established to explore how civil society could be strengthened in the UK and Ireland. The Inquiry Commission was chaired by Geoff Mulgan and was also informed by an International Advisory Group.

The objectives of the Inquiry were to:

- explore the possible threats to and opportunities for civil society, looking out to 2025;
- identify how policy and practice can be enhanced to help strengthen civil society;
- enhance the ability of civil society associations to shape the future.

The Inquiry Commission's work began with an extensive futures exercise to explore possible futures for civil society. Drawing on the findings of the futures work, which are documented in two reports, *The Shape of Civil Society to Come* and *Scenarios for Civil Society*, the Inquiry Commission agreed to explore the current and possible future roles of civil society associations in relation to the following themes:

- **Growing a more civil economy**
- **A rapid and just transition to a low carbon economy**
- **Democratising media ownership and content**
- **Growing participatory and deliberative democracy**

This paper was commissioned to inform the Inquiry's work on the roles of civil society associations in growing a more civil economy.

The final report of the Inquiry Commission, *Making good society*, was published in March 2010.

For further information about the Inquiry and to download related reports go to **www.futuresforcivilsociety.org**

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Executive summary

The freedom granted to the financial sector in the latter half of the 20th century has not delivered either prosperity for all or stability of the system. We now have a nation where both the people and the state are in debt, with no obvious means to pay it off. The credit crunch was as much of a moral and sociological failure as an economic and financial one.

Civil society has long been involved in financial matters, but unlike in previous centuries there is minimal public debate about alternative financial and economic systems. Ultimately, the leaders of banks have neglected the craft of banking and political parties and parliament have little to say about the causes of the credit crunch and the need for systematic change.

A civil economy needs parliamentary reform to have any chance of success – a British Convention to examine what political and economic system will be appropriate for the nation in the 21st century, where the dominant voices are those of civil society. There needs to be greater transparency by banks and pension funds to allow civil society to examine and question their use of the public's money. Bankers need to re-learn their craft and civil society needs to be at the heart of all corporate decision-making to encourage a culture where the behaviour of financial institutions is monitored.

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Introduction

Out of the wreckage of the 2007/09 financial crisis it is possible to discern two prevailing ideological strands: the financial sector should be left alone and finance is too complex for ordinary people to understand. So dominant has been the philosophical perspective that stands behind them that we've avoided stripping it down to the core ideas: why should the City be left alone and is it really too complex?

The first resides in the argument that capitalism and free enterprise naturally co-exist and therefore any attempt to curtail one is a restriction upon the other. Leaving aside capitalism's less than wholesome relationship with China, Burma and apartheid South Africa to name but three, is there any evidence that moderating capitalism denigrates democracy and personal freedom? When mercantile capitalism was at its peak in the mid-nineteenth century, were the subjects of the British Empire more free than they were before? Indeed, there was less starvation in Britain under the pre-enclosure feudal society where the elites had some responsibility for the peasants.

Jumping forward, did the great capitalist revival of the late 20th century really deliver greater life chances for the majority of the population? On a number of issues it appears to have failed. Poverty rose in the 1980s and 1990s, the gap between the rich and poor widened, and the percentage of children from low-income families getting the top grades in school and securing places at Oxbridge fell. For whom exactly was this boom for? The evidence is startlingly clear. Wealth was disproportionately spread towards a small minority of the population with about two-thirds earning below the average mean wage (UK National Statistics, 2008).

Of course, it may be that loss of economic power was outweighed by the political benefits to a prosperous society. Unfortunately not. If anything, personal liberty has been limited faster and further than any economic emancipation. International terrorism, in part caused by a rejection of the capitalist exploitation and funded through the free movement of money within the world's financial system, led to a counter-revolutionary movement whereby individual rights were sacrificed to protect us all. Looking back, historians will be struck by the paradox of a society that promoted an ideology of freedom while designing policies to ensure the majority of the population remained in economic and social servitude.

What should be accepted is that the freedom granted to the financial sector was not replicated elsewhere in society and thus we've had a period of enormous comparative freedom for capitalism and capitalists that has not produced greater prosperity for the majority of the population. In fact, with the current pace of financial unwinding, it's now questionable whether it will produce a net benefit for capitalism.

Evidence for this can be found in the decline of the FTSE100, which in early 2009 returned to levels last seen in the autumn of 1996. Yes, a lot of people have got much richer, but the market is more volatile since the Great Crash, with two bull markets and the FTSE100 exceeding 6,000 followed by two falls of 30% or more in less than a decade. Meanwhile, average wages adjusted for inflation have shown only moderate increases[1] and the expansion of the workforce with the arrival of gender equality actually pushed house prices up as mortgage multiples increased. We now have a society where both parents have to work just to pay off the mortgage, but ever increasingly house prices have created a generation gap as those under 30, laden with student loans, are seemingly priced out of the market for the foreseeable future, or if they are lucky manage to climb onto the market but can't afford to have children. And this problem spreads across the social classes as the middle classes start to feel the strain from the first post-industrial recession and concomitant job losses.

We now have a nation where both the people and the state are in debt, with no obvious means to pay it off. This in itself comes at a price – not only the bankruptcies and repossessions, but the emotional impact on marriages, relationships and families, as those who are left in employment have to work longer and harder just to keep their job. There's been romantic talk of an age of austerity – it's nothing of the kind. For many people years of hard bloody grind is all they have to look forward to, with even their pension withered or withdrawn as the markets continue to tumble or stagnate.

These are dangerous times where political opportunists and extremists are likely to find an audience and civil society faces a sustained assault. There are no easy answers but we need to understand how we got here first.

“These are dangerous times ... civil society faces a sustained assault. There are no easy answers but we need to understand how we got here first.”

Civil society and civil economy

Our concept of civil society arose out of the ferment of two crises: the British Civil Wars in the mid-seventeenth century and the rise of the Jacobins a century later. From the former the idea of religious freedom (except for Catholics) and the establishment of independent churches arose, while in the latter secular associations with overtly political ideas were established. Neither period was without bloodshed and these incipient civil society entities and their members were often, and sometimes invariably, suppressed, with workers being imprisoned or losing their livelihoods. As a result there was a conscious effort to create institutions that were free of the state and thus able to support the oppressed. To ensure they stayed within the law many of these were overtly apolitical and detached from political campaigns.

One example was the building societies. Founded in Birmingham in 1775, the first building societies were a function of financial exclusion endured by non-conformists (Price, 1958) unable to access mortgage products from the joint-stock banks. Instead they pooled their resources to produce the first mutual home loan companies. From this inauspicious start, building societies grew by the 1980s to become the dominant financial provider for mortgages, and they remained entirely owned by their members (Ackrill & Hannah, 2001)[2]. Equally, the dominant insurers were mutuals, while the Co-operative Bank competed against the high street banks for current account customers. Thus the idea that the wider public has no place in the ownership and oversight of the financial sector was a relatively recent phenomenon.

Financial crises

It would be quite wrong to assume this is the first crisis caused by financial markets, after all the South Sea Bubble[3] nearly brought down the government and shamed the banking sector. As Mackay (1995, p74) said; 'knavery gathered a rich harvest from cupidity, but both suffered when the day of reckoning came'. The origins of the current crisis contain their fair share of knaves and there was more than enough greed to go around, but they also expose us to some truths about our society. In 'The Trillion Dollar Meltdown' (2008) Charles Morris persuasively argues that seeds of the current crisis were present in the rescue from the stagflation of the 1970s. In relaxing controls on money and focusing on reducing public expenditure it was thought that inflation could be reduced enabling interest rates to fall; thus creating a virtuous circle of low-inflation, low-interest rates, liberalised economy, and growth.

Financial liberalisation and building societies

Financial liberalisation started earlier and was more extensive in Britain with the Thatcher reforms, which began with the loosening and subsequent removal of the Corset[4] in 1979/80. This was the means by which the government controlled the amount of personal credit available on the market. It was thought this mechanism would help control money supply and thereby act as a dampener for inflation. Thatcher rejected this explanation and allowed banks and building societies the freedom to lend up to their regulatory limits. Further reform then followed on the housing market with banks being allowed to offer mortgages to help support the burgeoning right-to-buy demand. Finally, the Building Societies Act 1986 allowed these staid and conservative mutuals to convert and transform themselves into retail banks. Starting with the Abbey National in 1989, nine of the largest building societies became banks over the course of the next decade. During a single decade, 200 years of history and the accumulation of savers money was cashiered for a couple of thousand pounds per member. In the rush to demutualise, by managers and members alike, little thought was given to what was being squandered and those that argued against change were dismissed as historical relics. Yet, two-thirds of the total capital from the sector was lost along with organisations embedded in their communities. It wasn't until Leek United Building Society in Staffordshire, where the community and the building society successfully resisted a campaign by carpetbaggers to push for demutualisation, did this argument find favour.

Elsewhere, the remaining building societies proclaimed their mutuality and opposed the complete assimilation of the sector. History has vindicated the mutualists. Despite the recent collapse of the Dunfermline, the building society sector has remained remarkably stable. By contrast not one of the converted societies exists as an independent entity and most were at the epicentre of the financial crisis. From Northern Rock through to the part nationalisation of Halifax Bank of Scotland the former societies have proven to be totally incapable of surviving as joint-stock banks.

Why should this be the case? Of course regulation partially explains the difference, as building societies still face much tougher restrictions on capital usage, but the new banks weren't forced to act irresponsibly. Instead, perhaps it's about ownership, or more precisely, the ownership ideologies. A feature of the neo-liberal age was the dominance of 'shareholder value' as a management creed. This argued that the interests of the management and the company should be aligned with the interests of the owners, namely the shareholders. At one level it's beautifully simple and appears to be common sense but in reality it bypasses the complex negotiations and cultures endemic within corporations. A company, especially a large firm, is a microcosm of society. Society can not be fenced off and prevented from invading a firm, no more than a company can cut itself off from society. But that's exactly what shareholder value attempted to do; supported in this endeavour by successive governments. The proponents envisaged a situation where the fiscal demands of a rentier group would have precedent over every other stakeholder. Though reminiscent of industrialists in Victorian Britain their modern contemporaries went on to argue that by focusing on serving this group and using money as the measure of success that it would be possible to improve the efficiency and effectiveness of the company and, by extension, the country.

> "During a single decade, 200 years of history and the accumulation of savers money was cashiered for a couple of thousand pounds per member."

Residing behind this argument is the perversion of Adam Smith's rule that the invisible hand operates because capitalists are all working for their own self interests. And in response to cries regarding the interests of society and the workforce, they argue that their long-term interest is served by the financial imperative and the interests of investors. To their credit, proponents of shareholder value do not claim that shareholders are neutral parties (though they claim the market is); instead they argue that their bias improves the efficacy of the economy. By granting precedence to money and economic concerns the neo-liberals have successfully distorted the interests of politicians and much of the population towards their interests. Consequently, political leadership is silent when confronted with shareholder abuse, such as tax avoidance or turning an economy into a casino, while the people are happy as long as their own assets appreciate in price. The problem was that society couldn't be kept at bay and once the compact (you leave us alone and we all get rich) was breached it exposed the faulty logic behind shareholder value. In truth it was nothing more than a means to appropriate collective resources for the benefit of a tiny minority and to transform citizens into consumers and investors. But it also damaged and relegated the role of work by celebrating fame and fortune.

Decline of craft within banks

The great ideological divide of the industrial age has been between capitalism and Marxism, but these two theories share an important characteristic – they are both explanations of paid work and therefore aimed at the most effective way to use this to deliver a good society.

With the end of state socialism and the seeming 'end of history' attention shifted to a more esoteric understanding of our society. While there was a requirement to rebalance economically fixated explanations and greater consideration needed to be made of consumption, gender, ethnicity and environmental factors, this shouldn't have been at the exclusion of work. What seems to have been overlooked is whether the nature of work is itself affected by the neo-liberal transformation. We already knew that the institutions of civil society within the workplace; trade unions, works councils and other worker involvement in management were in decline. Yet, what happened to work?

“When senior bankers appeared at the Treasury Select Committee ... There appeared to be a consensus that this financial tsunami was unpredictable and they were helpless in the face of such a change.”

When senior bankers appeared at the Treasury Select Committee they seemed to offer no explanation for the mess they got their institutions in. There appeared to be a consensus that this financial tsunami was unpredictable and they were helpless in the face of such a change. Not only did this seem odd given what we know about the warning signs and the way critics were brushed aside, but it also tells us something about their views of work. This was reinforced by their comments about pay. The argument made was that these salaries were needed otherwise people would leave for better paid work elsewhere. Surely, they couldn't be arguing that they were wage slaves, or more accurately bonus slaves, tied to a job not because of any intrinsic value but as mere drudges going through the motions of work to ensure they receive the monthly pay packet. But it went much further. In acknowledging their inability to predict the crisis, they were admitting to a lack of professionalism. Did they not conduct regular risk reviews? Did they not take seriously the views of critics? Did they not stress test their businesses? Didn't they assume that the housing market would eventually fall? Did they not look at the historical evidence? All these questions point to a view that their biggest crime was a lack of craftsmanship[5]. A craftsman doesn't just make something, he or she dedicates a lifetime to making minor adjustments in their work to improve the finished product. They pride themselves in this activity. A craftsman keeps abreast of developments in their field and wants to learn new techniques. The bankers were not craftsmen.

“A craftsman ... dedicates a lifetime to making minor adjustments in their work ... The bankers were not craftsmen.”

Lessons for civil society

As we review the chaos of the credit crunch we should remember that this is a moral as well as a financial failure, and a sociological problem as well as an economic one. Without this we may lose the broader lessons for civil society, for the credit crunch is a collective failure, a product of a society where the pursuit of financial gain subverted all other modes of behaviour and confused money with morality. However, neither should we be naive about the unusual nature of this crash, as Galbraith (1993) argues in 'A Short History of Financial Euphoria', mania is a function of capitalism and the role speculation plays in a bubble and subsequent crash is always ignored in favour of blaming an individual. This he believed was 'theological' because 'the market is a neutral and accurate reflection of external influences; it is not supposed to be subject to an inherent and internal dynamic of error' (p23). Yet once again we face a financial meltdown and perhaps we should accept that the market is fallible and is affected by human emotion. If so, we need ask ourselves whether we accept this weakness as a price for the success capitalism delivers (a Schumpeterian[6] approach) or if we seek to moderate and introduce counter-cyclical measures.

This paper argues the latter because the former treats citizens as mere ciphers, the subjects of an economic system rather than its purpose. Ironically, neither have the capitalists shown a capacity to protect capitalism. Instead, as Smith argues, they conspired against the people, seeking to emaciate the regulators at every turn.

Until theorists develop a new economic theory, men and women of practical means should work to recalibrate the current system so that it benefits wider society. But where to start? Firstly, we need to decide what the economy is for and why indeed we need it. What's noticeable is the liveliness of this debate during the past three centuries and the political silence since the fall of the Berlin Wall. It is hard not to agree with the view that our politicians have become managers of a pre-ordained system and this damaged democracy. Consequently, civil society needs to recapture the political parties. The gradual centralisation of both main parties helps neither our parliamentary system nor the nation. We need greater local accountability of MPs, so that they serve their electors and not the interests of their parties. A civil economy needs parliamentary reform to have any chance of success.

Political reform

Within the UK there is a precedent for an active role for civil society in addressing a political vacuum. In the 1980s and 1990s the Conservative Party won repeated elections yet became increasingly unpopular in Scotland. In response civil society associations, in partnership with the Labour Party and the Liberal Democrats, launched the Scottish Convention. Its recommendations ultimately shaped the constitutional reform agenda of the 1997 Labour Government, leading to a Scottish Parliament. Thus, we need to complete the work of the Scottish Convention by having a British convention. However, this time the politicians and the political parties should be ancillary partners and the voices of civil society should dominate.

There is plenty for the convention to address: what shape should democracy take in 21st century Britain? What should be the relationship between the state and local communities? What should Britain's relationship be with the world and supranational bodies? What type of economy do we need to prepare for the likely environmental and social challenges of the 21st century? How do we ensure we make the most of everyone's potential whether they are eight or 80 and what contribution can they make? Of course people will disagree on many of these issues but we need a place where a conversation can occur outside of the numbing and ossifying political dialectic.

A new economy

With regards to the purpose of the economy, Green activists have been making the case that we should see humans as custodians of the planet (though even this view is criticised by some as being too anthropomorphic). Stewards tend not to exploit their land without ensuring assets are replaced. We need to develop an economic system that is more aware of finite resources and harmful behaviour. Practically, we should attempt to accurately measure the Earth's remaining resources. We have no idea whether we have reached or are about to reach Peak Oil because nations like Saudi Arabia are unwilling to publicly declare their remaining stocks. Any capitalist system is reliant on the quality of the data and one of the lessons from the current crisis has been the problems caused by opaque products.

> … a civil economy has to do more than replicate and be a kinder version of neo-liberal capitalism.

Given its independence from both governments and the interests of investors, civil society could act as an independent assessor. Though there is a need to invest and develop new technology to measure the size of oilfields, this could be done in partnership with universities and the United Nations. This will need funding to get started but once it's developed it should be possible to post all the results online and create a virtual Linux-style community to analyse and enhance the methodology.

Once we have fairly reliable measures civil society can begin the process of creating new tools and technologies enabling us to adapt. Transparent figures create an environment where entrepreneurs are encouraged to innovate to make equipment more energy efficient. The parallel is with pricing where money becomes the measure for business efficiency. It is impossible to second-guess likely new products, but the focus would be on creating non-oil or low oil consumption goods and services. This is only part of the argument; we also need to design our society so we repair the damage we have caused. This may seem detached from the economic crisis but a civil economy has to do more than replicate and be a kinder version of neo-liberal capitalism.

Financial transparency

Transparency of data is also required of financial institutions, in particular details on where they are investing our money. Pension funds and banks are custodians of individual savers' money and there is remarkably little control over how this is utilised. Although in theory shareholders have an oversight function and can veto certain activity, this rarely occurs.

Pension funds and transparency

One example of this is that there have been only a handful of successful votes against director remuneration. Part of the explanation is that those voting are institutional shareholders, such as pension firms, who also operate in the City and share the same culture. Yet these pension companies comprise of the accumulated wealth of millions of savers, so surely it would be in their interest if pension fund managers voted against inflation-busting pay increases. Instead we have a classic case of 'capture' where the interests of the pension fund managers are aligned with those they're supposed to be monitoring. One solution is to empower pension fund customers; though this may prove costly and excessively time-consuming. An alternative approach is to allow pension fund managers to endorse pay increases that are in line with inflation or that match the growth of the company. Any proposal in excess of this is voted upon by the pension fund customers. Executive pay would then over time be closely aligned with the performance of the company.

Another way forward could be an annual letter from pension funds to clients, detailing how they voted at company AGMs and on merger and acquisition proposals. Also, what action they took to consult customers before making those decisions. The statement could include details of any potential conflicts of interest and how these are going to be addressed. Once this material is in the public domain it enables civil society campaign groups to hold pension fund managers to account.

Bank transparency and the Community Reinvestment Act

Further extensions of transparency are required in the banking sector because these companies, as we have seen, are ultimately guaranteed by the state. In the USA banks are required to declare the investment patterns on a zip code basis showing where they take deposits and where this money is spent (Community Reinvestment Act 1977 [CRA]). The original purpose was to eliminate discrimination in which financial institutions would take the savings of low-income black people and invest in middles-class white areas. Today it is still used to highlight transfers of wealth from the poor to the wealthy. Once the data is released community groups are able to campaign for a fairer apportionment of resources. In addition, subsequent legislation has enabled banks to address investment inequalities through financing intermediaries such as Community Development Finance Institutions (CDFIs).

In the UK, exclusion by banks through redlining has long been a problem (Leyshon & Thrift, 1997), with banks either refusing to serve people in a specified community or closing branches in deprived communities (Marshall, 2004). Nor is this problem restricted to Anglo-Saxon economies, as Aalbers (2005) found in Rotterdam.

> “... what’s to say the practices in Middlesbrough are any different to Cleveland, Ohio, unless the banks are asked to prove it?”

The CRA has been criticised by banks and free-marketers for contributing to the sub-prime crisis, by forcing banks to invest in low income communities. Though superficially attractive, the argument does not sustain scrutiny. The CRA not only forces disclosure, it contains a clause that says financial institutions should still behave prudentially, and there are vehicles for banks to invest in rather than undertake the activity themselves. The latter is significant because research by George W. Bush’s Comptroller General found that local non-profit community finance institutions had lower default and arrears rates than sub-prime lenders or even mainstream banks. The problems arose when banks thought they could match the performance of CDFIs and serve far more customers. Omitted from their offer was guidance on the most appropriate loans and refusal to extend credit beyond a person’s ability to repay. Despite CRA being recommended by the Social Investment Taskforce in 1999, UK banks have successfully lobbied against this proposal. Clearly, the environment has changed since the turn of the millennium and a CRA would ensure the entire country benefits from having to bail out the banks.

International co-operation

While this transition is ongoing we need to develop new civil society associations and many of these should be global. A feature of the last 20 years is that the financial sector and transnational corporations operate globally, while civil society is fragmented among nation states. This vacuum has been filled by anarchists and other extreme activists. Unless civil society can organise globally this will only intensify, as critics of the existing system get frustrated with the absence of moderate leadership. Civil society needs to increase its co-operation across nations and happen outside of the state and supra-national bodies. There has been a long-standing view that communities should think globally and act locally, but with the dominance of the nation state coming to a close, civil society needs to adjust towards international action as well information exchange. The environmental movement is ahead here. There is a need for a virtual global civil society and a shared understanding of key concepts to help hold transnational organisations to account. For example, using the CRA to challenge banks in the UK. After all, what’s to say the practices in Middlesbrough are any different to Cleveland, Ohio, unless the banks are asked to prove it? There is a need for new coalitions to tackle financial institutions that work together to create global consumer protection legislation – a charter of consumer rights. This could be complemented by a global manifesto on responsible banking.

New financial institutions

The establishment of the building societies reminds us that we once built communal financial bodies and this continues today with credit unions and Community Development Finance Institutions (CDFIs). While credit unions are deposit taking firms, CDFIs have the potential to play a much broader role in civil society. In the USA, CDFIs are the vehicles for accessible and affordable finance for everything from health care centres, nurseries, housing, individuals, as well enterprise lending. They draw funding from government (both state and national level) and attract investment from banks, philanthropic individuals and foundations. By comparison, in Britain CDFIs are in danger of becoming state-controlled and financed regional business loan funds[7]. There is a need to free CDFIs from their shackles and allow them to blossom as independent community-owned and controlled financial investment vehicles. First, they need to be defined in law as a particular type of industrial and provident society. This will distinguish between those wanting to be independent entities controlled by civil society and those that are extensions of local and regional economic development agencies. Second, a Community Reinvestment Act (CRA) is required to provide a source of long-term private finance. Third, to aid the transition, foundations and other non-governmental funders should help CDFIs enhance their skills and capabilities and target investment capital for on-lending to those wanting to be covered by a legally prescribed definition.

Communal ownership also needs to extend beyond financial services to include land and assets. In Scotland, Community Land Trusts (CLTs) have helped communities escape from the feudal absentee landlords, while in England and Wales the first 150 CLT homes are being built. These organisations are important because access to land enables communities to use it as an asset to borrow against and employ for collective benefit. It also provides something tangible communities can identify with. Communal ownership does not solve problems but it helps civil society associations start.

With both CDFIs and CLTs there is a need for third parties to ensure customers and tenants receive independent advice. This could be delivered by the private sector but there is also the possibility of a role for civil society associations. For example, in the USA potential tenants of CLTs are given a voucher that entitles them to seek independent mortgage advice. A similar voucher system for businesses has been discussed periodically in Britain. There is a strong argument that civil society associations should be established to deliver these independent and impartial services.

New infrastructure and language

For too long we allowed the state and the private sphere to intrude upon the space once occupied by civil society. From the left this has been under the guise of increasing equality and social welfare, while the right has argued for efficiency of service provision. Though both perspectives are understandable they ultimately reduce the capacity for voluntary and non-profit groups to exercise freedom and focus on personal delivery.

What is needed is an infrastructure that allows the intimacy and cohesion associated with civil society associations to operate within an environment where global mutual learning and campaigning can function. Without this, attempts to engender a social economy in one territory will be undermined by international trade treaties or supra-national social policy initiatives. While many will be self-funding, trusts and foundations should review their geographic reach and help build the global piazzas necessary for a truly global civil society.

The infrastructure involves multiple umbrella organisations and websites where experience can be posted and transferred. These exchanges need local nodes but must be embedded in a global network where civil society associations can both learn about the experience of their counterparts elsewhere and compare the performance of trans-national corporations in different territories. Without this we are reliant on the mediated news and a few citizen journalists.

> ... a civil economy needs to seek clarity in meaning and promote words and phrases relevant for different forms of enterprises.

Any civil economy also needs to develop its own linguistic lexicon. A feature of the decline of the building societies was the transformation from mutual language to that of the free market: deregulation led to the removal of the word 'surplus' to be replaced by 'profits'. Once this transition occurred it enabled and legitimised managers to think in terms of customers rather than members, and ultimately shareholders and dividends rather than membership and mutuality. Within the City, language has also played a role in some of the obfuscation that has contributed to the confusion about assets. As Galbraith (1993) argues, most financial products used in the markets are credit-related, whether that's the issuance of bonds to enable a leverage buy-out as per the 1980s, or options where investors borrow on the basis that the shares will be worth more in the future. Words matter and a civil economy needs to seek clarity in meaning and promote words and phrases relevant for different forms of enterprises.

Role of auditors

The main linguistic exercise companies undertake is the annual audit. There was a time when this was a financial activity, but the current crisis has exposed the frailty of this argument. Not only did auditors not warn the public that the Credit Crunch was looming, too many of these same corporations were involved in 'puffing' the market through their cross-ownership of ratings agencies and assisting mergers and acquisitions. With the profitability of the latter and the low status of conventional auditing, both the talent and the focus of accountancy was on future growth and not assessing the existing position.

> For a civil economy to function, auditing needs to return to its original purpose of serving the public good and not promoting its own corporate benefit.

To date, auditors have escaped much of the censure that the banks and the regulators face, but in a civil economy they are the key independent voice, without them whom should the public trust? Furthermore, auditors have been complicit in the creative balance sheets and the ever expanding notes below the bottom line.

For a civil economy to function, auditing needs to return to its original purpose of serving the public good and not promoting its own corporate benefit. This can be achieved by dividing accounting firms from auditors and much tighter regulation on exemptions from balance sheets. In addition, auditors should face virtual question and answer sessions three months after the accounts are published to allow civil society time to assess the information. Consequently, there is a role for civil society associations in creating networks that utilise the skills of retired accountants and lawyers to undertake this forensic analysis. In the meantime, social economy businesses should consider amending their tendering documents for auditors, so that they disallow applicants who provide advice on mergers and acquisitions.

Dealing with critics and speculative manias

While a linguistic turn is essential to any recovery a civil economy needs to address two other aspects of the repeated crisis of capitalism: the treatment of critics and the collective speculative mania. Dealing with Cassandras is always problematic because those who participated in the boom do not want to hear about the risks attached to their activity.

Traditionally critics have found a home in civil society, whether that is in the media or academe, but in recent years these have both been under assault and often compromised. Any civil economy must spend more time defending the seats of criticism. For example, during the current crisis financial journalists have either been ignored or, more problematic, been too close to the City. The response from the establishment was telling with the Treasury Select Committee blaming the media for not warning of the disaster or hauling up Robert Peston of the BBC for being too negative about the fate of Northern Rock. Yet where were the voices within civil society defending the journalists who asked difficult questions?

A civil society is either a supportive and active nexus of interests or it has no value. One explanation is that organisations fear that they will compromise their position and contracts with the state or other agencies. Civil society should work to remove gagging clauses from contracts and monitor what happens to those that articulate critical positions. Only civil society can properly protect whistleblowers because it can change what is deemed culturally acceptable. This is best exemplified by Ralph Nader's campaigning in favour of seatbelts, where over a period of 30 years the law and the culture was transformed by civil society. A civil economy needs its Ralph Naders. Much of this will be done on the internet and will be beholden to trusts and foundations to defend the right of these voices to express their freedom to speak.

Less straightforward is tackling speculative mania, though equally important. Examining the origins of the current crisis it is apparent that a large proportion of the public became obsessed with house prices. As the prices rose people increased their borrowing to jump or remain on the property market. Fuelling this were financial institutions, estate agents and television programmes, but all these required a public convinced that prices were always going to rise despite historical evidence to the contrary. By 2008 house prices were in excess of seven times average wages and mortgages were being offered at 125% of current value. While many of us believed that this was unsustainable the fear that it may continue indefinitely drove us to engage in the speculation and gradually close our ears to the critics. Yet, when the market retrenched the blame was apportioned everywhere except towards the general public. This, according to Galbraith (1993), is exactly what occurs during any crash.

“Only civil society can properly protect whistleblowers because it can change what is deemed culturally acceptable.”

To address these crises we need a much greater understanding of crowd behaviour and a more reflective society. Only when we have a culture where admission of error is treated as part of the learning experience and not a case for instant dismissal will there be an opportunity to change behaviour. In the meantime we may decide that measures are required to prevent mania affecting essential parts of the economy, such as homes.

Measures that could be introduced include limits on earning multiples for mortgages, and/or requiring financial institutions to disaggregate their mortgage book so that higher earning multiples are clearly shown and the appropriate risk alleviation is in place. We also need to examine house building and the tension between those wanting to own their own home and the buy-to-let market. On its own there is nothing wrong with the latter, in fact numerous small landlords is a sign of a healthy financial system, the difficulties arise if landlords can secure easier credit than other borrowers and if demand exceeds supply. Both occurred during the current crisis.

A civil economy would seek to encourage investment in productive activity (machinery, equipment, research and development, and training of staff) and with fewer tax benefits accruing to land and property ownership. One way to achieve this is to alter council tax so that it becomes a land surcharge as well as service payment. Given the controversy the last time local taxation was changed this needs to be discussed within civil society before any recommendation is taken forward. With regards to supply of property, means need to be found to ensure there are sufficient homes for all families. This requires new housing, utilisation of empty properties and a debate about the future of families. One of the hidden features of the changing housing market has been the impact of divorce, with both partners wanting homes that can accommodate them and their children, even if they have them only once a month. While understandable, civil society needs to discuss ways to preserve the two-parent family without punishing those trying to bring children up alone. For new homes there should be more small developments of a limited number of homes, rather than building new towns. While ownership arrangements should reflect a community's stake in local housing development and its maintenance.

Banks and craftsmanship

Earlier in the paper the role of the senior staff within banks was discussed and their failure to display craftsmanship. Artisans were essential to the development of guilds, trade unions, building societies and a range of voluntary sector organisations. Unless people are judged on their wealth or ability to gain celebrity, we have to base our opinion of someone's qualities on their work. Consequently work, and specifically a pride in work, is inimical to building a civil economy. In the past we could only assess the work of people we meet, but with the changes in technology it is possible to make judgements from afar. As a result it should be possible for new alliances and partnerships to emerge, along with new ways of working and serving the wider public. This is also true within companies, not least the financial services sector.

A civil economy requires bankers to have a broader view of how their services impact upon society and develop products and services appropriate for the future. For example, Will Hutton asked at an event hosted by the Inquiry into the Future of Civil Society why banks couldn't develop mortgage products that fluctuated with your income. Such a product would reflect the reality of people's lives rather than assuming we all work continuously for 25 years. Just like a good tailor, bankers that were craftsmen would spend time designing services that fitted the person. Too many banks are profit rather than service-driven and there's a denial that wider society has any role in their businesses. Recent events have demonstrated the folly of that approach.

Rather than rely on the banks to develop services, civil society needs to design competing products and subsequently campaign for their introduction. For example, if the banks lose the ongoing case against the Office of Fair Trading on bank charges, they are likely to respond by abolishing free banking; civil society should now be consulting the public and working on the redesign of the current account.

“Just like a good tailor, bankers that were craftsmen would spend time designing services that fitted the person.”

Civil society within banks

As civil society is present within companies there needs to be internal protection for whistleblowers and those critical of the existing corporate direction. At present such people tend to exit rather than exercise voice because of the treatment of the latter. This results in a passive junior management cadre where internal critics are rare and thus viewed as recalcitrant. Large and important organisations need to create space for alternative views. In an industry that has had repeated miss-selling scandals followed by a virtual collapse the need is strongest among financial service providers. The role could be the equivalent to health and safety, in which all staff are responsible with centrally employed specialist support. A civil economy must exist within companies where responsibility is towards the functioning of the system rather than pursuit of pure profit.

> ... within a civil economy, social actors realise that profit takes years to accumulate and a quick buck invariably involves a catch.

Internal whistleblowers have also been constrained by the dominant managerial ethos of the age: shareholder value. By situating owners as the primary object of the company it overlooks the role of other stakeholders and societal factors. In particular, it detaches managers from their role as custodians of the company, limits the interests of the workforce, and sees customers as a means to an end: the production of profit for dividends. Moreover, management is driven to a chronological fixation with the short-term and can therefore ignore environmental concerns or the impact on the capitalist system of their practices. A civil economy needs to develop management creeds for a new age. Such an approach would see the manager as a steward with a primary responsibility towards the long-term health of the company.

This would, in normal circumstances, result in greater emphasis on customer retention (it is always cheaper to hold on to existing clients than bid for new ones), more extensive staff development and training (on the same premise of keeping clients, along with the loyalty it should engender), long-term profitability and minimising debt, which should appeal to strategic investors, and an interest in the environment and wider society as the managers are building the company for future generations. How this is undertaken is the choice of managers and those that train managers, but a transition to this model is essential if the financial sector is to restore its reputation. For the industry has in recent years alienated customers, de-skilled branch workers, claimed profit based on debt mountains, and ultimately required rescuing, having previously lectured the rest of the society that they should stand on their own two feet.

A banking sector within a civil economy would be more conservative and prudent, and act as an early warning system regarding future speculative manias. In addition, customer service would be personalised and tailored to individual needs. Finally, within a civil economy, social actors realise that profit takes years to accumulate and a quick buck invariably involves a catch. The failure to learn this lesson in Britain has lead to a shift away from engineering and manufacturing towards ephemeral speculative activity in the City of London. To assist this transition and help overcome the gap between bankers and the public they should be required to undergo some of their training outside of banks, in both educational establishments and secondment to community groups. In law civil society associations should be exploring the viability of a new global Glass-Steagall Act[8] and designing a new set of libel laws to allow greater questioning of large and powerful organisations.

Morality

The final and most important feature of a civil economy is its morality, specifically having a moral purpose. For too long the financial community has been able to persuade politicians and the wider public that morality and finance should be detached, arguing that morality can lead to a distortion of service and exclusion of some of those most in need. This argument has run out of road. Not only did the financial sector have a morality: the right of the individual to freely choose is as moral as any corollary, but it was forfeited when those promoting this creed went seeking a lifeboat from the state. Here we have the morality of the crises: leave the rich alone to get richer, until such time as they need funding to avoid going bust. It is little wonder that there is so much anger about.

To see the market as a secular entity is to detach from its historical origins. The basis of any exchange is trust, whether it is the reliability of the goods or services being gained or the money being transferred. Trust does not simply replicate itself but requires daily repetition. Without trust a currency can collapse, witness Argentina in the 1990s, or it can lead to a decline in the confidence in a company, such as Ratners in the 1980s. For trust always requires a leap of faith, as there is always a gap in knowledge between seller and purchaser.

It is this gap that is filled by morality. If the buyer believes the provider shares their values then it becomes easier to bridge the gap. It should not be assumed that this leads to no crime, because by its very nature crime is the disruption of trust, but that's why a moral market still needs policing agencies and legislation. But when we look at the financial sector we find an absence of trust. How can clients trust providers that repeatedly miss-sell products or celebrate record profits based on bank charges? How can customers be assured of recompense when the Consumer Credit Act enshrines the legitimacy of excessive interest rates? Moreover, the same financial institutions championed their superiority over other parts of the economy and justified their salaries on the back of this success. Is it any wonder there is a trust deficit?

Looking forward, a civil economy would be less bombastic, would understand that the cheapest and best service is where trust is at its highest, companies would see their products as connected to a broader society and therefore want to contribute to the greater good. In addition, civil society would be expected to play a greater role in the economy, not just through services but also debating its direction and relationship with wider society, along with decisions about where they make strategic investments.

Religious bodies or foundations need to use their economic power to change the economic actors' behaviour and support those trying to do the right thing. For example, terminating investment in businesses that charge excessive interest rates on loans to those on low incomes.

Mutuals and a civil economy

A civil economy requires trading bodies that promote mutual and collective business models. John Lewis Partnership, a producer co-op, is repeatedly voted the best retailer in the country and though the Co-operative Bank and Nationwide Building Society receive similar accolades in finance there is a need for more companies to provide these leaders with competition. In addition, civil society needs to develop its own rating systems for pro-civil economy investment decisions – this would extend the current system based on financial stability to include investment decision records in terms of the stability of wider society. For example, if a bank is offering 100% mortgages in a booming housing market it should be downgraded; while the auditing profession would benefit from having more co-ops and mutuals. To help make this happen there should be an annual celebration of civil economy activity, along with an annual training conference. After all, where else do staff from building societies mix with those running voluntary sector care homes or religious denomination schools?

A civil economy needs a place where participants can gather and exchange ideas and knowledge. It also needs to interact with the for-profit sector, public sector providers and engage citizens.

Conclusion

A civil economy should not be seen as something detached from the real economy, it should be the real economy. Trusts and foundations should be looking at ways to support the infrastructure necessary for its development, while investing resources in those organisations that demonstrate good practice. Just as the economy is too important to leave to economists, capitalism is far too important to leave to the capitalists. As Galbraith (1993) has argued, speculation is endemic within the markets and though we may not be able to avoid the next crisis, civil society can work together to build institutions and services to temper the effect of the storm.

> "Just as the economy is too important to leave to economists, capitalism is far too important to leave to the capitalists."

Notes

1 In the USA there has been a decline in real terms when the hours worked is taken into account.

2 In Barclays the business of banking: 1690:1996, Ackrill & Hannah (2001), describe how building societies had over half the retail deposit market in the 1980s. Building societies had 92% of the mortgage market in 1980 (Barnes, 1984) and 17.6% in 2008 (FSA Building Society Statistics. Table 5.3, 2009).

3 One of the first great stock market speculative booms, which collapsed in 1720. The 'bubble' was named after the South Sea Company which traded in South America and purchased part of the national debt before collapsing.

4 UK Supplementary Special Deposits Scheme.

5 This section was inspired after reading Richard Sennett's 'The Craftsman' which went to print before the Credit Crunch but contains a fascinating exploration of work in and of itself.

6 Joseph Schumpeter (1883–1950).

7 Symptomatic of the Atlantic divide is that while President Obama doubled the CDFI Fund to over $200m, the UK government has commissioned GHK to undertake a review of the sector.

8 The Glass-Steagall Act 1933 contained a clause that disallowed banks having both retail (deposit taking) and investment arms, to ensure speculative investment did not lead to the collapse of high street banks. It was repealed in 1999 partly because Wall Street was concerned about losing ground to London, which had no such protection, as a financial centre.

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What is civil society?

The working definition of civil society adopted by the Commission of Inquiry is:

Civil society as associational life: civil society is the 'space' of organised activity voluntarily undertaken, and not undertaken by either the government or for-private-profit business. This includes 'formal' organisations such as voluntary and community organisations, faith-based organisations, trade unions, mutuals and co-operatives. It also includes 'informal' groups, from the very local to global social movements.

It is important to note that not all civil society associations are necessarily 'good' in of themselves. As noted by Tom Carothers, Carnegie Endowment for International Peace 'Civil society is the good, the bad and the downright bizarre'. At their best, civil society associations can fundamentally enhance the lives of the poorest in society, strengthen democracy and hold the powerful to account. At their worst they can preach intolerance and violence.

" Civil society is the good, the bad and the downright bizarre. "

Civil society as a 'good' society: the term civil society is often used as a short-hand for the type of society we want to live in; these visions are both numerous and diverse.

Civil society associations do and can play a critical role in creating a 'good' society. However, they will not achieve this alone. Creating a 'good' society is dependent on the actions of and inter-relationships between the market, states and civil society associations.

Civil society as the arenas for public deliberation: we will not all necessarily agree what a 'good' society is or agree the means of getting there. Civil society is therefore also understood as the arenas for public deliberation where people and organisations discuss common interests, develop solutions to society's most pressing problems, and ideally reconcile differences peacefully. These arenas may be actual – a community centre, for example – or virtual, such as a blog. As such, these arenas for public deliberation are a key adjunct to a democratic society.

In short, civil society is a goal to aim for (a 'good' society), a means to achieve it (associational life) and a means for engaging with one another about what a 'good' society looks like and how we get there (the arenas for public deliberation).

About the Carnegie UK Trust

The Carnegie UK Trust was established in 1913. Through its programmes, the Trust seeks to address some of the changing needs of the people in the UK and Ireland, in particular those of the less powerful in society. The Trust supports independent commissions of inquiry into areas of public concern, together with funding action and research programmes. There are currently two active programmes: the Democracy and Civil Society Programme and the Rural Programme.

The Democracy and Civil Society Programme has two elements to its work. The main focus of the programme is the Trust's Inquiry into the Future of Civil Society in the UK and Ireland. The second focus of the programme is the Democracy Initiative, which aims to strengthen democracy and increase the ability of citizens and civil society organisations to collectively influence public decision-making.

The Rural Programme helps rural communities across the UK and Ireland to respond to and influence social, environmental and economic change. The programme works to ensure that rural priorities are fully recognised by decision-makers. This is done through: securing the practical demonstration of asset-based rural development; testing Carnegie UK Trust's Petal Model of Sustainable Rural Communities; and hosting a Community of Practice for rural activists and professionals.

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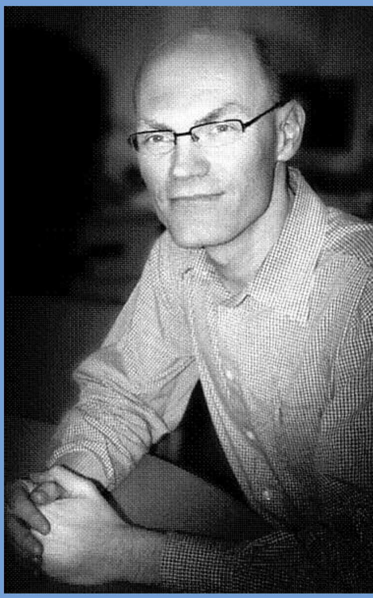
About the author



Dr Karl Dayson is Senior Lecturer in Sociology and co-founder and executive director of Community Finance Solutions (CFS) at the University of Salford. Karl has ten years of research experience in the field of community finance, financial exclusion and institutional forms of collective and communal ownership. In 1999 Karl was part of a team that developed a model for lending to low-income, financially excluded households, called Community Reinvestment Trusts (CRTs). The model was laid out in the first publication by CFS: Investing in People and Places. Since then, Karl has helped set up over a dozen CRTs across the UK. Karl has also been a key player in the development of CFS's work on Community Land Trusts (CLTs). He is the chair of the Conservative Party CLT Taskforce and in April 2007 a CLT practitioners guide edited by Karl was launched.

Karl was recently elected a Fellow of the Royal Society for the encouragement of Arts, Manufactures and Commerce (RSA).

Community Finance Solutions

University of Salford
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The freedom granted to the financial sector in the latter half of the 20th century has not delivered either prosperity for all or stability of the system. We now have a nation where both the people and the state are in debt, with no obvious means to pay it off. The credit crunch was as much of a moral and sociological failure as an economic and financial one. In this think piece, commissioned to inform the Inquiry into the Future of Civil Society in the UK and Ireland, Dr Karl Dayson explores the role of civil society associations in growing a more civil economy for the 21st century.

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