Market Economies as Moral Economies: the Ethical Character of Market Institutions*

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1. Moral economies and market economies

According to one influential school of thought, market economies differ radically from all other kinds of economy, and certainly from their historical predecessors, in their non-moral character, in not being moral economies. In pre-market economies, it is claimed, economic activity is subject to moral constraints and governed by ethical goals; in market economies, by contrast, there is an absence of any such normative framework, and 'purely economic' considerations are the only ones that count.

This claim is associated especially with the work of Karl Polanyi, most notably in *The Great Transformation*, and is articulated there through the concept of *embeddedness*. Economic activity is said to be embedded when it takes place in a normative context provided by various social and political institutions and relationships, including those of kinship. It is thus seen and practised as a particular aspect or dimension of more broadly defined activities from which it cannot be separated, and is subject to the normative rules and distinctions recognised by the community. By contrast, when economic activity is disembedded, it takes on a life of its own, as one might say: it no longer forms an integral part of the community's social and political life, but is conceived and practised separately

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from this, and hence from any normative order. Indeed, only in societies where economic activity is thus disembedded can there properly be said to be 'an economy' as such, i.e. a separate sphere or domain.

In Polanyi's view, it is only when markets are used as the primary means of economic organisation that this condition of disembededness obtains. Market economies differ from all others in being disembedded 'from society', and what Polanyi famously described as 'the great transformation' in modern European history consisted precisely in this disembedding of economic activity, and hence in the emergence of what he called the 'self-regulating' market economy. Thus the transition from pre-market to market economies can be characterised as the displacement of moral by non-moral economies. [1]

Closely connected with this view is a rejection of modern, neo-classical economics, or at least of its applicability to pre-market economies. The depiction of economic agents as self-interested, calculatively rational utility maximisers, and the definition of 'the economic problem' as one of choice between alternative resource-uses under conditions of scarcity, may perhaps be appropriate for the analysis of market economies, but is definitely not so when applied to the normatively embedded character of economic activity in pre-market societies. The universalistic pretensions of modern economics are thus rejected, and a 'substantivist' rather than 'formalist' approach to pre-market economies is endorsed, one that recognises methodologically their actually embedded nature.

Polanyi's thesis – which provides part of the background to Alasdair MacIntyre's history of moral decline in *After Virtue*, and is partly mirrored by Jürgen Habermas's claims about the modern de-coupling of 'system' from 'lifeworld' - has been widely discussed by economic sociologists, historians and anthropologists. [2] Of particular interest

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[1] K. Polanyi, The Great Transformation, Boston 1944/1957; see also the papers collected in: Primitive, Archaic, and Modern Economies. Essays of Karl Polanyi, edited by G. Dalton, Boston 1968. I shall not try to justify the interpretation of Polanyi's views presented here. They are views that are widely attributed to Polanyi, but it is their substantive correctness that is my concern, not the correctness of this attribution. For recent discussions of his work, see: Karl Polanyi. New Perspectives on the Place of the Economy in Society, edited by M. Harvey, R. Ramlogan and S.Randles, Manchester 2007. Polanyi's concept of 'disembedding' has proved especially contentious: see G. Krippner, The Elusive Market. Embeddedness and the Paradigm of Economic Sociology, in: Theory and Society 30 (2007), 775-810.

[2] A. MacIntyre, After Virtue, London 1981; J. Habermas, The Theory of Communicative Action, vol. 2, translated by T. McCarthy, Cambridge 1987. I have criticised Habermas's account of the system-lifeworld separation in: R. Keat, Social Criticism and the Exclusion of Ethics, Analyse und Kritik 30(2) (2008), 229-253.

to social and political philosophers are the criticisms developed in a series of publications during the 1990s by William Booth.[3] Partly following Polanyi, Booth takes the ancient Greek household as the paradigmatic case of a pre-market economy, and Aristotle as its philosophical spokesperson. He then draws on the work of classical and contemporary liberal political theorists to argue, *contra* Polanyi, that market economies do in fact possess a distinctive *moral* character. He nonetheless agrees with Polanyi that market economies differ from their predecessors in their lack of orientation towards substantive conceptions of the human good.[4] It is this latter claim that I shall be primarily concerned to challenge in this paper.

2. Market economies as 'moral' but not 'ethical'

Against Polanyi, Booth argues that market economies *are* moral economies: what distinguishes them is the specific content of the morality in which they are embedded, not their lack of any such morality. He does so by focusing on what he regards as the moral character of market *exchange*, as a contractual relation between 'free and equal' individuals, and argues that this can be seen, historically, as representing a challenge, and an alternative, to the morality of the household economy. In particular, he claims, the endorsement of voluntary contractual relationships between equals by classical liberal theorists, such as John Locke, was directed against the hierarchical, status-differentiated (and indeed patriarchal) nature of the pre-modern household. The specific normative embedding of household economies was rejected, and replaced by a differently constituted economy with its own moral embedding. As Booth puts it, drawing also on the concepts of more recent liberal theory:

"The mode of producing and distributing the means for human sustenance embodied in the market is expressive not of a human propensity to truck, trade and barter or of the desire to acquire ever more things but rather of a moral redrawing of the

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3 I shall focus on: W. J. Booth, On the Idea of the Moral Economy, in: American Political Science Review, 88 (1994), 653-667; but see also: W. J. Booth, Households. On the Moral Architecture of the Economy, Ithaca 1993; W. J. Booth, Household and Market: On the Origins of Moral Economic Philosophy, in: The Review of Politics, 56(2) (1994), 207-235; W. J. Booth, The New Household Economy, in: American Political Science Review, 85(1) (1991), 59-75.

4 Booth treats Polanyi as the leading figure in a more broadly defined group of theorists, whom he calls 'the moral economists', including E. P. Thompson and James C. Scott, although he recognises important differences within this group. My reference to an 'influential school of thought' at the beginning of this paper, and to Polanyi's place within this, is based on Booth's account.

community and of the place of the economy within it. What that transition yields is a new form of moral embeddedness for the economy. The attributes claimed for it are familiar: an economy whose actors are considered equals and a system indifferent to their noneconomic attributes; a contractarian, voluntaristic institutional context for exchanges; and the view that the public authority should not decide among preferences – that one is entitled to live one's life "from the inside", selecting and ordering one's preferences according to the good as one understands it and seeking to engage the voluntary cooperation of others in one's pursuit of them". [5]

However, as this passage partly indicates, Booth's claim that market economies are, like their household predecessors, moral economies, is subject to an important qualification. He notes that something that is central to household economies is absent from this liberal account of the market's moral character, namely a clearly articulated and shared sense of the overall end or purpose served by the economy, of the substantive good(s) which it is intended to achieve, and hence of the economy as an instrument for this purpose, open in principle to evaluation with respect to how well it serves it.

In the case of Aristotle's ancient Greek household, Booth argues, this ethical end consisted in providing (though only for *citizens*, of course) sufficient leisure-time and resources to engage in the activities seen as constituting 'the good life', including friendship, politics, private and public giving, and philosophical reflection. By contrast, market economies not only seem to lack any such ethical purpose, but the specific character of their normative basis *rules out* the subordination of economic activities to an overarching good. By endorsing voluntary contractual exchanges between equals who pursue their freely chosen goals, and refusing to discriminate between these through authoritative social judgments about their value, this central aspect of household economies (and their Aristotelian rationale) is excluded. As Booth puts it, from Aristotle's standpoint market economies look like "… masterless households in which one can do whatever one wants…. One does as he wishes because the idea of a sovereign good (the

[5] W. J. Booth, 'On the Idea of the Moral Economy', loc. cit., 661. Indeed, Booth believes that economic activity is always normatively embedded, in any society: "The economy, in short, is suffused by the norms of the community of which it is a part… In this sense, and contrary to Polanyi-type arguments, all economies, including the near-to-pervasive-market economies, are moral economies, embedded in the (ethical) framework of their communities". (*ibid.*, 662b). However, to say that market economies are moral economies does not, in my view, entail that they share in the morality of 'the community as a whole'; they might instead have 'their own' normative character. I shall say more about this in section 7 below.

master) is absent and in its absence all desires and pleasures, all life plans, are treated and honoured equally". [6]

Booth regards this Aristotelian contrast between market economies and their household counterparts as broadly correct. Taking this into account one can, I suggest, articulate his overall response to Polanyi's thesis by making use of the distinction adopted by some moral and political philosophers between *ethics*, understood as concerned with questions of the human *good*, and hence with the nature and sources of human flourishing or well-being, and *morality*, understood now in the more restricted sense as concerned with questions of *right conduct,* and hence with the rules or principles that should govern people's actions towards one another.[7] Booth's position can then be stated in the following way: what is distinctive about market economies is that they are *moral* (in this restricted sense) but *not ethical*, whereas *non*-market economies (or at least household economies) are both moral *and* ethical. Thus Polanyi's 'great transformation' was not from moral to non-moral economies, since market economies *are* moral economies; rather, it was from moral *and ethical* to moral *but non-ethical* economies.

This view of market economies would make (and has made) [8] them very attractive to those liberal political philosophers who endorse the principle of *neutrality*, according to which the state should not act with the aim of realising or promoting any specific conception of the good, but should confine itself to establishing a just framework within which individuals may pursue their own such conceptions. Distinctively ethical judgments should thus be excluded from political debate. If market economies are moral but not ethical, the political choice of market institutions, and the use of state powers to support them, would be consistent with this principle of (ethical) neutrality. And it is this understanding of markets that informs one of their most important philosophical defences, in the work of Friedrich Hayek.

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[6] W. J. Booth, 'On the Idea of the Moral Economy', loc. cit., 664. See also W. J. Booth, Households, loc. cit., where he explores the linkage between the internal hierarchy of households, headed by free males who do not work, and Aristotle's ethical hierarchy of ends.

[7] Although the distinction is conceptually valuable, the terminology is awkward and potentially misleading, given the more usual, everyday use of 'ethics' to refer instead to rules of conduct, i.e. to what is now to be understood as 'morality, as distinct from ethics'. Both the distinction, and more recently this terminology, have played an important part in much of Habermas's work: see especially J. Habermas, Between Facts and Norms. Trans. W. Rehg. Cambridge 1996, 94-99, 151-168.

[8] See: R. Dworkin, Liberalism, in: A Matter of Principle, Oxford 1985, 181-204; R. Arneson, Meaningful Work and Market Socialism, in: Ethics, 97 (1987), 517-545.

Hayek argues that the crucial difference between markets, and other ways in which economies may be (and have been) organised, is the absence of any collective or societal level decisions about the specific purposes to be served by economic activity. At least in modern societies, he argues, no genuine agreement about such purposes can be reached, given the great diversity in the kinds of goods that individuals value and wish to achieve. Markets enable societies to avoid attempting the impossible (and the highly undesirable consequences of such attempts). They do so, in effect, by devolving such decisions to individuals, pursuing their own, freely chosen goals through voluntary cooperation with others. The only societal level purpose served by market institutions is what he calls the 'abstract' one of enabling individuals effectively to pursue their own 'concrete' purposes, whatever these may be.[9]

Now it might be argued that this defence (and characterisation) of market economies should itself be seen as an *ethical* one, since it appeals to the ethical value of individual *autonomy*, and endorses the market precisely because of the ways in which it institutionally embeds this 'liberal good' (or at least facilitates its achievement in the economic domain). And it seems that Booth himself has something like this in mind when he eventually refines the contrast he has drawn between market and household economies by saying that the liberal *does*, in a way, have an answer to the Aristotelian question, "For what end is the economy in this specific, market, form?", namely: "So that within this sphere I may do with my things, my labour, and so on as I wish, consistent with a recognition of the rights of others to do likewise; in short, so that as far as is possible under conditions of interdependency, I may lead my life 'from the inside'." Booth says that this answer expresses "…a more reflective form of liberalism – guided by the question of the good rather than by a theory of rights alone, but a liberalism nonetheless".[10]

This 'more reflective form of liberalism' is of some significance, especially when the role of the state in supporting the good of autonomy through the institution of exchange is recognised. But given the peculiar nature of autonomy as a 'conception of the good', by comparison with its Aristotelian counterpart, what is implied is essentially a refinement of the 'moral but not ethical' thesis, rather than its wholesale rejection. According to this liberal ethic of autonomy, the good life consists in pursuing whatever

[9] F. Hayek, Law, Legislation and Liberty, vol. 2, London 1976, especially chapter 10; also: The Constitution of Liberty, London 1960, chapters 10 and 15.

[10] W. J. Booth, 'On the Idea of the Moral Economy', loc. cit., 664.

(substantive) goods one regards as worthy of pursuit, or chooses to pursue, on the basis of one's own judgments or decisions; any attempt (such as Aristotle's) to prescribe the content of these goods, and to subordinate economic activity to their achievement, is thus to be resisted. If the good of autonomy were all that the ethical character of market economies consisted in, the 'moral but not ethical' thesis would remain largely intact.

In later sections of this paper I shall argue that we should reject this thesis in a more radical manner, and endorse instead the view that both market and pre-market (or household) economies are both moral and ethical; what distinguishes them is 'only' their specific character in these respects. To support this view will require us to move beyond the tendency in liberal thought to focus exclusively on *exchange*, and to direct our attention also to *consumption* and *production*. But before doing so, a good deal more needs to be said about exchange. In particular, I will argue that this may itself be seen as possessing an ethical character, 'over and above' its expression of individual autonomy.

Again, we can take our cue from Booth, who comments at one point that "…voluntary (contractual) relations among persons, whether in economic or other matters, represent a central *good* in liberal market society."[11] These relations are, as we know from his earlier claims, relations between social equals (by contrast with the hierarchical relations within ancient households), and indeed equals who recognise one another as such. Their value, one might suggest, consists not merely in the exercise of autonomy by each party, but in the fact that for both parties they are 'freely entered into relations between equals'. They are goods *as relations of this kind*, and may be valued as such by the individuals concerned. And what enables them to be 'relations of this kind' is (at least in part) the specific set of obligations and moral constraints embedded in the rules that serve to define the market *institution* of contractual exchange.

To explore further what is involved here, albeit by what will be a somewhat circuitous route, I turn now to some central claims made by the institutional economist Douglass North in his influential work, *Institutions, Institutional Change and Economic Performance*.[12]

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[11] W. J. Booth, 'On the Idea of the Moral Economy', loc. cit., 662 (italics added). Booth makes this comment in the course of criticising Polanyi's account of the later 're-embedding' of market economies through the development of the welfare state, arguing that when contractual freedom is over-ridden to achieve other goods, what is partly sacrificed is itself a good.

[12] D. North, Institutions, Institutional Change and Economic Performance, Cambridge 1990. Although Booth's discussion of exchange mainly addresses the normative dimensions of embedding, he also emphasises the importance of its institutional grounding.

3. Market institutions and the good of exchange

North argues that the strikingly successful economic performance of modern Western societies has been due primarily to the presence of specific institutional arrangements, and especially of the institutions of private property, contractual exchange, and the modern state. The existence and effective operation of these institutions, he says, is taken for granted by neo-classical economists, who fail to recognise their historical rarity and the great difficulties involved in establishing and maintaining them.

"Institutions", says North, " are the rules of the game in society or, more formally, are the humanly devised constraints that shape human interaction"; they "are the framework within which" such interaction takes place. In some cases these rules simply prohibit certain kinds of action. In others, they specify which agents (or agents occupying which positions) are permitted or required to perform what kinds of action, and under what conditions. In this and other respects they are, he says, "perfectly analogous to the rules of the game in a competitive team sport". [13] I shall return to this analogy later.

Institutions, North says, may consist both of formal rules that are specified in writing and enforced by the state, and of informal ones, such as (unwritten) codes of conduct, conventions and (socially sanctioned) norms of behaviour. Formal rules are especially important in modern market economies, which are characterised by highly impersonal exchange and third-party enforcement, though informal rules remain significant in modern economies. The remit of these formal rules includes the definition and enforcement of property rights, the specification of the requirements for legally binding contracts, and the procedures for enforcing such agreements and resolving disputes.

Although North rejects some of the assumptions made by orthodox rational choice theorists, he shares their view that the chief function of institutions is to facilitate cooperation in situations where this would otherwise not occur, despite the benefits that would accrue to the parties concerned were it to do so. Institutions achieve this by

[13] D. North, Institutions, loc. cit., 3-4. My account draws also on Elinor Ostrom's analysis of institutional rules (to which North refers approvingly) in: E. Ostrom, An Agenda for the Study of Institutions, in: Public Choice, 48 (1986), 3-25. See also the discussion of institutions in: J. Rawls, A Theory of Justice (revised edn). Oxford 1999, 47-50.

reducing the potential costs of such cooperation, including especially the risks of defection, thereby overcoming standard game-theoretic problems.[14]

For North, then, the value of institutions such as contractual exchange is essentially instrumental: they increase the chances of each party satisfying goals whose nature and value are given independently of the institutional devices that enhance their prospects of achievement. These goals are assumed to have a broadly materialist, wealth-oriented character. North does, however, reject the orthodox rational choice theorist's view that individuals are *exclusively* wealth-oriented, that they are wealth- (or utility-) *maximisers*. Rather, he claims that moral, religious and ideological beliefs of various kinds are potentially significant influences on people's behaviour, including their willingness to cooperate with others, *provided* that the costs of doing so (in material terms) are not too great. Institutions should thus be designed, inter alia, to reduce these costs sufficiently for what one might call 'moral motivations' to come into play in enabling mutually beneficial interactions.

This more nuanced view of economic institutions and individual motives has much to commend it, and – unusually, within economics - provides at least some minimal sense of market economies as moral economies. But it is indeed a quite minimal sense, by comparison with the *liberal* understanding of market exchange presented by Booth. In particular, there is no reference in North's account to the moral character of exchange as a relation between equals, nor to the 'freely chosen' character of the goals pursued. Nor is there any recognition of how the institution of exchange might be valued in anything other than an instrumental way.

To see what is at issue here we can return to North's conception of institutions as *the rules of the game*. For North, these rules facilitate the achievement of each player's aims, which can be specified independently of the institution itself, of the particular game that is being played. But suppose now that we take up his view that institutional rules are "perfectly analogous" to the rules of a team sport: of hockey, for example. The rules of hockey, we might say, serve to define, or 'constitute', the game of hockey itself. Without these rules there *is* no game of hockey. The rules of this game are not rules that enable its players to achieve an aim that is specifiable without reference to the game, but make it

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[14] On the distinctions between 'historical', 'rational choice' and 'sociological' forms of institutionalism, see: P. A. Hall and R. Taylor, Political Science and the Three New Institutionalisms, in: Political Studies, XLIV (1996), 936-957. North rejects the 'rational choice institutionalist' view that institutions can be *explained* by reference to their positive functions, rather than by contingent historical and political factors. He also rejects its conception of rationality and, as will be seen shortly, its motivational assumptions.

possible for them *to play this game*, and hence also to have this as an aim.[15] They create the 'object' of this aim; they constitute it as a possible object of people's 'preferences', i.e. as something that they may desire or want.

Applying this to market exchange, with its liberal conception in mind, we could then say: the institution of exchange is a set of rules that serves to constitute the object of a possible aim or desire, namely to engage in relationships of voluntary cooperation with others who are one's equals. What is made possible by the institution of exchange – which relies upon the powers of the state - can thus itself be seen as a (liberal) good, one that is quite distinct, and different in character, from the 'goods' that on North's account are served by this institution in its instrumental role.

Further, the institutional rules that constitute, or make possible, this liberal good of exchange are themselves *moral* rules, at least in part: rules about fair disclosure, the absence of fraud, the competence of the parties, the discharge of obligations, and so on. The good of exchange can thus be seen as an important case of what Joseph Raz has described as (partly) *duty-constituted goods*, or in the terms I am using, *morally*-constituted goods. Raz applies this concept to intrinsically valuable relationships that cannot be specified without reference to the obligations and responsibilities towards one another of the parties concerned. The example he uses is the good of friendship, but the concept is equally applicable, I suggest, to the good of exchange.[16]

Of course, whether exchange *is* properly judged to be a human good, as liberals have generally argued, or instead as (at least in part) an *ill*, as many socialists have, is open to serious debate. But the argument I have presented does not depend upon the outcome of such debate, any more than Booth's argument that market economies are moral economies depends upon the judgment made about the specific content of their 'morality'. To claim, *contra* Polanyi, that market economies are moral economies is not to endorse their moral norms, the ways in which they define the duties of the parties to contractual exchange, and so on. Nor, presumably, should Polanyi's view of household economies as moral economies be taken to imply his endorsement of *their* moral character.

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[15] Implicitly I draw here on Searle's view that 'regulative' rules may have a 'constitutive' function: see J. Searle, The Construction of Social Reality, London 1995, 27-29. But I do not accept the specific way in which he conceives of that function, and hence more generally of institutions, as presented for example in: J. Searle, What is an Institution?, *Journal of Institutional Economics*, 1 (2005), 1-22.

[16] J. Raz, Ethics in the Public Domain, Oxford 1994, 40-42. My argument here depends partly on supplementing North's analysis with elements drawn from Durkheim's account of the normative presuppositions of contractual exchange.

Normative judgments are, by contrast, crucial in making political decisions about what kinds of economic institutions should be established, and in evaluating those that already exist. But here, as throughout this paper, my main concern is to provide an analytical framework that enables us to understand what these judgments should address.

4. From exchange to consumption

I have argued so far that market economies should be understood as both moral and ethical. But the latter has been established (if at all) in only a rather attenuated form. We can get a good deal further if we now shift our attention from exchange to consumption. That we should do so is suggested by the possibility of a quite different (and much simpler) reply to Booth's Aristotelian question, "For what end is the economy in this specific, market, form?". This is the reply that Adam Smith gave when he said that "the sole end and purpose of production is consumption", and went one to explain why market economies are so effective in achieving this aim.[17]

As Debra Satz has recently emphasised, Smith valued highly the exchange relations of commercial society because they replaced the servility and deference of feudal society by relations of social equality.[18] But he also, and more familiarly, argued that exchange is an extremely effective means both of encouraging the development of human productive powers, through the division of labour, and of ensuring that these dynamic, wealth-creating powers are deployed for the benefit of consumers, enhancing their well-being through a continually developing array of innovative products whose value is realised through the uses to which they are put (and which, for the most part, they are able to acquire the means of purchasing).

Marx, of course, thought it a serious mistake to attribute the aim of consumption to production in market economies. He regarded the replacement of production for *use*-value by production for *exchange*-value as the distinguishing feature of (capitalist) market economies, and – arguably following Aristotle in this respect - saw this as disqualifying market economies from properly being said to have any ethical goal. But this does not follow from the fact that productive enterprises in market economies 'aim only at exchange-value'. Supporters of Smith could surely respond by saying that, looked at from a systemic point of view, the market is an institutional arrangement that fosters the

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[17] A. Smith, An Inquiry into the Nature and Causes of the Wealth of Nations, London 1789, Book IV, Chapter viii (49), 660.

[18] D. Satz, Why Some Things Should Not Be For Sale: The Moral Limits of Markets. Oxford 2010, 41-2.

production of use-values precisely through its productive units aiming only at exchange-values, and indeed does so more effectively than systems in which producers aim directly at use-values.[19]

It might be objected that this does not justify regarding use-values as the (ethical) goal of market economies, since this teleological concept should be restricted to cases involving conscious human purposes, as distinct from unintended systemic effects. But even if this conceptual restriction is accepted, the critical force of the objection can be removed in the following way. Imagine that members of a political community are deciding what kind of economic system to 'institute', or whether to accept or replace their current system. They become convinced of the merits of Smith's claims about the market, and agree therefore to institute (or retain) such an economy in order to generate use-values (through consumption) for their members. By doing so they will, as it were, transform the unintended systemic goal into a consciously intended purpose: 'their' market economy will now have an ethical goal or purpose, one that has been conferred upon it.[20] They will also, presumably, wish to ensure that if and when the market fails to achieve this communal purpose, by leaving some members without these intended benefits, their welfare will be secured by some other institutional means.

However, in order to make such a decision in favour of market institutions, they must not only believe that a market economy is the best generator of consumer goods – and this is something that neo-classical economics cannot demonstrate through its well-known proofs of the market's *efficiency*, which has no bearing on the *dynamic* powers of the market - but also that these 'goods' are indeed valuable, that they do contribute significantly to human well-being.[21] That is, judgments have to be made about the ethical value of what the economic system actually generates, and it is by reference to these kinds

[19] The issue here is not whether this is true, but whether, if it were, it may legitimately be used to justify attributing this ethical goal to market economies. It is the latter claim I wish to defend.

[20] A similar suggestion, though not specifically about consumption, is made in: D. Miller, Market State and Community, Oxford 1990, Chapter 8. The point is not that such episodes have actually occurred, but that an ethically based political endorsement of the market on the grounds of its power to generate use-values is perfectly intelligible.

[21] On the inability of neo-classical economics to explain the dynamic character of production in market economies, see: R. R. Nelson and S. G. Winter, An Evolutionary Theory of Economic Change, Cambridge/Mass. 1982, and W. Lazonick, Business Organization and the Myth of the Market Economy, Cambridge 1991.

of judgments that the use of the state's powers to support the institutions of a market economy has to be justified.

On what basis can and should such judgments be made? They cannot be based on a liberal ethic of autonomy, of the kind discussed earlier, since this has nothing to say about the *substantive* value of consumption, of the 'goods' that people purchase and use, as distinct from the value of their being acquired through voluntary exchange between individuals pursuing freely chosen purposes. To show that consumption itself has some ethical value – that what is acquired through exchange is valuable, as distinct from its mode of acquisition – clearly requires more than this. Further, this additional element cannot be provided by appealing to the neo-classical conception of welfare, defined as 'the satisfaction of preferences, whatever these may be', since it is the specific content and character of the kinds of preferences satisfied through consumption whose value (whether positive or negative) is at issue here.

A somewhat more useful resource for making these judgment is provided by the recently burgeoning studies of happiness and life-satisfaction, which includes a good deal of work on their relationship with income levels and economic growth. But these suffer, as plausible criteria for human well-being, from the impact (whether positive or negative) both of expectations and of inter-personal comparisons upon people's levels of satisfaction. [22] They also fail to address the specific ways in which the use of consumer goods may – or may not – contribute to 'living well'. A more promising approach, I suggest, would be to apply to the evaluation of consumption the kind of Aristotelian conception of well-being developed by Martha Nussbaum. This would require one to examine the specific ways in which various kinds of consumer goods are used and enjoyed, and the extent to which these contribute – or fail to contribute - to the various human 'functionings' (or 'capabilities') that she identifies as essential elements in a flourishing life.[23]

I shall make no attempt to conduct such an evaluation here, nor to speculate about its likely outcome. Instead, I want only to insist that even if a strong justification

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[22] See, for example, the discussion of how and why increases in income, above a certain level, have little positive impact on people's happiness, in: R. Layard, Happiness: Lessons from a New Science, London 2005.

[23] M. Nussbaum, Aristotelian Social Democracy', in: Liberalism and the Good, edited by R. B. Douglass et al, London 1990, 203-252. A partial attempt to evaluate consumer goods in relation to the social practices they may enable people to engage in is made in: R. Keat, Justifying the Market *and* its Limitation, in his: Cultural Goods and the Limits of the Market, London 2000, 149-171.

for the ethical value of consumption *can* be provided, and market economies can be shown to be better than others in generating such goods, it would not follow that the market is the best ethical choice for economic institutions. This is because there may well be other kinds of goods of equal or greater value to human well-being than those made possible through consumption, and markets might operate in ways that are antithetical to *their* existence, or indeed generate positive *ills* of their own. Environmental impacts are an obvious example here, and there are many others. But the case I shall focus on is the impact of market economies on the ethically relevant features of people's *work*.

5. From consumption to production

In *The Market Experience*, Robert Lane argues that the potential contributions to people's well-being from engagement in the *processes* of production are much greater than those deriving from its *outputs* – from the acquisition of income and its use for consumption. More specifically, he argues that this potential can be realised by the kind of work that involves the following: "self-direction, substantive complexity and challenge, variety, little supervision, and intrinsic satisfaction of excellence or self-determination". I shall call this 'good work'. But market economies, he argues, are not very effective in generating opportunities for good work. They are essentially *consumer* economies: they tend inherently to prioritise consumer-satisfactions over producer-satisfactions. In doing so they display a fundamental defect, since they sacrifice potentially greater goods for lesser ones.[24]

An argument with broadly similar conclusions is developed by Alasdair MacIntyre, who claims that the institutional character of modern market economies is inimical to the conduct of economic production as a *practice*. A practice, he says, is a "complex form of socially established cooperative activity" in which goods that are *internal* to the activity are realised "in the course of trying to achieve those standards of excellence that are appropriate to" and partly define the nature of that activity.[25] A wide range of social activities can potentially be practices, including the various arts and sciences, sports and games, and 'productive' activities such as fishing, farming, or

[24] R. Lane, The Market Experience, Cambridge 1991, 302. The analysis of work here, and in what follows, is restricted to paid employment in the formal economy, thus excluding *inter alia* the unpaid (and largely female) work performed in the modern household. Lane's 'prioritisation' thesis is examined in: R. Keat, Consumer-Friendly Production or Producer-Friendly Consumption?, in his: Cultural Goods, loc. cit., 133-148.

[25] A. MacIntyre, After Virtue, loc. cit., 175. The account that I go on to provide of MacIntyre's argument is intended only as a rough sketch.

building. The primary aim of those involved in a practice is to perform well, and contribute to, the activity concerned, as judged by its standards of excellence. By learning how to engage in the practice, individuals will become able to appreciate and enjoy its internal goods: for example (mine, not MacIntyre's) the truthfulness and affective power of a theatrical performance, or the elegance and explanatory power of a scientific theory

The internal goods of practices, says MacIntyre, are to be distinguished from the *external* goods of money, power and status. These external goods can potentially make a positive contribution to practices, since practices require *institutions*, and institutions require the use of external goods. But for practices to flourish, external goods must be subordinated to internal ones, and to the standards and purposes of the practice. In particular, they must be prevented from undermining the various *moral virtues*, such as justice, truthfulness and courage, which the conduct of practices depends upon. For example (again mine): practitioners must be able to trust the honesty and fairness of the judgments made by others about the competence or value of their performances or contributions, and must have the courage to listen to these judgments.[26]

But in MacIntyre's view, the institutions of market economies (including the modern business corporation) are antithetical to the conduct of production as a practice. The internal goods of practices are subordinated to the external goods of money, power and status, and the moral virtues upon which the integrity of practices depends are undermined. The potential value of work as a practice is thereby lost, and the possibilities instead provided for consumption, through the acquisition of money, can do relatively little to compensate for this loss.

So both Lane and MacIntyre can be seen as rejecting Smith's view that "consumption is the sole end and purpose of production", and that, as he immediately goes on to say, "the interests of the producer ought to be attended to, only so far as it may be necessary for promoting the interests of the consumer."[27] Their response to this might be as follows: if this is a claim about what *should* be the ethical aim of production, it should be rejected, since there are other, more valuable goods that can in principle be

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[26] Thus the internal goods of practices are *morally-dependent* goods, and dependent also on the institutions that sustain these practices and the virtues of their practitioners.

[27] A. Smith, Wealth of Nations, loc. cit., 660. The passage continues: "The maxim is so perfectly self-evident, that it would be absurd to attempt to prove it. But in the mercantile system, the interest of the consumer is almost constantly sacrificed to the producer; and it seems to consider production, and not consumption, as the ultimate end and object of all industry and commerce." Smith was nonetheless very concerned about the damaging effects on workers of mindless and repetitive tasks.

achieved through production; but if it is a claim about what purpose can be served by production *in a market economy*, it may well be true, and provide a strong reason for choosing some alternative to the market that is more conducive to good work, or to work as a practice.

But what are the grounds for believing that market economies subordinate good work to consumption, or internal goods to external ones? Lane argues that in market economies, firms necessarily base their decisions on criteria that make no reference to the character of their employees' work; given the way that market economies operate, this is something that cannot and does not count as a relevant consideration. Thus:

"It is inherent in the market that it give consumer welfare priority over worker welfare because consumers are the source of profits and workers are costs. Inasmuch as exchange is central to the market network of transactions, giving price signals for the self-regulating system, it is inherent in the market that intrinsic satisfactions, none of which can be exchanged, should lack consideration....".[28]

However, this argument (and others like it) is problematic. It is true that the provision of good work is not something that the market requires firms to take into account, and that it has no market-established price or 'value'. But this does not rule out the possibility that an effective way in which firms can meet the requirements imposed by markets is by acting in ways that in fact provide such work. That this is actually so has recently been argued by the business economist John Kay. Markets may require firms to be profitable, but firms may best achieve this, he argues, not by aiming directly at profits but instead at organising and conducting their production in ways that closely resemble a MacIntyrean practice.[29]

Kay presents his argument specifically as a response to MacIntyre's well-known contrast between two types of fishing-crew. The first kind, which MacIntyre regards as typical of business enterprises in capitalist market economies, is described by MacIntyre as follows:

"A fishing crew may be organized and understood as a purely technical and economic means to a productive end, whose aim is only or over-ridingly to satisfy as profitably as possible some market's demand for fish. Just as those managing its

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[28] R. Lane, The Market Experience, loc. cit., 609.

[29] J. Kay, The Profit-Seeking Paradox, in his: Obliquity. Why Our Goals are Best Achieved Indirectly, London 2010, 19-28. As the title of his book suggests, Kay presents this argument as an example of the principle of *obliquity*: that very often, the most effective way of achieving some objective is to aim at something else.

organization aim at a high level of profits, so also the individual crew members aim at a high level of reward. Not only the skills, but also the qualities of character valued by those who manage the organization, will be those well designed to achieve a high level of profitability. And each individual at work as a member of such a fishing crew will value those qualities of character in her or himself or in others which are apt to produce a high level of reward for her or himself."

The second kind of crew, which MacIntyre regards as engaged in fishing as a practice, is described thus:

"Consider by contrast a crew whose members may well have initially joined for the sake of their wage or other share of the catch, but who have acquired from the rest of the crew an understanding of and devotion to excellence in fishing and to excellence in playing one's part as a member of such a crew. Excellence of the requisite kind is a matter of skills and qualities of character required both for the fishing and for achievement of the goods of the common life of such a crew."[30]

Kay argues that although the first kind of crew may *seem* to be just what firms are like in a modern market economy, this is not because they actually are like this, but because of their widespread misrepresentation as such (in business economics textbooks, for example) by the proponents of what he calls 'the American Business Model'. He accepts that some firms of this kind exist, or at least operate in this kind of way for certain periods of time, but insists that they are generally less successful (in terms of longevity, profitability etc) than those that resemble MacIntyre's second kind of crew, exemplifying the practice-model.[31]

However, the view that I shall now present differs both from MacIntyre's (and Lane's), and from Kay's. It is that the American Business Model is a reasonably accurate depiction of the type of firm that predominates in *one* kind of market economy, whereas the practice-like firm is more typical of another, *different* kind. The institutional differences between these kinds of market economy, I shall suggest, are such that they will 'favour' different types of firms (i.e. firms that differ in the ways presented above), so that those

[30] A. MacIntyre, A Partial Response to My Critics, in: After MacIntyre, edited by J. Horton and S. Mendus, Cambridge 1994, 283-304: here, 284-285. Note also his claim that, when fishing is conducted as a practice, what matters is not only the successful catching of fish but the 'perfecting' of the lives of the fishing-crew.

[31] MacIntyre's 'pessimism' about the possibilities for production as a practice in modern businesses is also questioned by: G. Moore and R. Beadle, In Search of Organizational Virtue in Business, in: Organization Studies, 27(3) (2006), 369-389; and R. Keat, Markets, Firms and Practices, in his: Cultural Goods, loc. cit., 111-132.

that conform to the American Business Model will be more likely to succeed in one kind of market economy, and those conforming to the practice-model in the other kind.

This suggestion requires one to reject something that has so far been tacitly assumed, namely that there is just one kind of market economy, that 'market economy' refers to a single, reasonably determinate, set of institutional arrangements. But there are good reasons for rejecting this assumption. For not only can there be both capitalist and *non*-capitalist market economies (such as 'market socialist' economies, in which capitalist firms are replaced by cooperative enterprises),[32] but even if we restrict ourselves to the former, capitalist category, there is a widely held view amongst comparative political economists that there are significantly different kinds of capitalism. It is the implications of this view that I shall now explore.

6. Ethical varieties of capitalism

In their influential volume entitled *Varieties of Capitalism*, Peter Hall and David Soskice set out to identify the institutional differences between what they call 'Liberal' and 'Coordinated' Market Economies (LMEs and CMEs).[33] Taking the UK and USA as exemplifying the former, and Germany as the paradigmatic case of the latter, they argue that the different institutional arrangements that characterise LMEs and CMEs impact significantly on the organisation and behaviour of firms.

These institutional differences include, centrally, those concerned with forms of ownership and the provision of finance; with the internal governance of firms; and with

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[32] Arguments for market socialist economies based on competition between worker-cooperatives are presented by, for example: D. Miller, Market, State and Community, Oxford 1990; R. Selucky, Marxism, Socialism, Freedom, London 1979. For an argument that such systems would be conducive to production as a MacIntyrean practice, see: A. Mason, MacIntyre on Modernity and How It Has Marginalized the Virtues, in: How Should One Live?, edited by R. Crisp, Oxford 1996, 191-209.

[33] P. A. Hall and F. Soskice, An Introduction to Varieties of Capitalism, in: Varieties of Capitalism: The Institutional Foundations of Comparative Advantage, edited by P. A. Hall and F. Soskice, Oxford 2001, 1-70. Similar contrasts, but with different terminology, are drawn in: Political Economy of Modern Capitalism, edited by C. Crouch and W. Streeck, London 1997; R. Whitley Divergent Capitalisms, Oxford 1999. Notice that these are conceived primarily as differences between *production* systems, whereas the more familiar distinction between 'neoliberalism' and 'the European Social Model' is primarily between *welfare* systems. I have made use of Hall and Soskice's work in discussing Habermas's criticisms of neoliberalism in: R. Keat, Habermas on Ethics, Morality and European Identity, in: Critical Review of International Social and Political Philosophy, 12(4) (2009), 535-557. I shall put aside, here, the question of whether the distinctive features of CMEs have been significantly eroded over the past decade or so.

the nature of inter-firm relationships. The first set of differences makes firms in CMEs much less vulnerable than those in LMEs to the pressures of short-term profitability (so-called 'patient' as compared with 'impatient' capital); the second reduces considerably the extent of intra-firm hierarchy and 'managerial prerogative' in CMEs, by comparison with LMEs; and the third enables various forms of cooperation between firms in CMEs, through industry-wide associations that are relatively undeveloped in LMEs, and that play a major role in research and development, in technology transfer, and in systems of education and training.

Amongst the effects of these institutional differences, they argue, is that by comparison with their LME counterparts, firms in CMEs are more likely to compete in terms of quality, rather than price, and to make extensive use of skilled labour. They are also better suited to engage in long-term processes of what Hall and Soskice term 'incremental innovation', something that is most easily achieved if "the workforce ... is skilled enough to come up with such innovations, secure enough to risk suggesting changes to products or process that might alter their job situation, and endowed with enough work autonomy to see these kinds of improvements as a dimension of their job." Corporate organization in CMEs makes this more feasible than in LMEs, since the former, unlike the latter, "... provides workers with secure employment, autonomy from close monitoring, and opportunities to influence the decisions of the firm...", and the skill system provides them with "... high levels of industry-specific technical skills...".[34]

If this argument is correct, we can see how CMEs might well be more favourable than LMEs to the various elements of 'good work' identified by Lane which, as noted earlier, consist in "self-direction, substantive complexity and challenge, variety, little supervision, and intrinsic satisfaction of excellence or self-determination". But we can also see how they might likewise favour the conduct of production as a MacIntyrean practice, taking our cue from Lane's reference here to *excellence*. The satisfaction that comes from excellence, he argues, is quite different from that arising from self-determination, and is essentially connected to the shared *standards* of excellence to be found, *inter alia*, in the work of various professional groups.[35]

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[34] P. A. Hall and F. Soskice, An Introduction to Varieties of Capitalism, loc. cit., 39-40. Industry-specific skills are those that can be used across different firms in the same industry, by contrast with firm-specific skills (relevant only to particular firms) and generic skills (usable across firms in different industries).

[35] R. Lane, The Market Experience, loc. cit., 388-389. What is implied by this is that the various features of 'good work' identified by Lane and others typically depend for their existence on complex forms of social practice and institutional arrangement (and hence also on the moral virtues or norms involved in these).

It is here that the industry-wide associations that Hall and Soskice emphasise as a feature of CMEs become especially important, for my purposes. MacIntyrean practices are not just a matter of the development and exercise of complex skills and judgment, but also of the presence of shared standards of excellence and the appreciation and enjoyment of internal goods that are dependent on these. If one considers, for example, the kinds of vocational training and apprenticeship in industry-specific skills that are provided through the associations characteristic of CMEs, and the ways in which these may be expected to foster a sense of participation in a shared practice that goes beyond the boundaries of individual firms, it becomes plausible, I suggest, to regard CMEs as especially conducive to the conduct of production as a MacIntyrean practice.[36]

7. Political choices and institutional design

Although the argument that CMEs are more conducive to production as a practice than LMEs has only been sketched here, enough has perhaps been said to support the claim that varieties of capitalism (and hence of market economies) may well differ significantly in the extent to which they 'favour' work that has certain ethically relevant features, features that it possesses by virtue of the kinds of social relationships it involves. They differ in this respect because of the different array of institutions that define or constitute them as a specific kind of capitalist market economy, and which encourage or discourage the conduct of economic production in specific ways.

One might put this by saying that, in this respect at least, these two kinds of capitalism, and the institutions that define them as such, differ in their *ethical character*.[37] But they do not differ in *having* an ethical character. Nor does the way in which I have depicted these differences imply any judgment that one is ethically preferable to the other. To endorse CMEs because they favour work as a practice one would need, inter alia, to defend the ethical value of practices, and to consider what ethical case might instead be made for the different character of work in LMEs. And ethical judgments of this kind should, I suggest, play an important part in any political choice that might be made between these two kinds of capitalism. That is, they are relevant to the decisions that might be made, by members of a political community, about how they wish to 'institute

[36] This argument is developed in much greater detail in: R. Keat, Practices, Firms and Varieties of Capitalism, in: Philosophy of Management, 7 (2008), 77-91.

[37] Likewise, returning to an earlier theme in this paper, one could say that the institution of exchange that partly defines the nature of market economies gives them a different ethical character to that of household economies.

their economy'; or, in the terms that emerged from my discussion of North's account of institutions, about the state-enforced rules that will constitute this as one 'game' rather than another.[38]

This is the same kind of political choice or decision as the one that, earlier on, I imagined being made about the possible adoption of market institutions on the grounds of their impact on consumption. In both cases, ethical judgments about the value of the kinds of goods concerned need to be made. In making these judgments, what is thus at issue are the specific ethical purposes that are to be achieved through economic institutions (and how to prioritise these if not all of these valued purposes are institutionally co-realisable). And if this is so, the hope expressed by Hayek that the market is an institutional arrangement that obviates the need for collective decisions about the purposes to be served by an economy is unfounded.

Hayek insists that market institutions have no purpose but the abstract one of enabling individuals to pursue their own concrete purposes, whatever these may be, through voluntary cooperation with one another, and he limits the scope of collective decision accordingly. But this cannot be quite right. By no means every kind of concrete purpose can be achieved through voluntary cooperation in markets, nor is market exchange the only kind of voluntary cooperation; the case of friendship illustrates both points. Thus an ethically *liberal* justification of markets, in terms of individual autonomy or the ethical character of exchange, is at the least seriously incomplete. Something must also be said about the substantive value of the kinds of benefits that may be achieved through markets, and once this is admitted, the relevance of other kinds of goods that may or may not be generated, or impacted upon, by markets, including those related to work and production, cannot be excluded.

If Hayek is wrong about this, so too is Polanyi. Admittedly, Hayek would reject Polanyi's view of market economies as non-moral economies, since he regards the rules and conventions of market institutions as having, at least in part, a *moral* character. (His view is, in this respect, quite close to Booth's). But the ways in which Hayek contrasts markets with households is otherwise very close to Polanyi's, in denying that markets, unlike households, are governed by any substantive ethical purpose. Their only disagreement is whether this makes markets more, or less, desirable than households. My

[38] Admittedly, to talk of political choices or decisions in this way involves drastic simplifications, given the constraints on political action, the imperfections of political institutions, and the complex histories of existing economic institutions. But I believe it enables one to explore some important issues of principle.

view, by contrast, is that both markets and households are both moral and ethical, and that 'we must choose between them' by making substantive judgments about their moral and ethical characters.

Polanyi, as I noted at the outset, makes use of the concept of *disembedding* in articulating the historical transition from household, or pre-market, to market economies. Economic activity becomes disembedded from the moral constraints and ethical goals that had previously applied to it, constraints and goals that themselves reflected how this activity formed an integral part of the normative and institutional order of society. 'The economy', as such, did not exist; the emergence of the market goes hand in hand with the separation of 'economy' from 'society'. But this way of conceptualising 'the great transformation' is misleading. A better account can be given in terms of *differentiation*, rather than disembedding.[39] 'The economy' becomes differentiated from other institutional domains, including those of politics and kinship. But in doing so it does not lose its normative character; rather, it gains one of its own.

Broadly speaking, this is the picture we find in Hegel, in *The Philosophy of Right*, and rather more recently, in Michael Walzer's *Spheres of Justice*. In the latter, at least, it comes with a conception of social goods, and of their location within institutionally distinct spheres or domains, which has important implications for the kinds of judgments about economic institutions that I have assigned to political communities. In particular, the qualitatively distinct and plural nature of these institutionally-specific goods implies that to regard market exchange as a good is compatible with there also being other goods, such as friendship, whose partly-constitutive moral duties and responsibilities differ significantly from those of exchange. The same holds *vice versa*; both may be goods, within their respective spheres. Hence the failure of market exchange to display, in its moral character, the same obligations of mutual concern that friendship displays, is not necessarily an objection to economic institutions that rely on exchange rather than on friendship (or on kinship or political relations).

This does not mean that the very limited nature of 'the obligations of exchange' are beyond criticism, and hence that we might not quite reasonably prefer some different basis for economic transactions. Further, if the account that I have suggested of how political choices between economic institutions are to be made is at all plausible, there must be some much wider, and deeper, sense of mutual obligation amongst members of a

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[39] Here I am strongly influenced by the argument in R. J. Holton, Economy and Society, London 1992.

political community, in order for them to choose market institutions, based on the limited obligations of exchange, as the means by which 'the well-being of all' is to be secured. And if they are to decide in favour of market institutions, on these kinds of grounds (including a pluralistic understanding of social goods), they must also be concerned to ensure that these institutions, and the goods they make possible, are kept firmly in their place: that they are not permitted to 'invade' or 'colonise' other institutional spheres, undermining the integrity of the (quite different) goods that these make possible. But that, as they say, is another story…

Appendix: institutional economics and liberal perfectionism

As noted in my brief account of his view of market economies in section 1, Polanyi criticised the attempt to understand pre-market, moral economies through the concepts of modern, neo-classical economics; instead he advocated a substantivist, or what we might now call 'institutionalist', approach. But if it is true that market economies, also, are moral (and ethical) economies, the same point would apply to them: something other than neo-classical economics is required if their normative character is to be recognised and understood. Indeed, one reason why market economies have often been regarded as non-moral economies may be that this is how they have been (mis)represented in neo-classical economics.

The non-moral appearance of market economies when viewed through neo-classical lenses results partly from its depiction of economic agents as non-moral utility maximisers. The unrealistic absence of moral motivations in this picture has been widely criticised, and attempts have been made to remedy this omission by the addition of elements such as moral commitments and constraints, a sense of justice or fairness, the willingness to reciprocate, and so on.[40] But the inadequacies of neo-classical economics go much deeper than this, I suggest, through its inability to understand the nature and significance of economic *institutions*.

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[40] On these defects of, and remedies for, the neo-classical model of agency see, for example: A. Ben-Nur and L. Putterman, Values and Institutions in Economic Analysis, in: Economics, Values and Organization, edited by A. Ben-Nur and L. Putterman, Cambridge 1998, 3-69; J. Nelson, Economics for Humans, Chicago 2006, especially chapters 4 and 5. On corresponding problems and revisions of rational choice theory, see: E. Ostrom, Collective Action and the Evolution of Social Norms, in: Journal of Economic Perspectives, 14(3) (2000), 137-158. See also Nelson's argument, in Economics for Humans, loc. cit., that it is neo-classical economics, not the market itself, that 'requires' firms to *maximise* profits, as distinct from 'making enough', an aim that leaves room for other considerations to influence their behaviour.

Some of the issues raised by this were indicated in section 3, where I noted North's claim that neo-classical economists have failed to recognise the institutional requirements for contractual exchange (and for economic 'progress' more generally), a failure that is due not to a lack of attention on their part, but to the inability of their conceptual framework to encompass these. But I also suggested that North's own understanding of institutions prevented him from recognising something that is central to any ethical analysis of the market for liberal theorists, namely that the institutional rules of exchange not only facilitate the satisfaction of preferences whose objects exist independently of exchange, but also serve to 'constitute' exchange *as* a social good, and hence as itself a possible object of individuals' preferences.

But we need also to consider the defects of neo-classical economics in its analysis of the *firm*, a kind of institution (or organisation) that is central to any understanding of work and the ethical character of production. The kind of argument presented in section 6 about the impact of different kinds of capitalism on the possibilities for 'good work' depends, I suggest, upon a way of conceptualising firms that goes beyond the theoretical resources not only of neo-classical economics, but also of some of its 'institutionalist' successors.

As several commentators on economic theories of the firm have noted, until quite recently (in the 1970s) neo-classical economists treated firms merely as 'production functions', with nothing to say about their internal processes and forms of organisation. Indeed, Ronald Coase famously argued that neo-classical economics cannot explain why firms, with their bureaucratic, hierarchical command structures, exist at all: given the presumed efficiency of the market, why is production not 'organised' through a suitably complex series of exchanges? Attempts to answer this question have given rise to what are often called 'new institutionalist' approaches to the firm, most notably in Oliver Williamson's 'transaction costs economics'.[41]

Williamson argued that firms can be more efficient than markets because they can reduce transactions costs, including those associated with the enforcement of contracts. The significance of such costs, he claimed, is partly concealed by the 'optimistic' assumptions of perfect rationality and self-interest made by neo-classical economists,

[41] O. Williamson, The Economic Institutions of Capitalism, New York 1985. On the 'recent history' of economic theories of the firm, including the significance of Coase's work, see: L. Putterman and R. S. Kroszner, The Economic Nature of the Firm. A New Introduction, in: The Economic Nature of the Firm. A Reader, edited by L. Putterman and R. S. Kroszner, Cambridge 1996, 1-34; M. Rowlinson, Organisations and Institutions, London 1997, Chapters 1 and 2.

which should be replaced by those of bounded rationality and opportunism (defined as self-interest plus guile). One can then understand how firms, as hierarchical organisations, may be able to reduce these costs. However, critics have argued that the new institutionalism of transactions costs economics fails to challenge other, and more fundamental, features of the neo-classical framework that stand in the way of an adequate analysis of firms: its (methodologically) individualist assumption of the independence of preferences from institutions, and its essentially static, rather than dynamic, character.[42]

A more promising alternative is arguably provided by so-called *competence* theories of the firm, which draw on an 'older' institutionalist tradition.[43] According to competence theorists, firms exist not because they can do at a lower cost what might otherwise be done through market exchange, but because they can do things that otherwise could not be done at all, including the creation of new products, and of different ways of making existing ones. To put this in the terms I have used earlier, the existence of firms is thus explained by their ability, not to satisfy more efficiently an existing set of preferences, but to create the objects of new ones.

Such abilities, it is argued by competence theorists, are based on the ways in which work is organised; on the use and development of various kinds and levels of individual skills; on the presence of collective learning and 'routines' (the institutional analogue of individual skills), and on the encouragement of trust, cooperation and other aspects of social capital.[44] Thus the ways in which firms sustain and enhance their capacity to create the objects of possible consumer preferences, which is their primary objective, can be seen simultaneously to create the possible objects of a quite different set of preferences, those of their (actual and potential) employees for various kinds of work.

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42 For these criticisms, see for example: W. Lazonick, Business Organization and the Myth of the Market Economy, Cambridge 1991, Chapter 6.

43 Here I draw especially on: N. Foss, Theories of the Firm. Contractual and Competence Perspectives, in: Journal of Evolutionary Economics, 3 (1993), 127-144; W. Lazonick, Business Organization, loc. cit., Chapter 2; see also R. Carter and G. Hodgson, The Impact of Empirical Tests of Transaction Cost Economics on the Debate on the Nature of the Firm, in: Strategic Management Journal, 27 (2006), 461 – 476. On the 'older' tradition of institutional economics that competence theories draw upon, as well as Nelson and Winter's evolutionary approach (see note 19), see: G. Hodgson, Institutional Economics: Surveying the "Old" and the "New", in: *Metroeconomica*, 44 (1993), 1-28.

44 It is within an account of this kind, I suggest, that we can locate the significance of the MacIntyrean virtues, and of the ways in which these may be 'crowded in' or 'crowded out' by different organisational arrangements. See: G. Moore, The Virtues of Governance and the Governance of Virtue, paper delivered at the International Society for MacIntyrean Enquiry conference in Vilnius, June 2012.

So if we wish to understand and explain the ethically relevant features of production in market economies, it is this kind of 'institutional economics' of the firm that is needed, combined with a comparative analysis of the institutional environments in which they operate, and of the impact of this on they ways in which they behave. By contrast, both neo-classical economics and its 'new institutionalist' descendants conceal from view just what is important for understanding the systemic effects of economic institutions on ethical possibilities. Correspondingly, it is no surprise to find that those liberal theorists who regard market economies as ideal arrangements from a neutralist standpoint, typically draw on the analysis of markets provided by neo-classical economics (with occasional new institutionalist updates). Providing a basis for combatting this 'theoretical alliance' between neutralist liberalism and neo-classical economics has been one of the implicit aims of this paper.

A notable example of this 'alliance' is Richard Arneson's argument that market economies enable decisions about the ethical value of good work to be made exclusively by individuals, with firms responding to their (potential) workers' preferences for good work in much the same way as they do to consumers' preferences for their products.[45] The efficiency of markets ensures that these good-work preferences are treated 'fairly', in the sense that it is only the costs of meeting them, and not their ethical desirability, that determines which are to be satisfied. Thus the trade-offs between good work and income/consumption, where these conflict with one another, are left for each individual to make, and there is no need or justification for societal-level decisions of this kind.

But if it is true, as I have suggested, that differences in the specific institutional character of market economies significantly affect the kinds of work that are possible objects of individuals' preferences, we can no longer regard market economies as neutral in these respects. There is a need for collective decisions about the nature and value of good work, about the priority to be accorded to this in relation to other goods, and hence about the design of ethically appropriate economic institutions.[46]

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[45] R. Arneson, Meaningful Work and Market Socialism, in: Ethics, 97 (1987), 517-545. I have criticised his argument in: R. Keat, Anti-perfectionism, Market Economies and the Right to Meaningful Work, in: Analyse und Kritik, 31(1) (2009), 121-138. For Arneson's response, and mine to his, see: R. Arneson, Meaningful Work and Market Socialism Revisited, in: Analyse und Kritik, loc. cit., 139-159; R. Keat, Reply to Arneson, in: Analyse und Kritik, loc. cit., 153-157.

[45] These collective decisions, and their institutional implementation, will affect the *terms* of the trade-offs that individuals face.

What is needed, therefore, is a different theoretical alliance, this time between a non-neutralist (or 'perfectionist') politics and a suitably revitalised 'old' institutional economics, linked by the recognition of the institutional dependence of goods and of the need for ethical judgments as a basis for institutional design. The aim of such design is not to shape or control people's choices or preferences, to influence directly the particular conceptions of the good that individuals adopt or pursue, thereby undermining their autonomy, but instead to determine the range of possible objects of those choices. Substantive ethical judgments must therefore be made, and the principle of neutrality rejected. But this does not entail the rejection of liberalism. Instead, I suggest, we should think of liberalism as a principled set of fundamental constraints on the ways in which the state may act to secure ethically grounded aims. What then emerges might best be termed *liberal perfectionism*, or 'perfectionism subject to liberal constraints': the ethical grounds for state action may be *non*-liberal, in that they do not consist in, and are not derivable from, specifically liberal values, but the ways in which the state acts to promote these ethical goals - such as consumption, and good work - must not be *il*-liberal.[47]

This 'new alliance' between institutional economics and liberal perfectionism has some important implications for issues of distributive justice, which have been deliberately put aside in this paper. Neutralist *welfare* liberals, such as Rawls and Dworkin, are quite right to criticise their libertarian opponents' refusal to engage with these issues. But they need to recognise that what stands in the way of people realising their conceptions of the good is not only their lack of resources or the inequality of their opportunities, but institutional arrangements that make the goods themselves unavailable. So, for example, what needs to be secured is not only 'fair equality of opportunity', but opportunities that are both plentiful and good.

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47 This liberal perfectionist position is more extensively described in: R. Keat, Liberalism, Neutrality and Varieties of Capitalism, in: New Philosophies of Labour. Work and the Social Bond, edited by N. H. Smith, and J-P. Deranty, Leiden 2012, 347-370. It is broadly similar to the position taken by Joseph Raz, and there are other aspects of his work, especially his view of the dependence of goods on 'social forms', and the incommensurability of goods, that are also important for my purposes. See: J. Raz, The Morality of Freedom, Oxford 1986; J. Raz, Duties of Well-Being, in his: Ethics in the Public Domain, Oxford 1994, 3-28. Raz argues that the state has a duty to ensure the existence of a 'range of valuable options', and that this is a requirement for individual autonomy (the other being the capacity for independent judgment). According to the liberal perfectionist position I defend, the criteria for judging the value of such options will be non-liberal, based on substantive claims about human well-being.