

LIBERALISM, NEUTRALITY AND VARIETIES OF CAPITALISM [□]

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1. Introduction

Should political choices between economic systems be made without reference to the conceptions of the good they respectively favour or disfavour? That considerations of this kind should be excluded from political deliberation would seem to follow from the principle of state neutrality (assuming that the systems concerned depend upon the state). According to this principle, which has been supported by many modern liberal theorists, the powers of the state should not be used to encourage or discourage the realisation of particular conceptions of the good. Instead, its functions should be limited to providing a just framework within which individuals can pursue their own, freely chosen goals.¹

Using the term *ethical* to refer to questions about ‘the good’, as distinct from ‘the right’, one can represent this neutralist liberal position as the view that whilst *individuals* may properly act for ethical reasons, that is, on the basis of what they regard as worthwhile or fulfilling ways to live, the *state* – or rather those who decide how its powers should be used – must not. This is the view that I shall oppose in this paper. I shall argue that the principle of state neutrality - henceforth PSN - should be rejected, at least in its application to economic systems, and likewise the exclusion of ethical considerations in making political decisions about these. But I shall also argue that the rejection of PSN need pose no threat to basic liberal principles.²

I will develop this argument by considering the case of a political choice between two different kinds or ‘varieties’ of capitalism: specifically, between those generally regarded as operating in countries such as the U.K. and the U.S.A., on the one hand, and in countries such as Germany on the other. Drawing on some recent work in comparative political economy, I will describe the key differences between these in Section Two. In policy-oriented debates about the comparative merits and defects of these (and other) varieties of capitalism, the focus is normally on issues of

economic performance and social justice or welfare. I shall assume here that these considerations are consistent with PSN. But I shall argue in Section Three that these varieties differ also in ethically significant ways, that is, in the conceptions of the good they respectively favour or disfavour. In doing so I shall focus on the possibilities for realising certain conceptions of the good in the sphere of production.

An important element of the argument will be the claim that (at least many) conceptions of the good are 'institutionally dependent': their realisation, and hence the possibility of their being realistically pursued, is dependent on the specific character of various (and varying) social institutions: in this case, primarily economic ones. For example: suppose that someone's conception of the good is to engage in work that involves relations of trust with others. It is unlikely that this could be realised in the absence of firms which operate in ways that are conducive to such relationships. Suppose, further, that how firms organise and conduct themselves is significantly influenced by the nature of the macro-level institutions within which they operate, and that these in turn depend in various ways on actions by the state. One might then reasonably expect economic systems to differ ethically, that is, in the extent to which they favour (the possibility of realising) this conception of the good.

In Section Three an attempt will be made to confirm this expectation in the case of these two varieties of capitalism, by identifying some of their (institutionally dependent) ethical differences. This will not of itself show that PSN is untenable, since what that principle excludes is the *intentional* use of the state's powers to favour particular conceptions of the good, and hence any role for ethical considerations in deciding upon such uses, as distinct from the 'mere fact' of its actions having non-neutral consequences. But I will go on to argue in Section Four that there is no good reason to ignore ethical differences of this latter kind in making political choices between these varieties of capitalism (and more generally between different economic systems).

In particular, I shall argue that there is no reason for *liberals* to be concerned by the rejection of PSN, since state neutrality is not necessary for liberal purposes. These are better served by placing constraints on the means by which the state's favouring of conceptions of the good is effected, and on their implications for individual choice. Such constraints, I shall claim, are clearly met by both varieties of capitalism being considered here. With state neutrality replaced by liberal constraints, perfectionist debates about human goods can play their part in political deliberation without threatening liberal principles. I shall call this view *liberal perfectionism*, distinguishing it from a somewhat different form of non-neutralist liberalism, which I shall call *perfectionist liberalism*.

In the final section, some broader questions about the relationship between liberalism and the market will be considered. Market economies are often supported on the grounds that they alone are consistent with state neutrality. That the two kinds of capitalism I examine are non-neutral undermines this view of market economies. Thus choosing to establish a market economy, in any of its possible forms, does not absolve members of a political community from the responsibility for making collective decisions about human goods.

2. Two varieties of capitalism

The following account of these two kinds of capitalism will draw mainly on the analysis presented by Peter Hall and David Soskice in the Introduction to their co-edited *Varieties of Capitalism*.³ They focus on the institutional differences between what they call 'Liberal' and 'Coordinated' Market Economies: henceforth, LMEs and CMEs. Taking the U.K. (and U.S.A.) as exemplary cases of the former, and Germany of the latter, they give particular attention to how these differences impact on the behaviour of firms. I will describe in turn three key areas in which these different institutional arrangements obtain: ownership and finance, the internal governance of firms, and inter-firm relationships.⁴

There are major differences between patterns of share ownership (and access to finance) in LMEs and CMEs.⁵ In the U.K., for example, the dominant shareholders are typically pension funds and

similar institutions, whose holdings in any one company form only a small part of a large portfolio, and whose managers have strong incentives to switch funds in response to relatively short-term changes in company profits. In Germany, by contrast, the major shareholders are other companies and banks, whose holdings in one company form a large proportion of their total holdings, and whose concerns are often strategic as well as financial. U.K. companies are also more vulnerable to takeovers than their German/CME counterparts, due partly to regulatory differences. In broad terms, then, there is a contrast between the 'impatient capital' of LMEs and the 'patient capital' of CMEs.

With respect to internal governance, firms in LMEs display high degrees of 'managerial prerogative' and hierarchy by comparison with more consensual forms of management in CMEs. For example, the membership of supervisory boards of German companies, which are responsible for major strategic decisions (such as dividend policy), consist of equal numbers of employee and shareholder representatives; for lower level decisions (such as redundancies), managers are required to consult with works councils. In the U.K., by contrast, equivalent forms of representation and consultation are rare. Combined with other legally sanctioned differences, these varieties of governance give rise to higher levels of job security in CMEs than in LMEs.

Finally, the exclusively *competitive* nature of relationships between firms in LMEs is significantly modified or complemented in CMEs by various forms of *cooperation*. In Germany, the main institutional support for this is provided by formally organised, industry-based associations, which play a central role both in education and training, and in research, development and technology transfer.⁶ In the German system of vocational training and apprenticeships, employers' organisations and trade unions negotiate agreements on skill categories and training protocols. The result is a high level of *industry-specific* skills and knowledge (that is, applicable across different firms in the same industry). In the U.K., by contrast, formal/public education, which focuses mainly on *generic* skills and knowledge (that is, applicable across different industries), is combined with training conducted by individual firms.⁷

Turning to research and development, in LMEs this is primarily conducted within individual firms in competition with others, the winner then protecting its technological superiority by the use of patents; technology transfer (that is, the diffusion of new developments across an industry) takes place through licensing arrangements, the movement of employees between firms, or company takeovers. In Germany, by contrast, a good deal of research and development takes place through cooperation between firms, and the industry associations which facilitate this are also involved in technology transfer and the specification of technical standards. In LMEs, the weaker role of industry associations is reflected in the relative absence of such standards, and inter-firm collaboration is more difficult to achieve because of legislative regulation such as the U.S.A.'s anti-trust laws.

Hall and Soskice emphasise the *complementarities* between the various institutional elements in each kind of capitalism, such that the specific behaviour by firms that each element facilitates or requires is at least compatible with, and generally reinforces or supports, the behaviour required or facilitated by other elements. For example, firms in LMEs will often be under pressure from shareholders to rectify short-term declines in profitability, and cost-cutting measures such as shedding labour will be facilitated by managerial prerogative. For firms in CMEs such measures would be less easy to take, given the need to negotiate with workers' representatives, but their relationships with shareholders make it less likely that such measures will be required. It is therefore easier for them to make what Hall and Soskice call 'credible commitments' to employees, and likewise to suppliers and clients. This is closely related to the tendency for CMEs to operate with a 'relational' understanding of contract, by contrast with its predominantly 'classical' form in LMEs.⁸

3. Ethical differences between LMEs and CMEs

I will now make use of Hall and Soskice's analysis to indicate how the institutional character of each variety of capitalism differentially favours or disfavors the realisation of certain conceptions

of the good. It should be emphasised, however, that what I will argue is in no way sanctioned by their own work and reflects quite different theoretical interests to theirs. Hall and Soskice use their analysis to develop a theory of ‘comparative institutional advantage’ which enables them, for example, to explain the dominance of different economic sectors in LMEs and CMEs, and to assess the implications of globalisation for the convergence or otherwise of different kinds of capitalism. By contrast, I shall be applying the idea of comparative institutional advantage to conceptions of the good.

As noted in the previous section, Hall and Soskice are concerned to show how the institutional differences between LMEs and CMEs impact on the organisation and conduct of firms. These latter differences, I will now argue, may be expected to affect the relative ease or difficulty with which individuals can realise various conceptions of the good related to the work they do, since it is firms that provide the immediate institutional settings for their possible realisation. The cases that will be presented are intended only as illustrative; they are by no means the only ones, nor necessarily the most important.

Consider, first, the ease or difficulty with which conceptions of the good involving different kinds of work-satisfaction might realistically be pursued. Here it could be argued that CMEs are more conducive than LMEs to the achievement of ‘intrinsic’, as distinct from ‘extrinsic’, satisfactions. There is a good deal of evidence that intrinsic satisfactions are most readily experienced when the work that people do combines high levels of skill with significant degrees of autonomy.⁹ That this is more likely to be available in CMEs is implied by the claims that Hall and Soskice make in the following passage, where they identify the characteristics of firms in CMEs that make them better suited than those in LMEs to what they call ‘incremental innovation’; as will be seen, these include just what is also conducive to intrinsic work-satisfactions. Thus:

It will be easier to secure incremental innovation where the workforce (extending all the way down to the shop floor) 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. Thus, incremental innovation should be most feasible where

corporate organization provides workers with secure employment, autonomy from close monitoring, and opportunities to influence the decisions of the firm, where the skill system provides workers with more than task-specific skills and, ideally, high levels of industry-specific technical skills, and where close inter-firm collaboration encourages clients and suppliers to suggest incremental improvements to products or production processes.¹⁰

A second example of the different conceptions of the good likely to be favoured by these varieties of capitalism is indicated by the reference here to *industry-specific skills* and *inter-firm collaboration*. In CMEs, I would argue, it will be easier than it is in LMEs for people to engage in work that has at least many of the features attributed by Alasdair MacIntyre to what he calls productive *practices*.¹¹ A key feature of such practices is the existence of ‘standards of excellence’ that are shared by those who engage in a specific field of productive activity, and by reference to which the quality of what they produce, and the value of their contribution, can be judged. By comparison with LMEs, I suggest, the industry-wide associations and training typical of CMEs makes them more conducive to such shared standards, and more generally to the successful pursuit of what MacIntyre terms ‘internal’, as distinct from ‘external’ goods.

The institutional differences between CMEs and LMEs that make them more or less conducive to practice-like production can be expected also to favour different conceptions of a successful *career*. In CMEs, it would seem, the favoured kind of career will be one in which success is understood in terms of the development and exercise of knowledge and skills in a specific kind of productive activity, of the contribution that has been made to this, and of its recognition by others. But this conception of a successful career will be more difficult to realise in LMEs where, as Hall and Soskice argue:

Financial market arrangements that emphasise current profitability and corporate structures that concentrate unilateral control at the top deprive the workforce of the security conducive to their full cooperation in innovation. Fluid labour markets and short job tenures make it rational for employees to concentrate more heavily on their personal career than the firm’s success and on the development of general skills rather than the industry- or company-specific skills conducive to incremental innovation.¹²

This institutional context provided by LMEs thus favours, I suggest, a significantly different conception of a successful career, and of the kinds of goods that it can provide. It will be one in

which what counts as success is defined without reference to judgments of contribution or achievement within any particular field of productive practice, but instead, for example, in financial terms. And the skills and abilities needed to achieve this kind of success will be those that can be utilised in multiple settings, ‘transported’ from one to the other, and regarded as the property of the individual concerned, aiding them in a career that is likewise very much their own.

As a final example I return to the case of *trust*, introduced in the opening section to illustrate the possibility of conceptions of the good being institutionally dependent. It should now be clearer how this might be so. Hall and Soskice explain why it is that employers in CMEs are better able than their LME counterparts to make “credible commitments” to employees, and why in more general terms CMEs are regarded as ‘high trust’ economies. One may also surmise that the recognition by workers of one another’s validated competences and their dependence on each other’s practical judgments are conducive to the kinds of relationships and attitudes that anyone who valued trust as a feature of their working lives would find attractive.¹⁵ This is not to say that this conception of the good *cannot* be realised in LMEs, but only that in this case, as in others, it may well be more difficult to do so than in CMEs (whereas for other conceptions of the good the reverse may be true). What is involved here is the differential favouring and disfavouring of conceptions of the good by institutional arrangements.

In the next section I shall consider the implications for neutralist liberalism of these kinds of institutionally based ethical differences between varieties of capitalism. But before doing so I shall comment on the nature of the relationship between institutions and conceptions of the good that is implied by what I have said so far.

First, it is the *realisation* of conceptions of the good that has been said to be institutionally dependent, as distinct from their *adoption*. Institutions are being claimed to ‘favour’ certain conceptions of the good over others (and to differ in those they favour), not in encouraging people to regard them as desirable aims to pursue, but in making it possible, or at least easier, to

realise them, were they to be adopted.¹⁴ Institutions may also influence which conceptions of the good individuals actually adopt, and one way they may do this is through the ‘adaptation’ of people’s conceptions of the good to what is realistically achievable, but that is a separate matter.

Second, if the idea of ‘conceptions of the good’ is replaced by that of ‘preferences’, the claim that institutions affect the realisability of conceptions of the good can be seen as a central thesis of *rational choice* institutionalism. But what I am claiming differs in certain respects from this influential form of institutional analysis, and also from its main theoretical rival, *sociological* institutionalism.¹⁵

According to rational choice institutionalists, institutions affect the likelihood of preferences being satisfied by affecting the costs of actions aimed at doing so. In particular, institutions can reduce the costs of mutually beneficial cooperation between calculatively rational agents, and hence overcome or mitigate the (supposed) problems of collective action. This generic feature of institutions is used to explain (in apparently functionalist or evolutionary terms) the existence and nature of various specific kinds of institution, including that of the *firm*, and also to explain the behaviour of individual agents, *given* certain preferences, by reference to the institutionally determined costs of satisfying these in particular ways.¹⁶

Sociological institutionalists have criticised rational choice institutionalism on a number of important grounds. One of these is for its failure, or refusal, to explain preferences themselves: more specifically, for regarding preferences as exogenous, rather than endogenous, with respect to institutions.¹⁷ But such institutional determination or ‘shaping’ bears only upon the adoption of preferences (or conceptions of the good), and not their realisation, and hence is not relevant for my purposes. Rather, the key departure from rational choice institutionalism that my claims imply concerns the relationship between institutions and what may be termed the *objects* of people’s preferences, that is, *what it is* that they desire or wish to achieve, as distinct from the fact of their *having* such a desire.

For rational choice theorists, these ‘objects’ can be specified without reference to the institutions concerned and the social activities they encompass: institutions are conceived as instrumentally useful for the satisfaction of preferences whose objects can exist without these institutions (and are presumed actually to do so, prior to the ‘creation’ of the relevant institutions). By contrast, in the kinds of examples I have presented, institutions are conceived as supporting (or undermining) the complex social relationships and activities which the objects of these preferences either consist in or depend upon.¹⁸ It is the existence of the institutions that makes it possible for the objects of these preferences to exist.

Thus, returning to the terminology of ‘conceptions of the good’, my claim is that their realisation is dependent on institutions because the goods themselves depend on, or consist in, social relationships and activities that require suitable institutional conditions. It is here that a second major criticism made of rational choice institutionalism by sociological institutionalists becomes relevant, namely of the narrowness of its motivational model and its inability to grasp the character of the social relationships and activities that form, as it were, the inner life of institutions, including that of firms.¹⁹ But the issues raised by these criticisms cannot be explored here.

4. From state neutrality to liberal constraints

I will now consider the implications of these ethical differences between LMEs and CMEs for liberal neutrality. As I noted in the opening section, the existence of such differences does not imply that the principle of state neutrality (PSN) is untenable, since what that principle rules out is the deliberate use of the state’s powers to favour particular conceptions of the good, and hence the appeal to ethical considerations in *justifying* such uses, as distinct from the ‘mere fact’ of its actions having non-neutral *consequences*. However, I will now argue that there is no good reason - or at least, no reason that liberals need accept - to ignore these ethical differences in making political choices between these varieties of capitalism.

Although the distinction (implicitly just made) between so-called ‘justificatory’ and ‘consequential’ neutrality is reasonably clear, the rationale for requiring state action to conform only to the former, and not to the latter, is much less so.²⁰ Justificatory neutrality is certainly less demanding than consequential neutrality, since it will permit many kinds or instances of state action that the latter would not; further, the endorsement of PSN defined in justificatory rather than consequential terms protects it from objections based on the difficulty or impossibility of achieving consequential neutrality. However, this reduced vulnerability comes at considerable cost, since it is difficult to see why the state’s acting in ways that have ethically non-neutral consequences should be unacceptable *only if* the political decisions leading to these actions were intended to have these effects and were hence justified in ethical terms.

Applied to the case being considered here, this would mean that the political choice of one variety of capitalism rather than another would only be acceptable if no reference were made to the conceptions of the good they respectively favoured, and no attempt made to justify this choice on ethical grounds, even though those involved in making this choice had good reason to believe that it would have ethically non-neutral consequences. But this seems hard to justify. It is as if what justificatory neutrality permits is the refusal by political actors to take responsibility for the foreseeable consequences of their decisions, encouraging them to turn a blind eye to these rather than subject them to ethical reflection.

This surely cannot be the intention of those who advocate PSN. Rather, given their liberal commitments (and ancestry) it seems reasonable to assume that its primary rationale is connected to ‘traditional’ liberal concerns with placing limits on the legitimate role of the state so as to protect individual liberty. These concerns have given rise to a number of long-established (and recognisably liberal) political principles and practices, such as the enforcement of various basic rights, the rejection of paternalistic legislation, and a more general commitment to providing individuals with a range of reasonably attractive options from which they may choose.

I would argue that PSN adds nothing of (liberal) value to these kinds of principles. By prohibiting ethical aims (and hence justifications) for state action it imposes restrictions on political reasoning that serve no recognisable liberal purpose; further, it fails to prohibit things that liberals would wish to prohibit, since some of the consequential non-neutralities it allows may be generated in ways that liberals would find objectionable. Liberals, I suggest, should abandon PSN, and instead focus their attention (as they traditionally have) on whether there is anything illiberal about the particular kinds of institutional arrangement and uses of state power that are being proposed in political debate, independently of whether these are being supported on ethical grounds. Then, provided that liberal requirements are met, ethically based considerations may play their part in political deliberation.

How would this apply in the case of a political choice between LMEs and CMEs? Advocates of PSN would insist that the various conceptions of the good they differentially favour should be excluded from consideration in debates about their respective merits and defects. By contrast, those who endorse liberal principles but are not saddled with the unnecessary burden of PSN will be concerned with the 'liberal credentials' of each economic system and their supporting social institutions and forms of state action. I will now argue that there is no reason to regard either of these varieties of capitalism as seriously problematic from a liberal standpoint.²¹

First, in actual examples of both LMEs and CMEs, such as Britain and Germany, the standard array of civil and political rights is clearly present, including religious freedom, freedom of contract, political freedom and so on. In particular, CMEs do not depend upon 'strong', that is, intrusive and interventionist states, by contrast with supposedly 'weak' states in LMEs; rather, as Hall and Soskice emphasise, what distinguishes the German state from its British counterpart is the former's willingness to assign powers or functions to 'intermediate associations'.²² Further, the specific ways in which the differential ethical effects of these systems are generated should not be seen as objectionable by liberals. The paradigmatic object of liberal concern is the direct use of the

state's coercive powers either to require people to act in some specific way deemed ethically desirable, or to prohibit them from similarly specific actions deemed ethically undesirable: for example, laws requiring certain religious observances, or prohibiting certain kinds of sexual behaviour.

But the ways in which 'outcomes regarded as ethically desirable' are generated in LMEs and CMEs differ radically from this, since: (i) there is no direct attempt to require or prohibit the ethically relevant behaviour of individuals through legislation; (ii) to the extent that the state can be regarded as 'acting upon' the ethically relevant behaviour of individuals, it does so only indirectly, through the various institutions it establishes or supports; (iii) to the extent that the state acts directly and coercively through the law, it does so 'only' in shaping and regulating these institutions, not the 'ethically desired or undesired' behaviour they may favour; (iv) the ways in which the institutions themselves favour certain kinds of behaviour does not involve coercive requirements and prohibitions.

Consider, for example, the 'favouring' of relationships based on trust in CMEs. This is not achieved by state legislation that requires people to develop relations of trust with their co-workers, and punishes those who do not. Rather, legislation is involved in protecting workers from redundancy, in requiring consultation through works councils, in ownership rules which protect firms from the threat of take-overs when profitability is under pressure, and so on. These 'coercively enforced' measures establish a framework within which firms operate, and make it in their interests, or at least not unduly against their interests, to act in ways that make long-term working relationships and commitments relatively easy to secure, and hence facilitate the development of trust between workers (and between workers and managers). This is how CMEs 'favour conceptions of the good involving relationships of trust': the powers of the state are certainly involved, but it is hard to see how the form that this takes pose a threat to individual liberty.

Finally, there is the liberal concern for individuals to be able to make genuine *choices*, and hence for the existence of a range of available options to choose between. Admittedly there is a conceptual problem in addressing this requirement, since the ‘counting’ of alternatives depends on the level of generality at which, or the criteria of ethical relevance with which, such alternatives are described: that is, on defining ‘what is to count as’ a single or different option. It is easy to multiply alternatives by making the descriptive categories more fine-grained; it is easy to reduce their number by making them less so, and it is difficult to identify and justify the relevant form or appropriate level of description.

However, putting this conceptual problem aside, one could say the following. On the one hand, there are clearly many options in the domain of production for people to choose between in both LMEs and CMEs. On the other hand, each system restricts its options to an overall set with a specific and partly distinctive character. Because this is so, individuals who wish to pursue a conception of the good that does not belong to this set will have difficulties in doing so. But this kind of limitation on ‘realistic options’ is an inevitable consequence of the institutional basis of any economic system, combined with what I have called the ‘institutional dependence’ of conceptions of the good. To conceive of choice in such a way that these kinds of restrictions are seen as unduly limiting would imply opposition to any kind of economic structure. Further, such opposition (if intelligible at all) would be counter-productive, given that many conceptions of the good can only be realised, and sometimes even conceived, through such institutions and the social relationships they secure. Institutions enable as well as constrain. The specific nature of these institutions will determine *which* range of options is available, but there cannot be a limitless range. So what has to be decided politically is which set of possibilities, which set of goods, are to be made available.

The general position for which I have been arguing here can be termed ‘liberally-constrained perfectionism’, or *liberal perfectionism* for short. It is perfectionist in rejecting PSN, and hence in regarding ethical reasons – considerations of the human good – as permissible grounds for state

action. Its liberalism consists in requiring that how the state acts be constrained by various liberal political principles. Defined in this way, liberal perfectionism, should be distinguished from what I shall call *perfectionist liberalism*. Like liberal perfectionists, perfectionist liberals accept the legitimacy of ethical reasons as grounds for state action. But these ethical reasons are exclusively *liberal* ones, based on a distinctively liberal vision of the good life for humans. What this vision consists in varies somewhat between different perfectionist liberals, but it typically and centrally includes some conception of *autonomy*, according to which it may then be said that ‘the good life for humans involves deciding for oneself what kind of life to pursue’.²³

This autonomy requires both the (inherited or acquired) capacity to make such decisions and a range of options between which to choose. But crucially, for my purposes, what might make these options good or bad ones to choose is not itself part of this liberal ideal: the value of autonomy is distinct from that of the options chosen, about which perfectionist liberalism insists on saying nothing.²⁴ So although perfectionist liberals allow the state to act non-neutrally with respect to the (liberal) good of autonomy, this ‘permission’ does not extend to its favouring specific ways in which this autonomy may be exercised: there is no place for ethical reasons related to the (supposed) ‘substantive value’ of the kinds of life between which autonomous choices are made. By contrast, the liberal perfectionism I have defined here permits the state (also) to act on the basis of these latter kinds of ethical reasons, *provided that* various liberal requirements are met.²⁵ One might put this by saying that, for the liberal perfectionist, the state may legitimately act to favour (both liberal and) *non-liberal* conceptions of the good, but in doing so it must not act *il-liberally*.

What liberal perfectionism implies, in effect, is that liberalism should not be regarded as a ‘complete’ political theory, but rather as a set of constraints on actions that may themselves be justified by non-liberal ethical values. From this standpoint, the specific content of, and differences between, various ethical traditions and their conceptions of the human good (including, for example, Aristotle and Marx) become significant resources for political debate, and

for political theory. By contrast, as Dworkin's seminal defence of neutralist liberalism made clear, 'all perfectionist theories', whether socialist, conservative or whatever, are equally mistaken or at least equally irrelevant, once we have decided to exclude ethics from politics.²⁶

5. Liberalism, markets and neutrality

As noted at the outset, state neutrality is typically presented by its advocates as an essential principle for a liberal society in which individuals can freely pursue their own conceptions of the good within a just framework established by the state. Although debates about PSN rarely address its implications for economic systems, focusing instead on issues of secularism, multiculturalism and the like, its proponents seem generally to regard *market* economies as consistent with this principle, and quite possibly as uniquely so.²⁷ Correspondingly, it is *departures* from the market that are seen as problematic, at least when argued for in ethical terms. For example, in debates about state subsidies for the arts, it is widely accepted that only by rejecting PSN can such exceptions to market-based provision be justified.²⁸ Ethical reasons, it would seem, are to be reserved for non-market solutions, with the market itself being regarded as satisfying the requirement of neutrality.

That market economies are (perhaps uniquely) consistent with PSN is often upported by their depiction in such a way that they appear directly to embody the neutralist ideal of a liberal society. In particular, the operation of market economies is represented as consisting essentially of a series of contractual exchanges between free and equal legal parties, each pursuing their own goals.²⁹ The powers of the state are required to regulate and enforce such contracts (and likewise the property rights being exchanged), but in supporting this system it appears neither directly nor indirectly to discriminate between the various goals that individuals attempt to achieve through voluntary cooperation with one another. Of course, individuals' prospects for realising their goals – their conceptions of the good □ depend on their financial resources, and neutralist *welfare* liberals such as Rawls and Dworkin see this as justifying intervention by the state so that these resources, and hence prospects, are distributed fairly. But this is (rightly) viewed as quite different from the state favouring or disfavouring conceptions of the good themselves.

My discussion of the two kinds of capitalism in Sections Two and Three implicitly challenges this view of market economies and their neutrality (that is, their consistency with PSN). Made explicit, the argument goes briefly as follows. Liberal and Coordinated Market Economies differ in the conceptions of the good they respectively favour or disfavour. Thus neither of them is neutral. Yet both may justifiably be regarded as ‘market’ economies. Since neither of these two kinds of market economy are neutral, *a fortiori* ‘market economies’ cannot be.³⁰

To this it might be objected that LMEs are more deserving of the title ‘market economy’ than are CMEs: that the former are ‘more market-like’ than the latter.³¹ But even if this were accepted, it would not rescue the neutrality of the market, since what would now be described as an ‘ethical comparison between market (that is, LMEs) and (partially) non-market systems (that is, CMEs)’ would still demonstrate the non-neutrality of both. One must therefore avoid thinking that the conceptions of the good favoured in CMEs are somehow being ‘subsidised’ by the state, by contrast with the ‘neutrality’ of LMEs and absence of subsidies for *their* conceptions of the good. Instead, one should either regard *both* systems as involving ‘state subsidies’ for their respectively favoured conceptions of the good, or (preferably) *neither*.³²

As well as challenging the supposed neutrality of market economies, my analysis of these varieties of capitalism also implicitly suggests two (interlocking) reasons for this non-neutrality not being recognised. First, there is the failure to recognise the institutional dependence of conceptions of the good, so that all that is seen as required for their realisation by individuals is a sufficient supply of financial resources (and willing partners). Second, there is the corresponding tendency to ignore various institutional features of market economies and the influence upon these of the state: in particular, the organisational character of firms, which themselves provide the institutional settings for realising conceptions of the good, and cannot be understood through the model of exchange.

However, the non-neutrality of market economies need not concern their liberal defenders. In Section Four it was argued that neither LMEs nor CMEs posed any threat to liberal principles, and it seems reasonable to infer that the same is true of other kinds of market economy, whether capitalist or non-capitalist. Whether this compatibility with liberal principles extends beyond the category of market economies is an issue I shall not pursue here. But even if it does not, so that liberally constrained perfectionism turns out to require the choice of *some* kind of market system, one can expect there to be significant ethical differences between these kinds, and according to the position I have argued for, judgments about these ethical differences can play a legitimate part in political choices between them.

Of course, there will also be many *non*-ethical differences, which will also be relevant to these political choices, since liberal perfectionism's inclusion of ethical considerations does not imply the exclusion of non-ethical ones or their lesser significance. As well as standard measures of economic performance, these will include issues of distributive justice and social welfare that (have been assumed here to) belong to the category of 'the right' rather than 'the good'.³³ Further, even restricting oneself to ethical considerations, the kinds of differences between LMEs and CMEs suggested in Section Three are by no means the only or necessarily the most important ones, since not only was the analysis primarily illustrative in purpose, but it was restricted to conceptions of the good within the domain of production. What would also need consideration are the goods of *consumption*, along with the ethical impact of both production and consumption on the character of *non*-economic practices, relationships and institutions.³⁴

Admittedly, the more that the extent and complexity of the relevant ethical issues is recognised, the more it may seem that their inclusion as permissible grounds for choice between economic systems makes impossible demands on political reasoning and democratic decision-making.³⁵ Indeed the impossibility of arriving at remotely consensual decisions about human goods has often been advanced as a reason for excluding them from political deliberation.³⁶ I shall not try to address these problems here. But I do want to point out, in conclusion, that if the overall

argument of this paper is correct, it undermines an influential and seemingly attractive way of avoiding them.

What I have in mind is the argument presented by Hayek that the adoption of market economies obviates the need for collective, societal level decisions about the (in my terms, ethical) purposes to be served by economic production.³⁷ This is held to be a major advantage of the market since, at least in modern, pluralistic societies, no agreement could be reached about such social purposes (and/or their prioritisations) and failure to do so will lead either to serious conflict or the forcible imposition of a powerful minority's decisions. The market, it is claimed, enables the political system to avoid these undesirable consequences of attempting the impossible by, as it were, 'devolving' the relevant decisions to individuals, pursuing their own freely chosen goals within the (ethically) neutral framework of the market.

At one level of analysis this argument has merit, since market economies clearly remove the need for a certain kind of 'ethical micro-management' by the state with respect to economic production and its goals. But at another level it is defective, since it ignores the various institutional processes through which market economies in general, and their specific varieties in particular, differentially favour and disfavour the realisation of certain conceptions of the good, and hence delimit the sets of possible goals that it is realistic for individuals to pursue.³⁸ The question thus arises of *which* set is to be preferred. The members of a political community may decide not to answer this question, refusing to take collective responsibility for the foreseeable consequences of different institutional structures supported by the state.³⁹ But they should at least acknowledge that by keeping ethics out of political processes, they will not keep ethics out of economic ones.

***Notes**

* This is the final draft of a paper published as Chapter 13 of Nicholas Smith and Jean-Philippe Deranty eds, *New Philosophies of Labour: Work and the Social Bond* (Leiden & Boston: Brill), 2012, pp347-369. It is a

revised version (with added material on forms of institutionalism) of a paper given in September 2006 at the Political Theory Workshops, Manchester Metropolitan University. I am grateful to Lynn Dobson, Ricca Edmondson, Jonathan Hearn, John O'Neill and Jonathan Seglow for their comments on earlier drafts.

¹ Amongst influential proponents of state neutrality are J. Rawls, *A Theory of Justice*, Oxford, Oxford University Press, 1971, and R. Dworkin, "Liberalism", first published in 1978 and reprinted in *A Matter of Principle*, Oxford, Oxford University Press, 1985, pp. 181-204. A defence of state neutrality against many of its critics is presented in W. Kymlicka, "Liberal Individualism and Liberal Neutrality", *Ethics*, vol. 99, 1989, pp. 883-905. For an overview of these debates, see S. Mulhall and A. Swift, *Liberals and Communitarians*, second edition, Oxford, Blackwell, 1996.

² My position has been strongly influenced by the defences of perfectionism in J. Raz, *The Morality of Freedom*, Oxford, Oxford University Press, 1986, and G. Sher, *Beyond Neutrality: Perfectionism and Politics*, Cambridge, Cambridge University Press, 1997. Like them, I understand perfectionism as the view that ethical considerations are legitimate grounds for state action, but not that they are the *only* such grounds: considerations of right or justice - in Habermas's terms, *moral* considerations - are also important (J. Habermas, "On the Pragmatic, the Ethical, and the Moral Employments of Practical Reason", in *Justification and Application*, trans. C. Cronin, Cambridge, Polity Press, 1993, pp. 1-18). Both Sher (*Beyond Neutrality*, pp. 31-34), and Raz (*Morality of Freedom*, pp. 110-112) note that formulations of PSN differ in the 'levels' of state action to which it applies, ranging from constitutional provisions to any item of public policy. I shall assume that it applies (at least) to the basic institutions and legal provisions that serve to constitute a certain kind of economic system.

³ P. Hall and D. Soskice, "An Introduction to Varieties of Capitalism", in P. Hall and D. Soskice (eds), *Varieties of Capitalism: The Institutional Foundations of Comparative Advantage*, Oxford, Oxford University Press, 2001, pp. 1-70. The account that follows reproduces in part the more detailed one provided in R. Keat, "Practices, Firms and Varieties of Capitalism", *Philosophy of Management*, vol. 7, no. 1, 2008, pp. 77-91, especially section two. My reliance here on Hall and Soskice's analysis is primarily for expository convenience: there is a large body of literature in comparative political economy in which broadly similar characterisations of these differences are presented, including C. Crouch and D. Marquand (eds), *Ethics and Markets: Cooperation and Competition within Capitalist Economies*, Oxford, Blackwell, 1993; J. Hollingsworth, P. Schmitter and W. Streeck (eds), *Governing Capitalist Economies: Performance and Control of Economic Sectors*, Oxford, Oxford University Press, 1994; C. Crouch and W. Streeck (eds), *Political Economy of Modern Capitalism: Mapping Convergence and Diversity*, London, Sage, 1997; R. Whitley, *Divergent Capitalisms: The Social Structuring and Change of Business Systems*, Oxford, Oxford University Press, 1999; V. Schmidt, *The Futures of European Capitalism*, Oxford, Oxford University Press, 2002. The theoretical and methodological debates within this literature that would be important in other contexts need not be addressed here; notice, though, that many authors, including Hall and Soskice, also recognise the existence of *other* varieties of capitalism, so that LMEs and CMEs are not the only kinds.

⁴ 'Liberal' is used here in its economic, rather than political, sense. Other countries whose economic institutions are regarded by Hall and Soskice as LMEs include Australia, New Zealand and Ireland; others regarded as CMEs include the Netherlands, Sweden and Austria ("Introduction", pp. 19-20). In theoretical terms, the distinction between LMEs and CMEs is between capitalist systems which rely on markets and hierarchies alone as the primary means of economic coordination, and those in which there is also extensive use of other means. On different forms of coordination (or 'governance') see Hollingsworth et al, *Governing Capitalist Economies*, pp. 3-16.

⁵ For more on these differences see S. Vitols, "Varieties of Corporate Governance: Comparing Germany and the U.K.", in Hall and Soskice, *Varieties of Capitalism*, pp. 337-360.

⁶ These associations between firms in the *same* industry, in Germany, differ from the *keiretsu*, or 'families' of firms from *different* industries, in Japan (Hall and Soskice, "Introduction", pp. 34-35; see also M. Sako, "Neither Markets nor Hierarchies: A Comparative Study of the Printed Circuit Board Industry in Britain and Japan", in Hollingsworth et al, *Governing Capitalist Economies*, pp. 17-42, and R. Dore, "The Distinctiveness of Japan", in Crouch and Streeck, *Political Economy of Modern Capitalism*, pp. 19-32. Here I follow Hall and Soskice in concentrating on the former ('German') type of CME.

⁷ For more on generic *versus* specific skills training, and the relationships between production and welfare systems, see M. Estevez-Abe, T. Iversen and D. Soskice, “Social Protection and the Formation of Skills: A Reinterpretation of the Welfare State”, in P. Hall and F. Soskice (eds), *Varieties of Capitalism: The Institutional Foundations of Comparative Advantage*, Oxford, Oxford University Press, 2001, pp. 145-183.

⁸ On the classical v relational distinction, see I. Macneil, “Contracts: Adjustment of Long-Term Economic Relations under Classical, Neoclassical, and Relational Contract Law”, *Northwestern University Law Review*, vol. 72, 1978, pp. 854-905. Note that the sense that I give to ‘complementarity’ differs slightly from the more technical definition provided by Hall and Soskice: “Introduction”, p. 17.

⁹ See the analysis of this evidence by Robert Lane, including his depiction of the “privileged class” of workers, whose jobs offer “self-direction, substantive complexity and challenge, variety, little supervision, and intrinsic satisfaction of excellence or self-determination” (R. Lane, *The Market Experience*, Cambridge, Cambridge University Press, 1991, p. 302). My suggestion is that, if Hall and Soskice are right, the ‘size’ of this class will be greater in CMEs than in LMEs.

¹⁰ Hall and Soskice, “Introduction”, p. 39.

¹¹ A. MacIntyre, *After Virtue*, Notre Dame, University of Notre Dame Press, 1981. I develop this argument much more fully in “Practices, Firms and Varieties of Capitalism”, building on my earlier discussion of MacIntyre in “Markets, Firms and Practices”, in R. Keat, *Cultural Goods and the Limits of the Market*, London, Palgrave Macmillan, 2000, pp. 111-132. The argument applies only to the ‘German’, and not to the ‘Japanese’ type of CME (see Note 6 above).

¹² Hall and Soskice, “Introduction”, p. 40.

¹³ Individuals can persist in ‘acting trustingly’ in situations where there is little prospect of reciprocity. But this does not enable them to achieve the good of trust, which requires mutuality, and the costs of unreciprocated trustfulness are probably too high for most people to sustain.

¹⁴ The neutrality principle may be formulated in terms either of realisation, or of adoption, as Raz notes (*Morality of Freedom*, p. 112); I take it in the former sense throughout.

¹⁵ On these two forms of institutionalism, see P. Hall and R. Taylor, “Political Science and the Three New Institutionalisms”, *Political Studies*, vol. XLIV, 1996, pp. 936-952. I put aside what they identify as a third form, *historical* institutionalism, since in the respects that matter here it tends to draw on one or other of the first two.

¹⁶ An important application of rational choice institutionalism is the transaction costs analysis of the firm, as in O. Williamson, *The Economic Institutions of Capitalism: Firms, Markets, Relational Contracting*, New York, Free Press, 1985. For criticisms, and alternative forms of institutional analysis in this area, see W. Lazonick, *Business Organization and the Myth of the Market Economy*, Cambridge, Cambridge University Press, 1991, and N. Foss, “Theories of the Firm: Contractual and Competence Perspectives”, *Journal of Evolutionary Economics*, vol. 3, 1993, pp. 127-144.

¹⁷ See, for example, S. Bowles, “Endogenous Preferences: The Cultural Consequences of Markets and Other Economic Institutions”, *Journal of Economic Literature*, vol. 36, no. 1, 1998, pp. 75-111. Hodgson argues that what chiefly distinguishes the ‘new’ institutionalism in economics (roughly, rational choice institutionalism), which he opposes, from the ‘old’ institutionalism, which he supports, is the former’s treatment of preferences as exogenous to institutions: G. Hodgson, “What Is the Essence of Institutional Economics?”, *Journal of Economic Issues*, vol. XXXIV, 2000, pp. 317-329.

¹⁸ This claim might best be developed through Raz’s account of collective goods and what he terms “social forms”, in *Morality of Freedom*.

¹⁹ For example, March and Olsen argue that we need to replace, or at least complement, rational choice theory’s “logic of consequentiality” by a “logic of appropriateness” (J. March and J. Olsen, *Rediscovering Institutions: The Organizational Basis of Politics*, New York, Free Press, 1989), and Searle argues that institutions

provide “desire-independent reasons for action” (J. Searle, “What is an Institution?”, *Journal of Institutional Economics*, vol. 1, 2005, pp. 1-22).

²⁰ On the distinction between justificatory and consequential neutrality (or neutrality of effect, or outcome) see D. Miller, *Market, State and Community*, Oxford, Oxford University Press, 1990, ch. 3; Mulhall and Swift, *Liberals and Communitarians*, pp. 25-34, and J. O’Neill, *The Market: Ethics, Knowledge and Politics*, London, Routledge, 1998, ch. 2. Most proponents of neutrality define it in justificatory rather than consequential terms, though in doing so they encounter problems in identifying specific actions by the state that PSN rules out, since such actions are typically open to different possible justifications: see Sher, *Beyond Neutrality*, ch. 1.

²¹ The ‘logic’ of the following considerations might be expressed like this: the fact that these two economic systems, with their different ethical characters, can and do operate in a liberal-consistent manner, implies that it must be possible to construct a justificatory argument for each of them, and their respective uses of state power, which relies upon ethical reasons but does not thereby threaten liberal principles; there is thus no ‘need’ for liberals to accept PSN.

²² Hall and Soskice, “Introduction”; the same point is made in Whitley, *Divergent Capitalisms*. See also Schmidt, *Futures of European Capitalism*, on the differences between the ‘managed capitalism’ of Germany and the ‘state capitalism’ of France (not a CME, in Hall and Soskice’s terms).

²³ My distinction between ‘perfectionist liberalism’ and ‘liberal perfectionism’ is stipulative: the two phrases are used interchangeably in the literature, both normally referring to what I identify as the former position. Both positions, as I define them here, are concerned with the permissible grounds for state action, and reject the neutralist exclusion of ethical grounds for this: that is, they reject PSN, but liberal perfectionism is far more ‘permissive’ than perfectionist liberalism. As Mulhall and Swift point out (*Liberals and Communitarians*, pp. 249-252), these debates about state neutrality should be distinguished from another set of debates, at a ‘deeper’ level, about whether or not liberal political principles are to be grounded in a distinctive ethical position (‘comprehensive’ versus ‘political’ liberalism). I shall ignore these latter debates, merely noting that ‘comprehensive’ liberalism does not entail rejection of PSN.

²⁴ As Sher notes (*Beyond Neutrality*, p. 14), there is no inconsistency in claiming both that liberalism rests on a certain conception of the good, namely autonomy, and that the state should be neutral with respect to the value or ‘goodness’ of the options between which individuals are to make autonomous choices.

²⁵ Liberal perfectionism, as I characterise it here, has much in common with the position taken in J. Raz, *Ethics in the Public Domain: Essays in the Morality of Law and Politics*, Oxford, Oxford University Press, 1994. Raz argues that the state has a duty to provide people with an adequate range of valuable options between which they can choose, as well as ensuring that they can develop the various capacities required for the autonomy exercised in making these choices. Crucially, for Raz, as for ‘my’ liberal perfectionist, the criteria by which the value of the options are judged are not themselves based on, or derivable from, that of autonomy.

²⁶ See Dworkin, “Liberalism”; I discuss this feature of his position in R. Keat, “Social Criticism and the Exclusion of Ethics”, *Analyse und Kritik*, vol. 30, no. 2, 2008, pp. 229-253.

²⁷ This seems to be the view taken in Dworkin, “Liberalism”; also in R. Arneson, “Meaningful Work and Market Socialism”, *Ethics*, vol. 97, 1987, pp. 517-545, and (arguably) in W. Booth, “On the Idea of the Moral Economy”, *American Political Science Review*, vol. 88, 1994, pp. 653-667. I criticise Arneson’s neutralist defence of the market in R. Keat, “Anti-Perfectionism, Market Economies and the Right to Meaningful Work”, *Analyse und Kritik*, vol. 31, 2009 (forthcoming); see also Miller, *Market, State and Community*, ch. 3.

²⁸ Although Dworkin attempts to justify arts subsidies consistently with neutrality, in R. Dworkin, “Can a Liberal State Support Art?”, in *A Matter of Principle*, Oxford, Oxford University Press, 1985, pp. 221-233. For criticisms, see S. Black, “Revisionist Liberalism and the Decline of Culture”, *Ethics*, vol. 102, 1992, pp. 244-267, and Mulhall and Swift, *Liberals and Communitarians*, pp. 300-308.

²⁹ As it is by Hayek, for example: see O’Neill, *The Market*, ch. 5, on the relationship between neutralist and perfectionist liberal elements in Hayek’s view of markets, exchange and individual autonomy.

³⁰ More generally, that market economies can take significantly different institutional forms is itself an important ‘fact’, since political and theoretical debates about economic systems often assume that ‘choosing to institute a market economy’ identifies a determinate institutional or political project, thereby ignoring the normative relevance of institutional variation. For criticism of Habermas in this respect, see W. Forbath, “Short-Circuit: A Critique of Habermas’s Understanding of Law, Politics and Economic Life”, in M. Rosenfeld and A. Arato (eds), *Habermas on Law and Democracy: Critical Exchanges*, Berkeley, University of California Press, 1998, pp. 272-286. I criticise Habermas’s view of the place of ethics in political judgments about economic systems in R. Keat, “Choosing Between Capitalisms: Habermas, Ethics and Politics”, unpublished manuscript, University of Edinburgh, 2007: <<http://www.russellkeat.net>>

³¹ This view is encapsulated in Schmidt’s labelling of what Hall and Soskice call LMEs as “*market capitalism*”, as distinct from the “*managed capitalism*” of what they call CMEs: Schmidt, *Futures of European Capitalism*. The strongest argument for LMEs being ‘more market-like’ than CMEs would be based on the greater *scope* of ‘markets’ in the former, especially with respect to *financial* markets.

³² I develop this argument in Keat, “Anti-Perfectionism”, in the case of what might be seen by neutralists as unacceptable ‘subsidies for meaningful work’ in CMEs. More generally, I argue there that political theorists who attribute neutrality to the market rely on the kind of individualistic understanding of markets to be found in neoclassical economics and its conceptual successors, and that the opposing position I have outlined here depends on replacing that with an institutionalist (but not ‘new institutionalist’) alternative.

³³ For example, Hall and Soskice (“Introduction”) claim that CMEs are more compatible with social or Christian democratic welfare systems than are LMEs, and generate lower degrees of income inequality. However, whilst supporting these claims, it is argued in Estevez-Abe et al, “Social Protection and the Formation of Skill”, that CMEs are *less* egalitarian than LMEs with respect to issues of gender: rates of workforce participation by women are lower in CMEs than in LMEs, there is a higher degree of gender-based job segregation, and the gaps between female and male (rates of) pay are greater.

³⁴ See Keat, *Cultural Goods*, on various aspects of the justification for ‘market boundaries’. In “Consumer-Friendly Production or Producer-Friendly Consumption” (*ibid.*, pp. 133-148) I discuss Lane’s argument (Lane, *The Market Experience*) that production is more important than consumption as a source of human well-being

³⁵ My claims about the ethical differences between LMEs and CMEs are not to be understood as ethical *judgments* about their respective merits or defects; rather, they are intended to identify some of the relevant features of these systems *about which* substantive ethical judgments would need to be made as a basis for political choices between them. See Keat, “Social Criticism”, on the conception of value-free social science assumed by this.

³⁶ But I agree with Raz’s view (Raz, *Morality of Freedom*) that consensual decisions about matters of justice or ‘the right’ are no more easily achieved than those about ethics or ‘the good’, and also that scepticism about the possibility of justifying ethical judgments is not a persuasive argument for PSN.

³⁷ F. Hayek, *Law, Legislation and Liberty*, Volume 2, London, Routledge and Kegan Paul, 1976, especially ch. 10.

³⁸ Rawls argues that no society can be equally hospitable to the realisation of *all* conceptions of the good; my point here is that, having recognised this, the members of a political community should decide collectively on *which* set of possible conceptions of the good are to be favoured by their society’s economic institutions. ‘Choosing the market’ is not a way of avoiding this decision.

³⁹ That is, they can adopt the *justificatory* version of PSN, accepting that its *consequential* version cannot in practice be realised.