

# LIBERALISM, NEUTRALITY AND VARIETIES OF CAPITALISM\*

**Russell Keat**

School of Social and Political Studies  
University of Edinburgh  
Russell.Keat@ed.ac.uk

## 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).<sup>1</sup> 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 (henceforth CoGs). Instead, its functions should be limited to providing a just framework within which individuals can pursue their own, freely chosen goals.

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, ie 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.

I will develop this argument by considering the case of a political choice between different kinds or ‘varieties’ of capitalism: specifically, between those generally regarded as operating in countries such as the UK (and USA), 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 2. In policy-oriented debates about the comparative merits and defects of these (and other) varieties of capitalism (henceforth VoCs), 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 3 that these varieties differ also in ethically

---

\* This paper was given at the Political Theory Workshops, Manchester Metropolitan University, September 2006; footnotes have been added, but only copy-editing changes have been made to the text. Citations should take the following form: Keat, R. (2006) ‘Liberalism, neutrality and varieties of capitalism’, unpublished manuscript, University of Edinburgh; <<http://www.russellkeat.net>> [date of download]. I am especially grateful to Lynn Dobson, Ricca Edmondson and John O’Neill for their comments on earlier drafts. A revised version is to be published in N. Smith and J-P. Deranty eds, *New Philosophies of Labour: Work and the Social Bond*, Leiden: Brill.

<sup>1</sup> I say “would *seem* to follow” because, as Sher notes (1997, pp 31-34), formulations of the principle of state neutrality may differ in terms of the ‘levels’ of state action to which it applies, ranging from constitutional provisions to any item of public policy. I shall assume that it is taken to apply to the basic institutions and legal provisions that serve to constitute a certain kind of economic system. Amongst influential proponents of neutrality are Rawls 1971 and Dworkin 1985 (first published in 1978); Kymlicka 1989 defends the principle against many of its critics. My opposition to neutrality has been strongly influenced by the defences of perfectionism in Raz 1986 and Sher 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 - or in Habermas’s (1993) terms, *moral* considerations - are also important. For an overview of these debates, see Mulhall and Swift 1996.

significant ways, ie in the conceptions of the good they respectively favour or disfavour. In doing so I shall focus on the possibilities for realising certain CoGs in the sphere of production.

An important premise of the argument will be that (at least many) conceptions of the good are ‘institutionally dependent’: their realisation, and indeed 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*, ie to differ in the extent to which they favour (the possibility of realising) this conception of the good.

In section 3 an attempt will be made to confirm this expectation in the case of these two varieties of capitalism, by identifying the specific nature of at least some of their (institutionally dependent) ethical differences. Admittedly, this will not of itself show that PSN is untenable, since what that principle prohibits 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 4 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 both neutralist and perfectionist liberalism.

In the final section (section 5) 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*.<sup>2</sup> They focus on the institutional

---

<sup>2</sup> Hall and Soskice 2001. My reliance here on their analysis is largely 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 Crouch and Marquand 1993, Hollingsworth et al 1994, Crouch and Streeck 1997, Whitley

differences between what they call 'Liberal' and 'Coordinated' Market Economies (henceforth LMEs and CMEs). Taking the UK (and USA) 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.<sup>3</sup>

There are major differences between patterns of share ownership (and access to finance) in LMEs and CMEs.<sup>4</sup> In the UK, 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. UK 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 UK, 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.<sup>5</sup> 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 (ie applicable across different firms in the same industry). In the UK, by contrast, formal/public education, which focuses mainly on *generic* skills and knowledge (ie applicable across different industries), is combined with training conducted by individual firms.

---

1999 and Schmidt 2002. Although there are theoretical and methodological debates within this literature that would be important in other contexts, they need not be addressed here

<sup>3</sup> Note that the term 'liberal' is used here in its economic, rather than political, sense. 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 the introduction to Hollingsworth et al 1997, pp 3-16.

<sup>4</sup> See Vitols 2001 for more on these differences.

<sup>5</sup> These 'horizontal' 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 2001, pp 34-35; see also Sako 1994, Dore 1997). Here I follow Hall and Soskice in concentrating on the former type of CME; I consider the differences between them in Keat 2008b.

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 (ie 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 USA'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.<sup>6</sup>

### 3. Ethical differences between LMEs and CMEs

What will now be considered is how the institutional character of each variety of capitalism differentially favours or disfavors the realisation of certain conceptions of the good.<sup>7</sup> As I 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 reasonably be expected to affect significantly the relative ease or difficulty with which individuals can pursue certain conceptions of the good related to their work, since it is firms that provide the immediate institutional settings for the possible realisation of these.<sup>8</sup>

An important feature of people's working lives is the character of the social relationships that are involved. Consider, for example, someone whose conception of the good life includes relationships of *trust* (and quite possibly also of loyalty, commitment etc). One might argue that CMEs are more conducive to these than are LMEs since, according to Hall and Soskice, it is easier for firms in CMEs to make 'credible commitments' to their

---

<sup>6</sup> See Macneil 1978 on the classical v relational distinction. Note that the sense that I give to 'complementarity' differs slightly from the more technical definition provided by Hall and Soskice (2001, p 17).

<sup>7</sup> In what follows I implicitly make use of a kind of 'rational choice institutionalism' (Hall and Taylor 1996) which, although failing to recognise what might be called the 'constitutive' role of institutions with respect to social goods, is sufficiently close to how liberal theorists conceive of individuals and their pursuit of goods to enable my argument about the non-neutrality of market institutions to be made without engaging in more complex debates about the adequacy of that conception.

<sup>8</sup> It should be emphasised that the use that I am making here of Hall and Soskice is quite different from the use to which *they* put their analysis of VoCs, namely to develop a theory of 'comparative institutional advantage' which explains, for example, the dominance of different economic sectors in LMEs and CMEs. Thus nothing that I go on to argue is in any way 'sanctioned' by Hall and Soskice's work, which has quite different theoretical concerns to mine. In effect, I am suggesting a theory of 'comparative institutional advantage' for 'conceptions of the good'.

employees (Hall and Soskice 2001, pp 32, 33). Of course, individuals may persist in ‘acting trustingly’ even when there are high costs in doing so, but for most people, the risks will discourage this. Thus what is involved here, as will be seen also in other cases, is not a sharp contrast between possibility and impossibility, but the differential favouring and disfavouring of conceptions of the good by institutional arrangements.

As a second example, consider the relative 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.<sup>9</sup> That this is more likely to be available in CMEs than LMEs is implied by Hall and Soskice’s argument that firms in CMEs are more likely than those in LMEs to display features that make them well suited to what they call ‘incremental innovation’. Amongst these features, described in the following passage, are precisely those that would also be conducive to intrinsic work-satisfactions:

“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.” (Hall and Soskice p.39).

There are other features described here, through the references to industry-specific skills and inter-firm collaboration, that point to a further example of the different conceptions of the good likely to be favoured by these varieties of capitalism. In CMEs, I suggest, it will be relatively easy for people to conceive of the work they do as engagement in a productive *practice* – in MacIntyre’s (1981) sense of the term - that is shared with others in the same industry. For instance, CMEs can be seen as conducive to a certain conception of ‘career’, in which what counts as success makes essential reference to the development and exercise of knowledge and skills in a specific kind of productive activity with its own standards of excellence, and to which some contribution is being made.<sup>10</sup>

This conception of a career, it would seem, is more difficult to sustain in the institutional context(s) provided by LMEs where, as Hall and Soskice argue:

---

<sup>9</sup> See the analysis of this evidence in Lane 1991, and his depiction there of what he calls 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” (Lane 1991, p.302). My suggestion is that, if Hall and Soskice are right, the ‘size’ of this class will differ between CMEs and LMEs.

<sup>10</sup> I develop this argument in some detail in Keat 2008b, building on my earlier discussion of MacIntyre (1981) in Keat 2000, ch. 6. Notice that it applies only to ‘the German’ as distinct from ‘the Japanese’ type of CME (see Note 6 above).

“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.” (Hall and Soskice p.40)

This institutional context provided by LMEs, I suggest, favours a significantly different conception of a career, and hence of the kind of good(s) that it can provide. It will be one in which what counts as success is defined without reference to the judgments of contribution or achievement within any particular form of productive practice, but instead, for example, in financial terms; further, the skills and abilities needed to achieve this kind of success are (likewise) suitably ‘portable’, conceived as the ‘property’ of the individual concerned.<sup>11</sup>

Despite the schematic character of these examples, they should provide a reasonably clear sense of how one might compare varieties of capitalism in terms of the conceptions of the good (and the kinds of good lives) they differentially favour. But it should be emphasised that the kind of comparative ethical analysis I have conducted here would only be the *starting*-point for political deliberation aimed at deciding between these alternative economic systems. What is also required for such a choice to be made is judgment of the (comparative) *value* of the different possibilities made available by these systems. Merely to show, for example, that CMEs are more conducive to intrinsic satisfactions than LMEs does not entail that CMEs are ethically superior, even in this respect, since the value for human well-being of such satisfactions remains to be assessed. Further, this is likely to require comparing their value with that of *extrinsic* satisfactions, since if each variety of capitalism is better at delivering one type of satisfactions than the other, a choice will have to be made about which type to prioritise.

#### **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 section 1, 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 good liberal reason) 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, its significance or value in thinking about the proper limits of state action is far from obvious. Justificatory neutrality is certainly less demanding than consequential neutrality, since it will permit many kinds or

---

<sup>11</sup> In MacIntyrean terms, LMEs favour the pursuit of external goods, detachable from specific practices, as against internal ones. This is not to say that LMEs favour conceptions of the good that are ‘more self-interested’ than those favoured by CMEs; rather, they differ in the kinds of self-interest that they favour.

instances of state action that the latter would not.<sup>12</sup> Correspondingly, 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 its 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 VoC 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 highly implausible. 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 explicitly 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 and protecting 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; that (taken by itself) 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; and that by prohibiting ethical aims, and hence justifications, for state action it imposes restrictions on political reasoning that serve no recognisable liberal purpose. Liberals, I suggest, should abandon PSN, and 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 these liberal requirements are met, ethically based considerations may play their part in political deliberation.

How would what I have just suggested apply in the case of a political choice between LMEs and CMEs? Advocates of PSN would presumably 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

---

<sup>12</sup> On the distinction between *justificatory* and *consequential* neutrality (or neutrality of effect or outcome) see Miller (1990, ch. 3), Mulhall and Swift (1996, pp 25-34) and O'Neill (1997, ch. 2). Most proponents of neutrality have defined it in justificatory rather than consequential terms (though by doing so, as Sher 1997 points out, they have encountered problems in identifying specific policies or actions by the state that are thereby ruled out, since such actions are often open to different possible justifications).

argue that there is no reason to regard either of these varieties of capitalism as seriously problematic from a liberal standpoint.<sup>13</sup>

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, and so on. Nor do CMEs depend upon ‘strong’, ie intrusive and interventionist states, by contrast with the supposedly ‘weak’ states of LMEs.<sup>14</sup> 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 don’t. 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 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 required, but it is hard to see how this could be seen to threaten individual liberty.

Finally, there is the liberal concern for individuals to be able to make genuine *choices*, and hence 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, these alternatives are described: ie 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

---

<sup>13</sup> To put the point the other way round: the fact that these two economic systems with their different (and non-neutral) 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 makes use of ethical reasons yet without thereby threatening liberal principles. There is thus no ‘need’ for liberals to accept PSN.

<sup>14</sup> Rather, as Hall and Soskice (and likewise Whitley) emphasise, what distinguishes the German state from its UK counterpart is the former’s willingness to assign powers or functions to ‘intermediate associations’. (Cf Schmidt’s distinction between what she calls the ‘managed capitalism’ of Germany and the ‘state capitalism’ of France).

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 roughly 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 some conception of the good that does not 'belong' to this set will have considerable 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 would arguably be counter-productive, given that so 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, which then provides an ethical rationale for liberal political principles. 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'.<sup>15</sup>

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 has nothing it wishes to say.<sup>16</sup> So although perfectionist liberals allow the state

---

<sup>15</sup> My distinction between 'perfectionist liberalism' and 'liberal perfectionism' is stipulative: the two names/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, i.e. they reject PSN. But the liberal perfectionist is far more 'permissive' than the perfectionist liberal. As Mulhall and Swift point out (1996, 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 understood as grounded in a distinctive ethical position ('comprehensive' v 'political' liberalism). I shall ignore these latter debates, whilst noting that 'comprehensive' liberals are not necessarily opposed to PSN.

<sup>16</sup> As Sher rightly notes (1997 p 14), there is no inconsistency in (what I am calling) the perfectionist liberal view that liberalism rests on a conception of the good (namely autonomy), but that the state should be neutral with respect to the value or 'goodness' of the options between which individuals are to make autonomous choices.

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.<sup>17</sup> 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 eg 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.<sup>18</sup>

## 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.<sup>19</sup> 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 exclusively commercial provision be justified.<sup>20</sup> Ethical reasons, it would seem, are to be reserved for non-market solutions, the market itself satisfying the requirement of neutrality.

That market economies should be seen as (uniquely) consistent with PSN is hardly surprising, since they are often depicted in such a way that they appear directly to embody the neutralist ideal of a liberal society. This is especially so when the operation of market economies is represented as consisting essentially of a series of contractual

---

<sup>17</sup> Liberal perfectionism, as I characterise it here, has much in common with the position taken by Raz (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. He also argues that the value of such choices is dependent on that of the options actually chosen, so that if the latter are value-less so are the former. I disagree with this additional claim, but this does not matter here. The crucial point is that for Raz, as for the liberal perfectionist, the criteria by which the value of the options are judged are not themselves based on that of autonomy.

<sup>18</sup> See Dworkin 1985a; I discuss this feature of his position there in Keat 2008c.

<sup>19</sup> This seems to be the view taken in Dworkin 1985a, Arneson 1987 (and perhaps Booth 1994). I criticise Arneson’s anti-perfectionist view of the market in Keat 2009; see also Miller 1990, ch. 3.

<sup>20</sup> Although Dworkin 1985b attempts to justify subsidies consistently with neutrality; for criticisms, see Black 1992 and Mulhall and Swift 1996, pp 300-308.

exchanges between free and equal legal parties, each pursuing their own goals.<sup>21</sup> 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.<sup>22</sup>

My discussion of the two kinds of capitalism in sections 2 and 3 of this paper implicitly challenges this view of market economies and their neutrality (i.e. their consistency with PSN). Made explicit, the argument goes briefly as follows. Liberal and Coordinated Market Economies were shown to differ in the conceptions of the good they respectively favour or disfavour. Thus neither of them are 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.<sup>23</sup>

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.<sup>24</sup> 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 (ie LMEs) and (partially) non-market systems (ie 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 supposed ‘neutrality’ of LMEs and absence of subsidies for *their* CoGs. Instead, one should either regard *both* systems as involving ‘state subsidies’ for their respectively favoured CoGs, or (preferably) *neither*.<sup>25</sup>

As well as challenging the supposed neutrality of market economies, my analysis of these VoCs 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 on 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.<sup>26</sup>

---

<sup>21</sup> As it is by Hayek, for example; see O’Neill (1998, ch. 5) on the relationship between neutralist and perfectionist liberal elements in Hayek’s view of markets, exchange and individual autonomy.

<sup>22</sup> Of course, individuals’ prospects for success in realising their conceptions of the good depend on their financial resources, and (unlike Hayek) 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) seen as quite distinct from the state promoting or discouraging conceptions of the good themselves.

<sup>23</sup> More generally, that market economies can come in 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/political project, thereby ignoring the normative relevance of institutional variation. See Forbath 1998 for criticism of Habermas in this respect.

<sup>24</sup> A view encapsulated in Schmidt’s (2002) labelling of Hall and Soskice’s LMEs as ‘*market* capitalism’, as distinct from what she calls the ‘*managed* capitalism’ corresponding to their CMEs. The strongest argument for CMEs being ‘less market-like’ than LMEs would be in terms of the greater *scope* of ‘markets’ in the latter, especially with respect to *financial* markets, but I shall not pursue this here.

<sup>25</sup> I develop this argument in Keat 2009, in the case of what might be seen by neutralists as undesirable ‘subsidies for meaningful work’ in CMEs.

<sup>26</sup> Here I am assuming that so-called ‘new institutionalist’ theories of the firm, such as the transactions cost analysis associated with Williamson (1975, 1985), are to be rejected, in favour (broadly speaking) of the ‘old’ institutionalism favoured, for example, by Hodgson (2000); see also Lazonick (1991) for criticism of, and an

However, the non-neutrality of market economies need not concern their liberal defenders. In section 4 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'.<sup>27</sup> Further, even restricting oneself to ethical considerations, the kinds of differences between LMEs and CMEs suggested in Section 3 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 – the economic domain – on the character of non-economic practices, relationships and institutions.<sup>28</sup>

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.<sup>29</sup> 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.<sup>30</sup> 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.

---

alternative to, transactions cost analysis. More generally, I argue in Keat 2009 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 theoretical understanding with an institutionalist (but not 'new institutionalist') alternative.

<sup>27</sup> For example, Hall and Soskice (2001) claim that CMEs are more compatible with social and/or Christian democratic welfare systems than are LMEs, and generate lower degrees of income inequality. However, whilst supporting these claims, Estevez-Abe et al (2001) argue also 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.

<sup>28</sup> See Keat 2000 on various aspects of the justification for 'market boundaries'; in 'Consumer-Friendly Production or Producer-Friendly Consumption' (Keat 2000, ch 7) I discuss Robert Lane's (1991) argument that production is more important than consumption as a source of human well-being.

<sup>29</sup> 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 2008c for discussion of the conception of value-free social science assumed by this.

<sup>30</sup> But I agree with Raz's (1986) view that consensual decisions about matters of justice or 'the right' are no more likely than those about ethics or 'the good', and more generally that scepticism about the possibility of justifying ethical judgments is not a persuasive argument for PSN.

What I have in mind is the argument presented by Hayek (1976, ch. 10) 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. 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 Hayekian 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.<sup>31</sup> 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.<sup>32</sup> But they should at least acknowledge that by keeping ethics out of politics, they will not keep ethics out of economics.

---

<sup>31</sup> 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.

<sup>32</sup> I.e. they can adopt the *justificatory* version of PSN, accepting that its *consequential* version cannot in practice be realised.

## References

- Arneson, Richard. 1987. Meaningful Work and Market Socialism. *Ethics*, 97, 517-545.
- Black, Samuel. 1992. Revisionist Liberalism and the Decline of Culture. *Ethics*, 102, 244-267.
- Booth, William James. 1994. 'On the Idea of the Moral Economy', *American Political Science Review*, 88, 653-667
- Crouch, Colin and Streeck, Wolfgang (eds). 1997. *Political Economy of Modern Capitalism: Mapping Convergence and Diversity*. London: Sage.
- Crouch, Colin and Marquand, David (eds). 1993. *Ethics and Markets: Cooperation and Competition within Capitalist Economies*. Oxford: Blackwell.
- Dore, Ronald. 1997. The Distinctiveness of Japan, in Colin Crouch and Wolfgang Streeck (eds), *Political Economy of Modern Capitalism: Mapping Convergence and Diversity*. London: Sage, 19-32.
- Dworkin, Ronald. 1985a. Liberalism, in *A Matter of Principle*. Oxford: Oxford University Press, 181-204.
- Dworkin, Ronald. 1985b. Can a Liberal State Support Art?, in *A Matter of Principle*. Oxford: Oxford University Press, 221-233.
- Estevez-Abe, Margarita; Iversen, Torben, and Soskice, David. 2001. Social Protection and the Formation of Skills: A Reinterpretation of the Welfare State, in Peter A. Hall and Frank Soskice (eds), *Varieties of Capitalism: The Institutional Foundations of Comparative Advantage*. Oxford: Oxford University Press, 145-183.
- Forbath, William E. 1998. 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, 272-286.
- Habermas, Jurgen. 1993. On the Pragmatic, the Ethical, and the Moral Employments of Practical Reason, in *Justification and Application*, trans. Ciaran Cronin, Polity Press: Cambridge, 1-18.
- Hall, Peter A. and Soskice, Frank. 2001. An Introduction to Varieties of Capitalism, in Peter A. Hall and Frank Soskice (eds), *Varieties of Capitalism: The Institutional Foundations of Comparative Advantage*. Oxford: Oxford University Press, 1-70.
- Hayek, Friedrich A. 1976. *Law, Legislation and Liberty: Volume 2*. London: Routledge and Kegan Paul.
- Hodgson, Geoffrey M. 2000. What Is the Essence of Institutional Economics? *Journal of Economic Issues*, XXXIV, 317-329.
- Hollingsworth, J Rogers, Schmitter, Philippe and Streeck, Wolfgang (eds). 1994. *Governing Capitalist Economies: Performance and Control of Economic Sectors* Oxford: Oxford University Press.
- Keat, Russell. 2000. *Cultural Goods and the Limits of the Market*. London: Macmillan.
- Keat, Russell. 2008a. Practices, Firms and Varieties of Capitalism, *Philosophy of Management*, 7(1) 77-91
- Keat, Russell. 2008b. Ethics, Markets and MacIntyre, *Analyse und Kritik*, 30 (1), 243-257
- Keat, Russell. 2008c. Social Criticism and the Exclusion of Ethics, *Analyse und Kritik*, 30 (2), 229-253
- Keat, Russell. 2009. Anti-Perfectionism, Market Economies and the Right to Meaningful Work, *Analyse und Kritik*, 31 (forthcoming).
- Kymlicka, Will. 1989. Liberal Individualism and Liberal Neutrality. *Ethics*, 99, 883-905.
- Lane, Robert. 1991. *The Market Experience*. Cambridge: Cambridge University Press.
- Lazonick, William. 1991. *Business Organization and the Myth of the Market Economy*. Cambridge: Cambridge University Press

- MacIntyre, Alasdair. 1981. *After Virtue*. Notre Dame: University of Notre Dame Press.
- Macneil, Ian. 1978. Contracts: Adjustment of Long-Term Economic Relations under Classical, Neoclassical, and Relational Contract Law, *Northwestern University Law Review*, 72, 854-905
- Mason, Andrew. 1991. Autonomy, Liberalism and State Neutrality. *Philosophical Quarterly*, 40, 432-452.
- Miller, David. 1990. *Market, State and Community*. Oxford: Oxford University Press.
- Mulhall, Stephen and Swift, Adam. 1996. *Liberals and Communitarians*. Oxford: Blackwell. [2<sup>nd</sup> edition]
- O'Neill, John. 1998. *The Market: Ethics, Knowledge and Politics*. London: Routledge.
- Rawls, John. 1971. *A Theory of Justice*, Oxford: Oxford University Press.
- Raz, Joseph. 1986. *The Morality of Freedom*. Oxford: Oxford University Press.
- Raz, Joseph. 1994. *Ethics in the Public Domain: Essays in the Morality of Law and Politics*. Oxford: Oxford University Press.
- Sako, Mari. 1994. Neither Markets nor Hierarchies: A Comparative Study of the Printed Circuit Board Industry in Britain and Japan, in Hollingsworth et al (eds) 1994, 17-42
- Schmidt, Vivien A. 2002. *The Futures of European Capitalism*. Oxford: Oxford University Press.
- Sher, George. 1997. *Beyond Neutrality: Perfectionism and Politics*. Cambridge: Cambridge University Press.
- Vitols, Sigurt. 2001. Varieties of Corporate Governance: Comparing Germany and the UK, in Peter A. Hall and Frank Soskice (eds), *Varieties of Capitalism: The Institutional Foundations of Comparative Advantage*. Oxford: Oxford University Press, 337-360.
- Whitley, Richard. 1999. *Divergent Capitalisms: The Social Structuring and Change of Business Systems*. Oxford: Oxford University Press.
- Williamson, Oliver. 1975. *Markets and Hierarchies*. New York: Free Press.
- Williamson, Oliver. 1985. *The Economic Institutions of Capitalism: Firms, Markets, Relational Contracting*. New York: Free Press.