The Question for Our Times:
Institutional Design for a Free Society

Professor Anna Yeatman

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Authored by:

Professor Anna Yeatman

Anna Yeatman is a professorial research fellow in the Whitlam Institute, Western Sydney University where she leads a public policy program (Human Rights and Public Life). She is the editor of Working Papers in Human Rights and Public Life (available from the Whitlam Institute). She has been principal consultant for a number of public policy evaluations in education and human services. Publications include: Individualization and the Delivery of Welfare Services (Palgrave 2009); (co-edited with Peg Birmingham) and The Aporia of Rights: Explorations in Citizenship in the Era of Human Rights (Bloomsbury 2014).
Foreword

I am writing this Foreword on the eve of President-elect Donald Trump's inauguration conscious that this might be one of those rare events that genuinely marks a paradigm shift. One way or another you cannot help but feel the world after the Trump Presidency will be radically different to the world before.

Amidst all the chatter, analysis and commentary as to how this came to pass and just what Mr Trump’s Presidency might mean, one of the few points of agreement is that his election – as was the case with the Brexit referendum – saw the disenfranchised, the alienated and the forgotten seizing the opportunity to assert the depth of their anger.

This paper by the Whitlam Institute’s Professorial Research Fellow, Anna Yeatman, may not explicitly address these particular events but it does clearly and comprehensively address the ‘Question for our Times’, as its title suggests. That question centres on the choice that lies before us: the choice between a neoliberal order (market liberalism) and social democracy.

In this sense, in spite of its dark portrayal of contemporary circumstance, it is an optimistic paper. For it categorically rejects the ‘distinctively modern form of fatalism’ that neoliberalism has spawned by making a compelling argument for the existence of a genuine alternative.

Yeatman leaves us in no doubt that institutional design is a ‘project of human artifice’ and not the pseudo-natural manifestation of forces outside our control. She distils a vast body of work in order to put before us the respective neoliberal and social democratic conceptions of institutional design (the ‘ordering of relationships between human beings’). She does so in such a way that the practical implications are evident. Her exposition enables us to appreciate, for example, not only why education is a focal point of conflicting worldviews but also why a genuinely social democratic alternative is about so much more than funding.

This is an important paper. It is not simply the question for our times: it is a question for each of us.

Eric Sidoti
Director, Whitlam Institute
The Question for Our Times: Institutional Design for a Free Society

Anna Yeatman

Introduction

Human beings are social beings: in order to meet their various needs, they are profoundly dependent on each other. Because of this they have to enter into different kinds of relationships with each other. The question of institutional design arises when we ask how these relationships of interdependence should be ordered.

To ask such a question is to address the collective organization of our lives as human beings. We ask this question only if we think that, as human beings, we have the capacity to intentionally address how best to order and institute our mode of being together.

Institutional design is a project of human artifice that addresses the question of how to order the relationships between human beings. The question of institutional design concerns the principles that should guide the conception of the institutional ordering of human conduct and relationships.

In what follows I want to distinguish the two alternative conceptions of institutional design for a free society that are on offer today. Only one of these accepts that the question of institutional design is a question for intentional and democratic collective action.

The two alternative conceptions of institutional design

They are respectively social democracy, in the social liberal tradition, and market liberalism.

Each of these works with the principle of interdependence. However they do this not just differently but in directly and, we might add, intentionally oppositional ways.

Social liberalism/democracy works with the idea that the fact of interdependence means that it is of consequence how the relationships in which individuals find themselves operate. These relationships can be unethical, meaning that they operate on behalf of the more powerful participants, who use their power to oppress, dominate, exploit or abuse the weaker participants. Or these relationships can be ethical, meaning that they operate in terms of mutual recognition, so that one individual’s freedom of self-assertion is extended to the other(s) involved in the relationship. This means that relationships become inter-subjective in character, and sites for ongoing negotiation and learning between the participants. Following Jessica Benjamin, I call this a relational or two-person conception of freedom (see Yeatman 2015a).

Michael Freedon, referring to late 19th century and early 20th century social liberal thought, says: ‘Above all, the conception of social life entertained by [J.A.] Hobson and other advanced liberals entailed a radical transformation of society towards a rational humanitarianism in which each man (sic) would be treated as an end (Freedon 1978, 74).’ On this approach, the role of the state is to articulate and institute such an ethical ordering of relationships, as well as to do what is necessary to secure the ethical community that belongs within the jurisdiction of the state considered as a distinctive politically and legally bounded place. The social liberal order is one in which the principles of public law prevail.

Market liberalism works with the fact of interdependence but in this case the proposition is that individuals are best protected against the arbitrary uses of power if they can act independently of others, and thus have private discretion to make decisions on their own behalf. The institution that affords this protection is that of private property. The role of the state is to articulate and institute the legal order of private property. The liberal order is thus one in which the principles of private law prevail (Hayek 1969, 169). Within the constraint of legally prescribed recognition of private property rights, individuals are free to do as they like. This is a one-person conception of freedom. It is non-relational for two reasons: firstly, it does not acknowledge how one individual’s decisions impact on other individuals outside the first individual’s private domain; and secondly it does not acknowledge that other individuals (spouses, children, and employees) find themselves within the individual’s private domain and thus subject to his independent control over it. It is driven by the need to free the individual from all constraints except those that are internal to the institution of property itself.

Where social liberalism offers a cooperative ethic, market liberalism offers a competitive ethic: the individual acknowledges the existence of others primarily as his market competitors and enters into a competitive dynamic of competition with them, one that Jessica Benjamin calls the dynamic of complementarity (‘do or be done to’, see further Yeatman 2015a). While the institution of private property is at the core of the market economy, competition as the modal relationship allows market liberals like Friedrich Hayek to equate the market economy with what he calls the competitive order.

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1 This is a revised version of a speech to the 2016 Clarence Edward Martin Memorial Dinner, organised by the NSW Fabians, November 24, The Apprentice, 695-731 Harris St., Ultimo, Sydney.

2 ‘The system of private property is the most important guaranty of freedom, not only for those who own property, but scarcely less for those who do not. It is only because the control of the means of production is divided among many people acting independently that nobody has complete power over us, that we as individuals can decide what to do with ourselves (Hayek 2007, 136).’
Historically, the ascendancy of one of these conceptions has provoked the articulation of the other. In the nineteenth century, the first era of market liberal institutional design, the era that goes by the name of laissez-faire, provoked a counter-response: the development of the political philosophy of social liberalism. By the end of the nineteenth century in Britain for example the doctrine of laissez-faire was so discredited, and the alternative of social liberalism so well understood, that it was a commonplace to say ‘we are all socialists now’ (Freeden 1978, 25). It is the political philosophy of social liberalism that shaped settled state formation in both New Zealand and Australia, which is why they became known as laboratories of social reform in the period at the end of the 19th century (Sawer 2003).

The development of a social liberal state in the twentieth century – e.g. the US New Deal, the Attlee Labour Government’s Welfare State, and the Australian social liberal nation building project that was more or less continuous from federation up to the end of the Fraser Government – provoked a counter-response: the reassertion of the doctrine of market liberalism. This project became ascendant in establishing the framework for government and public policy from the 1970s onward in the liberal democracies (earlier in Western Germany and the project of European integration that West Germany led). Neoliberal institutional design now prevails as the modal conception of liberal democratic government at both the level of the nation and that of relationships between nations. Its failures are now evident and if we are prepared to ask how it is that they result from neoliberal institutional design, we may reclaim and rediscover the alternative project of social democracy.

These two rival projects, the success of one in taking over the state’s institutional framework and approach to government provoking a counter-movement on the part of the other, might be understood as a form of historical merry-go-round. But this is not the narrative I wish to offer. We have reached end game for this dialectic.

My proposition is this: the contemporary neoliberal re-modelling of human society in terms of market society is so systemic, so universal, so disallowing of exceptions to the rule, that we face a series of environmental and social catastrophes that will bring human society and the biosphere of which it is part undone. We cannot continue the utopian experiment of market liberal institutional design. It has to be undone once and for all.

Let me now say something more of these ideas of institutional design.

The social liberal/social democratic idea of institutional design

I have argued elsewhere that the social liberal/social democratic idea of institutional design was built upon the historically established institutional order of the constitutional state and the rule of law – the state understood as sovereign public power (Yeatman 2015b). In this conception, state power is institutionalized as a system of public office, where the obligation of office holders is to dispassionately and disinterestedly uphold the constitution and serve the public interest. The rationale for the state is two-fold: firstly that it provide a lawful institutional order within which it is possible for its subjects to enjoy a civil and peaceful life together; secondly, that it provide protection for the status of each subject as a free person against the private and arbitrary use of power, which means of course that the institutions of the state have to be so designed that they constrain and check the corruption of public power by private interest. The state, then, represents the primacy of public power over private power. Accordingly, it has to have sovereign authority over its jurisdiction, and to be able to defend its sovereignty against threats both within and without.

Social liberalism/social democracy elaborated the idea of the constitutional state so that it became also what we call a welfare state. This had two aspects: firstly, in response to the social and environmental ravages of a laissez-faire capitalism, social democracy provided a set of protections against market failure. These included an important set of protections for worker rights, consumers, and effective competition.

Secondly, social liberal/democratic thought was not just reactive in suggesting the necessity for state action and policy to correct for market failure. Its creativity lay in the proposition that institutional design has to be for a free and democratic society. This is one where each individual enjoys the status of freedom or the status of citizenship (as T.H. Marshall, 1977, called it), and is equal to all others in this regard, and where collectively these individuals comprise a citizen community. The establishment of public libraries for example was an institution that integrates these two ideas: the right of the individual citizen to public information and education and the importance of the citizen community being an educated one if it is to be a politically self-determining one.

Social liberals/social democrats directly address the reality of human interdependence as a challenge for collective action. They ask what kind of institutional order needs to be in place if the relationships of interdependence are to be civil and democratic in character. T.H. Marshall (1977) thus proposed that a public ordering of conduct and relationships that are based on shared citizen rights must take precedence over, and contain, the institution of a market economy which generates the differences of economic class.

Social democrats like T.H. Marshall argued that the status of citizenship involves more than just the rights to own property, to vote and to stand for election to parliament. To enjoy this status, all individuals had to have access to what he called a baseline of civilized living, to services and opportunities that make it possible for the individual to exercise and enjoy the status of freedom. Education was key to these of course. T.H. Marshall quotes Alfred Marshall, the neoclassical economist, a defender of the market economy, as declaring himself a socialist in one respect: support for free, compulsory public schooling, because without educating the individual’s capacity for choice, this freedom remains theoretical rather than real. The argument was that it is the state’s responsibility to provide a range of publicly funded and publicly instituted services that are necessary if the individual is to enjoy the status of the free person or citizen – to be someone who is uncompelled by want to enter an exploitative or abusive relationship, who is not so rendered abject by sickness or disease that she loses her dignity, or so derelict as to be unable to organize a home and household that is the base of an existence where she
can take care of her own needs and those of others.

The status of freedom, then, had a substantive content that could be thought about and made to be the normative guiding purpose of the public institutions of health, education and welfare. At no time did the social liberals/democrats think of this status as an entitlement to be idle at public expense. They linked the rights of citizenship to a set of obligations, or duties. Here is T.H. Marshall on this topic:

If citizenship is invoked in the defence of rights, the corresponding duties of citizenship cannot be ignored. These do not require a man to sacrifice his individual liberty or to submit without question to every demand made by government. But they do require that his acts should be inspired by a lively sense of responsibility toward the welfare of the community (Marshall 1977, 123).

Marshall gives examples of these duties: willingness to support a progressive taxation system, an acceptance that with the right to education comes the duty to use this opportunity, for trade unions in a public system of government mediation of industrial disputes not to engage in unofficial strikes (Marshall 1977, 123), and for wage claims to be moderated in the national interest (Marshall 1977, 126).

This idea of membership of a citizen community indicates a specific place-based political and a public collectivism that it is the role of the state both to express and secure. The nationally sovereign state is the embodiment of a self-determining or democratic political community. Within this way of thinking about institutional design, policy that promotes economic development is orientated to a national economy that supports citizens and their place including the land they dwell upon. Full employment is an exemplary social democratic objective that implicates an entire and integrated system of national economic management across: industry policy, employment policy, training and education, social security, industrial relations, land and water management, fiscal and monetary policy.

T.H. Marshall provided a theoretical rationale for the Attlee Government’s welfare state as it was established immediately following the end of the Second World War. It is hard to better this rationale but in two respects it proved to be deficient. We had to wait for a social democratic government of the 1970s such as the Whitlam Government to remedy these deficiencies. The first of these was the administrative authority given to experts in the post-war welfare state. Experts of various kinds made decisions about people and their lives in ways that were not sufficiently responsive to the lived experience and voice of these people. The Whitlam Government developed a conception of open government where among other things how public servants and policy experts exercised their administrative authority was to be brought into a sustained relationship of dialogue with the people affected by this authority (Whitlam 1973). This was the idea of a democratic politics of needs interpretation (to borrow Nancy Fraser’s, 1989, language) as this fitted into a more expansive idea of democratizing the administrative state and making it accountable to the principles of public law. The second deficiency was to remedy the tendency in the foundational phases of welfare state thinking to think of the citizen as the patriarchal head of a family household. This tendency can be overstated: T.H. Marshall and William Beveridge were thinking at a time when the idea of human rights was becoming current, and there can be no doubt that they intended the idea of citizenship to be universal even if they could not help but think in terms of the still normative male breadwinner model. The Whitlam Government created an environment within which it was possible to re-think the status of citizenship in relation to United Nations human rights conventions on the status of women, the status of children, the status of people with a disability, and the status of Indigenous people. In other words, the status of the citizen was re-thought in terms of the universality of human rights. This means that the historical ethos of a specific citizen community or nation had to become truly civil, open to a universal mode of articulating the conditions of belonging to this community. This also meant that it became possible for the first time to articulate the differences of the peoples and ethnic groups who found themselves within this national jurisdiction. The political community became multicultural, and, in the New Zealand case, a polity that comprises two peoples: those of settler heritage and those of Maori or Indigenous heritage.

In summary then, the late 19th and 20th century social liberal/social democratic conception of institutional design was led by the following principles:

1. The public ordering of a society in which it is possible to be a citizen or free being equal to all other citizens, and to belong to a place-based self-determining political community that is given institutional form in the sovereign state;
2. This public ordering takes precedence over alternative forms of ordering social relationships. Where these conflict, it is the public principles of ordering that must prevail. Thus the private ordering of relationships in terms of a capitalist market economy has to be subordinate to this public ordering of relationships;
3. The principles and policy by which this public ordering is conceived and articulated are to be discovered within an open and democratic politics and they must be congruent with principles of constitutional and public law;
4. As a sovereign state committed to the public and civil ordering of social life, the individual state is obliged to assist in the building of an international interstate order that facilitates peaceful and cooperative relationships between sovereign states considered as equals.

**Market liberal institutional design**

Market liberal institutional design did not become an explicit project until the 1930s. What distinguishes neoliberalism from the 19th century doctrine of laissez-faire is that neoliberalism explicitly embraces a political project of using the authority of the state and the activity of government to establish the institutional order of a market economy (this is the key point made by Philip Mirowski 2009 and 2013 among others).

Neoliberalism was given an international, programmatic and organizational focus in the establishment of the Mont Pèlerin Society in 1947. It came into being as a project designed to destroy social democracy as an idea and historically achieved reality. In this it has largely succeeded but at great political, economic, social and environmental cost.
The core of this approach to institutional design is to use the authority of the state and the activity of government to establish the market economy as the central institution for human conduct and relationships. Society is to be re-engineered as market society (see Mirowski 2013). All action is conceived as private in orientation, freedom is centred on the institution of private property, and the role of government is to provide a lawful order for private property, contract, exchange, and competitively successful economic enterprise.

Interdependence between human beings is accepted as a given hand, in line with Adam Smith’s idea of the invisible hand, it is thought of as a system that operates behind the backs of human beings thought of as atomized and independent individual actors (whether these be persons or enterprises, they being effectively the same thing in this type of thinking). In this sense collectivism is both presupposed and disavowed.

Since the system of interdependence operates behind the backs of human beings acting as individual monads who see no farther than their immediate private advantage, it lies beyond the reach of conscious purpose, intention and control. This is the basis of Hayek’s critique of planning. He argues that any notion of planning that assumes this system of interdependence can be directed or guided must fail on two counts: firstly no conscious intention or purpose can be adequate to the complexity of the market as a vast system of interdependence, and, in any case, the central planner is not following an objectively rational set of ends but merely his own subjectivist opinion (see Hayek 1948). The best way of adjudicating conflicting and competing values and opinions is to let the market decide their fate.

The price mechanism operates so as to make it possible for consumers to indicate what it is they value, and in this way producers that succeed in producing commodities that people are willing to pay for successfully compete against those who do not: if these should go to the wall, too bad. For the most part this puts pressure on reducing costs of production, especially but not only labour costs, so that the price of the commodity can fall, thereby enabling consumers to benefit from the fall in commodity prices. The only costs that are factored into this market calculus are those that are constituted in terms of the price mechanism. Anything that is not costed in this way drops out of the calculus so that in most cases the price does not reflect the true costs of production including as these do what goes into sustaining the integrity of human labour, of the animals and plants we eat, and the wider environment on which they depend.

The only people who can understand the laws of this system are economists (properly trained in the principles of market liberalism). Since there can be no conscious direction of the system, democratic political action is at best irrelevant, at worst an interference. Furthermore, no place-oriented constraints should be put on the scale of this blindly working system of interdependence. If it assumes global scale so much the better.

All the aspects of publicness associated with the constitutional state and social democracy – ideas of national sovereignty, public authority, public law, public office, public interest, public service, public sector, public planning, public policy, place-oriented stewardship – become residual in relation to this conception of institutional design centred as it is on principles for the ordering of private action/actors. These principles are the basis of an order of formal rules that abstract from concrete ends, and that, therefore, can be generalized to cover all contexts of privately-oriented action. Hayek (1969, 162) summarizes the market liberal conception of institutional design as it replaces a public system of government centred on deliberate and concrete public ends as follows: ‘The central concept of liberalism is that under the enforcement of universal rules of just conduct, protecting a recognizable private domain of individuals, a spontaneous order of human activities of much greater complexity will form itself than could ever be produced by deliberate arrangement, and that in consequence the coercive activities of government should be limited to the enforcement of such rules (Hayek 1969, 162).’

The state has to exist in order to institute the market economy, which raises a difficult question for market liberals that they do not answer – if the institutions of private property are derivative of the authority of the state, is there an irreducible public component of private property to which it must be accountable?

Leaving aside the paradox that public action is needed to institute a privately oriented form of freedom, it is clear that the distinctive properties of publicness are on the defensive in relation to what is proposed as the properly legitimate exercise of public authority – namely the provision of rules and policy that institute an economic market ordering of relationships.

3 They may want to be oriented to their long-term private advantage, but the logic of the situation of acting in a competitive market economy focuses their attention on how this advantage appears given today’s terms of competition.

4 There are of course other schools of economics but these have been essentially lost for the time being within the universities that provide training in economics.

5 See Hayek’s (1969, 161) ‘The Principles of a Liberal Social Order’, where he firmly declares that ‘[l]iberalism and democracy, although compatible, are not the same.’

6 It is a painful irony that at the very point where it has become customary in public events to adopt the protocol of acknowledging ‘country’ of the Indigenous people on whose land we stand, the indifference to the claims of place that is built into the market economy has taken Aboriginal and Torres Strait Islander claims to country off the policy agenda.

7 ‘This order which has progressively grown beyond the organizations of the family, the horde, the clan and the tribe, the principalities and even the empire or nation state, and has produced at least the beginning of a world society, is based on the adoption – without and often against the desire of political authority – of rules which came to prevail because the groups that observed them were more successful (Hayek 1969, 163-4).’

8 The innovation of the Freiburg School of Ordoliberalism in Germany in the 1930s was this insistence on the vital role of institutions in the establishment of the market economy. Competition is the alternative to state intervention but if it is to exist it has to be instituted: ‘the fundamental insight was that in practice there can be no freedom and consequently no competition unless it is granted and protected by law (Behrens 2014, 12).’ German Ordoliberalism, with the assistance of the American occupation, in a context where most left wing economists had either fled or been killed, became the ascendant doctrine in the postwar German state, and it offered the legal and policy framework for the European Union as it evolved through its various stages (see Ptak 2009; and also Varoufakis 2016).
Market liberalism opposes social democracy root and branch. It refuses the idea of citizenship primarily because it is intent on keeping out of view the reality that freedom is a relational condition, a political and social status that has to be both conceived and instituted on a societal basis. Its primary move in making this refusal is to reject the institutional artificiality of the social liberal/democratic state as an unjustifiable interference with the laws of a market economy and the private (‘economic’) freedom that the market economy articulates. To make this move market liberal thought has to make it seem that the institutional artificiality it champions is nothing other than the recognition of naturally occurring processes. In this manoeuvre market liberalism depoliticizes and technicizes its own project of institutional design and the use of state authority to implement it.

Private property is posited as a phenomenon that is inherent in the evolution of civilization. It pre-exists the law that merely recognizes its existence. Private property is the basis of freedom understood in a non-relational way: what Hayek calls private domain. Market liberal thought rejects the relational conception of freedom that is articulated in the idea of social rights and the services that correspond to these rights: these services are reframed as ‘welfare dependency’.

The activity of government is redesigned on the model of private enterprise, and, as far as possible it is turned over to the private sector. Where public functions continue to be public, but are contracted out to private agents, the contract is accorded the status of commercial-in-confidence, which means that its substance is protected from public view. The relationship between ministers and public servants is stripped of its constitutional aspect and remodelled in terms of agency theory as a relationship between principal and agent. Parliamentary debate and enquiry is severely constrained by the assertion of the right of the government to impose its will because it is thought of as like a board of directors elected at regular intervals by the public thought of as shareholders.

The policy, funding and regulatory roles of government are redesigned so that, as far as possible, they fit within the institutional architecture of the competitive order of a market economy. The lynchpin of this architecture is national competition policy as this articulates with the rules-based architecture of the global market economic order expressed in Free Trade Agreements.

In this framework, government activities ‘should comply with competitive neutrality principles to ensure they do not enjoy a net competitive advantage simply as a result of government ownership (Harper et al 2016, 33).’ Here, as in the public interest test (legislation or policy should not restrict competition unless ‘the benefits of the restriction to the community outweigh the costs; and the objectives of the legislation or government policy can only be achieved by restricting competition’, Harper et al 2016, 33), it is clear that the distinctively public and place-responsive nature of the activity of government becomes more and more residual in relation to the monologic of the market economy. Public funding is justified only if it is instituted so that it operates in terms of the market disciplines of efficiency, productivity, return on investment, and competition. This is why in Australia it is the Productivity Commission that has been given the role of analysing and evaluating public policy.

In this approach to government institutional design for a competitive market order, we get a technical and technocratic set of interlocking policies, rules and legal forms that have been taken outside the political and democratic process. Competition policy as the lynchpin of this set justifies the replacement of an entire place-responsive political ecology of policies and practices by a de-contextualized order of abstract rules. Thus Australian federalism has been effectively trounced by this order. It also justifies the entry of multinational corporations based outside Australia to compete for publicly funded or subsidized goods and services. Finally, competition policy principles also justify Public-Private Partnerships as the preferred approach to the development of national infrastructure. This is a system in which a series of politically anonymous and unaccountable actors make decisions that profoundly affect our lives but that are disavowed as decisions because these actors see themselves as technically responding to the internal logic of a system as this is given to them.9

Given that the substance of government has been surrendered to the principles of a competitive market order, there is very little left for a constitutional and political process centred on the question of what kind of public collective action might best address our collective problems. Worse: the market economy centres the processes of valuing on measurable results and commensurable performance. This bleaches and obscures the true nature of products and services whether they are milk or school teaching or something else. As I have said Hayek justified our ignorance of anything that lies beyond our short-term privately interested perspective and advocated for the abandonment of any form of collective action. The neoliberal invites us to put our faith in the blind workings of a vast, complex and global market economic machine. This has trained us up in a distinctively modern form of fatalism. One widespread expression of such fatalism is the view that automation and the consequential destruction of a large number of jobs are inevitable, a view that goes unchallenged even though the consequences will be socially catastrophic.

In rejecting such fatalism, let us note that increasingly economists are questioning the model of export-led growth that neoliberal doctrine has advocated, a model that, in Thomas Palley’s (2011, 10) words, has done ‘considerable damage to developed economies via deindustrialization, creation of international financial imbalances, and undermining the wage-productivity growth link which in turn undermines the coherence of the domestic income and demand generation process.’10 It is only when we can

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9 Hannah Arendt’s conception of bureaucracy as the regime of decree helps us think about this replacement of government by an anonymous system of technical administration of the rules of the market economy. See Volk (2015, 116 ff.)

10 It has also damaged emerging market economies such as Mexico and China, making them dependent on multinationals for exports: ‘Foreign-owned firms account for 50.4% of Chinese exports, and that rises to 76.7% if joint ventures are included (Palley 2011, 10).’ More generally the race to the bottom, driven by the ease with which multinational corporations can shift production between countries, hurts all developing countries that participate in this race. Palley (2011, 16) comments: “Since all do it, none gains significant competitive advantage. Instead this destructive competitive dynamic undermines the development of standards, institutions, income equality, and wage growth that are needed for deeply rooted development. The only beneficiaries are MNCs whose profit margins are increased.”
recognise that neoliberal doctrine is a particular political-economic project, indeed a failed project, that we can recover the essential components of a social democratic project, including critically an emphasis placed on domestic demand and employment (see Palley 2011, 18).

**Conclusion**

I suggested that we have reached end game in the historical dialectic between market liberalism and social democracy. Market liberalism may be still entrenched as the institutional order of contemporary modern society but its failures are now evident: inequality of the kind that brings about a divided society and a breakdown of trust in our political institutions; high youth unemployment and lack of secure and decently paid work for at least a third of the workforce; a growing gap between rich global cities and de-developed regions within the same nation; increasing mental illness, suicide, chronic disease, with poorer people dying younger than their parents did; systemic environmental degradation not just of the atmosphere but of the oceans and soil; the catastrophic threat of global warming beyond an increase of 2 degrees; increasing rates of animal and plant extinction; and, not least, the reduction of the rich human inheritance of skills, knowledge, values, and the capacity to work with rather than seek to master the life system of which we are part, to a simple and debased monolocu. But perhaps the most profound failure that market liberal institutional design has brought about is the destruction of our political institutions and of our capacity for organized, intelligent, creative and collective political action.

In *The Great Transformation: the political and economic origins of our times*, first published in 1944, Karl Polanyi offered three sober lessons. Firstly, against the protestations of market liberals that all they are doing is to free ‘the economy’ from state intervention, he pointed out that neoliberal project of institutional design is a radically interventionist one. Referring to the first era of *laissez-faire*, Polanyi said, ‘The road to the free market was opened and kept open by an enormous increase in continuous, centrally organized and controlled interventionism (Polanyi 1957, 140).’ The choice, then, is not between interventionism and its absence. It is between kinds of interventionism. In making this point we may note how the rules of the market order have produced an extraordinary intensification of bureaucracy (as in the rules and regulation that govern competition policy, competitive tendering, government contracts, individualized funding, etc.) that entirely displaces creative locally adaptive practices and the rich civil society with which they are entwined.

Secondly, Polanyi (1957, 68) argued that a market economy as ‘an economic system controlled, regulated, and directed by markets alone’ is only one approach to the question of ‘the economy’. When looked at in relation to the history of human society, it is actually a strange and unprecedented understanding of economic life, one that is utopian in turning land, labour and money into commodities. Polanyi argued that the only true commodity is one that is created as such, and that this does not apply to land, labour or money.

Thirdly, Polanyi (1957) proposed that the social and environmental destruction of a market economy inevitably must provoke counter-movements to protect society. The problem is that these attempts will take two forms: a nationalistic, fascist and militarised capitalist authoritarianism that mobilizes its popular base in terms of the distinction between friend and enemy; and social democracy. The first of these alternatives threatens us with war. The second is the only alternative if we wish to survive as a species in a world that can sustain us and other forms of life. It requires us to reclaim our political order, to make it constitutionally and democratically accountable as well as anchored in a sustained process of public conversation between those who make policy and the public.

It is urgent that we reclaim the social democratic project but this time as an eco-social democracy. We cannot sustain the modern fantasy of the progressive control of nature that was built into the older forms of social democracy. We have to develop the social democratic relational understanding of freedom so that it includes our connections with other species and the biosphere we share with them. We cannot sustain the greedy consumerism that neoliberalism has taught us.

We have no time to lose.

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12 Market liberalism explicitly abandons the idea of equal standing that is articulated in modern conceptions of citizenship and human rights. It justifies private property not private property ownership, and it argues for inequality as a condition of the dynamics of competitive enterprise.

13 In this work Polanyi’s target was the emergent neoliberal doctrine as expressed especially by Ludwig von Mises and Hayek (see Kari Polanyi Levitt 2006, 4).

14 In retrospect, block grants have a good deal going for them in contrast to the absurdly complex, top-down, context-indifferent and centralized character of the bureaucracy of the market order.

15 ‘The central thesis of *The Great Transformation* was that the civilization which collapsed in the 1920s was “economic” in a different sense from that in which all societies have been limited by the material conditions of existence. It was “economic” in the distinctive sense that it chose to base itself on a motive never before raised to the level of justification of action and behavior in everyday life, namely individual gain (Polanyi Levitt 2006, 7).’
References


