

IVR in Beijing Libertarian Workshop 200909

On Demarcation problem between neoliberalism and libertarianism

Hashimoto Tsutomu (Hokkaido University, Japan)
hasimoto@econ.hokudai.ac.jp

This paper is to be presented at the workshop of Libertarianism, coordinated by Prof. Morimura Susumu.

Summary

I shall argue that there is a problem of how to make a significant demarcation between libertarianism and economic liberalism (i.e. neoliberalism). The division between the two is sometimes ambiguous but I shall point out that the following criterion is the most important: “order-disoriented thinking” versus “order-oriented thinking.”

To understand this criterion, I shall present two types of dichotomies. One is “firm (medium level)” versus “state (macro level)”, and the other is “economic value” versus “ethical value.” When we use these two dichotomies, we find that there are four types of problem areas. The difference of libertarianism and neoliberalism depends on the issue of “economic value problem in macro level.” While libertarians are against the government intervention for maintaining market order or market value of big companies’ business, neoliberalists support those interventions. For neoliberalists, in order to save poor people, it is necessary to save rich people more than others: by way of saving their bank accounts, they try to avoid bankruptcy of major banks and therefore a collapse of market order.

However, libertarianism and neoliberalism share several ideological values. I shall argue what they share as well.

1. Four ethical examinations on economy

Here are four major questions on economic ethics:

- A. Should a firm behave morally having long-term perspective even if it suffers loss in short-term and needs to cut its workers’ salary drastically?

- B. To which should we put a priority in order for leading economic policies or institutional settings: “fairness” or “stability and growth of the order (profit for the whole)”?
- C. Should we permit the firm that requires an organization of solidarity or patriarchy in the light of the idea of free society? Or should we require all firms to be organized with open human relations on the basis of individual rights system?
- D. Should we basically permit a firm to behave exclusively with a principle of profit seeking? Or should a firm be understood as a moral agency, which is included in an ethical wholeness of a society?

Each question has two alternative responses and there is no exclusively right answer. Both of alternative answers can be ethically true. For example, you can answer yes or no for the question A with your own ethical ground.

Since there is no decisive answer for these questions on economic ethics, what is required here is to make your answers for four questions coherently. When you are enough coherent in these issues, you would be successful to persuade others. When you have less coherent reason or reasoning in your answers compared to others, you would be seen as an ambivalent person in forming your ethical standing.

Thus, what is at stake in ethical economics is to persuade more people in a field of public opinion with coherent responses to these questions. It, therefore, is not a matter of science but a matter of practical skill for public persuasion. The aim of the ethical economics here is to present a more coherent way of thinking for guiding our economic society more ethically.

Here I remark that the ethics at stake here is not a matter of what you want to behave. The ethics of economic society is related to a matter of what kind of behavior you would like to force to people (including firm and government) in terms of ethics. Your ethical expectations to others might be different from your actual behavior in our society. Then you need to take your expectation to others as your ethical position. Economic ethics here is not a matter of a person’s actual behavior or belief but a person’s normative expectation or opinion to other people’s behavior.

1-a) Profit versus ethics

On question A: Should a firm behave morally having long-term perspective even if it suffers loss in short-term and needs to cut its workers' salary drastically?

For example, should a firm behave its business following with traditional conventions of commerce such as wearing a business shirt or tie? The other related question is: should a firm present its own ethical code for improving its commercial relation? In other words, can a firm control its workers' ethical attitude in their private activities?

Those who put a priority to economic rationality over ethical behavior would take an attitude of X: a stance of profit. X insists that a firm can pursue an economic rationality and therefore our economic system needs to be purified without any ethical relations. In other aspect, X might insist that a firm can take a project of evolutionary destruction of the economic system by disregarding conventional moral relations in business.

On the other hand, those who put a priority to ethical behavior over economic rationality would take an attitude of Y: a stance of ethics. Y insists that a firm should be embedded in a conventional business ethics and the whole society of the economy needs to be ethical by being incorporated in a certain conventions of business. In other aspect, Y might insist that a firm needs to include its workers' life in an ethical wholeness.

1-b) Fairness versus stability/growth

On question B: to which should we put a priority in order for leading economic policies or institutional settings: "fairness" or "stability and growth of the order (profit for the whole)"?

For example, when an economic crisis happened, the government would have to think about helping commercial banks in order for avoiding a run on a bank. However, our ethical way of thinking is ambivalent and therefore controversial whether the government should rescue the bank, which is to go into bankruptcy.

Those who put a priority to fairness over stability/growth of our society would take an attitude of X: a stance of "the good in principle." X insists that the government needs to take a fair attitude in principle toward any firms. That means, the government should not help banks in

bankruptcy even if its bankruptcy would bring a drastic contraction of our economy. In other aspect, X might insist that a local community rather than a whole society needs to be secured when economic crisis happened in order for securing an intimate communication of people.

On the other hand, those who put a priority to stability/growth over fairness would take an attitude of Y: a stance of “the good as social order.” Y insists that the government needs to maintain our economic stability and lead its growth. In order for that, the government should not deteriorate the level of the poorest people’s living even if its policy brings more profit to the richest. As for the case of economic crisis, the government needs to help banks in order for maintaining the poor people’s economic condition, even if it saves rich people’s bank deposit more than poor people’s. In other aspect, Y might insist that we should disregard such an idea of fairness that discourages people’s productive interaction in the market economy.

1-c) Free relationship versus artificial liberal system

On question C: Should we permit the firm that requires an organization of solidarity or patriarchy in the light of the idea of free society? Or should we require all firms to be organized with open human relations on the basis of individual rights system?

For example, here is a person who wants to organize a firm in a patriarchic way and permits a certain degree of power harassment. Has he a right to organize his ideal firm when there are people who want to work under him?

Another example is a question of how to deal with inside-accusers. When a firm is accused by an inside worker, is the firm able to dismiss him by reason of his lack of loyalty? Or should the inside-accuser be protected his job by law from such an unjust treatment of the firm?

Those who put a priority to free relationship within a firm (or other intermediate organizations over artificial liberal system) would take an attitude of X: a stance of “pre-individual-right-system of liberty.” X insists that we are free to make an organization which is free from any intervention from the government when members agree with the initial contract. That means the individual right system should not be effective within such an organization. X might put a high priority to solidarity or patriarchy over individual right system and think that inside accusers are wrong in their way of moral thinking.

On the other hand, those who put a priority to artificial liberal

system over free relationship would take a stance of Y: a stance of “liberty based on individual right system.” Y insists that any firm or other intermediate organization needs to be organized on the basis of individual right system. Thus, people cannot make a contract that permits power harassment or gender-differentiated treatment on their agreement. Inside-accusers need to be protected in terms of their right to accuse an unjust behavior of the organization from its inside.

1-d) Inclusive society versus non-inclusive society

On question D: Should we basically permit a firm to behave exclusively based on a principle of profit seeking? Or should a firm be understood as a moral agency, which is included in an ethical wholeness of a society?

We know that people sometimes buy those goods that are not morally recommended. For example, there are books that give you information on how to commit suicide, or a computer game in which players can rape a fictitious girl in computer graphics. In those cases, should the government prohibit these commodities by its ethical interest?

Another example is a question of how to distribute stable jobs for people in a society. Market economy sometimes fails to distribute jobs and a certain people become unemployed. When the rate of unemployment is high, how should the government cope with it? Should the government regulate the scope of non-regular employee? By doing this, can we hope that government distribute more stable jobs and decrease the ratio of unemployment?

Those who expect the government’s role would take a stance of X: a stance of “ethical inclusiveness.” X insists that the government needs to take a role of ethical inclusion in our society. That means the government needs to restrict or enhance firms’ activities in terms of its moral interest and include firms and workers in an ethical wholeness. X would agree with the prohibition of selling morally wrong products. X would also agree with distributing stable jobs for workers even if its policy cannot be compatible with the economic growth.

On the other hand, those who don’t expect the government’s function would take a stance of Y: a stance of “ethical non-inclusiveness.” Y insists that the government need not to take any role of ethical inclusion in our society. Y would take the image of ethical society by the following three ways.

[Y-1] A certain amount of people with ethical beliefs would be

discouraged if the government takes an inclusive role of ethical behavior. Those who have strong beliefs in ethics would be morally active in the condition of market economy with no ethical-intervention by the government. Individuals can behave more ethically in the condition of non-inclusive society even if there are morally wrong behaviors.

[Y-2] We can hope that moral behavior of firms in a non-inclusive society would be successful and morally wrong behavior would be selected out spontaneously.

[Y-3] As with Milton Friedman, some people may insist that the sole moral aim of firms is to make profit for their shareholders. This means that the moral quality of our society depends on shareholders' interests. When they have long-term perspectives of the market economy, then our society would become moral without any ethical intervention by the government.

Those stances are different each other but share the same opinion that the government intervention in order for ethical inclusiveness is not justifiable.

2. Typology of ethical stances on economy

We have examined four questions on economic ethics. Each question has two alternative answers and those answers are controversial in ethics. There is no single right answer for those questions. When we try to justify our ethical stance for all four questions, it would be necessary to present a coherent explanation for the reason why a particular set of answers is more ethical. Thus we are involved in a dispute among ethical ideologies, each of which shows a particular set of answers is right for the sake of its own perspective.

Here we have 16 alternative sets of answers: there are four questions and each has two alternatives. Each set of answers has its own way of thinking and therefore might be coherent in its ethical explanation. The following list shows 16 possible ways of ethically coherent explanations. I tentatively put a name for each category.

- | | |
|---------------|-------------------------------------|
| (a) Y Y X X/Y | Neoconservatism |
| (b) X Y X Y | Neoliberalism (Economic liberalism) |
| (c) X Y Y Y/X | Liberalism (Welfare-statism) |
| (d) Y Y X X | State based communitarianism |
| (e) Y X X X | Local based communitarianism |
| (f) X X X Y | Libertarianism |

(g) X X Y X	Marxism (Enlightenment Part 1)
(h) X X Y Y	Egalitarianism (Enlightenment Part 2)
(i) Y Y Y Y	Modern Perfectionism
(j) Y Y Y X	Republicanism
(k) Y X Y Y	Aesthetic Destructionism or Ruler Abhorrencism
(l) X X X X	State based deep ecology movement
(m) X Y X X	Development Despotism
(n) Y X Y X	Civic Communitarianism
(o) Y X X Y	Local communitarian anarchism

It would be necessary to examine each category in the light of its ethical coherency and to explain my naming for those positions. In this paper, however, I must skip those examinations and would like to focus on the difference between libertarianism and neoliberalism.

3. Libertarianism versus neoliberalism

Libertarianism would take the position of X X X Y: On question A, it thinks that a firm does not have any obligation to behave morally with having a long-term perspective. On question B, it thinks that the government should not help a bank even if its bankruptcy would bring a drastic contraction of our economy. On question C, it thinks that a firm has a right to organize itself free from any liberal intervention. On question D, it thinks that firms should not be included in an ethical wholeness proposed by the government.

On the other hand, neoliberalism would take the position of X Y X Y. The difference between neoliberalism and libertarianism appears on question B. Neoliberalism thinks that the government needs to help the bank that faces a bankruptcy in order for securing the present scale of the economy. Certainly, no neoliberal thinkers might have presented any clear idea on this issue. However, it seems that neoliberal way of thinking takes a stance of consequentialism and it secures banks when economic crisis happens. Neoliberalism pursues a strategic policy of economic deregulation in order for economic growth. This stance takes an idea of economic freedom as long as we can expect to maintain or enlarge the scale of the economy.

Thus, we can find a big difference between libertarianism and neoliberalism on the question B. However, you may point out that there are two kinds of libertarianism: a “rights-based libertarianism” and a “consequentialist libertarianism” and the latter would take a similar

position with neoliberalism.

Rights-based libertarianism thinks that the private property right system is morally “good in principle” and it needs to be secured even if the economic order severely shrinks by the cause of financial crisis. Consequentialist libertarianism, on the other hand, optimistically hopes that the economic consequence is always better off under the condition of strict private property rights system. In fact, consequentialist libertarians do not take the problem of the gap between rights and its consequence seriously. When consequentialist libertarians try to define the scope of private property system in accord with the economic growth and the economic order, it would take a similar stance of neoliberalism.

4. More issues on libertarianism versus neoliberalism

Let us examine other examples that would show the ethical demarcation between libertarianism and neoliberalism.

(a) Should the “insider trading” be permitted in law? Libertarians would be ambivalent on this issue. They would think that the insider trading can be totally justified in the light of private property system or it cannot be totally justified in the light of fairness indicated in private property right system. On the other hand, neoliberalists would think this way: insider trading needs to be partly permitted and partly restricted in the light of the idea of economic development.

(b) Should the “progressive taxation” be justifiable? Libertarians would be totally against this because it erodes our private property system and permit government interventions. On the other hand, neoliberalists would be ready to accept it if and only if it enhances economic development and improves our economic situations.

(c) Is it justifiable that an additional increase of the amount of minimum wage beyond the level of rights to live? Libertarians would be totally against this because it erodes our private property system and permit government interventions. On the other hand, neoliberalists would be ready to accept it if and only if it enhances economic development and improves our economic situations.

(d) Is the “spouse exemption” justifiable? In Japan, there is a taxation law which prescribes an exemption of income tax for spouse who earns less than 1030,000 yen per a year from her part-time job. The government gives a family with housewife a good treatment. Libertarians, however, would be against this exemption since it thinks that every individual needs to be treated as equal with regard to taxation. On the other hand,

neoliberalists would be ready to accept it when it enhances the economic development. They would think that it would be natural to introduce this exemption when it reflects people's conventional or natural moral behaviors.

These four issues are other examples on question B: fairness versus stability/growth. In sum, libertarians adopt rights-based moral principle, whereas neoliberalists adopt consequentialist way of thinking for the effectiveness of the rights system.

5. A comment on a recent proposal for reconciling libertarianism with neoliberalism

Professor Yuko Hashimoto recently presented her original version of rights-based libertarianism in her book (in Japanese) titled "Libertarianism and the Minimal Welfare State: Towards Minimalism of Institutional Design." It gives us a rights-based logic for justifying a minimal social welfare, which both F. A. von Hayek and M. Friedman supported in a consequentialist way¹.

She is basically in accord with R. A. Epstein's consequentialist libertarianism and tries to reconcile the rights-based libertarianism with the economic consequentialism of neoliberalism (classical liberalism). She tries to introduce two additional rules for libertarian idea of the private property rights system: one is to admit the law of public condemnation of private property for public use and the other is to admit the law of redistribution of people's income through a proportionate taxation.

She, however, raises a question for Epstein's synthetic theory of libertarianism and neoliberalism and alternatively proposes a better theoretical foundation for justifying these two additional rules from a perspective of rights-based libertarianism. According to her, each individual needs to be dealt as a personhood, which has a set of rights for seeking her own project. In order for satisfying its project seeking, every individual needs to be able to access to a certain degree of resources for its own project. Since libertarianism is the idea of dealing with each individual in its particular personhood rather than its impersonal treatment, each person's project must be treated equally regardless of its social evaluation for economic contributions. Some individuals might say that they have a project to live an idle life but it would be necessary for them to be treated equally from the perspective of such a project-based

¹ Hashimoto Yuko, 2008: 206-207.

libertarianism.

Neoliberalism would be against this proposal: since it pursues strategic policies for enhancing economic development, it would prefer to redistribute money affirmatively for those whose projects would contribute to the economic growth. For example, the government of neoliberalism would invest its resources to the education for unemployed workers.

Libertarianism, which tries to offer equal opportunity for each individual's project, would redistribute its resources as long as it does not decrease the level of present economic development. This idea would be close to the idea of "basic income," which left-libertarians such as Van Parijs propose. In fact, the way of the project-based-libertarianism opens the door for normative justification of basic opportunities of self-realization that is beyond the level of minimum. Left-libertarians investigate whether the government can offer a better condition for each individual's project seeking. Although they are not successful to define the level of "basic" income, it is an enlarged opportunity of minimal income in a welfare state.

Both the project-based-libertarians and left-libertarians share the normative principle that each individual's project needs to be treated equally and they also take the economic growth into their consideration. Neoliberalism, however, would be skeptical to redistribute resources for those who are just parasitic to the economic order. Therefore, the question for demarcating neoliberalism from libertarianism at this issue would be as follows: when there is a certain degree of parasitic people who don't contribute to the economic order, to what degree of those people can be tolerable in our society?

There might be found an optimum degree of parasitic people from both perspectives of project-based-libertarianism and Neoliberalism. Both ideologies can be synthetically integrated in terms for economic policies: we can propose a set of necessary opportunities for each individual's project-seeking as long as it is compatible with its economic growth. However, since we are ignorant of its optimum, we need to notice that there is a normative tension between libertarianism and neoliberalism on the issue of question B.