

# **Freedom and Order: Hegel and a German View on State and Market (with a brief glance at China)**

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# Agenda



- 1 The Ultimate End of History?
- 2 Two Notions of Freedom: Hegel as a Liberal Thinker
- 3 A Hegelian View on Regulation
- 4 A Glance at China

- The thesis of the ‘End of History’ was NOT referring to history as a process of events, but to the history of ideas about the ‘ideal’ political order of society and market
- However, in Fukuyama’s argument there is a point where history in this sense has not come to an end:
  - This is the opposition between the Hegelian view of political order and the contemporary ‘Anglo-Saxon’ tradition in political philosophy
  - So, the question remains whether this is a merely interpretive question, or whether we still observe a historical process that centres on this question
- Hegel according to Fukuyama:
  - The ideal political order is based on the *rational, reciprocal and equal recognition of each other’s dignity as a person*
  - This differs from contractarian approaches which take the rights of the person as foundation which guide the transition from ‘states of nature’ to political order

# Hegel and Germany: A history of misunderstandings



- A long tradition of misinterpreting Hegel from a liberal viewpoint
  - In particular, Popper (1945) in his critique of historicism
- Hegel as apologetic of the Prussian authoritarian-reformist state and forerunner of totalitarian models of the twentieth century?
  - The worst case: Father of fascism (vide state corporatism) and of communism via the Marxian re-interpretation of Hegel
- However, in the recent international upsurge of interest in Hegel (such as Taylor, Rawls, Pippin and many others) the 'liberal' Hegel comes to the fore – with a vengeance
  - Central concern: Hegel's theory of civil society and the rule of law as the **NECESSARY** conditions of individual freedom under **CONCRETE** historical circumstances
  - Contra Kant: Impossibility of grounding liberal political order on **ABSTRACT** principles (compare Sen's approach to justice)

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- Three elements of freedom (Neuhouser)
  - Personal freedom: Self-determination of means AND ends
  - Moral freedom: Mutual recognition and acceptance of moral principles
  - Social freedom: Availability of institutional resources to realize freedom based on moral principles (ethical life: 'Sittlichkeit', rule of law: 'Rechtsstaatlichkeit') (again, relationship with Sen's notion of 'capability')
  
- Centrality of human labour as a creative and productive activity
  - Alienation means to transform individual activity into socially recognized products: Work is essential for being human / purpose of life
  - Therefore, full employment is essential for a free and just society
  
- Societal self-organization and government
  - Civil society is organized in associations, turning the *bourgeois* into a *citoyen* (importance of the 'public sphere', 'Öffentlichkeit')
  - The government is conceived as regulatory state that contains negative effects of profit-oriented behaviour in the market

- The market provides the basic model for the logic of recognition
  - Division of labour implies the mutual recognition of rights and people as persons (Smith with Hegelian logic)
- Hegel is pessimistic about the resulting income distribution and concurs with Marx on the emergence of the ‘proletariat’ (‘Pöbel’)
  - However, he retains the principle of non-intervention into markets, and does not envisage a ‘welfare state’
- The state is ultimate basis of ‘ethical life’ (‘Sittlichkeit’) and evolves in a historical process of competing states
  - World history is the final arbiter (teleonomy, not teleology)
- The state is bound to the rule of law and the public sphere, yet retains autonomy vis à vis civil society (compare North, Wallis, Weingast 2009 on violence)

# Hegel and German economic culture: The Social Market Economy



- The market needs comprehensive government regulation, especially in two respects
  - Safeguarding full employment and correcting the income distribution
  - Containing negative externalities of profit-orientation
  
- Regulation is a cooperative project between government and organizations of the civil society/business
  - In modern parlance, ‘stakeholder value’ thinking
  - Major aim is to contain the emergence of power imbalances out of market competition
  
- Work is an activity that manifests the individual’s search for meaning and social recognition
  - People have a ‘Beruf’ as ‘Berufung’ (calling) which supports their self-cultivation and personal development
  - Education is a central task for government

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# The central significance of ethics

- In a Hegelian view, all economic activity has an ethical dimension (the business of business is NOT business)
  - Therefore, all regulatory approaches that start out from assumptions on rational opportunism etc. are misleading because they do not recognize and activate this ethical dimension
- Ethical norms cannot be derived from abstract principles, but have to grow out from practice and participant discourse ('deliberative regulation')
  - Therefore, regulation has to be rooted in autonomous approaches of the pertinent social spheres, which are endorsed by the state
- 'Associations' are the media of deliberation within the larger 'public sphere'
  - Ethical principles emerge from mutual recognition within associations (example: ethics of medicine) and from recognition of these principles by the public

# An application: Managerial compensation schemes



- Recently, growing inequalities and exploding top-level managerial incomes have raised serious public policy concerns (even Switzerland)
  - Regulatory measures by governments are under way: Caps versus enhancement of owners' control
  
- The Hegelian approach argues that these developments raise fundamental ethical issues (e.g. 'fairness')
  - Compensation is not only a result of market forces, but needs to be grounded in Hegelian recognition
  
- The Hegelian solution requires a framework for deliberation
  - Compensation schemes need to be legitimized in pertinent associations; no need for direct government intervention
  - Company-specific compensation schemes need to be based on stakeholder consensus (example: German co-determination)
  - These are open to scrutiny by public opinion, but protected by law

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- In the twentieth century, China emerged as a state without nation
  - This was the result of the destruction of her ‘Confucian civil society’
- Traditional Chinese notions of the body politic appear to be strongly Hegelian in nature
  - The body politic as ‘ethical life’
  - Non-interventionist conceptions of government with a principle of subsidiarity
  - Aloofness of Imperial power means state autonomy
  - Central value of education and individual self-cultivation
- The contemporary Chinese body politic is in search for an ethical foundation
  - Growing income disparities, privilege and corruption
  - Lack of conceptual framework for determining the role of market vs. government
  - Hollowing out of Communist morality

# A Hegelian model for China?



- Enhancing and deepening the role of civil society via the liberalization of associational freedoms
  - Hegelian flavour of the argument: The role of professional organizations in the context of the 'socialist' state
- Sharpening the profile of an autonomous, non-interventionist regulatory state
  - Confucian flavour of the argument: The government should stay aloof from economic interest and should adopt a low-tax philosophy
- Strengthening the public sphere and opening up channels for deliberative processes
- Establishing the rule of law