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# **ECONOMIC CONSTITUTIONALISM, LIBERALISM AND THE NEW WELFARE GOVERNANCE**

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## **INTRODUCTION: ECONOMIC CONSTITUTIONALISM AND THE NEW WELFARE GOVERNANCE**

At the beginning of the twenty first century the neo liberal market model that so dominated economic and social policy making during the later decades of the last century appears to be under increasing challenge. This arises not only from the anti globalisation movements (e.g., the World Social Forum), but also from the populist politics of elected governments in the newly industrialising countries. For example, in Latin America, the election of leaders such as Lula Da Silva of the Brazilian Workers Party, Nestor Kirchner in Argentina, and Hugo Chavez in Venezuela, has it seemed bucked some of the main tenets of the 'Washington consensus'. In East Asia too the election of Thaksin Shinawatra on election platform that championed Thai nationalism against the austerity policies advocated by the IMF suggest that even on the home turf of the Washington consensus, the 'miracle' economies of East Asian neo liberal economic policies that so dominated the 1990s are facing mounting pressures. Compounding these trends has been the development of a raft of policies and programs that focus on issues such a poverty reduction and social safety nets<sup>1</sup> promoted by International Financial Institutions (IFI), and especially the World Bank, have developed These developments would seem to clearly document a growing concern with and awareness of the social dimensions of economic development that were absent in the era of the hard edged neo liberalism of the Washington Consensus. But to see this new welfare governance as a part of movement back from economic to social policy is to miss the fact that this new policy strategy seeks to entrench a form of 'market citizenship' that differs from that reflected in the political grammar of post war social democracy.

This chapter explores the nature and dimension of this emerging policy framework, particularly in its relationship to the neo liberal market model. As we shall argue, the social policies underlying this framework arises out of, but not reducible to, neo liberalism. This viewpoint pivots on the break between the post war social settlement in industrial democracies reflected – albeit in different ways – as a notion of welfare seen as a means of compensation or redistribution to redress the operation of market forces. These notions of welfare, however, are being overtaken in the shift from what I have previously described as 'social constitutionalism' to a form of 'economic constitutionalism'. (Jayasuriya 2005, 2001,

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<sup>1</sup> This is a revised version of paper presented at a conference organized by Richard Robison at the Institute of Social Studies at the Hague. The conference was entitled *Neo liberalism after Three Decades: The End of an Epoch or a New Mutation*.

1999). This new constitutional order is not confined merely to formal legal practices, but also pertains to the broader set of state-society relations as well as the guiding normative principles of the political order. Importantly, this re-orientation to a new form of constitutionalism privileges the pursuit of economic and market order which fosters a notion of welfare as market citizenship. The crux of the argument being advanced here: is that social policy still plays a crucial role in these new forms of economic constitutionalism, but it is designed and shaped so as to enhance inclusion within the market rather than being preoccupied with the earlier emphasis on notions such as the redistribution of income.

One of the consequences of this location of welfare and social policy within the market is to reinforce a new language of liberalism that contrasts with the conflict and negotiation and mediation of negotiation of social interests within post war social constitutionalism. There is here a crucial shift in the language of liberalism away from political pluralism and towards the regulation and imposition of standards that are congruent with the larger objectives of the economic order. In the Introduction to this volume, Robison suggests that neo liberalism is a process that leads to the marginalization of representative politics. This chapter explores the language of liberalism associated with the new welfare governance. A governance that articulates liberalism that seeks to create New Liberal subjects and institutions whose purpose and ends are shaped by economic imperatives that are seen to be inimical to pluralist politics of interest.

Framed in these terms the policies and programs instituted by the political leaders drawn from countries such as Brazil (Lula) or Thailand (Thaksin) represent a kind of 'third way' politics that bears comparison with the policies of New Labour in the UK. Like New Labour it could be argued that both Brazil and Thailand reflect a move that attempts to reconcile fidelity to market imperatives with policies dealing with issues of social disadvantage. In fact, in Brazil, Cardoso,<sup>2</sup> and subsequently, Lula, have been active participants in the third way progressive governance conferences. The enrolment of Lula in the third way enterprise is noteworthy because Lula's Workers Party was cast very much in the mould of a traditional socialist party. What this would appear to indicate is that Lula's program is in many ways a continuation of Cardoso's policies and programs.

These trends have led some to fear, and others to hope, that the neo liberal market model may be on the wane. Although both responses contain a kernel of truth they can at the same time be misleading. Its plausibility lies in that it highlights the way that the market model or

neo liberalism is being modified; but it is misleading in the assumption that this modification itself reflects a significant departure from the basic neo liberal economic re-ordering that has been undertaken in Latin America and East Asia. What is intriguing is that this emerging model denotes a continuing commitment to economic liberalization but with a strong emphasis on a whole new set of social contracts between the citizenry and the state.

What these new social forms and arrangements promoted in countries such as Brazil and Thailand, and also by the World Bank, through its new social policy agenda it to point to a neo liberal sociability which may be understood as a 'socialization of neo liberalism'. This understanding of sociability frames social issues or the 'social question' not in the language of social democracy, but in economic constitutionalism in a manner that makes it compatible with market efficiency. Hence, insofar as this brings back the 'social' it seeks to reframe the social or economic problems, within, rather than in, opposition or in contestation to the market. And crucially it rejects the social democratic argument central to 'social citizenship' namely that market if left unhindered will produce inequalities of income which can only be rectified through public intervention. The expectation is that these new social policies will in the long term, work to include citizens within the sphere of the market rather than seeking to—as in the more orthodox models of welfare—insure against the vagaries of market misfortunes. Moving away from the conventional insurance model of welfare towards a more inclusive model constitutes an understanding of citizenship' very different from that contained in the Marshallian sense of citizenship and welfare (Marshall 1964). By contrast, economic constitutionalism promotes an inclusive or a productivist version of welfare where issues of poverty and inequality are 'identified with individual trajectories of social exclusion and the idea of shared social risk as the basis for organising solidarity is rejected' (Procacci 2001: 51). What is, therefore, so distinctive about these social contracts is the development of a market citizenship which above all is consistent with neo liberal projects of economic reform. Neo liberalism then on this view is more than a set of economic prescriptions but is increasingly about the creation of new forms of sociability that promote enterprising subjects and values.

## **MARKET CITIZENSHIP, WELFARE, AND ECONOMIC CONSTITUTIONALISM**

Therefore, the argument here is not so much about the shift of expenditure or the retreat from the welfare state, but a fundamental reformulation of the idea of welfare. Much of the literature on the welfare state has remained exclusively concerned with distinguishing regimes and patterns of welfare to the exclusion of any normative practices that came to be embodied in welfare policy programs and policies (Esping-Anderson 1990). As Pinker (1977) notes in his prescient book written just before the Thatcher era, there have always been competing traditions or ideas of welfare and these ideas in turn have reflected different understandings of the relationship between the market and the welfare. In fact Pinker (1979) draws pointed attention to—and implicitly advocates—the varying currents of what Levitas (1996, 1998) has elsewhere called a ‘social integrationist’ model of social policy. The integrationist model envisages a different relationship between market and social policy from that implied in the then dominant social democratic framework of social policy. Thus, Pinker advocates what he calls a model of welfare ‘which sees no fundamental incompatibility between the enhancement of social welfare and the values of the mixed economy and pluralist social order’ (Pinker 1979: 241).

In tracing this productivist tradition in Britain to both Keynes and Beveridge<sup>3</sup>, Pinker implicitly appears to be contrasting this with what Titmuss’s (1974) notion of the welfare state as an ‘institutional redistributive model’. In fact, during the last decade this social integrationist perspective has become much more influential as evidenced in the growing popularity of terms such as ‘social exclusion’ and ‘social capital’. Welfare, as the thrust of Pinker’s argument suggests, is by no means a static concept. Significantly, he draws attention to the fact that competing forms of welfarism represent a version of a preferred model of social association and a relationship with the market. The implication of what Pinker is suggesting is that citizenship, or rather the normative grounding of citizenship—seen as the decisive link between welfare and the market—has always been historically variable. This is no less true for the post war model of social citizenship so well articulated by Marshall.

But ‘ideas of welfare’ are not a free floating set of traditions that can be picked off at one’s fancy. Rather, they remain tied to various political projects of citizenship and statecraft and the real question is: how and why are certain ideas of welfare replaced by others. Market citizenship carries with it a distinctive model of welfare that fundamentally changes the relationship between welfare and the market. And it is this shift towards ‘market citizenship’ which makes the new social policy a political project that is more than a simple amalgam of

public policies. It also entails changes in the patterns and routines of statecraft as well as providing a distinctive model of social organisation and association that is less based on class relations and more focused on access to and participation within the economic sphere

Hence Citizenship, or rather the changing regimes of citizenship, lies at the heart of new frameworks of social policy. Citizenship, we know, can be defined either as a status or a practice; as a status, citizenship is defined by its legal attributes and conditions of access to various entitlements; as a practice it is constituted through the way it is exercised by individuals in various social and political domains. In reality, any citizenship regime will be a combination of both 'legal status' and political practice, and as Lister argues

Citizenship is thus conceptualized here both as a status, carrying a wide range of rights, and as a practice, involving both obligations and political participation, broadly defined. Both as a practice and in the relationship between that practice and rights, citizenship can be understood as a dynamic process (Lister 1997: 41).

Lister's insight here about citizenship as a dynamic process provides us with the starting point for an understanding of citizenship being fundamentally a political process that reshapes state practices and institutions. And it is market citizenship that lies at the heart of the new welfare governance.

White (2004), in formulating his own version of asset-based welfare, points out that there are various strands of economic citizenship ranging from the libertarian to the new welfare programs of the US. White is keen to distinguish between some of these market strands of economic citizenship from the substance of what, in his view, are potentially progressive policies such as widening asset ownership within the community. White is right to point out the range of positions that can be found within the framework of economic citizenship, but the problem with this argument is that it fails to identify what links together these various notions of economic or market citizenship. We can identify five fundamental elements that link market citizenship. These are:

- i. citizenship is framed within the market rather than in opposition to or in compensation from consequences of the market ;
- ii. social policy within the market citizenship is designed so as to make a productive contribution or enhance greater participation within the economy;
- iii. participation is individualised in terms of the ability to mobilise individual endowments of capacities and assets
- iv. social policy moves from a rights based to a contractual version of welfare that makes social policy claims conditional on the performance of specified obligations or duties; and,

- v. market citizenship tends to define social association in terms of access to, and participation within, the market.

In this sense ‘third way’ programs of all shapes and hues can be considered as programs that give effect to forms of market citizenship. Instead of being in tension with the market, key ideas such as equality and redistribution have become reframed in a way that promotes inclusion within the productive sphere of the economy. Most crucially, in third way programs such as that in New Labour in the UK, equality is understood as an ‘equality of opportunity’ where fairness is assessed in terms of participation within the market. It is a formulation that moves equality—as an issue of the redistribution of income—to a notion of equality as inclusion and participation within the market economy (Cammack 2004).

These third way ideas, therefore, resonate with those traditions of welfare that seeks to combine welfare with a productive market economy. Importantly, this goes well beyond the specifics of the third way program to encompass a whole range of policy agendas such the World Bank’s ‘social capital’ approach or the European Union’s ‘social inclusion’ policy. The common thread running through these otherwise different conceptions is a reworking of the ‘social question’ as one bearing market citizenship rather than social citizenship.

What this implies, as Rosanvallón notes, is that ‘in both cases the philosophical crisis of the welfare state indicates a decisive change in the perception of society that has prevailed for more than a century’ (Rosanvallón 2000: 5). Rosanvallón, like Giddens, looks upon this transformation as driven by a new form of modernization that works to undermine the assumption around which the modern welfare state was built and consolidated. New form of economic complexity and risk it is argued demand that social policy be directed at furthering the risk management capacities of individuals. Arguing along these lines the new social policy frameworks seek to place a high premium on the identification and prudential management of risk...

Casting these new social policy frameworks as the products of an inexorable process of modernisation is limited in that it obscures the political context in which these new frameworks now thrive. What is overlooked here is the fact that what we call the social democratic logic of the social question rested on a particular political grammar around which issues of equality and welfare were framed. As we have argued, what is significant about the new social question being posed by variants of the third way is the *manner* in which they enable or embed market processes within the social process. The new welfare governance seeks to develop those capacities and endowments of individuals that will enable them to

compete more effectively in the productive mainstream of society. The Workfare programs which have characterised Anglo-American social policy over the last decade demonstrates a vivid example of this mode of thinking. (Walters 1997).

## **LINKING MARKETS TO WELFARE**

Central to our argument is that this shift from social to market citizenship is expressive of a deeper transformation in the liberal order. Social citizenship was organised around the negotiation and conflict of interest which originated in the dualism between market and the social sphere. In contrast market citizenship reflects a more anti pluralist understanding of politics that seeks to subordinate social policy to market imperatives. It marginalises those social relations that arise in conflict with the market in favour of modes of social association based on access to, and participation within, the market. Consequently, notions such as *social capital* and *community* have come to replace class and social conflict; and importantly, this reflects a deeper transformation in the language of liberalism towards inculcation of certain standard of behaviour or values rather mediation and negotiation of social conflict. We explore two earlier liberal traditions – the ordo-liberals and the New Liberalism – as a way of putting some flesh on the liberal language of market citizenship.

At the core of this new market citizenship and the welfare governance are two key liberal concepts of welfare: one is the idea of ‘inclusion’ of all citizens within the economic mainstream, and the other is that of economic independence to enable individuals to compete more effectively within a globalised market economy. But this language of liberalism, I argue, moves away from the politics or pluralism of social interests— sustained by the competing ontologies of the market and social solidarity—towards a liberalism that is increasingly anti political. The new welfare governance therefore needs to be understood in terms of this more fundamental reconstitution of the language of a pluralist liberalism. Social contracts then, somewhat surprisingly, become the leading edge through which these New Liberal subjects are being created.

The notion of inclusion occupies a key role in the justification for welfare couched in terms of including individuals in the mainstream of social and economic life, and finds expression in those policies designed to promote a social market economy. An important precursor to this understanding of the social within regulatory neo liberalism can be found within the ordo-liberal tradition that seeks to marry a strong state with a commitment to maintaining economic order within a competitive market economy. In particular, as I have

argued elsewhere (Jayasuriya 1999, 2000), this is consistent with an understanding of economic and social intervention as a way of ‘constitutionalising economic processes. Economic constitutionalism refers to the attempt to treat the market as a constitutional order with its own rules, procedures, and institutions operating to protect the market order from political interference. These liberal threads are examined through an exploration of the social market traditions of ordo-liberalism especially, the argument that social conduct needs to be market conforming.

The other notion that drives new welfare governance is desire to improve the economic independence of individuals by enhancing the asset holdings of the poor and the socially disadvantaged. In this particular strand of the new welfare governance greater inclusion within the economic mainstream is to be accomplished through policies that enhance the capacities and endowment of individuals to compete within a globalised economy. These ideas are explored through an analysis of the British New Liberal tradition whose members include such theorists such as Hobhouse and Hobson. These ideas are similar to the economic constitutionalism of the ordo-liberals in that it locates welfare within the ontology of the market order. But in these versions liberal subjects are located within a moralized or ‘ethical’ market economy.

#### *Ordo-liberalism, social market and market conforming conduct*

The driving idea of the ordo-liberal tradition is that the construction of economic order cannot be left to the spontaneous actions of the market, and needs to be created through a consistent order-based policy (*ordnungspolitik*) of the state (Peacock & Willgerodt 1989). For the ordo-liberals the ‘various economic, political, legal, and other social processes are interrelated. Each act of government intervention must therefore be seen in connection with the total processes and overall economic order so as to ensure the ‘system conformity of measures’ (Petersmann 1991: 63). Accordingly, the state should not attempt to conduct the economy; rather, it should provide a system of juridical institutions that would facilitate the construction of the market.

Hence the central characteristic of this ‘economic constitutionalism’ is the attempt to insulate social and economic institutions from the assumed debilitating effects of political bargaining (Jayasuriya 1999; 2001), so much so that the

economic constitution distinguishes between those actions that are consistent with the economic freedom-based logic of that choice and those that are not. The former represents “conforming”

conduct; the latter is politically based regulatory discretion. Economic constitutionalism thus represents a cognitive map or template for evaluating governmental action (Gerber 1994: 17).

But the point here is that this economic constitutionalism, as Gerber observes, encompasses much more than a shift towards a rule-based rather discretionary economic policy; it is equally concerned with enabling ‘conforming conduct’ within the sphere of civil society. From this perspective, economic constitutionalism seeks to institute processes and structures of governance that activate modes of conduct appropriate to a competitive market economy.

Running through the ordo-liberal movement, it is possible to discern a distinctive political dimension to economic constitutionalism. In essence the ordo-liberals develop a political conception of market order where institutions are designed to protect it from the corrosive influence of politics; it is a politics of anti politics. Those concerned about the anti competitive effects of society on the economy such as Eucken (1950) argued that by the end of the 19<sup>th</sup> century the state was increasingly captured by private interest groups leading to the politicisation of the economy, which in turn, weakened the state. Economic constitutionalism was not merely designed to protect ‘economic institutions of the market from ‘political interference’, but also to facilitate the creation of the kinds of social order that is consistent with the market economy. What is crucial here is the fact that the purpose of the state is defined in terms of pursuing the ends of economic order that is articulated within a language of liberalism that is itself is counterpoised to the pluralism of social interests.

The economic constitutionalism of the kind promoted here has two important features: first, it sees markets as a product of state or political intervention; in this view properly functioning and effective markets require systematic state intervention. This view of state intervention is a significant departure from those public choice conceptions of state intervention—so influential in the early development of neo liberalism—that reduces any form of state intervention in the market place to unhealthy predatory impulses. The ordo-liberal tradition of capitalism was conceptualized as a system that was intrinsically juridical in form and therefore government or statecraft in our terminology must seek to consciously provide economic order and security<sup>4</sup> (Lemke 2001). The difference here is that for the ordo-liberals a strong state is essential for the protection and furthering of the market forms. To use Oakshott’s (1975) terminology, the state becomes an enterprise association whose purpose it is to promote economic order.

But economic order goes beyond the governance of economic institutions; it also seeks to regulate those elements in society that are deemed to be uncompetitive. For the ordo-

liberals, society itself can become an obstacle to an efficient and competitive market, so much so that it becomes an object of governance, particularly to those economic institutions that are considered vital for maintenance of economic order. Economic constitutionalism as envisaged in ordo-liberal accounts encompasses much more than a move towards a rule-based economic policy; it is equally concerned with enabling ‘conforming conduct’ within the sphere of civil society. What this amounts to is that social order is inextricably tied to the reproduction of economic order. Programs that seek to maintain economic order then must seek to institute processes and structures of governance that activate modes of entrepreneurial conduct appropriate to an efficient market economy. Not only does the state become an ‘enterprise association’ but society itself is seen as a site that can further entrepreneurial forms of action.

However we need to bear mind that this justified state intervention only to the extent that it promoted and furthered market and economic order. As a result, various innovative institutional schemes to enable greater individual participation within the economic sphere become tethered to a broader pattern of economic constitutionalism. Accordingly, social policy becomes an integral element in the management of an efficient economic program. What is critical here is that social policy was directed towards ‘lessening the anti-social consequences of competition, it had to block the anti-competitive mechanisms which society can spawn’ (Lemke 2001: 195). Welfare within this tradition of economic constitutionalism was not compensatory but was perceived largely as an instrument of economic reform to create a more competitive and entrepreneurial forms of conduct within social institutions.

These notions of economic and social order that came to be embodied in the notion of the social market economy formed an important aspect of ordo-liberal thinking. Importantly, for our purposes what this does is to point towards a neo liberal version of welfare that can be clearly distinguished from earlier formulations of social citizenship, and justifies state intervention in the social realm only to the extent that it promotes those entrepreneurial forms that considered to be vital for the effective functioning of the market economy. The economy and society, though seen as separate realms, only serve to reinforce the fundamentals of the economic order of society; hence social intervention can be justified if it has a substantial impact on the reproduction of economic order.

The origin of the term the ‘social market economy’ is to be found in the work of Alfred Muller-Armack (1966) who was associated with Freiburg school.<sup>5</sup> His contribution to ordo-liberalism was to expand the legalistic focus of the ordo-liberal program to encompass a range

of social measures that were thought to be essential to the maintenance of economic order. Not surprisingly, some of these social market ideas proved to be an especially important element in the formation of the post war German economy. As Joerges and Rödl point out:

The political function of the term “social market economy” was basically to present an alternative to the socialist or at least interventionist (“mixed economy”) spirit of the era dominating public opinion and the conforming to the practical predominance of planning elements in Germany’s economy during the occupation period. (Joerges and Rödl 2004: 15)

But what is a social market economy? Muller–Armack discussed a number of ways in which market and societal spheres mutually reinforced each other (Joerges and Rödl 2004). The first way was through the mutually beneficial social effects of the market through lower prices or the range of products available in the market. However societal intervention was justified to the extent that it performed two functions which we might call an *order* and *legitimacy* function. Muller-Armack (1966) argues for those policies such as full employment which serve to maintain whatever social order that was considered essential to market order. But more interesting was his expansion of the notion of the social market economy. It was seen as an

... understanding of societal problems underlay his concerns with about the stable pertinence of liberal society under – as he perceived them- ‘modern’ conditions. The most threatening factors were ‘mass society’ as a whole and its general tendency towards proletarianisation, as well as specific institutions of mass society, namely large business concerns and mass organization (Joerges and Rödl 2004: 17).

However, considering that in the social market model, societal institutions were seen as being subordinate to the demands of economic order, did not necessarily rule out extensive intervention in the social sphere. Rather, it implicitly embodied the ‘anti pluralist’ liberalism of economic constitutionalism by seeking to mould societal interest to the values of the market order. In fact, the very pluralism of politics was seen to be a potential source of anti competitive values and behaviour. Therefore social interests and conflict were seen to be fundamentally at odds with the institutions of economic order (Joerges & Ridell 2004). In this sense, the social market economy, at least as conceptualised by the ordo-liberals, has markedly anti pluralist and authoritarian elements. Market citizenship embodies some of these anti pluralist elements and it is in this language of liberalism that we can identify a major dividing line between the new welfare governance and the social constitutionalism of the post war period.

From this vantage the different formulations of the third way can be seen as constituting the basis for a new framework of the social question. This is one that seeks to justify public

intervention in the social order in terms of the imperative of the market order itself. Pivotal to this approach to social policy is the ‘legitimacy function’ that Muller-Armack identified with the social market economy. Of course, the kinds of legitimacy issues that he faced in post war Germany were quite different from those faced by present day neo liberal modes of statecraft such as those associated with the third way. Third way programs are more likely to seek to focus on issues of legitimacy through the active promotion of entrepreneurial forms of action and institutions. Similarly many transnational social policy programs—such as social funds and micro credit policies—are directed towards the promotion of legitimacy through entrepreneurial activity. This is a point well made in Weber’s (2001) perceptive paper on the global development architecture and micro credit strategies where he analyses the role of social safety as mechanisms of political crisis management. Therefore, building on such notions such as social capital or community empowerment, social programs have had the effect of turning unemployment from a social issue or a social problem to one of ‘social conduct’ while at the same time dealing with the issues of legitimacy created by policies of market reform.

A further striking convergence between the ordo-liberals and this newsocial policy ethos is that that both tend to exemplify a kind of institutionalism that tends to view the capitalist economy not as a set of social relations but as an ensemble of institutions.<sup>6</sup> In this way, social institutions, and by implication the welfare system is shaped by the imperatives of capitalist economic order. But this social policy orientation and statecraft such as those associated with the third way are similarly directed at enabling those institutional forms of capitalism that are thought to be essential for the reproduction of market order. Clearly, the new welfare governance places great store on developing partnerships between civil society and the state in the pursuance of various social projects. So for example, the poverty reduction strategy of the World Bank seeks to further what it calls pro poor strategies by encouraging individuals and groups to participate in the formulation of social policies strategies and programs.

Similarly, Bevir notes that many of the policies of the New Labour in the UK seek to implement a broad range of governance programs would seem to assume an institutionalist understanding of networks and partnerships to activate ‘stable relationships characterized by trust, social participation, voluntary associations, and friendship, at least as much as from markets and competition’ (Bevir 2003: 459). But what is missing in Bevir account is that this new governance privileges certain forms of social association and community primarily by marginalising the conflicts of class and social relations and serves to reinforce the anti

pluralism of economic constitutionalism. And to the extent that it succeeds in this form of statecraft it manages to depoliticize social and economic governance.

*New Liberalism, property and liberal subjects*

Whereas ordo-liberals seek to link markets and welfare by creating and strengthening social institutions to reflect market priorities, an earlier British tradition of New Liberalism associated with theorists such as Hobhouse<sup>7</sup> (Hobhouse 1922), T H Green, and John Hobson sought to elaborate a utilitarian justification for welfare and economic efficiency. This theorist writing at the turn of the 20<sup>th</sup> century sought to reconcile classical liberal ideas of individualism and economic freedom with mounting social problems of unemployment and poverty resulting from rapid industrialization. And they did this by developing notions of welfarism that was compatible with economic efficiency. Hobhouse in particular argued that public policy should be directed at removing those obstacles to individual self reliance. He recognised that this justifies public intervention only insofar as it was deemed to be crucial for the operation of an efficient and legitimate market system. This justification of a role for government in protecting and securing what might be called the social requisites of the market economy was mainly made on the grounds that this would lead to higher levels of overall civic welfare.

In this regard crucial for the New Liberals was broadening the ownership of property within community. Hence the ‘right of an individual to hold property was an expression of his membership in the community and its justification was to be found in welfare and will of the community’ (Freedon 1978: 220). Property ownership was an essential component of a liberal society, as theorists, such as Green, Hobhouse, Bosanquet, and Hobson argued, it permitted citizens to become full members of a liberal community. In other words, as Morrow (2001) notes, the assumption was that liberal subjects could exercise their full moral capacities only through the ownership of property. Unlike the libertarian notions, these ideas of property rights sought to emphasise the way possession of property was constitutive of liberal subjects with a stake in the community. For Hobhouse:

property is the common basis of the freedom and self dependence, the possession of some property is desirable for individuals and, and for any corporate body that has to direct its own affairs (Hobhouse 1922: 155).

Property rights then—unlike for the libertarians—was a means towards creating the moral capacities of liberal individuals. One of the consequences of this was that New Liberals such as Hobhouse and Hobson were willing to justify an expansive range of intervention strategies

‘for systems of state regulation that fostered efficiency, and promoted justice by ensuring that all members of population were able to possess the amount and type of property necessary for full membership of the community’ (Morrow 2001: 108). What distinguishes this early twentieth century understanding of market citizenship is the way it relates the exercise of liberal capacities to the possession of a share in the productive economy. New Liberalism transformed the notion of poverty from material ‘misery and insufficient spending-power and into the realm of the negation of human status, participation, self control and opportunity’ (Freeden 2004: 77). In this way the New Liberalism articulates a notion of market citizenship and welfare whose main elements sit at odds with the post war social citizenship that is premised on redressing the inequalities produced by the market.

The relevance of New Liberal arguments for market citizenship lies in the fact that the New Liberals sought, as Vincent (2001) observes, to combine both an ethical understanding of rights with a commitment to the liberal market... Property for these theorists had a strong ethical component in that it provided an instrument for creating liberal subjects with the ethical capacities to contribute to the common good. In this way New Liberalism transformed the notion of poverty from material ‘misery and insufficient spending-power and into the realm of the negation of human status, participation, self control and opportunity’ (Freeden 2004: 77). Social intervention was then directed at producing these self reliant and economically independent individuals, but was to be found within the realms of an ethical market order. What this view has in common with third way ideologies is the marriage of communitarianism with market ontology but this marriage is only possible by locating citizenship within the realms of an ethical market order. And this comes at the cost of displacing those competing social interests within the market that underpinned the pluralist politics of social constitutionalism. New Liberalism and the contemporary welfare governance converge around a language of liberalism that is hostile to the pluralism of social interests within the market economy.

These ethical imperatives were equally evident in the way the New Liberals sought to link market citizenship and welfare by grounding social rights in the form of reciprocal obligations. As Freedon (1978) notes, for the New Liberals rights were

a benefit conferred by society for mutual advantage of the recipient and the conceiver. What they were not prepared to accept was the idea of an unconditional right, irrespective of whether it was feasible or merited- which was what an absolute right is (Freedon 1978: 219).

Economic constitutionalism in all its various modern incarnations is characterised by this

valorisation of social integration through policies that enhance participation and stakeholding in the economic sphere and the individual liability for reciprocal obligation in return for social claims on the state.

An echo of this New Liberal emphasis on broadening participation within the market can be found in programs for social inclusion (which belong to the social market category) as well as in other programs designed to enhance endowment of individual assets—be it income, training or social capital—and also active participation within the market. Whereas social citizenship of the post war period was directed towards income replacement these market citizenship policies are directed towards strengthening individual assets in order to compete within a market economy. It follows that in contrast to social citizenship this view of citizenship not only decommodifies welfare—that is social policy is individualised—but market imperatives are at the heart of the justification for welfare helping to create New Liberal subjects.

In this way recent social policy initiatives have turned towards the development of assets based social policies as an ‘integral part of an overall development strategy that seeks to raise incomes and standards of living for all’ (Midgley 2003: 10). This attempt to situate asset based policies within a framework of ‘developmentalism’ strongly echoes the New Liberal justification of welfare in term of greater economic independence. It points to the way in which citizenship is defined within the capitalist market economy and in such a way that it precludes the pluralism of interests so vital to social constitutionalism.

Arguing along these lines, one of the main objectives of these assets based policies is the broadening of asset ownership in the economic sphere. For example, Singapore Central Provident Fund (CPF)—a retirement insurance scheme—allows for individual accounts for health, education, and specified investments (Sherraden 1997 and Low and Choon 2004). The CPF model, it will be recalled, had quite an influential bearing on early third way thinking on stakeholder economy.

More recently the asset based ideas have been expressed through the concept of individual development accounts for whole range welfare and education needs. Be they stakeholding or individual development accounts, these asset based programs seek to individualise welfare in a way that contrasts sharply with the collectivist insurance model of the post war welfare state. Equally illustrative of these property based policies in developing countries in the NICS such as Thailand are the so called ‘asset conversion programs’ that

encourage poor farmers or the urban poor without property rights to convert their assets into legal title (Jayasuriya and Hewison 2004). The assumption here is that the individuals will then be able to convert these property rights into an asset which can be used to more actively participate in the economy.

New Liberalism—as with the ordo-liberals—allows us to examine the normative foundations of market citizenship and welfare by underlining how the new social contracts, by seeking to inculcate individual self reliance and responsibility, attempt to create New Liberal subjects. Individual self reliance and economic independence—which was especially important in enhancing community membership—was to be achieved through the ownership and possession of property. It is the possession of property that serves to bind liberal subjects to the broader community and the common good. But this ideological hybrid of communitarianism and markets is only possible by locating liberal subjects within—as with the New Liberalism—a ‘ethical’ market economy. But this moralised economy diminishes the contestation of politics in favour of anti political liberalism.

## **CONCLUSION – ECONOMIC CONSTITUTIONALISM AND ANTI PLURALISTIC LIBERALISM**

Welfare, for both the New Liberals and the ordo-liberals alike was framed within the market; the bond between welfare and market order is clearly a defining feature of forms of market citizenship in economic constitutionalism. And the common thread that links both the ordo-liberals and the New Liberals is the fact that both seek to create liberal subjects whose capacities and purposes are shaped by the productive economy. In turn an efficient market economy depends on the creation of these liberal subjects. For the ordo-liberals, these such ‘liberal subjects’ were created through creating societal institutions that would enhance the entrepreneurial capacities of individuals as well as furnishing the foundations for legitimate market order. For the New liberals such as Hobhouse the possession of property was a means of creating self reliant individuals who would have a stake in the community. Both forms of liberalism have this in common with contemporary forms of welfare governance: they seek to create liberal subjects who are ethically embedded in the productive sphere of the economy. This is not to say there are important differences. For, Hobhouse and for other New Liberals like the T. H. Green, market order was just one purpose of public action. On the other hand, what is distinctive about the ordo-liberals—which creates a striking affinity between them and

the new policy frameworks—is the overwhelming importance attached to the pursuit of market order.

An equally important theme that runs through these liberal traditions of market citizenship is a conception of welfare as a component of a well ordered and efficient market system. But the point at issue for both the New Liberals and the ordo-liberals is not social intervention *par se* but the type and form of intervention. Understanding welfare in this way—unlike early forms of neo liberalism—makes a ‘strong state’ an important dimension of a properly functioning market system. Hence there has been a proliferation of programs and policies of welfare governance—the new social policy ethos—that have sought to reshape the relationship between state and citizen in order to foster forms of market citizenship. These social entitlements may be quite generous and expansive. But that is not the point. What matters is the fact that these entitlements are justified in terms of their capacity to enable greater participation of individuals within the economic mainstream.

Market citizenship whether formulated in terms of the social market economy, the New Liberal idea of community, the World Bank, or the EU, focus on social inclusion, justifies welfarism in terms of its capacity to create an inclusive society that places a high value economic participation. This differs from the idea of welfare as compensation or redistribution that was such an influential element of the social democratic ‘grammar’ of politics that defined the post war welfare state. This shift from an insurance paradigm—the collective indemnification of the risks of the market economy—to an understanding of social policy, and more broadly, the social sphere, as the furthering or reinforcing of an inclusive and participatory market economy constitutes a significant transformation in the very language of liberalism .

But its most significant consequence is that social institutions and their governance are depoliticised in a way that limits the conflict and negotiation of social interests that formed such a crucial element of social constitutionalism. Sustaining this social constitutionalism was the politics of negotiation and conflict of social interests that in turn hinged on the dualism between the market and the social sphere. Welfare was at the heart of this often conflictual and contradictory logic of the market and social solidarity. But it is this politics of social conflict, or more broadly, a politics of interest that is absent in the new economic constitutionalism that has come to dominate both the industrialized and newly industrializing countries.

By reshaping welfare along productivist lines the new welfare governance creates liberal subjects who are defined not on the basis of membership of interest or class communities but in terms of the possession and attributes of those endowments or capacities to participate and compete within the productive sphere of the economy. Moreover, the new welfare governance as well as the broader governance structure in which these policy alternatives take shape, embody a particular conception of politics as one of management and consensus. This serves to reinforce an anti pluralist strand of liberalism that is at the core of the new market citizenship

Neo liberalism, cannot be reduced to a set of policy prescriptions for economic liberalization and deregulation. In fact, as programs of market reform were confronted with major challenges noticeable in an appreciable shift in thinking away from a predatory view of the state that characterized the initial move towards projects of neo liberal reform in US and the UK as well as World Bank structural adjustment programs. The more recent neo liberal programs, we argue, are more focused on developing new forms and practices of social and economic regulation. These new regulatory practices call for a more interventionist and activist state that would enable those forms of social conduct that promote market norms and practices.

Hence neo liberalism is transformed into a political project that seeks to regulate the social in a way that is compatible with the market. Not surprisingly, the rationale of the social policy agenda currently promoted aims not at pushing back the state but rather at achieving some measure of internal transformation *within* the state. In this respect, neo liberalism, as Peck and Tickell (2002) have suggested, needs to be as an ongoing process of economic and political change. They propose a useful dividing line between what they call 'rollback' and 'rollout' neo liberalism. 'Rollback' neo liberalism represents the early deregulationist thrust of Thatcher and Regan, while 'rollout' neo liberalism represents a new surge in the re-regulation of newly deregulated markets. The relevant point here is not that state intervention diminishes or is less marginal, but that this new economic constitutionalism is framed within a new language of liberalism that is inimical to the pluralist politics of interest that underpinned the social constitutionalism of the post war era.

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## NOTES

1. For an analysis of these ideas in the context of the development of a new post Washington Consensus See Rosser and Jayasuriya (2001).
2. Cardoso of course is a sociologist by training who was leader of the schools of dependent development. While some have suggested that he has broken with the dependency tradition it should be noted that he likes to situate his project in terms of a broader modernization strategy. At least on this score he has some continuities with his earlier dependency work (see Powers 2001)
3. Though curiously he leaves out the tradition of new liberalism in shaping the integrationist welfare tradition.
4. This was noted as Lemke notes by Foucault in his famous College de France lectures in 1979 (Lemke 2001; Burchell et al. 1991)
5. Though Joerges and Rödl (2004) point out that he was not in the inner circles of the Freiburg school; his chair was Cologne.
6. As Lemke points out: 'The *historical* significance of this hypothesis is that it rejects a concept of history that attempts to derive socio-political changes from the economic transformation processes of capitalism' (Lemke 2001: 194).
7. See White (2004) on Hobhouse and asset based social policy .

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