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Moral sentiments, institutions, and civil society: Exploiting family resemblances between Smith and Hegel to resolve some conceptual issues in Sen's recent contributions to the theory of justice

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No. 193

Moral Sentiments, Institutions, and Civil Society:

Exploiting Family Resemblances between Smith and Hegel to Resolve Some Conceptual Issues in Sen's Recent Contributions to the Theory of Justice

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Abstract

In his *Idea of Justice*, Amartya Sen compares the two basic approaches to evaluate institutions, transcendental institutionalism and realization-focused comparisons. Referring to Smith's *Impartial Spectator*, he argues in favour of the latter and proposes the principle of Open Impartiality. However, this cannot solve the tension between universalism and contextualization of values that Sen therefore inherits from Smith. Based on recent Hegel scholarship, we argue that some of the difficulties can be resolved, considering the role Smith played in the development of Hegel's thinking. Hegel's concept of recognition plays an essential role in establishing the possibility of impartiality both on the level of consciousness and on the level of institutional intersubjectivity. Hegel's critique of Kants formalist ethics (also considered as transcendental institutionalism by Sen), his analysis of the civil society in the *Philosophy of Right*, especially his focus on associations and estates, can serve as a model for making Sen's focus on public discourse theoretically more concise and pragmatically feasible. Hegel shows that universalistic attitudes can only emerge in specific institutional contexts.

Keywords: Theory of Moral Sentiments; Sen; Hegel; recognition; civil society; associations; public discourse

JEL classification: B12; B25; B52

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1 Introduction

In his recent contributions to the theory of justice, Amartya Sen (2009) draws explicitly on Adam Smith and his *Theory of Moral Sentiments*, in particular, in order to develop the case for *realization focused comparisons* as an alternative to *transcendental institutionalism* in assessing the actual institutions of a certain society and their change in ethical terms. Transcendental institutionalism involves reference to an ideal-typical benchmark of globally optimal institutions (for example, free trade on a global scale), whereas realization focused comparisons would concentrate on gradual improvements relative to the status quo, viewed in the light of the consequences for different affected individuals, without implicating a complete and unequivocal ordering of alternatives (such as the real-world WTO process of trade liberalization). Adam Smith comes into play when Sen refers this evaluation of consequences to the position of the Impartial Spectator, who is not simply a member of the group which follows the institutions that are considered, but can be anybody who is imagining herself to be affected by experiencing this sort of institutions and institutional change under scrutiny. In practice, this procedure would presuppose democratic political systems, and in particular, domains of public debate which are open to any kind of expressions of diverse perspectives. Further, this means that institutional changes within a particular country would be scrutinized also from the perspective of people living in other countries. For example, this approach would justify the intervention of global public opinion into local practices such as female circumcision.

However, Sen's argument suffers from a number of difficulties which are well recognized in the literature (overview in Shapiro 2011). From our viewpoint, the most important ones are firstly, the persistent need to adopt what remains ultimately a foundationalist approach, namely to take the value of individual freedom as absolute reference for the evaluation of institutions, and secondly, as a consequence, to posit certain principles of public debate as benchmarks which are in turn institutions of particular societies. As a result, Sen's argument continues to suffer from the inherent flaws in Adam Smith's approach, insofar as the latter has been considered as a possible justification of cosmopolitan values. Hence, both Smith and Sen cannot escape the limitations of local perspectives on values (Forman-Barzilai 2010).

In this paper, we wish to show that Hegel's notion of freedom and civil society can help to overcome these vestiges of foundationalism in Sen's thought and his reception of Adam Smith. Following a recent contribution by Nuzzo (2010) on the history of thought, we argue that Hegel received important inspirations not only from the *Wealth of Nations* (which is well recognized already in Henderson and Davis 1991), but also from the *Theory of Moral Sentiments*. This common ground is easy to recognize in realizing the central role of institutional evolution and the emergence of the civil society in both Smith's and Hegel's thinking. But Hegel goes far beyond Adam Smith in developing a systematic conceptual basis for the notion of freedom in its relation to the concept of institutions. In doing this, Hegel develops a non-foundationalist concept of individual freedom: Freedom is the result of institutional evolution which is driven by principled contradictions and tensions of less advanced forms of expressing individual desires and concerns. Institutions and the self co-evolve in the context of social interaction, ultimately ending up in a state of freedom which is institutional in nature (civil society and the state), and cannot be simply referred to any sort of merely individual criterion of freedom.

We argue that both Smith and Hegel adopt an essentially modern attitude in aiming at a non-foundationalist internal analysis and normative justification of ethical norms. This is the context where the relationship between the two thinkers becomes highly relevant for contemporary discussions about ethics, which recurrently raises the issue of *universalization* of ethical values and norms. Given the fact that epistemologically, ethical norms can only be approached from an internal standpoint, how can we justify cosmopolitanism, i.e. the universalization of certain values? This is the problem that we wish to tackle in this paper.

Sen's focal theoretical issue is how to evaluate institutions in terms of justice. The central problem emerging from Sen's appropriation of Smithian thinking is how to make the overcoming of so-called Kantian transcendental institutionalism empirically and pragmatically feasible by means of realization-focused comparisons. This juxtaposition directly suggests the question whether Hegel's alternative to Kant, which is based on historical-evolutionary conceptualizations of institutional change, can offer a workable solution to two difficulties that result from the Smithian approach.

We think that the Hegelian perspective, especially his emphasis on the role of estates and associations in the “ethical life”, may solve the problem with Sen’s conviction that democracy as such contributes to the realisation of both individual freedom and justice. If one conceives of society as a complex structure of interacting groups that offers the framework for the emergence of specific values and moral commitments, we can envisage a procedure for weighting and aggregating societal concerns via the focus on inter-group externalities. This, in turn, is related with the emergence of the market of the civil society. It is essential to realize that this view only becomes valid if it is interpreted in evolutionary terms, which establishes an important congruence between Smith and Hegel: the norms of morality emerge from the co-evolution of individual behavioral standards and institutions. In this perspective, the WoN is basically an historical account of the emergence of the modern economy, and Hegel’s *Philosophy of Right* is interpreted as a systematic analysis of the conceptual changes that are expressed in this evolution. Both approaches are *non-Kantian* in one particular sense, namely that even the fundamentals of ethics are internal to a specific historical and social setting. This is exactly the view that also underlies Sen’s realization focused comparisons, but Sen does not offer a way how to achieve a concrete and workable universalism, which is clearly Hegel’s aim.

Our analysis is Hegelian, but does not take Hegel literally. This is most evident from the fact that Hegel’s view of institutional evolution is itself bound to historically and territorially contingent values, which are expressed in his ideal of the protestant constitutional monarchy as the ultimate framework for civil society. Yet, we do not think that this observation invalidates the general principles of Hegelian *non-foundationalism*. As we shall see, the solution to this problem can be found in considering one idea that has been proposed by Sen (2007) recently, namely to take account of the plurality of personal identities in a global context, thus overcoming the hierarchy of corporations and the nation state which was so visible to Hegel at his times. To be sure, Hegel’s analysis in the *Philosophy of Right* and *Philosophy of History* remains exclusive and teleological, since it is only the Western society that for him achieved the genuine consciousness of freedom. However, our point is not to adopt a Hegelian framework as a whole, but to indicate the specific advantages it could provide in the present, more globalized context.

Our paper develops this argument in several steps. In section two, we discuss the relationship between Smith and Hegel in terms of intellectual history, following Nuzzo's (2010) recent interpretation. We argue that essential ideas of Smith's moral philosophy are elevated to a more abstract and universal level by Hegelian notions such as recognition. Section three presents an analysis of the limitations of Sen's approach, which are most evident in his core idea of Open Impartiality, which is opposed to the membership based approach of social contract theories. Sections four and five present our Hegelian remedy, i.e. the conceptual conjunction of identity, associations and public discourse. We illustrate our argument with two brief case studies on managerial remuneration and international trade in GMO. Section six concludes.

2 Sympathy and recognition: Family resemblances between Smith and Hegel

Smith and Hegel have close intellectual relations, which, however, are partly difficult to unearth. The literature on the relationship between Hegel and Adam Smith has well established that Smith's notion of the division of labour exerted a strong impact on Hegel's conception of the economy (Henderson and Davis 1991). Invisible-hand arguments play an important role in the characteristic of civil society both in Hegel's Jena writings (including the *Phenomenology of Spirit*), and his *Philosophy of Right*. Yet, Hegel's economic thinking mostly stayed with the precursors of Smith, especially his readings of Steuart, which set the theme for one of Hegel's main concerns, namely the relationship between the government and the state with the economy (Priddat 1990). Thus, the notion of division of labour was less seen as an economic concept, but mostly put into the context of the analysis of civil society as a body politic, which renders his approach Aristotelian in a most general sense.

The mutual dependence of individuals in the division of labour, who exchange the fruits of their labour and therefore mutually recognize the value of their alienated products, is Hegel's central illustration of the more fundamental ethical principles of the civil society in which individual freedom is based on mutual recognition. Therefore, Hegel's reading of Smith is mainly a philosophical one, in the sense of ethics and politics, and less an economic one. This also refers to Hegel's conclusions about the limits of government intervention, where he clearly follows Smith, and not Steuart (Henderson and Davis 1991: 197). However, Hegel's liberalism is not primarily driven by economic considerations, but rests upon his analysis of the relationship between individual freedom and the institutions of the civil society. This is in turn based on his evolutionary approach to the transformations of spirit, in which the individual emerges as being an expression of larger structures of Objective Spirit, i.e. the institutions of the society into which the individuals are embedded and experience their process of *Bildung*, i.e. cultural formation. As has been emphasized in the recent Hegel literature, on Hegel's marketplace of the civil society fully-fledged persons interact, and not just individuals, with persons being constituted by the institutional structures of the civil society (e.g. Pip-pin 2008; Ikäheimo 2011). In other words, the assumption of selfish individuals is not seen as presupposition of the market, such that the institutions of the market also serve to maintain

their integrity and autonomy, but the market in the civil society is constituted via the interaction of persons who already embody certain ethical principles of the collective to which they belong. Thus, the market of the civil society is already an ethical formation *sui generis* (Ver Eecke 2008: 49ff.).

However, in this discussion, the possible connection between Smith's moral philosophy and Hegel's ideas about the civil society is rarely recognized. In the literature on Hegel, there is a clear emphasis on the *Wealth of Nations*, and only limited attention is paid to the *Theory of Moral Sentiments*. This question seems to be of considerable importance because we observe a strong revival of interest in the moral theory of Adam Smith recently, which has led to a reconsideration of the ethical foundations of the WoN, too. Although there is a long history of the so-called 'Adam Smith problem', which is tellingly related to the 19th century history of Smith reception in Germany, economists have largely neglected the ethical dimensions of Smith's theorizing about the economy and the market (for a survey, see Montes and Schliesser 2006: 1ff.). In the more recent literature, however, we observe a strong emphasis on the evolutionary emergence of the institutions of civil society, and how they interact with the development of individual morality, which is in turn based on a complex picture of the human individual (e.g. Evensky 2005). In this view, Smith's anthropology appears to be very different from any sort of simplistic assumptions about selfishness and rationality, but highlights the fundamental dependence of human life on its embeddedness into real-world communities. Obviously, this approach has much more in common with Hegel than a focus on Smithian economics alone would suggest.

The difficulty is that unearthing the impact of Smith, the moral philosopher, on Hegel should be also based on systematic considerations, and not only on philological studies of the actual history of Smith reception in German idealism. Hegel himself rarely quotes his sources, and only makes one explicit reference to the entire philosophical work by Smith in his *Geschichte der Philosophie* (III.2.B), interestingly putting him into the context of Scottish philosophy in general, which he qualifies as practical philosophy focusing on the government and morality, without any foundation in speculative philosophy which, according to Hegel's understanding, is the hallmark of an advanced scientific approach to philosophy. Hegel emphasizes that the roots of Scottish philosophy is human reason as a common-sense phenomenon ("der gesunde Menschenverstand"), and highlights the role of concepts such as sympathy. This shows, at

least, that Hegel overviewed the entire Smithian oeuvre. Indeed, we know that Hegel read the entire Smith during his Berne period (1793-96), so that we can safely assume that he was not only aware of Smith's views on the economy, but also on morality and ethics. During those Berne times, his major concern was to render Kantian philosophy practical, and he further developed his political values related with the civil society (Pinkard 2008: 23). So, it seems legitimate to assume that Smith's moral thinking exerted an impact on Hegel, in spite of the fact that Hegel, the systematic idealistic philosopher, did not recognize it explicitly, because it was lacking the form of advanced metaphysics, ontology and epistemology according to the standards of German idealism.

In this approach, we follow the argument presented recently by Nuzzo (2010) who traced some important Hegelian ideas about the civil society back to Smith on systematic grounds. Nuzzo shows how two central Smithian ideas, those of sympathy and the impartial spectator, have systematic complements in Hegel's conceptions of what he calls *Sittlichkeit*, often translated as 'ethical life'. This affinity is based on a more fundamental stance which certainly is shaping Hegel's thinking from his early times onwards, namely that ethical norms need to be understood from the internal view of concrete historical communities, and that, contra Kant, there is no a-historical universal justification of specific norms. This implies that rational ethical behavior can only emerge from the process of cultural formation which includes both reflection and interaction. This view comes so close to Smith's thinking that one could almost see Hegel as a speculative transformation of Smith. As Nuzzo (2010: 44) points out, one can say that "Hegel places Smith's idea of morality at the heart of the ethical life of modern society".

Smithian morality is clearly preserved, though sublated in this Hegelian development. As Nuzzo emphasizes, the core commonality remains that morality in Smith is based on the capacity of the self to consider its own position through the position of others. On this stage, Hegel only provides a more systematic argument why this intermediation is *logically* necessary to enable individual judgment. This logical necessity is related with Hegel's thoughts about the role of concept formation, which defines the essential difference between his idea of speculative philosophy and the Scottish 'gesunde Menschenverstand': Hegel analyzes the emergence of universal ethical commitments through the dialectical transformation of ethical duties and tasks into universal conceptual categories (such as when reflecting upon the duties

of a contract in civil society in terms of the general concept of a contract among members of the civil society), and in reverse, that is, the necessity to render all abstract norms as concrete commitments in a particular society. This double movement also inheres Hegel's notion of recognition, which is therefore a formalization of Smith's idea of taking the positions of others, i.e. the Spectator (or consciousness), which transforms into the Impartial Spectator (or self-consciousness) via universal Hegelian recognition (precisely this conceptual movement is missing in Kantian interpretations of Smith as an ethical universalist, as in von Villiez 2006). Hegel thus adopts Smith's internal standpoint: sympathy is transformed into recognition (as a mechanism of *socially constructed* moral sentiments). Whereas in Smith this is based on a particular sort of sentiment, namely sympathy, Hegel bases the notion of recognition on the famous analysis of the *logical* impossibility in getting recognition for oneself without recognizing the others: That being said, his analysis of the lord and bondsman relationship remains an immensely emotional process, i.e. a 'struggle to death'.

In this context, it is important to notice that the notion of self-interest in WoN is actually in harmony with the TMS as has been argued convincingly by Mehta (2006) and in a way that the family resemblance with Hegel is most obvious. Self-interest is emphasized in the WoN for the only reason that in a market society, self-interest is the most generalizable motivation that applies for all possible kinds of interactions, and self-interest is also the position that the Impartial Spectator might identify as that position that is most justified to evaluate the actions taken in these contexts. Smith clearly states this not even as a natural principle, but as an approach that only emerges during the evolution of civil society. In other, Hegelian words, the concept of recognition would imply that the notion of self-interest as a general human motivation does only apply in the sense that within a certain institutional context, namely that of a marketplace, the only motivation that can be reasonably recognized mutually by everybody, and hence therefore achieves universal status, can be self-interest (compare Neuhouser 2008: 225). But this does not imply that self-interest is a universal human motivation in any other kind of institutional context, and cannot be seen as a human universal in the sense of pre-societal natural drives and needs. This means – and it could be regarded as a genuine Hegelian lesson – that the idea of *universality* in the moral reflection has to undergo profound changes. Abstract universals like concepts of a 'human nature' or 'perfect duty' should be replaced by a 'true', concrete universality that is gained from institutional embeddedness, evolves over time and is the result of a historical development.

However, even these differences between Smith and Hegel seem to be less significant if we consider the fact that sympathy is a cognitive process also with Smith, because it is fundamentally based on imagination (this is exactly defining the difference between Smith and Hume, see Broadie 2006) and that Smith's moral philosophy, however abstract it may seem, is also deeply rooted in idea of the social interaction (Griswold 1999). The emotional complement in ToMS is the fellow-feeling (as highlighted by Sugden 2002). In this sense, Smith's sympathy already reveals basic similarities with the much more elaborate notion of recognition in Hegel. This is also the point of entry for clarifying the current issues with Sen's theory of realization focused comparisons in institutional analysis.

3 Sen's Idea of Justice and the problem of universalization of ethical commitments

In the most recent development of his ethical ideas (Sen 2009), Sen confronts his approach with Rawlsian contractarianism, and distinguishes between 'transcendental institutionalism' and 'realization-focused comparisons'. In the first approach, realized institutions are compared to a benchmark that is developed on the basis of universal and rational considerations, such as the Kantian categorical imperative or the Rawlsian indifference principle. The aim of these principles is to achieve a universal and complete ordering of institutions in terms of their distance from the benchmark institution. In contrast, realization-focused comparisons do not establish complete orderings, but only aim at comparing a limited set of realizable institutions in terms of their effects on the current situation of the individuals that have to act under the different institutions. Therefore, the second approach can be characterized as establishing a sequence of local optima, possibly, but not necessarily approaching a global optimum, whereas the former approach aims at identifying the global optimum directly. The point here is that even if people knew the global optimum, it might not be attainable from their current position. Therefore, gradual improvements of the status quo suffice to establish claims about just institutions. As Shapiro (2011) has shown, this confrontation seems to overemphasize the differences between Sen's own approach and Rawls' approach, because one can argue that there is a difference between the theoretical principles and the actual practice in applying them. Applying the Rawlsian indifference principle in public debate, for example, can result into a Senian discourse that results into gradual improvements. However, in the current context the juxtaposition of the two approaches is useful to elaborate on the possible significance of Hegel for further amending Sen's argument.¹

This theoretical juncture seems even more interesting when we compare Sen's critique of transcendental institutionalism with Hegel's critique of Kantian morality in the *Phenomenology of Spirit*. It makes sense to provide the whole quotation to see the parallels.

¹ It is important to note that Rawls, especially with respect to his later writings, may well be interpreted in Hegelian terms. This is exactly what Ege and Igersheim (2008) do when they stress what Hegel inherited from Kant (the idea of moral autonomy and freedom) and what the later Rawls inherited from Hegel (the idea of reconciliation of the universal and the particular). In fact, this interpretation follows from another important methodological concept proposed by Rawls in applying his principles, namely the 'reflective equilibrium' (which is

[Sensibility is [...] the negative, whereas [...] the pure thought of duty is the essence from which nothing can be given up, it seems that the unity which is brought forth can only be brought about by the sublation of sensibility. However, since sensibility is itself a moment of this [...] *actuality*, then [...] sensibility is supposed to *conform* to morality. [...] consciousness itself both has to bring about this harmony and to be making constant progress in morality. However, the *culmination* of this progress has to be *put off to infinity*, since if that culmination were actually to arrive on the scene, moral consciousness would be sublated. This is so because *morality* is merely moral *consciousness* as the negative essence for which sensibility is merely of negative significance, that is, is merely *not in conformity with pure duty*. But in that harmony, *morality* as *consciousness* vanishes, that is, its *actuality* vanishes [and] in moral *consciousness*, that is, actuality, its *harmony* vanishes. For that reason, the culmination is not actually to be reached. Instead, it is to be thought of merely as an *absolute task*, which is to say, a task which remains purely and simply a task. [...] [T]he determinate representation of this progress should be of no interest and ought not to be sought because it leads to contradictions – contradictions lying in a task which is both to remain a task and which is yet to be fulfilled, and in a morality which is not any more supposed to be consciousness and not any more supposed to be actual. (Par. 603, see Pinkard 2010)

For Hegel, therefore, Kantian duty remains an unsatisfactory moral conception since actual consciousness is *per definitionem* imperfect. Were the perfect duty to be realized, the consciousness as such would become redundant. That is why Hegel thinks that Kantian ideal should remain *infeasible* and as such an “absolute task” that, however, still asserts itself as a task. It is also too formal, too abstract (in a ‘bad’ sense, namely partial and thus inferior, see Hegel’s pamphlet ‘Who thinks abstractly?’) and void of any grounding, be it in sensibility (and here Hegel could have meant Smith as well) or in a social milieu.²

Very similar concerns are expressed by Sen:

also central for relating Rawls and Smith, against Rawls’s own misunderstandings of Smith, see von Villiez 2006).

² We have no opportunity to discuss here whether Hegel’s critique is correct. Suffice it to say that Kantian ethics may be interpreted in many ways, some of which emphasize the historical and not purely formal dimension of morality. But in order to accentuate the main tendency of thought we further refer to Kantian position as a formalist one.

I see two problems here. First, there may be no reasoned agreement at all [...] on the nature of the ‘just society’: this is the issue of the *feasibility* of finding an agreed transcendental solution. Second, an exercise of practical reason that involves an actual choice demands a framework for comparison of justice for choosing among the feasible alternatives and not an identification of a possibly unavailable perfect situation that could not be transcended: this is the issue of the *redundancy* of the search for a transcendental solution. (Sen 2009: 9)

The central question is how realization focused comparisons are implemented. In this context, one particular criticism that Sen directs at Rawls seems more compelling, namely that Rawls, as all contractarian approaches, is a membership based approach. That means, the indifference principle would be applied on a given group of signatories to the social contract, and non-members would not be allowed to vote. Sen calls this ‘closed impartiality’ and draws on Smith to outline his alternative, which is ‘open impartiality’ (Sen 2009, especially chpts. 5 and 6).

Sen argues that Smith’s figure of the Impartial Observer is a viable alternative to contractarian approaches because it includes the opinions of non-members or bystanders in the evaluation of an institution. This is not the place to delve into the details of the Smithian notion. Suffice to state that the Impartial Spectator is a hypothetical position that emerges from the consideration of all possible perspectives of different individuals who would be imagined to be affected by a particular institution, and whose resulting states would be compared relative to the imagined state of the individual who refers to that position. So, the Impartial Spectator is an ethical position that is adopted by a single individual independent from a contractarian event. This capability to ethical reasoning is based on the universal human property of sympathy, which stays at the heart of the TMS. Sympathy is an intellectual capacity to imagine oneself in the position of another person, without implicating that the resulting evaluations are one’s own, but of the other. Thus, sympathy can be the foundation of a moral calculus in which the reflecting person is able to compare and balance the evaluations of different individuals in an imagined situation. This ethical evaluation is also independent from even an imagined contractarian agreement, because it is entirely done within one individual.

In the recent literature on Smith, there has been a discussion on cosmopolitanism which is directly pertinent to Sen's reception of Smith (for a comprehensive survey, see Forman-Barzilai 2010). In fact, Tugendhat (2004) had even argued that Smith's position anticipates a Kantian view, because the Impartial Spectator implies the necessity of universalistic consent, independent from any specific position taken. Then, clearly, Sen's opposition of Smith and Rawls would be misleading. However, Smith also presented a number of empirical observations about how the position of the Impartial Spectator might emerge in practice. For this, cultural formation is essential, which takes place in communities which manifest a natural proclivity to develop the capacity of sympathy. So, for example, Smith argued that the family is the most important setting where sympathy is cultivated, to the extent that he even was critical of public schools. The reach and scope of communities is therefore determined by the existing social structures. Thus, there is a fundamental conceptual tension in Smith: The theoretical construct of impartiality may be ultimately bound to conventionalist ethics, thus effectively making cosmopolitanism, i.e. universality of values, and, hence, true 'impartiality', impossible. The reason is that all actualizations of impartiality will be bound to the possibilities that imagination can create out of the available reach of sympathy in the existing social framework. These capacities of imagination are in turn determined by the reach and scope of existing social interactions. These interactions are indispensable to feed the Impartial Spectator with the necessary information about the different valuations of differential effects of social actions, thus enabling to strike the balance of impartiality. Therefore, impartiality is bound to the 'circles of sympathy', thus approaching principled limits to universalism. As has been shown by Forman-Barzilai (2006), this limit does not result from a bias that does not go back on affective relationships, but on cultural embeddedness, which qualifies as a cognitive limitation of sympathy, thus corresponding to the Smithian understanding of that term.

In this sense, impartiality remains wedded to a conventionalist ethics. To be sure, Smith was highly critical of conventions, but he did not offer a fully convincing solution to the resulting tensions within his argument. As has been argued extensively by Forman-Barzilai (2010), the only way to offer a solution is actually to pull TMS and WoN together in the sense that cosmopolitanism is only possible as 'commercial cosmopolitanism', which, however, would limit the universalization of values to the context of the market. In a nutshell, this would cor-

respond to modern conceptions of minimal morality in the marketplace or endogenous morality (e.g. Baumann 1996).

This discussion of Smith straightforwardly exposes the weak points in Sen's adoption of the figure of the Impartial Spectator. There are two main elements in Sen's approach to Justice which are intended to render this notion viable. The first is to refer it to the concept of democracy, the second is to introduce a specific approach to benchmarking, which is the capability approach. Both go beyond the original Smithian framework.

Regarding the first, the relevant feature of democracy cannot lie in institutional arrangements that refer to given communities, as this would resuscitate the closure of membership. So, Sen focuses on public debate, which can be open by definition, because in principle, anybody can contribute, and anybody can introduce perspectives that refer to outsiders. Thus, the Impartial Spectator is actually bound to the notion of a universal community of participants of a global discourse, which in practice is shaped by the emergence of global news agencies, NGOs or public fora of debate such as the manifold of organizations linked with the UN. Clearly, this construct does not guarantee impartiality as a real-world phenomenon, because the scope and depth of participation in these public discourses is limited. Therefore, the connexion can only be established as a future goal, thus suggesting that there is a necessary trend towards impartiality emerging. This results into a problematic complex relationship between public discourse and the idea of realization focused comparisons: In order to implement a particular comparison, one would also need to assess the current status of the realized structures of public discourse, which is an institutional phenomenon on its own sake. For the latter, a realization-focused comparison would be necessary, too, which results into the dilemma of self-reference. For any sort of institutional change, one would need to apply the criterion of realization focused comparisons on the level of the action outcomes *and* on the level of the public discourse. For example, there might be the possibility that an improvement of action outcomes may occur together with a reduction of the inclusiveness of the public discourse over it (for example, many central banks are intentionally sheltered from the impact of public opinion, which was perceived as an improvement at the time when these institutions were set up).

So, there is no wonder that Sen moves on to the second element of his theory of justice, which is the capability approach. Here, Sen adopts what can be duly identified as ethical foundation-

alism, as he puts the principle of individual freedom at the core (Sen 2002). With reference to impartiality, this clearly means to provide a conceptual anchor that cannot be itself the object of public discourse, if only because public discourse itself needs to be based on principles of individual freedom, such as the principle of free expression of opinions. However, the capability approach goes beyond this in proposing a shift from a means-centered benchmark to evaluate institutions to a capability centered approach which focuses on the opportunities that individuals actually can realize, following their own valuations. This implies, however, that a positive approach to freedom is eventually adopted, in the practical sense of defining a set of capabilities that matters universally (for an overview, see Robeyns 2011). There are serious reasons to doubt whether such a lexicographic approach can be fully based on non-conventionalist criteria, especially if weighting schemes are considered (Clarke 2005).

Viewing these different elements together, it seems that Sen cannot escape the Smithian dilemma between impartiality and conventionalist ethics. At least Smith cannot be the only beacon on which Sen's method of realization focused comparisons can be based if impartiality is to be achieved. This is because the valuations that underlie the individual assessment of opportunities are themselves conventional, unless a particular standard of values is imposed externally, which is actually done by Sen in referring to individual freedom. As long as the values themselves are not already defined with reference to the Impartial Spectator, there seems to be no way to avoid clashes between different 'impartialities' in the public discourse, which would therefore end up in stalemates recurrently.

Now, the question arises whether Hegel can offer a solution to this quandary. Hegel takes the reality of conventional roots of any sort of valuation head on, and thus makes a strength out of Smith's seeming weakness. From Hegel's viewpoint, the Kantian interpretation of the Impartial Spectator would be seriously misleading, as there are principled arguments why universalistic ethical commitments can *only* emerge within specific ethical communities. In other words, the Hegelian view posits that *only particular ethical standards of real-world communities can be the source of universalistic ethical notions*³. This would certainly help to make Sen's reasoning more valid, too.

4 Smith, Sen, Hegel: Orchestrating an Hegelian turn in Sen's approach

Hegel and Smith share many commonalities that result from one fundamental common point: this is what can be called a naturalistic approach to ethics, in the sense that ethical judgments flow out from human nature as expressing itself in concrete historical and cultural contexts. Hegel may be right in believing that Smith is lacking a rigorous philosophical analysis of this phenomenon, but the basic stance is very similar. This goes back to the shared view that human sociality is essential to achieve a proper understanding of one's own self. Smith's general notion of the Spectator relates to Hegel's argument that the realization of one's own individuality and individual freedom is essentially dependent on the recognition by the other, as epitomized in the famous lord and bondsman dialectic (Redding 2008). This is based on the need to express oneself, which in turn is impossible without relying on the resources of sociality, such as language. Language is a collectively shared resource, which presupposes the mutual recognition of meanings, without which individual expression is meaningless, even to the individual herself.

Now, we claim that the central role of language in Hegel's thought can serve to make Sen's emphasis on public discourse analytically more concise. Moyer (2008) presents an important analysis of alienation in Hegel that directly allows to establish a connection with Sen's notion of public discourse. Alienation is a fundamental human condition in the transformations of spirit according to Hegel. Hegel sees this as being actualized in the historical epoch of Enlightenment. Alienation occurs as a necessary outcome of human expressions, thus rendering any kind of creative act such as an utterance or physical work as something that is just reflecting what Hegel calls 'in-itself' and has not yet achieved the state of 'for-itself'. The latter state can only be realized if the individual can refer to itself via the realization of an autonomous other individual, such that the difference becomes also a defining moment of itself (as illustrated in the lord and bondsman metaphor). Now, Moyer argues that this most abstract notion can be substantially specified in terms which root in the use of language in stating reasons for action. In most simple terms, an individual remains alienated if she cannot give reasons for her actions that can be recognized by others, in principle. This is independent

³ This seems to be the position of Rawls as well (Ege, Igersheim 2008).

from the actual discourse about reasons: A reason is a linguistic structure that essentially builds on a collective acceptance or mutual recognition of meanings.

To make a complicated story short, Moyar further specifies this view in introducing what seems basically a Senian category, namely reference to one's own conceptions of a meaningful life. Yet, this is different from just stating individual freedom as an anchor value. The fundamental difference between Hegel and Sen lies in the fact that Hegel ascribes the notion of freedom to the entire state that results from the process of recognition in society, but not to the initial conditions. *Freedom is an outcome, not a presupposition*, and freedom is a collective state epitomized in structures of Objective Spirit, but not an individual state. So, one of the preconditions of freedom, which is also defined as a non-alienated state, is to be able to relate one's actions to one's own sense of meaning that results from purposes of life. As Moyar points out, this notion of a purpose of life already relates to an actualized social space in which the discourse about those purposes takes place, and in which those purposes can be presented as a part of individual narratives which reflect one's own identity in this social space. In Hegel's theory of objective spirit, this social space is ultimately filled by the *institutions of the civil society*.

So, Hegel adds two important notions to Sen's concept of public discourse. The first is to make the role of reasons more explicit, in an evolving intellectual space that is demarcated by language. Reasons always presuppose the possibility that others might not agree with one's reasons. Thus, a reason that gives full meaning to one's own actions must be a reason that at least in principle could be accepted by others. This is the specific mechanism how the position of the Impartial Spectator can emerge, and it puts fundamental limits to any sort of purely conventionalist reasoning. This is because a purely conventionalist reason can never be accepted by individuals living under other conventions, for reasons of principle. A conventionalist reason can always meet another conventionalist reason, thus always resulting into disagreement (hence, the postmodern malaise of relativism). So, for example, if I argue that females should not get higher education because this is proper behavior according to local customs, and because they do not need it, this is a purely conventionalist reasoning. A non-conventionalist reasoning would need to argue that women would suffer a disadvantage if they do not have this opportunity of higher education as compared with other conventions, because the notion of 'disadvantage' might be open to critical assessment under intersubjec-

tively valid standards. So, this reason would be open to scrutiny by offering competing reasons, and so I would only maintain this position in a non-alienated way if I believe that my reason still holds true, even after a public discourse about it. In other words, what is essential in public discourse is not whether the institutions themselves can be universalized in terms of mutual recognition, but whether the reasons given in the discourse over institutions can be mutually recognized. For example, somebody in favour of female circumcision can certainly refer to the relativity of conventions, but the reasons in favour of female circumcision would have to be recognized even by Impartial Spectators. This is impossible for purely conventionalist reasons. Therefore, one would need to refer to other categories which are mutually recognizable, in principle, such as reasons with reference to health, both physical and psychological, and including both the individual and the collective.

The other important addition to Sen that Hegel can offer is a full elaboration on the institutional details of this public discourse. As we have already emphasized, Hegel's notion of civil society seems to differ in important respects from Smith's conceptions, which is reflected in the perceived tensions between the TMS and the WoN (although Smith certainly is supportive of the civil society, at the same time he expresses deep mistrust against associations and their plots). Hegel sees the civil society as a fully-fledged institutional framework in which the division of labour is reflected in the associational structure. Referring back to Moyer's analysis, we can say that in this idea of associations, Hegel relates the division of labour to the notion of meaningful life, as the associations provide the institutional setting into which the individual purposes of life are embedded, as related to the activities that the individuals pursue in economic exchange. Thus, Hegel already provided the answer to the Marxian analysis of alienation in the marketplace, as he does not question the system of property rights of the civil society: It is the associational framework in which alienation is sublated (compare Neuhaus 2008).

This is an important amendment to Sen's treatment of public discourse, and at the same time offers the solution to the tension between universalism and conventionalist ethics in Smith. The core notion is that of identity in the context of functional groupings in the civil society. In a down to earth fashion, this is the identity of individuals in different professional contexts, the workers, the lawyers or the entrepreneurs. In Hegel's original approach, these ideas are presented in a historically contingent way which certainly cannot be transferred to the present,

namely his conception of the constitutional monarchy with the Estates. However, the general idea about the different Estates remains worthwhile to consider, since the Estates play an important political role providing a real social backing of monarchy. They protect the state and the people against “the misuse of power on the part of the official bodies”. This protection “lies with the legal recognition [...] accorded to communities and corporations, for this prevents subjective arbitrariness from interfering on its own account [...] with the power entrusted to officials, and supplements from below that control from above which does not extend as far as individual conduct.” (Hegel 1991, 334, par. 295).

Hegel further argues:

The concrete state is *the whole, articulated into its particular circles*. Each member of the state is a *member* of an *estate* [...], and only in this objective determination can he be considered in relation to the state. [...] he is a *private person* and at the same time a *thinking* being with consciousness and volition of the *universal*. But this consciousness and volition remain empty and lack *fulfilment* and actual *life* until they are filled with particularity, and this is [to be found in] a particular estate and determination. [...] Consequently, it is within the sphere of his corporation, community, etc. [...] that the individual first attains his actual and living determination as *universal*, and it remains open to him to enter any sphere, including the universal estate, for which his aptitude qualifies (Hegel 1991, 347, par. 308).

This passage nicely illustrates not only the political importance of associational structure, but also the idea that this structure gives the morality its genuinely universal character. And we see that for Hegel this institutional sphere accounted for true appreciation of individual, openness, and freedom.

The different functional groupings in society require representation, and public discourse among those representatives, and also with reference to the general public considering political matters, ultimately serves the aim to produce desirable results for the community. Hegel applies his standard line of thinking in conceptual transformations here: Public opinion can be bad if it is just an unordered collection of individual opinions and their expressions. But it can be good if it is a *discourse* in which the individual opinions are necessarily transformed into generalized judgments and propositions, because arguing in terms of presenting reasons requires the reference to universal standards of meaning, evaluation and projection:

Whatever is to achieve recognition today no longer achieves it by force, and only to a small extent through habit and custom, but mainly through insight and reasoned argument. (Hegel 1991, 353, Par. 316, addition)

So, we propose that the solution to Sen's problem lies in the connection between associations and public discourse that was proposed by Hegel. This is rooted in the notion of recognition. Within the reach of the associations, members engage in a much more intensive and detailed process of mutual recognition, which, according to Hegel, imbues them with a sense of honour, thus resulting into ethical commitments. Associations involve the creation of *identities* which are constitutive for the establishment of personhood in terms of a deontology (compare Davis 2003). So, the Hegelian hierarchical view of society emerges, without the historical references to the specific structures of constitutional monarchy. This also matches with Smith's idea of the circles of sympathy. The core Hegelian concepts here are representation and recognition. Primordial recognition happens in functional communities, which in turn are represented in the public discourse which enables a broader societal process of generalized recognition. This process ultimately results into historically and temporarily specific orderings of values and institutions which Hegel identifies as *Sittlichkeit*.

5 Groups, society at large and evolution towards cosmopolitanism

We will now generalize this analysis by means of introducing a few terms which reflect the modern debate, but are tightly connected to Hegel's ideas. We think that the comparison of Smith, Hegel and Sen results into an important theoretical insight into the problem of assessing institutions against the background of the requirement of universalism. This is that the civil society rests fundamentally on the interplay between groups and society or markets. The key notion is that of individual identity.

In his own treatment of the identity issue, Sen emphasizes the multiplicity of modern identities and the possibility of free individual choice of multiple identities (Sen 2007). However, this approach overlooks the tight commitments that result even from choosing one's identity. Even though that might be possible under certain circumstances, once the identity is settled, commitments become their defining feature: personal identities are individual deontologies. This is exactly what Hegel refers to in his thinking about freedom: An identity can only become an identity if there is a source of absolutely binding commitments. This is epitomized in the transition from 'I' to 'we'.

The collective nature of identity has been scrutinized in different recent economic approaches to identity. Ultimately, this rests upon the role of language in fixing one's identity (Ross 2007). Firstly, identity may be conceived of as social identity, which builds on collectively shared conceptual classifications which cannot be completely cast into doubt, unless giving up the possibility of localize oneself in a social context (which is the Akerlof and Kranton 2000 approach). The other is that personal identity rests upon a narrative structure that defines an individual history, which in turn creates commitments underlying the generic social process of communication (Davis 2003, 2008). In both senses, individual identities refer to a 'we' which implies the sharing of commitments in a reference group.

Thus, we think that for establishing the ethical basis for institutional judgments identity is a crucial concern. There are two aspects here. One is that institutions need to be tied to identi-

ties in a meaningful way, which implies that the institutions are based on mutual recognition. Take, for example, the recent political debates over the remuneration of managers. This is related to the social identity of a particular group in society which has created certain institutionalized patterns of behavior, such as the internally accepted rules for determining managerial compensations. For the majority of managers, these are the rules that partly define their identity. However, because the increasing gap between managerial compensation and average wages in society there is a public debate in which many sides find those compensations ‘unreasonable’, which means that there is no convincing reason given for the extent of the gap. This amounts to a questioning of the identity of that group, which would need to offer either good reasons or a change of the institutionalized pattern in order to fend public criticism off.

This kind of reasoning among groups help resolve a problem addressed by Griswold (1999, 95-99): there may be certain groups that demand sympathy and recognition but deny any understanding to those who did not have the experience of the relevant group members. The fact that my personality and my individual morality are opened up before and transparent for the others, as Nuzzo (2010) puts it, helps overcome the social fragmentation implicit in such kind of problems.

On the other hand, a sort of debate by exception applies, which directly reflects Smithian thinking in terms of the circles of sympathy. Basically, individual identities are established in the context of particular groups in which the identities reflect a we-notion which in turn enhances mutual understanding. Under normal conditions, these principles may not be questioned by others. However, there are conditions under which the institutions that prevail in one group create externalities on other groups, which triggers public debates. This can be any kind of action, in particular, referring to identities of different groups. Thus, if Messi earns tens of millions of Euro a year, the aficionados of Barca won’t complain, but they complain about the Goldman Sachs investment banker earning 2 million a year, because this affects their identity negatively.

So, we argue that the commitments to identities are necessary for two reasons. Firstly, identities fix ethical commitments on a level where Smithian sympathy works directly. For example, the general notion of telling the truth is made substantial in the academic honour code of professors. The first Hegelian addition to this Smithian principle is that these ethical commit-

ments manifest the seeds of universalization as they already include a step towards abstraction, i.e. concept formation (compare Neuhaus 2008: 220ff.). The second reason is Hegelian in essence, because it refers to the notion of recognition, in a double sense. For one, identity implies in-group recognition. But Hegel relates this to the institutional structure of civil society, which implies that there is a mutual recognition of group identities as well. Thus, civil society manifests a hierarchical structure of inclusive group identities. In Hegel's thinking, this inclusively nested structure culminates in the *Sovereign*. The Sovereign represents the results of the process of mutual recognition in increasingly inclusive and abstract expressions of diverse collective identities in the society, as represented in the Estates and the ultimate advices to the Sovereign flowing out from the public debate.

We think that this approach can close the gap in Sen between public debate and the capability approach. The point is that the universalism of civil society rests upon the marketplace, thus vindicating Smith's original idea of commercial cosmopolitanism. But this is based on a functional division of labour which is reflected in the group structure of society. This approach is not entirely new, to a certain extent, as it is also inhering the standard interest group notion in political economy. However, the interest group notion is based on shared *interests*, not on shared *identities*. In our approach, interest groups might reflect the more basic structuration principle of shared identities. Shared identities provide the foundation of ethical principles in the civil society.

Thus, we can qualify Sen's public discourse in Hegelian terms as follows. In public discourse over institutions, there can be different layers of generality. Some institutions might only be discussed within the circle of individuals sharing the identity which is partly defined by following that institution. In that case, the reasons given for the preferability of the institution are more widely accepted, based on the generic group-level recognition. Other institutions may create externalities on others, such that a discourse over reasons is triggered on the inter-group level. This renders Sen's notion of realization focused comparisons tractable. Many institutional changes will happen within the scope of groups that can build on strong shared identities which also implies that standards of valuation may converge. If the externalities with other social domains are weak, institutional change will proceed. If externalities are strong, a broader public discourse will start in which the criterion of inclusiveness is crucial, in the specific sense of enabling internalization of externalities.

The example of managerial remuneration is again apt to illustrate this process. Especially in the Anglo-Saxon world, in the past 40 years there was an increasingly tightly defined identification of the group of managers in terms of certain behavioral standards and standards of performance assessment. In Hegelian fashion, this identity was especially groomed in institutions of managerial education, the B-schools, where also the scientific principles were developed that drove the unfolding of modern remuneration schemes (on this important connection between ‘Bildung’ and behavior related to identities, see Ghoshal 2005). These patterns were reinforced by a large number of informal behavioral standards typically reflected in Wall Street stereotypes. The emergence of these group-specific ethical standards were left on their own as long as no scandals or crisis erupted. So, public debate was triggered when externalities became visible, such as after the Enron scandal 2001 or after the financial crisis 2008. In these public debates, the seemingly technical issues of managerial incentive systems were increasingly seen in the light of ethical considerations, thus requiring different groups to give reasons for the choice of particular standards. This triggered explicit attempts at searching for new potential identities of the managerial group. A case in point are the recent activities in holding ceremonies at B-schools where graduates swear an oath that commits them to certain ethical standards in business.

We think that this example serves well to illustrate the importance of Hegel’s notion of ethical life for the Senian theory of justice. We proceed in offering another example which can illustrate the explicit role of non-members in making the perspective of Impartial Spectators feasible in public discourse. This is the example of international trade, a classical Smithian theme.

One intriguing change in the institutions of international trade during the recent decades was the increasing significance of public discourse, especially after the Seattle events in 1999, which were just a further transition in the ongoing change of the nature of international trade negotiations. The traditional system was driven by trade diplomacy and the general aim to liberalize trade. In this approach, the dominant groups represented in the process were governments and producers who shared an interest in improving market access. In the past three decades, however, the scene changed substantially, because a manifold of consumer groups and civil society associations became active in the field of trade policy. This transition was explicitly recognized in the WTO process, for example, by means of inviting many more *amicus curiae* briefings in the dispute resolution process.

International trade is an ideal example for distinguishing between the two Senian notions of transcendental institutionalism and realization focused comparisons. It is straightforward to see that the standard free trade doctrine is an example of transcendental institutionalism, whereas in practice liberalization is a complex gradual procedure involving many conflicting interests. We claim that the evolution of the trade system actually can be seen as the transition to a formalized system of realization focused comparisons (building on earlier work, see Herrmann-Pillath 2006, 2008). In the context of this paper, we cannot go into details, so suffice to highlight one single aspect, namely the increasing role of cross-national expressions of interests. An excellent illustration is the recent international tension over GMOs and trade.

In the case of GMOs, consumers may have different attitudes for a manifold of reasons. Internationally, there are systematic differences between European countries, major agricultural exporters and the US, and the developing economies (Jackson and Anderson 2005). The central problem is the role of externalities. One country might adopt a certain stance towards GMO, but this will also affect other countries. For example, if a developing economy wishes to export agricultural goods to this country, this might effectively block domestic GMO use, even if the national interest groups are in favour of GMO. The occurrence of many forms of externalities implies that there is a need for international coordination of institutions, which effectively results into realization-focused comparisons. For example, the negotiators would need to weigh health risks of a more liberal regime against the productivity advances in developing economies. This process is governed by complex institutional rules that apply for the regulation of discourse, such that we meet the aforementioned two-level meaning of institutions: The design of institutions of trade is governed by an international negotiation process that is in turn shaped by institutions. This becomes salient in case of trade conflicts, as in the case of the US-EU conflict over the EU GMO Moratorium of 1999. The parties need to present reasons for their positions, which includes reasons why certain rules would apply, which even determine fundamental definitional issues of what an GMO actually ‘is’ (detailed pertinent analyses of this case are Young 2011 and Bonneuil and Levidov 2011).

One central aspect of this process is that it involves the direct comparison of perspectives of non-members, i.e. different domestic constituencies. For example, between the US and the EU there are significant differences regarding the opinions about the proper procedures of risk assessment, with the EU opting for the precautionary principle. Basically, the choice of a par-

ticular approach should be open to any society, because members would have the freedom to adopt the risk preferences that they like, in the Senian sense. However, once GMO are traded, these differences cause externalities across the countries, such that a direct comparison even of fundamental procedures to fix one's risk preferences becomes necessary. In practice, this means, for example, that the attitudes and identities of European consumer groups become relevant for American producers and even consumers, because there might be the potential that the globalization of risk averse attitudes towards GMO might ultimately also restrict the freedom of American consumers to express their preferences for GMO, in terms of the economic feasibility of GMO based agriculture in the US.

As we see, international trade policy can serve as an example to demonstrate the emergence of Impartial Spectators in the Senian sense of non-members impacting on member choices of institutions and even the underlying preferences. The central intermediating phenomenon is the Hegelian interaction between recognition and representation. Global public discourse features the emergence of a manifold of cross-national associations in which individual identities find mutual recognition. These associations then represent the results of this process in a larger framework of public debate which straddles the different membership based communities. In particular, an important point made by Sen (2007) applies, namely, that the associational identities can run orthogonal to the vertical membership criteria: The citizen of a country can be also member of a global NGO that criticizes the policies of that country. Hence, multiple identities in an Hegelian process open up the membership based processes of institutional change in formal democracies.

6 Conclusion

One of the most influential recent adoptions of Hegelian thinking is Fukuyama (1992). Fukuyama puts an end to decades of Post-Popperian misunderstandings of Hegel in the context of theorizing about a free society. Fukuyama contrasts two notions of a liberal society (1992: 200). One is the view based on contractarianism, which presupposes individual freedom to conclude voluntary agreements about the establishment of a political body. This is the tradition that underlies the entire modern approach to social choice and the conceptions of a free society which prevail at the overlapping domains of economics, politics and philosophy. The other is the Hegelian tradition, which went lost in the discourse of economics, because it was seen as being related with the Marxian tradition emerging from the critical reflection upon Hegel, while maintaining certain pivotal ideas. Fukuyama summarizes this alternative tradition:

For Hegel, by contrast, liberal society is a reciprocal and equal agreement among citizens to mutually recognize each other. If Hobbesian or Lockean liberalism can be interpreted as the pursuit of rational self-interest, Hegelian “liberalism“ can be seen as the pursuit of *rational recognition*, that is recognition on a universal basis in which the dignity of each person as a free and autonomous human being is recognized by all.

Sen stands in the tradition of social choice, but achieved to overcome the severe conceptual limitations of the focus on rational self-interest. However, to some extent he cannot fully abandon this tradition because he takes freedom as an exogenous condition for justifying ethical and political propositions. We believe that some of the limitations and inconsistencies in his approach go back to this conceptual tension.

We have shown in our paper that the study of the relationship between Smith and Hegel can give us the essential hint at a possible solution of this problem. Combining Hegel and Sen’s notion of realization-focused comparisons renders Sen’s approach operational in terms of practical political applications. Sen himself (e.g. 1995) clearly tends toward a transformation of social choice into a theory of deliberative discourse, as propagated in notions of deliberative democracy (e.g. Elster 1998). However, he is lacking the specific mechanism how his

general notions of justice can translate into specific results in a particular historical setting. We think that the Hegelian idea of associations as the bedrock of society provides such a mechanism.

In this context, O'Neill (1997) has pointed out that Fukuyama, though generally emphasizing the role of communities in a liberal society, does not fully adopt the Hegelian analysis, because he does not specify in detail the institutional embedding of associations, especially in the context of government. This is also the central difference between Hegel and Smith. So, Sen's reception of Smith actually replicates this difference implicitly. Smith is the father of the idea that dominates in economics, namely that associations take the form of interest groups pursuing self-interest. Thus, associations are mainly seen as a negative factor in a liberal society, always driving a wedge between particular interests and general welfare. O'Neill points out that from the Hegelian point of view, associations are the essential arenas of mutual recognition, especially in the sense of being communities of skills and capacities, i.e. being related to economic action.

We think that the reconsideration of the role of groups in the liberal society is not only of practical political relevance, but also resolves the fundamental problem of how to reconcile the principle of universalism with the fact of historical contingency of values. This is the Hegelian transformation of the original Smithian ideas on impartiality. Hegel introduces a process that is already partly playing a role in Smith's idea about taking different positions in ethical judgments. This is the rational discourse in society which judges single ethical propositions in terms of reasons which can be mutually recognized, even including possible positions which are not directly represented in this particular society. Rational discourse essentially relies on generic notions of rational inference and justification, which build on processes of abstraction and conceptualization (see Viskovatoff 2001). This process is rendered practical in terms of discursive aggregation within and across different associations as communities of discourse. With this approach, we can also justify Sen's argument that the evaluation of ethical judgments even can take place in the context of global communities, thus making judgments independent from the fact of membership to certain political bodies.

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