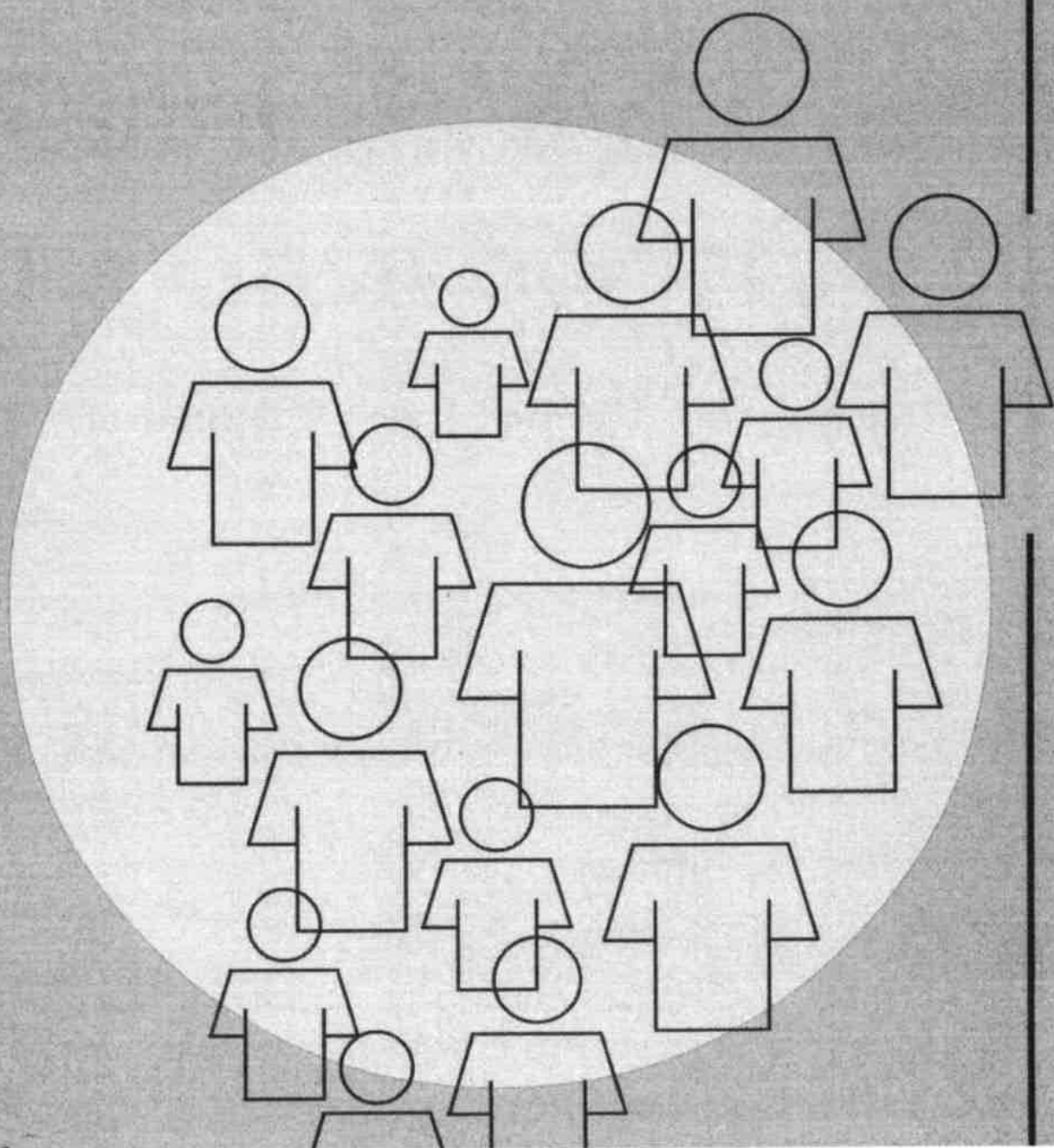


# Assurance and Trust in a Great Society

FEE OCCASIONAL PAPER / TWO

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# **Good Conduct in a Great Society: Adam Smith and the Role of Reputation**

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Writers as diverse as Schumpeter (1943), Habermas (1976), Daniel Bell (1976), and Fred Hirsch (1977) have suggested that the ideal of a market-based and voluntaristic society, while perhaps attractive, is fundamentally flawed (see Hirschman 1982). Such a society, they admit, can generate material well-being and allow all of its members a kind of formal freedom and personal independence, in marked contrast to what is available in local communities of less commercially developed societies. Yet individual freedom and personal independence carry with them the seeds of the destruction of the society that makes them possible.

If a market-based society is to function, it is argued, its members must behave decently toward one another. They must be able to rely upon one another to respect property rights and to keep their promises, even in dealings with people with whom they do not have face-to-face or frequent relations. Critics of market-based societies have suggested that, although in the early stages of market societies, good behavior may indeed be found, it is an inheritance from earlier forms of social organization. Market-based societies are living upon moral capital—capital that they cannot themselves replenish. This moral capital is eroded by some of the very factors that seem to make such societies so attractive. Formal freedoms and growing wealth allow people to flee the oppressive constraints of family, local commu-

nity, or figures of petty authority, for the anonymity—and anomie?—of life in large metropolitan areas.

Schumpeter and the other critics would have to admit that, in recent years, some interesting work has explored whether good behavior can in fact survive based solely on self-interest. We mean in particular the growing literature on repeated and evolutionary games (Axelrod 1984; Kandori 1992). The critics could note, however, that such simulations of prudence typically seem to be limited in scope—limited to reciprocal relations within relatively small groups, to interactions that are iterated, and to interactions with partners who can be recognized (see Shearmur 1992). This seems a far cry from a great society, in the Smith-Lippmann-Hayek sense,<sup>1</sup> where many people meet but do not have established relations.

Adam Smith was an early commentator upon both the advantages and disadvantages of what he called “commercial society” (or the “great society of mankind”). Smith identified problems similar to those identified by modern theorists, and we can say that he was of two minds on the issue of good conduct in a great society (see Shearmur 1991). Within the setting of commerce he identified the essential logic of repeated-game thinking, and claimed that commercial society promotes probity and punctuality, at least in commercial relationships. Yet else—

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1. It seems to us useful to resuscitate the term “great society,” meaning the extended liberal social order—akin to Karl Popper’s “Open Society.” The term achieves great prominence in Hayek’s trilogy, *Law, Legislation and Liberty* (published 1973, 1976, 1979), although Hayek moved to the term “extended society” or “extended social order” in his final work, *The Fatal Conceit* (1988). Hayek gives a brief history of the term “great society” in the first volume of *Law, Legislation and Liberty* (148). Adam Smith uses the term “great society” four times in his chapter, “Of the Order in which Societies are by Nature recommended to our Beneficence,” introduced in the sixth edition of *TMS* in 1790 (see pp. 229, 234), and once again at page 235, and Smith used the term eight times in *WN* (86, 260, 421, 651, 681, 726, and 747). Walter Lippmann’s statement of the liberal order, *The Good Society* (1937), uses “Great Society” and “Good Society” interchangeably. Lippmann uses the term freely in other works as well and presumably acquired it from Graham Wallas, who published his book entitled *The Great Society* in 1914.

where Smith argues that, more broadly speaking, the extended society will carry moral maladies so severe that they call for coercive state intervention.

Coercive state intervention is not, to say the least, a pleasing outcome for those who favor voluntaristic society. It so happens that Max Weber, when reporting upon an experience that he had in connection with a religious sect, perceived aspects of it which not only suggest a voluntaristic resolution of Smith's doubts about good behavior, but also a way in which Smith's own ideas about commercial reputation might be extended beyond the area of repeated commercial interaction. We aim to argue for the viability of good conduct in a voluntaristic great society by arguing that Smith's optimism about good conduct in the extended economic order can be carried over to the extended social order; that which fosters trustworthy behavior in the economic realm also fosters it in the social realm.

## **Adam Smith on Commercial Society**

Let us start by giving a brief overview of Smith on commercial society. Members of commercial societies gain as a consequence of the greater productivity brought about by the division of labor. Man "stands at all times in need of the co-operation and assistance of great multitudes, while his whole life is scarce sufficient to gain the friendship of a few persons" (Smith, 1776, 14 [hereafter cited as *WN*]). "[T]he interest of the great society of mankind," Smith wrote, is "best promoted by directing the principal attention of each individual to that particular portion of it, which was most within the sphere both of his abilities and of his understanding" (Smith, 1790, 229 [hereafter cited as *TMS*]). People's specialized activities are coordinated not by their being directed to perform their various tasks, but by the impersonal mechanisms of the market. Through the pursuit of economic self-interest, guided by the price system, they are led to meet the needs of others—others with whom they could never enjoy personal or face-to-face relationships—by means of mechanisms that they do not, and need not, fully

comprehend. A society based upon markets also extends the possibility of well-being to all: Smith, following Locke, claimed that even the lowliest member of a market-based society is better clad than a prince in a primitive society.

But market society offers more than this. For Smith was acutely aware of the way in which the market broke with the dependencies of feudalism. Commercial society brought a degree of autonomy right down to the ordinary tradesman and the street porter. Thus, where Rousseau in his *Discourse on Inequality* saw only inequality and dependence, Smith saw the possibility of well-being, achieved through a system of mutual co-operation, grounded on freedom, and a form of social organization which accorded independence to ordinary people; independence of a sort that they had never enjoyed before.

Now, in Smith's *Theory of Moral Sentiments*, he developed an account of the genesis and character of morals and manners. Smith posited an instinctual impulse of sympathy and yearning for approbation:

Nature, when she formed man for society, endowed him with an original desire to please, and an original aversion to offend his brethren. She taught him to feel pleasure in their favourable, and pain in their unfavourable regard. She rendered their approbation most flattering and most agreeable to him for its own sake; and their disapprobation most mortifying and most offensive. (*TMS*, 116)

Smith pictured morality as formed by our reactions to the way in which others react towards us. Through their approbation and disapprobation we discover that our conduct has moral qualities. As David Hume ([1740], bk. 3, sec. 1) wrote on this same theme, we discover these qualities as we might come to discover that we have bad breath. The reactions of our fellows act as a mirror, in which we discover ourselves to have qualities which we could not have discovered had we been in isolation.

Gradually we refine these judgments made by particular individuals, and eventually we internalize the result, as our conscience. Smith also describes how all this leads to the development of a sense of justice.

In Smith's account, our initial awareness of our moral characters, and our sustaining of moral behavior, depend on others with whom we have face-to-face relationships. He also suggests, however, that we idealize, and are in turn influenced by our idealized picture of, the situation of prominent figures in society: "It is from our disposition to admire, and consequently to imitate, the rich and the great, that they are enabled to set, or to lead what is called the fashion" (*TMS*, 64). Sometimes we are influenced by fashion even in cases where this is not, in any obvious sense, in our self-interest.

## **Smithian Optimism about Good Conduct in a Great Society**

In *The Theory of Moral Sentiments* (63) Smith briefly puts forth the *doux commerce* thesis, that fortune coincides with honesty and civility in market society:

The success of . . . [most] people . . . almost always depends upon the favour and good opinion of their neighbours and equals; and without a tolerably regular conduct these can very seldom be obtained. The good old proverb, therefore, that honesty is the best policy, holds, in such situations, almost always perfectly true.

Smith's economic writings offer an account, complementary to that in his *Moral Sentiments*, of the mechanisms by which we may engage in mutually advantageous co-operation with people we don't know personally, under conditions of minimal coercion. In Smith's lecture "The Influence of Commerce on Manners," in the *Lectures on Jurisprudence* (Report Dated 1766), we find grounds for basing much of the Smithian optimism on the logic of repeated interaction.

Smith argues: “Whenever commerce is introduced into any country, probity and punctuality always accompany it.” He does more, however, than simply state the *doux commerce* thesis (Hirschman 1977, 56–63, 107)—he offers us an account of how it holds true. He comments on the way in which the Dutch, whom he refers to as the most commercial people in Europe, are “the most faithful to their word,” doing better on this score than the English, who, in turn, are rated higher than the Scots. Smith disavows the idea that this is to be explained by differences in national character:

It is far more reducible to self interest, that general principle which regulates the actions of every man, and which leads men to act in a certain manner from views of advantage.

Smith goes on to explain the particular features of these people’s situations, which are responsible for generating the effects with which he is concerned.

A dealer is afraid of losing his character, and is scrupulous in observing every engagement. When a person makes perhaps 20 contracts in a day, he cannot gain so much by endeavouring to impose on his neighbours, as the very appearance of a cheat would make him lose. Where people seldom deal with one another, we find that they are somewhat disposed to cheat, because they can gain more by a smart trick than they can lose by the injury which it does their character (*Lectures*, 538–539).

What Smith is describing here is a direct reputational mechanism. His argument is appealing, because it is couched in terms of self-interest rather than in the suggestive but more exotic ideas of his *Theory of Moral Sentiments*. It also provides a link between a person’s face-to-face interactions with people who

can monitor his conduct and the basis on which he interacts with other people in an extended market order.<sup>2</sup>

In *Wealth of Nations*, Smith says that reputation and standing help to explain the high remuneration received by traders who are intrusted with important matters (105, 112) and that reputation may influence the salaries of teachers (719, 727, 733, 742), but he does give broad application to the principle of reputation. Likewise, in the *Lectures* Smith seems to see the logic of repeat dealings as limited in scope. Only merchants seem to experience reputational incentive. Smith suggests, however, that improved habits of probity and punctuality may spread to the population at large, but only because merchants bring these habits “into fashion” (*Lectures*, 539). Dishonesty on anyone’s part becomes “odious.” Smith again is suggesting the influence of fashion, as set by prominent figures in society.

Smith’s optimism is limited in the types of good behavior fostered by commercial society. Smith says that commerce enhances probity and punctuality, but what of tolerance or courage or a broader kind of common decency and consideration? In the very same lecture, Smith in fact argues that, where commerce advances, “education is greatly neglected.” Side by side with Smith’s *doux commerce* optimism we find samples of Smith’s pessimism.

## **Smithian Pessimism about Good Conduct in a Great Society**

Smith re-interpreted older civic humanist themes about the corrupting influence of wealth on moral character, in terms of his own theory of what generates wealth. He argued that commercial advance would lead to a neglect of education and, in turn, a degradation of morals. In the lecture on commerce and morals he wrote of “a person’s whole attention [being] bestowed on the 17th part of a pin, or the 80th part of a button” (*Lectures*,

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2. See McCloskey’s “Bourgeois Virtue” (1994) for an attempt to revive and update the optimism of *doux commerce*.



539). The effect is stupefying, and he negatively contrasts such a workman with the less-specialized country laborer, who has a range of different problems to solve and learns a broader view of things. Smith writes of the narrowness of tradesmen in the commercial parts of England, who, “through want of education . . . have no amusement . . . but riot and debauchery” (*ibid.*, 540). In *Wealth of Nations*, Smith adds an account of how the workman may also be physically disadvantaged by such narrow, specialized work—in terms graphic enough to be quoted later by Marx in *Capital* (bk. I, chap. xiv, sec. 5). As Hont and Ignatieff have put it, “[Smith] demonstrated that the disintegration of the individual personality was irrevocably linked to commercial society’s best feature—its capacity to feed and clothe its poorest members” (1983, 7–8).

But it is not only specialization of work that causes disintegration of the personality. Morality, its maintenance, and its effective internalization as our conscience all depend upon the monitoring of our conduct by others. Smith notes that the development of commercial society fosters the growth of large cities—to which people may migrate. And there, no one may know them well enough, or care enough about them, to monitor their conduct and to express approbation or disapprobation. Thus Smith writes:

While a man [of low condition] remains in a country village his conduct may be attended to, and he may be obliged to attend to it himself. In this situation, and in this situation only, he may have what is called a character to lose. But as soon as he comes to a great city, he is sunk in obscurity and darkness. His conduct is observed and attended to by nobody, and he is therefore likely to neglect it himself, and to abandon himself to every low profligacy and vice. (*WN*, 747)

Smith suggests that a person who has come to the city from the country might be drawn into the membership of a religious sect, which offers the stern morals and the monitoring of his

conduct he lacks. Here is the germ of the idea that, insofar as they become conscious that they suffer from anomie, people will be spontaneously attracted to forms of voluntary organization that offer them what they lack. Insofar as individuals made isolated by market forces find a need for companionship and a strict moral code, they may supply it for one another. However, there are two problems about all this.

First, not all demoralized individuals may be aware that their situation is problematic. They may simply feel relief at getting away from village snoops, and will not rush to join groups of narrow-minded religious fanatics or some other tightly organized group which would re-create the very things from which they have gladly fled. And one might go further, saying: if they are not aware of any difficulty, in what sense is there a problem? But to react in this way is to misunderstand the issue. For our problem concerns not the behavior of specific individuals—who may *enjoy* falling into “every low profligacy and vice”—so much as the consequences of their behavior for the functioning of a great society. Our concern, like that of the theorists of the cultural contradictions of capitalism, is with the macro consequences of individual behavior.

Second, while joining a group with an exacting moral code may satisfy some individuals, it may foster in them characteristics not beneficial to the civic order. Think only of the way in which street gangs or Hell’s Angels may offer a deracinated individual a new moral code.

Smith was concerned lest the narrow codes of religious groups develop in undesirable ways. But Smith’s response in *The Wealth of Nations* was not one that would give joy to the libertarian:

[T]he state might render [science and philosophy] almost universal among all people of middling or more than middling rank and fortune . . . by instituting some sort of probation, even in the higher and more difficult sciences, to be undergone by every person before he was permitted to exercise any liberal profession, or

before he could be received as a candidate for any honourable office or profit. (*WN*, 748; see also 734–35)<sup>3</sup>

Smith argued that “where all the superior ranks of people were secured from [the poison of enthusiasm and superstition], the inferior ranks could not be much exposed to it” (*WN*, 748). In a similar vein, Smith writes in *The Theory of Moral Sentiments*:

The civil magistrate is entrusted with the power not only of preserving the public peace by restraining injustice, but of promoting the prosperity of the commonwealth, by establishing good discipline, and by discouraging every sort of vice and impropriety; he may prescribe rules, therefore, which not only prohibit mutual injuries among fellow-citizens, but command mutual good offices to a certain degree (81).

Like the neoconservatives of our own day, Smith embraces both the great society and the judicious hand of the paternalistic state.

## **Weber, Sects, and Good Conduct with Strangers**

We wish now to build toward a resolution of Smith’s ambivalence about good conduct in a voluntaristic great society. Before trying our own hand at social theorizing, we wish to share an observation by Max Weber that might serve as a bridge from Smith’s ambivalence to a more optimistic resolution.

In one of his essays, Weber (1946) reported upon something

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3. Note however that Smith considers that the state’s remedies should be “without violence” (*WN*, 748). Also noteworthy is that elsewhere Smith seems to oppose entry restrictions into professions; see *WN* 61, 120–24, 128–9, 342–43, and his letter of September 20, 1774, to William Cullen in *Correspondence of Adam Smith* (1977, 173–79).

that he witnessed in North Carolina, while visiting the United States in 1904. He tells of an adult baptism by immersion. A relative of Weber's, present at the event, commented: "Look at him . . . I told you so." And Weber continues:

When I asked him after the ceremony "Why did you anticipate the baptism of that man?" he answered "Because he wants to open a bank in M." "Are there so many Baptists around that he can make a living?" [asked Weber, and was told] "Not at all, but once being baptized he will get the patronage of the whole region and he will outcompete anybody." Further questions of "why" and "by what means" led to the following conclusion: Admission to the local Baptist congregation follows only upon the most careful "probation" and after closest inquiries into conduct going back to early childhood. . . . Admission to the congregation is recognized as an absolute guarantee of the moral qualities of a gentleman, especially of those qualities required in business matters. . . . When a sect member moved to a different place, or if he was a travelling salesman, he carried the certificate of his congregation with him; and thereby found not only easy contact with sect members but, above all, he found credit everywhere. (Weber 1946, 304–305)

Weber's anecdote shows that not only may membership gain one assistance from within the group, but those *outside* the group may recognize favorable characteristic features of group members, and favor them accordingly. As Weber's account suggests, this may become known—and prized—by members and would-be members of these groups. Weber is thus positing the idea of a social "seal of approval." Weber's anecdote bridges Smith's lesson about the Dutch merchants and Smith's lesson about in-group cooperation among members of a sect. Here, it seems to us, is a possible avenue by which we may arrive at an optimistic conclusion.

## Towards an Optimistic View of Good Conduct in a Great Society: Civil Society as a System of Seals of Approval

Smith optimistically remarks that a merchant builds a reputation for probity with the outside world. In a sense, the merchant develops a seal of approval that is granted only to himself (or the series of his future selves).

Dealings are greatly facilitated by meaningful seals of approval, but seals of approval are costly to generate. The problem in the free-flowing social order is that, unlike in the merchant's case, dealings are *not* neatly characterized or regularly repeated through time. It is not easy even to specify what type of behavior constitutes "good conduct." It is very difficult for someone engaged in a series of irregular or individuated dealings, to develop a simple reputation for good conduct, because good conduct in each individual case may be defined differently. An individual's propensity for good conduct is then difficult to establish and convey.

In order to judge morally the conduct of the individual, one must have detailed knowledge of it. One must know the particular circumstances of his dealings and his behavior in those circumstances. To attain a true sense of his character, one probably needs some personal contact with him.

But as Adam Smith says, one's "whole life is scarce sufficient to gain the friendship of a few persons." One cannot come to know personally everyone one may wish to have social dealings with. Therefore, when A cannot get a reading of the character of B, his most likely course of action is simply not to deal with him. But while this is the safe course for A, it is an unfortunate one for both A and B in the event that B is trustworthy.

It is here that Weber's hint about seals of approval may prove so helpful. Mr. B may realize that A—or any number of other potential trading partners in a series of future opportunities—does not have the time to get to know B, so B will value and seek inclusion in a social group on the conditions that the social group:

(1) is familiar with his activities and may competently judge his character;

(2) makes their assessment of his character publicly available; and

(3) is recognized outside the group for making reliable assessments of character.

If B can win the approval of such a group, he will then enjoy easier intercourse with all who recognize the group's seal of approval. In a sense, society in this scheme is engaging in a division of labor whereby the group specializes in learning B's character, and then through various means serves B (and other new members) by conferring and conveying seals of approval.

This simple model portrays groups as sects with formal membership, somewhat like the Baptists in Weber's anecdote. Yet the underlying logic operates in much looser forms. Each of us belongs to a variety of groups—family, workplace, neighborhood, circle of friends, and so on. The groups are of fluctuating shapes—their boundary lines are dashed rather than solid. And they do not issue official seals of approval. But nonetheless the members of each of these groups have a window on our dealings and an ability to judge our character. A reputational nexus among our associates works to paint a portrait of our character. Sally Merry (1984, 279) examines the role of gossip in forming “cognitive maps of social identities and reputations.”

Our belonging to a variety of social groups, then, can serve our interests in obtaining entrée to various *other* trading opportunities. Mr. B knows that potential associates like Mr. A will ask trusted figures for various signs of approval, such as letters of recommendation. Becoming favored by trusted figures will then come to be recognized as a feather in one's cap. Neophytes contending for the favor of prominent trusted figures might begin to look jealously on obtaining their approval even without a certain understanding of how such approval might serve them.

The reputational mechanism of group membership gives us a more optimistic view of voluntary interaction in a great society. A great society can be seen as a flowing *patchwork* of reputational nexuses, and civil society as a system of seals of approval (Hardin 1982; Chong 1992). When an available trading opportunity is truly anonymous, we might simply forgo it in favor of a more familiar opportunity. Alternatively, we might inquire about social “seals of approval” that our prospective trading partner can show. Again, we cannot come to know many details of his past doings, but we can recognize the trusted assessments of others who do know such details.

As for our own conduct, even though we may expect never to meet this particular fellow again, we are concerned that word of any misdeeds on our part might return to the reputational communities to which we belong. Because word of our misconduct might return to our associates, we might suffer in dealings with them and with others who rely on their judgment. Gossip follows us home, and we may well decide to cooperate with perfect strangers.

## **Synthesizing the Pieces from Adam Smith**

The view of society as a flowing patchwork of reputational nexuses permits us to bridge the two kinds of reasoning represented in Adam Smith’s writings. On the one hand Smith tells of the repeated dealings of the merchant and the reputational incentives, based squarely on self-interest, that such dealings generate. On the other hand he talks of merchants bringing probity and punctuality “into fashion.” This looser line of reasoning receives larger elaboration in *The Theory of Moral Sentiments*, where Smith maintains that the yearning for approbation is endowed by Nature (*TMS*, 22, 34, 37, 71, 77, 85–91, 116) and that the contours of this instinct are influenced by custom and fashion. We wish to depart from Smith’s explicit ontology of norms based on Nature and substitute for it Smith’s own remarks on repeated interaction. We propose that our yearning for approbation can to some extent be viewed as socially learned and developed within

the framework of the reputational patchwork. Moral sentiments are in part grounded on an extension of the simple principle of reputation that Smith described for the Dutch merchants.

As the sociologist Erving Goffman says (1959, 1971), we heed and internalize others' judgments of us precisely because we need to learn the nature of the "games" we are playing. We need to learn what is recognized as "good" and "bad" behavior. In situations that are unique or irregular, we try to infer what appropriate behavior is by finding likenesses to other, more familiar, situations. To validate our idea of what constitutes propriety in our current situation, we look to the reactions of our trading partners. If we find that they are surprised by our reading of the situation, or appalled by our behavior, we realize that perhaps we are in violation of good behavior. We explore by means of speech, gesture, and expression, and interpret by means of conversation. Even in the business of commercial credit reporting, says J. Wilson Newman (1956, 93), "there is always the human equation, and it outweighs the financial and statistical in [the Dun & Bradstreet reporter's] task of presenting a rounded picture of the man and his business." Knower institutions of many kinds not only handle information but also serve the function of interpreting the "games" and judging behavior in them.

The responses we receive, particularly in conversation, are moral guides as to how to conceive good behavior in the situations we face. Again, as we find ourselves the targets of disapprobation, we do not necessarily think through the reputational incentives of the matter. Instead, our internal sensation might be simply that of emotional response, but it is a response whose social evolution is based on reputational incentives (*TMS*, 13–14).

As we discover how others perceive our behavior and how information about our behavior travels, we allow how others' perceptions modify our behavior. We nonetheless have a choice as to which kind of behavior to follow and therefore what kind of reputation to make for ourselves. There is always room for self-determination within the framework.

Furthermore, we may rise up to alter the framework. We



might manage to establish that when others deal with us they are playing a new or distinct game. We might remake the very terms for deciding good and bad behavior. Thus, besides making our own reputation and, to an extent, character, we may create the very terms for defining them. There is room then not only for self-determination but also for self-definition. In society, individuals' reputations for such things as punctuality and probity bubble up, but also the very terms of morality and decency are being shaped by a process of decentralized activity, a process with a benign selection mechanism: in a voluntaristic society, if your games or your behavior in them do not satisfy others, they will elect not to play.

The social patchwork idea points to cultural norms as part and parcel of an evolutionary process built on concerns over reputation, character, and seals of approval. As A.L. Macfie (1967, 87f) has explained, Smith's theory of moral sentiments, notably the "Impartial Spectator," grows from instincts like sympathy and yearning for approbation, combined with the learning of appropriate behavior, a learning shaped by the specific contextual influences of approbation, disapprobation, custom, and fashion. Even personal honor relies on a social "looking glass": "We suppose ourselves the spectators of our own behaviour, and endeavor to imagine what effect it would, in this light, produce upon us" (*TMS*, 112).

All these moral events can be understood as components of the social process of defining "games" or situations and of judging the reputations and characters of players in those games—even one's own—somewhat like the simpler reputational process of Smith's Dutch merchants. Our reading of Smith is that, although he eschewed a grounding for sympathy and for the yearning for approbation in prudential considerations (see *TMS*, 13–14, 85–91), instead attributing them to "Nature's" endowment, *The Theory of Moral Sentiments* is otherwise highly compatible with the view that moral sentiments belong to a broad evolutionary process based on individuals' interest in securing good favor and cooperation, by maintaining reputation and character.

## Sketches of an Optimistic Solution

Customs grow out of social processes whose details are highly individuated in regards to the type of activity, the individuals involved, their reputational pedigree, the knowledge they have about each other, and so on. Viewing cultural evolution as deeply and densely rooted process may make one doubt the wisdom of government attempts to fine tune, guide, or supplant it. It is highly unlikely that the blunt instruments of government will be suited to cultivating the growth of delicate, teeming, unique interactions.

If anything, our patchwork idea suggests that social institutions should be as thoroughly rooted in free individual choice as can possibly be managed. It is by free individual choice that the integrity and refinement of seals of approval are made possible. The refined reputational nexuses of bottom-up voluntary institutions generate the most *meaningful* seals of approval, and with them the most meaningful personal identities. The invisible hand reaches beyond the economic realm.

A good example is schooling. When children in a community are all assigned to the local government school, there is clearly little meaning to the fact that a child attends that school. The issue here is not just one of a meaningful ranking of levels of ability but of the differentiation and refinement of qualities, the enrichment of the range of characters found in society. A child's belonging to the student body of a government school does not reflect and communicate choices made by the child's parents or by the administrators of the school or by the child herself. Without choice, the belonging lacks meaning.

The government school itself does not grow out of the efforts of local individuals who voluntarily came together to establish a school that would reflect their values. As James Coleman and Thomas Hoffer (1987) put it, the government school, in contrast to the private Catholic school, does not build from either a "value community" or a "functional community." The anomie of the pupil in the public school classroom is not the

result of the forces of individual liberty, but rather the result of usurpations of that principle.

One can argue, then, that communal bonds are needed to nurture good conduct in a great society, but that these bonds are best promoted by leaving local associations—commercial and otherwise—free to answer the needs of individuals. Citing Adam Smith on the benefits of religious competition, economist Laurence Iannaccone (1998) suggests that the comparative vibrancy of the church sector in the United States owes much to the *laissez-faire* policy in the sector (see also Iannaccone, Finke, and Stark 1997).

Another institution with under-realized communal potential is the workplace, where reputational nexus is already rich. In a world of fewer regulations and lower taxes, one might see more fluid crossover at the workplace between the economic and the social. The firm represents a stock of social capital, which, under a more voluntaristic regime, could more easily adapt to serve community goals like education, prayer, culture, charity, recreation, and conviviality.

## **Will Relations Become Functionally Fragmented? Will Identity and Community Dissolve?**

A critic might press that seals of approval based on social groups operate at the expense of privacy and that this is a significant disadvantage to involvement in a social group. After all, the man who wants to open a bank may not wish to be a Baptist. He may hate singing hymns, and not even be a religious believer. Further, he may well think—and be correct in thinking—that his liking an occasional drink, and his sexual morals, have nothing to do with his probity in his financial dealings. He may resent the way in which all these things are bundled together by the sect. In response to the privacy problem, our critic could argue, institutions arise that offer alternatives. A trade-off between privacy and approval might be met by technology and highly specialized institutions. The modern credit

card offers the modern analog to the Baptist certificate from his congregation. In a large and anonymous society such as the United States, many people carry credit cards, which speak for them to people with whom they have had no previous contact and may well never be in contact again. The sect's enquiries into the would-be member's probity are paralleled by the credit card company's scrutiny of the would-be cardholder's credit record. And since the holders of credit cards know full well that what the company giveth may also be taken away, their behavior is influenced accordingly. Indeed, a variety of neat and specialized institutions provide a basis for trust without treading much on privacy. This is certainly the way in which our own society has been developing.

Our critic might also see flight from the voluntary social group because its moral functions continue to face decreasing reinforcement by its role in providing conviviality. In days when there was nothing else to do, after work, than talk with one's family and immediate friends and neighbors, a meeting at a lodge or club may have seemed very appealing. The advent of radio, television, cable, and the VCR, means that the opportunity cost of such activities becomes much higher. And if commercial organizations can offer one insurance, and so on, instead, does not self-interest press towards dropping all of the older forms of association?

Our critic would say that therefore the patchwork solution is, in reality, not going to take the form of interwoven social groups, clubs and civic organizations. Rather, in the competition between seal-of-approval providers, highly specialized and impersonal institutions will win out, and this leads us back into our problem of moral decline. People will respond to institutions that are functionally specialized with behavior that is morally specialized. They will keep their accounts solvent, pay their bills and taxes diligently, keep up their commercial reputation, and live comfortably within the bounds of the law, but they will not adopt a broader kind of civic virtue. They will not contribute to the solution of local problems, they will not take an interest in those suffering misfortune, and they may not even be disposed

to show common decency to strangers who are fairly certain to pose no threat to their reputations.

Thus our critic could argue that, while it is good to get away from Mrs. Grundy, there is a sense in which our integrity and identity as people, rather than as bundles of self-selected functions, may depend upon our keeping institutions from becoming too functionally fragmented. There is a sense in which a person who goes to an efficient but anonymous buffet-style restaurant to eat, and to a singles bar for companionship, may be meeting his needs efficiently. But there is another sense in which something important is lost. One may similarly regret the passing of the plethora of voluntary associations, each with its specific identity and kinds of (at times doubtless burdensome) accountability, through which provision was once made for people's welfare and insurance needs (Beito 1990, Green 1993).

Accordingly, even if Smith's specific problem with the disadvantages of spontaneous solutions to problems of anomie can be solved, a wider issue concerning the maintenance of our social and moral identity in a commercial society may still remain. American Express's sense of "membership" is, clearly, not enough to solve *this* problem. We will conclude by suggesting a possible line of response.

## **Final Remarks in an Optimistic Vein**

In the account that we gave of Smith's views concerning the economy, we mentioned the role that prices play in helping us make use of dispersed local knowledge. But the price system is not the only way in which local knowledge can be utilized. Social networks also play an important role in commercial societies. The very links that people build in pursuing their ordinary business may also serve as means for the transmission of information. Each of us has more knowledge than he or she can articulate, knowledge that goes well beyond what may be communicated by a credit record, a trademark, an educational degree, or a professional certificate. These institutional emblems may be said to certify the quality of *specified deliverables* (whether goods or

services). But if we belong to a reputational nexus that operates on more than a narrowly functional basis, we can often call upon other members to cooperate in a more open-ended fashion, and to look out for our interest in ways not specified in advance. Our friends or colleagues understand us and enjoy our company, and hence easily share their information and judgment. If good judgment requires searching, even highly personal, conversation to help us formulate relevant alternatives, a computer file will not substitute for a friend.

We can, then, suggest an answer to our critic's concerns. The sheer functional specialization of, say, American Express means that its "membership" means nothing more than that one has a certain kind of credit rating: one has no further call upon another "member" than to know that American Express will honor their credit card slips. But membership in a sect or in an extended family, a club or an association, or in that two-member club called friendship, will typically mean that one can call on those with whom one is associated for support in a variety of circumstances. While the scope of such support is limited by the form that the association takes, its character does not—and is valuable just because it does not—have to be specified in advance. (There is a parallel here to Ronald Coase's argument (1937) for collecting some activities within the firm.) Such relations and institutions seem to become valuable as people become more mobile.

If there is anything in this, it would suggest that there is a knowledge argument against the idea that narrow functional specialization can be expected to destroy all wider forms of association. There would thus seem good reason to suppose that those kinds of informal organization that are important for the formation and maintenance of a person's character can survive competition with more narrowly commercial institutions. For it would seem difficult for a commercially based organization to offer the same kind of open-ended services.

This is not to say that morally significant communities must take traditional forms. We tend to perceive the advancements of wealth, mobility, and technology as running counter to the sus-

tainment of community, and to some extent they do. But to some extent they merely disguise community. By virtue of the easier intercourse that these advancements make possible, morally significant community no longer means local, face-to-face interaction. The electronic revolution is leading us to rethink what we mean by community.

There are trade-offs between commerce and communitarianism, between privacy and seals of approval, and between reputational specialization and a moral basis for life. The inescapability of these trade-offs certainly puts bounds on our optimism, but as concerns practical public policy, our sentiments remain libertarian. Just as in economic matters, the various trade-offs here involve preferences, opportunities, and constraints that are individuated in minute detail and belong to change and discovery. Each individual is bound to struggle with his or her particular troubles, but it is hard for the present authors to see how government policy or government institutions, like schools, can improve on the arrangement of having individuals decide the nature of these associations for themselves, based on their own personal knowledge of particular circumstances. Adam Smith's arguments for "natural liberty" might apply to social and moral affairs to a larger degree than he himself believed.

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