

COMMERCIAL SOCIETY AFTER MODERNISM

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Ealy and Ealy detail the ways in which twentieth-century philanthropy was inspired by the Progressivist Era's distinctive "faith in the power of reason and an equally strong faith in science and technical expertise." One anchor of the Progressivist faith was the myth of the state as an efficient organ of social engineering, a "centralized, rationalized, professional administration of civil servants" (2006, 36). This view of the state as a machine-like system, capable of dispensing resources in a fair and efficient manner, was mirrored in the heroic self-image of large philanthropic foundations who sought to employ modern social science to cure entrenched societal problems. As governments and foundations came to be regarded as efficient alternatives to direct citizen action, energy and responsibility flowed "away from more primary, local, and voluntary institutions to those more centralized, professionalized, and tax-supported" (35).

In this essay, I explore a related myth that continues to vitiate the urgency and efficacy of philanthropic action, namely: the myth of the economy as machine-like provisioning system. I trace this myth to the high modernist period in twentieth-century economic theory, in the decades following World War II, when reified images of the economy as a clockwork system became ingrained in popular and academic discourses (Scott 1998; Mirowski 1989, 2001; Nelson 2006). I also outline a strategy for dispelling this myth and for stimulating wider conversations about the liberal ends and means of voluntary cooperation—conversations already underway across and beyond the academy, through which the humane potential for bottom-up, entrepreneurial philanthropy is increasingly finding a home in twenty-first century renderings of Adam Smith's commercial society.

Economists' Enduring "Adam Smith Problem"

Since the official end of the Cold War two decades ago, economists across the ideological spectrum have advanced broader visions of human behavior and social

cooperation. This diverse movement has included, among others, experimental economists (Smith 1998), behavioral economists (Meier 2006), social economists (van Staveren 2001; Davis 2003), development economists (Sen 1999), feminist economists (Folbre 2001; Nelson 2006), post-Marxist economists (Elster 1990; Gintis et al. 2005), classical liberal economists (McCloskey 2006; Storr 2008; Chamlee-Wright 2010), and historians of economic thought (Young 1997; Rothschild 2001; Fleischacker 2004; Evensky 2005). As a group, these thinkers have endeavored to re-inscribe Adam Smith's invisible hand concept within complex analytic structures that resist standard reductions of the economy to market exchange or human behavior to narrow self-interest (Garnett et al. 2009).

Unfortunately, only a handful of these scholars (van Staveren, Nelson, and Chamlee-Wright among them) have paid serious attention to philanthropy: "voluntary giving and association that serves to promote human flourishing" (Ealy 2005, 2). To a remarkable extent, they have followed the lead of Adam Smith himself, who "did not give private benevolence associations much of a role in solving social problems" (Fleischacker 2004, 275). Even authors who emphasize the economic importance of family and community, or the "civic ethics that are consistent with the freedoms of a liberal society" (Evensky 2005, 277) make no reference to philanthropic institutions or processes per se.

The pervasive neglect of philanthropy in economic theories of commercial society is the mark of an enduring "Adam Smith Problem" (ASP). In its classical form (Oncken 1897), the ASP refers to the alleged discontinuity in Smith's two major works (Smith 1976a [1759] and 1976b [1776]): "the hypothesis that the moral philosopher who made sympathy the basis for social behavior in the *Theory of Moral Sentiments* did an about-turn from altruistic to egoistic theory in the *Wealth of Nations*" (Raphael and Macfie 1976, 20). This classic ASP is no longer regarded as a significant problem by most Smith scholars, since many subscribe to expansive conceptions of Smithian "self-interest" whose breadth loosens or dissolves the bipolarity of self-interest and sympathy.

The ASP that endures today, what I describe as the modernist ASP, is an institutional schism: a "separate spheres" model of economic life in which commerce and philanthropy—or, more generally, impersonal *Gesellschaft* and face-to-face *Gemeinschaft* (Tönnies 1887)—are treated as separate and antithetical worlds. "The economy," so to speak, is reduced to commerce only. Much as the original Adam Smith Problem arose from a monist view of the individual as

narrowly self-interested, so the modernist ASP presupposes a monist economy that is narrowly commercial and also bountiful, able to serve as the principal provider of wealth and well-being in society.

This line of economic thinking did not originate in the twentieth century but ascended to new heights after the Second World War. American economists emerged from World War II “covered in glory” (Morgan and Rutherford 1998, 13), having solved many wartime policy problems with their newly acquired mathematical and statistical expertise (Sent 2006, 83; Morgan and Rutherford 1998, 9-11). Inspired by the rise of national income accounting, mathematical control theory, and the economic theory of “general equilibrium,” professional economists in the 1940s and 50s promulgated a vision of the national economy as a programmable, engineerable system. This idea was grounded at the highest levels of theory in the reduction of the economic sphere to commerce (economics as the science of exchange) and the further reduction of commerce to the clean, tidy world of generic rational agents and efficient markets.

This general equilibrium model of economy was embraced by conservative and liberal economists alike. Chicago School formulations emphasized its verisimilitude to the real world, a world perceived to be populated by highly rational agents and highly competitive markets. MIT and Harvard economists used the general equilibrium ideal as a yardstick to measure the imperfections of real-world economies and to justify government interventions to correct these imperfections (Garnett and Butler 2003). Either way, the modernist economy—whether regulated or unregulated—was seen as the generative core of economic life (potent, efficient, systemic), in contrast to charity and other forms of philanthropic giving which were regarded as outmoded, inefficient, and ad hoc.

The notion of commerce and philanthropy as separate spheres seems to have been assisted by the modern separation of male and female domains (Coontz 2005, 146, 155-56; McCloskey 2006, 254-55; Nelson 2006, 33-37; Pallotta 2008, 28-30). As Stephanie Coontz argues in her history of the modern family, the eighteenth century was marked by a growing “sense that men and women lived in different spheres, with the man’s sphere divorced from domesticity and the woman’s divorced from the ‘economy’” and by a parallel segregation of motives and behaviors: commercial spaces occupied by “rational and active” men; and households occupied by “humanitarian and compassionate” women (2005, 155-56). The husband was the family’s economic motor,” Coontz writes, “and the wife its sentimental core” (146).

Even today, our common-sense view of the for-profit sector as “dominant over charity” is laced with gender-laden assumptions (Pallotta 2008, 30). These premises are embedded in familiar notions such as “charities cannot take chances,” “[charities] cannot have the same level of compensation as business,” “[charities] must be supervised and measured by their efficiency,” and “we must always be on the lookout for how [charities] spend our money” (30). Hence the economic role and status of philanthropy remains analogous to Simone de Beauvoir’s “second sex”: a separate and secondary form of economic cooperation.

F. A. Hayek’s “Adam Smith Problem”

The economist and philosopher F.A. Hayek holds a unique place in this discussion. Hayek was a vocal supporter of voluntary association and philanthropic giving outside the commercial sphere (Hayek 1979, 186, 51) who devoted his career to attacking and recasting the modernist presuppositions of twentieth-century economic science (Burczak 1994, 2006). Yet in important senses he too was a modernist, by virtue of his “belief in science” (Caldwell 2005, 260) and his monist, markets-only view of Adam Smith’s Great Society of Mankind (Smith 1976a [1759]). Hayek’s thinking on philanthropy was thus confounded by conflicting commitments (Garnett 2008): his admiration of voluntary and philanthropic associations as a Tocquevillian alternative to the welfare state (Hayek 1979, 50-51) vs. his devotion to a modernist notion of economy as a unified field, governed by a single self-organizing principle (Hayek 1988).

The latter prong of Hayek’s dilemma was difficult for him to soften or rethink since it was rooted in the theoretical positions he adopted as a leader of the Mont Pèlerin Society, a post-WWII movement to promote classical liberalism as a positive alternative to statism (Mirowski and Plehwe 2009). Chief among the Society’s priorities was the formulation of a robust and comprehensive economic theory. Socialist economists had envisioned central planning as the modern solution to humankind’s economic problem. So Hayek and his radical cohort aspired to defeat the socialists on their own terms—to set forth an economic vision that would supersede their enemy’s vision in scope, analytic rigor, and rhetorical force.

Hayek’s dogged opposition to socialism led him to take particular exception to Aristotle’s ethics and economics. Hayek saw modern socialism as a tragic misapplication of Aristotle’s concept of economy (*oikos*): a face-to-face community in which order arises as “the result of deliberate organization of

individual action by an ordering mind . . . and only in a place small enough for everyone to hear the herald's cry, a place which could easily be surveyed" (Hayek 1988, 11, 45-47). He argues that the Aristotelian-cum-socialist injunction "to restrict our actions to the deliberate pursuit of known and observable beneficial ends" (80) is a tribal morality, a set of norms "which are essential to the cohesion of the small group but which are irreconcilable with the order, the productivity, and the peace of a great society of free men" (1978, 66). Hayek famously declares that "An order in which everyone treated his neighbor as himself would be one where comparatively few could be fruitful and multiply" (1988, 13). He therefore urges modern humanitarians to devote fewer resources to charity and more to commerce—to "earning a living"—since the latter will provide "a greater benefit to the community than most direct 'altruistic' action" (19). So even though Hayek did not set out to denigrate philanthropy, he became deeply invested in a view of the "extended order of human cooperation" (xi, 6) in which philanthropy and civil society were pushed to the margins as vestiges of pre-modernity.

To link these ideas more directly to contemporary philanthropy, consider Hayek's indictment of corporate philanthropy—an argument that echoes Milton Friedman's dictum that "the social responsibility of business is to increase its profits" (1970). Hayek opposes "socially responsible" giving by publicly held corporations, not because he is averse to managerial beneficence but because its disconnection from shareholder oversight and from the epistemic guidance of market processes renders it ethically and economically problematic. Economically, Hayek argues that corporate managers lack the knowledge to effectively allocate resources to social endeavors "for which proven abilities to use resources efficiently in production does not necessarily confer special competence" (1967 [1960], 311). As Friedman explains:

Suppose a business wants to do charity. What is it that gives it any special ability to do charity properly? The XYZ Company, in addition to producing XYZ trucks, also wants to be socially responsible and so it does what it thinks is charity. What is its special capacity for that? It may know how to make trucks, but does it know the right way to spend charitable money (2006)?

Because philanthropy is largely unchecked by market forces, managers' pursuits of "what they regard as socially desirable purposes" (Hayek 1967 [1960], 304) may transform corporations into "self-willed and possibly irresponsible empires, aggregates of enormous and largely uncontrollable power" (311).

In addition to knowledge problems and efficiency concerns, Hayek objects to managers' unlawful redirection of shareholder resources to their own ends, an act he regards as tantamount to theft (301). He also registers grave concern about the potential for corporate philanthropy to pave a slippery political slope to socialism. "Their power to do good according to their own judgment is bound to be merely a transitory stage. The price they would soon have to pay for this short-lived freedom will be that they will have to take instructions from the political authority which is supposed to represent the public interest" (312).

The logical implication of the Friedman/Hayek view is that philanthropic ends are better served by the commercial machine than by individual acts of caring and sharing. To well-meaning donors or volunteers, they seem to say: "If you really want to help others, then recognize your comparative disadvantage and keep your resources to the marketplace or redirect them to philanthropic professionals." Such a perspective may be inspiring to the preacher or student of free-market principles, but for other audiences it is likely to suppress the imagination and appetite for philanthropic action.

Hayek's de facto commitment to a markets-only view of the Smithian Great Society imposed significant constraints on his liberal vision (cf. Dobuzinskis 2008). Had his economic philosophy been less rigidly bound by the commerce/philanthropy dualism, he might have chosen to develop a co-articulated theory of civil and commercial society. James Buchanan agrees:

To secure freedom from the collective . . . was, properly, the predominant objective for the post-Marxist classical liberal. It is not surprising that the rejection of collectivism . . . should have involved a complementary neglect of and appreciation for the communitarian elements in a well-functioning social order informed by liberal value norms (2005, 78).

Rethinking Commercial Society: A View Beyond Modernism

In the early 1960s, as the ideological intensity of Mont Pèlerin post-Marxism began to subside, Richard Cornuelle (1993 [1965]) revisited the communitarian lacuna in Hayekian liberalism, reasserting the role of the "independent sector" as an integral element in a well-functioning liberal order. As we sit today, just one generation removed from the ideological battlegrounds of the Cold War, many are rediscovering the wisdom of Cornuelle's quest for "an alternative path to the good

society other than those of the doctrinaire conservatives or the dogmatic liberals of the Cold War era” (Ealy 2002; cf. Cornuelle 1993 [1965], 3-19) and are taking up Don Lavoie’s challenge to the “more liberal elements of the left and right sides of the old political spectrum to transcend the confines of these obsolete ideologies and work together to articulate a new vision of the free society” (1994, 283). New waves of thinkers are beginning to answer these challenges by interweaving classical, modern, and postmodern strands of the liberal tradition—moving beyond the dualisms of commerce/philanthropy, Smith/Aristotle, and negative liberty/positive liberty—to fashion fresh visions of commercial society as “a free society that leads to and depends upon flourishing human lives of virtue” (McCloskey 2006, 497).

Many now agree that the mythical separation of commerce and philanthropy limits our ability to understand and improve the humane ecology of commercial societies. To dispel the myth, it will be necessary to develop cogent, pluralistic conceptions of economic life, particularly the plurality of human motivations and institutional processes that characterize every real-world economy.

Though the subject for a separate paper, it would certainly be worthwhile to probe Adam Smith’s own reasons for not theorizing philanthropy as an important means of promoting human welfare in modern society. This silence is commonly seen as a side-effect of Smith’s focus on the unintended “philanthropy” of commercial relations, as suggested by his well-known ode to the butcher, brewer, and baker in chapter two of the *Wealth of Nations* (1976b [1776], 27). Birch (1998) argues, for example, that Smith expected the need for charity to wither away as commercial societies grew more prosperous. Others have noted the philosophical difficulty of reconciling the inherent inequality of the giver-recipient relationship with the classical liberal emphasis on abstract equality (Turner 2009). Along the same line, Morse (2003) laments the classical liberal tendency to exclude “legitimately dependent persons” from our visions of commercial society. A more thorough examination of philanthropy’s Adam Smith Problem would address these questions in tandem with the issues of philosophical modernism with which the current discussion is concerned.

Nevertheless, Smith’s ideas provide a rich starting point for our rethinking of commercial society. Smith’s commercial society, defined in chapter five of *The Wealth of Nations* as a social order in which “every man . . . lives by exchanging” (1976b [1776], 37) is ostensibly nothing more than a market economy. However,

if we refract Smith's definition through his larger oeuvre, the notion of "exchanging" would have to be expanded to include multiple modes of reciprocity, market and non-market, through which individuals give and receive the means to create a flourishing life. Here too, Buchanan agrees. "The normative ideal [of classical liberalism] is not laissez-faire without qualifying adjectives," he argues. "The normative ideal must include *reciprocity*" (2005, 84, original emphasis). This expanded vision of exchange and commercial society implies an equally expansive view of the Smithian invisible hand, as a metaphorical shorthand for the complex process whereby our human capacity to "treat strangers as though they were honorary relatives or friends" (Seabright 2004) gives rise to unplanned moral, economic, and social order.

Hayek opens the door to this broader economic vision. He limits his conception of economic order to commerce but takes special care to highlight the ethical face of the market process. Hayek describes the market order as a *catallaxy*, in part because the latter's Greek root (*katalattein* or *katalassein*) means not only "to exchange" but "to receive into the community" and "to turn from enemy into friend" (Hayek 1988, 112). In this cosmopolitan vein, Hayek stresses the moral consequences of the invisible hand:

The morals of the market do lead us to benefit others, not by our intending to do so, but by making us act in a manner which, nonetheless, will have just that effect (81).

However, Hayek never challenged the market-centered definition of economic science that prevailed for much of the twentieth century. He was therefore unable to integrate philanthropy into his fundamental theory of the invisible hand. Like most twentieth-century economists, Hayek was faithful to Adam Smith's nominal separation of economics from moral and social theory. Yet he failed to exploit the intellectual possibilities inherent in the overlay of Smith's two famous books, viz., the view of many Smith scholars that the *Theory of Moral Sentiments* (*TMS*) is the "motivating center" of Smith's thought while the *Wealth of Nations* is but a special case of the general theory of social cooperation outlined in *TMS* (Evensky 2005, 20; see also Macfie 1967 and Fleischacker 2004). Had they attempted a more radical reformulation of economics as moral philosophy, they might have advocated a Smithian science of reciprocity, i.e., exchange broadly defined.

As we seek to advance this Smithian science today, a necessary first step is to undo the modernist separation of economic science from economic

anthropology—to recognize that a market-based economy is characterized by the very “pre-modern” qualities commonly ascribed to gift economies such as thick sociality, complex networks of interlocking obligations, and temporal separations of outlay and return.

Colin Danby elegantly outlines the logic and importance of this deconstructive project (2002). Danby argues that the familiar gift/commerce dichotomy presupposes a modernist, neoclassical model of market exchange. In standard versions of this model, market transactions are conceived as fleeting and impersonal, as “spot transactions in which one thing is instantaneously swapped for something else by transactors who may never meet again.” Anthropologists tacitly accept this model, Danby contends, when they define gift exchange as the mirror image of neoclassical exchange: reciprocal transactions that occur over time between parties who share an ongoing relationship (15).

Danby attacks this gift/market dichotomy at two levels. First, he situates it within a larger philosophical and historical context. He writes:

The problem with the gift/exchange dichotomy goes deeper than its notion of exchange.... It is an expression of an underlying a priori dichotomy between non-modern and modern, or non-West and West. . . . The non-modern in this pairing is a shaggy periphery, a detritus category of all that does not fit the imagined modern. It represents what the modern lacks, what the modern is leaving behind, what the modern will inevitably overcome. The essential assumption . . . is that there exists an underlying modern or Western social topos (field), unified, bounded, and possessing inherent characteristics, which can be analytically separated from one or more non-modern or non-Western social topoi. This self-congratulatory idea can be expressed through space (West/East, North/South, First World/Third World), time (advanced/backward, late/early, progressive/traditional), and other pairings too numerous to list (2002, 14).

Second, Danby points to multiple traditions of economic thought which challenge the neoclassical reduction of economic life to atemporal, asocial exchange. For example, Post Keynesian, Austrian, Institutional, and Marxian theories all emphasize the “through-time organization of material life” (14)—the diachronic and socially embedded nature of all economic processes, including exchange. In Post Keynesian models, for instance, the typical transaction is the

“*forward* transaction, by virtue of which the parties involved are likely to have an institutional or embedded relationship” (15, original emphasis). Conversely, we can no longer regard “either a delayed return, or difficulty in assessing the value of that delayed return, [as] special characteristics of ‘the gift’” once we reconceptualize market exchange outside the modernist frame (32).

Danby’s deconstructive analysis is directly germane to the philanthropy/commerce dualism at issue in this essay. Danby’s view of the latter would be that economists have yet to understand philanthropy and commerce on their own terms inasmuch as we continue to see both through reductive lenses: commerce as a robust self-organizing system and philanthropy as its good-hearted but undisciplined and hence ineffectual subsidiary.

While it is beyond the scope of this essay to explore the positive possibilities of the post-colonial economic anthropology adumbrated by Danby’s analysis, its conceptual structure would be thoroughly pluralistic. No part of the economy would be conceived as inherently “commercial” or “philanthropic.” The general presumption would be that every aspect of the economy is composed of commercial and philanthropic elements. Characteristics previously ascribed to markets or philanthropy exclusively would now be seen as general features of each, e.g., calculation (Boettke and Prychitko 2004; Chamlee-Wright 2004), reciprocity (mutual giving and learning), self-interest, benevolence, large-scale cooperation via adherence to abstract rules (Lewis 2009), knowledge problems, intended and unintended consequences, integration and disintegration of individual identities and communities, and so on. Such a hybridized ontology would allow economists to produce more nuanced understandings of economic phenomena, such as “for-profit social ventures and entrepreneurial nonprofits” (Fulton and Blau 2005, 15, 28; see also Strong 2009) or the fascinating studies of human cooperation emerging from leading edges of network theory (Benkler 2006; Lessig 2008), evolutionary biology and psychology (Gintis et al. 2005), post-Maussian gift theory (Godbout 1998; Vandevelde 2000), and Hayekian social capital theory (Chamlee-Wright 2004, 2005, 2008, 2010; Lewis 2008; Lewis and Chamlee-Wright 2008; Chamlee-Wright and Myers 2008).

Conclusion

The nature and reach of Adam Smith’s invisible hand is better understood by economic theories that recognize philanthropy as an integral dimension of human society. By setting aside the reductive antinomies of modernism, economists are

better equipped to acknowledge the multiple dimensions of individual freedom: not just the negative freedom from coercion but the positive capacity to pursue the good life as one defines it, e.g., the freedom “to experience meaningful personal engagement in community life” (Ealy 2005, 4). They are better able to see philanthropy as an additional nexus of liberality and learning through which individuals can work together, on local and extended scales, to address “complex modern problems” (Cornuelle 1993 [1965], 62). A turn away from economic modernism is also an opportunity for economists to redefine their scientific domain in a broadly Smithian fashion, not just a commodity space but a pluralistic provisioning space comprised of multiple forms and scales of actions that enable individuals to secure “the cooperation and assistance of great multitudes” (Smith 1976b [1776], 26).

Proponents of the economy-as-commercial-machine invisible hand may fear that their free-market arguments will be weakened if philanthropy is assigned a more prominent economic role. However, the purpose of re-valuing the philanthropic dimension of economic life is not to diminish the importance of markets but merely to de-center and de-essentialize them. As Boulding wisely observes, “The greatest threat to the exchange system is the claim that it can do everything. This leads to the equally absurd claim that it can do nothing” (1968, 45). McCloskey issues a similar warning with regard to the virtue of prudential self-interest, the greatest threat to which is the “separate spheres” premise “that homely *Gemeinschaft* is the exclusive site of virtue and that businesslike *Gesellschaft* is an ethical nullity” (2006, 254). A philanthropy-infused economics would strengthen academic and public understanding of self-interested action and markets by emphasizing their “benevolent and developmental qualities” (Boulding 1968, 44) and by relieving some of the moral, economic, and political burdens that would otherwise be borne by the commercial order alone.

On a personal level, the deconstruction of the economy-as-provider myth invites us to integrate our philanthropic and commercial selves rather than holding them apart, like male from female, as separate categories of being. It also invites us to claim a greater share of responsibility for our neighbors by surrendering the illusory tidiness of economic models in which moral duties beyond the family can safely be delegated to a faceless system, in the modern hope that the system will take care of it (of them, of us).

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