MARKET NON-NEUTRALITY:

SYSTEMIC BIAS IN SPONTANEOUS ORDERS

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ABSTRACT: *The market is sometimes thought to be a largely neutral means for coordinating cooperation among strangers under complex conditions because it is, as Hayek noted, a "spontaneous order. " But in fact the market actively shapes the kinds of values it rewards, as do other spontaneous orders. Recognizing these biases allows us to see how such orders impinge on one another and on other communities basic to human life, sometimes negatively. In this way we may come to acknowledge the inevitability of placing limits on spontaneous orders.*

The modern world is uniquely characterized by the enormous rise in influence of the abstract and anonymous liberal community over all other communities, human and natural alike. As I use the term, "communities" are distinguished by the different relationships fundamental to each. The liberal community is rooted in market relations sustained and modified by democratic political intervention. Its standard of truth is found in science, the chief source of the technology most people use every day. In all three of these domains-the market, democracy, and science the liberal community is characterized by the abstract procedural rules its members follow in pursuing their goals. These rules generate the market, democracy, and science by helping people who are largely unknown to each another to enter into extended cooperation for mutual benefit.

The rules of the market, democracy, and science are abstract in applying to the generically human, divorced from all personal qualities. Their abstraction enables an indefinitely large number of people and projects to be integrated into complex and coherent patterns of cooperation, despite universal ignorance of the concrete conditions prevailing among those with whom one interacts in market, democratic, and scientific contexts. That they integrate the unpredictable plans of mutual strangers is the reason these three liberal orders are rightfully considered "self-organizing" or "spontaneous." Their order is very real, but unplanned.

Libertarians, and classical liberals in general, defend the market order as the most successful institution for facilitating creative and voluntary exchanges among equals. In addition, they tend to argue that because any given distribution of resources within the market is the unintended result of countless individuals making voluntary transactions with one another, whatever pattern of distribution arises is beyond fundamental criticism. In a spontaneous order, just means cannot generate unjust ends. Consequently, as Hayek (1976) has argued, "social justice" is a meaningless concept when applied to the spontaneous order of the market. This article offers a *Hayekian* challenge to this Hayekian line of thought. Two considerations weigh against these defenses of the market. First, the market is not the only spontaneous order generated by liberal principles of equality of status, abstract procedural rules, and voluntary transactions operating under conditions of complexity. Different procedural rules among equals promote different kinds of cooperation. For different rules promote different values, hence different spontaneous orders.

Second, the liberal community tends progressively to subordinate other communities to its standards, at the cost of narrowing the range of values that can be easily manifested. Even within the liberal community, its constitutive spontaneous orders tend to intrude on one another, distorting the values each exemplifies. Some values are unintentionally given precedence over others, even within systems of action where their dominance is unwelcome. Because these patterns of influence are forseeable, they raise questions of social justice not at the level of

individual distribution, where Hayek's criticisms are valid, but at the systemic level, where they are not. 1

Varieties Of Spontaneous Order

Self-organizing social systems economize on the knowledge people need to pursue their goals successfully. Science, the market, and democracy are so complex that no human being can grasp them except by using a theory divorced from concrete details (Hayek 1969, 22-42*)*. Such a theory, however, can provide little or no guidance in making specific decisions within such an order. Few economists are successful entrepreneurs, few political scientists win public office, and few philosophers of science do valuable scientific research. The skills required to succeed within a spontaneous order are little connected to the skills needed to understand it.

As with all spontaneous social orders, the market promotes voluntary cooperation in pursuit of an indefinite number of independently chosen goals. The market is a discovery process encouraging people to cooperate in the pursuit of economic ends (Hayek 1978, 179-90). People acting within a framework of rules of private property, tort, and contract unintentionally generate an economic order; the wider the bundle of property rights, the wider the range of cooperative discovery that is made possible. The more secure the possession of such rights and the greater the certainty that agreements will be honored, the more exchange possibilities will be explored.

Similarly, procedural rules developed within the scientific community allow individual scientists' work to contribute to an unintentional overall order. Scientific rules, like those of the market, are applicable to all participants and are procedural in form, leaving to individual initiative how they are applied and leaving to the scientific community the outcome of their application. Again, cooperation in the pursuit of discovery is fostered, only in this case the goal is the discovery of scientifically verifiable truths (Polanyi 1969; Ziman 1968), not the discovery of efficient ways to satisfy economic demands.

In liberal democracy, freedom of speech and organization, and equality of the vote, generate a spontaneous political order. Like property rights, contract and tort law, and the principles of scientific method, democracy's rules are procedural and abstract. Freedom of speech and organization make it possible for the advocates of any cause to try to gain supporters. Equality of the vote ensures that successful political causes appeal to the perceived desires of more people than would be the case were votes not equally distributed. Liberal democracy encourages both the discovery of political goals and cooperation in their pursuit (diZerega 1989 and 1994).

The basic principle formally ordering human relations within all three of these spontaneous orders, which together make up the liberal community, is voluntary agreement among equals. The rules that generate the three spontaneous liberal orders require respect for individuals' autonomy. It is primarily in the context of individuals' agreements, in the number of people required for agreements to be productive, and in the nature of the issues over which agreement is sought, that the spontaneous orders of the market, democracy, and science differ from one another. 2

The ethical principle underlying these liberal orders is largely isomorphic with Jurgen Habermas's analysis of the value underlying language (Habermas 1979, 1-68). Like the market, science, and democracy, language is self-organizing. Its order arises from each speaker appropriating common abstract rules of grammar so as to communicate, for whatever purpose she or he envisions. Moreover, in democracy, the market, and science, individual interaction proceeds largely through speech or written communication. In these respects they constitute

contextually differentiated subsets of Habermas's more inclusive ideal speech community, and the values it exemplifies.

The only modification I would make to Habermas's basic argument is that his excessively egalitarian ideal of speech equality obscures the fact that knowledge is not and cannot be equally distributed. Knowledge as it exists in the scientific, market, and democratic orders must be discovered and tentatively validated through complex social processes. It is always incomplete and conjectural. 3 In other words, language is also a discovery process, facilitating our learning about one another, the world around us, and even ourselves. Under such circumstances equality of mutual influence is an absurd ethical ideal. A complex society where it could be attained is unimaginable. 4

The market, democracy, and science all maintain an ongoing institutional openness to unpredictable initiatives by unknown others (Hayek 1978; Polanyi 1954; diZerega 1988, 1991). Because of our fragmentary knowledge of the plans of others, we experience these orders as *impersonal.* Hayek has discussed the positive dimension of the impersonality that characterizes relationships within the abstract liberal community of strangers. When fewer demands are made upon us in order to cooperate, we find cooperation easier. The range of viable human projects increases. On balance, we all benefit from this increase in cooperative opportunities. The evidence is readily apparent. The incidence of famine, disease, and poverty has been brought to the lowest levels in thousands of years due to the growth of spontaneous liberal orders. Less remarked upon, but equally important, their impersonality helps explain why liberal democracies do not make war upon one another. They are the first form of organized political life where this has been the case, and their peaceful record is intimately connected to their self-organizing character (diZerega *1995c).*

However, there is more to human life than the liberal community of strangers; there are also families, face-to-face and reputational communities, and nature. Hayek himself was aware of some of these communities as necessary elements of any good society (Hayek 1976, 150-52). But I believe he underestimated the power of the liberal community to overwhelm them.

The Market as Non-Neutral

The market is the most fundamental spontaneous order in the liberal community. This is not only because we use material goods and human services in most or all of the communities in which we participate, but because the abundance and the characteristics of the goods and services available in the market powerfully influence the possibilities that can be pursued in the other spontaneous orders constituting the liberal community. Consequently, I will focus primarily upon the market order. However, broadly similar arguments can be developed for the social impact of science and liberal democracy.

The market is the most important facilitator of cooperation among producers of goods and services. These goods come from and often impinge upon the natural world, and also modify the broader social environment that sustains familial, face-to-face, and reputational communities. Libertarians and classical liberals are reluctant to criticize this feature of the market precisely because it is a spontaneous order. They tend to emphasize the fundamentally cooperative nature of the relationships that constitute the market order. Hence they view the market as essentially *neutral.* There is an important truth here. Critics of the market too rarely acknowledge its fundamentally cooperative character. 5 However, the classical liberal claim is overly broad, glossing over important circumstances in which it is not entirely true. The market would be

perfectly neutral only for beings whose values and preferences were unaffected by the environment in which they live. Such beings would not be human.

It is difficult to imagine a truly neutral tool for facilitating human cooperation. All actual cooperation takes place within a particular institutional context, and this context influences what cooperative opportunities will emerge. As contexts differ, the rules most able to facilitate cooperation within them will also change. The point is as true for self-organizing systems as it is for instrumental organizations, although the ways in which it is manifested differ profoundly.

For example, the context of a work environment and the context of a romantic date generate different principles of cooperation because they are enmeshed in different community relationships. One is largely a means to other ends and is often impersonal; the other is usually considered an end in itself and is highly personal. Cooperation between friends will be facilitated by different rules than will cooperation between members of an organization who are otherwise unknown to one another. Even among strangers, the likelihood of cooperation will be influenced by whether additional encounters are likely (Axelrod 1984). At a minimum, these circumstances imply the existence of scale effects.

The market injects the bias of the contextual rules that characterize it into the community at large. Since these rules are impersonal, abstract, and formally voluntary, they can produce institutions as different as a supermarket or a crafts fair. In both cases people come together in order to make mutually satisfactory exchanges. In both cases money assists in making those exchanges. Assuming the parties involved act on adequate information, in both instances people will consider themselves better off after the exchanges than before them. But even in these two instances, we can begin to see a scale effect that ultimately turns out to be quite important.

Many, perhaps most, people who go to a crafts fair are attracted in part by the opportunity to interact with the creators of what they might purchase. They want their shopping experience to have a personal dimension. I have often sold art at such fairs. A frequent question I encounter is, "Did you make this?" By contrast, going to a supermarket focuses customers' attention on convenience and price. As the personal dimension fades, transactions become more impersonal and instrumental in character. In such cases one usually does not care who made something, for this knowledge adds nothing to its value. One only wants efficiency: the best quality at the least expense. (Think of shopping at Costco.) Catalogs and electronic shopping are perhaps the ultimate forms of impersonal markets, diminishing human contact to nearly zero.

From a libertarian or classical liberal perspective the success of Costco and other megastores simply represents a more efficient serving of consumer needs than did the more personalized forms of retail service they have replaced. Personalized service remains available in other stores, but customers now pay a premium for it. Costs are in better alignment with benefits. I believe this point of view is misleading.

The market order possesses a dynamic principle intrinsic to its spontaneous character. *Precisely because* it is not the outcome of deliberate decisions, it cannot simply be assumed to reflect people's desires faithfully. If we were to see the impact on others generated by the collective impact of our choices, we might make different choices. If the effect of collective choices is to select for some values and not others, we can legitimately ask whether the pattern of selection is fully desirable.

Systemic Resources and Value Biases

Every self-organizing social system depends for its success on both positive and negative feedback to those acting within it. This feedback takes the form of participants accruing or losing resources. What counts as a resource is defined by the system of cooperation. But what may be highly valued systemically may not be so valued by the individuals acting within the system. 6

In the market order, the basic systemic resource is money. As the universal means of market exchange, money is the glue that holds impersonal economic cooperation together. In the democratic order, the systemic resource is political support measured in votes. Votes ultimately determine who will succeed politically and who will not. Money is a very important, but still secondary, political influence (diZerega 1991). In the scientific order, money again plays an important but subordinate role. The amount of grant money a scientist brings in is supposed to be, at best, a proxy for the quality of his work. Indeed, the increasing focus upon obtaining grants may constitute a corruption of science by market values, akin to selling and buying votes in politics. For science to continue as a way of discovering how the world works, scientific reputation, not money, must be its most important systemic resource.

Because what counts as a resource is determined by the spontaneous order within which participants act, systemic resources may not necessarily be valued by the order's participants. I can participate in the market order without primarily seeking money, and be successful by my own standards. However, to the extent that I lose money, my ability to influence the market order fades. I have fewer systemic resources. The same point holds for the scientific and democratic orders. I need not be concerned with peer recognition as a scientist, or with getting votes as a politician, but without recognition or votes I lose the ability to influence these orders. I may be happy, and in my own eyes legitimately successful, but systemically I will be invisible.

To the extent that I seek to gain systemic resources, adopting them as my standard of success, I accept the values of the order in which I participate. But whether I will ultimately regard myself, or will be regarded by others, as a successful human being is quite another thing.

As a spontaneous order becomes more developed and all-inclusive, options to act will be greater for those possessing the most Systemic resources. Viewed from within the order, this outcome appears as only natural. However, because resources are systemically defined, something that counts as a resource within one system may be systemically denied or devalued within another. There is a potential problem where systems border upon each other. This holds between the three spontaneous orders comprising the liberal community, and even more so between that community as a whole and the other basic communities within which we live.

Systemic boundaries are defined by networks of relationships structured by the rules and values that generate them. While the market, scientific, and democratic orders obviously influence one another, and while, to some degree, the resources of one can always be turned into resources for another, each can, when taken separately, be seen to comprise a coherent sub-community of the liberal community. Their interpenetration causes reductionists to seek some common principle, usually money, as their common foundation. But each system's ideal relationships are quite distinct from those of the others. When systemic resources from one system intrude on another, they are acknowledged as a potential threat to its integrity. Money is regarded as necessary in order to acquire material and personal resources, but when its availability determines how those resources will be used in the scientific or democratic order, money is perceived as corrupting. This is because judgments are then made according to "foreign" values, often by people who are not even members of the order in question. This problem is clearest in the scientific order. When science is not financially self-sustaining, research may follow financial rather than scientific judgment.

This problem is most complex in the democratic order because citizens are almost always simultaneously participants in the market order. Thus, they may try to turn the resources of one system into systemic resources in the other. Money can be used to influence political decisions, just as corrupt politicians may try to pass legislation to obtain money.

However, what is true of money in the scientific and democratic orders is equally true of scientific expertise in the economic and political orders. Scientific standards are biased in favor of measurement and prediction, but most political questions are also, or even mostly, imprecise or qualitative. And, as experience repeatedly demonstrates, voting is a poor way to make either scientific or economic decisions. Yet due to the interpenetrating character of these orders, each will always influence the others. It is often a judgment call whether influence in any particular instance is tolerable or excessive, because any standard will itself be biased in favor of one order or another.

The Market Place and the Market Order

Impersonality is a central but largely unintended outcome of acting within the context of a spontaneous order. As these orders tend to grow more encompassing, human relationships within them become increasingly characterized by their utility in acquiring systemic resources. In the market, growth is the result of successfully serving consumers. But growth itself influences the mix of services an enterprise offers, and it alters its owners' way of relating to their employees. In both cases impersonal relationships tend to replace personal ones.

As growth continues, the division of labor becomes increasingly elaborated. Most importantly for my purposes, the functions of ownership become divided. Different people begin to exercise separate dimensions of tasks once performed as a unity in the mind of a small proprietor. As the market becomes increasingly impersonal and anonymous, the market place is subsumed into the market order. 7

Large corporations are a powerful institutional expression of market-order relations, as contrasted with relations in the market place. Within them, the functions of ownership are divided among many people often unknown to one another. In the market place, people encounter one another as owners of resources potentially available for exchange. In corporations, neither managers nor shareholders really act as owners in this sense. Neither managers nor shareholders have the scope of choice and responsibility that actual owners face in the market place.

Managers are under legal mandate to serve shareholders' financial interests. Among shareholders, the voting process is proportional to the number of shares owned, and therefore to the amount of money each shareholder has at stake. Within the market order there is nothing wrong with this. Most people only invest in corporations for financial reasons. So even if they own only a few shares, on balance they benefit from the weighting of influence in favor of financial values. Large shareholders provide oversight and expertise that ultimately assists even small shareholders, for the value of everyone's shares rises or falls in unison.

For shareholders, ownership almost never carries the ambiguities and conflicts that arise from exercising personal responsibility over tangible property in the market place. Personal values are subordinated to financial values because of the institutional framework in which people exercise their "ownership" rights. For example, the largest First Interstate Bank shareholders became angry when corporate managers considered the impact on the California economy of Wells

Fargo Bank's proposed takeover of First Interstate. Yet in their personal relationships, it is common for owners to take account of such non-economic criteria in determining what to do.

Although the corporation is legally regarded as a human being, it possesses three relevant characteristics that no human being has. First, it is potentially immortal. Second, its physical assets can be either absorbed or broken apart into other companies without changing its productive activities. Third, and most significantly, the corporation is entirely a creature of the liberal community. Indeed, many economists criticize managers who act on the basis of values more appropriate to other communities. As Milton Friedman writes:

> Few trends could so thoroughly undermine the very foundations of our free society as the acceptance by corporate officials of a social responsibility other than to make as much money for their stockholders as possible.... If businessmen do have a social responsibility other than making maximum profits for stockholders, how are they to know what it is? Can self-selected private individuals decide what the social interest is? (Friedman 1963, 133-34) 8

Friedman emphasizes that charitable giving by corporations "is an inappropriate use of corporate funds in a free enterprise society." Instead, "contributions should be made by the individuals who are the ultimate owners of property in our society." Allowing corporations to make tax-deductible charitable contributions "is a step in the direction of creating a true divorce between ownership and control and of undermining the basic nature and character of our society" (1963, 135-36). 9

Friedman's point is not without weight. Yet in an important sense ownership has already been divorced from control simply by the creation of joint stock corporations. In addition to this shift of *control,* there has been a change in what it means to *own* something. Within the context of their daily lives, real people integrate the varying and conflicting demands and responsibilities arising from membership in all the basic communities in which they live. As citizens, for instance, they continually participate in deciding "what the social interest is." Corporations, to the extent they operate impersonally, are incapable of doing so. They are purely creatures of the market order, not the market place. Shareholders are owners from whom every characteristic has been abstracted except their financial interests. They invest for a return. Many shareholders regard financial return as only one value among many in their lives. They may treat the concrete things they own as if financial return is not the most important value. But financial return alone influences the actions of the organizations they "own" in their capacity as stockholders.

Investment fund managers, who may control enormous blocs of shares, carry this abstraction from personal ownership one step further. The investor in a mutual fund is further removed from the organizations in which he or she invests, and her ability to focus only on financial return is therefore made more efficient. This can be seen by contrasting normal investment funds against special "conscience" funds, such as those which invest only in "green" businesses. In these funds the abiding principle is "greenness"; financial considerations place (an important) second. However, that such rules have to be specially structured into the decision making of green mutual fund managers demonstrates how extraneous they are to the market order.

Mutual funds are the most complete expression of market-order relationships. Their investors are often completely unaware of the companies whose shares they "own." To equate such a relationship with the personal ownership of tangible property is to blur very important distinctions rooted in different kinds of systemic relationships-that is, different kinds of community. Friedman falsely equates the owners of impersonal shares with the owners of

tangible property, over which they exercise direct control and have personal responsibility. These constitute fundamentally different kinds of ownership.

In the market order, as our decisions become increasingly impersonal, they become dominated by the requirements of efficiency. We will put up with a friend's inefficiencies when we would not tolerate similar failings by a stranger. As our relationships become impersonal, interpersonal transactions come increasingly to be pure means to other ends. What justifies such relationships is their anticipated end result, considered completely separately from the relationship itself. The relationship as such becomes a pure cost. As the market process develops and elaborates, personal choices become more and more constrained by one's ability to serve consumers per se rather than by one's ability to serve neighbors, friends, or even human beings per se.

This evolution is "spontaneous," in Hayek's sense. We never deliberately choose a social order reflecting these values. This transition may seem innocuous because economists always speak of us as consumers, and because we are all consumers some of the time. But thinking of ourselves as consumers involves a subtle distortion of our understanding. All people are indeed consumers. But no one is simply a consumer.

The free-market economist Ludwig von Mises once described consumers as

> merciless bosses, full of whims and fancies, changeable and unpredictable. For them nothing counts other than their own satisfaction. They do not care a whit for past merit or vested interests. If something is offered to them that they like better, or that is cheaper, they desert their old purveyors. *In their capacity as buyers and consumers* they are hard-hearted and callous, without consideration for other people. (Mises 1963, 270, my italics)

Mises further characterizes consumers as "unfeeling and stony hearted" and emphasizes the subordination of all production to their demands (ibid., 273). But, as Mises acknowledges, a consumer is not the same thing as a human being. Both "consumer" and "human being" are abstractions, but the former focuses upon a much narrower range of behavior than does the latter. Being a consumer is a single aspect of being human.

Yet the more impersonal market relations become, the more accurate Mises's description is. To the extent that social relationships are purely anonymous, all we have to go on in making decisions are our personal desires, to which the intrinsically valuable aspects of more personal transactions are subordinated. As anonymous consumers we do not know anything about those with whom we are transacting. Therefore their concrete needs and circumstances will not enter into our calculations. The goals we seek to realize become completely divorced from the well-being of those producing the products and services competing for our attention.

It cannot be otherwise. The ever-growing complexity of a liberal market order is too great for us to have any but the most fragmentary and often misleading knowledge about the producers of most of what we consume. Therefore, the economic impact of our decisions upon those other people will be the same as if we were "unfeeling and stony hearted."

This situation has disquieting moral implications, implications hidden by an analysis that naively equates human beings with consumers. The problem rests with the partial nature of the market order compared to the full richness of human life.

Let us return to the classical liberal case for the market. Much of the ethical case for liberalism, and for the market in particular, is based upon the formal voluntariness of relationships in the liberal community and the market subcommunity. But in a market place such as a crafts fair, this voluntariness takes the form of a face-to-face community rooted in a relatively small and comprehensible geographic setting. The market order, as distinguished from the market place, has no fixed social and geographical location. It encompasses the entire globe and billions of people. A market place is concrete; the market order is abstract.

Economic efficiency is always a value in exchange relations. However, in a market place other values moderate and condition it. For example, in 1995 a grocery strike took place in Northern California. In the small town of Guerneville, Safeway is the only grocery store. Because there were no nonstruck supermarkets within several miles of this town, many of Guerneville's citizens drove the extra distance to support the striking salespeople who lived in their community and whom they saw every day.

Of course price mattered to these shoppers. All else being equal, like the rest of us, they would have patronized the store with the lowest costs in terms of convenience and dollars. But all else is not always equal, and when it is not, the small scale of a market place enables one more easily to factor these other values into one's economic decisions. Prices are vital but imperfect measures of the values consumers associate with particular items.

Where economic efficiency overwhelms other values, the market place has been subsumed by the market order. When this has happened, we have moved from a community held together in part by personal relationships to one held together by impersonal ones.

Impersonality often grows through changes at the margins. It is rarely deliberately chosen. A competitive market of small, individually owned stores will tend to have a relatively low rate of profit; when innovations enable retailers using large-scale orders to obtain lower prices, established stores will not suddenly lose all their customers to the new competitors. Some customers are more loyal than others. Only those customers who are the most price sensitive will shift. But to the extent that these marginal customers are crucial for the survival of the smaller stores, they will cease to survive. Many consumers who preferred shopping at the smaller stores will then have to shop at the larger one.

Over time retail outlets have tended to grow in size from "mom and pop" stores to medium-sized chains to large chains to megastores. In the process, products have become cheaper and more varied, while human relationships have become more impersonal. The consumer is better served, but the depth of human relationships has become more shallow.

Small stores whose owners possess personal knowledge of their customers can perform a variety of services that are not easily factored into the price system. For example, streets are safer when there are many small enterprises and pedestrians. But since no single purchase will have much impact on these "externalities," they are ignored in pricing (Hardin 1985, 110). just as the person who preferred lower prices and impersonal shopping was subsidizing the person who preferred personalized service even if the prices were higher in the small stores, so now those who suffer from greater crime are bearing the external impact of large impersonal megastores. Prices simplify the information consumers need to make choices, but by definition, any simplification eliminates something. And what is eliminated may be important.

The growth of the market order and other impersonal social processes is neither all gain nor all loss. Values and ways of life focusing only on the personal are not always superior to more abstract arrangements. Hatred as well as love is personal. The impersonality of market and other

anonymous liberal orders has liberated us from stifling social pressures and prejudices. But it also liberates us from supportive social networks. The two go together.

My point is not that one way of life is better than the other, but that each serves values slighted by the others. Therefore, if the liberal community, including the market order, favors one set of values over another, particularly in ways that are not immediately obvious to its participants, it cannot be said simply to facilitate exchanges. It also helps shape those exchanges by altering the context in which they are made. And we are justified in asking whether that change is entirely to our liking.

The market order allows cooperation to grow in complexity, because we do not need to agree on as much as when relationships are personal. We need only agree about specific transactions considered separately from their larger context. As the complexity of interpersonal cooperation grows, its personal depth falls. Complexity and depth (as I am using these terms) are inversely correlated.

Consider in response a defense of the market-neutrality thesis by James Buchanan and Viktor Vanberg, who contend that

> the market economy, as an aggregation, neither maximizes nor minimizes anything. It simply allows participants to pursue that which they value, subject to the preferences and endowments of others, and within the constraints of general "rules of the game" that allow, and provide incentives for, individuals to try out new ways of doing things. There simply is no "external," independently defined objective against which the results of market processes can be evaluated. (Buchanan and Vanberg 1992, 181) 10

Buchanan and Vanberg rightly emphasize the creativity of the market process. The market's openness to individual creativity makes it fundamentally unpredictable. But in justifiably attacking "teleological" defenses of the market, which hold that their participants are likely to discover objective exchange opportunities that are "out there" waiting to be exploited, the authors go much too far in the direction of indeterminateness.

Buchanan and Vanberg suggest a thought experiment to illustrate their point. Suppose that people lived in a society where no material goods existed, but where, once appropriated, possession of physical resources would be respected. Under such circumstances, many people would begin thinking about how they might improve their lot by making exchanges with others. Each would ask, "'What can I produce that will prove of exchange value to others?' . . . Individuals would use their imagination ... in producing goods wholly divorced from their own consumption, goods that are anticipated to yield values when put on the market." This hypothetical illustrates how "markets tend to satisfy the preferences of persons, regardless of what their preferences might be. . ." (1992, 181-82). The market is not teleological because nobody can know what future state it is approaching. The reason is that many future states are possible, but the one that will occur will arise from unpredictable creative acts by market participants.

Buchanan and Vanberg's argument, however, conceals a subtle bias. Their imaginary example deals only with goods that are produced because someone else wants them. To the producer alone, they are worthless. The market order favors the creation of such exchangeable goods at the expense of non-exchangeable ones. To say that we cannot predict what specific form market goods will take is different from saying we can predict *nothing* about them; for we can predict that they will have a bias toward exchange values. The market order is biased towards serving

certain kinds of cooperation and certain ends, not others. Consequently, we can make qualitative evaluations of the market order.

Evaluations such as this do not entail arguing that some particular non-exchangeable value trumps all others. Moreover, *every so*cial context favors some values over others. Because every useful standard exists within a context, no context should be uniquely privileged for all questions. The market process takes place within a social and environmental framework that both modifies and is, in turn, modified by it. The market is no more value neutral than any other social institution, and so no claim to exempt it from evaluations of its biases can be reasonably justified.

Liberal and Other Communities

Within the liberal community, there is an unavoidable tension between the values privileged by the market, democracy, and science. But the liberal community is only one of the basic communities in which we live. As the liberal community expands, these other communities come increasingly to be influenced, and even dominated, by market, scientific, and democratic processes.

At the borders between liberal and other communities, the effect of subordinating other values to efficiency is quite different than it is within the market order. In the family, in the neighborhood, and in nature, efficiency is not the primary value. While usually important, efficiency is, in these contexts, subordinated to other values. I will use the natural world to illustrate this point because nature is the community that is most completely removed from the liberal community. Yet the same basic tensions will also be found between the liberal world, on the one hand, and the family and other personal communities, on the other.

Steven Jay Gould writes, of the magnificent variety of life that has evolved in nature, that

> the watchwords for creativity are sloppiness, poor fit, quirky design, and above all else, redundancy... Bacteria are marvels of efficiency, simple cells of consummate workmanship, with internal programs, purged of junk and slop, containing single copies of essential genes. But bacteria have been bacteria since life first left a fossil record 3.5 billion years ago-and so shall they probably be until the sun explodes.

Gould concluded that if evolution operated primarily on the basis of efficiency, it "would generate no structural complexity, and bacteria would rule the world" (Gould 1990, 15, 18; see also Worster 1977, 291-315). If Gould's analysis is correct, then were efficiency the ultimate value in nature, we would not exist.

In the world of nature, adaptation to change operates through a process of continuous mutual adjustment. Because of its reliance upon abstract procedural rules within which each person can act as she or he sees fit, the liberal community adapts in a similar manner. At this level there is a systemic harmony between the natural and the liberal community that sets the latter apart from communities dominated by organized hierarchies, prescriptive rules, and attempts at deliberate control. To the extent that industrialized liberal societies have been less environmentally destructive than illiberal ones, this may be the reason.

Yet this complementarity has important limits. Natural and social processes constitute different systems, even though one emerged from the other, which continues to sustain it. Most natural adaptation proceeds through generational change, and can occur no faster than can

physical reproduction. Most human adaptation occurs far more quickly, because it is generated by changes in information that lead to intragenerational learning. More than other forms of human society, liberal communities both generate and coordinate vast amounts of information, allowing unknown and unpredictable people maximal opportunities to make use of creative insights. The pace of change is therefore faster than in other societies. From the perspective of individual human beings, the difference between human societies and nature is all to the good. In nature, individuals who fail to adapt die. In society, individuals who fail to adapt suffer a loss of systemic resources. They must find new jobs, support new policies, or abandon old theories on pain of becoming systemically irrelevant. In liberal societies, it is companies, political causes, and scientific theories that die, not the human beings associated with them (Rothschild 1990, 213-25).

This distinction between adaptation in nature and in human society, however, while enormously beneficial, carries with it the continual risk that social adaptation may become critically dissociated from natural adaptation. Compared to other societies, liberal society's greater rate of change increases not only intrasystemic adaptation but the risk-and the possibly devastating consequences-of extrasysternic dissociation. Its strength can become a weakness.

Primarily because it does not focus on individual physical survival, but rather on enabling individuals to reap the advantages they can extract from any opportunity they perceive, social change in the liberal community cannot help but take a shorter-term perspective than natural adaptation. It is more creative and less conservative. But these advantages do not come free of cost. Its very kindness towards individuals disconnects the liberal community's systemic priorities from those of spontaneous natural orders. The liberal community also myopically serves the advantage of living individuals, or at most their children, often neglecting that of future generations.

The negative impact of this myopia is more important when societies have a substantial impact upon the natural environment that sustains them. From ancient Sumer to the present, civilizations have tended to destroy their sustaining natural foundations. Exceptions have been due more to fortunate peculiarities in the physical environment than to the wisdom of their institutions. For example, until the Aswan dam was built, the Nile's floods regularly replenished the soil and carried away dissolved salts from Egyptian farmland. Cultures in the Fertile Crescent were not so fortunate, and so exhausted much of their land millennia ago.

Liberal societies have been spared the worst of the depredations that afflicted other industrial orders. The democratic process and the legal protection of property rights have been the major means by which those personally harmed by environmental destruction have been able, in part at least, to resist the plans of the powerful. This, presumably, is why today the United States and Western Europe do not resemble Russia environmentally

But as more and more of the communities within which we live become dominated by the liberal one, this ability to resist degradation is weakened, for the multidimensional world of private property in the market place is transformed into the one-dimensional world of corporate property in the market order. A subtle, adaptive, and complex set of ethical relationships rooted in personal responsibility for nature is swallowed up by a simple, abstract, and legalistic order. As the social community becomes increasingly decoupled from nature, the information guiding change no longer reflects knowledge of natural processes. Liberal society may remain marvelously adaptive by its own standards while becoming increasingly parasitic in its relationship to the natural world.

Adaptation always occurs within a context, but the circumstances that determine whether survival is possible are not always respectful of that context. The context provided by the liberal community does not weight individual choices toward the respect and maintenance of natural processes. People's short time horizons and the sheer quantity of more pressing and more immediately "relevant" information generated by the market order guarantee that natural processes influence social adaptation only with great difficulty, except when those processes are in a state of collapse.

As it is conceived in our society, self-interest is inherently incapable of generating ecologically sustainable behavior. The secular worldview encouraged by science, democracy, and the market alike weakens ethical and cultural constraints against taking advantage of every perceived opportunity for personal gain. And the impersonal character of the spontaneous market order makes it difficult for anyone acting within it to weaken the forces that elevate serving the consumer above all other human roles.

Some have observed that the long-run viability of the liberal community depends upon a framework of moral constraints and values that it is itself incapable of generating or sustaining. Usually this charge focuses on ethical values that structure relationships between human beings. But the liberal community also dissolves institutional constraints on our behavior toward the natural community. If this argument is basically sound, both people and nature need to be protected from the transformative biases of the liberal community. Countervailing power needs to be developed. Given the institutional amorality of corporations, bureaucracies, and, indeed, of all large organizations, this power needs to be quite strong. Its ethical basis - perhaps the most important contribution of the environmental movement 11 - must transcend the span of a human life. But adequate institutional expressions of such principles need also to be developed. One institutional form that historically has generated sustainable behavior, or at least a greater approximation to it, is a certain kind of small-scale, face-to-face, and reputational community that integrates individual self-interest with community standards. For example, in Switzerland and Japan, local self-governing villages have successfully managed their common forest and pasture land for as long as 800 years (McKean 1992, 63-98; Ostrom 1990, 58-69, 88-102).

In recent years the environmental failings of the liberal state have been subjected to withering exposure and criticism. In response, libertarian policy analysts have proposed market-based approaches to solving environmental problems. To be sure, market-based environmental incentives are often more adaptive and sensitive to local conditions than the centralized regulations they replace. But this superiority has led many to argue that the market order as such is environmentally friendly, or at least that it can be, once property rights are properly adjusted. They argue that the language of economics is sufficient to craft viable environmental policies. This view is mistaken.

The problem is neither state nor market, but rather the abstract nature of the liberal community, which operates on principles divorced from those of the natural world. None of its defining institutions can provide a reliable foundation for ecologically sustainable interactions with the spontaneous order of nature. Left to its own devices, liberal society is not harmonious with natural processes, and is too powerful to refrain from subjecting them to its sway. But the economic, political, and epistemological systems forming the liberal community are not the only spontaenous orders we need to preserve.

The distinction between the market place and the market order offers a way for different spontaneous orders to coexist. The faceto-face societies of the market place, the neighborhood, and the small community function as far more sensitive evaluators of competing ends than does the market order and its corporate institutions. Efficiency is not unimportant, but neither does it

come close to being all-important. Placing greater reliance on the role of faceto-face and reputational communities holds great promise for maintaining relationships with the natural order over the long term. Local communities not only possess more knowledge of local circumstances; they also can learn more quickly from their successes and failures.

What is necessary for such communities to perform these functions successfully is not only rapid feedback about the impact of their actions. They also need to be able to defend themselves and their boundaries from the abstract orders of the market, science, and democracy. Nature and the other communities in which we live must be provided with sufficient means to resist the encroachments of liberal orders every bit as much as liberal orders, to work well, must be protected from the impingement of illiberal organizing principles.

NOTES

1 .I believe Hayek missed the significance of this because he did not see that liberal society is itself a network of spontaneous orders. Although he saw that both science and the market were spontaneous orders, he failed to grasp the deep systemic differences between liberal democracy and other forms of government. See diZerega 1989, 206-240; 1994, 57-86.

2. Jacobs 1992 is perhaps the best single work on the moral foundations of science and the market. While Jacobs considers politics as requiring what she terms "Guardian" rather than "Commercial" ethics, the ethics of the democratic process is actually quite in keeping with Commercial ethics as she develops them, while the ethics internal to political *organizations,* such as political parties and bureaucracies, are indeed Guardian in nature.

3. This point, made most insistently by the Popperian W. W. Bartley, III (1984), seems to me unassailable, regardless of how one judges the controversy between Habermas and philosophers of science working in the tradition initiated by Karl Popper.

4. Nowhere is this confusion more evident than in egalitarian democratic theory, which argues that substantive equality among citizens is an ideal by which existing democracies can be legitimately evaluated. For extensive discussions of this issue see diZerega 1988 and 1991.

5. Much of the responsibility for this failure must also be shared by many market advocates, who frequently emphasize competition as fundamental to the market when in fact it is a secondary characteristic, arising out of preexisting cooperation. See diZerega 1992, 322-24.

6. There is a similarity between this argument and that put forth in Michael Walzer's *Spheres of Justice.* Walzer emphasizes, correctly I think, that when various social goods "are distinct, distributions must be autonomous . . . [and] only certain criteria and arrangements are appropriate" (Walzer 1984, 10). Distribution in violation of these criteria is unjust.

Walzer analyzes both self-organizing systems, such as the market, and instrumental organizations, such as a church hierarchy, from this perspective. By contrast, my approach views the tension between the liberal community and other basic communities, and that between the constitutive spontaneous orders of the liberal community, as unintended, systemically generated outcomes. This unintentional dimension makes biases in spontaneous orders quite distinct from biases in instrumental organizations. The latter express the views of a power elite. The former reflect abstract values not necessarily connected with the particular purposes of *an),* participant.

7. 1 owe this felicitous way of expressing the difference to Karl Hess,jr. One of the clearest discussions of the tensions between the market place and the market order is McConnell 1988.

8. Of course, "self-selected private individuals" are always crucial in deciding what the "social interest" is. They are called active citizens. The alternative, which I doubt Friedman would condone, is for only elected officials to be free to determine what constitutes the social interest.

9. Peter Drucker (1993, 101) appears at first glance to disagree with Friedman. But much of this disagreement is terminological. Thus Drucker writes that "economic performance is the *first* responsibility of a business. A business that does not show a profit at least equal to the cost of its capital is socially irresponsible" (101).

10. See also Kirzner 19go, which argues that the market process simply "generates greater mutual awareness" among participants, thereby helping them better to coordinate their opportunities for cooperation (34).

11. I have tried to make this argument with minimal attention to ethical positions other than long-term self-interest. However, I believe that a strong case can be made for ecocentric ethics, and that liberal ethics are most appropriately viewed as a subset of them. See diZerega 1996; 1995a; and 1995b.

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