

A Return to Social Justice? Systemic Biases in Self-Organizing Systems

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The Liberal Order

The modern world is uniquely characterized by the enormous rise in influence of the abstract and anonymous liberal community over all others, 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 science, which is the chief source of the technology people now use in their economic and political activities.

This liberal community is characterized by the abstract procedural rules its members use to pursue their goals. These procedural rules generate the market order, democracy, and science by assisting people who are largely unknown to one another to enter into extended cooperation for mutual benefit. Such rules are abstract because they apply to the generically human, divorced from all personal qualities. Their procedural 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 overall concrete conditions prevailing with the market, democracy, and science. The integration of the plans of mutual strangers is why the liberal order is rightfully considered “self-organizing”, or “spontaneous”. Its order is very real, but unplanned.

Libertarians, and classical liberals in general, defend their interpretation of the liberal tradition on the grounds that the market order is the most successful institution for facilitating creative and voluntary exchanges among equals. In addition, they 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 that arises is beyond fundamental criticism. In a spontaneous order just means do not generate unjust ends. Consequently, as Hayek has powerfully argued, “social justice” is a meaningless concept in the liberal spontaneous order.¹ This article will offer a “Hayekian” challenge to both these claims for two reasons.

First, the market is not the only spontaneous order, or self-organizing system, 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. These rules therefore promote different values.

Second, liberal society tends progressively to subordinate other communities to its standards, at the cost of narrowing the range of values which can be easily manifested. Even within liberal society itself, self-organizing systems 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 foreseeable, we confront again 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.²

Varieties of Self-Organization in Liberal Society

Self-organizing 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 a theory divorced from concrete details.³ Such a theory would provide little or no guidance in making specific decisions within such an order. We do not need to be economists to become successful entrepreneurs, political scientists to win office, or philosophers of science to do valuable scientific work. The skills required to succeed within a self-organizing order are little connected to the skills needed to understand it.

As with all social spontaneous orders, the market promotes voluntary cooperation over an indefinite number of independently chosen goals. The market is a discovery process encouraging people to cooperate in the pursuit of economic ends.⁴ People acting within a framework of rules of private property, tort, and contract generate economic order within the market. The wider the bundle of property rights, the wider the range of market based cooperation 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 provide coherence to the scientific enterprise. These 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 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 scientifically verifiable truth.⁵

In liberal democracy, freedom of speech and organization, and equality of the vote, generate a democratic order. Like property rights, contracts, and torts, and the principles of scientific method, these rules are procedural and abstract. Freedom of speech and

organization make it possible for any cause to be advocated and seek to gain supporters. Equality of the vote ensures that political causes which succeed appeal to the perceived desires of more people than would be the case were votes not equally distributed. Liberal democracy is thus also a discovery process encouraging the discovery of political goals and cooperation in their pursuit.⁶

The basic principle ordering human relations within the liberal order is formally voluntary agreement among equals. Thus, rules able to generate a self-organizing system require respect for others' autonomy. It is primarily the context in which agreements arise, the number of people required for agreements to be productive, and the nature of the issues over which agreement is sought, which distinguish the market, democratic, and scientific communities from one another.⁷

The ethical principle underlying these liberal institutions is largely isomorphic with Jürgen Habermas's analysis of the underlying value inherent within language.⁸ Like the market, science, and democracy, language too is self-organizing. Its order arises from each speaker appropriating common abstract rules of grammar in order to communicate to whatever end she or he envisions. Moreover, agreement in democracy, the market, and science is achieved 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 slights the fact that knowledge is not and cannot be equally distributed. Knowledge as it exists in science, the market, and democracy must be discovered and tentatively validated through complex social

processes. It is always tentative and conjectural.⁹ 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.¹⁰

Successful coordination of independently conceived plans can only come about as the success or failure of individual projects generates feedback throughout the system. As it manifests within liberal institutions, the ethic of respect and uncoerced agreement serves to enhance the likelihood that concrete agreements between participants about economic, political, and scientific questions will be discovered and acted upon. The market, democracy, and science all maintain an ongoing institutional openness to unpredictable initiatives by unknown others.¹¹ Because of our fragmentary knowledge of the plans of others, we experience these orders as very impersonal.

F. A. Hayek has discussed the positive dimension of the impersonality which 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. Incidents of famine, disease, and poverty have been brought to their lowest levels in thousands of years due to the liberal order. Less remarked upon, but equally important, the impersonality characterizing liberal orders helps explain why liberal democracies do not make war upon one another. They are the first form of organized social life where this has been the case, and their peaceful record is intimately connected to their self-organizing character.¹²

The liberal order, however, has a shadow side. Hayek's argument applies only to *one* of the basic communities within which we must make our lives. There is more to human life than the abstract liberal society 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.¹³ But I believe he underestimated the power of liberal society to overwhelm them.

The Market in Liberal Civilization

The market order is the most fundamental self-organizing system unique to the liberal world. This is because we use material goods and human services not only in most other activities we pursue, they are also fundamental to our mere existence. The abundance and characteristics of goods and services available in the market powerfully influence the possibilities that can be pursued within other self-organizing systems. Consequently, this article focuses primarily upon the market process. However, broadly similar arguments can be developed for the social impact of science and representative democracy.

Economic development takes place within the framework of the market process, as modified by political decisions over the character and dispersion of property rights. 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 which sustains familial, face-to-face, and reputational communities.

Libertarians and classical liberals alike often claim that the market simply facilitates voluntary human exchanges, thereby maximizing opportunities for fruitful cooperation.

Far more than other social theorists, libertarians and classical liberals generally emphasize the fundamentally cooperative relationships which generate the market order. There an important truth here. Critics of the market too rarely acknowledge its fundamentally cooperative character.¹⁴ However, the classical liberal claim as made is overly abstract, hiding the important circumstances where it is not entirely true. It applies perfectly only to beings whose values and preferences are unaffected by the environment in which they live. Such beings are not 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 institutions influence 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 manifests 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 means oriented and often impersonal, the other is usually considered a good 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.¹⁵ At a minimum, these circumstances imply the existence of scale effects.

The market injects the bias of the relational rules that characterize it into the community at large. These rules are impersonal, abstract, and formally voluntary.

Staying strictly within the realm of contractual market exchange, let us examine two concrete cases. When we observe transactions in a supermarket or at a crafts fair, we find something approximating the libertarian ideal. 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 acted on adequate information, in both instances people will consider themselves better off after the exchange than before it. But even with these two examples, 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 been an artist at such fairs. A frequent question I encounter is "Did you make this?" By contrast, going to a supermarket focuses customers' attention far more on convenience and price. As personal dimensions fade, 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 the best quality at the least expense. (Think of going to Costco.) Catalogs and electronic shopping are perhaps the ultimate expressions of impersonal shopping, diminishing human contact to nearly zero.

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

The market order possesses a dynamic principle intrinsic to its self-organizing character. *Precisely because* it is not the outcome of deliberate decisions, it cannot simply be assumed faithfully to reflect people's desires. If we were to see the impact on others generated by the collective impact of our choices, we might make different choices. To the extent this is simply due to inadequate knowledge, there is little we can do about the matter. But if the impact exhibits a pattern of selecting 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 maybe highly valued systemically may not be so valued by individuals acting within the system.¹⁶

In the market the basic systemic resource is money. As the universal means of market exchange, money is the glue that holds impersonal economic cooperation together. In democracy 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, influence.¹⁷ In science, another self-organizing social system, money again plays an important but subordinate role. The most respected scientists seek a reputation within their community based upon the quality of their work, not the amount of grants they bring in. Indeed, from the standpoint of science, the increasing focus upon obtaining grants within academic departments constitutes a

corruption by market values akin to selling and buying votes in politics. For science to continue as a way of discovering how the material world works, scientific reputation, and not money, must be its most important systemic resource.

Because what counts as a resource is determined by the system of cooperation within which participants act, systemic resources may not necessarily be goals of the system's participants. I can participate in the market 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 system fades. I have fewer systemic resources. The same point holds for science and democracy. I need not be concerned with peer recognition in science, or influencing votes in democracy, but without peer recognition or influencing votes I lose the ability to influence these communities from within. I may be happy, and in my own eyes legitimately successful, but systemically I will be invisible.

To the extent that I seek systemic resources, and adopt its standard of success as my own, I incorporate the values of the system in which I participate. Its standards become my standards. Those who act most successfully *in terms of the system* will acquire more systemic resources than those who fail. But whether I will ultimately regard myself, or be regarded by others, as more successful as a human being is quite another thing.

As a self-organizing system becomes more developed and all-inclusive, options to act will be greater for those possessing the most systemic resources. Viewed from within the system this outcome appears as only natural. The market, democracy, or science, appear to be simply means for fostering more fruitful cooperation. Those who are best at cooperating for social ends acquire the most resources. Their success further develops and strengthens the system.

However, because resources are systemically defined, something that counts as a resource within one system or way of life may be systemically denied or devalued within another. Since any self-organizing system deals with only a single dimension of a human life, and since the liberal order as a whole constitutes only one of the basic communities within which people live, there is a potential problem here. At a system's borders with other community forms the problem can be severe. This holds for the three self-organizing systems characterizing 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, science, and democracy obviously influence one another, and to some degree the resources of one can always be turned into resources for another, taken separately, each can be seen to comprise a coherent sub-community within liberal modernity. Their interpenetration causes reductionists to seek some common principle, usually money, as their common foundation. But within each system, ideal relationships among participants are quite distinct from one another. For example, in a world where material resources were more abundantly available for science, many scientists might well pursue different projects than they do at present; but what they do would still be recognizable as science. To the extent they share the values of science, all scientists would prefer such a world to the one we have now.

When systemic resources from one system intrude on another, they are acknowledged as a potential threat to its integrity. Money is universally regarded as necessary in order to acquire material and personal resources, but when it determines how those resources will be used in science or democracy it is also perceived as corrupting. This is because

judgments are then made within a particular community by people external to it, who may override the judgment of its members. This problem is clearest in science because relatively few people are scientists, and most money comes from outside the scientific community. Usually science is not financially self-sustaining. Research tends to follow money, not scientific judgment.

This problem is most complex in a democracy because citizens are almost always simultaneously participants in the market. Here people continually try to turn systemic resources from one system into systemic resources in the other. Steve Forbes' campaign for President is a good example. Money is used to influence political decisions and politicians use their power to pass legislation to obtain money.

However, what is true for money in science and democracy is equally true for scientific expertise in the economy and democracy. Here, too, there is an ill fit. Scientific standards are biased in favor of measurement and prediction, but most political questions are also, or even mostly, qualitative questions of value. And, as experience repeatedly demonstrates, politics is a poor way to make either scientific or economic decisions. Yet due to the interpenetrating character of these systems, in the liberal order 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 system or another.

The Market Place and the Market Order

Impersonality is a central but largely unintended outcome of acting within the context of a self-organizing system. As self-organizing systems tend to grow more

encompassing, human relationships within them become increasingly characterized by their utility in serving the acquisition of systemic resources. In the market growth is the result of successfully serving consumers. But as an enterprise grows, the mix of services it offers shifts, as does its owners' way of relating to 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 as it exists within a small enterprise become divided. Different people begin to exercise separate dimensions of tasks once performed as a unity in the mind of the small proprietor. As the market becomes increasingly impersonal and anonymous, the market place is subsumed into the market order.¹⁸

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. In neither case is there the scope of choice and responsibility that actual owners face in the marketplace. Managers are under legal mandate to serve shareholders' financial interests. Among shareholders, the voting process is biased to favor financial interests over all others. This is why voting in corporations 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 the oversight and expertise which ultimately assists even small shareholders, for the value of everyone's shares rises or falls in unison.

Voting for shareholders 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 due to the institutional framework in which people exercise their "ownership." For example, the largest First Interstate Bank shareholders became angry with their management because managers considered the impact on the California economy of Wells Fargo Bank's proposed take over of First Interstate. Yet in their personal relationships it is common for owners to factor in such non-economic criteria in determining what to do.

Bizarrely, the corporation is legally regarded as a human being. For my purposes, it possesses three characteristics which exist in no human being. 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, to the degree corporate leaders act on the basis of values more appropriate to other communities, many economists consider the organization flawed.

Milton Friedman puts this issue clearly:

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?¹⁹

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 charitable contributions which are tax deductible "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."²⁰

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 his argument Friedman focuses on the issue of *control*, I emphasize instead 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 they continually participate in deciding "what the social interest is." And in doing so they are always self-selected.

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 away 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 in such a way that financial return is not the most important value considered when using these

possessions. But insofar as people are stock owners, to a very large extent it is that value alone which influences how the organization they "own" acts.

Investment fund managers, who may control enormous blocs of shares, carry this abstraction from ownership one step further. The investor in a mutual fund is removed another step from the organizations into which he or she invests, and the ability of the shareholders to focus only on financial return is therefore made more efficient. This is sometimes modified by certain kinds of funds, such as those which invest only in "Green" businesses. In these funds the abiding principle is "greenness" and financial considerations come an important second. However, that such rules have to be specifically structured into the decision-making of green mutual fund managers demonstrates how extraneous their values are to the market order.

Mutual funds are the most complete expression of market order relationships. With them investors are often completely unaware of the shares they "own." To equate such a relationship with the private ownership of tangible property is to blur very important distinctions rooted in different kinds of systemic relationships, that is, in different kinds of community. Friedman falsely equates owners of shares with 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 requirement to be efficient. We will put up with a friend's inefficiencies in circumstances where 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 rather than by one's ability to serve neighbors, friends, or even people. This evolution is spontaneous in Hayek's sense. We never deliberately choose a social order reflecting these values.

Because economists always speak of us in terms of being consumers, and because we are all consumers some of the time, a subtle distortion of our understanding is unintentionally imported into economic analysis. 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.²¹

Mises further characterized consumers as "unfeeling and stony hearted" and emphasized the subordination of all production to their demands.²² But, as Mises acknowledged, 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.

Even so, the more impersonal market relations become, the more accurate Mises's description becomes. To the extent that social relationships are purely anonymous, all we have to go on in making decisions are our personal desires unaffected by the intrinsically valuable aspects of more personal transactions. 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. In our minds the goals we seek to realize are 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."

There is no moral failing here, because this outcome results from the collective impact of our purchasing decisions unaffected by any individual's action. The ethical dimension of the market lies in its procedures, not its outcomes. Nevertheless this situation does carry 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 liberal society, and for the market in particular, is based upon the fact that human cooperation is formally voluntary. The visitor to a crafts fair is an illustration. But such a market place is basically an example 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. The market place is concrete, the market order is abstract.

Economic efficiency is always a value in exchange relations. However, in the market place other values will moderate and condition it. For example, in 1995 a grocery strike took place in Northern California. In the small town of Guerneville near where I live, Safeway is the only grocery store. No nonstruck supermarket existed within several miles of this town. Nevertheless, many of Guerneville's citizens drove the extra miles or rearranged their schedules to purchase groceries when out of town in order to support the sales people who were on strike, 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 will patronize 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 their community enable them more easily to factor these other values in to their 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.

Growing impersonality often occurs through changes at the margins. It is rarely deliberately chosen. A competitive order dominated by small individually owned stores will tend to have a relatively low rate of profit as people take advantage of entrepreneurial

opportunities. When a new retail innovation arises using large scale orders to obtain lower prices, existing stores will not suddenly lose all their customers to the new competitor. Some customers are more loyal than others. Only those customers who are most price sensitive will shift. But to the extent that these marginal customers are crucial for the survival of the individually owned stores, the stores will cease to survive. Many consumers who might have 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.

A network of small stores whose owners possess personal knowledge of many customers in a community can perform a variety of services which are not easily factored into the price system. For example, streets are safer when there are many small enterprises and pedestrians. But these services cannot be easily factored into customer buying decisions because linkages are relatively complex, and no single purchase will have much impact on any particular enterprise. They are called “externalities” and are then ignored in pricing. In fact, negative “externalities,” are simply the commonization of costs.²³ But 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 community of small stores, so now those who pay for increased public protection are subsidizing the full 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. Hate as well as love is personal. The impersonality of market and other anonymous social relations has liberated us from stifling social pressures and prejudices. But it also liberates us from supportive social networks as well. The two go together.

My point is not that one community is better than the other, but that they are different, and that each provides positive values not well served by the others. Therefore, if the liberal order, including the market process, favors one community over another, particularly in ways that are not immediately obvious to people, 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.

In the market order, cooperation can 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.

Many free-market economists apparently disagree with views such as mine. For example, James Buchanan and Viktor Vanberg argue

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.²⁴

Buchanan and Vanberg rightly emphasize the creativity of the market process. The market’s openness to individual creativity makes it fundamentally unpredictable. But in rejecting “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. It is an illuminating illustration of my point as well. Suppose, they ask, 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.” Therefore, “markets tend to satisfy the preferences of persons, regardless of what their preferences might be. . . .”²⁵

The market is not teleological, the authors hold, 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 contains 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 instrumental goods at the expense of non-instrumental values. To say that we cannot predict what specific form market goods will take is different from saying we can predict nothing about them.

The market order is biased towards serving certain kinds of cooperation and ends, and not others. Consequently, we can make qualitative evaluations of the market order. Evaluations such as this do not entail arguing some ideal value trumps all others. We can also argue that *every* social context favors some values over others. This claim is neither arbitrary nor subjective.

Because every useful standard exists within a context, no context should be uniquely privileged for all questions. Indeed, privileging one context over others is itself arbitrary and subjective. The market process takes place within a social and environmental framework which 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

Even within liberal society, an unavoidable tension exists between the forms of cooperation most characteristic of the market, democracy, and science. But the liberal order is only one of the basic community forms in which we live. As the liberal order expands, these other communities come increasingly to be influenced, and even dominated, by market, scientific, and democratic processes.

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

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

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.”²⁶ If Gould’s analysis is correct, and efficiency was the ultimate value in nature, we would not exist.

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

Yet this complementarity has important limits. Fundamentally, natural and social processes constitute different systems, even though one emerged from the other, which continues to sustain it. In nature, most adaptation proceeds genetically, through generational change. Adaptation is linked to successful physical reproduction. In human societies adaptation occurs far more quickly because it is generated by changes in information, leading to learning. More than other social systems, liberal societies both generate and coordinate vast amounts of information. They create information rich environments where unknown and unpredictable people have maximal opportunities to make use of creative insights. The pace of change is therefore faster than that in other societies.

From the perspective of individual human beings this 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. It is the companies, political parties, and theories which die, not the human beings associated with them.²⁷

This distinction between adaptation in nature and in human society, so important for preserving a humane order, carries with it the continual risk that social adaptation may become critically dissociated from natural adaptation. This is because the information

vital for social adaptation in the short run includes different criteria for significance than do the circumstances promoting change in nature. Compared to other societies, liberal society's greater rate of change not only increases intra systemic adaptation, it also increases both the risk and the possible devastating consequences of extra systemic dissociation. A strength can become a weakness.

Primarily because it does not focus on individual physical survival but rather on enabling people personally to reap the advantages they can extract from any opportunity they perceive, social change 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. Its very kindness towards individuals disconnects its systemic priorities from those of natural self-organizing systems. The liberal order is also irreducibly myopic since its focus is almost always the advantage of existing individuals, or at most their children, rather than advantage across generations.

The negative impact of this myopia is more important when societies have a substantial impact upon the natural environment which 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 their physical environment rather than to the wisdom of their institutions. For example, until the Aswan dam, the Nile's floods regularly replenished the soil and carried away dissolved salts from Egypt's 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 which afflicted other industrial orders. The democratic process and 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 is why today the US and Western Europe do not resemble Russia environmentally.

But as more and more of the basic communities within which we live become dominated by the liberal order, this ability to resist degradation is weakened as the multi-dimensional 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 is swallowed up into a simple, abstract, and legalistic one. As the social world becomes increasingly decoupled from nature, the information guiding change and adaptation no longer reflects knowledge of natural processes. Liberal society may remain marvelously adaptive by its own standards while becoming increasingly parasitic in its relationship with 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. In the social world the context of individual choices does not weight these choices towards respecting and maintaining natural processes. People's short time horizons and the sheer quantity of more pressing and more immediately "relevant" information generated by the market order will guarantee that natural processes will influence social adaptation only with great difficulty, except when they are in a state of collapse.

This lack of fit provides the bigger picture for my analysis. As it is traditionally conceived in our society, self interest is intrinsically incapable of generating ecologically sustainable behavior under contemporary circumstances. The secular worldview encouraged by science, politics, and economics alike weakens ethical and cultural constraints on taking advantage of every perceived opportunity for personal gain. And the impersonal character of the market order makes it difficult for anyone acting within it not to strengthen forces which elevate serving the consumer above all other human roles.

Some have suggested that the long run viability of liberal modernity depends upon a framework of moral constraints and values which it itself is incapable of generating or sustaining. Usually this charge focuses on ethical and moral values that structure

relationships between human beings. I suggest that this observation is true, but still insufficient to grasp the problem. Liberal modernity also dissolves institutional constraints on our behavior with the world of nature.

If this argument is basically sound, human communities need the means to protect themselves from the dissolving influences of liberal modernity. In addition, the natural community needs the means to preserve itself from the transformative energies of the modern world. Countervailing power needs to be developed. Given the institutional amorality of corporations, bureaucracies, and indeed, of all big organizations, this power needs to be quite strong. The foundation for these protections must be powerfully ethical, for with regard to nature it requires taking perspectives far beyond a human life span. Its ultimate ethical impetus is perhaps the most important contribution of the environmental movement.²⁸ But adequate institutional expressions for these principles need also to be developed.

One institutional form which has historically generated sustainable behavior, or at least a greater approximation to it, are certain kinds of small scale, face-to-face, and reputational communities. They do so by integrating individual self-interest into harmony 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.²⁹

In recent years the environmental failings of the liberal state have been subjected to withering exposure and criticism. They are criticisms with which I agree. As a result, scholars and policy analysts have increasingly embraced market based approaches towards resolving environmental conflicts. To be sure, often market based environmental incentives are more adaptive and sensitive to local conditions than the centralized regulations they can replace. But this superiority has led many to argue that the market order as such is environmentally friendly, or at least can be once property rights are

properly adjusted. They argue that the language of economics is sufficient to craft viable environmental policies. I have tried to show in this paper why this attitude is mistaken.

The problem is neither state nor market, but rather the abstract liberal order as such, 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 natural world. Left to its own devices, that order is not harmonious with natural processes, and too powerful to refrain from subjecting them to its sway. But the liberal order is not the only level of community other than nature in which we live.

The distinction between the market place and the market order points us in a different direction. The face to face societies of the market place, the neighborhood, and the small community function as far more sensitive evaluators of competing values than does the market order and its corporate institutions. Efficiency is not unimportant, but neither does it approach being all-important. A strategy which placed greater reliance on the role of face to face and reputational communities holds great promise for maintaining long term sustainable relationships with the natural world. 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 these 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 - such as the market place and self-governance - from the market order and from the abstract democratic order. Nature and the other communities in which we live must be provided with sufficient means so as not to depend for their survival upon the liberal order alone.

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Notes

¹ F. A. Hayek. *Law, Legislation and Liberty, II: The Mirage of Social Justice*, (Chicago: University of Chicago Press, 1976).

² I believe Hayek missed the significance of this because he did not see that liberal society is itself a network of spontaneous orders. He saw that both science and the market were, but failed to grasp the deep systemic differences between liberal democracy and other forms of government. See my "Democracy as a Spontaneous Order", *Critical Review*, 3:2 (1989), 206-240. See also diZerega, "Federalism, Self-Organization and the Dissolution of the State", *Telos*, no. 100. (1994), 57-86.

³ F. A. Hayek, "The Theory of Complex Phenomena", *Studies in Philosophy, Politics, and Economics*, (New York: Simon and Schuster, 1969), 22-42.

⁴ F. A. Hayek, "Competition as a Discovery Process," *New Studies in Philosophy, Politics, Economics, and the History of Ideas*, (Chicago: University of Chicago Press, 1978), 179-190.

⁵ Michael Polanyi, "The Republic of Science: Its Political and Economic Theory", Marjorie Grene, ed., *Knowing and Being: Essays by Michael Polanyi*, (Chicago: University of

Chicago, 1969); and John Ziman, *Public Knowledge: An Essay Concerning the Social Dimension of Science*, (Cambridge: Cambridge University Press, 1968).

⁶ Gus diZerega, "Democracy as a Spontaneous Order"; "Federalism, Self-Organization and the Dissolution of the State".

⁷ Jane Jacobs, *Systems of Survival, A Dialogue on the Moral Foundations of Commerce and Politics* (New York: Vintage, 1992) is perhaps the best single work on the moral foundations of science and the market. While she considers politics as falling within what she terms "Guardian" rather than "Commercial" ethics, the ethics of the democratic process is actually quite in keeping with Commercial ethics she develops them while the ethics internal to political *organizations*, such as political parties and bureaucracies, is indeed Guardian in nature.

⁸ Jurgen Habermas, "What is Universal Pragmatics?" *Communication and the Evolution of Society*, (Boston: Beacon Press, 1979) 1-68.

⁹ This point, made most strongly by W. W. Bartley, III, *The Retreat to Commitment*, (LaSalle, IL: Open Court, 1984), seems to me unassailable regardless of how one judges the controversy between Habermas and philosophers of science working within the tradition initiated by Karl Popper.

¹⁰ 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. Gus diZerega, "Equality, Self-Government and Democracy: A Critique of Robert Dahl's Political Equality", *The Western Political Quarterly*, 41:3, (1988); "Elites and Political Theory: Insights from the Self-Organizing Model", *Review of Politics*, 53:2, (1991).

¹¹ F. A. Hayek, "Competition as a Discovery Procedure;" Michael Polanyi, *The Logic of Liberty*, (Chicago: University of Chicago Press, 1954), Gus diZerega, "Equality, Self-Government and Democracy: A Critique of Dahl's Political Equality"; "Elites and Democratic Theory: Insights from the Self-Organizing Model".

¹² Gus diZerega, "Democracies and Peace: The Self-Organizing Foundation for the Democratic Peace", *Review of Politics*, 57:2, (1995).

¹³ F. A. Hayek, *The Mirage of Social Justice*, 150-152.

¹⁴ Although 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 Gus diZerega, "Social Ecology, Deep Ecology, and Liberalism", *Critical Review*, Vol. 6, Nos. 2-3, (1992), 322-324.

¹⁵ Robert Axelrod, *The Evolution of Cooperation*, (New York: Basic Books, 1984).

¹⁶ 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." (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 examines the tension between liberal society as such with other basic communities, and internally as well, as unintended systemically generated outcomes. Thus, biases within spontaneous orders are quite distinct from biases within instrumental organizations. In the latter they are expressions of a power elite. In the former biases

reflect abstract values not necessarily connected with the particular purposes of *any* participant, but quite important in facilitating or undermining the attainment of various values. See Michael Walzer, *Spheres of Justice*,

¹⁷ Gus diZerega, "Elites and Democratic Theory."

¹⁸ I 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 Grant McConnell, *Stehekin: A Valley in Time* (Seattle: The Mountaineers, 1988).

¹⁹ Milton Friedman, *Capitalism and Freedom*, (Chicago: University of Chicago, 1963) 133-134. 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.

²⁰ *Ibid.*, 135-6. Peter Drucker appears at first glance to disagree with Friedman. See his *Post Capitalist Society*, (New York: Harper, 1993) 101. 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.

²¹ Ludwig von Mises, *Human Action*, 3rd. rev. ed., (Chicago: Henry Regnery Co., 1963), 270. My italics.

²² *Ibid.* 273.

²³ Garrett Hardin, *Filters Against Folly*, (New York: Penguin, 1985), 110.

²⁴ James Buchanan and Viktor J. Vanberg, "The Market as a Creative Process" *Economics and Philosophy*, 7:2, October, 1992, 181. See also an article by Israel

Kirzner who argues that the market process simply "generates greater mutual awareness" among participants, thereby helping them better to coordinate their opportunities for cooperation. "Self-Interest and the New Bashing of Economics: A Fresh Opportunity in the Perennial Debate?" *Critical Review*, 4, nos. 1-2, 34.

²⁵ Ibid., 181-182.

²⁶ Steven Jay Gould, The Horn of Triton, *Natural History*, December, 1990, 15, 18. See also Donald Worster, *Nature's Economy: A History of Ecological Ideas*, (Cambridge: Cambridge University Press, 1977), 291-315.

²⁷ Michael Rothschild, *Bionomics: Economy as Ecosystem*. (New York: Henry Holt, 1990), 213-225.

²⁸ 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 my "Deep Ecology and Liberalism" *The Review of Politics*, 58:4, (1996); "Individuality, Human and Natural Communities, and the Foundation for Ethics", *Environmental Ethics*, 17:1, (1995); "Empathy, Society, Nature, and the Relational Self: Deep Ecology and Liberal Modernity", *Social Theory and Practice*, 21:2, (1995).

²⁹ A. McKean, Management of Traditional Common Lands (Iriaichi) in Japan, *Making the Commons Work: Theory, Practice and Policy*, (San Francisco, Institute for Contemporary Studies, 1992) 63-98; Elinor Ostrom, *Governing the Commons: The Evolution of Institutions for Collective Action*, (New York: Cambridge University Press, 1990), 58-69, 88-102.