

LIBERAL SOCIETY AND PLANNED MORALITY? *

By Michael Baurmann

Nachdem die marxistischen Systeme unter-
gegangen sind, wird der Liberalismus als eine
ähnlich schwere Bedrohung des Menschen sichtbar.

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I. Enlightenment, welfare, freedom and morality: a vision of liberalism

In the seventeenth and eighteenth centuries major philosophers primarily in Scotland, England and France conceived an optimistic vision of a secular social order in which enlightened individuals in "pragmatic acceptance of the world this side of the grave"¹ could pursue their personal aims free of ideological indoctrination, religious tutelage and political oppression. According to this vision, such a society of free and enlightened individuals was to be beneficial to economic prosperity and to have a favourable effect on the morality of the citizens and the political rulers. It is above all David Hume whose works unite the various aspects of the vision most comprehensively. The conclusion of this paradigm is to be found in the writings of Adam Smith, who expressed its basic idea in the metaphor of the 'invisible hand'.²

It is striking that at the outset of this optimistic vision of harmony between ideological enlightenment, economic prosperity, political freedom and individual morality there is a view of man which in no way appears optimistic. On the contrary it sees man as a being whose nature is determined by

* This article sketches in a very condensed form some ideas which I have developed in my book *Der Markt der Tugend – Recht und Moral in der liberalen Gesellschaft* (Baurmann 1996). Translation with the indispensable help of Margaret Birbeck.

1 This is a fitting formulation by Schumpeter 1970, 127.

2 In this context one could also name: Adam Ferguson, Bernard Mandeville, John Millar, Charles de Montesquieu, Thomas Reid, James Steuart or Dugald Stewart. In regard to the development and history of the vision of liberalism cf. Hirschman 1977 and 1982, and Myers 1983.

potentially destructive passions and vices and who, above all, is guided by one dominating motive and aim: to further personal benefits and to satisfy selfish wishes. It seems unlikely that somebody working on this assumption would develop a utopia of peaceful coexistence and believe that man will voluntarily make the individual welfare of other people or even the general welfare of the community the guiding-line of behaviour. Rather it seemed more plausible that human selfishness would lead to constant striving for power and supremacy and thereby to permanent struggle and conflict. And indeed, as is well known, especially Thomas Hobbes arrived at a much more pessimistic estimation on the basis of this view of human nature.

However, Hobbes presumed that in principle man himself, by means of his own effort and insight, could solve the problems which arise from human nature by establishing a state power. To ground this belief Hobbes had to make at least two additional assumptions besides the basic premise of the selfish character of man: *First* the assumption that even for egoists a peaceful life and well-ordered cooperation are more favourable than permanent struggle and conflict. *Second* the assumption that man by his intellectual faculty and judgement is capable of recognizing the fundamental advantages of peace and cooperation and can take appropriate measures to make them possible.

Whereas Hobbes emphasizes the dilemma that can arise for selfish individuals between their wish for peaceful cooperation on the one side and the temptation to realize self-interest by force and fraud on the other, the founders of the liberal vision primarily drew attention to ways of surmounting this dilemma without suppression by state power. According to their view a rational egoist will solely on the basis of his own calculation and prediction recognize that cooperative behaviour towards others is more profitable in the long run than malfeasance and hostility which will prevent lasting economic exchange and social relationships. The rational pursuit of individual interests would thus make it possible to gain the benefits of mutual cooperation on the basis of *voluntary* acts without the threat of repressive political structures.

This hope was decisively reinforced by an epoch-making discovery: the pursuit of self-interest and private well-being can have most favourable consequences for public welfare even without the insight and the intention of the persons involved. The faith in the efficiency of an 'invisible hand' which will transform individual expediency into an overall advantage for the society in general and in this way harmonize individual and collective interests was henceforth one of the strongest driving forces in developing a conception which – although likewise based on a 'realistic' view of human

nature – was an alternative to Hobbes's pessimism.

From the combination of the elements of self-interest, rationality and the wish for peaceful cooperation on the one side with the effective catalyst of the 'invisible hand' on the other, the vision of a society could develop in which fruitful economic exchange and peaceful interpersonal relations could flourish *without* external or internal repression of the natural human drives. According to this vision there is neither a need for an autocratic state with absolute means of power over its citizens nor for a battle against human nature by means of moral indoctrination and the evocation of eternal damnation. Admittedly there is a need for a social order which puts certain limits on the pursuit of personal aims and gives the individual certain guarantees of his rights. But within those limitations there is a large realm of freedom – not only for the realization of personal interest: the individual is also free from metaphysical fears and torments of conscience in view of his 'sinful' nature.

Despite this, the vision of liberalism did not imply that the individual in such a free and interest-dominated society would only be an unscrupulous profiteer who had the undeserved luck to live in a world in which his individual vices underwent a wondrous metamorphosis to become common good. Rather this vision of liberalism included the idea that in a liberal society private and political *morality* and the civic *virtues* are fostered and cultivated, too. The freedom of individuals to pursue their own ends would not, according to this view, lead to a ruthless struggle for material welfare but to the recognition that it is to their own long-term advantage to consider the interests of others while striving for personal benefits – hence to observe elementary moral precepts in relation to other people. The fact that individuals are mutually dependent in the realization of their aims and desires should in itself make virtuous conduct to coincide with self-interest.

By the end of the eighteenth century, the fascination for this liberal vision had decreased greatly. Especially the idea that a social order which breeds and encourages selfishness and 'materialism' could promote not only economic welfare but individual morality and civic virtues now appeared as entirely unrealistic. Instead of individual interests being regarded as useful driving forces within the framework of a liberal social order the capitalist market, in particular, was often judged as a source of economic, political and moral bad. The 'miracle of the market' became the 'market as moloch' leading to the destruction of traditional communities and personal bonds and replacing them by 'alienated' economic exchange-relations. So it seemed much more plausible that a citizen as a profit-oriented competitor on the marketplace would in the place of virtues develop vices like greed, parsimony

or malice and a general disinterest in public affairs and common welfare.

However, neither the portentous prophecies of the critics and opponents of capitalism and liberalism came true nor the hopeful utopias of enlightenment, welfare, freedom and morality. Yet since the middle of the twentieth century there have been signs of a new situation arising. The Western world is going through a time of economic growth and comparative political stability. The problems of political and economic liberalism now seem to be solvable in principle. Especially the historic events in Europe during the last decade gave the proponents of a liberal social and economic order strong additional impetus. Now this order not only seems to refute all the prophecies of doom with respect to economic issues but awaits an unexpected rehabilitation in a political and moral respect, too.

Is it therefore to be expected that against the background of this development the old vision of liberalism will also be brought to life again, the vision of an interest-dominated society in which ideological enlightenment, economic welfare, political freedom and individual morality prevail? But the improved reputation of the liberal free-market society does not necessarily signify that the optimistic view of a kind of social order which is characterized by members who are solely orientated towards their individual interests will reawake too. Rather a situation has arisen in which it is common to argue openly for the basic institutions of modern liberal society – and therefore also for interest-orientation at least on the economic market – while at the same time having grave doubts about whether the stable existence of these institutions is compatible with individual interest-orientation in *all* social spheres.

II. Moral crisis and self-destruction: a verdict on liberalism

What is it that stands in the way of a revival of the old vision of liberalism? One of the main challenges liberalism is confronted with in our days comes from the so-called 'communitarian' school of thought.³ Here I want to refer especially to two lines of communitarian criticism. At the core of a *philosophical* argument against liberalism lies the assumption that liberal theory presupposes a wrong relationship between the individual and the

3 Representatives of communitarianism are for example Amitai Etzioni (1988 and 1993), Alasdair MacIntyre (1981), Michael J. Sandel (1982), Charles Taylor (1979, 1985 and 1989), and the group of authors around Robert N. Bellah (Bellah et al. 1987 and 1991).

social community. Communitarians claim that the liberal conception sees individuals as 'unencumbered' and 'atomized' selves, totally independent of their socially given roles and communal bonds, freely choosing the aims and values they want to achieve. This view is considered to be completely misguided because it ignores the elementary fact that, without manifest social 'embeddedness', individuals are unable to develop an authentic personal identity. Such an identity must be defined to a large extent by the attributes of the community of which the individuals are a part. An isolated 'liberal' individual divested of his constitutive communal bonds and relations not only loses his personal identity but also lapses into moral arbitrariness and would thus become incapable of making and sustaining social commitments.

From a *sociological* standpoint communitarians argue that liberalism is self-defeating because it will in the long run undermine its own social fundamentals. This critique goes back to Alexis de Tocqueville's assertion that, because of its lack of civic virtues and social responsibility, unrestrained individualism tends to destroy a free society and prepare the ground for creeping despotism. (Tocqueville 1969, ch. 36.) According to this argumentation liberal societies will undergo a permanent 'stability-crisis' since they will not be able to produce the voluntary support and participation on the side of their members which is needed to maintain their political and economic institutions.

So it follows from the communitarian critique that a fully developed liberal society would neglect the desire of individuals to be integrated participants in 'genuine' communal relationships, would lead to moral anomia and arbitrariness, and last but not least would tend to undermine and erode the fundamentals of liberal freedom itself. But are these real dangers?

To deal with some aspects of this question I will concentrate on a special variant of the sociologically inspired communitarian critique. This variant seems particularly forceful because it owes its theoretical instruments to the tradition in which the liberal vision was once established – in this sense it is an immanent criticism.

As mentioned above, one of the great findings of the founders of the vision of liberalism was the discovery of an invisible hand, the 'miracle' that a rational orientation towards private interests could also be conducive to the public welfare. Modern social theory has directed its attention more to a phenomenon which in principle was already recognized by Hobbes and underlies his theory – a phenomenon which was more or less underestimated by his optimistic successors. This phenomenon is the exact counterpart to the invisible hand. It represents the dilemma that in certain social situations the pursuit of self-interest brings about results that are diametrically opposed

to the self-interest of the persons concerned. This amounts to the discovery that besides the invisible hand there is also an 'invisible wall'. Whereas the invisible hand takes care that wishes are fulfilled without a conscious contribution of the actors, the 'invisible wall' can prevent the fulfilment of wishes even when those involved are acting rationally *and* when conditions seem distinctly favourable because the persons involved have not divergent interests but, on the contrary, an identifiable *common* interest.⁴

Just as surprising and exciting as the discovery must have been that an invisible hand can produce harmony between private vices and public benefits, the insight must have been disillusioning that for self-interested actors a realization of their common good may be impossible even when each of them bases his decision strictly on rational deliberation. The recognition of this gap between individual and collective interests gave rise to important conclusions especially in respect to the role of morality and civic virtues for the stability of the social order. *On the one hand*, this gap is seen to produce an *erosion* of individual morality in an interest-dominated society: if there is more or less widespread disharmony between individual and common interests, the predominance of self-interest must lead to behaviour which conflicts with the moral concern for the interests of others and the common good. *On the other hand*, this gap indicates at the same time that each social order has a fundamental *demand* for morality and civic virtue: for if there is an invisible wall which prevents correspondence between the interests of the individual and the interests of his fellow men, there is a need for persons who act morally and virtuously in so far as they make the achievement of common interests their *immediate* motive.

With that the indictment of the vision of liberalism now seemed clear. A society which allows an unconstrained pursuit of individual interests promotes a development which undermines the fundament of *every* social order. Such a society permits the prevalence of self-interested actions even in social spheres where no invisible hand is available to unite them to the benefit of all but where they are aggregated to a public bad. It seems that an invisible hand can only work as a part of a body which has additional organs, for instance a brain which is capable of purposeful planning and a moral sense which overcomes selfishness and egoism.

But when a liberal and interest-dominated society cannot supply the

4 The 'classical' analysis of this dilemma by the instruments of modern game theory is to be found in Luce and Raiffa 1957; in regard to public goods cf. Olson 1965; Hardin 1982; de Jasay 1989.

morality which it needs for its continuance, how is it possible for such a society to exist at all in reality? The answer of its critics is: because the existing liberal Western societies are in fact not yet entirely interest-dominated societies. In reality these societies do not live off the forces of self-interest but off an external moral capital, off the moral "legacy of the precapitalist and preindustrial past" – a legacy which, however, is wasted: "This legacy has diminished with time and with the corrosive contact of the active capitalist values – and more generally with the greater anonymity and greater mobility of industrial society. The system has thereby lost outside support that was previously taken for granted by the individual. As individual behaviour has been increasingly directed to individual advantage, habits and instincts based on communal attitudes and objectives have lost out." (Hirsch 1978, 117f.) The "irony" of the success of the market system resides in the fact that this success – because it was only possible "on the shoulders of a premarket social ethos" – increasingly undermines its own foundations while "its general behavioral norm of acting on the criterion of self-interest has won ever-widening acceptance". (Ibid., 12.)

How can the moral crisis and self-destruction of modern liberal society be overcome? Passivity and trust in the unregulated forces of spontaneous adaptation is no solution if the diagnosis of the critics is correct. We have to avoid the great illusion of the classical authors: "Morality of the minimum order necessary for the functioning of a market system was assumed, nearly always implicitly, to be a kind of permanent free good, a natural resource of a nondepleting kind." (Ibid., 134.)

Thus the solution lies in *moral rearmament*, in the conscious restoration of community-bonds, the revitalization of tradition and the reconstruction of institutions which overcome the materialism of 'pragmatic worldliness' and supply society with morality once again. Morality as a good must be produced and distributed purposefully. Especially in the view of some of those authors who base their critique of Western civilization on the theoretical instruments and insights of modern economics, the necessary moral reform of society must be carried through above all by *religion* respectively *religious institutions*. Fred Hirsch in his influential book *Social Limits to Growth* expresses the conviction that important social virtues which "play a central role in the functioning of an individualistic, contractual economy" like "truth, trust, acceptance, restraint, obligation" are "grounded in religious belief". He concludes that "religious obligation therefore performed a secular function that, with the development of modern society, became more rather than less important". (Ibid., 141f.) And the German author Peter Koslowski (1988, 49 [my translation]; likewise McKenzie

1977) states bluntly that religion is simply "essential" for a "socio-economic order". Only by means of a religiously mediated "ontological basic trust" does the individual get the "reassurance" that "morality and happiness will converge in the long run". (Ibid, 38ff.) For Koslowski there is only the alternative to secure morality by religion or "by complete external control" which would replace ethics and free decision. (Ibid., 47.)

So in the place of the old liberal vision of a social order which gives the individuals the internal and external freedom to pursue their interests and personal aims, the demand emerges for a religious and ideological restoration. A liberal and secular society in which enlightened, worldly-oriented persons act in accordance with their own convictions and plans is seen as a serious danger to morality. Accordingly the process of enlightenment has to be revised in an important aspect, namely in so far as it motivates individuals to orientate their decisions not by metaphysical speculations or religious belief but by their knowledge of the empirical world including their own nature and their given interests. The fight is directed against the "disenchantment of the world" (Max Weber) and the "destruction of Meanings" (Joseph Schumpeter), events which according to the diagnoses of Weber and Schumpeter are characteristic of the rise of Western capitalism: "The capitalist process rationalizes behavior and ideas and by so doing chases from our minds, along with metaphysical belief, mystic and romantic ideas of all sorts. ... 'Free thinking' in the sense of materialistic monism, laicism and pragmatic acceptance of the world this side of the grave follow from this not indeed by logical necessity but nevertheless very naturally." (Schumpeter 1970, 127.)

For many people nowadays these prospects are alarming. Enlightened worldliness and the rational pursuit of interests are faced with new opponents. This time they are not pleading for an abolition of liberal capitalism as an economic order but for an addition of *moral-securing institutions* which can bring exaggerated individualism under control. Nevertheless this view amounts to an overall critique of the modern liberal society: its anonymity and mobility, the 'cult' of individualism and subjectivism, its scarcity of common goals and civic commitment and last but not least the lack of faith in objective values are among the preferred targets of the critics.

III. Competition and cooperation as characteristics of liberal society

Is it possible to protect the vision of liberalism from the call for moral rearmament – faced with the dangers to external and internal freedom which are always combined with the attempt to improve people's morality by means of ideology, indoctrination or direct intervention by institutions?

To begin with, however, one has to admit that the critics of the vision of liberalism are right, at least in respect to two main points. *First*, the stable existence of the institutions of a liberal market-society depends heavily on the fact that its members show a certain degree of civic virtue and moral commitment. An invisible hand is not always available to transform behaviour that is directed solely towards private benefits to a contribution to public welfare. (Cf. Baumann 1997b.) Without people who fulfil their political, legal and moral duties voluntarily *no* viable social order is conceivable. This also holds true for a liberal society where the institutions which guarantee individual rights to pursue one's own way are themselves dependent on citizens who do *not* at every opportunity use these rights to maximize their self-interest.

Second, there is indeed hardly any doubt that competitive, impersonal and profit-oriented relations on the economic market are not suitable to further morality and virtues. Trade and exchange may produce a demand for honesty, trustworthiness and reliability. But the transitoriness and anonymity of the exchange-relations on a large economic market, the mobility of the participants and the replaceability of the respective partners constantly produce opportunities and incentives to cheat and deceive and to disregard the interests of others. The network of mutual social control that is woven by the contacts on a market is too widemeshed to make conformity with moral rules congruent with rationally calculated self-interest in each case. This is not least underlined by the role the legal protection of contracts plays for the smooth working of the market-mechanism.⁵

But exchange-relations on the market and competition between individuals are not the only salient features of a liberal social and economic order – even if its critics often convey such a distorted image successfully. When looking

5 Maybe one tends to underestimate the social "embeddedness" of market-relations (Granovetter 1985). But even if it is true that interpersonal relationships between exchange-partners are often close and lasting enough to make moral conduct coincide with rational self-interest, one cannot expect that the 'morale' of economic exchange between single individuals can encourage those civic virtues that are necessary to bring about public goods.

for possible factors in a society which contribute to the emergence and development of morality and civic virtues we come across another essential trait of a liberal social order which is much more important. The conspicuousness of the events on the economic market should not mislead us to overlook or underestimate this property.

In the modern liberal society there is not only a 'liberation' of trade and economic exchange. Such a 'liberation' can also be seen in regard to self-chosen joint cooperation and to voluntary association. The citizens of a liberal society not only enjoy the freedom to indulge in individual economic enterprise and have the fundamental rights to self-determination and the possession of personal property. They also have the right to unite freely with other people and to form communities according to their own discretion and estimation: whether it be the founding of a firm to increase private material welfare, or the forming of a union to promote common political or economic interests, by opening up a club to follow immaterial aims or by coming together in a community to enjoy the 'internal goods' of a communal relationship as such. A liberal society not only allows for the formation of joint enterprises and communities but protects them from intrusion and destruction. Freedom of market *and* freedom of association are thus the essence of the liberal society.

Historically, the freedom to choose autonomously the form of desired association and the partners with whom one wants to associate is as much a genuine product of the liberal society as is the universal spread of market-relations. Full implementation of freedom of association presupposes that the barriers and privileges of traditional societies break down, that 'personal' bonds which exist on the basis of birth, social position, geographical location, race or class become increasingly insignificant for the formation of cooperative relations and communities. People must become free and mobile enough to choose place and social context of their lives from the point of view of where and how they could best employ their abilities and could best realize their aims. The constantly bemoaned anonymity and mobility of the modern mass society which do indeed undermine 'grown' personal and social relationships are essential to utilizing to the full the potential advantages of human cooperation and organization. Everyone can search for partners who are most suitable for his projects and is no longer dependent on those who by chance belong to his family, kin, tribe, local community or class.

Therefore the voluntary cooperation between partners in joint enterprises is as characteristic of liberal societies as is the peaceful struggle between

competitors on the economic market.⁶ To judge this fact properly one must call to mind the paramount importance which collective activity has for human beings in general. There is the elementary truth that for many projects a combination of individual forces to a coordinated collective action produces a considerable gain in efficiency compared with the efforts of isolated persons. The whole development of human civilization would not have been possible without the purposeful concentration of strength in the manifold forms of collective action. On the other side there is the strong desire of human beings to participate in the personal relationships which are connected with a common enterprise. The 'communitarians' are clearly right in asserting that there are fundamental 'internal goods' intrinsically linked with communal practice as such – independent of its possible instrumental value. For this reason the membership in associations and communities is for almost every human being also an end in itself.

All in all, the unconstrained freedom to form associative bonds with other people by choice is one of the most important improvements which was achieved by the liberal society, which for almost *all* members of this society represents a great benefit.

This realization has important consequences for our question whether a liberal society can promote morality and civic virtues. From their high instrumental *and* intrinsic value it follows that the *membership* in common enterprises, the possibility to participate in cooperative relations with other persons belongs to the most important goods for each individual. There is nothing which can replace lost access to common activities. But accessibility to this kind of interpersonal relations is not granted automatically – *especially* not in a liberal society in which it is left to the free choice of the individuals with whom they will join. Persons who want to start a cooperative enterprise will select their partners, they will not cooperate with everybody, they will not found a community with just anyone. To obtain access to joint enterprises and to maintain existing membership in cooperative relations, therefore, one must *qualify* oneself as a suitable partner for cooperation and community.

On the one hand, this is a matter of 'technical' qualification, which derives from the character and aim of the projected cooperation: whoever wants to

6 "The basic liberties are not intended to keep persons in isolation from one another, or to persuade them to live private lives, even though some no doubt will, but to secure the right of free movement between associations and smaller communities." (Rawls 1975, 550.)

become a member of a football-team must be able to play football. On the other hand – and this is the decisive point here – as a potential member of a communal enterprise one must exhibit certain *moral* qualifications.

IV. Cooperation, moral integrity and the market of virtues

The purpose of an association or community is not achieved by itself. Collective enterprises can realize their ends only if the participating individuals make their contribution to those ends. Each cooperative project – from a flower shop to a worldwide combine – includes certain tasks and duties for its members. Their fulfilment is the precondition for common success.

But just because the result of joint action is the product of a *common* effort and is not accomplished by an individual alone, there could emerge the incentive for the individual member to circumvent his duties and enjoy the benefits of cooperation by leaving the work to his partners. Even when four people are carrying a cupboard, there is the temptation to reduce one's own efforts and literally lay the burden on the others. As the single contribution often is of no decisive significance to the common goal, the individual participant can act as a free-rider without endangering the success of the enterprise as a whole.

There is no way to get rid of this problem entirely because in nearly every form of common enterprise there are recurrent opportunities for some of the members to neglect their tasks unrecognized or even to enrich themselves directly from the common property: a cashier can take money out of the cash-box, shop assistants can steal clothes, secretaries can fail to file letters, judges can obstruct cases, police-officers can be negligent on their round and teachers can shirk the preparation of their lessons. An organizational structure which allows a complete surveillance and control of all members of an enterprise is from the standpoint of efficiency in most cases not very suitable – to say the least. Apart from the problem of controlling the controllers, the establishment of an overall control-structure will normally lead to enormous costs and a substantial loss in regard to the primary goals of the enterprise.⁷

Apart from that, the success of a cooperative project will in many cases be greatly dependent on the willingness of the participants to fulfil their duty and tasks in the spirit and not only the letter of the law and their readiness

7 General discussion of the principal-agent problem is found, for example, in Milgrom and Roberts 1992, and in Pratt and Zeckhauser 1991.

to apply their abilities and specific skills wholeheartedly. But whether a partner really strives for the common cause is scarcely controllable at all. As important an 'intrinsic' motivation of the members is for the successful outcome of a common enterprise, as little measurable it is as a mainly subjective attitude.⁸

It follows from all this that in the context of collective action it is of great importance to have partners who fulfil their tasks voluntarily, who are motivated to exhaust their capabilities and who will accept of their own accord their fair share of the common burdens. The central moral qualification which will and must be desired from a potential partner in cooperative relations, therefore, is the disposition not only to have an eye to his own personal interest in every situation but to obey his duties in regard to the common cause, even when in a particular case it is possible and advantageous to violate those duties. To label this disposition one might say that a potential partner should exhibit *moral integrity*.

Certainly, the wish that a partner should possess moral integrity in this sense is not at all limited to communal enterprises but, for instance, will also arise in regard to the partners in exchange-relations on the economic market – in every form of social contact it is beneficial for a person if his partners obey moral rules and orientate their behaviour by the principles of mutual respect and fairness. But the decisive point is that only in the context of a longer lasting communal relationship in which there is a continuous contact to certain persons one has a fairly good chance of *verifying* whether a partner really satisfies these moral requirements. Whereas during the often short-termed contacts on the market there is hardly a possibility to become acquainted with an exchange-partner and to find out his personal traits and behavioural patterns, this looks quite different within the framework of an association or community. Here not only does the *wish* for the moral integrity of a partner exist but also the real possibility to *fulfil* that wish by sooner or later recognizing whether somebody in fact possesses integrity or not. Consequently one can keep to those persons who exhibit the required moral qualities and keep away from those who lack them.⁹

It is true that even in the context of a common enterprise there is usually *no complete* social control of the behaviour of the participants. For this very

8 The role which 'intrinsic' motivation plays in the context of a firm is discussed by Frey 1992 and 1993.

9 This is one reason for shifting economic transactions from the market to a firm; cf. Baumann and Kliemt 1995.

reason the need arises for the moral integrity of partners – if there were no opportunities for free-riding at the expense of others, for unobserved violations of duties or shirking one's work, there would be no need for persons who willingly ignore opportunities of this sort. But it is decisive that the network of mutual social control within continuous cooperative relationships is in the most cases close-meshed *enough* to reveal free-riders and hypocrites who only pretend to possess moral integrity. Although it is not possible to keep an eye on every single *act* of a partner, it is nevertheless possible, due to the relatively high density of personal contacts, to make sound assumptions concerning the moral *character* of another person. Two aspects are crucial in this context:¹⁰

Firstly, there is a considerable risk for free-riders and cheaters to unmask themselves by error. One can be wrong when identifying a 'golden opportunity' to cheat and can be carried away in a seemingly favourable situation to exhibit a kind of behaviour which reveals one's true character to the others. It should not be forgotten that the *relative* level of control in associations or organizations can always be intensified, for example in the form of unexpected spot checks in a firm. It is especially fatal for a cheater that his reputation of moral integrity, which he has built up possibly under great efforts, can in principle be completely ruined by only *one* error – with the consequence, perhaps, of his exclusion from many important cooperative relations and social communities. The risk a free-rider and cheater has to reckon with, therefore, is also increased by the serious harm which may be in store for him. Once a good reputation has been lost, it is very hard to get it back.

Secondly, besides manifest deviating behaviour there are several 'secondary' respects in which cheaters differ from persons with moral integrity. Strategies and reactions which are difficult to conceal are typical of a swindler and hypocrite. Think, for example, of the procuring of certain information which is of relevance to the cheater, or of a general scheming and calculating attitude. It is nearly impossible to demonstrate spontaneity and behave naturally if one must permanently be on the alert not to reveal one's true intentions. But there are also more or less obvious emotional and physical symptoms which are often to be found among people who try to cheat and deceit: blushing when lying, nervousness towards the victims of their deception or the proverbial inability to look someone in the eye. Exhibiting secondary symptoms of this sort can evoke suspicion and distrust and, in

10 A detailed study on deceit and exposure is included in Frank 1988.

consequence, raise the risk of detection. (Cf. Ekman 1985.) The social networks within associations and communities mostly create a lot of opportunities to identify such symptoms.

A person who enters into a cooperative relationship with others, therefore, has on the whole a fair chance to cooperate selectively only with those who really possess moral integrity and to exclude those who do not meet this requirement. This has the important consequence that persons who want to qualify as appropriate partners in cooperative relationships can circumvent the danger of failure only if they possess moral integrity *in reality*: the easiest way to *pass* as a person with moral integrity is to *be* a person with moral integrity.

With this the old vision of liberalism at least in respect to its 'morality thesis' gets a new basis. Because under this presupposition there will be compelling reasons for many individuals *particularly* in a liberal society to acquire moral virtues and personal integrity even from the point of view of pure self-interest. If the benefits of participation in the various forms of human cooperation and communities are in fact of such great importance for all individuals, it will be more advantageous for them to become suitable partners for common enterprises by bearing the burdens of being moral than to take the risk of being permanently excluded from relationships of this kind.¹¹

In this case, however, the decisive question for individuals is not whether they will obey the precepts of morality in a *particular case*, but whether they will develop a moral *personality*: whether they want to be persons who in all situations are guided by considerations of expediency and always are on the lookout for their personal advantage, or persons who are reliably committed to certain moral principles and norms and therefore able to act contrary to their immediate personal advantages. *This* alternative itself can be judged solely on the grounds of a purely interest-based consideration. In the long run it can be much more useful for a self-interested person to be endowed with a moral disposition than to act continuously according to the principles of utility maximization. So the rational pursuit of individual interest would still be the basis for the emergence and maintenance of morality and virtues.

11 For a detailed inquiry into the fact that a disposition to act morally can be advantageous because it opens access to cooperative relations cf. Gauthier 1986 and Frank 1988; cf. also Hoerster 1982; Hegselmann, Raub and Voss 1986; Vanberg 1988 and 1993.

If a liberal society provides a suitable environment for unrestrained freedom of association and guarantees the individual right to choose the partners for communal enterprises freely, there will develop a 'market of virtues'. On this market a stable demand for virtuous persons, for persons who are suitable partners for cooperation and community, will emerge. But not only will there be a demand, there will also be a supply. Many persons will have real incentives to adopt and cultivate moral orientations to be able to enter this market as sellers. As long as a market of virtues is functioning efficiently, it will, by *its* invisible hand, take care of that measure of morality that society as a whole needs for its proper existence. Accordingly, a liberal, competitive market-society by no means only encourages an egoistic, 'immoral' calculus, though motivating people to show 'pragmatic worldliness' and to recognize their individual interests. A breeding ground for morality can evolve in such a society entirely irrespective of the activities of professional 'moral entrepreneurs' like moral philosophers, priests, teachers or the purposeful interventions on the side of moral-producing institutions. Morality will be effective in an interest-dominated society because it is in the interest of people to require moral conduct from others *and* because under certain conditions it is in the interest of those other people to practice the required conduct.

The rejection of the *sociological* argument of communitarianism has consequences for its *philosophical* argument. If it is true that liberal societies make possible the formation of all sorts of communities by promoting freedom of association, it is false to say that in a liberal society the individuals are not able to satisfy their fundamental need for participating in 'genuine' communal relationships. (Cf. Buchanan 1989.) And if participation in such communal relationships in a liberal society depends on the 'moral qualifications' of the potential partners, it is also false to say that liberal society leads to moral arbitrariness. Contrary to this supposition, the content of moral precepts will 'objectively' and unambiguously derive from the necessities of the respective forms of cooperative enterprises and the aspired common goals. On top of the demanded morality there will always be the demand for *fairness* because this is the main disposition which is needed to carry out any common project – and fairness in the sense of being ready to take one's fair share in producing a collective good is exactly that kind of civic virtue that is needed for the viability of a 'well-ordered' society as a whole.

V. Universalistic morality and the myth of community

But we can take things even a step further.¹² The familiar and widespread criticism of the anonymity and mobility of modern mass-society and of the exaggerated individualism and materialism of its culture frequently draws its apparent plausibility from an underlying assumption which one can refer to as the 'myth of community'. We come across this myth as much in everyday wisdom and common sense as in varying scientific theories. At the core of this myth lies the assertion that a persisting and reliable moral conduct can only be expected of people who are integrated in comparatively small, transparent and stable social groups. The intensive and continuous personal relationships in such groups are claimed to be the ideal basis for mutual respect and solidarity. It is the familiar picture of traditional social relationships in which people help each other and commit themselves to the common cause without permanently looking to their personal benefit – and its counterpart of the 'cold' and impersonal atmosphere in a metropolis where even neighbours remain strangers to each other, unsettled people move restlessly from one place to another, where personal intimacy and close community is rare, precarious and always at a risk and where in this jungle people are only concerned with their own survival and personal material welfare.

Now there is a kernel of truth in this myth. As I have just argued, in a large-scale society a solid basis for moral conduct can only develop if this society is not an amorphous unstructured mass but has some built-in elements of small-group-relations in the form of associations and common enterprises. It is also true that within the close-knit personal relationships of a small and closed group, mutual loyalty and solidarity amongst the members is guaranteed in a high degree. (Cf. Axelrod 1984.) The more intensive and durable the contact to certain persons, the better the chance to find out about their personality, their character and moral integrity, and also the higher the risk for a deviator to be identified and excluded. Under these circumstances one can be almost certain that one gets an equivalent return for one's own investment in moral conduct.

But what will be the *scope* of the kind of morality fostered in the limits of such a group? According to the degree of inflexibility of group-membership and depending on the isolation and immobility among the existing groups,

12 The following arguments are elaborated in greater detail in Baumann 1996, ch. 9, and 1997a.

the incentives for the members of such tightly knitted groups will increase to establish within their groups a *particularistic* group-morality the benefits of which are limited exclusively to group-members. Small social groups with stable structures and little mobility are typical of traditional societies in which persons are bound together almost inseparably by various ties—like family, kin, tribe, race, place or occupation. Under these conditions there is no reason for the members of the respective groups to demand from their partners a form of morality which would also take the interests of outsiders into consideration. Quite the contrary; if a number of people form a homogenous 'interest group' with a more or less insurmountable demarcation between it and the outside world, why should they not increase the benefits of their own group by trying to exploit, cheat, deceit, oppress or tyrannize outsiders and 'strangers'? The morality of such a closed community would therefore tend to be an 'in-group-morality' with an 'immoral', hostile attitude towards non-members, a morality which will restrict altruism and unselfishness to the dealings with the other members of the group.¹³

Hence the morality of traditional communities will not be a *universalistic* morality which impartially takes care of the interests of *all* persons affected. When seen in this way there seems to be no reason to glorify the 'moral conditions' in static and local social communities. Communitarians convey a romanticized and transfigured view of these traditional communal relationships—personal willingness to make sacrifices for the common cause can here be accompanied by strict group-egoism. For many people who refuse any kind of particularism in morality this will already suffice to reject communitarianism altogether.¹⁴

But in addition I would like to point out yet another, not *normative* but *empirical* flaw in the myth of community. On the basis of this myth, respectively its concept of community, one cannot understand the functioning of modern large-scale society properly. Such a society has a demand for public goods which are not solely in the interests of the members of some special group and it must rely on interpersonal moral conduct which considers people beyond the respective reference-group. If one considers

13 This point against communitarianism is supported with some historic evidence by Kymlicka 1991, 85 ff.

14 A communitarianist like MacIntyre however is ready to accept this consequence and defends a particularistic morality against a universalistic understanding of morality which "invaded postRenaissance Western culture at a particular point in time as the moral counterpart to political liberalism und social individualism" (MacIntyre 1984, 8).