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INSTITUTIONAL STRUCTURE AND THE OPTIMAL LEVEL OF LYING

**A
THESIS**

**Presented to the Faculty
of the University of Alaska Fairbanks
in Partial Fulfillment of the Requirements
for the Degree of**

DOCTOR OF PHILOSOPHY

By

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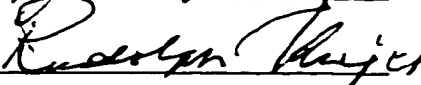
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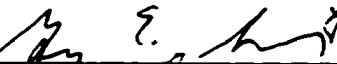
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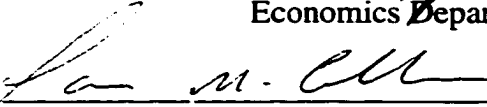


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Abstract

Institutional Structure and the Optimal Level of Lying

Rodney Fred Hiser

This study is an interdisciplinary comparative analysis of two institutional structures and their relation to lying. The author examines institutional structure through an institutional continuum with contrasting ideal-types at opposing ends. These ideal-types are the “private property order” and the “bureau.” The author models lying as a benefit-cost analysis and examines lying through a two-person model of society called the “information relation.” Using the information relation, he shows the problem of lying is an agency problem between the informer and the informee.

In two separate analyses, the author evaluates the ideal-types’ tendencies to either allow or hinder lying. In the first analysis, the author identifies seven protection-from-lying strategies and compares their necessary requirements to the institutional constraints of the ideal types. In the second analysis, the author examines six social phenomena, within the institutional context of each ideal type, that affect people’s benefit-cost ratio of lying.

The author concludes that there exists a positive correlation between the degree of central planning and the optimal level of lying, as seen from the point of view of each individual in society. The author argues that a movement on the continuum away from the private property order toward the bureau tends to (1) breakdown community relations, (2) provide incentive for society members to adopt value relativism, (3) change the nature of competition (4) lower society’s overall material standard of living, and (5) create a social environment of mutual self-deception. The author sees important implications in this study for the economics of information, theories of government regulation, and the sociology of science.

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Preface

When I began my doctoral studies, I did not intend to write about lying. I simply hoped to solve a problem that had puzzled me for some time. That is, why are some theories taught as fact and other theories ignored by mainstream educational institutions? Specifically, I wondered why the Austrian school of economics was ignored in favor of neo-classicism. Neither of these theories has been “proven” in the conventional empirical sense, so why ignore one in favor of the other? Why not teach both of them as criticisms of each other?

It occurred to me that whatever was the cause of the Austrians being ignored was also responsible for the existing quality of economic information. It seemed a reasonable assumption that one of the theories was better able to capture economic reality than the other. A substitution of one for the other, either partially or in total, would then result in a different overall quality level of economic information. If Austrian theory was suddenly introduced into university economic curriculums nationwide, then economic information nationwide would either be of higher quality (captures more of reality) or lower quality (captures less of reality) than it was previously.

I expected to find help in the traditional economics of information literature, but alas discovered that it focuses heavily on the optimal amount of information with quality being almost an afterthought. I found the most help in the Austrian literature, public choice economics, institutional economics, and sociology.

After several rejected thesis proposals that posited a relationship between the quality of information and the level of government regulation, my committee concluded that I was actually talking about lying and institutions. I then discovered the sparsity of literature in this area and became convinced that I was on to an idea that could result in an original and important addition to several existing literatures.

I Look back on the completed work with gratitude to all those people who aided in its completion. I wish to thank Lloyd Hilling and Robert H. Knight, Esq., both fellow graduate students, for offering suggestions on various chapters. Thanks go to my

committee members who encouraged me, read draft after draft, and guided me through the maze. They are committee chair Dr. Robert R. Logan and Dr. Greg Goering both of the University of Alaska Fairbanks Economics Department, Dr. Rudolph Krejci, Emeritus, University of Alaska Fairbanks Philosophy Department, And Dr. Lydia Black, Emeritus, University of Alaska Fairbanks Anthropology Department. I further wish to thank Dr. Joseph R. Kan, Dean of the University of Alaska Fairbanks Graduate School for his guidance on committee matters and for the 1999 summer funding that allowed me to finish on a timely basis. I would like to thank my daughter, Jennifer Ayn Degen, and son, Nicholas Rand Hiser. Jennifer helped with proofing and offered suggestions on my proposal, and Nicholas rallied my spirits time and again when I was not sure that I could face another rejection. Lastly, I wish to thank my lovely wife and best friend, Laura Jeane Hiser, who has stuck by me through thick and thin for the last thirty two years. Her commitment to this project required postponement of her own plans for six years. During that time, she not only provided financial and moral support, she also spent untold hours listening to my ideas and proofing my writing.

Chapter 1

Introduction

A wise ruler, therefore, cannot and should not keep his word when such an observance of faith would be to his disadvantage and when the reasons which made him promise are removed. And if men were all good, this rule would not be good; but since men are a contemptible lot and will not keep their promises to you, you likewise need not keep yours to them.

– Machiavelli, *The Prince*

In our country the lie has become not just a moral category but a pillar of the State.

– Alexander Solzhenitsyn.
The Observer, 'Sayings of the Year', 29 Dec 1974

Let us begin by committing ourselves to the truth, to see it like it is and to tell it like it is, to find the truth, to speak the truth and live with the truth. That's what we'll do.

– Richard Milhous Nixon
(1913-1994) US president.
Nomination acceptance
speech, Miami, 8 Aug 1968

A man who tells the truth should keep his horse saddled.

Caucasus Proverb

Some people may find it disconcerting to think of their fellow man in terms of his propensity to lie, but as Rue points out, “deception is universal in human cultures, and each culture must find its own patterns for managing it” (215). From an evolutionary point of view, man as a lying animal is quite consistent with the observed deceptive behavior of other forms of life including plants, insects, and other mammals. For example, certain species of “good” tasting butterflies mimic “nasty” tasting species in order to avoid being eaten. Similarly, hover-flies have adopted the black and yellow stripes of wasps, which makes them appear dangerous. Angler fish lure their prey by wiggling a worm-like piece of flesh to attract their prey. Also, female fireflies display the mating flash patterns of another genus of fireflies so they can attract its males and eat them.

Dawkins argues that because of competition for resources lying and deception play a significant role in deciding which genes get selected to survive another generation,

i.e., selection will favor those genes that are more adept at lying and deception. Hence, “lying” genes become a part of a species genetic make up. Dawkins says that “we must expect lies and deceit, and selfish exploitation of communication to arise whenever the interests of the genes of different individuals diverge” (72). He points out that interests of the members of the same species diverge more than interests of members of different species because members of the same species compete for exactly the same resources. It follows from this that lying has its greatest survival value among members of the same species. For example, as Dawkins points out, “a male might benefit his own genes if he does something detrimental to another male with whom he is competing” (72). Dawkins says that contrary to the belief that animal communication signals initially evolve out of mutual benefit of the species and then become exploited, “it may well be that all animal communication contains an element of deception right from the start, because all animal interactions involve at least some conflict of interest” (70).

In any event, it is evident that members of the human species learn to lie at a very early age. According to Vasek, “to lie successfully, one must have knowledge of another’s knowledge and beliefs, recognize the information required to sway the beliefs of the listener, and communicate such that this information, rather than information which suggests one’s intent to deceive, is passed on.” She says that “at the beginning of the school years children have all the skills theoretically necessary to lie effectively.” She adds that “all they need, perhaps, is some practice with deception and the inclination to deceive” (287).

This study argues that the optimal level of lying in society, from the point of view of each individual, is related to society’s institutions. That is, that people can lie and get away with it with less costly repercussions if caught under one institutional arrangement than they can under another. This study further argues that the optimal level of lying, again from the point of view of each individual, changes as institutions change. These arguments are supported by comparing two extreme type models of institutional structure, the private property order and the bureau, and showing that they differ in the number of constraints that they place on lying. To put it differently this study argues that the private

property order and the bureau differ in how they aid or hinder lying, that the choice sets concerning lying differ between these institutions and that they permit different optimal levels of lying.

Before proceeding, I must qualify my usage of the terms “lying,” “institutions,” and “optimality.” As the political and ethical controversy that engulfed President Clinton attests, people have different notions as to the nature of lying. There are also many different usages for the term “institution,” and the term “optimal” is not commonly used outside of the mathematical community.

Any concept of “lying” must be looked at in relation to some idea of what is true and what is false. This will help us distinguish the difference between true and false on the one hand and truth and lie on the other. There are four basic philosophical theories about truth: the correspondence theory, the coherency theory, the pragmatic theory and the performative theory. We will briefly visit each one.

Theories of Truth

The correspondence theory says that a true statement is one that corresponds to some fact of physical reality. As Aristotle put it, “To say of what is so that it is not so, and to say of that which is not so that it is so, is false; while to say of what is so that it is so, and of what is not so that it is not so, is true” (qtd. in Nyberg 35). In other words, if I report that it is raining and it actually is raining, then my statement corresponds to reality and is, therefore, true. If I report that it is raining and it is not raining, then my statement is false. Popper calls the correspondence theory the “common sense idea of truth” (*Unended Quest* 98). It is common sense because people realize that they must adjust their actions to the facts of reality if they are to attain their ends. Hence, people generally presuppose the correspondence theory of truth in their everyday lives. When people ask “Is it raining?”, they are presupposing a knowable reality and their ability to communicate reality through words.

The coherency theory holds that a true idea is one that coheres or fits within a system of other true statements, all of which are tied together logically. For example, the truth of a proposition in mathematics depends on the condition that it is possible for the

proposition to be deduced from a system of true axioms. In this view, a false statement or idea is one that does *not* cohere to some system of other statements that are accepted as true. People are using the coherency theory when they deem a new idea either true or false by comparing it with the total of what they already believe. As Ford puts it,

we all expend a considerable amount of psychic energy evaluating the constant input of new information. This information is checked against previously acquired knowledge, and older information is reevaluated in light of new data. This process is so automatic that it usually goes unnoticed, reaching consciousness only when there are major discrepancies or when disturbing emotions are elicited. (198)

The reason that tales of extra-terrestrial abduction fall primarily on deaf ears is because the idea of extra-terrestrials being able to traverse vast expanses of space and visit earth undetected by earth technology does not cohere with most peoples' belief systems concerning space, matter, and time, or with their views about God and creation.

Pragmatic theory or pragmatism discounts metaphysical speculations about the truth of statements and focuses more on belief. In this view, the search for truth is really a search for belief. People seeking the truth of an idea are deciding whether to believe it or not. They will believe that an idea is true if it is practically useful to their lives, i. e., if the application of the idea to their everyday life results in perceived benefits. Whether a belief is *actually* true has no relevance for the pragmatists. What counts is whether it works to produce desired benefits. As pragmatist philosopher William James put it, "On pragmatic principles, if the hypothesis of God works satisfactorily in the widest sense of the word, it is 'true'" (Qtd. in Edwards 6: 428). In this view, a false idea is one that is not useful in obtaining desired benefits.

There is a common thread running through the above three theories. This common thread highlights the traditional view of truth, i. e., that the truth of a proposition can be determined by the application of some principle. Despite their differences, these three theories agree that words like "true" and "false" are descriptive expressions; to say that a proposition is true is to say that truth is an essential characteristic of the proposition. The theories only differ in what principle they apply to determine if the

characteristic of being true is present in any given statement. They contend that a proposition is true if and only if it meets some criteria, such as corresponding to reality, verifiability, or being suitable as a basis for action. In contrast, performative theory, as developed by P. F. Strawson, says this approach amounts to nothing more than the proposition that a statement is true if and only if the statement is true. In Strawsons' view, to say that a proposition is true does not describe the proposition, but is merely a performative act of agreeing with or accepting the proposition. When one says "It is true that it is raining," he is really saying "I agree or believe that it is raining." By the same token, to assert that a proposition is false is to assert one's disagreement with it. "According to this view, 'true' has no independent assertive meaning, and the traditional notion of truth as a property or relation is misguided"(Edwards 6: 88). In other words, "true" and "false" cease to have objective meaning.

In the first three theories, we find a basis for defining a false statement as shown above. Now we must make a distinction between false statements and lies. Lying depends on the relationship between what one believes to be true and what one reports to others as being true. It may not actually be raining; however, if I believe and report to others that it is raining, then my report is false but I have not lied. If, on the other hand, I believe that it is raining and say that it is not, then I have lied whether it is actually raining or not.

In each of the above theories, except the performative theory, lying is the intentional reporting or sending of information that the reporter does not believe to be true. According to correspondence theory, a lie is a report about objective reality that is not believed by the reporter. A lie in view of the coherency theory is an ingenuous assertion about the relationship of a statement to received theory. A lie according to pragmatic theory is an ingenuous assertion that a commitment to a belief and the resulting course of action will result in personal benefits for the believer. Lying viewed from the performative theory ceases to have any real meaning since, as shown above, the theory teaches that "the traditional notion of truth as a property or relation is misguided"(Edwards 6: 88).

Correspondence theory received much criticism and fell into disrepute because of its inability to explain the nature of the correspondence between words and facts. However, Tarski rescued the correspondence theory by introducing what he called a “metalanguage” that could speak about language as well as facts (Popper *Unended Quest* 141-142). In light of Tarski’s work and an intuitive sense that people presuppose the correspondence theory in their everyday lives, I make the assumption that the correspondence theory is most relevant to this study. All references to lying, unless stated otherwise, presume that someone is trying to mislead someone else concerning the facts of reality, or at least what that someone believes to be the facts of reality.

Institutions and Optimality

Optimality is a mathematical concept in which a function is optimized (maximized or minimized) under given mathematical constraints. In the case of maximization, the function is allowed to increase until it overlaps with a pre-existing or given function. On a graph this appears as a line that rises in accordance with its function until it intersects the line of a constraining function. The point of intersection is the point of optimality. Although I do not develop a mathematical model, it is this concept that I am referring to in the “optimal level of lying” portion of the title. The optimal level of lying, in this view, is the point where the expected marginal benefit function for lying intersects with (is constrained by) the expected marginal cost function for lying.

For our purposes, what level of lying is optimal is a decision made by each individual after weighing the expected personal benefits and costs. It is the greatest number of lies or the greatest degree of lying that can be expected to produce more personal benefits than costs under existing social constraints. Various institutions form the existing social constraints to lying by making it less beneficial or more costly. This study argues that within a given institutional environment people form a subjective expected benefit-cost ratio to decide whether to lie at the margin, i.e., whether to tell one more lie.

According to North, “institutions are the rules of the game in a society or, more formally, are the humanly devised constraints that shape human interaction.

Consequently, they structure incentives in human exchange, whether political, social, or economic” (*Institutions* 3). If we see communication an exchange, then North is saying that institutions structure the incentives and, hence, the expected benefits and costs of lying. He continues by saying that “institutions define and limit the set of choices of individuals” (*Institutions* 4). This suggests that under a given structure of institutional rules there may be a set of choices concerning lying from which people can choose what they expect to be their most desirable or optimal choice.

Still following North, institutions can be consciously devised and formal, e.g., the United States Constitution, or they can informally evolve, e.g., common law, conventions, and norms. Using a competitive team sport analogy, he explains that formal institutions are the written rules of the game that constrain all players’ choice sets. In contrast, ideas about what constitutes good sportsmanship are informal institutional constraints on players’ choice sets and may vary from player to player. North continues that the rules of the game are institutions while the teams themselves are organizations that formulate strategies to achieve a common purpose, to win, within the rules of the game. Organizations, then, are “groups of individuals bound by some common purpose to achieve objectives”. North claims that both “what organizations come into existence and how they evolve are fundamentally influenced by the institutional framework” (*Institutions* 5).

The analyses that follow in later chapters, adapt North’s above distinction between formal and informal institutions to formal and informal institutional constraints on lying. The presence or absence of such constraints, it will be argued is the source of differences in the optimal level of lying in markets and bureaus.

This next five sections of this chapter develop different aspects of lying. The first following section examines methods of lying. The second following section looks at lying through the benefit-cost model of economists. The third following section develops a two-person model of society called the “information relation,” which is the relationship that people enter into when they exchange information. A salient feature of this relationship is the fact that lying is a potential strategy people can use to benefit

themselves. This section also shows that the information relation is plagued by the agency problem, which is the problem of how to get people to live up to the terms of their contracts with each other. The fourth following section shows how both the division of labor and Hayek's "particular knowledge" aggravate the agency problem in the information relation. The fifth following section introduces us to ways that people protect themselves from lying.

Methods of Lying

How many ways are there to lie? Montaigne makes it clear that classifying lying is no easy matter:

If, like truth, the lie had but one face, we would be on better terms. For we would accept as certain the opposite of what the liar would say. But the reverse of truth has a hundred thousand faces and an infinite field. (qtd. in Bok 3)

Perhaps "a hundred thousand faces" is a bit of an exaggeration; however, a glance at a thesaurus reveals that there are many ways of misleading someone, some of which we may need a dictionary to appreciate. The terms "perfidy," "cozen," "dissimulation," "duplicity" "aspersion," and "calumny" are different ways of being deceptive, which, according to Bok, is the larger category of which lying is a member (14). Besides telling an outright lie, deceivers might betray a trust, pretend to have a relationship with someone important, engage in name dropping, pretend to be someone else, or engage in defaming someone with slander and innuendo. They might send information through as many intermediaries as possible, knowing it is unlikely that the information will arrive intact. They may orchestrate their deceptions in order to take advantage of the biases or prejudices of their intended victims. They might lie with context by putting an opinion piece in a journal known for its objectivity.

Deceivers are guilty of what Kuran calls "preference falsification" when they dissimulate by pretending to have different values and knowledge than they really do (3). Kuran notes Scott's field work in Malaysia in which Scott documented peasants deliberately and routinely dissembling regarding their knowledge and dispositions in their

relations with landlords and government officials (339). And of course, there is the big lie, the lie so ludicrous that no one would actually try to get away with it if it were not true. Plato wondered in the *Republic* “if we could contrive some magnificent myth that would in itself carry conviction to our whole community,” and centuries later, Hitler echoed in *Mein Kampf*: “The greater the lie, the greater the chance that it will be believed” (qtd. in Compton’s Ref., quotations, search propaganda).

Lying by selection is a very common means of lying. People learn early that they are better off if some things remain unreported. School children routinely withhold the “whole story” of the playground squabble. Teenagers conceal from their parents a multitude of unacceptable activities with “just hung out with friends.” Suppose teenage friends sneak into an X-rated movie, stop in the park to smoke a joint, and break three windows by throwing rocks as they walk home from the park. Upon arriving home, they report to their parents that they went to the movie, talked in the park, and walked home. Of course what they report is true, but it is the least important part of their evening as far as the parents are concerned. These teenagers are lying by selection, because they know that their parents would select differently if presented with all the facts.

Of course we all select out of necessity each time we speak or write. It is impossible to tell everything about an event because it is too time consuming and would require more from our listeners than what they would be willing to endure. The teenagers above could also have told their parents that they each drank a soda at the theater, that one of them said hello to a friend, that they used the restroom, that one of the street lights was burned out, that they saw a squirrel in the park and so on ad infinitum. However, if we honestly recount an event, we select those aspects of the event that we believe that our listeners would consider most important if they were doing the selecting from the same information base. People who lie by selection select differently than they expect that their listeners would select, given the same information base. Barnes calls this “lying by omission” which he says is “the creation of a false impression by concealing information that was not required to be disclosed” (40). He contrasts this with “lying by commission” or an explicit statement contrary to reality. He says that “in practice lies of omission are

widely regarded as less reprehensible than lies of commission.” They are also safer, from the liars point of view, because “they provide fewer possibly vulnerable statements for the opposition to latch on to” (37).

Rue suggests an example of deception by selection, if not lying, in his description of the manner in which historians construct and reconstruct history. He points out that historians are likely to be biased for a variety of social and personal factors, such as religious and ideological convictions, and that these factors influence the manner in which historians select and interpret data. He says that “the historical perspective of a social group will tend to be characterized by selective biases which expunge or deconstruct negative elements while preserving and embellishing (even fabricating) the positive.” That is to say that historians, knowingly or otherwise, construct history so that it supports their personal biases or the biases of their culture. Rue points out that bias in historical selection is evident in that “atheists and fundamentalists will come up with radically divergent historical perspectives, as will capitalists and socialists” (250). Of course not all history is deception. Deception by historical selection occurs when historians, aware of their personal and cultural biases, consciously select to support them, knowing that their readers would select differently if given the same expertise and data base. Historians unaware of their biases write spurious history and engage in self-deception but they are not lying.

It is also possible to lie by selection in how we define our problems. Kingdon explains that “there are great political stakes in problem definition. Some are helped and others are hurt, depending on how problems get defined.” For example, in the 1970s, American automobile companies, hoping to get government bailouts, explained their reduced market-share problem as the result of “unfair competition” and “repressive government regulation.”(110). This may or may not be an instance of lying by selection, i.e., lying by what one has omitted. In addition to unfair competition and repressive government regulation, American automobile companies’ reduced market shares may also have been caused by bad decisions on the part of management; however the reported reason is more likely to get the companies favorable legislation.

Another method of lying is that of changing the definitions of words. This method, which I call epistemological lying, is particularly insidious because it leaves the victims conceptually defenseless, i. e., victims no longer have the mental categories necessary to identify the deception. Totalitarian regimes routinely change the definitions of words in order to get people to accept the beliefs propagated by the state. James Wilson's *American Government* text tells us that "in the former Soviet Union and its satellites and in China, Cuba, and many Third World dictatorships, a government is said to be 'democratic' if its decisions serve the 'true interests of the people', whether or not those people had any say in making the decisions" (5). This hardly jibes with the concept of democracy as it developed in the Western world. Being deprived of the Western view of democracy, how could the Russian people know that they were being deceived? As Hayek explains, an effective way of getting the doctrines of the state accepted is to make people believe that these doctrines are the same values that they have always believed in but which were not properly understood. "The most efficient technique to this end," says Hayek, "is to use the old words but change their meanings" (*Serfdom* 157).

Some argue that a finely honed craft of lying must include self-deception on the part of the liar. Rue argues that self-deception or self-lying is actually beneficial to liars in their efforts to deceive others. Following Triver's explanation as to why self-deception was not selected out of existence in the evolutionary process, Rue explains that liars often give themselves away by their involuntary body language, such as eye movements, nervousness, and voice quavering, that are a result of internal conflicts. If a liar believes his own lies, he can assert them with the confidence of a truth teller. Rue says that "what the liar requires is the ability to store contradictory information in the brain and to read out the false while keeping the true suppressed in the unconscious" (146). In this view, self-deception on the part of liars results in a double-lie since they lie both with their words and with their supporting involuntary movements.

Werth and Flaherty point out that self-deception on the part of the victim can help liars as well. They cite a case study of a wife whose husband was deceiving her by having an affair with another woman. In the interview the wife reported:

Little by little things were happening that didn't make sense, but I can remember making excuses for them myself...I didn't want to believe there was anything to find out...so I was being deceived from two angles...I was deceiving myself...I didn't sit there when it was happening saying, 'I am just fooling myself.' You know, I, I, as I said, I made up a lot of excuses, and really believed them... (296)

The self-deception of the wife facilitated the husband's lying by making it easier for him to lie without getting caught. As the wife makes clear, self-deception on the part of victims results in their being deceived twice, once by liars and once by themselves.

In light of the views of Rue and those of Werth and Flaherty, we can imagine that there may be cases where both liars and their victims engage in self-deception. In such cases, liars could assert their lies with the confidence of truth-tellers to victims who are stone deaf to the truth. People in such a relationship would necessarily be living in a fantasy world where what ever liars believe to be true is accepted as true by both liars and their victims. However, in such a world, liars are not really lying as previously described. Lying was qualified earlier as being a report contrary to one's beliefs. According to this qualification, self-deception and lying do not go together. If people delude themselves into believing that what they report is true when it is in reality not true, then they have reported false information, but they have not lied by our standards.

In the real world, deception, both of others and of oneself, is seldom complete or total but rather partial and incremental. That is, people lie to some degree or with some frequency that falls on a continuum from slightly to completely or from never to always. People place themselves on this continuum by their choices of when and how much to lie. The next section develops the idea that people's choices to lie or to refrain from lying are based on their subjective evaluation of expected benefits and costs.

Lying as a Benefit-Cost Analysis

According to Bok and Arendt, the many versions of lying have two things in common: they all are deliberate and they all deal with contingent facts. Bok makes the distinction between giving someone bad information and giving someone bad information *on purpose*, thereby making it clear that *intention* to lie is a necessary part of the

definition of lying (13). Arendt points out that lies deal with contingent facts, i.e., facts that are not necessarily true. For example, I could lie that I flew to Hawaii for vacation last summer, for that could be true or false; however, I could not lie that I *drove* to Hawaii because that contradicts a fact that is necessarily true: One cannot drive to Hawaii. Arendt says that by sticking to contingent facts a lie “never comes in conflict with reason, because things could indeed have been as the liar maintains they were” (*Crises* 6). She also points out that liars have the advantage of knowing beforehand what their audiences wish or expect to hear; therefore, they can customize their lies, often making them sound more plausible than reality. Of the liar Arendt says, “He has prepared his story for public consumption with a careful eye to making it credible, whereas reality has the disconcerting habit of confronting us with the unexpected, for which we were not prepared” (*Crises* 6-7).

Eck puts the motivations for lying into ten categories (60-63), but Bok distills them into only four: to avoid harm, to get benefits, to effect fairness, and to protect a larger truth (76). The latter category, what Plato called “noble lies,” Bok calls “pious fraud” (7). Bok’s four categories easily collapse into two once we realize that “effecting fairness” and “protecting a larger truth” are really actions to get benefits. We are left with “to avoid harm” and “to get benefits,” which coincide with the benefit-cost approach of economics.

According to economic theory, people make choices by using a benefit-cost process; they weigh the expected benefits of a choice against its expected costs and choose so as to maximize their total benefits. Probably the most fundamental statement of the benefit-cost theory of decision making is that of Ludwig von Mises whose action axiom holds that all people at all times act in a manner that they believe will move themselves from a state of lesser satisfaction to a state of greater satisfaction (*Human Action* 13-14). From this, we see that people’s lies are an attempt to move themselves from a perceived state of lesser satisfaction to perceived state of greater satisfaction, i.e., to increase their expected benefits or to reduce their expected costs. In other words, they

are trying to change the benefit-cost ratio that they expect would be the result if they tell the truth.

Among the things that people see as benefits are survival, power, money, sex, prestige, revenge, influence, the welfare of their friends, self-esteem, health, and true information; among the things that people regard as costs are work, punishment, humiliation, pain, loss of wealth or health, and being lied to. In this view, even the lie to spare others pain is a lie to avoid costs or get personal benefits on the part of the liar. The doctor who lies to the family of the dying father avoids having to personally cause the family pain, which is avoiding a cost. He also can give the family a few more months of hope and postpone their grief. If he values helping these people feel better longer, he has gained a benefit.

Applying the benefit-cost view of lying to everyday life, we can understand why people in various positions might choose to lie to change the outcome of events. Teachers may select materials to influence the values of their students. Lawyers may conceal, select, or slant information in order to protect a client or win prestige. Witnesses may perjure themselves to avoid prison or help a friend. Politicians may over-promise to gain political office, or they may pretend to confide in the American people in order to protect national unity or save face. Businessmen and professionals may feign a social problem and promote government regulations that would restrict their competition. Lobbyists may select or conceal information in order to influence government policy. Employees may dissemble or hide their actions to get or keep a job, get a sick day, or to avoid personal effort. Researchers may falsely promise confidentiality to get the respondents of surveys to reveal their true preferences. In their everyday lives, people may lie to protect friends or harm enemies, to avoid taxes or jury duty, or just to save a few pennies at the checkout counter.

To understand how expected benefits and expected costs of lying are subjectively evaluated by individuals, it is helpful to view lying as a strategy for interacting with others with whom one engages in a specific relationship which I call the "information

relation.” The next section explains this relationship and shows how lying can be used to advance one’s aims within it.

The Information Relation and the Agency Problem

In this paper, I refer to the relationship that people have when they exchange declamatory statements for the purpose of gaining useable information, as the “information relation.” Looked at from a benefit-cost perspective, the information relation takes on specific characteristics, and both parties to the exchange understand the “rules of the game,” i.e., how to get benefits and avoid costs. From here on, I refer to the person making the declamatory statement as “Informer” and the person receiving the statement as “Informee.”

Informer makes assertions, which according to Searle is a type of illocutionary act that conforms to certain semantic and pragmatic rules. Briefly, these rules are: The maker of assertions (1) commits himself to the truth of the expressed proposition, (2) must be in a position to offer evidence of the truth of the proposition, (3) must express propositions not obviously true to both himself and his listener, and (4) commits himself to a belief in the truth of the proposition (62). In short, Informer is in a kind of promising position, because by the mere fact that he informs someone of something, he implies that he, himself, believes what he imparts is true. Informer weighs the expected benefits and costs of lying and truth-telling and chooses the strategy judged to get the most benefits at the least cost.

Informee, on the other hand, is in a trusting position and must decide whether to believe what he is being told. Informee weighs the expected benefits and costs of believing or not believing and of verifying or not verifying Informer’s information and also chooses the strategy most likely to get the most benefits at the least cost. Both parties in the relationship are aware of their options and aware that there are benefits and costs involved in their deciding on one or the other of them. They are also both aware of their counterpart’s options and aware that their counterpart weighs expected benefits and costs when choosing between them. People act as Informer in some situations and as Informee in others, and they change their positions and their options as they change roles.

Sometimes people change roles quickly and often as in a casual conversation. I shall henceforth refer to the relationship between Informer and Informee as the “information relation.”

The information relation coincides with the principal-agent model in many ways. The essence of the principal-agent relationship is contained in the saying, “When the cat’s away the mice will play.” How does the cat make the mice do his bidding when he is gone? Economists, who commonly refer to this problem as the agency problem, often use the principal-agent model to analyze hierarchical relationships such as those in firms and government agencies where everyone is both a principal and an agent, a principal in relation to subordinates, and an agent in relation to superiors. However, as Eggertsson points out, “it has a general application to all forms of exchange” (40). Eggertsson reminds us that the principal-agent relationship is formed when an agent agrees to represent the interests of the principal in return for payment, e.g., one person may agree to paint another person’s house in return for an agreed-upon hourly wage. The agency problem occurs when agents engage in opportunistic behavior and do not live up to the terms of their agreements or “contracts.” Agents may have different conceptions of compliance than do principals, or they may decide to cheat. This imposes transaction costs on principals so that they must monitor the actions of agents to ensure an acceptable level of compliance; however, principals do not monitor completely the actions of agents because the process is costly. Principals monitor only to the point where expected marginal costs of monitoring equals expected marginal benefits from increased compliance by the agent. (40-45).

The information relation fits quite neatly into the above model if we imagine Informer in the position of an agent, and Informee, that of a principal. Take, for example, the information relation between authors and buyers of nonfiction books. Authors are the agents in the principal-agent relationship since they, as explained below, tacitly agree to represent the interests of the book buyers, and book buyers are the principal because they pay a fee for the cooperation of the author. People who buy nonfiction books are aware that authors may choose to misrepresent the facts for their own person gain; however,

buyers show, by the act of buying, that they expect in those instances of buying that authors hold the purpose of finding the truth of the matter, and that the contents of those books represent authors' honest efforts to report true information. In the words of Miller and Stiff, these buyers have adopted a "truth bias," which is a generalized belief that our communicative partners are truthful" (35). Authors are aware of buyers' expectations or truth bias since there could be little other reason for buying nonfiction books. These expectations by book buyers, which are known and tacitly agreed to by authors, can be seen as the "contract" that authors enter into with buyers when they take payment for their work.

If authors misrepresent the facts or even exaggerate, say to try to sell more books or increase their prestige among their peers, they are breaking the terms of their implied contract with buyers and imposing transactions costs on them. Buyers, to avoid being at the mercy of authors' whims, must, in some manner and to some degree, monitor authors by verifying the information in nonfiction books. Buyers monitor authors by getting second opinions, consulting other sources, checking with friends, etc. Since this is a costly activity, buyers monitor only to the point where expected marginal costs of doing so equal expected marginal benefits.

This example also includes certain fiction books although, at first glance it would seem that fiction writers are either lying or ill-informed since they appear to be breaking Searle's illocution rules (1), (2) and (4) as stated above: Fiction writers do not commit themselves to the truth; fiction writers do not have evidence for the much of what they write; nor do they pretend to believe what they write. According to Searle, "what distinguishes fiction from lies is the existence of a separate set of conventions which enables the author to go through the motions of making statements which he knows to be not true even though he had no intention to deceive" (67). In other words, fiction writers are pretending with readers' knowledge and permission. This convention, says Searle, enables writers to "use words with their literal meanings without undertaking the commitments that are normally required by those meanings" (66).

Given this qualification, Searle says that “almost any important work of fiction conveys a ‘message’ or ‘messages’ which are conveyed *by* the text but are not *in* the text” (74). As an example, Dickens’s anti-industrial revolution message in *Oliver Twist* comes to mind. In Searle’s words, Dickens “conveys a serious speech act through the performance of the pretended speech acts which constitute the work of fiction...” (75). It is this serious speech act or “message” that a writer of literary fiction commits himself to and that his readers hold him accountable for rather than the actual words of the book. The book itself, the characters, the plot etc., may be construed as the author’s evidence for the truth of the message.

I exclude fiction writings such as romance novels, mysteries, and other popular fiction works from the above example because they are not declamatory statements about the true state of the world, nor do they convey a “message” as does the serious novel genre. These works are primarily for entertainment. Buyers of these works do not expect to learn the true state of the world, nor do they expect a “message.” They expect a good story or an escape from reality, and hence, do not hold the author accountable for not presenting a true state of the world. Without the purpose of “finding the true state of the world,” the information relation, as described above, ceases to exist. Without expectations of truthfulness by readers, there is no “contract” between writers and readers of popular fiction, and hence, they are not in a principal-agent relationship with each other. Popular fiction writers can “lie” all they want without hurting anyone. There is no agency problem between writers and readers of popular fiction.

The contractual relationship that exists between nonfiction writers and readers appears to hold in other situations where people exchange declamatory statements. People go to speeches, take classes, turn on the nightly news, or read the morning newspaper because they expect that speakers, teachers, broadcasters, and editors will honestly report the facts as best they can. Like the authors of nonfiction books, professional reporters of information are aware of people’s expectations of truthfulness and, therefore, tacitly agree on a contract of honesty with their patrons. People are, of course, aware that they might be lied to in these situations. However, by choosing certain

speeches, classes, news shows, and newspapers over competing sources, they are expressing an expectation that they will be told the truth in these instances. It is safe to assume that people do not engage in these activities for the purpose of being lied to.

We cannot, however, restrict this contractual relationship to professionals and their patrons; it is also present when people engage in friendly conversation and write letters to each other. The mere fact that people engage in these activities allows us to assume that they expect to benefit by learning something about other people or the state of the world. Like book buyers, they expect the truth of the matter or at least what the fellow conversant or letter-writer believes to be the truth. By the same token, conversationalists and letter-writers are aware that their listeners and readers expect the truth of the matter, because it is understood that people, including themselves, would not waste time conversing or reading letters if they expected to be lied to. In this situation, as in the earlier examples, there is the expectation of honesty and the knowledge of this expectation, hence, the “contract.”

Since there exists an implicit contract in every instance of the information relation, it follows that whenever people utter or write declamatory sentences, they are playing the role of agent. This is so, because they are the source of propositions about the state of the world for other people, and they are aware that their listeners are paying a price, whether a direct, agreed-upon payment, as in the book example, or simply the costs of taking the time to listen and exerting the mental effort to understand, as in casual conversation. People are also aware that their listeners expect to learn something about the true state of the world, hence the contract, and by engaging in declamatory utterances, these people tacitly agree to represent the interests of their listeners in return for payment.

It also follows from the idea of an implicit contract that whenever people cognize declamatory sentences that are spoken or written by others, they are in the principal role, because they are paying a price for the information and because they suffer the risk that Informer may engage in opportunistic behavior by intentionally misinforming them. In regards to information, then, people are both sources of information used by others and users of information obtained from others, and are, by this fact, in a complex hierarchical

principal/agent relationship, where they play the role of principal in relation to those who inform them and the role of agent when they inform others. Therefore, people must, in some fashion and to some degree, monitor the sources of information that they use, and they, in turn, are themselves scrutinized when they are the source of information.

We have already encountered a terminology problem that presents itself when one analyzes lying, i.e., what terms best describe the relationship between liars and their victims. Some writers use “liar and victim” as I just have. Another option is the “Informer and Informee” personification that I used in developing the information relation. Later we will encounter Klein’s use of “promisor and truster” and Barnes’s “liar and dupe.” In the following chapters I use all of these pairs of designations depending on the context. However, as a rule, I prefer “Informer” and “Informee,” because personification of the terms tends to remind us of the principal-agent relationship that exists in the information relation.

A simple example illustrates how producers of information might benefit themselves by lying. Suppose that person “A” hires person “B” to paint his house for \$10 per hour. Assuming that “A” did not monitor “B’s” actions, “B” has *private information*, i.e., “B” alone knows exactly how many hours were spent painting. This situation is what Arrow calls “asymmetrical information” between trading partners. Arrow argues that asymmetrical information can lead to “adverse selection” or “moral hazard,” which are, respectively, the economist’s terms for deception *before* and *after* a contract is agreed upon (251-252). If “B” lies about the number of hours he spent painting “A’s” house, we have an example of moral hazard, because “B” would be lying after their agreement.

This example points out that, as Molho puts it, “private information is a pre-condition of lying.”(2). Person “B” can consider using a strategy of lying in his efforts to maximize his benefits when informing “A”. Person “B’s” expected benefits from lying are a larger paycheck. Expected costs include the risk of being found out and the risk of losing future business. We must also include as a cost for lying the emotional or moral costs of breaking his personal moral code. As Ostrom points out, if people accept the validity of norms against some course of action they will not normally include it in their

action set; however, if they expect a large benefit from acting against their values, they may temporarily include it in their action set, but to choose it causes large costs (35).

At this point, person “B” weighs an expected larger pay check against his possible ruination from being caught and against the emotional stress of breaking his moral code against lying (assuming he has one). “B” also chooses how *much* to lie by choosing among smaller or larger increments. Let us say that “B” actually spent 100 hours painting “A’s” house. “B” could report that he spent 101 hours or even 1000 hours. “A” would probably believe a report of 101 hours since it stands close to the actual amount; however, “A” would probably not believe a report of 1000 hours because it stretches far from the truth and perhaps contradicts a necessary fact as discussed above. Therefore, lying is subject to diminishing marginal returns. As Arendt points out, “there always comes the point beyond which lying becomes counter productive” (*Crisis* 7). “B’s” optimal level of lying, i.e., the choice that from his point of view would give him the greatest expected benefits, rests somewhere between the two extremes. The main task facing person “B” is locating the optimal level of lying given the expected marginal benefits and marginal costs that he is facing in this situation. Of course this amount may be zero.

The success or failure of lying and cheating as a strategy in the information relation depends on the amount of monitoring that takes place between Informer and Informee. After all, fisherman can lie about the size of their catch only to people who were not in the boat with them. More monitoring means less private information and, hence, a lower optimal level of lying as seen from the individual decision-maker’s point of view. In the painting example above, the potential for agency problems exists because person “A” did not monitor the actions of person “B”, which led to private information on “B’s” part. “A” could have reduced the problem by periodically checking on “B’s” progress, but “A’s” monitoring will always be less than total because the expected costs in time and foregone opportunities of observing “B” completely, i.e., watching him every second, is greater than the expected benefits. If this were not so, “A” would paint his own house.

Of course “A” could hire person “C” to monitor the work of “B”, but who, then, would monitor “C” to make sure that his report to “A” is accurate? Person “A” could even carry it a step further and hire person “D” to monitor the original monitor, person “C.” However, as Thomas Sowell points out, “it is always possible to hire people to watch other people, but how conscientiously they will watch and report is as problematical as the original behavior that requires watching”. He adds that “hiring more monitors to monitor the first set of monitors merely raises the same question on a new level rather than providing an answer” (*Knowledge and Decisions* 65-66). Sowell is describing the nesting of a secondary agency problem within the primary agency problem, which creates a whole new set of monitoring costs. This is essentially the monitoring problem that exists in hierarchically structured organizations like firms and government bureaus.

Miller and Stiff point out that people are sometimes not motivated on their own behalf to monitor lying. They also use the example of a dependent housewife who suspects that her husband is having an affair. By monitoring or finding out for sure, she may lose her happy home and her source of income. Consequently, she adopts the “I don’t want to know” position and does not monitor her husband’s behavior.(34). Miller and Stiff suggest that this is somehow a special case; however, as seen from the benefit-cost view of lying, the wife is monitoring to the point where her expected costs from monitoring equals her expected benefits from doing so, i. e., at zero. From her point of view, any amount of monitoring is too costly. As the wife in Werth and Flaherty’s study mentioned earlier put it, “But as much as I wanted to be a detective and find him out, I didn’t want to either. Because the truth, I was afraid more of the truth than living in the lie kind of” (296).

Besides being a prerequisite of lying, private information is also a prerequisite of being an informer in the information relation: I must know something that you do not know before I can inform you of it. This is only a restatement, in a new context, of Searle’s rule (3) of assertions above which says that “the expressed proposition must not be obviously true to both the speaker and the hearer in the context of utterance” (62). If

two people knew exactly the same things, they could not engage in the information relation. In a nutshell, then, Informer always has private information. From this fact, coupled with the fact that monitoring is necessarily incomplete (because of monitoring costs), it follows that the opportunity to obtain benefits by lying exist, to some degree, in every instance of the information relation.

As we shall see next, societies organized along the principle of the division of labor are particularly vulnerable to lying, because their members intentionally acquire different sets of knowledge and information. In so doing people both increase private information and reduce their ability to monitor the sources of specialized information.

Division of Labor, Particular Knowledge, and the Agency Problem

Division of labor makes it possible for society to benefit from a much larger total set of information than under autarkic production by doing away with large amounts of duplication of knowledge among society's individual members: Each person only has to know his specialty. Adam Smith was the first to explain this phenomenon when he showed that for a single individual to make a pin he must have knowledge of mining, metallurgy, smelting, wire pulling, etc., and could scarcely make one pin per day; however, with division of labor, a person with no great knowledge of any of these things can make thousands of pins per day (*Wealth of Nations* vol. I 8-9).

Division of labor increases a society's overall wealth, but, as Arrow points out, it also increases the potential for lying by increasing private information. He says that "every profession, such as the medical, owes its economic function to the inequality of information between the professional and his client; what the latter is buying is most of all the superior knowledge of the former" (253). In modern-day economies, there are, perhaps, thousands of divisions of labor or specialties about which some people are experts but most people are novices or are completely ignorant. Under division of labor, people are sources of information regarding their specialties, but they use information from other specialties about which they may know very little: The doctor and the auto mechanic trade information and are, therefore, susceptible to being lied to by each other. Division of labor, then, separates people into enclaves of private information within

society. This shows the need for increased monitoring under the division of labor, but it also shows that monitoring becomes more difficult. Because of the complexity of information coming from specialties, information users cannot personally verify it; for the most part, they must rely on knowledgeable third persons. This situation reminds us of person “C” monitoring person “B” for person “A”, which creates a nesting of agency problems as mentioned earlier.

Hayek points out how society is subdivided into still smaller, more subtle units of private information than those created by the division of labor. He says that because people occupy a unique place in time and space they have unique knowledge, or as he calls it, “the knowledge of the particular circumstances of time and place” (“Use of Knowledge” 80). This knowledge, or information for our purposes, is even more specific than information from the various divisions of labor: It is unique to each person. For example, the half-empty bottle of water that I keep on my desk has some role, however minuscule, in fulfilling society’s total need for fresh water. Because of unique circumstances, I am the only person in society that knows the condition of those few ounces of water: how old it is, whether it is potable, etc. Therefore, I am the only person in society that knows whether I could best use this water for drinking or watering my plant, Ozzy. Since this “particular knowledge” is unique to me, I have private information about the most efficient use of a valuable resource. In a similar vein, for any given resource and any given instant, there is someone with unique and current knowledge about it.

Hayek writes that society’s knowledge problem is that of how to use particular knowledge, or, in his own words, it is “a problem of the utilization of knowledge which is not given to anyone in its totality” (“Use of Knowledge” 78). From our point of view, given Hayek’s insight, society’s knowledge problem is that of how to make use of particular knowledge in light of the realization that it is private information and, hence, potentially useful for lying. Any social unit, therefore, must solve a dual problem of (1) how to use information that is not “given to anyone in its totality” and (2) how to use information that in itself presents a unique opportunity for lying.

This makes particular knowledge especially troublesome for societies that use central planning. For example, focusing here on the opportunity for lying aspect of the problem, if people are aware that their particular knowledge may be used by a central authority to formulate policies that will harm them, they may lie when reporting it. Lying to a central authority for the purpose of influencing its decisions creates what Milgrom and Roberts call “influence costs” (“Bargaining Costs” 86). This idea recognizes that one cost of central planning is the unavoidable use of information that, to some degree, has been altered to serve the interests of the sources of information. When people report private information to a central authority, they are spurred to attempt to influence the outcome of policy formation, and of course, lying is a potential strategy. This situation spawns what Kingdon calls “policy entrepreneurs” (204) and what North more broadly defines as “intellectual entrepreneurs” (*Structure and Change* 51-54). These are, in different contexts, people trying to benefit themselves in the policy-making process by saying the “right” thing rather than what is, even in their opinion, true.

The concepts of “influence costs” and “policy entrepreneurs” further illuminate the duality of society’s knowledge problem, especially the part with which we are here concerned: Given the extent of the potential for lying inherent in the various divisions of labor and in particular knowledge, and given the difficulty and costliness of monitoring people’s behavior, how does society ever use true information? Restating this question in terms of the agency problem as it relates to the information relation, how does society use true information under circumstances where people are both principals, that cannot directly monitor much of the information that they use, and agents, that cannot be directly monitored in regards to the information that they provide for use by others? Inherent in this question is the realization that people are locked in a perpetual bout with the agency problem each time they become involved in the information relation, and that societies must somehow deal with this problem or they could not be viable.

Social Remedies To Lying

Bok says that victims of lies suffer substantial costs, because “to be given false information about important choices in their life is to be rendered powerless. For them,

their very autonomy may be at stake” (xvii). She concludes that any society “whose members were unable to distinguish truthful messages from deceptive ones, would collapse” (19). As the following example shows, these costs occur because lying causes people to make less beneficial choices.

Lying hurts people in two ways. First, it causes people to make decisions based on false information. This creates costs because these decisions do not result in the desired and expected outcomes. “The advantage falls to the cheater because the cheated person misperceives what is assumed to be the real world” (Bell and Whaley 47). For example, if a used car salesman successfully lies about the quality of a car, the person who buys it gets less total benefits than expected because he pays for quality that does not exist. Second, lying requires that people remove resources from other uses and devote these resources to protecting themselves from lying. Once the used car buyer realizes that he has been lied to, he devises a strategy to protect himself from future lying. This strategy requires resources that were previously benefiting the car buyer in other ways. The time and money that it takes to become knowledgeable about the mechanical workings of automobiles are resources that were previously devoted to leisure, investment, groceries, or any number of other uses.

Because of these costs, many societies, both modern and primitive, put some form of constraint or sanction on lying. According to Radin, the Winnebago Indians consider truth-telling in regard to war deeds to be sacred, and they warn that exaggerating them in order to add to one’s honor will result in premature death. However, the war deeds context is the only time lying and truth-telling are mentioned in twenty-three moral generalizations that Radin gleaned from Winnebago texts (ctd. in Edel and Edel 122). Given this selective sanctioning, the Winnebago apparently believe that truth-telling is more important in some situations than in others. Modern societies also selectively sanction lying. Certain categories of lying like fraud and bigamy are punishable by laws which are, by our definition above, formal institutions. Other instances of lying, such as boasting, are sanctioned by social norms which are informal institutions, and still others, like the “white lie” are overlooked.

Formal constraints on lying, such as the sacred constraints of the Winnebago and the legal sanctions against fraud in modern societies, will reduce overall lying by increasing its costs, but by themselves they are not a sufficient deterrent to protect individuals from being lied to in many of their everyday encounters. People may still lie in situations where the law does not apply or where people do not fear the law, i.e., anywhere that the law does not have sufficient force to imply large enough expected costs to overcome expected benefits of lying. Therefore, Informee cannot be certain that Informer is telling the truth even in the presence of formal constraints on lying. Informer will still lie if he expects that he can benefit themselves at an acceptable cost.

This points out that individuals are ultimately responsible for shielding themselves from the effects of lying, and that if societies are to overcome the agency problem inherent in the information relation, there must be an individual informal response as well as a formal response to lying. How do individuals protect themselves from lying? Some people may try to sharpen their lie detecting skills, such as watching for nervous mannerisms, overly deliberate speech, or constricted facial muscles. However, it is doubtful that this effort will result in much success, because it has been shown that humans are poor lie detectors. Citing several studies, Miller and Stiff conclude that humans can detect deception just slightly better than chance levels. These studies also show that professionals who are trained to detect deception, such as customs inspectors, federal polygraphers, crime investigators, judges, and psychiatrists, are not much better than college students (69).

This leaves individuals in the position of having to adopt rules of thumb that make it less likely that someone will lie to them or less likely that they will be hurt if someone does lie to them. These rules of thumb grow out of human collective experience of dealing with liars, and they sometimes attain the status of mini-morals or principles by which to live ones life. When looked at analytically, these rules of thumb are strategies that people adopt to minimize the advantages of liars. The old saying, "Cheat me once, your fault; cheat me twice, my fault" is an example of such a strategy. This strategy is immortalized in the fable about the boy who cried wolf. In this fable, the towns people

do not believe the warnings of the boy who previously lied to them. This simple story contains two strategies: Do not believe someone who has lied to you in the past, and do not lie if you want to be believed in the future.

Folklore is filled with admonitions and caveats that aim to arm naïve people with lie protection strategies. For example, Aesop's lamb who is being eaten by a wolf warns, "Any excuse will serve a tyrant." The essence of this strategy is to not place too much trust in people who are more powerful than you are because the power imbalance leaves you no recourse in the event that you are lied to. Another example is the fable that proclaims, "One bad turn deserves another." This is reminiscent of the TIT-FOR-TAT or reciprocity strategy that prevailed in Robert Axelrod's now famous computer tournament. The decision rule in TIT FOR TAT says to start out cooperating then do what your partner does every move after that (36). Yet another example, "Distrust interested advice," is a strategy that recognizes that people serve their own interests when they report information. This is reminiscent of Kingdon's "policy entrepreneur" as mentioned earlier. Other admonitions by Aesop are: "Do not trust flatterers;" "Appearances are deceptive;" "Enemies' promises were made to be broken;" "Never trust a friend who deserts you at a pinch;" "We often give our enemies the means for our own destruction." Each of these "morals" contains a strategy for protecting oneself from lying and deception (*Fables of Aesop*).

A little reflection reveals that we each routinely use such strategies, sometimes almost subconsciously, to protect ourselves from lying: not trusting strangers, getting a second opinion, "test driving" before we buy, shunning suspected liars, buying from reputable dealers, etc. Klein points out that in modern societies, some of these personal strategies have become institutionalized, such as name brand buying and reputation building. These institutions are what Klein calls "voluntary remedies" to trust problems ("Trust For Hire" 97).

The next section explains how market and bureau models will be analyzed and compared in their tendencies to either aid or hinder lying and will show the sequence of development in coming chapters.

Comparing Markets And Bureaus

It seems a reasonable assumption that the existing institutional arrangements of a society, the laws, social norms, property relations, power structure, etc., may be either more or less helpful to people in their application of protection-from-lying strategies than some other possible institutional arrangement. That is to say, one institutional arrangement may reasonably be thought to encourage or advance protection strategies, while another arrangement hinders such strategies. It also seems a reasonable assumption that one institutional arrangement may provide greater incentives and opportunities to lie than another arrangement.

For heuristic purposes, Berger and Luckmann postulate a model society in which institutionalization is total. That is, all social actions are done according to rules.

In such a society, *all* problems are common, *all* solutions to these problems are socially objectivated and *all* social actions are institutionalized. The institutional order embraces the totality of social life, which resembles the continuous performance of a complex, highly stylized liturgy. There is no role-specific distribution of knowledge, or nearly none, since all roles are performed within situations of equal relevance to all the actors. (75)

In other words, the authors say, “everybody *does* everything and *knows* everything” (76). Although this kind of society cannot be found in history, Berger and Luckmann compare actual societies in terms of their closeness to this extreme type. “It is possible to say that primitive societies approximate the type to a much higher degree than civilized ones. It may even be said that in the development of archaic civilizations there is a progressive movement away from this type” (75).

They develop this model further by conceiving the opposite extreme.

The opposite extreme would be a society in which there is only *one* common problem, and institutionalization occurs *only* with respect to actions concerned with this problem. In such a society there would be almost no common stock of knowledge. Almost all knowledge would be role-specific. (75)

Again there are no examples of this society in history; however, Berger and Luckmann claim that certain approximations can be found in small libertarian colonies whose only common concern is their economic arrangements or their common purpose of waging war (75).

This kind of dichotomy can be useful in that it creates a continuum upon which social organizations of the real world can be placed, nearer to one end or the other, so as to see the relative relationship between them. For example using this continuum, Berger and Luckmann conclude that “the private sphere that has emerged in modern industrial society is considerably deinstitutionalized as compared to the public sphere” (76).

In the following chapters, I pursue a similar kind of comparison using similar kinds of extreme types. I create a continuum with a market model at one end and a bureau model at the other, realizing of course that all actual societies fit somewhere in between. The market model that is useful here is the one developed by classical liberal writers. This model, like Berger and Luckmann’s extreme type, has a single common problem, i.e., defense of property rights. For the opposite extreme, I use Max Weber’s ideal type model of bureaucracy. This model is less extreme than Berger and Luckmann’s “total institutionalization” model since it contains division of labor and role-specific knowledge; however, it is extreme enough for our purposes. I compare these extreme types in their tendencies to either aid or hinder peoples’ protection-from-lying strategies and in their overall tendencies to affect the benefit-cost ratio of lying. Any conclusions regarding these extreme types can then be imputed to actual social organizations relative to their position on the continuum.

This study conducts two analyses on both models: one on each side of the information relation. The first analysis, from the point of view of Informee, evaluates the effectiveness of protection strategies in both models. Using the writings of various authors on protection strategies, the necessary requirements for these strategies are ascertained. They are then compared to market and bureau model constraints to see how well these models accommodate protection-from-lying strategies. In other words, the study ascertains whether there is a difference in how markets and bureaus aid or hinder

protection strategies. Restated once more, it determines whether markets and bureaucracies are “protection strategy friendly” or “protection strategy unfriendly.” For example, as we shall see, Smith, Tullock, and Klein show that free association is a necessary requirement for reputation building, which is a protection-from-lying strategy; therefore, it is appropriate to evaluate to what degree market and bureau models allow free association. Similar comparisons are conducted with all the protection strategies.

The second analysis, from the point of view of Informer, evaluates the benefit-cost ratio of lying in both models. This is done by examining, within the institutional context of each model, six social phenomena that affect the benefit-cost ratio of lying in all societies: particular knowledge, organizations, free riding, institutional restrictions on communication, time preference, and ethical codes of conduct. This analysis determines whether the overall benefit-cost ratio of lying is higher in one model than the other.

Chapter 2 discusses protection-from-lying strategies and isolates their necessary requirements. Chapter 3 develops a market model and conducts both of the above described analyses on this model. Chapter 4 is essentially a repeat of the analysis of Chapter 3 except it analyzes protection strategies and the benefit-cost ratio of lying within a bureau model. Chapter 5 contains conclusions, implications of these conclusions, and recommendations for further research. In general, this study concludes that there is a solid theoretical case for the existence of a relationship between institutions and an accompanying optimal level of lying and shows that this conclusion brings into question the objectivity of the social sciences under conditions where the social sciences are useful as policy shapers.

The remainder of this chapter is the justification of my method of comparing markets and bureaus. I justify my choice of methodology by placing my work in the context of the debate over methodology in the social sciences.

Justification of Methodology

I have chosen the method of comparing models because it allows me to deal with lying on a purely theoretical basis. In subsequent studies (by me or by others), my theoretical structure can be operationalized in various settings for empirical study. I

suspect that operationalizing lying so as to make it amenable to empirical research may prove rather difficult due to the subjective nature of lying and the elusive nature of liars. On the one hand, researchers would be faced with the problems of discerning their subjects beliefs, intent, and degree of self-deception. On the other hand, they would be dealing with subjects reluctant to reveal themselves and perhaps practiced at not doing so. In any event, by concentrating on theory first, I believe that I am providing a framework that gives some structure to the study of lying.

Strict empiricists would criticize that I have put the cart before the horse, saying that data should be collected and processed before formulating a theory. This theory should then be verified by subsequent research. This view is essentially the scientific method as handed down from Francis Bacon in the seventeenth century, as applied to the social sciences by Comte in the nineteenth century, and as developed and reinforced by logical positivists and logical empiricists in the twentieth century. However, philosophers of science and even practitioners in various fields have become increasingly reluctant to accept this framework. I believe that it is appropriate at this point to digress from the topic of lying in order to show that even though my method departs from this narrowly construed view of what scientists do, my research does in fact fit into the overall debate concerning methodology in science.

The Great Debate

Karl Popper presented a major challenge to the traditional view of what scientists do and what constitutes knowledge when he introduced the idea of falsifiability in his 1934 book *Logik der Forschung*. Popper argued that a theory can never be verified once-and-for-all because there is always the chance that the next empirical instance may refute it. For example, the theory that all swans are white is not completely verified after observing one hundred or even one thousand white swans, because the next swan may be black. The best that scientists can do says Popper is to construct theories that are capable of being falsified, i.e., capable of being proven wrong by observations in the real world. He says that “scientific theories, if they are not falsified, for ever remain hypotheses or conjectures” (*Unended Quest* 79).

The concept of falsifiability severely undermined the views of the positivists as to what scientists do and what constitutes knowledge. It was really a three-pronged attack that rejected the three pillars of the scientific method as it had been received from Bacon. Those three pillars were verifiability, disinterested scientists, and inductive logic. Scientists since Bacon had used verifiability as the standard of demarcation between science on the one hand and pseudoscience, theology, and metaphysics on the other. Falsifiability destroyed this traditional demarcation. Popper maintained that the “verification” of the positivists’ was actually only “corroboration,” and, as Trout explains Popper’s view, “a theory is potentially a scientific theory if and only if there are possible observations that would falsify or refute it.” (15).

In rejecting verifiability, Popper was also rejecting the existence of inductive logic. Verifiability assumes unbiased, disinterested scientists looking at all the facts and coming to inescapable conclusions. To the contrary, Popper says that there is no such thing as unprejudiced observation, because observation is an active process engaged in by the observer to find or check some regularity which is believed or at least suspected to exist. Popper concluded that “since there can be no theory-free observation, and no theory-free language, there can of course be no theory-free rule or principle of induction” (*Unended Quest* 148).

The concept of falsifiability received new impetus when Popper’s *Logik der Forschung* was published in English as *Logic of Scientific Discovery* in 1959. Falsifiability became the new standard of demarcation between science and nonscience. Thenceforth, to be scientific, theories must be potentially falsifiable. This new standard eventually became accepted, or at least acknowledged, in all the sciences (Trout 16). Scientists, who previously viewed scientific progress as the accumulation of observations, came to view progress as the replacement of weaker theories with stronger ones. “According to this view, finding theories which are better approximations to truth is what the scientist aims at” (*Unended Quest* 150). In other words, to be scientific meant that “there was competition between theories—a kind of Darwinian struggle for survival” (*Unended Quest* 79).

Another important attack on logical positivism and the Baconian view of the scientific method occurred when Thomas S. Kuhn published *The Structure of Scientific Revolutions* in 1962. Kuhn's book put three terms into the vocabulary of most contemporary scientists: "paradigm," "normal science," and "extraordinary science." Kuhn explained that the various branches of science tend to mature into paradigms of accepted ways of thinking about the science's fundamentals and its methodology. These paradigms, he says, are generated by the contributions of great thinkers like Copernicus, Newton, and Einstein whose works have more explanatory power than the works of their contemporaries or their predecessors. After most scientists accept the works of the great thinkers, scientists as writers assume that they and their readers share a common view of the fundamentals of their science; therefore, instead of writing books accessible to a general readership, scientists write short articles intended specifically for other scientists in their field with an ever narrowing focus on subdivisions of their discipline. Their works become increasingly esoteric and inaccessible to persons outside of their field. At this point, Kuhn says, scientists are working within a paradigm, and books, as texts, now serve the purpose of passing the established paradigm to the next generation (*Structure of Scientific Revolutions* 10-22).

Kuhn continues that "when there emerges a core of accepted beliefs among the scientists of a given field, this core acts as a paradigm that guides the research of most of the researchers. This is what Kuhn calls "normal science." In normal science, scientists do research that is "directed to the articulation of those phenomena and theories that the paradigm already supplies" (*Structure of Scientific Revolutions* 24). They are in a sense, Kuhn says, trying to make nature fit into the pre-formed boxes of the paradigm. "No part of the aim of normal science is to call forth new sorts of phenomena; indeed those that will not fit the box are often not seen at all" (*Structure of Scientific Revolutions* 24).

An important aspect of Kuhn's view of normal science is that its research looks for expected results. The paradigm guides scientists in selecting topics of research, in constructing research apparatus, and in predicting the results of research. Under these circumstances, Kuhn says, unexpected results or anomalies stand out in relief to the

predictions of the paradigm. When anomalies persist and strike at the core of a science, scientists may “come to view its resolution as *the* subject matter of their discipline” (*Structure of Scientific Revolutions* 83). It is at this point, Kuhn says that normal science shifts to extraordinary science.

Kuhn defines extraordinary science as the state of affairs when scientists see a problem as being more than just an unsolved puzzle whose solution will further articulate the current paradigm. It is an anomaly that stands out from the rest, that captures the attention of most scientists in the field. The old paradigm and the old rules are stretched and strained in every conceivable way to try to explain the anomaly. When the anomaly cannot be explained, Kuhn says, there is a scientific revolution in which old theories are discarded in favor of new theories. (*Structure of Scientific Revolutions* 77).

Kuhn argues that paradigms establish the mental categories of perception and that we observe only what our mental categories allow or prepare us to see. After a paradigm shift, scientists perceive reality using new categories. Therefore, they can observe new phenomena looking at old data with old instruments, similar to a Gestalt switch. Current science, since Descartes, has operated as if data are fixed and are the given of experience. To the contrary, Kuhn says that data are “collected with difficulty” instead of being given and that the paradigm of the scientist determines which data to collect by showing which data is important in the articulation of the current paradigm (*Structure of Scientific Revolutions* 111-130).

Kuhn’s and Popper’s views have much in common. They agree that data collection is influenced by the beliefs of the scientists who collect them. They also agree that there are no rules for inducing correct theories from facts (Kuhn, “Logic of Discovery” 12). However, they take different views as to how scientific knowledge grows. Popper says that good research consists in making bold conjectures and then criticizing them ruthlessly, throwing out bad theories and replacing them with more suitable ones. Kuhn agrees that scientists do this but only during periods of extraordinary science. Most of the time, Kuhn says, scientists are engaged in normal science, and they only rarely engage in the actual falsification procedures as Popper describes them. “I

suggest then," says Kuhn, "that Sir Karl has characterized the entire scientific enterprise in terms that apply only to its occasional revolutionary parts" ("Logic of Discovery" 5-6). Kuhn adds "that it is normal science, in which Sir Karl's sort of testing does not occur, rather than extraordinary science which most nearly distinguishes science from other enterprises" ("Logic of Discovery" 6).

In response to Kuhn, Popper admits that normal science exists but at the same time deplors it. He attributes it to scientists who have been taught badly and who are the victims of indoctrination ("Normal Science" 52-53). Therefore, says Popper, "Kuhn is mistaken when he suggests that what he calls 'normal' science is normal" ("Normal Science" 53). Nor, says Popper, is normal science necessary or desirable as Kuhn indicates. Popper also points out that there are many gradations between what Kuhn calls normal science and extraordinary science. Each gradation is occupied by scientists with abilities higher or lower than the skills of scientists around them ("Normal Science" 54).

Imre Lakatos is critical of some aspects of both Kuhn's and Popper's views. He charges that Kuhn's view transforms the philosophy of science into the *psychology* of science. According to Lakatos, Kuhn does not offer a rational explanation of how one theory replaces another, but instead attributes this change to crises and revolutions which are psychological events (178). Lakatos also charges Popper with being naïve in suggesting that one instance of empirical falsification can cause a long-standing theory to go away. Lakatos says that in his view, "criticism does not—and must not—kill as fast as Popper imagined" (179).

Lakatos attempts to reconcile Kuhn's and Popper's views by extending Popper's view to what he calls "sophisticated falsification," and reconstructing Kuhn's "paradigms" as "research programmes." In regard to Popper, Lakatos says that scientists do not work with single theories and accept or reject them one at a time. Rather, they work with groups of mutually corroborating theories, and they reject a theory when it ceases to be corroborated by theories with greater empirical content. In other words, "it is

not that we propose a theory and Nature may shout NO; rather, we propose a maze of theories, and Nature may shout INCONSISTENT” (130).

Lakatos agrees with Kuhn that scientists work within a kind of framework, but he does not agree that it is the nonrational framework that Kuhn calls a paradigm. The actual framework, according to Lakatos, is better described by the term “research programme.” A research programme is a set of theories which act as a core, and a set of hypotheses that act as a protective shield for the core. It is this protective shield that receives the criticism which is thus deflected from the core. This is necessary, he says, because no theory can avoid all anomalies and must be protected from the criticism of other theories that explain the anomalies while the research programme is allowed to mature. This protective shield of hypotheses either strengthens and grows by encounters with conflicting theories, or it gets chipped away until the criticisms strike the core, at which point the core would be discarded (133).

Kuhn’s views have received a great deal of both criticism and praise because they raise a fundamental question. As Paul Feyerabend points out, Kuhn raised a question which challenges the rationality of science.

The question raised by Kuhn is not whether *there are* limits to our reason; the question is *where* these limits are *situated*. Are they outside the sciences so that science itself remains entirely rational, or are irrational changes an essential part of even the most rational enterprise that has been invented by man? (218)

Various philosophers of science have taken turns criticizing Kuhn’s concepts of “normal science” (Watkins), “paradigm” (Masterman), and “scientific revolutions” (L. Pearce Williams). However, sociologists of science have been much kinder to him. As Peter Weingart has written, “Kuhn’s influence on the sociology of science has proved to be so profound that he has all but attained the rank of Merton” (qtd. in Gutting 9).

Sociologists’ reverence for Kuhn’s views may be explained, in part, by their emphasis on psychological processes in the overall process of scientific research as suggested by Lakatos as cited above.

The Sciences in Turmoil

The debate between the positivists, Popperites, and Kuhnians continues today, and has left the state of science somewhat disorganized. The common view that the sciences are one great uniformity in which all scientists use the same method and all agree on what has been determined as true is no longer unanimously accepted. Philosophers of science have come to see that the sciences are very different; for example astronomy and biology and geology are mainly observational sciences that must settle for what nature shows them, whereas chemistry and physics are mainly experimental sciences that can decide *what* to study. As Bauer points out, “each science—and to a degree each specialization within each science—has thus come to be an idiosyncratic blend of theorizing and empiricism; and that brings inevitably with it distinct notions about what knowledge (in general!) is and about the degree to which knowledge can be said to be ‘certain’” (26).

Bauer cites Michael Polanyi’s likening of the *actual* scientific process to putting together a jigsaw puzzle in public. In this view, every one is working on a problem together, and all observe the contributions of each. This allows all to criticize the work of each and also makes new possibilities created by the work of individuals apparent to all. This system of public criticism creates a kind of filter for scientific knowledge as it moves from frontier science, which is very undependable, into the primary literature, then the secondary literature, and finally, after considerable lag time, into textbook science which is usually dependable knowledge (42-48). According to Bauer, the fact that scientific inquiry has arranged itself in such a fashion is itself evidence of the shortcomings of the scientific method. He says that “if the scientific method delivers results that require perpetual self-correction, then it is hardly a method that leads to certifiably reliable knowledge” (51).

The implication that scientists do not conduct their research according to the scientific method as received from Bacon creates credibility difficulties particularly for the social sciences. Bauer argues, therefore, that “if anything, practitioners of the social sciences are much more explicitly scrupulous to follow the scientific method than are practitioners of the natural sciences” (128). He argues that the social sciences are not

really science because they do not together add up to an integrated and, hence, usable body of knowledge. He adds that “to support their claim to being scientific, social scientists adhere to and promulgate the myth of the scientific method—for their only possible claim to being scientific is that they practice that method”(129).

Bauer uses Richard Burian’s phrase “reality therapy” to describe the process whereby the rational opinion of scientists as to what is true is sensitive to the test of nature. Scientists bump into reality, so to speak, and are thus guided by it (89). He says that reality therapy forces physical scientists to agree on what is true even if some new truth goes against their personal beliefs. However, he continues, “in the social sciences, by contrast, it is very difficult to find even trivial things to study that do not have some immediately evident bearing on political, social, or religious doctrine; and so from the very beginning of studies of apparent minutiae, opposing schools of thought will disagree” (135). He concludes that “reality therapy can often be conclusive in the natural sciences but only rarely in the social sciences; in consequence, a body of consensually agreed upon knowledge has accumulated in the former but not in the latter” (129).

So far, I have shown that there is much disagreement as to methodology in the sciences in general. To round out my digression, I now look at a few of the disagreements concerning methodology within a single field of the social sciences.

Disagreement in Economics

Neoclassical economics in this century has become highly theoretical and mathematical under the guidance of such Nobel Prize winners as Paul A. Samuelson (1970) and Kenneth Arrow (1972) who heightened the overall mathematical nature of economic methodology. Nobelist Gerald Debreu (1983) made methodology still more mathematically abstract by using what is called the axiomatic approach which has a mathematical form that is completely separated from its economic content. This approach states an economic problem in a mathematical form that is valid mathematically even if the economic interpretations are removed. Debreu thought that one could then use the purely objective laws of mathematics to solve economic problems (Maler 79-81).

Welfare economics is a generic term that refers to the normative aspects of economics. The basic assumptions underlying welfare economics are value judgments that economists are free to accept or reject. This branch of economics is usually contrasted with *positive economics* which is considered value-free. Welfare economists are primarily concerned with policy recommendations, and try to arrive at conditions to show why social state A is preferable to social state B. One approach is to strive for Pareto optimality, which says to take those actions but only those actions that makes someone better off without hurting anyone. Another approach aggregates the utility functions of individuals into a social utility function. This process assumes that utility is cardinally and interpersonally measurable. It uses hypothetical compensation tests to argue that a given government action can make society as a whole better off, since those who benefit by the action are enough better off to compensate those who are hurt. (Pearce 461-462).

Keynesian economics is a term that refers to macroeconomic theory as developed by J. M. Keynes. This theory is distinguished from neoclassical theory by its concern with aggregate behavior, especially total expenditure and total investment. Mark Blaug points out that Keynesian economics, with its concern for aggregates, rejects methodological individualism which had been the basis of economics at least since Adam Smith (cited in Gutting 148). Jan Tinbergen and Ragnar Frisch, both Nobelists in 1969, pioneered the construction of econometric macromodels in the 1930s. Building on this work, Nobelist Lawrence R. Klein (1980) incorporated econometric models into Keynes's theory and founded the Wharton Econometric Forecasting Unit. This organization under Klein's leadership developed national econometric models used by government and industry (Lindbeck 413-415).

The public choice school of economics questions the welfare view of the state and thereby added a theory of the state to contemporary economics. According to Gwartney and Wagner, "one of the primary objectives of public choice scholarship is to enhance our ability to differentiate between institutional arrangements that bring individual self-interest and the general welfare into harmony, and institutional arrangements that leave

them in conflict” (8). In other words, it is an attempt to put methodological individualism back into policy-oriented economics. Public choice’s best known proponent is Nobelist James Buchanan (1986), who received the award “for his development of the contractual and constitutional basis for the theory of economic and political decision-making” (Maler 175). The Public Choice School applies the economic tools of decision-making to the public sector. This school argues that the self-interest of the individual decision-maker is a driving force on decision-making in the public sector as well as in the private sector. Through this model, Buchanan questioned the most fundamental axioms of democracy and of welfare and Keynesian economics: that government employees act in the public interest, that government intervention can improve the economy, that majority vote is the ideal tool of group decision-making.

These schools of thought, though diverse in approach and purpose, all rely heavily on mathematics and econometric modeling. However, not all economists are happy with their profession’s state of affairs. Boulding charges that “we have been obsessed with macroeconomics, with piddling refinements in mathematical models, and with the monumentally unsuccessful exercise in welfare economics which has preoccupied a whole generation with a dead end, to the almost total neglect of some of the major problems of our day.” (34). Boulding suggests that economists could more profitably spend their time developing economic anthropology or economic sociology, “in the analysis of the way in which organizational structure affects the flow of information, hence affects the information input into the decision-maker, hence affects his image of the future and his decisions, even perhaps his value function” (29).

Although they are not economic anthropologists, Austrian Economists do address, at least indirectly, the lines of study that Boulding suggests as shown earlier in Hayek’s discussion of particular knowledge. They also admit little application of mathematics to the study of economics since they regard value as subjective and hence, not quantifiable. Utility in the Austrian view, is seen as an ordinal arrangement of preferences as opposed to the cardinal approach of the neoclassicists. The two schools also disagree on the concept of human action. Neoclassicists separate action into the rational and the

irrational, defining rational action as a striving for monetary profit. Mises argues that “the assertion that there is irrational action is always rooted in an evaluation of a scale of values different from our own” (*Epistemological Problems* 33). To the Austrians, *all* action is rational because people always use means to strive after ends. This view explains *negligence* and *passivity*, unexplained by neoclassicism, as well as the monetary profit motive.

Mises chastises economists for trying to emulate the methodology of the physical sciences when he says that “the popular epistemological doctrines of our age do not admit that a fundamental difference prevails between the realm of events that the natural sciences investigate and the domain of human action that is the subject matter of economics and history” (*Epistemological Problems* xiii). He says that “this science is *a priori*, not empirical. Like logic and mathematics, it is not derived from experience; it is prior to experience. It is, as it were, the logic of action and deed” (*Epistemological Problems* 13).

Mises, like Popper and Kuhn, argues that there is no such thing as neutral observation of the facts, that, in fact, it is necessary to use a theory to determine what the facts are. A theory or theories about acting, Mises says, are implicit in our language; therefore, “to apply language, with its words and concepts, to anything is at the same time to approach it with a theory” (*Epistemological Problems* 28). This leads Mises to conclude, contrary to Popper’s assertions about falsifiability, that a proposition of an aprioristic theory can never be refuted by experience (*Epistemological Problems* 28-29). It is even possible, he says, for supporters of conflicting doctrines to point to the same data as support for their position.

In light of the above discussion of methodology, I can now place my method of comparing models into perspective. Following Popper, I make no attempt to induce a theory from data, but instead, following Kuhn, I work within a paradigm that has been carved out by the works of prominent thinkers from various disciplines, such as Adam Smith, Friedrich Hayek, Hannah Arendt, Robert Axelrod, and Ludwig von Mises. Following Mises, I use deductive reasoning and comparative analysis as my method. It

should also be apparent that there is a certain congruity in Boulding's suggestion to develop economic sociology and my investigation of the influence of social institutions on the flow of true information. With that said, it is appropriate to end this digression and to proceed with the analysis of the affect of institutional constraints on lying.

Chapter 2

Protection-From-Lying Strategies

With lying sporting a thousand faces and given the difficulty of monitoring people's behavior, it would seem impossible to ever identify and use good information. North says that the transactions cost of monitoring and measuring peoples' behavior is so high that opportunistic behavior should, by the neo-classical model, make economic and political organization impossible (*Structure and Change* 45-47). Yet, in our everyday life, we see highly complex systems of economic and political organization. We also observe people acting honestly when they could get away with lying, which does not accord with the "profit maximizer" of the neoclassical model. This shows that people somehow maneuver successfully through a sea of private information and, for the most part, are able to separate good information from the bad. How do people do that?

The Simple Strategies

In a word, they engage in individual protection-from-lying strategies. Of course there are formal rules complete with formal sanctions against certain kinds of lying in all modern societies, but much of what people lie about is not addressed by formal rules. This leaves people largely vulnerable in many areas where lying can create severe costs to them. That is to say, people are essentially on their own as far as lying goes. As we saw in Chapter 1, people respond by consciously, or even sub-consciously, adopting strategies that make the liar's job much more difficult.

In everyday life, by varying degrees, we all engage in two strategies that Klein calls "hostage taking" and "incrementalism." Hostage taking refers to the practice of holding some part of the promisor's wealth in escrow until the truster has the opportunity to decide if he has been lied to. The terms "promisor" and "truster" are Klein's terms for persons in an exchange ("Trust for Hire" 121). Promisors, with more private information, are in a position of strength; trusters, with less private information, are vulnerable to lies. For example, Landlords, as trusters, routinely require a security deposit of renters, who promise to care for the landlords property but may later renege. The security deposit is a

kind of hostage held by the landlord until such time as the renter is no longer in a position to damage the property. There are many variations of this practice such as raises that are tied to demonstrated increase in productivity, warranties and guarantees, and even such simple practices as providing service first and billing later as in restaurants, law firms, and taxicab companies. All of these variations of hostage taking, as Klein points out, “give the trustor a retaliatory move late in the relationship” (102). Hostage taking reduces lying because the trustor’s ability to retaliate increases the promisor’s expected costs of lying.

Incrementalism can be summed up in the phrases “look before you leap” and “taste before you bite.” It is the strategy of trying a little bit of something before committing to a lot of it. I buy one orange from the bushel and taste-test it before deciding whether to buy the whole bushel. We all adopt this strategy, sometimes almost sub-consciously, in areas of uncertainty in order to minimize our exposure to danger. Recognizing this fact, honest producers and retailers make it easy for the potential customer to incrementalize. Some examples of this practice are free samples, tryout periods, advertisements, and first-time discounts. Such practices are so common in the U. S. that we have come to expect them.

Consumers generally incrementalize in relation to inherent qualities of the products in question. As Church points out, some product qualities are easy to verify and therefore require very little or no incrementalizing on the part of consumers. For example, to verify the quality “color,” consumers need only visit a display before buying. If my favorite tissue has only recently been offered in my favorite color, I only need look at it before purchasing. This and other product qualities that are verifiable on the spot Church calls “search qualities.” Some products, such as laundry detergent, have qualities that require consumers to actually use the product in order to verify its qualities. Church calls these qualities “experience qualities.” Still other product qualities require extended use or perhaps the help of experts in order to verify them. Church calls these qualities “credence qualities.” He claims that environmental benefits like “biodegradable” and

“fluorocarbon-free,” are credence qualities. Such qualities are very difficult or impossible for the average consumer to verify (274).

If we look upon information as a product, then the above qualities and also incrementalizing apply to information as well as to tissue, soap, and fluorocarbon. Seen as such, information takes on the above qualities in relation to the ease or difficulty of verifying it. Church says that “the EOI [economics of information] search model predicts that uncertainty and mistrust should be highest where the cost of obtaining information to evaluate the claim is highest” (277). Applying this to information seen as a product, information that is most difficult to verify would be the most suspect, and conversely, information that is easy to verify could usually be trusted. Proceeding further down this line of thought, information that is difficult to verify would be used in an incremental way whereas information that is easy to verify would be taken at face value.

This all seems to accord with our intuition regarding the use of information. We all tend to incrementalize our use of highly specialized information. For example, we normally prefer to have a doctor treat our less serious illnesses before we let him operate. It just seems prudent to tread cautiously when we are on unfamiliar ground. We also tend to accept at face value information that is easy to verify, as when someone tells us the time of day or gives us directions. We again intuitively sense that there is little need to incrementalize the use of such information because there is little potential for harm; we sense that we can easily catch the liar under such circumstances and that he knows it so will not lie.

Of course, we also judge the need to incrementalize information by our relationship to Informer as well as by the ease of verifying it. Information coming from friends seems less in need of being used incrementally than information coming from strangers regardless of its complexity. This matches our tendency to trust the product claims of products being sold by friends more than those being sold by strangers.

Another protection-from-lying strategy is what Klein calls “pointed knowledge.” This refers to a process of solving one’s problems by asking a series of questions of different people. Klein gives the example of a woman in need of air-conditioner repair.

Instead of seeking general knowledge about condensation and thermodynamics, she focuses her attention on developing an information or remedy path: She consults neighbors who have had similar problems; she asks one or more of her neighbors' references to analyze her air-conditioner; she may get a second or third opinion; she inquires about new air-conditioners. Each question leads her closer the person who can solve her problem most to her liking. By tracing an information path, the woman is not only solving her problem but also learning about her air-conditioner problem and hence alleviating the asymmetric information problem ("Trust for Hire" 99-100).

The above individual strategies are, for the most part, familiar ground to most people. Few would disagree that they engage in them regularly. Other strategies are less overt and more diffused into our life styles, self-images, and world views, and are therefore less recognizable as individual strategies. An example of such a strategy is "reputation." We each are more or less aware of the importance of our personal reputation and its maintenance in regard to our work, our neighborhood, and in other associations that we find ourselves. We also regularly refer to other people's reputations in our dealings with them. Reputation is among those individual strategies that, as Klein mentioned earlier, have become institutionalized. Institutionalization occurs when many people, engaging in the same strategy, develop common expectations concerning the behavior of their fellow man. These expectations eventually gel into informal rules of engagement. Because of the institutionalization of reputation as a strategy, it is difficult to distinguish whether it is an individual or a community protection strategy. Individually people engage in reputation building and maintenance, but they also sanction bad behavior collectively with informal norms.

The next three sections of this chapter discuss three institutionalized responses to lying: reputation, community, and ideology. These sections focus on isolating the necessary conditions for these protection strategies to function. The last section develops an institutional continuum model that is used in Chapters 3 and 4 to compare markets and bureaus.

Reputation

Adam Smith was among the first to suggest the importance of reputation when he noted that the Dutch, who he said are the most commercial nation in the world, “are also the most faithful to their word.” Smith points out that this relationship also holds when looking at the English and the Scottish who are respectively less commercial and less faithful to their word. This, Smith says, is not attributable to national character but is instead reducible to self-interest. “When a person makes perhaps 20 contracts in a day, he cannot gain so much by endeavouring to impose on his neighbours, as the very appearance of a cheat would make him lose.” In other words, dealers are afraid of losing their character in the eyes of those with whom they have repeated dealings. On the other hand, Smith says, “Where people seldom deal with one another, we find that they are somewhat disposed to cheat, because they can gain more by a smart trick than they can lose by the injury which it does their character.” Smith concludes that “whenever commerce is introduced into any country, probity and punctuality always accompany it” (“Lecture on the Influence of Commerce on Manners” 17).

Tullock works out Smith’s insight about the discipline of repeated dealings in light of modern game theory. He shows with a five-sided game, in which players must choose between “cooperate” and “defect,” that in one play, all players chose the “defect” response, hence, a prisoners’ dilemma. A prisoners’ dilemma is a situation where all players would be better off if they could cooperate, but the expected marginal costs and benefits that the individual players face lead each of them to defect. However, when the game was played repeatedly and players were allowed to form groups and communicate freely, all players chose the “cooperate” response. Tullock argues that their change in response is due to the reputation effect. “Anyone who chose to defect in any given game would, in essence, put himself in a situation where it would be extremely difficult for him to get partners for any future game” (23). Tullock adds that the reason that the prisoners’ dilemma disappears under repeated plays is “simply that people voluntarily choose their own partners” (23-24). The ability to choose one’s playing partner, says Tullock, adds a third strategy, “don’t play,” to the above two-strategy game. The addition of this third

strategy raises the expected cost of cheating. Thus, he concludes, “ a reputation for being ‘sound’ is a valuable asset, and we should expect people to make every effort to get it” (25).

This explains, says Tullock, why people are much more trusting in dealing with a merchant than he is of them. “His reputation spreads over far more people, and it is harder for him to change partners readily” (26). Merchants, therefore, often require identification and credit checks that their customers do not require of them.

Tullock points out another application of this analysis. “If an individual has lost reputation, there is little or no reason why he should play cooperative strategies in the future.” The reason, Tullock says, is that a lost reputation is very difficult to recover. It requires that the person with the ruined reputation persuade someone to play with him, which may be near to impossible, and it requires a large number of games of perfect cooperation to regain a reputation equal to those of his fellow players. Under these circumstances, says Tullock, individual benefit-cost analysis suggests that “he should attempt to con people into games, and when he gets them in, the decision to play noncooperatively may well be perfectly rational” (26).

Marc Ryser’s article “Sanctions Without Law” shows how the Japanese banking system uses Tullock’s third strategy to reduce bad checks and default rates on promissory notes. Firms that issue bad paper are reported to the central clearinghouse by both the issuer’s bank and the collection bank of the person who received the check. The central clearinghouse publishes the names of defaulters in newspapers and forbids its member banks from doing business with them, effectively shutting down these firms (227-228). This system is an adaptation of the “don’t play” strategy. Banks are saying “if you write bad paper, we won’t play with you.” Defaulters can only regain their previous fair-player status by a vote of the member banks.

A study by Robert Axelrod gives considerable weight to Smith’s emphasis on repeated dealings and to Tullock’s views about the importance of future games in players’ present decision strategies. In his well-known *The Evolution of Cooperation*, Axelrod reported an interesting strategy for dealing with defectors called “TIT FOR TAT.”

Axelrod invited experts in various fields to submit decision strategies for playing the prisoners' dilemma game to be pitted against one another in a round-robin computer tournament. Entrants' strategies could win points in relation to outcome payoffs T, R, S, and P: $T = 5$ = temptation reward for defecting; $R = 3$ = reward for mutual cooperation; $S = 0$ = suckers payment for cooperation with a defecting partner; $P = 1$ = punishment for mutual defection (*Evolution Of Cooperation* 8).

The first round of the tournament pitted fourteen anonymous entrants and strategies against one another. These entrants came from five disciplines: psychology, economics, political science, mathematics, and sociology. The simplest strategy, TIT FOR TAT, submitted by psychology Professor Anatol Rapoport of the University of Toronto, was the clear winner. The second round of the tournament was comprised of sixty-four entrants who received a detailed analysis of the first round as well as a discussion of strategy rules that would have excelled in the first round. Entrants represented each of the former five disciplines as well biology, physics, and computer science. Professor Rapoport resubmitted TIT FOR TAT and won again.

TIT FOR TAT's decision rule says to start out cooperating then do what your partner does every move after that. Its success may be somewhat surprising in light of the knowledge that it was pitted against all other strategies, thereby eliminating the opportunity to choose one's partners as in Tullock's model. Axelrod attributes TIT FOR TAT's success to its characteristics of being nice, provokeable, forgiving, and clear. As he explains,

its niceness means that it is never the first to defect, and this property prevents it from getting into unnecessary trouble. Its retaliation discourages the other side from persisting whenever defection is tried. Its forgiveness helps restore mutual cooperation. And its clarity makes its behavioral pattern easy to recognize: and once recognized, it is easy to perceive that the best way of dealing with TIT FOR TAT is to cooperate with it. (*Evolution Of Cooperation* 176)

Axelrod argues that the mere possibility that players might meet again is what allows cooperation to emerge in the prisoners' dilemma. This possibility, he says,

suggests that current choices not only determine current payoffs, they also, to some lesser degree, determine future payoffs in that they will influence the choices of players in the event that there are future games. “The future can therefore cast a shadow back upon the present and thereby affect the current strategic situation” (*Evolution Of Cooperation* 12). Since the payoff of the current move is more valuable to players than the payoff of the next move, Axelrod weights the value of future payoffs with parameter w . This parameter, he says, “represents the degree to which the payoff of each move is discounted relative to the previous move, and is therefore a discount parameter” (*Evolution Of Cooperation* 13).

Results of the tournament show further that the single best predictor of how well a strategy performed is whether or not it is a “nice” strategy, i.e., whether or not it is the first to defect (*Evolution Of Cooperation* 113). Axelrod found that a whole community using the TIT FOR TAT strategy, what he calls a “nice” community, cannot be invaded and subverted by an individual or sub-community using an alternate strategy, one trying to invade the larger TIT FOR TAT population. Axelrod, therefore, considers TIT FOR TAT a collectively stable strategy (*Evolution Of Cooperation* 56).

Axelrod also shows that “nice” strategies or “any strategy that may be the first to cooperate is stable only when the discount parameter is high enough; this means that *no* form of cooperation is stable when the future is not important enough relative to the present” (*Evolution Of Cooperation* 128-29). In other words players must place a sufficiently high value on future games relative to current games in order for “nice” strategies to dominate. Said in yet another way, if the future becomes uncertain, then a cooperating strategy may not be the best choice for maximizing benefits.

Niceness can be carried too far however. Axelrod points out that unconditional cooperation strategies resemble The Golden Rule, which says to “do unto others...” regardless of what they do to you. “The problem with this view is that turning the other cheek provides an incentive for the other player to exploit you.” It also “tends to spoil the other player; it leaves a burden on the rest of the community to reform the spoiled player...” (*Evolution Of Cooperation* 136).

Bernard Williams argues that Axelrod's results apply only indirectly to actual human experience. Axelrod's contestants were all engaged in the Prisoners' Dilemma and, hence, all had the same unchanging preference schedule (ordering of possible outcomes). However, Williams points out, other preference schedules are possible, such as those modeled by the "assurance" game and the "other-regarding" game discussed by A. K. Sen in his "Choice, Orderings and Morality." In Axelrod's study, the only thing that differed were the strategies used to maximize one's points given the Prisoners' Dilemma preference schedule. In real life, says Williams, people also have different preference schedules, and both their strategies and preference schedules have conditional features and may be modified by experience, i.e., they may change according to circumstance (5-6).

Smith, Tullock, and Axelrod all emphasize the importance of future games or future trading opportunities in peoples' decisions not to lie or cheat, but what about situations where traders do not expect future trades with each other? Such situations are common; for example, buying gasoline along the interstate, selling one's used car in the want ads, or giving a stranger directions. What is to prevent people from lying in these one-time transactions? Shearmur and Klein build upon Smith's idea of reputation by extending it into the larger social order where people cannot monitor each other's actions as they can in face-to-face dealings. Smith believed that people had a character to lose only in situations where everyone could monitor everyone else's actions as in small villages. When people go to large cities, he says, they are lost in anonymity, and so the reputation mechanism ceases to work (*Wealth of Nations* vol. II 317). Shearmur and Klein show that, even under conditions of anonymity, people form social patchworks of overlapping and interlocking groups and associations that screen and monitor their members' behavior.

Using an example by Max Weber, Shearmur and Klein explain how groups with formal memberships can confer moral seals of approval on their members. Weber recounted witnessing a baptism in 1904 North Carolina. A relative of Weber told him that the baptismal candidate had campaigned untiringly to be accepted into the local

Baptist congregation because he wanted to open a bank. The relative explained that baptismal candidates were put on a lengthy probation, during which their character was probed all the way back to childhood. As Weber explains, acceptance by the congregation was actually a moral seal of approval that was considered valid even outside of the congregation:

Admission to the congregation is recognized as an absolute guarantee of the moral qualities of a gentleman, especially of those qualities required in business matters...When a sect member moved to a different place, or if he was a travelling salesman, he carried the certificate of his congregation with him; and thereby found not only easy contact with sect members but, above all, he found credit everywhere. (qtd. in Shearmur and Klein 36)

Shearmur and Klein say that formal groups must meet two criteria in order to confer moral seals of approval upon their members: First, they must be internally familiar enough to know of their members' activities and to judge competently their members' characters; second, their assessments of their members must be available outside the group and respected as trustworthy (37). A few examples of groups in addition to churches that meet these criteria are Rotary, Kiwanis, chambers of commerce, the Bar Association, and some fraternal organizations. Shearmur and Klein suggest that society may be seen as a composite of many subdivisions of formal groups engaging in a division of labor, whereby groups specialize in learning their members characters and serving their members by conferring and maintaining group seals of approval (37).

People also belong to many informal groups—the neighborhood, the workplace, the bowling league, a circle of friends, etc. Informal groups often have fluid membership and overlapping boundaries. Members in the same neighborhood may be members of different workplaces, recreation, and friend groups. Informal groups cannot confer seals of approval because they often fail to meet one or both of the above requirements; however, as Shearmur and Klein point out, they still play a role in monitoring the character of their members. Members of informal groups have a window into a fellow member's character, and therefore, have information valuable to any nonmember wishing to deal him. For example, if person A wants to deal with person B, whom he does not

know personally, he may ask person C, who is B's neighbor and a fellow worker of A, about B's character (37).

When we consider both formal and informal groups, each of us has a network of overlapping social relationships that tend to refine the picture of our character for others to see. Shearmur and Klein call this network of social relationships our "reputational nexus"(38). When we have an opportunity to deal with somebody anonymous, we may choose to "not play," or we may inquire about the prospective player's seals of approval. We may also rely on the assessments of other people who are in a position to know the prospective player and whose judgment we trust. Should we choose to deal with this prospective player, our conduct toward him is tempered by the realization that he is using our reputational nexus to inquire about us. Any misconduct on our part may return to our reputational community and cause us long term future harm. As Shearmur and Klein put it, "gossip follows us home, and we may well decide to cooperate with perfect strangers" (38).

According to Shearmur and Klein's view, "the Great Society can be seen as a flowing patchwork of reputational nexuses" (38). Thereby, they say, the reputation mechanism of Adam Smith functions also in extended society where people lack the face-to-face interaction of small villages. These social patchworks, say the authors, "should be as thoroughly rooted in free individual choice as can possibly be managed. It is by free individual choice that the refinement and integrity of seals of approval are made possible" (40). In addition to overcoming Smith's anonymity problem, social patchworks also remove the need for repeated dealings. Therefore, say the authors, "the invisible hand reaches beyond the economic realm" (40).

Klein calls processes like social patchworks formation the "all-seeing invisible eye." ("Knowledge, Reputation, and Trust" 1). This view is similar to Smith's "invisible hand" principle, which illustrates how the individual pursuit of self-interest results in socially beneficial outcomes. Klein is suggesting that individuals pursuing their self-interest can increase honesty in society. Another example of the invisible eye is evident, Klein says, when we recognize "that trust problems generate associated profit

opportunities and finally their own remedies” (“Knowledge, Reputation, and Trust” 6). Stated differently, it is the recognition that the potential for lying creates uncertainty and that people are willing to pay to have this uncertainty removed. Klein dubs this process, and the name of his article, “Trust for Hire.” Trust for hire opens the door to for-profit organizations like Consumers Union, *Consumer Reports*, Underwriters Laboratories, Dun and Bradstreet, the Better Business Bureau, and *Good Housekeeping* that provide seals of approval or information about product quality and honesty to consumers. Dun and Bradstreet can, at a moment’s notice, provide information about trustworthiness on any business in the U. S. and on thousands of businesses in other countries (Newman 95). The Underwriters’ Laboratories’ label is a certification of quality for electrical appliances or, as Brearly describes it, “a certificate of character awarded to an inanimate object” (78). Manufacturers of these appliances seek out certification at their own expense because it is a way of communicating credibly to wary consumers.

The above relationship, in which some businesses pay to have another business certify the quality of their products, as in the relationship between manufacturers and Underwriters’ Laboratories, is an example of what Spence calls “signaling.” Signaling, says Spence, becomes necessary when honest people find their messages competing with the lies of dishonest people, and potential consumers of this information cannot tell the difference. Foot patrols during the Vietnam war experienced this problem by not being able to communicate credibly with helicopter pilots. Wishing to be airlifted, patrols routinely radioed for pick-up at areas designated by colored smoke flares. However, the Vietcong, intercepting radio transmissions, set flares of the same color hoping to ambush the helicopter.

Spence gives the example of applicants for a job. All applicants say, and may well believe, that they are the best choice, and some of them will exaggerate in order to increase their chances of getting the job. Employers, like the helicopter pilots, cannot differentiate between those communications that are true and those that are not. However, by investing in costly signals (education is the signal in Spence’s example) honest applicants can differentiate themselves from liars. Investment in education allows

truthful applicants to signal with diplomas and other institutional certification that allows employers to identify them. (16-19).

A similar concept to signaling, one sometimes used interchangeably, is what has become known in the economic literature as “screening.” Molho explains the difference between signaling *a` la* Spence and screening initially pioneered by Rothchild and Stiglitz. In Spence’s signaling example, job applicants make the first move by signaling with their diplomas to employers, and employers respond to their signals with job offers. Under screening, employers move first by offering contracts for various combinations of wage and education levels. “The job applicants then respond by choosing their preferred contract, that is they ‘self-select’ into contracts” (82). What is important for our purposes is that both signaling and screening are ways that people can give their messages credence. Using these strategies, people can communicate with each other *credibly* even when in competition with those who use lying as a strategy.

Klein points out yet a third way that the all-seeing invisible eye does its monitoring in what he calls “extended dealings.” This idea recognizes that people discuss their satisfaction and especially their dissatisfaction concerning goods and services with their family, friends, neighbors, and business associates. Among the ways they do this is with gossip, newsletters, letters of recommendation, data banks, referral agencies, and the Internet. The information spread in this manner is deemed reliable by those who use it because it comes from personal acquaintances. Extended dealings, though initiated by wary consumers or “trusters” as Klein calls them, are welcome by honest businesses or “promisors.” “The trustworthy promisors welcome information-sharing and, where permitted by law, will tend to organize themselves to facilitate and expand the extension of dealings.” Information-sharing, Klein adds, is unwelcome only by untrustworthy promisors (“Trust for Hire” 121).

Extended dealings might be viewed as extended forms of gossiping.. Although often seen as an unsavory pastime, gossip can be, as Merry argues, an important force in social control of individual behavior by focusing on behavior that goes against social norms. Merry says that “gossip can be viewed as a means of storing and retrieving

information...” (50) “It forms dossiers on each member of one’s community: who is a good curer, who can be approached for loans,...who is a good worker, and who is a thief” (54-55). People wish to control what is said about them behind their backs because gossip can result in a collective response.

Citing research projects throughout the world, Merry documents that in many primitive societies, persons accused of lying or any number of other social offenses may be exiled or executed (60). In modern urban societies the importance of gossip in controlling individual behavior is reduced; however, Merry argues that “when urban conditions foster close-knit social enclaves with extensive economic and social interdependence and barriers to mobility outside the community, gossip seems to lead to powerful social consequences, just as it does in small-scale societies” (64).

From her study of gossip in a housing project with 1200 inhabitants in a major Eastern city, Merry formulates four major criteria regarding how and under what circumstances gossip can effectively alter behavior. She writes:

1. The impact of gossip and scandal is greater in more bounded social systems in which the cost of desertion or expulsion are higher and the availability of alternative social relationships less.
2. The impact of gossip and scandal is greater in social settings where the members of the local social system are more interdependent for economic aid , jobs, political protection, and social support.
3. The impact of gossip and scandal is greater when it has the potential of producing a community consensus that can be converted into a variety of collective actions such as public shaming, ridicule, expulsion, or death.
4. The impact of gossip and scandal is greater when normative consensus about the behavior in question is more extensive. (69-70)

Merry’s four criteria above precipitate into “isolation,” “economic dependency,” “community consensus,” and “common moral values.” In this short form they bring to mind Smith’s criteria for reputation, i.e. the face-to-face conditions and interactions of the small village. It would be surprising, then, to find that gossip could influence people’s behavior in contemporary urban settings other than in small enclaves as Merry described above; however, in modern society, gossip takes on a modern form: massed media.

In a 1990 *Time* article, columnist William A. Henry III gives us a glimpse inside the “gossip industry.” This industry is a network of print and electronic media that devotes a portion of its time or print space to the spread of gossip. “We’re not talking just the wacky supermarket scandal sheets...” According to Henry, most major newspapers in New York City have three or four gossip pages. Also, he says, “gossip is booming on television, in magazines, in nonfiction books, in docudrama TV movies and mini-series” (46).

Gossip columnists mainly feature stories about the rich and famous and other influential people who live in the area. In Los Angeles there are stories about movie stars and producers, in Chicago about celebrity sports figures, in St. Louis about Busch brewery heirs, in Boston about the local aristocracy such as the Kennedy family, and in Washington about government officials. Gossip columnists also include national stories picked up on the news wire, and they even feature stories about other gossip columnists (Henry 48).

Many public figures hire public relations counselors. For example during their divorce, Donald and Ivana Trump each hired public relations counselors to spin the media gossip in their favors. It is becoming increasingly common for lesser names to also be concerned with their public image. Henry says that movie stars, singers, models, lawyers, landlords, opticians, restaurateurs, resort owners, novelists and socialites are among the clients of public relations counselors (48).

Applying Merry’s criteria to the gossip industry, we see how gossip can function as an enforcer of norms on a national basis. Applying Merry’s first criteria, celebrities and politicians are subject to high expected costs of being expelled from their social circles. For example, if President Clinton had in fact gotten impeached, his long term financial and social status could well have taken a turn for the worse. Following Merry’s second criteria above, the celebrities and politicians are, within their own fields, interdependent for economic aid, jobs, political protection, and social support. This is especially true in government where politicians routinely scratch each other’s backs with aid, favors, and protections of various kinds. Third, as Merry requires and as we observe

in political scandals, nationwide gossip has the potential of producing a “community consensus” regarding the behavior of national figures that can be converted into a variety of collective actions such as public shaming or ridicule, expulsion, lost opportunity, lost election, lost deals, and loss of wealth; Fourth, Merry’s final requirement, a “normative consensus,” is certainly evident in the national community in regards to the behavior of business people and government officials, though perhaps not so much with respect to movie stars.

Moving now from the twentieth century to the eleventh, Avner Greif’s study of eleventh-century Mediterranean trade illustrates how a group known as the Maghribi traders managed to maximize all four of Merry’s conditions. In doing so, they were able to use gossip to enhance the reputation mechanism sufficiently to ensure honesty in long-distance trade even in the absence of legal protections. The Maghribi traders were Jewish traders who lived in an area centered around Baghdad until the first half of the tenth Century, when they emigrated to Tunisia in North Africa. Later during the eleventh century, they emigrated to Spain, Sicily, Egypt, and Palestine. The Maghribi traders, though they were accepted into existing Jewish communities wherever they emigrated, maintained their social identity for as long as they were involved in long-distance trade.

Interregional trade required the use of agents to do a merchant’s business in distant markets. Inherent in this relationship, an example of the principal/agent relationship discussed in Chapter 1, was a large potential for lying and cheating on the part of the agent, since the merchant was not present to monitor the business transactions of the agent. Maghribi traders minimized these problems by organizing agency relations within an economic institution that Greif refers to as a “coalition” (148).

The coalition membership consisted of merchants who wished to trade in foreign markets and agents who wished to be retained by these merchants. Merchants often acted as agents for other merchants, and agents in their turn often acted as merchants themselves in need of the services of an agent. Coalition members agreed to employ only other members and to pay them a wage higher than what could be received outside the coalition. This premium wage tended to keep agents honest by ensuring that they suffer a

reduction in income if they were to get caught cheating and get fired. Coalition merchants agreed to never employ an agent who had previously cheated while in the employ of a coalition member. Furthermore, agents caught cheating could then be cheated by other coalition members with impunity. Coalition members looked the other way when fellow members cheated a cheater and did not hold it against them in future dealings. Coalition members also held members' relatives responsible for members' debts. This prevented older agents from cheating near life's end for fear that punishment would be imposed on their relatives. It was also the duty of members to provide each other with information about markets, prices, and the actions of fellow members.

Under these agreements, lying and cheating were kept to a minimum. If an agent considered cheating a specific merchant, he risked his relations with all merchants in the coalition. Contracts were of short duration so cheating could be punished quickly if the terms of the contract were not abided by. Short-term contracts also made agents weigh a short-term gain from cheating against their lifetime loss of dealing with the coalition.

In the second half of the twelfth century, the Maghribi traders were forced by Muslim rulers to abandon their trade. At that point, according to Greif, they integrated into the larger Jewish communities and lost their identity. Greif argues that they retained their separate identity within the Jewish world as long as they were active in long-distance commerce.

The Maghribi traders' separate identity within the Jewish communities was preserved because it provided a network for the transmission of information that facilitated agency relations, while the agency relations themselves provided the social interactions required for retaining their separate identity. When the Maghribi traders ceased to operate in long-distance trade and to utilize agency relations, the social interactions diminished, and the social structure—the Maghribi traders group—lost its vitality. (160)

Merry's four criteria above are evident in the coalition of the Maghribi traders. The coalition isolated them from the larger communities of Jews and Christians who were eager to trade with them, and at the same time created a strong economic dependency among the members. Also, the coalition was formed around shared moral values and

made it possible for members to reach a consensus regarding fellow member's behavior and to sanction undesirable behavior severely.

Before moving to the next section on community, it is necessary to isolate from the above writers the necessary requirements for reputation that will be used in Chapters 3 and 4 to analyze the viability of reputation in a market model and a bureau model. These requirements are Smith's "repeated dealings," Tullock's "freely chosen partners" and "don't play" option, Shearmur and Klein's "moral seals of approval" and "informal groups," Klein's "extended dealings," and Axelrod's "high value of the future" and "tit-for-tat reciprocity."

Merry's four criteria for gossip, though they could well be used for necessary requirements for reputation, are deliberately being excluded here, because, as we shall see in the next section, they apply equally well as necessary requirements for community. In fact, we can simply substitute the introductory phrase, "The formation of community is more likely to occur..." for Merry's, "The impact of gossip and scandal is greater..." and her gossip criteria become community criteria. We can see now that what Merry describes as "social enclaves" are really communities.

Community

Merry's above four criteria for making gossip an effective deterrent to bad behavior and Smith's "repeated dealings" criteria for the formation of reputation occur naturally in a community setting. Community is a protection-from-lying strategy in that it makes it easy for people to monitor each other's behavior. As Smith puts it, "While [a man of low condition] remains in a country village his conduct may be attended to, and he may be obliged to attend to it himself" (*Wealth of Nations* vol. II, 317). Community is an individual response to lying to the degree that individuals choose to participate in it. People choose community when they move out of metropolitan areas to the refuge of small rural communities, when they restrict their dealings to people of similar interests and values, and when they deliberately work to foster friendly relations with others.

Nelson, Ramsey and Verner point out that some aspects of community are forced upon us by the fact that our basic needs must be met on a daily basis, which restricts us to

easy traveling distance from home. Our workplace, our place of worship, where we shop for food, where we educate our children, they say, must all be close to home (11). As we will see below, this is a narrow view of community; however, even within these constraints there is much room for strategizing.

Aspects of community as an individual strategy flow from our preference for familiarity in our dealings with other people and our resulting choices that arrange or finesse social situations that satisfy our preferences. In modern society, we have a large degree of choice regarding the intensity of our community involvement. Our choices are primarily choices of where we live, what we do for work, where we play, where we worship, what groups we choose to join or not join, where we shop, etc. Also, within any community or sub-community that we choose to belong to, we can choose our preferred level of participation. In our choices, we balance our preferred level of risk tolerance for being tied to with our preferred level of scrutinization by others. A preference for a more trusting environment may lead us to choose isolation, intense interaction, and interdependence with a small group of people so as to develop a history with them that we can refer to in future episodes of risk exposure with them. This choice amounts to a strategy since we are very much aware that in the process of satisfying our preferences for risk tolerance we are finessing a shared fate with these people which causes everyone to be more concerned about each other's well being.

Much has been written about community, but sociologists have not reached a consensus as to what it is. Hillery notes no fewer than ninety-four different definitions in the literature on community studies. Analyzing these definitions, Hillery finds that the only theme common to them all is that they all deal with *people* ("Definitions of Community" 117). Analyzing the definitions further, he concludes that "of the 94 definitions, 69 are in accord that social interaction, area, and a common tie or ties are commonly found in community life". These elements, listed in order from least to greatest as to their importance in forming agreement among the sociologists are: area, common ties, and social interaction ("Definitions of Community" 118).

Disagreement concerning the definition of community has led to varying approaches to community study. Specific approaches to community include the following: viewing community as an ecosystem; viewing community as a system of institutions formed by the inhabitants; viewing community as being shaped by macro-social processes; viewing community as not being an object of study at all but simply an opportunity to gather data from which theories can be constructed; viewing community as social networks; viewing community as a rural-urban continuum (Bell and Newby 32-53).

Amos Hawley uses an ecological approach. Viewing community as a biological entity, Hawley argues that

not only is the community a more or less self-sufficient entity, having inherent in it the principle of its own life process, it has also a growth or natural history with well-defined stages of youth, maturity and senescence. It is therefore a whole which is something different from the sum of its parts, possessing powers and potentialities not present in any of its components. If not an organism, it is at least a super-organism. (50)

In this view, community has the same relation to larger society that individual people have to community.

The rural-urban continuum approach, according to Bell and Newby, is the most pervasive, even having worked its way into everyday usage (42). It is characterized by idealizing community as those human relations that existed in by-gone rural communities before the onset of such social forces as large scale division of labor, that tend to break them down. According to this view, movement away from this ideal is associated with disorganization and is hence a threat to community (Bell and Newby 48).

Ferdinand Tonnies develops the rural-urban continuum approach in his book *Community and Society*. He calls the end of his continuum associated with the rural community "*Gemeinschaft*," and the opposing end associated with larger society "*Gesellschaft*." Tonnies essentially sees *Gemeinschaft* as being a natural or organic system of relationships and *Gesellschaft* as an unnatural or deliberate system of relationships. He associates *Gemeinschaft* with shared language, folkways, mores, and

beliefs, and he associates *Gesellschaft* with business, travel, and science. *Gemeinschaft* is “all intimate, private, and exclusive living together” while *Gesellschaft* “is public life—it is the world itself” (33). This view has been criticized for its inclusion of value judgments and for not specifying the *Gesellschaft* end of the continuum as fully as the *Gemeinschaft* end (Bell and Newby 48-49). Value judgments are evident in Tonnies’s statement, “A young man is warned against bad *Gesellschaft*, but the expression bad *Gemeinschaft* violates the meaning of the word” (34).

Tonnies differentiates three different kinds of *Gemeinschaft*: that of blood, of locality and of mind. *Gemeinschaft* of blood refers to social interaction among people with kinship ties. *Gemeinschaft* of locality is based on the principle of co-residence and “may be conceived as a community of physical life, just as *Gemeinschaft* of mind expresses the community of mental life.” Tonnies explains further:

Kinship *Gemeinschaft* signifies a common relation to, and share in, human beings themselves, while in *Gemeinschaft* of locality such a common relation is established through collective ownership of land; and, in *Gemeinschaft* of mind, the common bond is represented by sacred places and worshiped [sic] deities. (42)

Tonnies distills these categories into (1) kinship, (2) neighborhood, and (3) friendship. These more-familiar categories are epitomized by the social relationships that occur in small communities of the Midwest and elsewhere, where people are often related to each other by blood, share a common geographic locality, and develop intimate friendships through common beliefs and repeated dealings.

Durkheim’s distinction between community and society is that between mechanical solidarity—solidarity resulting from similarity among people—and organic solidarity—solidarity resulting from interdependencies created by the division of labor. He argues that these two kinds of solidarity have different fundamental rules which form the basis of social order and morality. The rule of community is “to resemble everyone else, to have nothing that is personal, whether as regards beliefs or practices” (329), and the rule of society is to specialize. Durkheim argues that even though these rules contradict each other, they are both present in both community and society. In

community, the first rule predominates, and in society the latter. As a community intensifies its division of labor, its basis for social order and morality shifts from the first rule to the second. Durkheim explains that

not only does the division of labour exhibit that character by which we define morality, but it increasingly tends to become the essential condition for social solidarity. As evolution advances, the bonds that attach the individual to his family to his native heath, to the traditions that the past has bequeathed him, to the collective practices of the group—all these become loosened. (332-333)

Durkheim's views of community and society are similar to Tonnies's *Gemeinschaft-Gesellschaft* continuum in that they both see an increase in the division of labor as being destructive of previous social relations. However, whereas Tonnies sees such a move as going from "good" to "bad", Durkheim concludes that a move from community to society is really a move from a community of one type to a community of another type.

More recent writers have tended to downplay the importance of area and location in the concept of community, which has resulted in a weakening of the rural-urban continuum approach. Parsons and Shils analyze social action using what they call "pattern variables." These are dichotomous choices that they say every actor faces in every social situation (77). These choices are as follows:

1. **Affectivity—Affective neutrality.** (refers to whether the actor will choose immediate gratification or choose to evaluate the longer term consequences of doing so.)
2. **Self-orientation—Collectivity-orientation.** (refers to the fact that if the actor chooses to evaluate, he must further choose whether to abide by his personal moral standards or those of the social system.)
3. **Universalism—Particularism.** (refers to whether action is governed by principle or in relation to the reference scheme of a particular actor.)
4. **Ascription—Achievement.** (refers to whether actors characterize another actor according to who or what he is or what he can do.)
5. **Specificity—Diffuseness.** (refers to whether the scope of a relationship is based on a narrow function or on many functions, e.g. , my barber vs. my wife.)

In the context of these pattern variables, the rural-urban distinction has little meaning, because they apply equally to both ends of the continuum.

Distinguishing community from society, Parsons says that

the values of a society operate not only at the most general level, but permeate its structure as a whole. Every subsystem has a value system of its own which is a differentiated and specialized version of the general value system...It is imperative of cultural integration that there should be a relative pattern-congruence at these different levels. (193)

In other words, community and society are related by some common value or values.

Hillary further weakens the rural-urban continuum approach by constructing a taxonomy of human groups. He constructs the taxonomy around the following principles: "The quality of working for a specific goal or of having no goal, the degree of institutionalization, and the degree of inclusiveness" (inclusiveness meaning the number of people served by the group)(*Communal Organizations* 150). Hillary places the concepts of nation, vill (a term combining the meaning of rural village and city), neighborhood, and family all in the same classification, i.e., they are all groups with no specific purpose. He argues that they differ in degree rather than type(*Communal Organizations* 145-151).

Hillary argues that society is "the consequence of interaction..." (*Communal Organizations* 96). More specifically, society for Hillary is tied up in his concept of "nation," which he says contains neighborhoods, vills, and formal organizations. In this view, society differs from community in two ways: First, it is larger than community, contains community, and is related to community like an organism is related to its parts; second, while communities "are integrated by three discernible foci—space, cooperation and families—the nation [society] is integrated primarily by one—the state" (*Communal Organizations* 157).

Pahl essentially rejects the concept of "community" as an analytical concept. He says that "whether we call the processes acting on the local community 'urbanization', 'differentiation', 'modernization', 'mass-society', or whatever, it is clear it is not so much *communities* that are acted upon as groups and individuals at particular places in the

social structure” (293). Pahl states that he “can find little universal evidence of a rural-urban continuum...” and argues that “of much greater importance is the notion of a fundamental distinction between the local and the national...” or as he states latter, “differences between the small-scale and the large-scale” (285-286). Pahl prefers to view community as a continuum of tighter- or looser-knit social networks (290). Elsewhere, he has called networks “non-place communities” (qtd. in Bell and Newby 53). In this view, community and society are social networks that differ primarily in size and intensity. Society is looser-knit social organization on the national level, whereas community is tighter-knit, on the local level.

Pahl’s conception of networks as “non-place communities” allows community relations in ways not previously considered. Shearmur and Klein point out “by virtue of the easier social intercourse that [technological] advancements make possible, morally significant community no longer means local, face-to-face interaction” (44). In the age of the Internet, as Wilbur explains,

an increasing number of people are finding their lives touched by collectivities which have nothing to do with physical proximity. A space has opened up for something like community on computer networks, at a time when so many forms of ‘real life’ community seem under attack, perhaps even by the same techno-culture forces that make Internet culture possible. (5)

Shearmur and Klein suggest that “the electronic revolution may force us to reconsider how we think about community” (44). This is not to suggest that community loses its character or its force in people’s lives, but rather that it can exist where previously not thought possible.

If people can form morally significant communities on the Internet, then community relations are much more robust than previously thought: Geographical isolation has ceased to be, or perhaps never was, a necessary condition of community; hence, “locality” takes on a broader meaning. “Locality” may be a place in time, social structure, or virtual space as well as physical reality. This suggests that community can

be a viable protection-from-lying strategy even when groups of people are not isolated by their physical proximity to other groups.

Rheingold argues that people are in fact forming communities in virtual space. He calls these communities “virtual communities,” recognizing both that they are real or actual in many of their practical effects, but that they do not exist as a physical presence. In his work *The Virtual Community* Rheingold adopts the metaphor of pioneers building virtual communities by homesteading on the electronic frontier. He describes these virtual communities as “social aggregations that emerge from the Net when enough people carry on those public discussions long enough, with sufficient human feeling, to form webs of personal relationships in cyberspace” (5).

Foster recognizes Tonnies’s *Gemeinschaft* relations in virtual communities. In his view, *Gemeinschaft* means identifying with the collective, or as he puts it, “succinctly stated, the term embodies a set of voluntary, social, and reciprocal relations that are bound together by an immutable ‘we-feeling’” (25). Foster argues that “virtual communities should be seen as being co-determined by the simultaneous forces of *Gemeinschaft* and *Gesellschaft*” (35).

According to Bellah et al., virtual communities differ from *Gemeinschaft* communities in that they tend to be more homogeneous than heterogeneous. According to this view, people find themselves in actual communities for a variety of reasons, some of which may not be totally voluntary, hence, actual communities commonly have a somewhat heterogeneous population. Contrary to this, membership in virtual communities is strictly voluntary and very liquid as there is no cost to leaving. As Drucker puts it, “community was fate, organization is voluntary membership” (qtd. in Healy 61). Bellah et al. prefers to call virtual communities “lifestyle enclaves” rather than communities since the internet “brings together those who are socially, economically, or culturally similar, and one of its chief aims is the enjoyment of being with those who ‘share one’s lifestyle’” (qtd. in Healy 61). This argument does not make virtual communities appear less *Gemeinschaft*, as Bellah et al. apparently intended. On the contrary, in light of Tonnies’s “*Gemeinschaft* of mind”, it makes them appear more

Gemeinschaft. After all, what is “socially, economically, or culturally similar” if not a reflection of common values?

I would argue that Bellah’s et al. distinction between *Gemeinschaft* and virtual communities is not valid when comparing virtual communities to rural communities of the Midwest. In such a comparison, they appear nearly identical. For example in Nebraska, small communities are ethnic communities which are largely homogeneous, maintaining aspects of their old world cultures. They could well be described as “lifestyle enclaves.” Community members have similar values that are reflected, among other things, in their cuisine, their recreation, and their religion. They speak English with accents that mark them of common ancestry, and they exhibit a great deal of pride in their ethnic homogeneity, which in most small communities is celebrated annually.

Two such communities are Loup City, claiming to be the Polish capital, and Wilbur, claiming to be the Czech capital of Nebraska. Both communities celebrate their cultural heritage with food, spirits, music, dance, and dress unique to their old world cultures. Similar celebrations are held in nearby Danish, Swedish, and German communities. There no doubt was, as Drucker suggests above, a certain amount of fate involved in the formation of these communities; however, their persistent homogeneity suggests that a high degree of voluntary self-selection is involved in constituting their present populations. Community members are, as Bellah et al. describe members of virtual communities, “socially, economically, and culturally similar,” and it could be argued that one of their chief aims is “the enjoyment of being with those who ‘share one’s lifestyle.’” It would seem, then, that small communities in Nebraska fit Bellah’s et al. description of “lifestyle enclaves” nearly as well as do virtual communities.

Virtual communities exist in many forms including bulletin boards, news groups, Internet Relay Chat, and Multi-User Dimensions (MUDs). In “gaming” MUDs, participants develop a character, interact with other characters and work to be accepted by the community. Acceptance requires that “newbies” read the history of the community’s extended dialogue and follow its rules of acceptable conduct while in the community. As in any community, conduct of individuals, especially newcomers, is monitored by the

locals, and people who break the rules are sanctioned. Particularly troublesome are uncooperative participants who are just “passing through.” These participants try to hide their uninitiated status long enough to raise havoc in the local community and then move on. Consequently, MUDers have devised various techniques to identify insincere participants. One such technique has the descriptive title of “trolling,” in reference to fishing. Trollers are MUDer locals who dangle “bait” for uninitiated newbies. The bait may consist of obvious misspellings of certain words or obviously wrong statements about anything from science to popular culture. The locals, having engaged in extended dialogue with each other, recognize these “errors” as bait and smilingly ignore them. However, as Tepper explains, “newbies who correct such ‘errors’ are referred to as having ‘jumped in the boat’—they have exposed themselves as outsiders without anyone needing to put any effort in to excluding them” (46). The possibility of being exposed as an ignorant newbie acts as a social norm to constrain the behavior of participants.

Mizuko Ito shows that virtual communities engender an immutable “we-feeling,” which Foster above says defines *Gemeinschaft* communities. Ito, who was doing field research of a virtual community named “Farside,” relates that Farside experienced a population explosion as members of another MUD called “Sushi,” which was shut down, migrated to Farside. Ito explains that “there was a sudden influx of new characters on Farside with the tag “Sushiite” appended to their titles. For a few months, they comprised a highly visible enclave within the Farside social and political scene, a displaced but proud sub-community” (102). Several years later, in August, 1994, the machine that Farside was living in suffered a systems failure and all player files and interface elements were lost. Community leaders searched in vain for a new home for Farside, so Farsidians migrated to other MUDs. Ito explains her/his loss:

I pined at the loss of my fieldsite, not to mention the character that, for me, was quite an accomplished ninth level. I created a newbie character on Kerovnia, and began conducting interviews with former Farsidians there, happy to see old friends using the same names on a MUD that had many shared elements with Farside. (102)

These virtual migrations seem little different than the actual migrations that resulted in the “displaced but proud sub-communities” of rural Nebraska. Like the virtual immigrants, immigrant Germans, Danes, Swedes, and Czechs felt the loss of being separated and having to leave the old country. They too were happy to be reunited with friends and family that had preceded them and settled in communities with landscape similar to the homes that they left. The only apparent difference, other than perhaps the emotional intensity of loss and reunion, is that virtual migration takes minutes while actual migration may take decades.

Ito says that “there are currently hundreds of MUDs running worldwide with tens of thousands of users” (90). Besides “gaming” MUDs, as those discussed above, there are also “talker” MUDs, which are organized around many different themes including educational and professional interests, and by-invitation-only MUDs and secret-membership MUDs. As we have seen, these virtual communities exhibit many conventional community social relations. They, therefore, should be able to foster reputation building through Smith’s “repeated dealings,” and Tullock’s “don’t play” and “choose your own partner” strategies. Since some of these MUDs resemble formal groups with stable memberships, such as by-invitation-only MUDs, they should be able to foster Shearmur and Klein’s “social seals of approval.” Other MUDs, which resemble informal groups with fluid membership and overlapping boundaries like many actual groups to which we belong, should be able to foster valuable character information for use by nonmembers. Considered in their totality, virtual communities resemble Shearmur and Klein’s “flowing patchwork of reputational nexuses.” We, therefore, may assume that Klein’s “all-seeing invisible eye” is also present in virtual reality.

Klein’s “extended dealings,” gossip, and Spence’s “signaling” are also present in virtual communities. Extended dealings and gossip are transformed into worldwide phenomena since the Internet greatly reduces the transactions costs of engaging in them. Internet users can easily express their satisfaction or dissatisfaction with products or services with friends, acquaintances, and even complete strangers in near by communities

or in distant countries. This kind of monitoring should be especially effective for constraining the decisions of national and international corporations.

“Trolling” can be seen as a virtual example of Spence’s “signaling.” The sincere participants read the rules and take part in an extended dialogue, which is an investment in costly signals, in order to signal their sincerity by refraining from taking the “bait.” This may actually more closely resemble “screen” à la Rothchild and Stiglitz since the person in the weaker position regarding private information moves first by offering the “bait.”

We must now pull from the above discussion a working definition or model of community that has the ability to prevent or at least constrain lying. We must also differentiate community from larger society. From the above discussion, I conclude that a working definition of community must be one of human relationships that can change and grow, strengthen or weaken. Parsons and Shils’s premise that individuals and groups make a series of decisions in relation to other individuals and groups suggests that community is formed by individual and group decisions. These decisions could have been different and they can change. Change is inherent in Hawley’s idea that communities have well-defined stages of youth, maturity and senescence.

I also conclude that our definition must allow for different degrees of community. Degrees of community are suggested by Durkheim’s continuum of mechanical and organic solidarity, by Hillary’s taxonomy of community, and by Pahl’s idea that community is a non-place group of people who are connected by a continuum of tighter- or looser-kit social networks. Degrees of community are also well expressed by Tonnies’s ideas of community of blood, location, and mind. Further, I conclude that our definition must include the idea, as expressed by Hillary and others, that community has no overall purpose, i.e. it is not deliberately organized to attain a collective purpose. Finally, I conclude that our definition must make community “morally significant,” using Klein’s term, since it must be able to change people’s behavior, i.e., in our context, prevent them from lying.

I now advance our working definition of community. Communities are dynamic social networks that are organically formed, that exist in varying intensities, and that influence people's behavior. Influencing people's behavior, as Merry explained above, requires that communities are able to reach consensus and engage in sanction, and this in turn requires that those being sanctioned are economically and socially interdependent with those doing the sanctioning and that there are barriers to mobility outside the community.

We can also use the above writers to form a definition of society. Hawley sees society as an integrated eco-system composed of a collection of smaller eco-systems. Tonnies sees society as any activity that is different from the ideal rural community. For Durkheim, society is social order based on the division of labor. In Hillary's view, society is larger than community, contains community, has no overall purpose, and is integrated by the state. Pahl sees society as a loose-knit social network.

Before advancing a definition of society, I must explain the need for and use of such a definition in the analyses of the following chapters, and thereby explain a necessary feature of it. A definition of society is needed to create a distinction between society and community. In the following chapters, when analyzing market and bureau models, these models *are* society. These are the models of society to which we are comparing our model of community. Our definition must be general enough to include both markets and bureaus, each seen as a type of society. Therefore, we cannot include in our definition that society is formed organically or spontaneously as do the above writers. Such a qualification would completely preclude society in the bureau.

With that in mind, I now advance a working definition of society: Society is a social network that contains many communities, that is based on the division of labor, and that is integrated by the state. This definition is certainly not inclusive, even less so than the definition of community above. It obviously describes state societies better than pre-state societies, however, state societies are our primary focus here.

We have yet to isolate the requirements of community that can be used to analyze the market and bureau models in later chapters. Certainly we should consider those areas

of agreement among sociologists as identified by Hillary above. Increasing in importance, they are: area, common ties and social interaction. Minar and Greer argue that community is rooted in a “shared fate” that is brought about by isolation, intense interaction, interdependence, and communication (x). Taylor argues that community has three basic characteristics that we may call requirements: common values, direct and many sided relations between members, and reciprocity (*Community, Anarchy and Liberty* 26-28).

These requirements for community are similar to and in some cases identical with Merry’s requirements for gossip as discussed above. Merry’s requirements are isolation, economic interdependence, consensus and sanction, and similar values. However, Merry includes requirements important to this study that the others do not: consensus and sanction. Consensus and sanction are important here because they are what makes community a strategy from the individual’s point of view. Earlier, we saw how the Maghribi traders used social isolation, economic interdependence, consensus and sanction, and similar values to enforce honest behavior in their trading community that spanned several centuries and many continents. For these reasons in the next two chapters, I use Merry’s requirements for gossip to analyze community.

Furthermore, since I concluded above that community exists in different degrees of intensity, I use Ferdinand Tonnies’s notions of *Gemeinschaft* of blood, locality, and mind—with their corresponding requirements: kinship relations, collective ownership of land, and common sacred places and worshipped deities—as a measure of what degrees of community can exist in the market and bureau models. Tonnies says that *Gemeinschaft* of blood is fundamental and that *Gemeinschaft* of locality and *Gemeinschaft* of mind are derived from it. These three aspects of community, he says, can manifest themselves separately, but their conjunction “represents the truly human and supreme form of community” (42). I will therefore regard the phenomenon of community as a matter of degree depending on the conjunction or isolation of Tonnies’s three types.

Ideology

The extension of reputation from communities into larger society in the form of flowing patchworks of reputational nexuses, as we have discussed so far, explains how the monitoring of individual behavior can take place in the absence of face-to-face contact and repeated dealings, but, as North points out, it does not explain why some people choose to be honest when they could cheat and get away with it. North asks why some people follow the rules of society when it appears that they could get more individual benefits by breaking them. It appears as if these people are making choices where the costs are greater than the benefits. Besides people who choose not to lie, North reminds us, there are people who routinely vote and donate blood anonymously in spite of there appearing to be more costs for them than benefits. Also unexplained is the fact that large group action is possible in spite of the “free rider” problem, which is discussed below (*Structure and Change* 46).

North is not suggesting that these actions are irrational, but that “the calculation of benefits and costs that we employ is too limited to catch other elements in people’s decision-making processes” (*Structure and Change* 46). The benefit from feeling good when doing “good” is an element in people’s decision-making process that the traditional calculation of benefits and costs does not capture. North says that people who appear to be acting irrationally according to the neoclassical model are acting according to values that are a part of some learned and accepted ideology. He argues that it is “the values inculcated by the family and by schooling that lead individuals to restrain their behavior so that they do not behave like free riders.” He concludes that “strong moral and ethical codes of a society is the cement of social stability which makes an economic system viable” (*Structure and Change* 47).

Ideology, as a response to lying, is a belief, disposition, or attitude that sees truth-telling as a moral imperative. Lying, in this view, becomes a diminishment of one’s self-esteem or self-image and of one’s esteem in the eyes of a group, society, or a supernatural being. Ideology as a means of reducing lying is important in our everyday lives. Arrow says that “ethical elements enter in some measure into every contract; without them, no

market could function” (253). He also points out that professions often develop codes of conduct to constrain the behavior of their members as in medicine and law.

Ideology is a protection-from-lying strategy in the sense that people recruit others into a community of values in which all perpetually reaffirm each other’s belief in these values, thereby making everyone’s actions and decisions more predictable. Also, people personally evaluate other’s commitment to moral values, as nearly as they can discern them, before deciding whether to deal with them. When the community at large has a high degree of consensus that truth-telling is virtuous, the institutions of the community are used to spread this belief: Mothers teach their children; schools teach their students; clergy teach their congregations, etc.

According to Berger and Luckmann, a social process called “legitimation” underlies a full understanding of ideology. They describe legitimation “as a ‘second-order’ objectivation of meaning,” that is to say, “legitimation produces new meanings that serve to integrate the meanings already attached to disparate institutional processes” (85). First-order objectivation of meaning refers to meanings that individual and diverse participants in the institutional order assign to their particular roles and partial institutions. The process of legitimation, then, seeks to integrate these diverse meanings into a larger context so that the totality of the institutional order or the larger society makes sense concurrently to participants in different institutional processes.

According to Berger and Luckmann, the legitimation process integrates both horizontally and vertically. Horizontal integration refers to the process described above. It gives meaning to the various roles in which people participate and to the specific institutional processes that they engage in at any given time. In other words, it explains the present relations. Vertical integration gives meaning to the totality of one’s life by explaining and justifying the various roles and institutional process through which one may pass in a lifetime (86). Thus it may be said to explain the future.

In the view of Berger and Luckmann, legitimation serves a two-fold purpose: It both explains and justifies the existing institutional order. Legitimation explains when it provides a cognitive rationale for the existing institutional order. Legitimation justifies

the existing order by “by giving a normative dignity to its practical imperatives” (86). This dual purpose of legitimation appeals both to people’s need for knowledge and to their need for moral justification of the actions that practical necessity requires.

An example from American history may be the case of U. S. policy during the settlement of the West. Then current legitimations no doubt romanticized the settling of the West, perhaps as the inevitable expansion of a young, God-fearing nation into the virgin territory of ungodly savages. Such a legitimation could both explain and justify the wholesale slaughter of American Indians and herds of bison: It explains the “natural” relationship between whites and Indians and why westward expansion is a practical necessity; it prepares settlers for what they might expect from the native people and what measures might be necessary for self-defense; it justifies wholesale slaughter in that Indians are “ungodly savages” impeding the inevitable expansion of Christian virtues, and in that buffalo are the source of the “savages” sustenance.

According to Berger and Luckmann, legitimation becomes necessary only when institutions formed in one generation are passed on to the next. In the earlier generation, they say, institutions are mere habituations that result from the repetition of actions that prove most effective at attaining the desired result. For example, at some point it was determined that the preservation of foods by canning, if done according to certain procedures, resulted in the greatest degree of preservation with the lowest risk of food poisoning. By continuous repetition of these procedures, the habituations of canning became rules of action or institutions that freed individuals from the necessity of “making all those decisions.” At this point, the institutions surrounding the canning of food are experienced as self-evident facts. There is no need for legitimation since they are conscious rules of habit adhered to for known reasons and are subject to change by the people who embody them (55).

In the succeeding generation, however, the rules of action or institutions lack the first-hand knowledge of the actors. Institutions thereby gain a historic quality and are experienced as something over and above the people who happen to embody them in a particular instance. What was experienced in the earlier generation as, “Here I go again

preserving food in the way that I discovered gives the best results,” is experienced in the succeeding generation as, “This is how things are done.” What resulted from conscious choice in the earlier generation becomes the primary facts of reality in the succeeding generation. In the words of Berger and Luckmann, institutions are now experienced as possessing a reality of their own, a reality that confronts the individual as an external and coercive fact” (55) It is in this state of affairs, say Berger and Luckmann that legitimation becomes necessary to provide explanation and justification for institutions that have lost their personal embodiment and their self-evident status (50-56).

Berger and Luckmann note four levels of legitimation. The most fundamental, pre-theoretical level of legitimation is language, wherein a specific vocabulary is used to teach children about the world. To learn that John is my cousin “immediately and inherently legitimates the conduct with regard to ‘cousins’ that is learned along with the designation”(87). At this level, children learn that “this is how things are done” as if they were facts of reality. The next level of legitimation is the semi-theoretical stage during which people learn explanations for things in the form of proverbs, myths, moral maxims, legends and folk tales. The third level of legitimation is the theoretical stage. In this stage, segments of the institutional order are explained by comprehensive theories so complex that they are left in the hands of specialists, who become full-time legitimators (87-88).

The fourth level of legitimation contains theories that integrate the various segments of theoretical knowledge from the previous level. This gives the institutional order a kind of “symbolic totality.” This level is symbolic in the sense that it is completely abstract from practical everyday reality. Its purpose is the ultimate integration of all levels of legitimation so that each individual sees his place and his actions as being consonant with those of his neighbors as well as with the workings of the universe and the nature of man. It is, therefore, a definition of reality. As Berger and Luckmann put it “the symbolic universe is conceived of as the matrix of *all* socially objectivated and subjectively real meanings; the entire historic society and the entire biography of the individual are seen as events taking place *within* this universe” (89). They add that in this

context, “even the most trivial transactions of everyday life may come to be imbued with profound significance” (92).

With the integration of the totality of human existence in the symbolic universe, say Berger and Luckmann, the process of legitimation is complete. It is, after all, institutions that are somewhat problematic and in need of legitimation; with the fourth level of legitimation the problematic nature of institutions has been removed. People take the symbolic universe for granted and go about their business in society with the assurance that their actions are correct and moral. Even though they, themselves, may not understand the higher, theoretical levels of legitimation, they are confident that the full-time legitimators who are rightfully entrusted with such things do understand them. That is until an alternative symbolic universe appears which challenges the status quo. “The appearance of an alternative symbolic universe poses a threat because its very existence demonstrates empirically that one’s own universe is less than inevitable” (100).

This could happen, for example, if two isolated societies with unique legitimations crossed paths. It could also take place within a single society if socialization is incomplete so as to allow sub-societies to grow, complete with their own legitimations. It could also take place within the mind of one person who comes in contact with new ideas after previously having been totally immersed, for whatever reason, in a given reality. From such confrontations of symbolic universes, there develops what Berger and Luckmann call “conceptual machineries of universe-maintenance” (96). These are theoretical justifications of the symbolic universe itself, i.e., theoretical shields for a preferred definition of reality.

After confrontation occurs, each of the four previous levels of legitimation become levels of conceptual machineries of universe-maintenance. They become shields for society’s preferred definition of reality for the purpose of preventing massed migration to the opposing view. Myths, theologies, and even theoretical sciences, acting as machineries of universe-maintenance, exist side-by-side at different levels of legitimation. Since both sides of the confrontation are engaging in universe-maintenance, conflicting definitions of reality, say Berger and Luckmann, result in a power play that

determines which definition is “made to stick” in society. War, with each group defending its own definition of reality, is a likely outcome of the confrontation of two societies because wholesale persuasion is out of the question, since, being outsiders in regard to one another, neither of their conceptual machineries is persuasive to the other (100-101).

In this power play environment, continue Berger and Luckmann, theories acquire a new standard for validity. Prior to confrontation, theories were validated by how well they succeeded in practical experience. Berger and Luckmann give the example of competing theories of boar hunting. The merits of such theories are easily decided by counting the successes of hunters who adhere to the different theories. However after confrontation, theorists develop abstract arguments of universe-maintenance that cannot be validated by experience. There is no easy way to decide the merits of such theories so both theories remain and come into conflict. They compete to attract new adherents and to prevent massed migration to the opposing view. After confrontation, “good” theories are those able to neutralize the appeal of competing theories and to extract the loyalty of large numbers of adherents, thereby creating a power base. The confrontation manifests itself in the struggle of experts and their power bases trying to acquire control of the socialization processes of society, such as police powers and the educational processes, because “power in society includes the power to determine decisive socialization processes and, therefore, the power to *produce* reality” (110).

According to Berger and Luckmann, “these considerations imply that there will always be a social-structural base for competition between rival definitions of reality and that the outcome of the rivalry will be affected, if not always determined outright, by the development of this base (110). This means that the success of theories during the period of conflict is determined not by theoretical considerations, such as internal coherency, practical application to everyday life, etc., but by the extra-theoretical consideration of whether they result in the formation of a power base. That is, say Berger and Luckmann, “a theory is ‘demonstrated’ to be pragmatically superior not by virtue of its intrinsic

qualities, but by its applicability to the social interests of the group that has become its 'carrier'" (111).

In Berger and Luckmann's view, theories become ideologies, when they are used to advance the interests of social groups. On one side of the confrontation, we have social groups that wish to maintain the *status quo*, who espouse traditional theory and religion, and who exalt full-time legitimators in the form of traditional theorists and theologians. On the other side, there are competing social groups who espouse competing theories and exalt competing theorists and theologians. In essence, we have competing power bases protecting and promoting different definitions of reality. "When a particular definition of reality comes to be attached to a concrete power interest, it may be called an ideology" (113).

For Berger and Luckmann, legitimations prior to confrontation do not amount to ideologies because everyone equally inhabits the symbolic universe, that is, everyone holds the same definition of reality and cannot conceive of any other. It is only after confrontation that legitimations take on the characteristics of ideology. In this view, Christianity during the Middle Ages was not an ideology since everyone from serf to king used it to define their world; however, Christianity during the Industrial Revolution could be considered an ideology because the bourgeoisie used it against the new worker class who no longer defined their reality through Christianity. For Berger and Luckmann, then, "the distinctiveness of ideology is rather that the *same* overall universe is interpreted in different ways, depending upon concrete vested interests within the society in question" (114).

At this point the reader may have noticed the parallelism between Berger and Luckmann's theory of legitimation and Kuhn's theory of scientific paradigms discussed in Chapter 1. Berger and Luckmann's pre-confrontation society, in which everyone lives their lives without questioning their universally accepted world view, sounds much like Kuhn's description of scientists with their accepted core of beliefs doing "normal science" within the current scientific paradigm. In both, the adherents of dominant views of reality consign themselves the task of articulating the current paradigm or world view: Pre-

confrontation society members restrict their actions to those that are validated by their universally accepted world view , and scientists work within the boundaries of theories provided by their paradigm.

The parallelism extends still farther. Berger and Luckmann's "confrontation" and the resulting "conceptual machineries of universe-maintenance" corresponds with the appearance of "anomalies" and the move to "extraordinary science" in Kuhn's views. In the former view, legitimations once accepted as universal are, after confrontation, shown to be specific to a certain society and not universal truths at all; theories are then put forth to protect the old world view and there ensues a struggle for dominance between the old and the new world views. In the latter view, scientists do not question the assumptions of their paradigm until the appearance of anomalies forces them to; at that point they move in to extraordinary science in an attempt to salvage the current paradigm.

There are other similarities between Berger and Luckmann and Kuhn and also between Berger and Luckmann and Lakatos. Berger and Luckmann contend that the same overall universe is interpreted in different ways by the adherents of different ideologies. Kuhn speaks of scientists moving from the old to the new paradigm being able to observe new phenomena looking at old data with old instruments similar to a Gestalt switch. Berger and Luckmann show four levels of legitimation, each level integrating and validating the level below, all for the purpose of protecting a world view. This is similar to Lakatos's description in Chapter 1 of research programmes, i.e., a set of theories which act as a core, and a set of hypotheses that act as a protective shield for the core.

Returning now to ideology, Mannheim makes the same pre-and-post-confrontation distinction with regard to ideology as do Berger and Luckmann, but he sees the legitimations of society both prior to and after confrontation as ideology. He says that "the concept 'ideology' reflects the one discovery which emerged from political conflict, namely, that ruling groups can in their thinking become so intensively interest-bound to a situation that they are simply no longer able to see certain facts which would undermine their sense of domination" (40). It is confrontation that "breaks the spell," so to speak,

and makes it *apparent* to members of a previously closed society that their sacred views are, in fact, ideologies.

So for Mannheim, there are two kinds of ideology. He calls them “particular” ideology and “total” ideology. In this view, particular ideology is that usage which recognizes that people’s views are *interested* rather than purely objective and that we must approach these views with caution as we would the views of an opponent, believing them at our own risk. Mannheim says we typically regard an opponent’s ideas

as more or less conscious disguises of the real nature of a situation, the true recognition of which would not be in accord with [our] interest. These distortions range all the way from conscious lies to half-conscious and unwitting disguises; from calculated attempts to dupe others to self-deception. (55-56)

Mannheim’s concept of “particular ideology” is roughly synonymous with Berger and Luckmann’s conception of “ideology” as being a given definition of reality attached to a concrete power interest.

Total ideology, according to Mannheim, means the world view of an age or of specific historic-social groups, or the mindset or total structure of the mind of an epoch or group. Mannheim sees the study of total ideology as the primary content of a branch of sociology known as the “sociology of knowledge.” In total ideology there is no thought of using ideology for deception because there is no conception of alternative or conflicting ideologies. Total ideology is predicated upon the assumption that peoples’ views are colored by their time and place in history and society. Total ideology resembles Berger and Luckmann’s view of legitimations prior to confrontation with opposing views.

Mannheim uses the example of the country lad who moves to the city to highlight the difference between total and particular ideology. He explains that

for the son of a peasant who has grown up within the confines of his village and spends his whole life in the place of his birth, the mode of thinking and speaking characteristic of that village is something that he takes entirely for granted. But for the country lad who goes to the city and adapts himself gradually to city life, the rural mode of living and thinking ceases to be something to be taken for granted. He has won a certain

detachment from it, and he distinguishes now, perhaps quite consciously, between 'rural' and 'urban' modes of thought and ideas. (281)

In this way explains Mannheim, "that which within a given group is accepted as absolute appears to the outsider [as] conditioned by the group situation and recognized as partial" (282). In sum, then, Mannheim says that everyone's views are biased by their social environment, and often people are unaware of this fact. They are unaware so long as they are totally immersed in the prevailing mode of thinking.

What is more, says Mannheim, there are differences in how various institutional and social structures insulate and hence preserve the "total" nature of the world views of people living within these social structures. He says that "the multiplicity of ways of thinking cannot become a problem in periods when social stability underlies and guarantees the internal unity of a world-view," that is, when institutional and social structures prevent social movement. He continues that "it is primarily the intensification of social mobility which destroys the earlier illusion, prevalent in a static society, that all things can change, but thought remains eternally the same" (6-7).

He separates social mobility into "horizontal" and "vertical" mobility. Horizontal mobility occurs when one moves to a different position without changing social status. This kind of movement makes it apparent that different people think differently about things, but it does not seriously threaten one's beliefs, since the context of the national or shared traditions remains intact; such differences are simply chalked up to curiosities or errors. However, when horizontal mobility is accompanied by vertical mobility, movement up or down through different social strata, one encounters entirely new ways of thinking about things that can shake one's confidence in one's beliefs. Mannheim says that vertical mobility "is the decisive factor in making persons uncertain and skeptical of their traditional view of the world" (7).

Mannheim explains why entirely different ways of thinking are encountered by people who move vertically through society. He says that in a static society, one organized around closed castes or ranks, the virtual absence of vertical mobility tends to isolate stratas of people and allow divergent world views to develop and to coexist in the

same society. Thus, for example, all classes of a society may worship the same god but experience religion in entirely different ways. Different world views can coexist in the same society, he says, so long as the divergent views are held in different minds. It is at historic times when there is communication between classes or castes that current beliefs are challenged. As Mannheim succinctly puts it,

the most significant stage of this communication is reached when the forms of thought and experience, which had hitherto developed independently, enter into one and the same consciousness impelling the mind to discover the irreconcilability of the conflicting conceptions of the world. (8)

This is the process of detachment as experienced by Mannheim's country lad above. The acquiring of a "detached perspective," as Mannheim describes it, is what makes it possible for persons to recognize the "particular" nature of their previous mode of thinking. Once recognized as particular, the previous mode of thinking is eventually replaced by the detached perspective which becomes the new mode of thinking.

Mannheim says that one can gain a detached perspective in the following ways:

(a) a member of a group leaves his social position (by ascending to a higher class, emigration, etc.); (b) the basis of existence of a whole group shifts in relation to its traditional norms and institutions; (c) within the same society two or more socially determined modes of interpretation come into conflict and, in criticizing one another, render one another transparent and establish perspectives with reference to each other. (282)

Part (a) above is the case of the country lad above. An example of part (b) is the case of the American Indian after conquest by whites. Part (c) is exemplified by the fact that the conflict between environmentalism and development has in many places resulted in environmentally-friendly development. Another example of part (c) is the conflicting views of the various branches of science resulting in refinements in them all. In this sense, interdisciplinary studies itself could be seen as a way of acquiring Mannheim's "detached perspective."

The distinction that Berger and Luckmann and Mannheim make above, i.e., ideology as unquestioned presuppositions on the one hand or ideology as deception on the

other, is a useful distinction for analytical purposes. Since Mannheim's terminology is more descriptive than Berger and Luckmann's, for convenience and to avoid confusion, from this point forward I shall use Mannheim's, "total ideology" to refer to ideology as unquestioned presuppositions and his "particular ideology," to refer to ideology as deception.

This distinction is especially enlightening when used in conjunction with the information relation as developed in Chapter 1. We can imagine Informer choosing to tell the truth in spite of having knowingly been lied to by Informee in a previous exchange. We can now see that adherence to a personally accepted ideology is a benefit of truth-telling and that acting contrary is a cost. When Informer chooses to tell the truth in spite of greater apparent costs than benefits, he is not acting contrary economic theory. We simply cannot observe an important element of his benefit-cost analysis, i.e., his personal satisfaction for having retained ideological integrity.

In the above example, all of society consists of only two people: one whose actions were influenced by truth-telling ideology and one whose actions were not. This demonstrates that all of society or even all of a group need not be totally immersed in an ideology for its effects to be total on individual members. Mannheim's isolation condition for the existence of total ideology can be met in the case of individuals as well. Individuals can intentionally isolate themselves physically by moving to a remote location or by physically excluding others from their location. More importantly, however, they also can isolate themselves practically by limiting their circle of acquaintances, by reading only "moral" materials, by discussing only "proper" subjects, by refraining from pondering anomalies that present themselves in daily life, by refraining from introspection that might reveal a conflict between beliefs and feelings, or in general, by purposely closing their consciousness to conflicting views.

From all of this we get a more useable view of ideology, yet one that is consistent with the above authors: **In any instance where an individual alters his behavior for the sole purpose of being in accord with an ideology, such as telling the truth instead of lying, its practical effects on him are total; in any instance where an individual is aware of an**

ideology but does not alter his behavior because of it, its practical effects on him are particular. In this view, an ideology can have a total effect on an individual in one instance and a particular effect in another, depending on whether he alters his behavior to be in accord with it. The point of all of this is to bring out that it is only instances of total ideology that move people to tell the truth or, as we shall see later, to not free ride, and that responding to total ideology can be a very individual and private event. Furthermore, we need not see total ideology as a pristine porcelain icon that all revere with complete devotion so long as it is intact, and that loses its enchantment entirely once it has fallen and shattered on the floor. For some people, this may be true, but others can be occasionally enchanted by contemplating and responding to various fragments in a total way.

North does not explicitly make the distinction between total and particular ideology. He does, however, use the term in both senses. His likening of ideology to the “strong moral and ethical codes of a society” and to “the cement of social stability,” as cited above, is a usage similar to Mannheim’s “total ideology.” North’s “intellectual entrepreneur,” whom we shall meet below, is most certainly a usage of the term “ideology” in its particular sense.

North says that “ideologies are intellectual efforts to rationalize the behavioral pattern of individuals and groups” (*Structure* 48). He says that ideology guides our everyday lives by providing an explanation of the world that we experience. By providing explanation, he says, ideology serves the same function as theory. He continues, à la Popper, that theories can never be proven, only be refuted, and since no definitive tests exist to eliminate all but one theory, we employ competing theories or ideologies to explain the world around us.

North stresses what he believes are three important aspects of ideology:

1. Ideology is an economizing device by which individuals come to terms with their environment and are provided with a “world view” so that the decision-making process is simplified.

2. Ideology is inextricably interwoven with moral and ethical judgments about the fairness of the world the individual perceives.
3. Individuals alter their ideological perspectives when their experiences are inconsistent with their ideology. In effect, they attempt to develop a new set of rationalizations that are a better “fit” with their experiences. (*Structure and Change* 49)

Aspects (1) and (2) are obviously in the vein of total ideology, and aspect (3) describes the process of the country lad acquiring Mannheim’s “detached perspective.” Taken together they suggest that when change renders ideologies obsolete, people lose an important aid in decision making as well as their moral compass; these are things that people are anxious to replace.

Sowell agrees that ideology is a knowledge-economizing device, but adds that by this very fact ideology appeals to those with higher costs in acquiring alternative knowledge, i.e., people who are inexperienced or politically apathetic. He cites specifically “youth” and the “masses” (*Knowledge and Decisions* 309). Arendt adds weight to this view when she points out that

it was characteristic of the rise of the Nazi movement in Germany and of the Communist movements in Europe after 1930 that they recruited their members from this mass of apparently indifferent people whom all other parties had given up as too apathetic or too stupid for their attention. (*Origins of Totalitarianism* 311)

Sowell continues that the knowledge-economizing benefit of ideology decreases with the passing of time. As one grows older and acquires more experience and information, the costs of reconciling one’s ideology to the current state of one’s knowledge becomes greater than the cost of discarding one’s ideology in favor of one with more explanatory power. Sowell gives the example of people clinging to the “earth is flat” world view during which generally increasing scientific knowledge made it ever more costly to do so. He says that the incremental costs of adopting a more complex ideology, the “earth is round” view, is repaid by lesser intellectual effort in reconciling one’s beliefs to the empirical world. Which ideology people adhere to, says Sowell, “is a question of cost-

effectiveness rather than of reaching ultimate, immutable truth” (*Knowledge and Decisions* 309). In Sowell’s view, then, people adopt ideologies to keep the costs of knowledge low; people change ideologies in order to reduce costs.

North says that inherent in ideology is a judgment about the fairness of the social system in which people find themselves. He argues that the terms of exchange in society are an important variable in this judgment. He gives four examples of external change, in the form of changes in relative prices, that he believes are sufficient to alter peoples’ perception about the fairness of the economic system and, hence, sufficient to cause people to alter their ideologies:

1. an alteration in property rights which denies individuals access to resources which they had heretofore come to accept as customary or just (the enclosure of common land, for example).
2. a decline in the terms of exchange in a factor or product market away from what had come to be regarded as a just exchange ratio.
3. a decline in the relative income position of a particular group in the labor force.
4. a reduction in information costs that results in individuals perceiving that different and more favorable terms of exchange may prevail elsewhere. (Structure 50)

From Mannheim’s point of view, North is claiming that the above changes in relative prices are sufficient for people to come to realize that their views are particular. From Sowell’s point of view, North is claiming that these relative price changes increase people’s cost of holding their current views sufficiently that they will discard them in favor of more cost effective views.

Item one above is reminiscent of the ideological conflicts that occurred between ranchers and “sod busters” during the settling of the West in the United States as individual property rights expanded and common property rights receded. A similar situation is currently being played out in Alaska between developers and environmentalists. Items two and three respectively bring to mind the plight of the twentieth century American farmer and laborer and the ideological battles that define our

century. Item four describes our current situation as the Internet spans the physical isolation of even the most remote communities rendering them less parochial.

North argues that as people become willing to alter their ideologies, replacement ideologies spring up and vie for adherents. Almost without exception, North says, alternative ideologies develop under the guidance of intellectuals who get some kind of reward or payoff by promoting them to others. He calls these promoters “intellectual entrepreneurs” because they see opportunity in the domain of ideas where others do not. He says that such “entrepreneurs spring up whenever there develop contrasting views of the world around us as a result of differential experiences” (*Structure and Change* 51).

Whether ideologies are used to justify existing social and economic structures or to attack the existing arrangements and to promote change, successful ideologies, according to North, have a number of characteristics in common. North, in using the term “ideology” in the sense of being “successful,” is using it in the “total” sense à la Mannheim. Fundamental to all successful ideologies, North says, is their ability to explain how the current property rights structures and terms of exchange fit into a larger context or system. They must also be able to explain history in ways favorable to current beliefs. Furthermore, successful ideologies must be flexible enough to attract the loyalty of new groups and to retain current loyalties as social and economic conditions change. However, “most crucially,” says North, “any successful ideology must overcome the free rider problem.” To do that, he says, ideologies must “energize groups to behave contrary to a simple, hedonistic, individual calculus of costs and benefits.” This, he says, must be the central thrust of successful ideologies because “neither maintenance of the existing order nor its overthrow is possible without such behavior” (*Structure and Change* 53).

The free rider problem is similar to the prisoners’ dilemma in that everyone would be better off if each individual would cooperate in some designated way; however, the benefit/cost choice facing each individual is such that each individual chooses not to cooperate. Molho gives the example of public television. Individual patrons, deciding whether to “pay their fair share,” see themselves as dupes if they pay and others do not pay. On the other hand, if individuals do not pay, they are not dupes and they can enjoy

the broadcasts free while others pay (3). The free rider problem, common to all group action, is considered by economists as the fundamental problem of collective action.

The free rider problem is especially troublesome for ideologies intended to prevent lying since, as Barnes points out, lying itself is a form of free riding. Barnes says that lies are successful only when dupes believe that liars mean what they say. He continues that dupes will mistakenly believe that liars mean what they say only under circumstances where most people mean what they say most of the time. In other words, most people must tell the truth in order for liars to be able to free ride. As Barnes puts it, "in any sustained system of interaction, lying being one example, the majority of actors must pay their way; only a minority can be free riders." This suggests another way of looking at the optimal level of lying. Barnes says a "search for an optimal level of lying, if optimality were to be measured by maximum success, might be rephrased as a quest for an optimal number of free riders" (10).

Barnes's view also adds a new dimension to the information relation as described in Chapter 1. There, participants weigh their various strategies: Informer weighs the expected benefits and costs of lying and truth-telling and Informee weighs the expected benefits and costs of believing or not believing and of verifying or not verifying Informer's information; each then chooses the strategy he expects most likely to result in benefits. In Barnes's view, Informer's choices are somewhat more constrained in that he must tell the truth most of the time in order to create an atmosphere of trust before he can consider lying as a possible strategy. It is as if repeated truth-telling has a kind of momentum that will carry piggy-back the occasional lie.

North's views add yet another dimension to the information relation. He makes it clear that ideology can be used either to legitimate an existing structure of property rights and the terms of exchange or to attack the injustice of it. Ideology can, therefore, be used by either participant in a principal agent relationship against the other. Principals can promote ideologies that encourage loyalty and discourage lying, cheating, and slacking to make it less likely that agents will renege on their agreements. Agents can promote ideologies that instill trust, guilt, or class consciousness to make it less likely that

principals will monitor their actions. Relating this to the information relation, Informee, the principal in the information relation, can promote ideologies against lying while Informer, the agent, can promote those that tend to reduce monitoring and verifying.

The former situation, principals trying to get the agents to do what they have agreed to do, is the normal or familiar case. In some role, we each rely on other people's buying in to some ideology to ensure that they live up to their agreements with us. The somewhat more unusual latter situation, agents using ideology to change the behavior of principals, is exemplified by the relationship between Cuba and the former Soviet Union. As my memory serves me, when the Soviet Union attempted to wean Cuba off subsidies, Cuba's official position was that in spite of their need for increasing subsidies, Cuba was more Marxian than Russia. This was an obvious use of ideology to get more subsidies and to reduce monitoring of their use by instilling guilt in the monitor.

Mancur Olson argues that there are only two ways to overcome free riding. The first way, he says, is to attach selective or excludable incentives to collective goods. By this he means that people must receive some personal benefit for donating money or paying their "fair share" to a cause (cited in Higgs 40). As Heyne puts it, "each will not do what is in the interest of all unless it is in the interest of each" (365-366). For example, professionals who pay the dues to their professional organization are rewarded with the association's journal. The journal is an excludable good, meaning that only those people who pay dues get it; the rest are excluded. In this way, the free ride problem is overcome. Individuals pay dues to get the journal and thereby benefit the collective actions of the professional organization. The second and only other way to overcome free riding, says Olson, is by the use of coercion (cited in Higgs 40). Examples of this option are too numerous in our tax-everyone-for-the-common-good society to warrant mentioning.

Yet, as North explained above, people often act contrary to "individual calculus." Without the lure of selective incentives and without being coerced, people vote, donate blood, and in other instances pay their "fair share" even when they could avoid these costs and still reap the benefits. People do these things, he says, to the extent that they

believe the existing system is morally just. That is, people follow the rules, despite the appearance of a negative individual calculus, because they see the cost of acting contrary to their ideological beliefs as being greater than the benefits that they would receive from doing so. “To put the issue precisely,” says North, “the premium necessary to induce people to become free riders is positively correlated with the perceived legitimacy of the existing institution” (*Structure and Change* 54). Restated in terms of costs, the stronger people believe that the existing institution is legitimate and just, the greater are the moral costs to them of free riding.

It is the legitimacy of the existing institution or “cause” that “intellectual entrepreneurs” are hoping to instill in the population at large. They want adherents to recruit, to influence public opinion, and to develop and refine the ideology to include issues and segments of the population heretofore excluded. However, promoters of various ideologies encounter the free rider problem as do promoters of all group action. The above activities impart substantial costs to adherents who engage in them. Yet, adherents who do not engage in them will receive benefits just the same.

Using a personal example, for years I have sympathized with the National Riflemen’s Association’s (NRA) position concerning our Second Amendment right to bear arms. Even so, it seemed that I could never justify the membership fee, especially since my membership would add so little to the pot, so to speak and, of course, knowing full well that NRA’s political gains were my benefits regardless. I did however, discuss the importance of supporting the NRA with my wife Jeane, who then joined even though she knew little about guns. She subsequently appropriated my allowance and purchased a second membership in my name. Today, Jeane is an active member, recruiting and promoting the cause, while I am a passive member somewhat miffed about my allowance. North would say that the NRA ideology did not sufficiently energize me “to behave contrary to a simple, hedonistic, individual calculus of costs and benefits” (*Structure and Change* 53).

In North’s view, then, people adhere to a given ideology and, hence, abstain from free riding, because they believe that said ideology and its corresponding institutions are

legitimate and just. Higgs argues that it is for reasons of solidarity that people choose to adhere to the prescriptions of an ideology. This view is complementary to North's but has a different emphasis. Higgs argues that, "people crave the comfort of association with those they recognize as their 'own kind.'" It is this "comfort of association" with people who hold similar opinions that provides the individual incentives for people to participate in a collective action. As Higgs puts it, "to embrace an ideology is to join a community of like-minded people" (42). This view of community resembles Tonnies's concept of "*Gemeinschaft* of mind" and its derivative, "friendship," as discussed above. Friendship, says Tonnies, develops among those of "common mentality...Thus, those who are brethren of such a common faith feel, like members of the same craft or rank, everywhere united by a spiritual bond and the co-operation in a common task" (43).

One final comment about ideology, Barnes's views above suggests an interesting irony, perhaps even a dilemma, that ideologies intended to prevent lying are in the interests of liars. This is so because such ideologies create a favorable environment for lying. In a society under the sway of ideologies intended to prevent lying, most people would tell the truth most of the time. This is the circumstance under which, Barnes says, dupes would most often mistakenly believe that liars mean what they say. In other words, when most people tell the truth, people become more trusting, and hence the liars job becomes easier. It would stand to reason, then, that liars want everyone else to tell the truth. If so, we might expect that liars may be among the most vociferous and active promoters of truth-telling ideologies. This would make them, a`la North, "intellectual entrepreneurs" or as he sometimes calls them, "ideological entrepreneurs" (*Structure and Change* 65).

From the above writers, we must now isolate the necessary requirements of ideology that will be used to analyze the market and bureau models in Chapters 3 and 4. These necessary requirements are Mannheim's "isolation," "rigid social classes," "no vertical social mobility," and "no communication between classes," Sowell's "a high cost for alternative information," North's "minimal changes in the terms of exchange," and Higgs's "opportunity to satisfy the craving for association with like-minded people."

The next chapter develops a market model and conducts two analyses on it. The first analysis compares the simple protection strategies and the necessary requirements of reputation, community and ideology to the institutional constraints of the model. The second analysis evaluates the model's affect on six social phenomena that influence the benefit-cost ration of lying in all societies. The social phenomena used for analysis are particular knowledge, organizations, free riding, institutional restrictions on communication, time preference, and ethical codes of conduct.

Chapter 3

Lying in the Private Property Order

In this chapter, I develop a market model that resembles Berger and Luckmann's extreme type model of a society with a single common problem. I then compare the constraints of this single-institution market model to the necessary conditions of the protection-from-lying strategies that were discussed in the last chapter. Those strategies are hostage-taking, incrementalizing, seeking pointed knowledge, signaling, reputation, community, and ideology. I also evaluate six social phenomena that influence the expected benefit-cost ratio of lying in society: the use of particular knowledge; kinds of organizations; the existence of free riding; institutional restrictions on communication; the elements of time preference formation; the engendering of ethical codes of conduct.

By evaluating the success of protection strategies and the extent of factors that influence the benefit-cost ratio of lying, I will be analyzing lying from both sides of the information relation: The strategies are what Informee uses to protect himself; the six factors above are what Informer considers when deciding whether or not to lie. Conducting this analysis here in relation to the private property order and in Chapter 4 in relation to the bureau, will allow us to see if strategies are relatively more effective in one model than the other, and if the six factors influencing the benefit-cost ratio of lying are relatively more beneficial or harmful in one model than the other.

Choosing a Market Model

There are many market models that we could choose from. Lindblom places market systems into four general categories: consumer sovereignty systems and planner sovereignty systems, both of which divide into public and private kinds. His consumer sovereignty model specifies that "no central government authority directs production; production responds to consumer demand in markets" (106). In this model, if capital is in private hands, then there exists what we normally call markets. If capital is in public hands, there exists what we normally call public utilities. In either case, says Lindblom, consumers respond to market prices and hence decide what is produced (100).

In Lindblom's planner sovereignty model, the preferences of planners replace the preference of consumers. This model specifies that "central governmental authority is limited to purchasing final outputs, with market coordination of all intermediate production" (106). In its most extreme form, says Lindblom, "all production, consumer goods included, is guided by the purchases of a government that has displaced the consumer as the 'sovereign'" (98). All firms, whether public or privately owned, sell their output to the government or to other firms who in turn sell to the government. Government officials then dispense goods to consumers according to planning prescriptions. Lindblom proposes that all real-world, market-oriented systems are, at least in part, planner sovereignty systems, because their governments are buyers of many final outputs, such as roads and education (99).

By increasingly applying more qualifications to his planner sovereignty model, Lindblom produces two more market models: a central authoritative planning model and an authoritatively computed prices model. His central authoritative planning model specifies "authoritative specification of output targets both for end and intermediate products, along with authoritative allocations of inputs, all facilitated, however, through money payments and prices." This he says is the market model of Soviet, Eastern European, Cuban and Chinese communism. In Lindblom's authoritatively computed prices model, government "calculates synthetic or shadow prices and other magnitudes to attempt an optimal set of physical input allocations and output assignments" (105-106). Although no such system actually exists, Lindblom, maintains that its existence is theoretically possible (100).

Polanyi separates the concept of "market" from the concept of "economy." In this view, economy is a larger category than that of the market. Economy, says Polanyi, includes all human activity whose purpose is producing or procuring things to sustain human life. This of course includes market activity, but it also includes reciprocity, gift giving, distribution and other exchanges more typical of primitive societies that do not appear to be motivated by personal gain. These exchanges, says Polanyi, are imbedded within the noneconomic institutions of society such as religion, kinship relations,

traditions, and ceremony. In this view, economy is “simply a by-product of the working of other, noneconomic institutions” (52).

On the other hand, says Polanyi, the market is “institutionally distinct from the rest of society.” The production and distribution of goods in the market is carried on by a self-regulating system complete with its own laws and institutions. “This institutional arrangement is thus separate from the noneconomic institutions of society: its kinship organization and its political and religious systems” (47). Polanyi also distinguishes between price-making markets and non-price-making markets. In the latter, exchange occurs through what he calls “fixed equivalencies,” i.e. fixed relationships, for example one bushel of potatoes equals one pound of meat, that are set by tradition or cultural norms. (125). His main concern, however, is with markets’ specific institutions, their self-regulating mechanism, and the ways in which they differ from his view of economy. One could say, as North in fact does, that “Polanyi made a *market* synonymous with a *price-making market*” (*Structure and Change* 42).

The perfect competition market model has been the basis of economic analysis in the U. S. since about the 1920s. This model assumes that all producers have perfect information, and use identical production methods to produce homogeneous (identical) goods. These goods are produced by many producers all of whom face a horizontal demand curve. This makes all producers price takers rather than price searchers. Any producer that raises prices loses all of his customers to competitors. The assumption of free entry and exit into and out of the industry with no transactions costs assures that all producers make only normal profits, since other firms will quickly enter production to take advantage of above normal profits and thereby push profits down. According to this model, most real-world producers are monopolists to varying degrees.

For our purposes, we need a market model that approximates Berger and Luckmann’s criteria for an extreme type society in which “there is only one common problem, and institutionalization occurs only with respect to actions concerned with this problem.” We should also be reminded that “in such a society there would be almost no common stock of knowledge. Almost all knowledge would be role-specific” (75).

These criteria eliminate all of Lindblom's planner sovereignty models. These models explicitly specify considerable government intervention which implies many common problems rather than the single one that is required. In fact, Lindblom's central authoritative planning model and his authoritatively computed prices model specify that *all* economic actions are by government officials who are following rules, even the calculation of prices in the latter model. This makes them indistinguishable from Berger and Luckmann's total institutionalization extreme-type model. They would be more appropriate at the opposite end of our continuum rather than at the market end.

Lindblom's consumer sovereignty model is a possible candidate; however, it leaves the role of government largely unspecified and hence open. He simply says that "no central government authority directs production" as cited above. This still leaves room for a host of government regulations that do not necessarily direct production but might still prevent production, alter production, initiate production, or in some other way change the production outcome from its non-regulated state. Seen as institutionalized action, as in Berger and Luckmann's model, the presence of government regulation of market processes indicates the presence of common social problems. We see then that Lindblom's consumer sovereignty model suggests, or at least allows, considerably more than one common problem.

Polanyi's view of economy is far too broad for our purposes; it includes all of Lindblom's models which have already been passed over for reasons which we have just discussed. Also, it is not entirely clear that distribution and gift-giving are a form of exchange completely divorced of market institutions. The most notable distinction is that market exchange is based on direct reciprocity, a one time exchange of items of equivalent value or valuation, while distribution and gift giving are based on indirect reciprocity, in which there is always a time lag in the exchange process. This distinction seems hardly sufficient to create a strict dichotomy between market and noneconomic institutions. Mauss argues that market institutions, though sublimated, are at work in primitive societies. He shows that gifts are not voluntary as theory has it but are in fact both given and repaid under obligation. He says that the gift received includes many legal principles

that modern societies have separated. The gift received is “at the same time property and a possession, a pledge and a loan, an object sold and an object bought, a deposit, a mandate, a trust” (22). Mauss notes that “to refuse to give, or to fail to invite is—like refusing to accept—the equivalent of a declaration of war; it is a refusal of friendship and intercourse” (11). This view suggests that primitive people use benefit-cost analysis in relation to gift-giving and-receiving, that self-interest is involved in such exchanges, and that gifts exact their price, although not in the form of money.

Polanyi’s price-making market model is also too broad in one sense. Yet in another sense, it is too narrow. It is too broad because it includes both Lindblom’s planner sovereignty model and his central authoritative planning model. These models, to varying degrees of course, use money prices to allocate resources, but both have already been passed over because they allow more than one common problem. His price-making market model is too narrow because it does not include barter, a voluntary contractual exchange such as that between the pig farmer and the corn farmer exchanging pigs for corn at an agreed upon ratio without the use of money. This exchange is not an instance of Polanyi’s nonprice-making markets with their fixed equivalencies nor is it an instance of reciprocity or gift-giving. Most importantly it does not create market prices, but as North says, “it should be readily apparent, however, that any form of voluntary contractual exchange involves a market...” (*Structure and Change* 42).

Actually, exchange, such as the one above, predated the development of price-making markets by many centuries. “The first known price-making market was in the Athenian agora in the sixth century B. C., but exchange had been going on for millennia before that” (North *Structure and Change* 42). Mauss points out that “markets are found before the development of merchants, and before their most important innovation, currency as we know it” (2).

The perfect competition model is far from suitable for our purposes. This model assumes perfect information on the part of the market participants, which is an insurmountable violation of Berger and Luckmann’s “no common stock of knowledge” criterion. Also, as Hayek points out, the perfect competition model, despite its name,

assumes away the most important feature of markets. If, Hayek argues, we view competition as “the action of endeavoring to gain what another endeavors to gain at the same time,” then the perfect competition model precludes market competition altogether. Those actions, he continues, that are the essence of competition in real markets such as “advertising, undercutting, and improving (‘differentiating’) the goods or services produced are all excluded by definition—‘perfect’ competition means indeed the absence of all competitive activities” (“Meaning of Competition” 96).

For our purposes, we need a market model that posits only one common problem and almost no common stock of knowledge among the market’s individual members. The stipulation of a single common problem implies that people will, for the most part, be pursuing their personal agendas, i.e., there will be no overall design to people’s economic actions. The stipulation of no common stock of knowledge implies that individuals must be able to provide for their personal needs using only the knowledge that they possess. Such a market model would have to explain how the actions of many individuals pursuing their personal concerns can result in social cooperation. Furthermore, it must explain how a society, whose members possess different sets of knowledge, can make use of that knowledge to solve its problems without any single mind knowing the combined total of everyone’s knowledge.

Fortunately, such a model exists, and in fact has a long and venerable history. It is the model of the free-market that developed within the classical liberal tradition. This model was developed by a long line of thinkers: the scholastics of the 13th - 16th centuries who based their writings on Aristotle and early Church Fathers; the physiocrats of middle 18th century France, especially Anne Robert Jacques Turgot; the Levellers, a group of libertarian thinkers in England during the civil war (1640-50); John Locke, whose theory of property rights and natural law, as expressed in his *Two Treatises Of Government*, was based on the works of the scholastics and the Levellers; the classical economists, particularly the French school, of the 18th and 19th centuries; and the Austrian school of economics of today.

In tracing the development of this model, economic historian Murray Rothbard credits Richard Cantillon (early 1680s-1734) rather than Adam Smith with founding economics. Rothbard says Cantillon was the first to demarcate economics as an independent field of learning and to present a general treatise on all its aspects (*Economic Thought* 347-358). Smith, who is normally recognized as the father of free-market thinking, was, according to Rothbard, actually an inconsistent advocate of laissez-faire, who rather than advancing free-market theory, actually shunted it toward an interventionism that Ricardo and later classical economists supported (*Economic Thought* 466-467)..

Rothbard argues that the huge popularity of Smith's *Wealth of Nations* obscured the importance of previous thinker's contributions and set back free-market theory by nearly a century. Prior to Smith, says Rothbard, subjective utility, the scarcity theory of value, and the entrepreneurship-and-uncertainty approach was well developed. However, Smith rejected these in favor of a labor theory of value and a total elimination of the entrepreneur from economic analysis. This resulted in the "blotting out of knowledge of the rich tradition of economic thought that had developed before Smith." Therefore, continues Rothbard, "the Austrians and their nineteenth century predecessors, largely deprived of knowledge of the pre-Smith tradition, were in many ways forced to reinvent the wheel, to painfully claw their way back to the knowledge that many pre-Smithians had enjoyed long before" (*Economic Thought* 502).

Rothbard further argues that the Smith phenomenon is an excellent example of Thomas Kuhn's contention that the development of science is not a steady, continuous march upward into the light of knowledge as is commonly thought. As discussed in Chapter 1, Kuhn argues that sciences work within paradigms that only change during times of crisis, which brings the old paradigm into question. As Rothbard reminds us, Kuhn says this can result in a kind of "zig-zag of great gain and loss, of advances in knowledge followed by decay and false leads, and then by periods of attempts to recapture lost knowledge, trying often dimly and against fierce opposition, to regain paradigms lost" (*Economic Thought* 502).

According to Rothbard, free-market theory was better advanced in France with the writings of John Baptist Say (1767-1832), who wrote in the tradition of Turgot and Cantillon. Say was said by some to have only developed what Smith had only begun, but, according to Rothbard, Say restored economic analysis to a “subjective utility and consistent *laissez-faire* tradition that managed to retain dominance over French economics for nearly a century” (*Classical Economics* 441). The most well known among the younger French generation that Say influenced was economist, statesman, and author Frederic Bastiat, whose *The Law*, still published today, shows a relationship between the law and plunder.

Still later, near the end of the 19th century, free-market theory was advanced by the Austrian school of economics. Though initiated in Austria by Menger and his student Bohm-Bawerk, Austrian economics was developed primarily in America through the works of World War II immigrants Ludwig von Mises and 1974 Nobelist Friedrich Hayek. To the Austrian school, a price-making market is only part of a free-market model. They see a free market more as a market society based on the principle of voluntary action and division of labor. In such a society, the free market is a spontaneous process that manifests itself in many ways. One such manifestation is market prices, but any instance of voluntary exchange or voluntary cooperation is also included. Although most writers probably use the terms “market” and “free market,” interchangeably, it is this larger free-market society and its principle of non-aggression that Austrian writers are referring to when they use either term.

This is the market model that we need in our comparison, but there is the problem of what to call it. Whatever name we choose must designate a category broad enough to include all voluntary action and narrow enough to exclude Lindblom’s market models all of which have been shown above to be unsuitable. Our term must also capture the sense of spontaneous processes and order. The term “free market” is commonly used, but as we have seen, “free market” and “market” are often used interchangeably, and as we have also seen in Lindblom’s usage, “market” can mean too many things to be analytically useful. Hayek uses the term “liberal social order” in his “Principles of a Liberal Social

Order.”, which captures the idea of social order but again the term “liberal” means too many things and indeed in today’s political context suggests a highly constraint market. “Laissez faire,” a term borrowed from the physiocrats is also commonly used; however, since Herbert Spencer, this term has come to be associated with Darwin’s usage of “evolution” and the law of the jungle, a far cry from voluntary society.

Greaves calls such a market model a “contract society,” a suitable term but one that, to my mind at least, does not suggest spontaneous processes (1). Rand calls it “capitalism” (*Virtue* 92), and Hoppe calls it “pure capitalism” (18). Rand’s choice is hopelessly muddled with the connotation of class conflict because of the fact that Marx originated the term, and Hoppe’s choice suffers the same stigma as well as being somewhat reminiscent of the perfect competition market model, often called “pure competition.”

A better term, in my mind, than any of the above is the term “private property order” used on the web page of the Foundation for Economic Education to describe their mission. Their welcome to web visitors reads, “Welcome to The Foundation for Economic Education (FEE) the oldest research organization dedicated to the preservation of individual freedom and the private property order.” This term suggests to me both the principle of voluntarism and spontaneous order. I shall therefore use it throughout the remainder of this work to designate the extreme type market model developed below that sits at one end of an institutional continuum.

The Private Property Order

The private property order is based on the political philosophy called “individualism.” According to Hayek, “the most general principle on which an individualist system is based is that it uses the universal acceptance of general principles as the means to create order in social affairs” (“Individualism: True and False” 19). Hayek traces the historical development of two strains of individualism, the British school and the Cartesian school. He argues that much of today’s confusion about what constitutes individualism stems from the fact that there are two incompatible schools of thought both claiming the title “individualism.” The British school is true individualism,

says Hayek, because its practical result is a stable social order characterized by the freedom of each individual. This strain was developed in the works of John Locke, Bernard Mandeville, David Hume, Josiah Tucker, Adam Ferguson, Adam Smith, Edmund Burke, Lord Acton and Alexis de Tocqueville. The Cartesian school was developed primarily in France through the works of Descartes, the Encyclopedists, Rousseau, and the physiocrats. This school uses the name “individualism” in a false sense, says Hayek, because the practical result of its philosophy is socialism or collectivism, (“Individualism: True and False” 4).

The main difference between the British and the Cartesian schools of individualism was in their views concerning the nature of man. The British school saw man as selfish, rather weak-willed, and only sporadically rational. They therefore became known as the “anti-rationalists.” In contrast, the Cartesian school became known as the “rationalists” because of their view that man has perfect or perfectible rationality. The anti-rationalists explained social order as being the result of spontaneous processes which were generated by the actions of individuals pursuing their own ends and which guided and corrected the actions of these individuals. The rationalists had no use for spontaneous processes. For them, social order was the result of a perfect rationality having so designed it (Hayek “Individualism: True and False” 8-9).

These different views of human nature led to very different approaches. The anti-rationalists saw society as nothing more than a collection of individuals. Understanding social order for them was synonymous with understanding individual action and the consequent spontaneous processes; therefore, the individual became their unit of analysis. This approach has become known as “methodological individualism.” Contrary to this, the Cartesian school contemplated society as a whole, independent of individual action. Their unit of analysis was the group or some social whole (Hayek “Individualism: True and False” 6).

These different views of human nature also led to very different practical outcomes. The anti-rationalist believed people should be as free as possible to pursue their own ends. For them, this was the way to ensure the formation of spontaneous

processes necessary to correct the deficiencies of human nature. The rationalists, on the other hand, thought that society should be rationally designed, specifically by those minds that had attained the greatest degree of perfection. With their different emphases, one on unrestrained action and the other on design, it is easy to see how the British school led to the private property order, and the Cartesian school led to socialism.

The reader may have noticed the irony concerning the nations of origin of individualism, as described here by Hayek, and of free-market theory, as described by Rothbard above. Although true individualism was developed in England, Smith and the other English classical economists were unsuccessful at incorporating it consistently into their free-market theories. Adding to the irony, while the Cartesian school of individualism in France was framing collectivist theories of political economy, J. B. Say and the French classical economists managed to salvage free-market theory. However that may be, from this point on, I use the term “individualism” to refer to the political philosophy of the British school, and, as mentioned above, I use the term “private property order” to refer to the free-market society of the French and the Austrian schools.

So what are the main features of individualism? As mentioned above individualism sees human nature as fundamental and unalterable. Part of that nature, explains Hayek, is the constitutional limitation of man’s knowledge and interests, i.e., “the fact that he *cannot* know more than a tiny part of the whole of society and that therefore all that can enter into his motives are the immediate effects which his actions will have in the sphere he knows” (“Individualism: True and False” 14). Even a person’s moral inclinations are of little consequence for social order, says Hayek, given that “the human needs for which he can effectively care are an almost negligible fraction of the needs of all members of society” (“Individualism: True and False” 14).

The main problem for individualist theorists in their construction of social theory “was how these limited concerns, which did in fact determine people’s actions, could be made effective inducements to cause them voluntarily to contribute as much as possible to needs which lay outside the range of their vision” (Hayek “Individualism: True and False” 14). A successful system would have to somehow relegate to individuals an area

of action and responsibility so limited that it did not demand more of them than their nature allowed them to successfully occupy. At the same time, these areas of action and responsibility must be large enough to allow individuals to make full use of all their natural gifts and talents. Also, the relative importance of the personal benefits that individuals could achieve for themselves by acting within these limited areas of responsibility must correspond to the relative importance of the more remote, unknown, and unintended consequences of their actions to other people. That is to say, the effects of people's actions on others must be similar to the effects on themselves. It was a further complication that such an area of responsibility could not be *assigned* to individuals because of the inability of man's limited rationality to complete such a task. (Hayek "Individualism: True and False" 17).

Individualist theorists searched for a system of institutions that would induce people, who are selfish by nature, to make correct choices in regards to social order. Somewhat to their surprise they found that such a system, although imperfectly formed, already existed. Hayek explains:

The chief concern of the great individualist writers was indeed to find a set of institutions by which man could be induced, by his own choice and from the motives which determined his ordinary conduct, to contribute as much as possible to the need of all others; and their discovery was that the system of private property did provide such inducements to a much greater extent than had yet been understood. ("Individualism: True and False" 12-13)

Individualist philosophers found that private property relegates to individuals limited areas of concern because it defines and delineates spheres of action and responsibility. They also found that private property allows individuals to have reasonable expectations concerning the behavior of others since everyone's actions are necessarily tied to their property. Furthermore, private property results in production and trade as individuals use their natural gifts and talents to produce, alter, and exchange their property to benefit themselves. In their efforts to benefit themselves through trade individuals must provide goods and services desired by other people. This is the

fulfillment of the requirement above that the effects of people's actions on others must be similar to the effects on themselves.

Individualist philosophers also found that private property speaks to the role of coercion in social organization. Their reasoning went something like this: Individuals that can know or care about only a negligible segment of total society cannot be counted on to refrain from trespassing; these private areas of concern and responsibility created by private property must be protected, by force if necessary, from being violated; because of man's limited knowledge and limited concern for his fellow man, no individual could know the best use of coercion. From this line of reasoning, individualist philosophers concluded that the principle of *limited coercion* must be a fundamental principle of social order (Hayek "Individualism: True and False" 16).

Theorists did not deny coercive power completely but wished to limit its use to those areas that could reduce total coercion in society to a minimum. To accomplish this, they reasoned, the state, as organized coercion, must be utilized to reduce the use of coercion by individuals in their relations with one another. However, they were quick to add, putting the power of legal coercion in the hands of the state is, in actuality, putting it in the hands of the shortsighted, narrowly self-interested individuals who are, at any given time, in control of the state apparatus. Therefore, the state must itself be restrained by law in its use of coercion. As Hayek puts it,

the state, the embodiment of deliberately organized and consciously directed power, ought to be only a small part of the much richer organism which we call 'society,' and that the former ought to provide merely a framework within which free (and therefore not 'consciously directed') collaboration of men has the maximum of scope. (Individualism: True and False 22)

To recap before proceeding, the private property order is a society in which human relations are ordered by spontaneous processes that are the result of people's actions within their limited areas of concern and responsibility. These areas of concern are identified and delineated by private property rights and are protected from trespass by the society's instrument of coercion, the state. Hayek says that the ordering forces in such

a society are “the regularity of the conduct of its members.” He says that taking advantage of these forces allows its members to achieve a much more complex society than could be done by deliberate design but at the expense of limiting their power over the details of that society. It also allows them to extend social cooperation beyond the boundaries of those of small groups which are held together by a common purpose. (“Principles of a Liberal Social Order” 366).

Hayek makes the distinction between the spontaneous order or private property order and what we commonly call an “organization.” This distinction rests on the absence or presence of common purpose. He says that the spontaneous order has no common purpose. Its members are free to pursue their own purposes within their limited areas of concern. With no common purpose, there is no overall design to which individuals must conform. Neither is there a central authority who commands individuals to adjust their actions to meet the requirements of an overall design. It is this lack of social purpose, says Hayek, that presents a space in which spontaneous order can grow (“Principles of a Liberal Social Order” 366).

In contrast to the spontaneous order, the social order called “organization” has a common purpose and an overall design to make the purpose reality. It also has a central authority which commands individuals to adjust their actions. Michael Oakeshot calls the spontaneous order a “nomocratic” (law-governed) social order and the organization a telocratic (purpose-governed) social order (cited in Hayek “Principles of a Liberal Social Order” 366). Hayek says that the difference between these types of social order is fundamental, and even though the spontaneous order contains many different types of organizations, “the two principles of order cannot be mixed in any manner we may wish” (“Principles of a Liberal Social Order” 366).

Hayek’s distinction between these two fundamentally different social orders parallels Berger and Luckmann’s distinction between a one-common-problem society and an all-common-problem society: The spontaneous order has a single common problem, which is the defense of private property rights; in the organization, all problems are common and demand a common, organizational response. Both distinctions by these

writers emphasize and legitimate the contrast made in this paper between markets and bureaus.

I now look at some of the more important institutions in the private property order: private property, free markets, entrepreneurship, competition, and division of labor. I will also look at the role of the state. We will then be ready to compare the institutional constraints of the private property order to the requirements of protection-from-lying strategies.

The most fundamental institution in the private property order is the concept of “individual rights.” According to Rand, “a ‘right’ is a moral principle defining and sanctioning a man’s freedom of action in a social context” (*Virtue of Selfishness* 93). That is, rights outline the areas of concern and responsibility, as discussed above, in which individuals have freedom of action. In doing so, they also constrain the ways that the members of society can act in common, thus restricting the actions of the actions of the state. Rand argues that “*individual rights are the means of subordinating society to moral law*” (emphasis hers) (*Virtue of Selfishness* 92).

According to Hazlitt, the concept of “rights” originated as a legal concept. In fact, he says, in most European languages, the terms for “law” and “right” are identical.* Hazlitt points out that “the Latin *jus*, the French *droit*, the Italian *diritto*, the Spanish *derecho*, the German *Recht* signify both the legal rule that binds a person and the legal right that every person claims as his own” (279). He says that a somewhat more recent phenomenon than this view, that rights are inherently bound up with the legal order of society, is the view that rights have an existence of their own separate from the legal order (281). Here, Hazlitt is speaking of the natural law view of rights that grew to dominate political economy in the 18th and early 19th centuries.

The source of rights has been the topic of a very large literature which has not yet settled the issue. This literature expositis two basic views regarding the source of rights: rights as preceding the state; rights as granted by the state. In the former view, rights are

* This is not true of the Slavic languages, however. The Slavic root *zakon* means law given from above or God’s law, while the root *pravo* means right as in rightful action

either granted by God or ascribed to man by natural law. According to the natural law view, the basis of much 18th and 19th century political philosophy, rights spring from some aspect of human nature. As Francis Lieber put it, “The law of nature or natural law...is the law, the body of rights, which we deduce from the essential nature of man” (cited in Rothbard *Ethics of Liberty* 23). In this view, rights are an integral part of the human condition and are therefore inalienable, meaning nonseparable from man himself. They therefore act as a protection for individuals against the action of the state.

In the latter view, rights are granted by the state and hence have no metaphysical existence. This makes them alienable; what the state gives, it can take away. The strongest current of this view in Western political philosophy, utilitarianism, holds that the state should allocate rights according to the principle of effecting the greatest good for the greatest number of people. This view is quite hostile to the claims of natural law writers. In fact, Bentham called such claims “nonsense on stilts” (cited in Paul, Miller and Paul ii). As we shall see later, this granted-by-the-state view is the basis of organization by central authority as in the bureau.

In the private property order, rights spring from the human condition. John Locke said that natural reason “tells us that men, being once born, have a right to their preservation, and consequently to meat and drink and such other things as nature affords for their subsistence” (16). Locke thought that property rights stem from the self-evident fact that man is the sole owner of his own body. He says, “The labor of his body and the work of his hands, we may say, are properly his.” From this Locke deduced that “whatsoever then he removes out of the state that nature has provided and left it in, he has mixed his labor with, and joined to it something that is his own, and thereby makes it his property” (17).

In this century, expanding on Locke’s views, Rand argues that the concept of “rights” pertains only to action or freedom of action. She says that man has a right to life which, she says, means the right to engage in “self-sustaining and self-generated action,” including the action of producing things to sustain his life. In short she says, “The right to life is the source of all rights—and the right to property is their only implementation”

(94). In this view, self-ownership is the primary implementation of man's rights and other property rights and even political rights flow from this fact.

Rand's choice of the term "right to life" to refer to man's fundamental right to engage in self-sustaining action was an unfortunate choice that has lost its meaning in the confusion in today's legal battles over the rights of the fetus. Rand's meaning was aimed at adults, who are capable of self-sustaining action. In today's context "right to life" refers to the supposed right of a fetus to be born.

Locke, recognizing the problem that dependent children present to human rights theory, explained it this way:

Children I confess are not born in this full state of equality (of right to their natural freedom), though they are born to it. Their parents have a sort of rule and jurisdiction over them when they come into the world, and for some time after, but 'tis but a temporary one. The bonds of this subjection are like the swaddling clothes they are wrapt up in, and supported by, in the weakness of their infancy. Age and reason as they grow up, loosen them till at length they drop quite off, and leave a man at his own free disposal. (31)

Rothbard works out problem of child rights by applying the principle of self-ownership. He argues that "it is impermissible to interpret the term 'right to life,' to give one an enforceable claim to the action of someone else to sustain that life" (*Ethics* 99). Such a right would negate the mother's rights to her body. Once born, however, a baby "possesses the right of self-ownership by virtue of being a separate entity and a potential adult" (*Ethics of Liberty* 100). Since the baby cannot be an autonomous self-owner, it becomes the property of the parents through "homesteading." The parent's property rights in the baby, attenuated by its right of self-ownership, are that of a "trustee-owner." This relationship lasts so long as the child voluntarily remains in the home, which is the property of the parents. According to Rothbard, "the child has his *full* rights of self-ownership *when he demonstrates that he has them in nature*—in short, when he leaves or 'runs away' from home" (author's emphasis) (Rothbard *Ethics of Liberty* 103).

Utilitarians solve the problem of child rights by simply assigning rights to children. As discussed above, this assignation is justified by the general good that it

confers on the community or on society as a whole. As one writer explains the general good,

unless a community does replace its members, so to speak, continuously, there would be nothing else it could do to maintain its existence over time. In fact there would be little point in having rights since rights would now be confined to a discrete set of persons, constantly diminishing both numerically and temporally, with the result that a community could never be a continuing but at most a purely passing phenomenon, like a meteor. (Stoljar 120).

Private property is often thought of in the sense of physical objects, but Alchian and Demsetz argue that property rights are actually use rights. A single physical object has many uses; for example, a tract of land may be used for tilling, hunting, construction etc. All of the possible uses of an object comprise what Alchian and Demsetz call a “bundle” of uses, the rights to which comprise a bundle of use rights. This bundle of use rights, they point out, may reside in one person or in different owners. In the first case, a single person is the sole owner, and his right to the property may be considered absolute in the sense that no one may intervene on any of the possible uses of that object. In the second case, multiple persons may own different use rights to the same object. For example, a person may own the right to till the soil and to hunt on his land, or he may retain the right to till the soil and sell the right to hunt to someone else. This is what Alchian and Demsetz call “partitioning of the domain of uses” (18).

Besides use rights, the concept of property in the private property order also includes exclusion rights or the right to exclude others from using it. The right to exclude serves several functions. First, it reserves the use and, hence, the benefits of the property to the owner who then has an incentive to become a responsible steward. He cares for it and maintains it in relation to the stream of benefits that he is able to get from it; he acts as a broker who maximizes the property value by selecting the best future time stream of benefits and costs. Second, it also reserves the costs associated with the property to the owner, which is to say, it protects others from the bad effects of the owners property. (Demsetz “Theory Of Property Rights.” 38).

Writers often contrast private property rights with common property rights in order to emphasize the superior ability of private property rights to connect the magnitude of personal benefits and costs of private action to the magnitude of the corresponding social benefits and costs. Garrett Hardin's 1968 article *The Tragedy of the Commons* brought the problem of common property into national focus. Hardin models the commons as a pasture to which all herders have access. He then essentially applies Mises's action axiom, discussed in Chapter 1, by asking how the rational herder moves himself from a situation of lesser satisfaction to a situation of greater satisfaction under these conditions. Each herder can get marginal benefits greater than marginal costs each time he overgrazes. The benefits from overgrazing are captured privately, but the costs of overgrazing, i.e., depletion of the resource, are delayed and dispersed among all of the herders. The rational choice is to get while the getting is good. Hardin concludes:

Each man is locked into a system that compels him to increase his herd without limit—in a world that is limited. Ruin is the destination toward which all men rush, each pursuing his own best interest in a society that believes in the freedom of the commons (115).

Resources tend to become depleted under such conditions because common property rights structures separate the right to use property from the right to exclude others from using it. In Alchian and Demsetz's words, "each person has the private right to the use of a resource once it is captured or taken, but only a communal right to the same resource before it is taken" (22). Property is more valuable after it is taken than it is lying in the common pool, because the process of taking reconnects use rights and exclusion rights in those resource units that are taken. Alchian and Demsetz contend that this arrangement is an unstable rights structure because "the private right form will displace the communal right form" (23). Sometimes this transformation has very high costs as in the decimation of America's bison herds.

Demsetz says that the great disadvantage of communal property is that "the effects of a person's activities on his neighbors and on subsequent generations will not be taken into account fully" ("Theory Of Property Rights." 39). That is to say that the personal

benefits and costs of individual action to the individual are disconnected from the benefits and cost to others of the more remote consequences of these actions. This means that the interests of individuals and the interests of society at large, which are essentially the same in the private property order, are disconnected in the common property order. In short, Adam Smith's invisible hand ceases to work; property relations between people must be managed by an authority.

Continuing with institutions of the private property order, I now look more briefly at free markets, entrepreneurship, competition, and division of labor, which are intertwined.

The free market, where people engage in the voluntary exchange of property, is a natural corollary of private property. The mutual benefit of the traders is a necessary requirement for voluntary exchange to take place. If either party to a potential exchange believed that he would not be made better off by the exchange, the trade would not occur. In the presence of money, voluntary exchange results in money prices that reflect the relative importance of the exchanged goods to society. Market prices allow people to evaluate goods and services against one another to maximize their use in want satisfaction (*Mises Human Action* 257-258).

Input prices allow the ranking in importance of the alternative uses of resources in the production of consumer goods. Resources that comprise most highly valued consumer goods will command the highest price on input markets. Entrepreneurs wishing to use highly valued resources must pay a price equal to society's next most valued use for them. Market prices, therefore, ensure that highly valued inputs are only used to make highly valued consumer goods. Lower valued consumer goods must be made with lower valued inputs. Entrepreneurs may wish to make steel toys, but the high price of steel due to, say, consumer demand for automobiles, leads toy entrepreneurs to use plastic instead. In this way, resources are allocated to their most highly desired use.

Entrepreneurs are allowed the use of resources so long as they abide by societies valuations of them. Entrepreneurs' ordering of resources is never safe nor decided once and for all, but instead, must be constantly altered to accommodate changing consumer

wants. As Hazlitt puts it, “consumers, by their purchases or refusals to purchase, daily decide afresh who shall own productive property and how much he shall own” (305). If entrepreneurs are successful at so ordering their resources, consumers allow them to keep their resources and reward them with profits. If entrepreneurs are unsuccessful, they are punished with personal losses and must turn the control of their resources over to someone else. In this process, individuals can meet their personal wants and needs only by meeting the wants and needs of other people. Everybody is both a means and an end in regard to social want satisfaction; he is “an ultimate end for himself and a means to other people in their endeavors to attain their own ends” (Mises *Human Action* 257).

People are both a means and an end in society because of their dual roles as consumers and producers. In their role as consumers, people compete with one another for consumption goods in their willingness and ability to pay market prices. As producers, people compete to arrange resources in ways that best satisfy consumers’ demands. Producers must keep their production costs lower than the market price in order to obtain a profit. Competition amongst producers spurs them to new innovations in procedures and technology for the purpose of lowering their production costs. If they fail in these efforts, they will be replaced by those of their competitors who are more creative or efficient, and they must move into a different line. The effect of competition is to continually replace less efficient managers of resources with more efficient managers of those same resources. Therefore, competition is an important aspect of social cooperation because it compels members of society to “cooperate more effectively with the buying public” (Hazlitt, 307).

An important aspect of competing in the market is specializing in what one does best. This leads to division of labor. The importance of the division of labor was emphasized by Adam Smith in the first sentence of *Wealth of Nations*: “The greatest improvement in the productive powers of labour, and the greater part of the skill, dexterity, and judgment with which it is any where directed, or applied, seem to have been the effects of the division of labour” (vol. I 7). Division of labor occurs because people have different abilities and because the earth’s resources vary from place to place.

Mises calls the division of labor the fundamental “social phenomenon” (*Human Action* 157).

Division of labor makes it possible for society to benefit from a much larger total set of information than in autarkic production because each person only has to know his specialty. This is what Sowell is getting at when he says that “individually we know so pathetically little, and yet socially we use a range and complexity of knowledge that would confound a computer” (*Knowledge and Decisions* 3). In comparison, primitive societies engage in very little division of labor, except by gender and age. Most members must know all that is necessary to stay alive: how to make tools, weapons, clothing, and shelter; how to hunt and raise and preserve food; how to defend their property; how to birth and raise children; how to treat disease and injury. When one’s consciousness is bothered by so many different categories of knowledge, one can allot only a small amount of time and energy to each one. The result is a low level of development for them all. The conditions of life in such societies are hence basic.*

* For an in-depth look at division of labor, see Emile Durkheim’s *The division of Labor in Society*.

Adam Smith's example of making pins demonstrates how division of labor allows society to make use of more knowledge than any one person can know. He shows that for a single individual to make a pin he must have knowledge of mining, metallurgy, smelting, wire pulling, etc., and could scarcely make one pin per day; however, with division of labor, a person with no great knowledge of any of these things can make thousands of pins per day (vol. I 8-9).

The last private property order institution that we will consider is that of the state. The state is the only formal institution in the private property order, and it is organized to address the single common problem, the defense of property rights. Hayek outlines very succinctly the role of government in a private property order:

The central concept of liberalism is that under the enforcement of universal rules of just conduct, protecting a recognizable private domain of individuals, a spontaneous order of human activities of much greater complexity will form itself than could ever be produced by deliberate arrangement, and in that consequence the coercive activities of government should be limited to the enforcement of such rules..." ("Principles of a Liberal Social Order" 365-366)

This principle of government is what Hayek calls "Rule of Law," by which he means government bound in all its actions by fixed rules announced beforehand. These rules make it possible to foresee with certainty "how the authority will use its coercive powers in given circumstances and to plan one's individual affairs on the basis of this knowledge." Therefore, "under the Rule of Law government is prevented from stultifying individual efforts by ad hoc action" (Hayek *Road to Serfdom* 72-73).

Bastiat is even more to the point. He says that "each of us has a natural right—from God—to defend his person, his liberty, and his property." It follows, he argues, that "a group of men have the right to organize and support a common force to protect these rights constantly" (6). In other words, the state gets its right to use coercion from individuals who have this right, but only in defense of their person, liberty, or property. Bastiat continues:

Since no individual acting separately can lawfully use force to destroy the rights of others, does it not logically follow that the same principle also

applies to the common force that is nothing more than the organized combination of the individual forces? (7)

Allowing any other function to the state, says Bastiat, permits it to engage in activities that are illegal for individuals to pursue. It therefore, allows the state to engage in “legal plunder” (11).

The effect of the Rule of Law is to put individuals in identical relations to government power. These relations are reduced to a single imperative, “Don’t use coercion in relations with others,” by which all people must abide or face the same punishment. Since people have identical relations to government, no person can use government power to gain an advantage over another person; therefore, although there may be many classes, there are no class conflicts in the private property order. The only clash of interests are between people who choose to follow the rules of peaceful cooperation and those who choose to use coercion in relation to other people: In other words, between people *in* the order and those who opt *out* of it. Government is established for the purpose of giving people who respect the rights of others advantage over those who don’t.

Summarizing the private property order, the private property order is a society in which human relations are ordered by spontaneous processes that are the result of people’s actions within limited areas of concern and responsibility. These limited areas are identified and delineated by private property rights and are protected from trespass by the state. The state is constrained by the Rule of Law, which assures that government is bound in all its actions by fixed rules. The effect of the Rule of Law is to put all individuals in identical relations to government power, assuring that no one can use government power to gain an advantage over others.

Mises argues that even though the private property order does not actually exist, it could in fact exist since its economic and social implications are based on discovered regularities that transcend time and space; for example, in regard to the action axiom, we cannot deny that action has purpose or even comprehend a category of action devoid of purpose. Purpose is, therefore, a regularity in the actions of all human beings who have

ever acted or who will ever act. Purpose implies other regularities like time preference, marginality, diminishing marginal utility, and others that are also present in every human act. These regularities, says Mises, make it possible to imagine how something would be, if it were to come to pass, even though it has never been; the theory of money, for example, could have been developed even before it was observed that people were actually exchanging goods indirectly (*Epistemological Problems* 15).

In the remainder of this chapter, I complete two basic analyses within the private property order: (1) I evaluate the opportunity to protect oneself from lying, and (2) I evaluate the benefit-cost ratio of lying. In other words, I look at lying from both sides of the information relation. On the one side, Informee evaluates means and opportunities to protect himself from being lied to. On the other side, Informer evaluates the expected benefit-cost ratio of lying. The general question that these analyses address is how the institutional constraints of the private property order affect the options of both parties to the information relation. In the first analysis, I evaluate how well protection strategies can function in the private property order by comparing their necessary requirements to the constraints of the model. In the second analysis, I evaluate how the constraints of the private property order affect the benefit-cost ratio of lying, which informs us about the opportunity to lie.

Protection Strategy Effectiveness in the Private Property Order

Before beginning the first analysis, it is necessary to review the protection strategies. First, hostage-taking refers to the practice of holding some part of the promisor's wealth in escrow until the truster has the opportunity to decide if he has been lied to. Second, incrementalizing is the strategy of trying a little bit of something before committing to a lot of it. Third, seeking pointed knowledge is the strategy of developing an information path by asking a series of questions of different people. Fourth, signaling is the strategy of differentiating oneself from liars by investing in costly signals. Fifth, reputation is the strategy of basing one's personal exposure to another person's decisions on what one knows first-hand or from the "grapevine" about his honesty in past dealings. Sixth, community is the strategy of choosing isolation and interdependence with other

people in order to increase one's ability to monitor the behavior of those with whom one deals. Seventh, ideology is the strategy of recruiting others into a community of values in which all perpetually reaffirm each other's belief in these values, thereby making everyone's actions and decisions more predictable. People also, strategize by evaluating other's commitment to moral values before dealing with them.

The Simple Strategies

Beginning the analysis, in the private property order, there are no obstacles to hostage-taking, incrementalizing, or seeking pointed knowledge. In the private property order context, hostage-taking means obtaining the *permission* of the promisor to hold a portion of his wealth in escrow until his promise has been fulfilled. Promisors that intend to fulfill their promise are likely to give such permission and perhaps even to offer a hostage to show good faith. People are free to incrementalize because they have free association with others and because their property rights are protected. People express their desire to incrementalize in markets, where trades take place in specific amounts for specific prices. People are free to seek pointed knowledge since they can choose their own problems and are free to associate with others, within the context of property rights, in seeking a solution to them.

Moving on to signaling, signaling refers to the displaying of costly signals to differentiate one's claims from the claims of liars. The example used in Chapter 2 is college diplomas. Applicants who have college diplomas can speak with more credibility to employers than applicants who do not have them. Signaling occur across the spectrum of reputation, community, and ideology in the private property order. These complex strategies will be discussed below; however, briefly here, signaling, as part of the reputation process, is the displaying for all to see of what one has to lose by lying. The wealthy merchant who makes known his large network of trading partners and his history of satisfied trades with others, who builds his mansion by the sea and engages in the high life is signaling to other merchants that he dare not lie to them else he lose it all. In the community setting, members signal their solidarity to each other by investing in costly signals such as seeing to each other's welfare and engaging in actions that benefit the

entire community. They also, as described in relation to virtual communities above, learn the community's history, traditions, and norms, which signals their ability to act as a community protector, since they can easily identify new comers and impostors by their lack of such knowledge. People who share the same ideology, such as the Amish in the U. S., signal to each other the extent of their commitments by acting either more or less in accord with the prescriptions of the ideology, thus differentiating themselves from larger society. Being so differentiated can also be very costly to them in terms of rejection by the larger society.

Having found that there are no obstacles to the simple protection strategies in the private property order, we now turn our attention to the complex strategies, reputation, community, and ideology.

Reputation

In this section, I compare the necessary requirements of reputation to the constraints of the private property order. The necessary requirements for reputation, taken from Smith, Tullock, Shearmur and Klein, and Axelrod, were brought out in Chapter 2. These requirements are repeated dealings, freely chosen partners, the opportunity to select the "don't play" option, moral seals of approval, informal groups, extended dealings, high value of the future, and the opportunity for tit-for-tat reciprocity.

Repeated dealings is a situation where people expect to deal with the same people again in the future. Repeated dealings could be forced, as in a prison, or voluntary, as in the neighborhood grocery. Freely chosen partners is the condition whereby people can personally decide each and every instance of their dealings, which gives rise to the don't play option. The "don't play" option is the choice of whether to deal with someone, which is the essence of reciprocity. Moral seals of approval are conferred by formal groups that have standards for membership that reflect on the integrity of the members. Informal groups are any of the thousands of possibilities of voluntary associations. Extended dealings are interactions among friends, relatives, and partners in which knowledge of honest or deceitful behavior of other people is shared. To value the future simply means that people want to deal with someone at a later date. Direct tit-for-tat

reciprocity means returning in-kind the consideration, or lack of it, that someone gives you.

These strategies are overlapping and interconnected. For example, freely chosen partners, or what we might call free association, gives rise to informal groups, extended dealings, and to the “don’t play” option. Also, the opportunity for repeated dealings gives people a reason to value the future. It is people’s valuing the future that makes it possible, as Tullock showed in Chapter 2, for them to overcome the prisoners’ dilemma.

I now begin comparing these strategies to the constraints of the private property order. Because of the interconnection and overlap of these strategies, I first consider repeated dealings, freely chosen partners, reciprocity, and the “don’t play” option together. I then consider moral seals of approval separately followed by informal groups and extended dealings considered together. Finally, I consider valuing the future separately.

There are no formal constraints in the private property order that would prevent repeated dealings, freely chosen partners, or reciprocity. Since people are sovereign in their areas of responsibility, they can choose to deal repeatedly with other sovereign individuals, or they can choose to halt their dealings. They will repeat their dealings when they benefit from doing so, and they will halt such dealings when they suffer costs. This is the essence of Tullock’s “don’t play” option, which allows individuals the opportunity for a tit-for-tat kind of direct reciprocity.

There are no formal restrictions in the private property order on moral seals of approval. Reviewing Shearmur and Klein’s two criteria for formal groups being able to confer moral seals of approval upon their members as cited above, we find that (1) groups must be internally familiar enough to know of their members’ activities and to judge competently their members’ characters and (2) the groups’ assessments of their members’ character must be available outside the group and respected as trustworthy (37). These criteria find no restriction in the private property order other than possibly from social norms. People can organize themselves around any purpose not precluded by social norms, setting whatever requirement for membership suits the purpose of the

organization. They are also free to make information about internal appraisals available externally.

In addition to the real-world examples mentioned in Chapter 2 of groups that confer moral seals of approval, i.e., churches, Rotary, Kiwanis, chambers of commerce, and the Bar Association, there are also market organizations that perform this function for a profit, for example credit card companies. Shearmur and Klein point out the parallels between the holder of a credit card and the man who joined the Baptist sect for business purposes in Weber's story.

The modern credit card offers the modern analog to the Baptist sectary's certificate from his congregation. In a large and anonymous society such as the United States, many people carry credit cards, which speak for them to people with whom they have had no previous contact and with whom they may well never be in contact again. The sect's inquiries into the would-be member's probity are paralleled by the credit card company's scrutiny of the would-be card-holder's credit record. (41-42)

Other real-world examples of market organizations that confer moral seals of approval are Underwriters Laboratories, *Consumers' Report* and *Good House Keeping*, all of which provide seals of approval by vouching for the quality of products produced by others.

There are no formal restrictions on informal groups or extended dealings in the private property order. People may come and go as they please in informal groups, acquiring bits of information that they might use themselves or pass on to others. People are free to engage in extended dealings by telling their friends and acquaintances about their dealings with others to the extent that it serves their needs. Technological improvements in communication increasingly make informal groups more important in this regard and make extended dealings more far-reaching. For example, the Internet has informal chat rooms and allows friends and relatives who are separated by great distances to instantly communicate easily and cheaply.

The condition of "valuing the future" essentially means that people do not face undue uncertainty regarding the future. In the private property order people place a

relatively high value on the future, because the two greatest potential causes of uncertainty about their future, private and state aggression, are removed. The potential for private aggression is removed by the existence of private property rights that are secured by state coercion. The potential for aggression by the state is removed by the rule of law, which confines the state to the role of defending private property rights. Because the state is so restricted, it cannot confiscate or regulate property rights, it cannot initiate war, and it cannot conscript its citizens.

The incentive for war is reduced still further in the private property order by heightened international interdependence. In the absence of trade and migration restrictions, people engage in a high degree of international division of labor. Domestic producers and consumers are concerned with the welfare of their foreign counterparts that provide them with valued markets, inputs, and goods. This mutuality of interests makes it less likely that sovereign nations will aggress upon one another. As Mises puts it, “if the tailor goes to war against the baker, he must henceforth produce his bread for himself” (“War and the Welfare State” 81).

I now consider whether transactions costs in the private property order can be so great as to prevent reputation from being a viable protection strategy. Transactions costs are obstacles to exchange that occur in various forms in all social settings. Transactions costs can be either logistical costs like physical distance between traders or social costs like norms or sanctions against trading. Sovereign individuals engaging in the market compete in their abilities to have repeated dealings with each other. The essence of competition in this context is the removal or reduction of the transactions costs of dealing. Entrepreneurs who are most successful at reducing these costs prevail, because trading partners exercise their “don’t play” option with everyone else. In entrepreneurs’ efforts to reduce transactions costs, every form of possible organization is open to them except those requiring coercion.

In some situations, logistical considerations create such high transactions costs that at first glance it appears that reputation ceases to be a viable lie-prevention strategy. Such a situation occurs along the U. S. interstate highway system where merchants rarely

deal repeatedly with the same customer, except perhaps trucker customers. Under such conditions, one could argue as follows: Merchants along the highway do not expect repeated dealings with their customers, hence, they do not value the future sufficiently for reputation to form; people who are cheated by these merchants do not have a “don’t play” option and are, therefore, denied tit-for-tat reciprocity.

However, entrepreneurs addressed this problem by franchising businesses. In this form of organization, small, individual businesses come under the scrutiny of a larger parent company. Individual customers may deal with a specific branch of the franchise only once, but they have the opportunity to deal with other branches repeatedly. Poor treatment in the instance of the single dealing will prevent many future dealings with other branches. The parent company, therefore, removes the franchise from dealers who abuse customers. Thus, the requirements for repeated dealings, valuing future dealings, “the don’t play” option, and reciprocity are all met at a higher level. When I buy gas from a Mobile station, or burgers from Mac Donald’s, or tools from Sears from anyplace in the world, I expect good treatment even though I am dealing only once with complete strangers, because I know that the parent companies want my future business and that they fear my “don’t play” option.

Informal norms are a second form of transactions costs that may present problems for the reputation strategy in the private property order. For example racial prejudice may prevent repeated dealings between classes of people. It might also prevent freely chosen partners, the granting of social seals of approval, the inclusion in informal groups, and extended dealings. Also, religious or cultural norms may interfere with the “don’t play” option and tit-for-tat reciprocity. For example, Joe may feel that to be a “good Samaritan” he must deal with Jake even though he suspects Jake is a liar and a cheat.

Although norms may exist that interfere with reputation, there are personal costs associated with abiding by them that over time make them tend to dissipate. Employers indulging their racial preferences in their hiring practices pay higher labor costs than their nonracist competitors, and they also restrict their consumer base. Such employers, therefore, become relatively less competitive by being racist, which increases the

likelihood that they will be forced out of business. From the point of view of employees, racist wage earners have a reduced number of employment opportunities to choose from because of their unwillingness to work for other-race bosses. This makes them less competitive than nonracist wage earners in their bids for desirable jobs and higher incomes.

Racist norms are also costly for groups who abide by them. Racist formal groups may refuse membership to qualified persons of other races at their own peril, for by doing so, discrimination becomes one of the standards used to issue seals of approval. Such a standard reduces the credibility of the group among the nonracist portion of the population. They thus become less competitive in their bids for voluntary financial support and for new members than nonracist groups.

There are also costs in abiding by norms that require one to deal indiscriminately with everyone. Such good-Samaritan norms essentially remove the individuals “don’t play” option. Individuals see this as a substantial cost to them. These norms resemble the turn-the-other-cheek strategy or what Axelrod above called an “unconditional cooperation strategy.” As Axelrod pointed out in Chapter 2, “turning the other cheek provides an incentive for the other player to exploit you.” It also, Axelrod argues, “tends to spoil the other player; it leaves a burden on the rest of the community to reform the spoiled player...” (136). Adherents to these norms tend to temper their allegiance to them to some socially acceptable standard of reasonableness. They thereby retain their “don’t play” option in worst case scenarios. For example, they are not socially obligated to “play” with murderers.

There may exist in the private property order norms that promote sexism, age discrimination, wealth discrimination, or discrimination against any other social class that we can imagine, but all such norms place similar costs on the people who choose to abide by them. They, therefore, like racist norms, tend to dissipate in the long term.

Before proceeding to analyze community and its link to reputation in the private property order, a brief summary of reputation is in order. Because people have free association, there are no formal constraints in the private property order to any of the

necessary requirements of reputation. People are free to choose their own partners, which means they can engage in repeated dealings or opt for the “don’t play” option. They can engage in extended dealings on as large a scale as they deem appropriate. Groups can set their own standards for membership and can offer seals of approval accordingly. People in the private property value the future because the state is restricted to the role of defense of property rights. Social norms that are destructive of reputation tend to disappear because they are costly to abide by.

Community

Community is a protection-from-lying strategy in the sense that we choose to participate in it. A preference for a more trusting environment may lead us to choose isolation, intense interaction, and interdependence with a group of people so as to develop a history with them that we can refer to in future episodes of risk exposure with them. This choice amounts to a strategy since we are aware that in the process of satisfying our preferences for risk tolerance we are finessing a shared fate with people which causes everyone to be more concerned about each others well being.

I here review our working definitions of community and society and the requirements for community that I use to analyze community in the private property order. The definitions are derived from the works of Hawley, Parsons and Shils’s, Tonnies, Durkheim, Hillary, and Pahl as discussed in Chapter 2. Communities are dynamic social networks that are organically formed, that exist in varying intensities, and that influence people’s behavior. Society is a social network that contains many communities, that is based on the division of labor, and that is integrated by the state. This definition of society is not inclusive in that it does not describe pre-state societies; however, state societies are our primary focus here.

In the present context, the private property order is society. Like community, the private property order is of spontaneous origin rather than of purposeful organization. That is to say that in the private property order, neither community nor society has common purpose or direction. People pursue their own purposes within their limited areas of concern. With no common purpose, both community and society lack an overall

design to which individuals must conform, and they lack central authorities who command individuals to conform to a plan.

For reasons given in Chapter 2, I use Merry's requirements for gossip to analyze community in the private property order. They are: isolation, economic interdependence, consensus and sanction, and similar values. Furthermore, since I concluded in Chapter 2 that community exist in different degrees of intensity, I use Ferdinand Tonnies's notions of *Gemeinschaft* of blood, locality, and mind—with their corresponding requirements: kinship relations, collective ownership of land, and common sacred places and worshipped deities—as a measure of what degree of community can exist in the private property order.

Beginning the analysis, as we discovered in Chapter 2, in terms of social order, isolation has a broader meaning than geographical separation. In my apartment building, residents are very effectively isolated from each other by eight inch cement block walls. Though my wife and I sleep with our heads as near as sixteen inches from the heads of our neighbors, we are not aware of their presence. Merry's "social enclaves" within urban housing projects were isolated by language. Isolation in virtual space is attained by passwords, electronic camouflage, and the transactions costs of becoming Net wise. Differences of culture results in huge islands of isolation in the sea of humanity. Within various cultures, people are isolated from each other by education and by acquired skills, such as the ability to read music, or those associated with the various divisions of labor. Those factors of isolation that are subject to choice, such as moving to an isolated area and acquiring skills and education, require costly investment and hence are a form of signaling, as discussed earlier. One might say that community building is signaling.

There are no formal constraints to any of these meanings of isolation in the private property order. People may travel to distant locations or remain where they are, learn or refrain from learning languages, build or tear down walls, learn skills or remain unskilled, engage in the division of labor or in autarkic production.

Nor are there formal restrictions against being interdependent, which is Merry's second requirement for community. In fact, people are, for the most part, economically

interdependent in the private property order. Children are, of course, dependent for all their needs on adults, which in turn are, because of division of labor, economically dependent on each other. Rare is the person who engages completely in autarkic production since his physical well-being can be greatly enhanced by engaging in division of labor. It is this opportunity to enhance well-being that entices people to cooperate in the division of labor and, hence, to voluntarily make themselves economically interdependent with an ever widening core of people.

Merry's requirement for community, "consensus and sanction," is also met in the private property order. In the private property order, there is broad general consensus regarding fundamental principles as well as appropriate behavior. There are fixed rules concerning their sense of justice that apply to everyone equally. These rules are formalized in a written constitution that confine state action to the defense of individual property rights. These conditions result in the market, a spontaneous social order that benefits people in relation to the extent that they in turn can benefit others. The market further galvanizes consensus among market participants as to what kind of behavior is appropriate in market relations. Both the formal consensus, regarding the role of the state and the importance of property rights, and the informal consensus of appropriate market behavior are backed by sanctions. Formal principles or laws are backed by formal sanctions, such as fines and imprisonment. Market consensus is backed by the "don't play" option discussed above. That is, if one's market partner does not behave appropriately, one simply does not deal with him in the future.

For these same reasons, Merry's requirement for community, "similar values," is also met in the private property order. People similarly value the general principles and fixed rules that protect their property and their freedom of choice. They also similarly value specific kinds of behavior in market relations. There are, of course, pockets or cells, or what Merry earlier called "social enclaves," within larger society that have values that are different in some ways from the values of larger society. The Amish community is a real-world example of such an enclave. However, even within the Amish community, people value the fixed rules of larger society that protect their property rights,

and whenever the Amish engage in market relations, they value the greatest return on their dollars and the honest behavior of their trading partners, just as everyone else does.

I next evaluate the degree of community allowed in the private property order by evaluating the opportunities for *Gemeinschaft* of blood, of location, and of mind. *Gemeinschaft* of blood suggests a kinship group engaged in community relations, such as working, playing, and praying together. In such a community, people are isolated from others by the fact that they have kinship ties, and they are economically interdependent with relatives. Consensus formulates around their similar values instilled by blood relatives since birth. Sanctioning is accomplished by assignment to a higher or lower status position within the community structure. In the *Gemeinschaft* of blood, Minar and Greer's "shared fate" concept of community mentioned in Chapter 2 takes on new meaning, because community members share not only the fate of the group, but of their entire blood line.

At the most basic level, Tonnies's *Gemeinschaft* of blood refers to the family and those conditions that exist among relatives that live under one roof (42-43). There are no formal constraints in the private property order preventing families from living under the same roof. Marriage is not a formal, legal institution in the private property order, since the state is restricted from proclaiming it as such. Therefore, there are no laws against interracial, intercultural, or interdenominational marriage, nor are there laws against incest. However, we can safely assume that social norms prohibit incest in the private property order, since such prohibitions are universal throughout all known real-world cultures. People in the private property order organize themselves in accordance with their preferences and with the prevailing social norms. This results in various combinations of kinship relations and nonkinship relations for the purposes of reproduction, raising children, and meeting other basic needs.

Such real-world organizations include family-owned and operated businesses and corporations. For example, I once worked for a family-owned and operated hardware store and lumber company. The father, mother, three children, and two grandsons worked there as well as some in-laws and many nonfamily members. There are also

family corporations, such as corporate farms and ranches in the Midwest. These agribusiness corporations expand as sons and daughters marry and settle on adjacent land. After several generations, these operations are run by a complex structure of mothers and fathers, brothers and sisters, grandchildren, uncles and aunts, cousins, in-laws, and non-family members. The locus of these rural communities are small towns, many of whose residents are also related by blood and by marriage.

Instead of interfering, the private property order actually encourages *Gemeinschaft* of blood. It does so by rewarding with reduced transactions costs those who successfully integrate their family and market relations. One of the main transactions cost of dealing with other people, whether in the market or elsewhere, is the problem of trust. Those families that are able to moderate the stresses and strife of family living sufficiently to allow family members to work together successfully in the market are rewarded with fewer trust problems. People who place their trust in the hands of someone who shares their kinship ties are less likely to be disappointed than those who must place their trust in the hands of strangers.

Gemeinschaft of locality encounters two formal restrictions in the private property order, neither of which is insurmountable. First, one is not unconditionally free to choose isolation by geographical location. Other people own the houses, land, and other resources that one needs to survive and prosper in every possible location. In order to relocate, one must acquire property rights to these resources. In many real-world cultures this is done through marriage. There is no reason to assume that this is not true in the private property order as well. However, given the inability to acquire the property rights, one can ask to rent them from the current owner. There is also the unlikely third possibility of receiving permission to simply *use* such property. The current owners may refuse to sell, rent, or grant permission for their own reasons. However, reluctance to sell or rent can usually be overcome by offering a higher price.

Second, Tonnies's "collective ownership of land" requirement for community is constrained by the existence of private property. Collective ownership in the strict sense means the right to use but not the right to dispose or the right to exclude community

members. This is the meaning assigned to “a commons” by Hardin’s famous article discussed in Chapter 2. In this sense, collective ownership does not exist in the private property order. This, however, is not the formidable restriction on community formation that it appears to be because of tacit permission, partnerships, corporations, private community developments, and nonprofit organizations, all of which exist in the private property order.

Discussing each of these separately, people in real-world community relations customarily grant tacit permission for certain uses of their land to each other, especially in communities with strong kinship relations. Those uses deemed worthy of such permission are those that serve the values of the property owner and the community. For example, in Boelus, Nebraska, a small community where my wife and I raised our family, a local land owner excavated a small lake for fishing and swimming and constructed toilets and sun shelters for the purpose of providing wholesome recreation for the members of his church and others who share his values. In the same community, another land owner allowed the construction of a baseball diamond on his land complete with grandstand and parking area that was used by the whole community. It is also common for land owners to allow valued community members tacit permission to hunt on their land. After being away from the community of my up-bringing for thirty-five years, I still have tacit permission to hunt on land that I hunted on as a boy.

Multiple ownership and common use of land and other property is common in the private property order. People form organizations that accommodate such ownership and uses because there are no laws preventing them from doing so, and because these organizations serve people’s needs. Real-world examples of such organizations include partnerships, corporations, and nonprofit organizations. Partners own land as equals or in terms of some agreed upon ration. People who buy shares in corporations have ownership rights in proportion to the number of shares that they own. Some nonprofit organizations also own land and real-estate that is used in common. Protestant church buildings, for example are used jointly by those who support them financially and even by some who do not. Formal exclusion rights are in the hands of the elders and the deacons;

however informal exclusion rights are in the hands of the congregation who may shun those not welcome in their church.

Another real-world example of common use of property under conditions of private property are community developments, which often include commons areas that the owners of the surrounding private property mutually agree to maintain. Purchasing a house in such a development includes direct use rights to common sidewalks, picnic areas, recreation centers, etc., and it also includes indirect exclusion rights. Exclusion proceedings and the exacting of penalties for not sharing the financial burden of maintaining the commons area is in the hands of a community development board composed of elected representatives of the community. Similar arrangements occur in condominium complexes where owners collectively own and maintain common halls, stairways, and foyers.

These real-world organizations, and no doubt many other possible organizations that are presently precluded by our current real-world conditions, make possible the common use of property without the problems attributed to “the commons” by Hardin. Consequently, the private property order version of the common usage of property may be more conducive to community than the commons version that Tonnie had in mind. As Hardin pointed out, commons have many problems with overuse and under-maintenance. These problems are bound to cause friction that break down community solidarity, whereas the actions of the farmers in Boelus, Nebraska tended to bring the community together.

Moving to Tonnie’s third type of community, we find that *Gemeinschaft* of mind and its requirement of common sacred places and worshipped deities is met in both a sacred and a secular context. In a sacred context, religious orders must buy or rent their “church” structure from the previous owner, purchase the resources with which to build it, or receive the property as a gift. In a secular context, the same restrictions apply; for example, people who like classical music can construct a concert hall, organize orchestras and choirs, and conduct membership drives, the only restraint, in both cases, being the property rights of others.

So far I have shown that there are no formal obstacles to community; however, as with reputation, it is possible that informal norms may develop that interfere with community. With respect to *Gemeinschaft* of blood, there may develop norms against interracial, intercultural, interdenominational, or incestual matings. *Gemeinschaft* of locality could be restricted by norms that deny certain people access to various locations because of their race, sex, age, or even hair color. *Gemeinschaft* of mind could be interfered with by norms against having personal friendships with certain classes of people. It is hardly necessary to mention real-world examples of such norms since they are so prevalent.

It must be remembered, however, that all action has costs. People that choose a course of action because of a norm preclude other courses of action and the benefits thereof. The white employer in a racist community, for example, finds that the market discounts the labor wages of black employees. Two equally qualified applicants, one white and one black, may have market wage values of \$8.00 and \$6.00 per hour respectively. The black applicant may as well be wearing a sign that says, "Hire me and save \$2.00 per hour." The employer is free to indulge his racial prejudices, but only at a substantial cost both in cash and in relative competitiveness. Other discriminations suffer a similar fate. A person who is reluctant to sell property to people that are in some way different than himself must forego the higher selling price that some of these people are willing to pay in order to overcome his reluctance. A person who is reluctant to make friends with people of a different class must do without the benefits that he observes such friendships accord to others less reluctant than himself. The result is that norms against such discriminations tend to dissipate in the private property order.

With no formal or informal obstacles to the requirements of community, all three types of community occur in conjunction in the private property order, which is the highest degree of community or, as Tonnies remarked above, "represents the truly human and supreme form of community." This view is contrary to the conventional view that the market breaks down community. However, as Durkheim argued in Chapter 2, division of labor is the basis of organic solidarity, i.e. large scale or societal integration.

In this view, the market actually creates community. It does so by allowing community to occur in varying degrees and in a variety of forms. It does so by rewarding people who form divisions of labor, which are isolations and “crafts or callings [that] are the same or similar of nature” as Tonnies puts it (43). Markets further create community by rewarding kinship structured businesses with lower trust costs or, said differently, lower agency costs. Markets creates economic interdependence and encourages the common values of probity, punctuality, and prudence, and they eliminate the need for consensus in order to sanction by allowing each market participant the “don’t play” option.

Mason City, Nebraska, the small community where I was raised, epitomizes the real-world conjunction of *Gemeinschaft* of kinship, locality, and mind. The village is isolated by its location on state highway two in central Nebraska about one hundred and eighty miles from Omaha. It is thirty five miles from Broken Bow, which is the closest town that community members consider a shopping center. By most standards Broken Bow is hardly that since it has a population of less than 4,000 people. Mason City is fifty miles from the nearest college, bus station, train station, television station, and interstate highway.

The community is further isolated by its German culture and racial homogeneity. One generation ago the German language was spoken in a broken manner by most of the community members. Two generations ago most were fluent in German and spoke broken English. To my knowledge, Mason City has never been the home of a single Black, Oriental or Hispanic family. In fact, in my youth, it was a curiosity to see a Black person, and people talked about it as if seeing something quite exotic. Such a sighting usually required a trip to Omaha, a trip that people rarely made.

Most of the people living in and around Mason City are related by blood or marriage. Consequently, many of their interactions are with kin. There are prominent families whose ancestors were instrumental in founding and developing Mason City. Among them are Holm, Cox, Turner, Philpot, Ummel, Zimmer and many others including Hiser. The Hisers are related to the Holms, who are related, to the Coxs, who are related to the Philpots and so on and so on. In many cases, farms and ranches have

been in the family for generations. In my family's case, the original homestead portion of our farm was taken by my great grandfather, Gotlieb.

The values of the community, which flow from its German heritage and its predominantly Protestant Christian heritage, have been taught by parent to child for generations. Community members value industry and hard work, social recreation, music, community gatherings, charity, and community solidarity. Over the years, many community organizations have formed to support these values. Among them is the Beechville Band, a community band organized some eighty years ago by my grandfather, Ed, and several other community members, that is still in existence today.

The values of the community are supported by strong norms, ubiquitous gossip, and severe sanctions. These sanctions were experienced firsthand by my parents who allowed us children to go to high school out of district. In allowing this, my parents broke the community norm for solidarity, and were shunned by other prominent families of the Mason City community. This breaching of norms caused strained kinship relations that lingers today some forty years later.

Summarizing the above analysis of community, all requirements for community are met in the private property order including those of *Gemeinschaft* of blood, locality and mind. The isolation requirement is met in all of its meanings. The economic-interdependence requirement is not only met, the private property order rewards those who engage in the division of labor with enhanced well-being. The consensus-and-sanction requirement is met formally in the laws and punishments of the state and informally in the market through the "don't play" option. The similar-values requirement is met, because people value the general principles and fixed rules that protect their property and their freedom of choice, and because people value honest behavior in market relations. The private property order encourages *Gemeinschaft* of blood by rewarding kinship relations in the market with reduced trust costs. *Gemeinschaft* of locality's common-property requirement is met through tacit permission, partnerships, corporations, private community developments, and nonprofit organizations. *Gemeinschaft* of mind's common-sacred-places-and-worshipped-deities requirement is met in both a sacred and a

secular context, the only constraint being the property rights of others. Norms against community in the private property order tend to dissipate, because the market penalizes those who abide by them and rewards those who observe norms that encourage a fuller integration of society.

Ideology

Mason City, Nebraska and thousand of small communities like it, represent the fullest integration of reputation, community, and the topic of the this section, ideology. As Merry has explained, sanctions as experienced by my parents require a community consensus which in turn require common values. As Berger and Luckmann have shown, common values, in their turn, depend upon their being integrated into the larger world by legitimations, or as we have come to call it, “total ideology.” We can thus see the fundamental importance of ideology in the prevention of lying. It is a separate protection-from-lying strategy as well as being the cement for community, which is the setting where reputation is most effective.

In this section, I identify conditions in the private property order that allow the formation of total ideology. I focus on the necessary requirements of total ideology rather than of particular ideology, because, as shown earlier, total ideology has the ability to prevent people from lying whereas particular ideology is viewed with suspicion. The first of these requirements, as in community and in gossip, is isolation. In this case it is isolation from other ideologies, which further requires, as Mannheim told us, rigid social classes, no vertical social mobility, and no communication between classes. Also there is Sowell’s requirement of a high cost for alternative information and North’s requirement for minimal changes in the terms of exchange. Finally there is Higgs’s requirement that people be able to satisfy their craving for association with like-minded people. This final requirement of Higgs’s is similar to Tonnies’s requirement for *Gemeinschaft* of mind, i.e., common sacred places and worshipped deities.

Mannheim’s rigid-social-class requirement seems to be problematic immediately since there are no rigid social classes in the private property order. People can, within the constraints of private property rights and their own innate abilities, move in and out of

these classes and may belong to several simultaneously. However, simply because people can move between classes does not mean that they will choose to do so. Each of the forms of isolation discussed in the previous section isolates ideologies as well as people. Remote geographical locations; languages, divisions of labor, education, and acquired skills all tend to insulate ideologies from each other. It is possible that these natural isolations, transactions costs, and people's preference for community may result in somewhat rigid social classes as a practical reality rather than as a formal requirement.

Real-world evidence of this is the fact that there are "southerners," "rednecks," "yuppies," "city slickers," "blue and white collars," "Midwesterners," "born-again," "bean towners," and a host of other social classifications. These classes are made up of people who could move to any number of other classes but choose not to. For the most part, people in these classes like who, what, and where they are and intend to remain so. As they might say, "Wouldn't have it any other way!"

Mannheim's no-vertical-mobility requirement is partially met for these same practical outcome reasons. Redneck is aware that he could move up to Yuppie status but has no intentions of doing so. This points to another factor that prevents vertical social movement: People do not agree which way is up. Redneck may very well consider a move to Yuppie status as a step down. In the same vein, unhappy White Collar may envy Blue Collar. Because of this ambiguity concerning direction in social movement, all social movement in the private property order more closely resembles what Mannheim regarded in Chapter 2 as horizontal movement. As he stated there, horizontal social movements do not disrupt total ideology, because people who encounter differences simply chalk them up to mistakes or as curiosities.

All the above arguments also apply to Mannheim's no-communication-between-classes requirement. Whatever isolates people from one another restricts communication between them. Certainly, differences of language effectively prevent communication, but other isolation factors are also important. Geographical separation prevents face-to-face communication. Divisions of labor require different jargons and technical languages, as

do acquired skills. Differences in education leave people with different vocabularies and few common references.

In this view then, people of different social classes do not communicate with each other because they have different languages, jargons, accents, vocabularies, references, technical specialties, and perhaps most important, different interests. Different interests lead to different sets of knowledge, which suggests that people of different social classes do not communicate because they have nothing to say to each other. If you have ever gone to some event where you felt like an outsider, then you have thought to yourself, “What do I say to these people!” What would a dentist have to say at a hog producers convention, or a gas station attendant at a computer programmers convention? It is also doubtful that individuals in such situations would experience an “awakening” or anything resembling a threat to their world view. Most likely they would simply chalk it up to curiosity.

Turning to Sowell’s high-cost-for-alternative-information requirement for total ideology, Sowell argued in Chapter 2 that ideology is a knowledge-economizing device that appeals to those with higher costs in acquiring alternative knowledge, specifically, those who are inexperienced and politically apathetic. Viewing ideology as an economizing-device is a usage in the total ideology sense; people remain “under the spell” of an ideology and act accordingly until the cost of doing so becomes greater than learning new ways. Sowell also argues that the knowledge-economizing benefit of ideology decreases with the passing of time. That is, there will be “defections with age as discordant knowledge forces itself on one’s attention, until a point is reached where the cost of reconciling it with the ideological vision exceeds the cost of discarding the vision itself” (*Knowledge and Decisions* 309).

Sowell’s economizing-device view of ideology helps explain how there could be high costs for obtaining information about alternative ideologies even under conditions of freedom of speech and freedom of association as in the private property order. People adopt an ideology to reduce the costs of making decisions. By adopting an ideology and its lifestyle manifestation, people save themselves the trouble of having to make decisions

repeatedly. However, in so choosing, they also limit the set of options from which they can choose.

Returning to our earlier example concerning Redneck and Yuppie, both individuals must solve the problem of how to obtain their daily milk, but they do not choose from the same set of options. Redneck may get it from a neighbor or may milk a cow. Yuppie may go to the supermarket or have it delivered. Once an option is decided upon, the daily-milk problem is solved far into the future without having to be considered further. Why do they not consider each other's options? The answer lies in their choices of ideology and lifestyle, which determine the transactions costs of choosing from each other's options sets. One of these transactions costs are norms that dictate what options are acceptable to others in their communities.

Suppose that Redneck and Yuppie were each to acquire sufficient information to cause them to desire to trade lifestyles with each other. How much would that information cost each of them? Stated generally, what are the costs to people in the private property order, living and working in their social-class cocoons, acting according to their specific world views, and isolated from each other by different culture, race, educational levels, divisions of labor, languages, jargons, skills, and values, of acquiring sufficient information so as to cause them to rethink their current world views and lifestyles and to consider other options?

Asked in terms of our example, what are the information costs to Redneck of his learning to appreciate and perhaps value Yuppie's way of life? He must experience some of the socialization processes that Yuppie experienced. Hence, his costs would include attending Ivy League University, learning a white collar profession, living in suburbia, learning the ins and outs of corporate life, moving from city to city as the job demanded, and, of course, buying milk at the supermarket. Redneck must personally transform himself from who he is into someone he is not. The opportunity cost to Redneck of learning to value Yuppie's lifestyle is the foregoing of who he is, of how he sees himself as a person, of his history, of his self image.

This leads me to conclude that the cost of alternative information is high throughout the private property order. This conclusion is supported by Sowell's "the inexperienced" and "the politically apathetic" contention. The characters in our example are certainly inexperienced in the ways of the other, and they are likely politically apathetic toward each other, since neither has the political power to alter the other's lifestyle. This relationship holds throughout the private property order. People have little experience with other ways of life and have no political reason to be concerned about their ignorance. It is also conceivable that as the characters in our example age and "discordant knowledge forces itself on [their] attention", that they may alter their lifestyles somewhat. Old Yuppie may seek the simple pleasures of country life in retirement, and old Redneck may buy his milk at the supermarket.

I now turn our focus to North's minimal-changes-in-the-terms-of-exchange requirement for total ideology. Reviewing a bit, North argues that every ideology contains judgments about what is fair in its corresponding social system. He argues that the terms of exchange in society are an important variable in this judgment. In this view, changes in the terms of exchange may be sufficient reason for people to adopt a different ideology.

I here restate North's four examples of changes in terms of exchange that he believes are sufficient to alter peoples' perception about the fairness of the economic system and, hence, sufficient to cause people to alter their ideologies:

1. an alteration in property rights which denies individuals access to resources which they had heretofore come to accept as customary or just (the enclosure of common land, for example).
2. a decline in the terms of exchange in a factor or product market away from what had come to be regarded as a just exchange ratio.
3. a decline in the relative income position of a particular group in the labor force.
4. a reduction in information costs that results in individuals perceiving that different and more favorable terms of exchange may prevail elsewhere. (*Structure and Change* 50)

Looking at North's first example, common property is not present in the private property order. Therefore, there are no instances of alterations in property rights resulting from common property coming under private ownership. However, there are changes in property rights that deny people access to resources which they have come to accept as being justly their own. Imagine losing, because of unusually low commodity prices, a third generation family farm. It is not difficult to imagine that such a loss, and the guilt and anger that most certainly would accompany it, would cause one to doubt the fairness of this outcome. Real-world examples abound. One such example occurred on the farm of Mr. Art Kirk near Cairo, Nebraska in the early 1980s, a time of low commodity prices accompanied by high farm bankruptcy and high farm-bank failure in the Midwest. Rather than surrender his farm to the bank, Mr. Kirk bunkered his farmyard with various pieces of machinery, and attempted to defend his property with an M16 rifle. He was shot to death by the local SWAT team.

Even though the Kirk incident could have happened in the private property order, it is less than certain that it would have happened. I know from personal association with Mr. Kirk that his feelings of unfairness and the resulting anger were directed primarily at U. S. agriculture policy officials for their role in manipulating commodity prices. In the private property order, he would have had to find a different target for his rage, because there government policy makers do not exist. In the private property order, low commodity prices are the result of impersonal market forces that are the result of previously known, unchanging rules that apply to everyone equally. Under these circumstances, people are less likely to blame someone else for their problems. As J. S. Mill put it,

a fixed rule, like that of equality, might be acquiesced in, and so might chance, or an external necessity; but that a handful of human beings should weigh everybody in the balance, and give more to one and less to another at their sole pleasure and judgement [sic], would not be borne unless from persons believed to be more than men, and backed by supernatural terrors. (ctd in Hayek *Road to Serfdom* 112)

The real-world situation Mr. Kirk faced and the situation that he would have faced in the private property order are as different as a tornado and a bulldozer. Both can destroy his property, but his reaction to them is entirely different. The tornado does not single him out as expendable nor is it blithely inconsiderate of his property rights. The tornado, therefore, is something more to be respected than hated. The bulldozer, on the other hand, is operated or directed by people who have made decisions of priority and put Mr. Kirk's property rights low on their list. Impersonal, purposeless market forces resemble the tornado, whereas government policy resembles the bulldozer. Market forces, though they can result in undesirable outcomes, are purposeless; they have no agenda. Policy is an instrument that some people use to attain their ends at the expense of others. Hayek says that "there can be no doubt that planning necessarily involves deliberate discrimination between particular needs of different people, and allowing one man to do what another must be prevented from doing" (*Road to Serfdom* 78).

The presence of fixed rules in the private property order suggests another real-world difference in Mr. Kirk's situation from what he would have faced in the private property order. Under conditions of fixed rules of the private property order, Mr. Kirk would have difficulty mustering what social psychologists call "social proof" to give authentication to his rebellious actions. As Cialdini explains,

we view a behavior as more correct in a given situation to the degree that we see others performing it. Whether the question is what to do with an empty popcorn box in a movie theater, how fast to drive on a certain stretch of highway, or how to eat chicken at a dinner party, the actions of those around us will be important in defining the answer. (ctd. in Axelrod "Evolutionary Approach" 1105)

In the real-world, Mr. Kirk found himself surrounded by a community of sympathetic fellow farmers, many of whom were themselves having financial difficulties and blaming them on agriculture policy. In such a community, Mr. Kirk was conforming, though in an exaggerated way, to the actions and values of those around him. In line with Axelrod's views, the community was perhaps fulfilling Mr. Kirk's "psychological need to be part of a group" ("Evolutionary Approach" 1105). Also, it is not unlikely that community

support inspired in Mr. Kirk feelings of being in possession of the moral high ground, perhaps reason enough for him to fire the first round.

In the private property order, rebellion against the rules of the game are unlikely to find community support. Rules in the private property order are unchanging and protect individual property rights. Since these rules are applied to everyone equally, a community united in their rebellion against the rules is unlikely to form. A nameless, faceless, impersonal force is more difficult to hate than a specific person or group of people thought to be the cause of one's suffering. It is therefore doubtful that Mr. Kirk's anger would have led him to the same actions in the private property order as in the current policy environment of the U. S. He simply would have had no one to hate, and he would not have received moral support from his community for his violent actions.

North's examples two and three above are present in the private property order but do not cause people to question their ideology and the fairness of the system. A decline in the demand for one's produce can reduce its price from what one may have come to believe is a just price and, at the same time, lower one's income relative to the income of others. However, all the arguments that suggest that Mr. Kirk does not challenge the rules in the private property order suggest that people who suffer these market blows do not challenge them either. People do not see themselves as undeserving victims of unfair policy decisions but as unfortunate victims of nameless, faceless, natural forces and of their own bad judgment.

Another reason that North's examples two and three do not prevent total ideology is the fact that price fluctuations in the private property order are relatively smaller than in the real-world conditions that North observed to formulate his examples. In the real world, the control of money is in the hands of the state, which inflates the money supply to effect its policies. Rothbard says that "inflation is the health of the State; it is the natural tendency of the State; and it is largely to enable it to inflate for its own benefit that the State is so determined to secure absolute control over the monetary mechanism" (*Logic of Action One* 326-326). As Wilhelm Ropke puts it, "inflation is as old as the power of government over money" (qtd. in Rothbard *Logic of Action One* 326 n3). We

know only too well that inflation can result in both wild swings in relative prices and decline in money's purchasing power. In the private property order, the state is precluded from overseeing the monetary system. Consequently, there is no monetary authority, hence no monetary policy that can depreciate one's relative income position.

North's fourth example seems to be an obstacle for the existence of total ideology in the private property order. Entrepreneurs continually produce new technology that reduces the costs of information. The real-world state-of-the-art is, of course, the Internet. However, I argue that reduced cost for information does not lower the overall costs of *communication* to any great extent, and therefore does not result, as North requires above, "in individuals perceiving that different and more favorable terms of exchange may prevail elsewhere."

This is so, I argue, because the total cost of communication is composed of many components, the smallest of which is the money price of transmitting information. The components comprising the bulk of the total cost of communication remain substantially unchanged. These are the same costs that prevent Mannheim's social mobility and Sowell's alternate information as discussed earlier in this section. These costs include not only differences of culture, but also differences of language, education, contextual value references, and technical specialties. Also included are the transactions costs faced by Redneck and Yuppie: the cost of choosing from different sets of options to solve problems; the cost of foregoing one's lifestyle and self-image; the cost of creating a new lifestyle and self-image; the cost of having nothing to say to each other. None of these costs are substantially changed by the existence of the Internet. We saw above that these costs prevent Redneck and Yuppie from agreeing on what constitutes an improvement in their current situations. In this context, these costs prevent them from agreeing on what "more favorable terms of exchange" consist of.

The recognition of these costs rests on a commonly made distinction between talking and communicating. Using this distinction, talking is something that everybody can do with each other, whereas communication only occurs between people who share common intellectual, social, and emotional value references. One might say that

communication has a walk-a-mile-in-my-shoes condition to it. In this view, the internet and other technological advances have reduced the costs to people of talking with each other, but have not substantially reduced the overall costs of communication, because it has not overcome the obstacles of language, culture, values, etc. Looked at in this way, North's fourth example does not really apply to the private property order.

The final necessary requirement for total ideology is Higgs's requirement that people be able to satisfy their craving for the "comfort of association with those they recognize as their 'own kind'" (42). This requirement is obviously met in the private property order and has been already discussed in some detail in relation to Tonnies concept of *Gemeinschaft* of mind. For these reasons, I do not here consider it further.

Summarizing this section on ideology, Mannheim's requirements of rigid social classes, no vertical social mobility, and no communication between classes are all met in the private property order for the same reasons: because of natural isolations, transactions costs, and people's preference for community. Sowell's requirement of a high cost for alternative information is met in the formidable transactions costs that people face in learning to appreciate each others ways of life. North's requirement for minimal changes in the terms of exchange do not apply to the private property for the following reasons: There is no "common property" in the Hardin sense in the private property order; people in the private property order face impersonal purposeless market forces rather than the whims of policy makers; there is no "social proof" for rebellious actions in the private property order; price fluctuations in the private property order are relatively smaller than in the real-world conditions. Higgs's requirement that people be able to satisfy their craving for association with like-minded people is met because people own their bodies and are free to associate with whom they please.

The Benefit-Cost Ratio of Lying in the Private Property Order

I now turn to the second analysis contained in this chapter, which is a point-by-point evaluation of six items that affect the benefit-cost ratio of lying. By investigating these items, we will be looking at lying from the other side of the information relation,

that is, from the point of view of Informer as he weighs his expected costs and benefits of lying versus truth-telling.

First, I consider how people use Hayek's "particular knowledge" when they are under the constraints of the model. This is important because, as we remember, particular knowledge is private information and can therefore be used for lying. Second, I consider what organizations are possible in the model and how they affect the opportunity to lie. Third, I evaluate the extent of the free riding, which is a form of lying. Fourth, I consider whether the model has institutional restrictions on communication, which is important because communication is fundamental to reputation, community, and ideology, all strategies to prevent lying. Fifth, I evaluate the time preference level within the model, which gives us some idea about the urgency of peoples' decisions. Lastly, I look at what ethical codes of conduct tend to evolve given the model's constraints.

Particular Knowledge

We saw in Chapter 1 that because individuals occupy a unique place in time and space, they have unique knowledge that is important to society as a whole. Hayek calls this unique knowledge "the knowledge of the particular circumstances of time and place" ("Use of Knowledge" 80). According to Hayek, the economic problem of society is a problem of

how to secure the best use of resources known to any of the members of society, for ends whose relative importance only these individuals know. Or, to put it briefly, it is a problem of the utilization of knowledge which is not given to anyone in its totality. ("Use of Knowledge" 77-78)

From the standpoint of reducing lying, there are two reasons why it is important that society solve the economic problem. First, society's having solved the problem means that people are using their particular knowledge to advance their aims and general economic welfare instead of using it to lie. Second, society's having solved the problem means that people's needs are being met as well as possible under the circumstances, thereby minimizing overall deprivation and with it the motivation for people to prey on each other to fulfill their needs.

The private property order's solution to the economic problem is the free market. People utilize the resources that lie within their limited areas of concern in a manner that their particular knowledge suggests will most effectively move them toward their preferred ends within the rules of the game. Lying in the free market is risky business: There is a high likelihood of being caught through various strategies, and people may inflict painful sanctions by henceforth refusing to deal. The expected rewards are short term and the expected costs are long term. Consequently, people compete to advance their aims within the rules of the game by using their particular information to provide unique and high quality goods and services for others to consume.

Besides solving the economic problem, this has a beneficial side effect in that it tends to make particular knowledge generally known. People's particular knowledge is a component of the goods and services that they produce and is hence revealed, to some extent, to those who buy them. This is the counterpart to the view that buyers reveal their preferences when they buy. For example, the cobbler who makes superior shoes reveals the secrets of his craft when he sells his shoes, because once sold, they can be deconstructed and compared to the work of others. The physical manifestation of particular information in the form of goods and services tends to make particular information less private. In the terms of product qualities, as explained by Church in Chapter 2, information in the free market tends toward having fewer credence qualities and more search and experience qualities.

In summary, the private property order, through the free market, simultaneously solves the economic problem and, to a large extent, prevents particular knowledge from being used for lying.

Organizations

Organizations within the private property order differ from the private property order itself, which is a spontaneous order. Earlier in this chapter, Hayek qualified an organization as having a common purpose, an overall design to effect that purpose, and a central authority to command individuals to adjust their actions to meet the requirements of the overall design. Herbert Simon says that the term "organization" "refers to the

complex pattern of communication and relationships in a group of human beings.” This pattern, he says,

provides to each member of the group much of the information and many of the assumptions, goals, and attitudes that enter into his decisions, and provides him also with a set of stable and comprehensible expectations as to what the other members of the group are doing and how they will react to what he says and does. The sociologist calls this pattern a “role system”; to most of us it is known as an “organization.” (xvii)

Given Hayek’s and Simon’s qualifications, the only type of organization that is formally prohibited in the private property order is forced organization. This excludes organizations like the slave plantations of the pre-Civil War south and conscript armies of today. This does not mean, however, that all possible kinds of organization do exist. Organizations whose overall purposes are held by most people to be immoral, dangerous, or in some other way undesirable engender community consensus and sanction against them. For example, it is possible for people to organize for the purpose of enhancing their overall ability to lie and cheat successfully, but community members levy costly sanctions on those who engage in them. These costs tend to keep these organizations from coming into existence.

Mises says that organizations that do come into existence are one of two possible types: profit management and bureaucratic management (*Bureaucracy* 18). We conventionally call these “profit” and “nonprofit” or “market” and “nonmarket” organizations. The principle of profit management is the profit motive whereas in bureaucratic management it is the setting and following of rules. People engaging in profit seeking are called “entrepreneurs,” while those engaging in bureaucratic organization are called “bureaucrats.” Mises says that “a bureaucrat differs from a nonbureaucrat precisely because he is working in a field in which it is impossible to appraise the result of a man’s effort in terms of money” (*Bureaucracy* 53).

Economists refer to profit management organizations as “firms.” Coase argues in his famous 1937 article “The Nature of the Firm” that the emergence of firms and their size are determined by the transactions costs of making exchanges in the market.

Transactions costs are any and all obstacles to an exchange, whether monetary, cultural, geographic, political, or as is our concern, trust. According to this view, a primary decision of firms is whether to make their inputs or to buy them on the market. A firm will buy in the market until the transactions costs are greater than the benefits of doing so. At that point, as the argument goes, production moves under the umbrella of the firm. The greater the transactions costs of buying in the market, the larger the firm. Coase argues that by its make-or-buy decisions a firm finds its optimal size. (*Essays on Economics* 8-9).

Mathews takes issue with Coase's fundamental distinction between markets and management. On the one hand, he says, firms that buy in the market must search for suppliers, make and monitor contracts, and monitor and measure input performance. In other words they must engage in "managed buying." On the other hand, when a firm decides to make an input, it must engage in a market transaction, i.e., it must hire managers. Mathews says "the firm's make-or-buy decision is not a decision about whether to manage or use input markets; it is a managerial decision about which input markets to use" (43).

Mathews continues that transactions costs, like all costs, are subjective. In business, they are subjective to individual entrepreneurs who have different creative abilities. Entrepreneurs therefore perceive costs differently. Mathews says that "because the perceptions of entrepreneurs differ, the costs of buying an input versus the costs of making an input will differ from firm to firm." He continues that "the firms with the lowest costs are the firms with the greatest entrepreneurial ability." Therefore, "the productivity of an input depends not only on what the input is employed to do, but also on which entrepreneur employs it" (45). The upshot of Mathews's argument about transactions costs is that firms integrate vertically because they *have* lower costs due to superior entrepreneurial ability rather than, as Coase argues, to *get* lower costs.

In either event, there are profit-managed organizations or firms that emerge in the private property order that help prevent lying. They do so by generating and/or transmitting information about individuals, businesses, and products for a price. As

discussed in Chapter 2, these organizations come under the heading of what Klein calls “trust for hire.” They exist because entrepreneurs recognized that people are willing to pay to have their uncertainty removed. Such organizations include Dun and Bradstreet, Underwriters Laboratories, A. C. Nielsen, industry newsletters, product publications, restaurant and movie reviews, employment agencies, the Better Business Bureau, medical data banks, referral services, and many others.

Businesses like Dun and Bradstreet, *Consumer Report*, and A. C. Nielsen are in essence businesses that people hire to monitor other businesses. In Chapter 1, I pointed out that this can cause problems. There, I use the example of person A who hires person B to paint his house. In that example, A, who is the principal, had no way of knowing how many hours it took B, who is the agent, to paint his house. One of A’s options was to hire person C to monitor B, but that raised the question about who would monitor C. This example was used to demonstrate the hierarchical nesting of the agency problem inherent in the information relation. Who, then, is to monitor Dun and Bradstreet? Klein’s trust-for-hire concept shows how the market mitigates the nesting problem by requiring that those in the business of monitoring must look after their own reputations in order to make a profit. One might say that Dun and Bradstreet and hundreds of other organizations like them are selling trust as a commodity. Their need to make a profit requires that, like any other business, they protect their reputation for providing quality products.

Klein shows how the market solves the nesting problem in external relations between firms, but what about relations between people within firms? Members of firms are generally organized hierarchically with nonprice relations between them, which resembles bureaucratic management. This would seem to suggest that the internal structure of firms would be plagued with the nesting problem and that management of subordinates is a costly problem. However, according to Mises, there is a fundamental difference in the relations between members in firms and the relations between members in nonprofit organizations. Mises says that

bureaucratic management is management bound to comply with detailed rules and regulations fixed by the authority of a superior body. The task of the bureaucrat is to perform what these rules and regulations order him to do. His discretion to act according to his own best conviction is seriously restricted by them. (*Bureaucracy* 45)

These conditions require a strict chain of command with supervisors closely monitoring subordinates to see that they follow the rules. Supervisors must also be monitored by higher level supervisors, who are, in their turn, monitored by still higher level supervisors and so on until we come to the supreme authority.

Comparing this to profit management, Mises says that all transactions are evaluated in terms of profit and loss. A strict chain of command is not necessary or even desirable. Nor is it necessary that supervisors monitor subordinates with a high degree of scrutiny. Subordinates have a relatively higher degree of personal discretion than they do under bureaucratic management. Mises says that

the only directive that the general manager gives to the men who he entrusts with the management of the various sections, departments, and branches is: Make as much profit as possible. And an examination of the accounts shows him how successful or unsuccessful they were in executing the directive. (*Bureaucracy* 33).

The problem of how to monitor the monitor within the firm is solved by examining the profit and loss statement.

Thus, the internal nesting problem of firms and the nesting problem between firms are both solved by the profit motive. This solution is what we might call a “systemic solution,” i.e., the solution is fundamental to the nature of the institutional structure itself. The causal direction proceeds something like this: Property rights as the rules of the game determine that people can only compete for goods and services in a voluntary manner; their competitive actions result in markets; markets determine the nature of and the size of organizations that emerge in society; the firm is the predominant organization that emerges; firms use double entry bookkeeping to measure profits and losses. The profit-and-loss statement eliminates costly monitoring. In essence, it is an unintended

solution that is the result of spontaneous processes set in motion by people attending to matters only within their limited areas of concern as defined by their property rights.

What about honesty in nonprofit organizations in the private property order? Nonprofit organizations within a market society are ordered according to bureaucratic management, which has no profit-and-loss statement to monitor subordinates. This suggests that these organizations and their members cannot be monitored in the private property order. However, such organizations rely on voluntary financial support so they must monitor their member's behavior. These organizations, as Klein pointed out earlier, are simply a part of its members' reputational nexus. Members of nonprofit organizations behave themselves because such organizations can confer moral seals of approval and because organizations are sources of information about members for other peoples' decisions. Being expelled from such groups for bad behavior or being listed in their social data bank as undependable is very costly because members must make their living in the market. Fellow members are potential customers, and they are sources of information for others. The fact that members of nonprofit organizations make their living in the market requires them to look after their reputation in nonmarket situations.

There are many real-world examples of nonprofit organizations whose purpose is encouraging and instilling honesty in people by reducing the opportunity and the inclination to lie. Some groups hold truthfulness as a moral ideal. Others establish professional codes of conduct. Both groups increase the expected costs of lying. Examples of the first case are churches, Boy and Girl Scouts of America, and the Fellowship for Christian Athletes. Examples of the second case include the American Medical Association, the Bar Association, and the National Education Association.

In summary, we find that organizational possibilities in the private property order that are contrary to the generally perceived good of the community tend not to come into existence or once emerged tend to disband because of informal norms and sanctions against them. We also find that organizations that do emerge are mostly profit management organizations that compete to serve community needs with ever-increasing refinements in organization, management, and entrepreneurial action, including those that

help prevent lying. These organizations are not plagued by nesting of the agency problem because of their need to make a profit. Finally, nonprofit organizations are not plagued by the nesting of the agency problem because their members are subject to market relations and its subsequent discipline in the pursuit of their livelihoods.

The Free-Rider Problem

The free-rider problem is considered by many social scientists as the fundamental problem of collective action. In this view, free riding is harmful, and free riders are people who receive benefits from the collective action of others without paying for them. Since Olson brought this problem to our attention in his pioneering book *The Logic of Collective Action*, social scientists have taken turns applying foreboding labels to it. For example, Eggertsson calls it “the great scourge of collective action” (66), and North calls it a “fundamental dilemma” (*Structure and Change* 47). The view of these writers might be called the “conventional view” in that it is shared by most writers on the topic.

In the conventional view, nonpaying can be seen to be synonymous with lying in two ways. First, people who free ride do not reveal their true preferences, or as Kuran put it in Chapter 1, they engage in preference falsification. This view accuses free riders of pretending that they do not want the benefits that they receive free. Second, as Barnes tells us in Chapter 2, people who lie are free riding on truth-tellers. In this view, truth-tellers, by telling the truth, pay their share of the cost of creating a trustful society, whereas liars avoid the costs of truth-telling and benefit from the trustful society where their lies are more readily believed.

In Chapter 2, Olson argues that free riding can only be prevented with excludable incentives or by the use of coercion, and North argues that ideology can overcome the incentive to free ride. Applying these remedies to public television, a real-world example of free riding in the conventional view, we find that supporters solve the free-rider problem by using all three of the above methods. First, the public is enticed to donate by the offer of excludable goods such as posters, coffee mugs, plaques, etc. Second, promoters lobby government for financial support of funds obtained through taxation. Third, they portray public television as a selfless, pioneering cause that uniquely serves

the needs of society, which appeals to people's moral ideologies. Olson's and North's remedies for free riding are apparently insufficient, since public television also engages in for-profit advertising.

The conventional view does not account for the beneficial-free-riding view. This view can be shown with the following examples: Flower lovers benefit from those who plant flower gardens; your neighbor benefits from your shade tree; people benefit from each other's personal hygiene; nonsavers benefit from savers; wage earners benefit from employers who invest in capital; the current generation benefits from the capital accumulation of their ancestors. All of these benefits are received without payment, which makes them examples of free riding. However, it could hardly be said that free riding is a problem in these instances. How can free benefits be a problem if the producers of those benefits do not care?

The beneficial view of free riding requires that we qualify the conventional view a bit. We now see that all freely received benefits are not harmful; therefore, free riding becomes a free-rider problem in the conventional sense only if a producer objects to his goods being used without payment and cannot stop it.

This qualified view of free riding has three implications important for this study. First, it implies that there is little free riding in the market. In light of this implication, the existence of a good produced by the market is a testament to the truth of the following statements: The producer of the market good objects to someone using it without paying for it; provision of the good is not plagued by free riding. We know the first statement is true because the producer makes the good available only to those who pay for it. We know the second statement is true because if it were not true, the producer would not produce this good. The second implication of the qualified view is simply the flip-side of this conclusion, i.e., free riding exists primarily in nonmarket provision of goods and services.

The third implication is that free riding can be compulsory. This view simply acknowledges that someone might enjoy free benefits at others' expense if the state so rules. That is, if formal laws block the producer from preventing the free use of his

goods. Real-world examples include welfare programs, unemployment benefits, community improvement grants, and any other use of general tax moneys to benefit only a few. The compulsory view argues that the conventional view places the label of “free rider” on the wrong party in collective action.

To clarify this and to understand how the conventional view, the beneficial view, and the compulsory view are related, consider the following example: Suppose Miss Marple plants and tends a bed of flowers on her own lot and is pleased that her flowers are also enjoyed by her neighbors, who at this point are engaging in beneficial free riding. The size of the flower bed is constrained by Miss Marple’s flower budget and her time available for tending. Now suppose that Miss Marple wishes her flower bed to be larger. She asks her neighbors to contribute to a flower kitty to pay for their enjoyment. A few donate but most do not. Those who do not contribute are now engaging in free riding according to the conventional view. Miss Marple argues at the town council that a flower tax would benefit everyone by beautifying the town. The town council levies a flower tax and gives the proceeds to Miss Marple to enlarge her flower garden. Miss Marple is now engaging in free riding according to the compulsory view.

According to the compulsory view, Miss Marple’s neighbors are not free riders because she can prevent them from getting free benefits by building a fence around her lot and charging a fee to see her flowers. Miss Marple, this view maintains, conjures a problem where none exists, simply because she does not like what she believes will be the market outcome, i.e., few paying admirers and a costly fence. According to this view, the only free rider in this example is that of Miss Marple herself who is using coercive authority to enjoy free benefits against the will of community members who produced them.

According to the compulsory view, the conventional view of the free-rider problem has it backward. People who refuse to pay for benefits in such cases are not free riders. They are simply not paying for a benefit that they did not ask for and in some cases may not want. Perhaps some people dislike flowers and the bees that they attract. The real free riders, in this view, are people who use state power to get financial support

for their cause, thereby allowing them to free ride on tax payers. Rothbard argues that an attack on free riding has meaning only when directed “against the free-rider *who wants compulsory free rides* (emphasis his)” (*Man, Economy, State* 888).

The compulsory view suggests an incentive to lie that is reminiscent of Kingdon’s policy entrepreneur, discussed in Chapter 1, and North’s intellectual entrepreneur, discussed in Chapter 2. Those writers show how truth becomes instrumental under conditions where one is trying to persuade the state to grant personal or group privileges. In our example above, Miss Marple can consider lying as a strategy in her efforts to persuade the town council to levy a tax. This idea will be developed further in the next chapter.

I now investigate what conditions allow more free riding. It is these conditions that affect the benefit-cost ratio of lying. According to the compulsory view, more free riding takes place as the role of the state is enlarged, allowing it to grant more personal or group favors. This view requires no further consideration here, because by definition the state in the private property order is restricted to the role of protecting private property rights; therefore, it cannot grant favors in the private property order.

According to the conventional view of free riding, more free riding takes place when collective action is not backed by excludable incentives, coercion, and ideology. Also important is the size of the group. Olson argues that “in the absence of selective incentives, the incentive for group action diminishes as group size increases, so that large groups are less able to act in their common interest than small ones” (“The Logic” 204). Olson adds that large groups can be more successful if they are “federated” or organized as an assembly of many smaller local cells.

To this list of conditions that increase free riding in the conventional sense, we add two more: less use of the market and interference with the market process. Both of these conditions would cause more conventional free riding, because both would require a greater reliance on the use of collective action in the production of goods. There is no interference with the market process in the private property order, so we need not

consider this condition further until Chapter 4. It is with the first of these conditions that we must deal with now.

The conventional view of free riding is closely associated with the concept of “public goods.” These are goods that some economists argue will not be provided by markets, at least in sufficient amounts, because the rents from the use of such goods cannot be captured by entrepreneurs. According to this view, public goods must therefore be provided collectively. If such goods exist, then there exist a rather high degree of collective action in the private property order to provide goods that the market cannot provide. This suggests a high level of lying in the production of goods in the private property order. I argue next that no such goods exist.

Public goods are said to be nonexcludable since people cannot be stopped from using them without paying. They are also said to have no marginal costs for additional users. According to this theory, there are many such goods including defense, roads, education, information, and even fireworks displays. The favorite example of public goods used for decades in economic textbooks is the lighthouse. As the argument goes, once a lighthouse is constructed, its beacon benefits all passing ships, even those who do not pay for its construction or operation, and there is no additional cost to the owner for allowing an additional ship’s captain to view its beacon. Therefore, says the argument, entrepreneurs will not provide lighthouses. However convincing this argument may have sounded in the past, today the problem has been eliminated by modern technology. It is now possible for lighthouse beacons to be seen only by ships with the proper equipment and to charge for the use of that equipment.

But before modern technology, was it really impossible to make a profit from a lighthouse? Public goods economists were embarrassed to learn from Coase’s “The Lighthouse in Economics” that privately built lighthouses—in spite of having to compete with corporations granted patents by the Crown—played an important role in 17th, 18th, and early 19th century British lighthouse provision. Coase’s study shows that

lighthouses were built, operated, financed and owned by private individuals, who could sell the lighthouse or dispose of it by bequest. The

role of the government was limited to the establishment and enforcement of property rights in the lighthouse. (375)

Another example used by public goods economists to illuminate the public goods argument is that of the apple farmer and the beekeeper. According to this example, apple nectar provides food for the bees while the bees provide a pollination service for the farmer. However, according to this argument, neither the beekeeper nor the apple farmer knows the extent to which his resources have been of service to the other. Therefore, the beekeeper cannot charge the apple farmer for a pollination service and the apple farmer cannot charge the beekeeper for his nectar. The conclusion is that apples and honey will be under provided. Cheung brought this example to ruin by showing that the example did not match with actual practice. He documented that in the U. S. “contractual arrangements between farmers and beekeepers have long been routine” (12).

Rothbard further shows the weakness of the public-goods argument by showing that the conceptualization of the free-rider problem is based on a faulty analysis of the real nature of the situation (*Man Economy State* 886-890). He focuses on defense, the public goods example that many economists retreat to when other examples are found to be wanting. He points out that an increase in population requires the hiring of more police and hence greater costs for greater use, and that people can be excluded from defense services simply by refusing to protect the property of nonpayers. He also argues that no good is truly collective in the sense of providing benefits to everyone because people value goods subjectively and in different amounts.

Thus defense cannot be a collective good so long as only one pacifist or one anarchist exists in the society, for these persons will receive a harm rather than a benefit when they receive the “service” of coercive defense. And defense is not a collective good because its recipients *can* be excluded and separated. (*Logic of Action Two* 75)

Rothbard continues that “economists, trained to think of marginal units everywhere else, suddenly start referring to defense as a ‘lump’ when discussing government. In reality, however, there is a vast range of ‘defense’ services that the government (or any other defense agency) could supply to its customers” (*Logic of Action Two* 73).

Shand points out another deficiency of the public goods view using the “bridge” example common in public-goods theory.

The subjectivist criticism of this classic argument for certain forms of public ownership is that its concept of marginal costs is wrong—it fails to recognize that costs are subjective. The fact that the cost incurred by the extra user of the bridge is zero, is irrelevant to a decision to build the bridge in the first place. The original decision to build the bridge is subjective in the sense that other opportunities of investing the money would have presented themselves at the time and these were rejected in favour of building the bridge. (24).

Though illuminating, Shand’s comment misses an implication of subjectivist theory. Whether the bridge owner incurs additional costs from allowing one more user is not immediately apparent to outside observers since costs are subjective to the owner. The extra user may be a competitor or may have robbed the owner and be making his getaway across the bridge, or maybe the owner just does not like him. In these cases, the owner would incur costs that are not observable. What is observable, in the long term, is that bridges deteriorate from use, which indicates that there are marginal costs for an extra user even in the objective sense.

The above writers show that there are fatal weaknesses in the public goods argument. We encounter the public goods argument again in the next section where we find the argument is even weaker as it relates to information. I therefore think it is reasonable to discount this view entirely. This accords with Rothbard, who concludes that there is no such thing as public goods, that creative entrepreneurs can capture the rents from the production of any good, and that there are always marginal costs for extra users (*Logic of Action Two* 81). We can now conclude that production in the private property order takes place predominantly in the market where the opportunity to free ride, at least in the long term, is practically nonexistent.

This conclusion does not preclude the possibility for collective action in the private property order. Real-world examples that apply to the private property order are abundant. There is the market version of collective action, such as partnerships, corporations, and other contractual relations, which do not allow free riding. However,

there is also nonmarket collective action. We first think of small community nonmarket collective action, such as barn raisings, harvesting bees, volunteer fire protection, assistance to the unfortunate, and little league baseball. On a larger scale we might include disaster relief efforts, such as Red Cross, and voter registration and voter turnout efforts.

In the private property order, people often use a combination of market and nonmarket action to solve their problems. Take for example the community problem of providing a baseball diamond. The real-world community of Boelus, Nebraska solved this problem in a manner typical of the private property order by using a variety of market and nonmarket activities. The use rights to the land were donated by a local land owner. Local businesses, as an advertising effort, donate money for construction and maintenance. The baseball league charges a gate fee. Coaches pass the hat through the bleachers during ball games. Team members and their parents conduct fund raisers. A for-profit concession stand is leased to a community member. Coaches, parents, team members, and interested community members volunteer their services for spring cleaning of the premises.

The potential for free riding exists in such activities as passing the hat and spring cleanup. But very little takes place because the actions of each individual are being monitored by his neighbors. If one refrains from dropping in the hat, one's neighbor takes note. The same is true if one does not show up for spring cleaning. All those factors that promote community as discussed earlier in this chapter, act to prevent free riding: The kinship factor promotes a sense of identity, role, and responsibility; the isolation factor promotes a sense of shared fate; the common values factor promotes community consensus and sanction. In a similar vein, those factors that promote reputation and ideology also help prevent free riding in the private property order.

In the private property, as in Boelus, there are people who walk the shortcut by the river to avoid the gate fee, who do not drop in the hat, who do not volunteer or donate and still attend ball games, but they do so at their own risk. For most people in a small community these are risky choices. Their well-being in the community depends on the

good will of their neighbors. However, for others, avoiding payment is not so risky. In every community there are the poor and unfortunate, at least relatively so. The norms of the community may grant these people free baseball-diamond benefits by not forming a consensus and implementing sanctions against them. That is, neighbors may take note of these people's pay-avoidance but do nothing about it. Community members may chalk this up as doing a good deed, but it may also be seen as simple price discrimination. The poor and unfortunate, by their presence, are adding to team-fan group dynamics, and they are adding to community solidarity. For those unable to pay more, perhaps, in the eyes of more fortunate community members, this is payment enough.

Finally, we must consider whether free riding is a problem in regards to defense, the only good that is totally provided collectively in the private property order. Even though defense is not a "public good," since it is provided collectively on a large (total) scale, it is vulnerable to conventional free riding. However, the state can, a`la Olson, offer excludable incentives to encourage donations, and it can "federate" the provision of defense, i.e., organize defense as a federation of many small defense units rather than one large one. The state can, a`la North, use ideology to inspire loyalty and duty. Furthermore, a`la Rothbard, defense can be denied to those who do not pay and can be provided in different amounts to different people or different sections of the country. Finally, defense can be provided in the community setting to make best use of monitoring, reputation and ideology, and it can be provided by a combination of market and nonmarket action.

In summary, the private property order has a high incidence of beneficial free riding, a low incidence of conventional free riding, and no compulsory free riding. Beneficial free riding occurs as people benefit from the capital investments of producers who do not care that they create free benefits. Conventional free riding is prevented by market production and by nonmarket collective action that takes place within community contexts, where monitoring is easy and where reputation and ideology are most effective. There is no compulsory free riding because the state is restricted from granting personal or group benefits to some at the expense of others. There are no special interests lying to

state officials in order to get special favors because the state has no favors to give. Most importantly, production within the private property order is predominantly market production, since there is no need for state provision of radio and television, roads, streets, parks, mail delivery, or schools.

Institutional Restrictions of Communication

In this section I evaluate the degree of institutional restrictions on communication. This is important because if people are prevented from communicating with each other, they cannot engage in reputation, community, or ideology; hence, more lying to obtain benefits will take place. Previously in this chapter, we discussed obstacles to communication in the section on ideology. There we saw that people are isolated into different communities by differences in culture, language, education, divisions of labor, jargon, technical language, etc. All of these forms of isolation are barriers to communication. We also saw that various communities may have norms against communicating with persons of different races, religions, families, or sex, or any other social division. All of these obstacles also apply to this section, but I consider these ideas sufficiently developed, so I do not mention them again until the final summary.

In the most general sense, communication is the making of assertions by one party for the enlightenment of a second party. Searle told us in Chapter 1 that assertions are illocutionary acts that have rules, one of which is that the expressed proposition must not be obviously true to both parties. This is just to say that if you know of something, then I cannot inform you of it. If everyone had perfect information, there could be no communication. Searle's rule simply reminds us that people communicate because they have different sets of information, and that they can mutually benefit themselves by exchanging information. However, different sets of knowledge means that private information is present in the communication process, and that people can use their private information for lying.

Communication, whether oral, written or otherwise, requires both a sender and a receiver, both of whom can be actively or passively involved in the transfer of information. The distinction between active and passive communication is intent. This

makes possible four cases: (1) both have intent to communicate; (2) neither has the intent to communicate; (3) sender intends to communicate but receiver does not; (4) sender does not intend to communicate but receiver does. Let us take a look at each case. In the first case, Rod dials the phone and his wife, Jeane, answers it. Both the sender and the receiver intend to communicate. The same is true of written communication; the writer and the reader both intend to communicate although, in the case of books, they may never know each other and there may be a long time interval between the processes of sending and receiving. In the second case, Rod has a bad day and the stress in his voice causes Jeane to become irritable. Here, both Rod and Jeane are communicating passively, because neither of them has the intention nor may even be aware of being involved in this process. In the third case, Rod leaves subtle hints about a fishing pole that he has been eyeing, and Jeane, thinking it was her idea, buys the pole for his Christmas present. In the fourth case, Rod privately observes how Jeane plants her flower garden and then plants his flowers in the same manner. In this case, Rod is purposely learning from Jeane but her role is unintentional. Before we look for barriers to communication in the private property order, it will be helpful to see how these cases apply to lying.

Only cases one, three and four apply to lying, since in case two there is no intent in either sender or receiver. Case one is the normal or familiar case of lying, i.e., one liar misinforming one or more dupes who are actively involved in the communication process. It is also the case of the information relation, where both Informer and Informee, while engaging in communication, are both actively evaluating the benefits and costs of their options. Case three is a more subtle and subversive way of lying. It involves deceiving the dupe when his guard is down. People let their guard down when they believe that the information they are receiving has a neutral source, i.e., they are unaware that there is intent behind the message.

For example, suppose the boss does not want his employees to know of his absence. He may hang his coat on the rack, put his over-boots by the door, post a sign that says, "Please do not disturb," and leave his radio playing. That way his presence fills

the office and inspires productive employees even though he is physically absent. This kind of lying requires dissimulation, indirect messages, and the staging of events and of the dupes physical environment. It is what we all do to fool potential burglars when we go on vacation. We stop newspaper delivery, connect interior lights and radios to timers, leave fake messages taped on the door, have a neighbor raise and lower the shades daily, and hire the lawn to be mowed midweek. In other words, we are staging the environment to communicate a false message, the message that we are home.

Case four, as it is, presents no opportunity to lie; however, with a slight alteration, it becomes case one or three. Returning to an example above, Rod privately observes Jeane planting her flowers. Since Jeane is not aware that Rod is observing her actions, she obviously does not intend to teach him how to plant flowers; therefore, there is no reason to suspect that she is lying. Now suppose that Jeane becomes aware of Rod's presence. She can either reveal or not reveal her knowledge to Rod. If she reveals her knowledge, this case reverts to being case one; both persons are actively involved in communicating and both know it. If she does not reveal her knowledge, this case becomes like case three; she can intentionally send false messages with her actions while Rod's guard is down. Jeane can intentionally demonstrate incorrect horticultural methods to mislead Rod. This is, of course, assuming she has a reason for doing so. Perhaps they are competing for top honors in the local flower show.

In this form, case three is more commonly known as "disinformation," a term often used in regard to false internal communiqués intended to deceive the enemy in time of war. Barnes calls disinformation "black propaganda" or "deceit that is suffered as much by one's trusting supporters as by one's enemies." The target of disinformation, he says, "is the actions of the enemy or the thoughts of one's own citizens" (26-27). The key to disinformation is the staging of events in such a way that leads the target to believe that there is no intent to deceive. He will consequently let down his guard and believe lies.

Barriers to communication invite lying, because they prevent the formation of reputation, community, and ideology, all strategies to prevent lying. If people are unable to communicate with each other, they cannot gossip or engage in extended dealings

whereby they educate themselves about their social world; they cannot “spread the word,” so to speak, about truthful or untruthful behavior of others. Barriers to communication obstruct people’s efforts to protect themselves from lying, increase overall private information, and thereby increase the benefit of lying.

The only formal barriers to communication in the private property order are private property restrictions. In case one above, where both Sender and Receiver intend to communicate, Sender must own the ideas that he sends, and he must own or rent the means of communication, such as a printing press or broadcast equipment. Also, Sender and Receiver must own the ground upon which they stand or have permission to be there. In case three, where Sender intends to communicate but Receiver does not, Sender must have Receiver’s permission to enter the premises and to disperse his message. Sender cannot, for example, come into Receiver’s house and leave subtle hints that Receiver will unintentionally pick up, or he cannot turn on Receiver’s television so that Receiver will hear his message. In case four, Receiver must have Sender’s permission to enter the premises. Receiver cannot enter Sender’s house and observe him secretly.

The sparsity of formal restrictions to communication in the private property order, may seem to leave people vulnerable to lying, libel, slander, plagiarism and invasion of privacy. However, property rights and informal norms provide the necessary protection from these undesirable aspects of communication freedom. Rothbard argues that “the *only* right ‘to privacy’ is the right to protect one’s property from being invaded by someone else.” (*Ethics of Liberty* 121-122). Even so, in the practical sense, people still can acquire the level of privacy that they desire by exercising their property rights. Rothbard shows that even though people have a property right to the ideas and opinions that are in their heads, there are property right limits as to what they can say and print. People are legally prevented from (1) the “telling” of ideas that they have previously agreed not to reveal, (2) the “telling” of ideas that they have acquired by invading someone’s property, and (3) the “telling” of ideas that are copyrighted. The first exception is legally prevented, because it is a case of breach of contract. The second exception is equivalent to breaking and entering and stealing personal property. The third

exception is also a breach of contract. For example, if you buy the sheet music to my latest song, you will notice that I have stamped “copyrighted” on it. That means your purchase is conditional rather than absolute. If you buy the music you are agreeing to these terms: You may sing the song, but you may not pretend that you wrote it and sell it under your name. Copyright laws protect what Rand calls “intellectual property” (*Capitalism: The Unknown Ideal* 130).

Even though there are few formal laws against communication in the private property order, informal norms may prevent certain instances of communication. For example, norms may develop that prevent lying, libel, slander, and invasion of privacy. People within a community form a consensus as to what is appropriate behavior regarding these issues in order to maintain community cohesiveness. This consensus results in norms that regulate behavior within acceptable standards. Also, norms may develop preventing communication between races or social classes. However, as we have seen in a different context, norms intended to keep people apart tend to dissipate in a market society due to the cost of abiding by them.

The obvious conclusion of the above discussion is that there are few restrictions to information and communication in the private property order. However, this conclusion must remain tentative until I deal with the welfare economic view of information, which finds formidable barriers to the flow of information in free markets. Arrow, the main proponent of this view, argues that we cannot expect markets for information to be efficient because of two characteristics of information: (1) “it is, by definition, indivisible in its use” and (2) “it is very difficult to appropriate” (246). Arrow’s view is nothing more than the public goods argument applied to information. As the argument goes, once information is produced and sold it becomes general knowledge; therefore, its producer cannot appropriate rents for its use. Consequently, information will be underproduced. Continuing Arrow’s argument, one can give information away and still have it, which is the no-marginal-cost- for-an-extra-user part of the argument. Arrow recommends government provision of information to compensate for the market’s under provision of it.

We saw above that there are severe problems with the public goods view in regard to goods and services. These same problems crop up when applying the public goods view to information. The obvious problem with this view is that it does not match what we observe. In the real world, protected by copyright laws, people routinely capture rents from information by selling books, compact discs, newspapers, magazines, cable television installations, commercial time, seminars, consultation services, admittances to speeches and movies, tuition to private schools, and in hundreds of other ways. Also, Arrow's view that information becomes general knowledge once it is sold ignores the fact that learning has costs. The fact that you learn something does not mean that I learn it as well. Furthermore, it is obvious that there are real marginal costs for producing an additional book, compact disc, newspaper, etc.

There are also theoretical problems with Arrow's view. Demsetz argues that Arrow's contention that information is nonappropriable or nonexcludable is seeing "special and unique problems in establishing property rights to information when the problems are neither special nor unique." "It is true", says Demsetz, "that all 'theft' of information cannot be eliminated at reasonable cost. But knowledge is not unique in this respect, since the same can be said of any valuable asset" ("Information and Efficiency" 170).

Demsetz also finds fault with Arrow's "solution" to the information "problem." Arrow says that "any information obtained...should, from the welfare point of view, be available free of charge (apart from the cost of transmitting information)." In other words, information should be government provided. Arrow says that "this insures optimal utilization of the information but of course provides no incentive for investment in research" (ctd in Demsetz "Information and Efficiency" 172). Demsetz responds by saying that

it is hardly useful to say that there is 'underutilization' of information if the method recommended to avoid 'underutilization' discourages the research required to produce the information. These two activities simply cannot be judged independently. Since one of the main functions of paying a positive price is to encourage others to invest the resources

needed to sustain a continuing flow of production, the efficiency with which the existing stock of goods or information is used cannot be judged without examining the effects on production. (“Information and Efficiency” 172)

Arrow’s “solution” also conflicts with casual observation. Do real-world governments provide more information than markets? Comparing the hundreds, perhaps thousands, of news sources in the minimal government environment of the U. S. with *Pravda*, the single official news source in the former Soviet Union, a totalitarian state, it would appear that the opposite is true.

Arrow, pointing to the lack of commodity options provided by the market, is quoted by Demsetz as saying that the market’s “unwillingness or inability to bear risks will give rise to a nonoptimal allocation of resources, in that there will be discrimination against risky enterprises as compared with the optimum” (“Information and Efficiency” 164). Demsetz points out that marketing options costs that exceed the gains from the adjustment of risk would also account for the nonexistence of the options. The only way, he says, that we could assume that this market result is nonoptimal is if we assume that risk-bearing can be done at no cost. “To make this assertion is to deny that scarcity is relevant to optimality, a strange position for an economist” (“Information and Efficiency” 164). Today, of course, one can purchase options on most any commodity.

Bates and Hirshleifer argue that there are still further problems with the public goods view of information. Bates points out that the public goods approach to information creates a paradox in that advertising implies a negative marginal cost since the producer pays the cost of production and at least part of the cost of distribution. Public goods analysis does not allow for a negative cost. Bates suggests this paradox is caused by analysts confusing “information” with the “information good,” i.e., the physical object to which information is linked such as books and compact discs. He says that the cost side is usually figured from the cost of producing the physical manifestation of information, where as the demand side is analyzed from the view of value of the information itself. “With costs and benefits not being determined by related aspects of

the good in question, it is hardly surprising that, under traditional economic analysis, the various efficiency criteria might not be satisfied for information goods” (81).

Hirshleifer calls Arrow’s approach to information the “sale” motive approach, since Arrow assumes that profits from the production of information come only from its sale. Hirshleifer introduces what he calls the “pushing” motive for the production of information. It amounts to this: If you were in possession of certain information, you might act in ways that benefit me; therefore I would profit by producing the information and giving it to you. This push motive explains advertising. It also shows how the inventor of an idea might be motivated to spread the new idea far and wide, because he is in a position to predict price reevaluations ensuing from the publication of his idea. Hirshleifer notes that here the profit motive dictates the widest possible dissemination of information. He concludes that “the speculative ‘pushing’ motive, in contrast with the sale motive that the patent institution facilitates, furthers both the utilization and the production of information” (64).

Summarizing this section, there are three formal, private-property-rights restrictions to communication in the private property order: People are forbidden from communicating ideas that they previously agreed not to reveal, that they acquired by invading someone’s property, and that are copyrighted. There is no legal right to privacy or legal protection from libel and slander in the private property order; however, informal norms restrict these negative kinds of communication to acceptable standards. Informal restrictions to communication, like norms against communication between social classes, tend to dissipate due to the costs of abiding by them. The welfare economists view that free markets have systemic obstacles to the creation and flow of information that can be removed by government has flaws serious enough to warrant discounting the entire view.

The conclusion that communication is essentially unrestrained in the private property order appears to be in conflict with the earlier conclusion that there are high costs for alternative information. However, the factors that cause high costs for alternative information, differences in language, culture, value referents, education, etc., do not exist to any great extent within community. These factors exist only between

communities. Therefore, the fact that communication flows freely within community and is restrained between communities makes possible the existence of both gossip and total ideology as social forces that constrain lying.

Time Preference

Earlier in this chapter, we saw how the private property order promotes expectations of a secure future and thereby encourages and allows people to value the future, i.e., to value future transactions. Our earlier concern was to show how expectations of a secure future promoted the functioning of the reputation strategy. Here our concern is how expectations of a secure future affect the benefit-cost ratio of lying.

Among the factors discussed earlier that give people cause to expect a bright future in the private property order are secure property rights and a restrained state. These factors lead to other contributing factors, such as the freedom to make incremental choices about one's wealth and personal welfare, the freedom to enter associations with others that one believes beneficial, and freedom from the possibility of being conscripted to fight a war. Such factors make the future probable and real to people; they expect to exist in the future in a well state of being. Therefore, trading off some part of their present consumption in order to provide for greater consumption in the future becomes a viable option in their overall strategy to benefit themselves. In short, they can take a long-term view of what constitutes personal benefits. The flip side of this is that people value the present with less urgency than they would if their future was less certain. Short-term benefits are discounted and future benefits receive a premium. People feel less urgency about present consumption because they are confident that by deferring present consumption they have improved their overall well-being.

When events occur that lower people's expectations for the future, they place a new urgency upon consuming in the present and discount the value of future consumption. This relationship between the value of present and future goods is what economists call "time preference." People with a high time preference greatly prefer having their cake now rather than later. People with low time preference are more content to delay consumption in the present so as to have resources available to invest

and, thereby, to create a more secure future. If there are present events or situations that make the future appear less certain or less appealing, people concentrate their consumption of goods in the present where they are certain that they will be able to consume them.

As an illustration of how time preference affects the benefit-cost ratio of lying, imagine the simple two-person-society information relation under conditions where future prospects are bright for both Informer and Informee. Under these conditions, Informer, in choosing whether to lie, chooses between the short-term benefits of lying and the long-term costs of getting caught, or the long-term benefits of truth-telling and the short-term costs of foregoing the benefit of lying. Under this incentive structure, Informer tends to be truthful because it is relatively more beneficial to him. His total stream of expected benefits greatly offsets his total stream of expected costs. Meanwhile, Informee rests secure that the reputation strategy is intact and that Informer has little incentive to lie.

Now suppose that both partners learn that the state has declared war on the neighboring nation and that Informer is being conscripted. Under these conditions, the future becomes less certain. Informer now discounts long-term costs and long-term benefits and puts a premium on short-term benefits. Under these circumstances the total stream of expected benefits from lying outweigh the total stream of expected costs. Informee is aware of Informer's heightened incentive to lie but has fewer useable strategies than before. Reputation becomes nonfunctional as Informer stops caring about future transactions. Community dissolves since Informer and Informee no longer share the same fate nor are they economically interdependent. It is also likely that such an event would cause severe enough changes in terms of exchange as to cause people to question their beliefs, which means a breakdown of total ideology. Thus, Informer's expected costs of lying go down while his expected benefits go up. We can conclude from this that social institutions that give people cause to expect a bright future decrease lying by lowering the expected benefits of lying in relation to expected costs. Conversely, social institutions that cloud the future or create a heightened level of uncertainty increase lying by increasing the expected benefits of lying in relation to expected costs.

In the private property order, one encounters little reason to doubt the existence of the future. The rules of the game are clear, unchanging, and apply to everyone equally. There is no opportunity for people to use the power of the state to appropriate one another's property ; therefore, one's relations with others are friendly and predictable, and one can make plans with the expectation that they will come to fruition. There is little chance that one will be involved in wars because the state cannot aggress, conscript, tax, or implement tariffs and migration barriers. There is no state inspired hyperinflation that in the real world causes social unrest, revolution, and a depreciation one's relative income position. One can travel widely without fear of physical violence. One is free to make choices regarding one's personal wealth and welfare that one believes will benefit one's life. One's material well-being does not depend on collective action and therefore is not plagued by the free-rider problem. Instead, it is rooted in market relations, which means that it rests, on the one hand, on one's personal abilities and creativeness and, on the other hand, on other people's self-interest rather than their good will. These conditions in the private property order tend to engender a low time preference relative to conditions where the state is less constrained.

Ethical Codes of Conduct Engendered by the Private Property Order

There is a tendency in the private property order for behavior to take on a certain character. This is because the market has its requirements for behavior and obliges people to accept its standards to the extent that they gain their sustenance therein. This phenomenon, on a very basic level, can be observed in students who change their behavior to get a job. Students, having no requirement to provide their own food and shelter, are free to flaunt adult standards of propriety. They may dress or wear their hair differently than adult standards or speak using an offensive vocabulary. An overnight change in such behavior occurs when students wish to take a job in order to purchase a car. Working at the local supermarket, students are clean cut, appropriately dressed and polite. They are free to indulge their disdain for adult standards only when they are not at work. This transformation is commonly known among middle and high school teachers.

This same phenomenon can be observed in the differences in behavior between college professors and business executives. Business executives methodically dress in the required suit and tie and visit the barber on a regular basis. They are careful of expressing political views in public for fear it will chase away clients. College professors, being more insulated from the discipline of the market, are freer to indulge their whims about dress and hair style. They also are less reluctant, at least after they have attained tenure, to express political views, their wages depending only indirectly on pleasing clients.

This phenomenon has come to be known as the “*doux-commerce* thesis.” It is the idea that in a market setting, gentle manners, polish, and cordiality are the result of self-interest. Many political theorists have stressed the importance of the *doux-commerce* thesis including Montesquieu, Smith, Hume, Condorcet, and Thomas Paine. Albert Hirschman chose to quote Samuel Ricard as one of the most detailed accounts of how the market generates gentle manners. Ricard says:

Commerce attaches [men] one to another through mutual utility. Through commerce the moral and physical passions are superseded by interest...Commerce has a special character which distinguishes it from all other professions. It affects the feelings of men so strongly that it makes him who was proud and haughty suddenly turn supple, bending and serviceable. Through commerce, man learns to deliberate, to be honest, to acquire manners, to be prudent and reserved in both talk and action. Sensing the necessity to be wise and honest in order to succeed, he flees vice, or at least his demeanor exhibits decency and seriousness so as not to arouse any adverse judgement [sic] on the part of present and future acquaintances; he would not dare make a spectacle of himself for fear of damaging his credit standing and thus society may well avoid a scandal which it might otherwise have to deplore. (qtd in Hirschman 1465)

Ricard here argues, as Hirschman points out, that commerce is a “powerful moralizing agent which brings many nonmaterial improvements to society even though a bit of hypocrisy may have to be accepted into the bargain” (1465).

The hypocrisy alluded to by Ricard is the basis of much criticism of the *doux-commerce* thesis from writers supporting traditional values. They contend that manners

and cordiality which are the result of self-interest are not genuine. Therefore, they say, the market destroys the values upon which it depends for its survival. Hirschman calls this the “self-destruction thesis” (1466). This theme takes several different forms. One is that the moral foundation upon which the market depends is not generated by the market but is a vestige of an earlier epoch. This view sees the market as a juggernaut that destroys everything in its path, including the traditional values upon which it depends. Fred Hirsch argues along these lines in his *Social Limits to Growth*. He says that “the weakening of traditional social values has made predominantly capitalist economies more difficult to manage, that is, to guide by indirect state intervention” (118). This is no criticism of the private property order since within it there is neither pre-capitalist values nor state management of the economy.

Schumpeter advanced another form of the self-destruction thesis, an expansion of the juggernaut view. Schumpeter argues that

...capitalism creates a critical frame of mind which, after having destroyed the moral authority of so many other institutions, in the end turns against its own; the bourgeois finds to his amazement that the rationalist attitude does not stop at the credentials of kings and popes but goes on to attack private property and the whole scheme of bourgeois values. (qtd, in Hirschman 1469)

Hirschman points out that “capitalism is here cast in the role of the sorcerer-apprentice who does not know how to stop a mechanism once set in motion—so it demolishes itself along with its enemies” (1469).

The juggernaut criticism is contradicted by what Hirschman calls the “Feudal-Shackles Thesis,” another criticism of the market order that holds that market values lead to its being too weak to displace the values and authority structure of the *ancien regime*. According to this view, says Hirschman, the values of the bourgeoisie, who are the standard bearer of the market order, lead them to be submissive and congenial in the face of authority rather than to confront it. In this view, the pre-capitalist or traditional values are an obstacle to the full flowering of capitalism and its market values rather than being the moral foundation upon which it depends.

The values demanded by the market are generally associated with the “middle class” a somewhat ambivalent term. Writers often refer to this class as the “bourgeoisie,” a term use by John Locke to mean “ideal man.” Locke favored the rising bourgeoisie and their social attitudes over either the traditional landed classes or the multitude. His bourgeois man is of humble origin and has overcome the deficiencies of his birth by using his ability. He is self-directed, self-disciplined, and prudent in judgment. He is a rational creature of enlightened self-interest, and is the moral equal of other men with the natural rights of life, liberty, and property. He is calculating in the pursuit of happiness, but even so, is a sincere and dedicated Christian who has the will, ability, and the means to reflect upon intellectual matters and to engage in public affairs. He holds an egalitarian view of mankind in that all people have the same frailty of knowledge, and all are equally fallible. He, therefore, is never willing to submit uncritically to authority or received opinion. (Wood, 124-135).

The term “bourgeois” acquired a pejorative sense from Marx and other writers who criticized the values of the middle class. Bourgeois values are those demanded by the market. Maria Ossowska selects Benjamin Franklin as the incarnation of the “bourgeois morality” in America and Daniel Defoe in England. These are writers, she says, that “propagated as *positive* the slogans and values that were depreciated by their critics” (160). Ossowska cites Max Weber’s contention that Franklin was “the apostle of the ideal of a man worthy of credit” (162). In order to gain the reputation of a man worthy of credit, he must be punctual, avoid waste, be always at work, and avoid the tavern. Franklin’s thirteen principles for living the perfect life are: temperance, silence, order, resolution, frugality, industry, sincerity, justice, moderation, cleanliness, tranquillity, chastity, and humility. According to Ossowska, Franklin admitted that in regard to the last two “he did not arrive at complete success” (162).

McCloskey chastises modern day bourgeoisie for being lax in not developing a moral foundation for what he calls “bourgeois virtue.” He says that we have only two ways of talking about virtue, neither of which supports the market order. They are the patrician way and the plebeian way. The patrician way embraces the four classical pagan

virtues as epitomized by Odysseus: prudence, temperance, justice, and courage. This view emphasizes aggressive heroism and supports the aristocracy. The plebeian way, the way of St. Paul, values above all else faith, hope, and charity, and holds that every soul is subject to a higher power. This view, says McCloskey, “is a ‘slave morality,’ bending to the aristocratic virtues that Nietzsche and other Hellenizers prized” (“Bourgeois Virtue” 177).

Following McCloskey’s line of thought we can make some conclusions. The aristocracy object primarily to the leveling effect of the market order. Their goal is huge feats far and above those of the average citizen. Strength, courage, and aggression are their virtues. For them, the gentle manners and cordiality of the bourgeoisie are nothing more than weakness. Christians object that bourgeois morality is instrumental, that bourgeois manners, cordiality, and good will are rooted in self-interest. The Christian goal is heaven, which requires humility and self-denial. They see pride and the pursuit of self-interest as a sin. Criticism of bourgeois virtues in this moral environment is inevitable because the market neither demands nor rewards heroic aggression or humility. As McCloskey puts it, “shamefully we bourgeois are neither saints nor heroes” (“Bourgeois Virtue” 178).

Since we are looking for institutions that reduce lying, we must consider being criticized by the aristocracy for being honest, punctual in one’s dealings, and cordial as being no criticism at all. Furthermore, to be criticized by Christianity for pursuing self-interest is somewhat hypocritical. Is the pursuit of heaven not the pursuit of self-interest? Is altruistic action in the pursuit of heaven not an instrumental use of values?

If we put pagan and Christian virtues into a single pot and presented them to bourgeois man, the only one that he would throw out is heroic aggression. The market rewards Osyseeus’s virtues: Prudence makes for good business deals; temperance increases one’s savings; a sense of justice results in fair play; risk-taking requires courage. Thus we have the prudent entrepreneur courageously risking his life-savings in accordance with the rules of the game. Within the market in the larger sense of the private property order, we find that there is room for Christian faith, hope, charity, and

humility. People are free to organize as they please to worship or to provide charity to others. They are free to give away their assets and to keep their generosity a private matter.

I now review briefly the findings of the five sections above that make up the analysis of the benefit-cost ratio of lying in the private property order. First, the market simultaneously solves the economic problem and, to a large extent, prevents particular knowledge from being used for lying. Second, the need to make a profit makes monitoring of individual behavior in market organizations in the private property order a simple matter of looking at the profit and loss statement. Members of nonmarket organizations are subject to reputational monitoring by the need to make their living in the market. Third, conventional free riding is not a problem in the private property order, because the market can produce even those goods considered by some to be public goods. Compulsory free riding does not exist in the private property order, because the state is not allowed to grant favors. Fourth, communication is unrestrained with the exception of property right considerations and informal norms that tend to restrain lying. Fifth, conditions in the private property order engender a low time preference, which indicates a valuing of the future. Lastly, the market engenders moral virtues that do not abide lying.

In the next chapter I compare protection-from-lying strategies to the institutional constraints of a bureau model developed from the works of Weber, Mises, Rourke, Downs, and Selznick. Also, as I have done here, I evaluate the bureau model as to how its constraints affect the benefit-cost ratio of lying.

Chapter 4

Lying in the Bureau

The format of this chapter is very similar to the previous chapter. I first develop a bureau model. I then compare the necessary requirements for the successful application of protection-from-lying strategies to the institutional constraints of the bureau model. Finally, I evaluate the benefit-cost ratio of lying in the bureau model using the same six items used in the last chapter to evaluate the private property order. This gives us a point-by-point comparison of how protection strategies are able to function and of the benefit-cost ratio of lying in both the private property order and bureau models.

The primary bureau model that is developed in this chapter, used as a benchmark, is that of Max Weber, whose model of bureaucracy has formed the basis for most discussions of bureaucracy. Secondary models by Mises, Rourke, Downs, and Selznick are used to qualify Weber's model and make it more useable for our purposes. The bureau model comprises the opposite extreme of the private property order model. Together, these two models form a continuum, a larger, more comprehensive model, which I use to elucidate a relationship between institutional structure and lying.

Weber's Model of Bureaucracy

The term "bureaucracy" gets its meaning from the French noun *bureau*, meaning "office" or "department" and the Greek verb *kratos*, meaning "to rule." In today's world, as Mises points out, "the terms *bureaucrat*, *bureaucratic*, and *bureaucracy* are clearly invectives" (*Bureaucracy* 1). In spite of its opprobrious connotation, the term "bureaucracy" is used to refer to both the administration of an organization by a specific set of officials and to the administration of a whole nation by means of agencies, bureaus, commissions, and departments. Organizations might be thought of as fractals of a national bureaucracy, i.e., they have similar internal relations but on a different scale.

Weber's bureaucracy model contains six conditions that delineate power relations between people and establish the source of authority in the model. In summarized form, these six conditions are as follows:

1. **There exist fixed and official jurisdictional areas.**
2. **There exists a hierarchy of graded authority.**
3. **Management is based on written documents.**
4. **Management is based on expert training.**
5. **Officials are full-time employees.**
6. **Management is based on general rules.**

Weber's model has two additional conditions that pertain to the position of bureaucrats, or officials as Weber calls them, within this power structure:

7. **Office holding is a vocation.**
8. **Officials have a social level commensurate with their place in the hierarchy.**

In the next few pages, I elaborate each of Weber's conditions separately in the order that they are presented above.

1. According to Weber, bureaucracy operates on a "principle of fixed and official jurisdictional areas, which are generally ordered by rules, that is, by laws or administrative regulations." Weber calls these fixed jurisdictional areas "offices." According to this model, an office circumscribes a set of regular activities, which are the official duties of the office. People are selected for employment in specific offices and obtain the authority to give commands and to wield coercion to discharge official duties according to a set of rules, which are laid down by a higher authority (196).

2. According to Weber, this system of offices with official duties as prescribed by a higher authority is a multilevel or hierarchical structure where the governed can appeal the decision of a lower office to a higher office. This, he says, means a "firmly ordered system of super- and subordination in which there is supervision of the lower offices by the higher ones." Weber says that "the principle of hierarchical office authority is found in all bureaucratic structures: in state and ecclesiastical structures as well as in large party organizations and private enterprises. It does not matter for the character of bureaucracy whether its authority is called 'private' or 'public'" (197).

3. According to Weber, "the management of the modern office is based upon written documents ('the files'), which are preserved in their original or draught form." That is to say, the rules that govern an office are formal, written rules. Therefore, he says,

each office has “ a staff of subaltern officials and scribes of all sorts.” The staff and the files of a given public office, according to Weber, constitute what is properly called a “bureau.” In principle, the doings of the bureau are completely separate from the private life of the official. His personal correspondence, money, and assets are all separate from those that he deals with in his official capacity (197).

4. According to Weber, “office management, at least all specialized office management...presupposes thorough and expert training” (198). The office manager must not only have the technical skills that are necessary to serve the purposes of the office, such as accounting, personnel management, etc., he must also know the regulations or rules that lay out the source and extent of his authority. Weber says this condition holds for executives of private enterprises as well as for state officials. (198).

5. According to Weber, “when the office is fully developed, official activity demands the full working capacity of the official, irrespective of the fact that his obligatory time in the bureau may be firmly delimited.” This is simply to say that office management is a full-time job. Historically, Weber says, the situation was reversed, i.e., “official business was discharged as a secondary activity” (198).

6. According to Weber, “the management of the office follows general rules, which are more or less stable, more or less exhaustive, and which can be learned. Knowledge of these rules represents a special technical learning which the officials possess. It involves jurisprudence or administrative or business management” (198).

7. According to Weber, the holding of an office is a vocation, complete with a prescribed course of training, which is itself a full-time job. Also, there are special examinations which are prerequisites of employment. While on the job, office holders’ activities are seen as duties. Weber continues that office holders are expected to refrain from extracting rents in the course of the execution of their duties. Also, he says, having been granted an office is not to be seen as payment for past services but, rather, as having met the qualifications of the office. “Entrance into an office, including one in the private economy, is considered an acceptance of a specific obligation of faithful management in return for a secure existence” (198-199).

8. According to Weber, the personal position of the official is structured as follows:

- A. The official usually occupies a social level commensurate with his place in the hierarchy. This newly acquired status level is the result of his training, his previous social status, and the fact that he has various certificates. The official's position sometimes gives him the authority to grant approval to lower applicants (199-200).
- B. The bureaucratic official is appointed by a superior authority rather than elected. Election to an office would modify the strictness of hierarchical subordination, because being elected is to receive authority from below rather than above. An appointed official functions more "exactly" from a technical point of view than does the elected official because an appointed official is personally selected for certain qualities, one being loyalty (200-202)
- C. Public officials usually have tenure, and the position of the official in public bureaucracies is normally held for life. The official is not seen to have a right to life tenure, but there are specific rules against arbitrary dismissal. (202)
- D. The official receives a regular salary and a pension instead of a wage. Salary is granted according to status, rank, and or length service (203).
- E. The official makes a career out of public service. He moves up the hierarchy which has fixed conditions of seniority (203).

When applied to government, the above eight elements constitute what Weber calls "bureaucratic authority." When applied to the private domain, he calls the resulting structure "bureaucratic management" (196). In either case, according to Weber, "in principle a system of rationally debatable 'reasons' stands behind every act of bureaucratic administration, that is, either subsumption under norms or a weighing of ends and means" (220). Although the above distinction between "bureaucratic authority" and "bureaucratic management" does not acknowledge the fundamental distinction made by Mises in Chapter 3 between "profit management" and "bureaucratic management," Weber does acknowledge Mises's distinction indirectly when he says that "errors in official statistics do not have direct economic consequences for the guilty official, but

errors in the calculation of a capitalist enterprise are paid for by losses, perhaps by its existence” (235). In other words, officials in nonprofit organizations cannot be held accountable by the profit-and-loss statement as they can in for-profit organizations as Mises pointed out.

Weber says that the development of a money economy is a presupposition of bureaucracy. He explains:

Even though the full development of a money economy is not an indispensable precondition for bureaucratization, bureaucracy as a permanent structure is knit to the one presupposition of a constant income for maintaining it. Where such an income cannot be derived from private profits, as is the case with the bureaucratic organization of large modern enterprises, or from fixed land rents, as with the manor, a stable system of *taxation* is the precondition for the permanent existence of bureaucratic administration. For well-known reasons, only a fully developed money economy offers a secure basis for such a taxation system. (208)

It is clear that in Weber’s view the bureau is an institutional structure that is brought about by conscious design. It is therefore diametrically opposed to the spontaneous order of the private property order. We can now see that Hayek’s fundamental distinction between “spontaneous order” and “organization” as discussed in Chapter 3, is epitomized by the private property order and the bureau. We recall that this distinction rests on the absence or presence of common purpose. The private property order has no common purpose and, hence, no design to which individuals must conform. It is therefore a spontaneous order. Opposed to this, the bureau is organized around a common purpose, has an overall design, and has an authority to see that individuals adjust their actions accordingly. The bureau, then, is an organization.

These two opposed forms of social order are the practical outcomes of the two opposed strains of individualism traced by Hayek in Chapter 3. Reviewing these strains, the British school, known as the “anti-rationalists” due to its emphasis on nonrational, spontaneous processes, is the philosophical foundation for the private property order. The Cartesian school or “rationalists” view of individualism with its emphasis on design and man’s perfect or perfectible rationality is the philosophical basis for the bureau.

We will now look at the bureau models of Mises, Rourke, Downs, and Selznick to provide a bit of perspective and to qualify Weber's model somewhat.

Qualifying Weber's Bureau Model of Bureaucracy

We remember from Chapter 3 that Mises categorizes all human activity that does not take place in the market as "bureaucratic management." He says that "bureaucratic management is the method applied in the conduct of administrative affairs the result of which has no cash value on the market" (*Bureaucracy* 47). This is a broader definition of bureaucracy than that of Weber, who sees feudal, patrimonial, and plutocratic types of social order as being distinct from bureaucracy (225).

Mises is not arguing that bureaucratic activity has no value but "that it has no price on the market, that its value cannot be realized in a market transaction and consequently cannot be expressed in terms of money" (47). The absence of market prices in bureaucratic affairs, Mises says, is "the lack of standards which could, in an unquestionable, way, ascertain success or nonsuccess in the performance of an official's duties..." The lack of an indisputable standard in bureaus by which to judge performance implies considerable personal discretion on the part of subordinates in their compliance or noncompliance to the rules of their office.

Mises points out other difficulties of bureaucracy. He argues that bureaucracies also suffer from the lack of progress, from thwarted or distorted science, and from the inability to engage in economic calculation. He argues that the need to act according to rules eliminates the role of the entrepreneur, who is the risk-taker and innovator. By being reduced to following rules, entrepreneurs can no longer use their creativity to increase social well-being. "Progress is precisely that which the rules and regulations did not foresee; it is necessarily outside the field of bureaucratic activities" (*Bureaucracy* 67).

Progress is further stymied, argues Mises, because bureaucracy tends to shape science for its own purposes. In economics, for example,

governments encourage the specialists who limit their observations to a narrow field without bothering about the further consequences of a policy.

The labor economist deals only with the immediate results of pro-labor policies, the farm economist only with the rise of agricultural prices. They both view the problems only from the angle of those pressure groups which are immediately favored by the measure in question and disregard its ultimate social consequences. (85)

According to Mises, bureaucracies are antagonistic to an integrated body of economic theory based on the existence of economic law, because

to maintain the theory that there are such things as economic laws was deemed a kind of rebellion. For if there are economic laws, then governments cannot be regarded as omnipotent, as their policies could only succeed when adjusted to the operation of these laws. (*Bureaucracy* 83)

Mises argues that the inability of the bureau to engage in economic calculation, like the absence of an indisputable performance standard, is the result of the absence of market prices. The term “economic calculation,” according to Mises, means the ability to value resource inputs in a quantifiable way that reflects the values of consumers. As Mises puts it, economic calculation

enables us to extend to all goods of a higher order the judgment of value, which is bound up with and clearly evident in, the case of goods ready for consumption, or at best of production goods of the lowest order. It renders their value capable of computation and thereby gives us the primary basis for all economic operations with goods of a higher order. (*Economic Calculation* 16)

Mises argues that, due to the bureau’s inability to engage in economic calculation, no real-world society modeled after the bureau can actually exist. However, as we saw in Chapter 3, Mises argues that the private property order could actually exist even though it currently does not and never has. According to Mises’s view, then, the two models that we are using for this study, the private property order and the bureau, differ in the fundamental way that one could actually exist in reality and one could not.

Moving to the next model, Rourke’s bureaucracy model differs from Weber’s in its emphasis on the internal conflict of the bureau. Weber contends that “the absolute monarch is powerless opposite the superior knowledge of the bureaucratic expert—in a

certain sense more powerless than any other political head.” Weber points out that “the Russian czar of the old regime was seldom able to accomplish permanently anything that displeased his bureaucracy and hurt the power interests of the bureaucrats” (234).

In Weber’s view, then, the monarch, the supreme authority in our model, has limited power to control his bureaucratic structure. Rourke concedes that a bureau has interests that may diverge from the interests of its supreme authority, such as the maintenance of its own power and jurisdiction as an organization and the perquisites of its members. He also concedes that a bureau has some power to thwart the edicts of its supreme authority. For example, “no agency is likely to support a policy that it perceives as diminishing its own standing or effectiveness as an organization.” (2-3).

Rourke argues, however, that bureaucracies are not the monoliths that they appear to be. He says that there are four sources for internal disagreement: (1) There is usually a sharp difference in the role and attitude between those at the top, which are often political appointees, and career administrators beneath them; (2) there is a divergence of views between the professionals who do the work of the agency and the administrators who run it; (3) there is a divergence of views between outside advisory experts and full-time staff; (4) there is a divergence of views between people of different psychological orientation toward their work (126-127).

Because of these internal disagreements, Rourke argues in spite of Weber’s contention, political executives have considerable power over their bureaucracies. Following Amitai Etzioni, Rourke argues that there are “three kinds of power that organizations exercise over their members—coercive, remunerative, and normative. Coercive power is the threat or actual use of physical control; remunerative control is the use of material rewards as in incentives; and normative power rests on manipulation of ‘esteem, prestige, and ritualistic symbols’” (104).

Both Weber and Rourke see the supreme authority of a bureaucracy as being a political executive outside of the bureaucratic structure. Tailoring this idea to fit our model, the political executive becomes simply the supreme authority to which all other levels of the hierarchy report. For our purposes, the supreme authority must be inside the

model, i.e., he must be a part of the bureaucratic structure. This is necessary because we are modeling the whole of society as one bureaucratic structure where all problems are common. Therefore, no one in society can be left outside of the structure, not even the supreme authority. In our model, as in Rourke's, the supreme authority has considerable power over subordinates. This is true for the above reasons and because subordinates have no alternative social structures to fall back on should they fall into the disfavor of the supreme authority. That is, they cannot emigrate; they have nowhere else to go.

Rourke says that whatever degree of influence subordinates have on the decisions of a superior comes from their expert knowledge, which is the result of division of labor, and from experience. Division of labor results in expert knowledge as problems are broken down into manageable parts and people become experts in a narrow area. Also, "dealing day in and day out with the same tasks gives public agencies invaluable practical knowledge that comes from experience" (17).

Using their expertise, subordinates can influence their superiors' decisions regarding public policy in various ways. According to Rourke,

...bureaucratic expertise exercises influence over the development of public policy through three primary channels: (1) the ability of bureaucrats to gather information and to give advice that often shapes the decisions of political officials; (2) the capacity of bureaucratic organizations to carry on the tasks that must be performed once policy goals are decided upon—the power of implementation; and (3) as a critical dimension of this power to implement policies, the discretion with which bureaucracies are commonly vested as they carry on the work of government" (20).

Rourke argues that standard operating procedures, developed to curb the personal discretion of individual bureaucrats, "may also enormously increase the overall influence of bureaucratic organizations in the governmental process" (32). This influence comes, Rourke says, from the fact that bureaucracies are subject to the effects of inertia and momentum. On the one hand, inertia prevents politicians from executing something quickly since they must deal with a bureaucracy "at rest" so to speak. On the other hand,

a bureaucracy in motion has momentum which prevents decision-makers from reversing their decisions once the bureaucracy has begun its implementation (34-35).

Rourke argues that subordinates can also influence policy by their advice to policy-makers, and that this advice appears most influential when subordinates tell policy-makers what they want to hear. Using George Kennan's memoirs as confirmation, Rourke points out that Kennan appeared very influential in shaping foreign policy with his advice about the need and methods of containing Soviet power. This advice, Rourke says, generally matched the pre-existing views of government officials. "Later on, however, when Kennan attempted to restrain policy makers from putting undue emphasis upon military force in applying the principle of containment, his advice was largely ignored, and he found himself increasingly isolated from power." Rourke also points out that Henry Kissinger enjoyed a reputation for being an influential presidential advisor, but, he says, "it is a fair assumption that Nixon initially chose Kissinger for this position precisely because his views generally coincided with Nixon's own orientation toward foreign policy." "Hence," Rourke says, "the best way for a bureaucrat to acquire a reputation as the power behind the throne may be to confine himself to advice that fits in with the views of his political superiors, or to give advice only in areas in which he knows his superior has no very strong opinions" (21).

This suggests that not only do subordinates have an incentive to lie to superordinates, i.e., tell superordinates what they want to hear rather than what may be the truth, it suggests that in some situations superordinates may prefer this situation as well. In the context of American politics, Rourke explains:

The relationship between the president and his advisers at this level of administration involves reciprocal benefits: through their role as bureaucratic advisers, professionally trained economists and natural scientists obtain influence in the policy process that they would never otherwise enjoy. (23)

"At the same time, however, argues Rourke,

the president also derives tangible political benefits from his use of experts. The wisdom of his policy decisions is greatly enhanced in the eyes of the electorate

when it appears that these decisions rest on the best professional advice the White House has been able to obtain” (23).

Put in terms of our model, lower levels of bureaucracy may cooperate in a kind of ruse in order to influence the decision of a higher authority.

Before we move to another model, there is one more aspect of Rourke’s model that has implications for this study. Rourke says that

in the absence of market penalties for poor performance, public bureaucracies often seem to be most rewarded when they are not accomplishing their objectives and to be least rewarded, if not actually punished, when they are. A police department is much more likely to receive an increase in appropriation in a crime wave, much more likely to have its budget cut when the streets are comparatively serene. An internal study of the operation of New York City’s public hospitals showed that the lion’s share of appropriations went to hospitals that were doing the poorest job in terms of eighteen performance criteria. Under this skewed system, it can be argued that it pays a public agency to do poorly the task it is asked to undertake (183).

In terms of our model, this is the argument that the supreme authority in a bureaucracy is likely to put proportionally more resources at the disposal of ineffective departments, which sets up incentives for departments to become ineffective.

Moving now to another model of bureaucracy, Anthony Downs classifies an organization as a bureau if it has the following, what he calls, “primary” characteristics:

1. It is large; that is, the highest-ranking members know less than half of all the members personally.
2. A majority of its members are full-time workers who depend upon their employment in the organization for most of their incomes.
3. The initial hiring of personnel, their promotion within the organization, and their retention therein are at least theoretically based upon some type of assessment of the way in which they have performed or can be expected to perform their organizational roles, rather than upon either (a) ascribed characteristics (such as religion, race, or social class) or (b) periodic election by some outside constituency.
4. The major portion of its output is not directly or indirectly evaluated in any markets external to the organization by means of voluntary *quid pro quo* transactions. (2-3)

Downs rejects Weber's view that characteristics like hierarchical organization, extensive use of rules, impersonality of procedure, and the employment of specialists on a career basis are primary traits. Downs argues that these traits are the logical result of Down's own four primary traits above. Thus, Downs calls Weber's traits "secondary" traits. Also, Downs says, bureaus "contain forces which inhibit the full development of some of Weber's traits—especially impersonality of procedure" (7).

Downs holds that four conditions must be met before a person can be classified as a "bureaucrat." He defines a bureaucrat as any person who

- (1) works for a large organization;
- (2) receives a money income from that organization which constitutes a major part of his total income;
- (3) is hired, promoted, and retained primarily on the basis of his role performance;
- and (4) produces outputs which cannot be evaluated on a market. (3-4)

Downs argues that, according to these conditions, people working in market organizations like Sears, Roebuck, and Company are bureaucrats if their personal output cannot be evaluated on a market, even if the value of their inputs can be evaluated (4).

Downs's model focuses on bureaucrats or officials, as he calls them, as being utility maximizers. He says that "in practical terms, this implies that whenever the cost of attaining any given goal rises in terms of time, effort, or money, they seek to attain less of that goal, *ceteris paribus*; whereas whenever the cost of attaining a goal falls, they seek to attain more of it." Downs argues that officials have a complex set of goals including power, income, prestige, security, convenience, loyalty, pride in excellent work, and the desire to serve the public interest, as each conceives it. However, he adds, "different types of officials focus on smaller sets of these goals" (4).

Downs constructs a taxonomy of bureaucrats that he says have different sets of the above goals. He separates bureaucrats into the categories "climbers," "conservers," "zealots," "advocates," and "statesmen." According to this taxonomy, climbers and conservers are purely self-interested officials. Climbers, says Downs,

- seek to maximize their own power, income, and prestige. This can be done either by winning promotion to higher rank, increasing the status of

their existing positions through aggrandizement, or 'jumping' to new and better jobs elsewhere. (4)

Conservers, he says,

seek to maximize their own security and convenience. Since 'security' is defined as maintenance of one's present level of power, income, and prestige, conservers favor the status quo. They fear change because it might reduce their present prerogatives: hence they oppose innovations and change in general. (5)

According to Downs, the remaining three categories are mixed-motive officials, who value varying degrees of social welfare as well as their personal well-being. Zealots, he says, "are loyal to relatively narrow policies or concepts, such as the development of military airplanes by Billy Mitchell. They seek power both for its own sake and so they can effectuate the sacred policies to which they are loyal" (5). Advocates, Downs says,

are loyal to a broader set of policies or to a broader organization (such as naval warfare or Harvard University). They are impartial in judging the merits of various proposals within the organization to which they are loyal, but highly partisan in supporting that organization in conflicts with 'outsiders.' The breadth of advocacy can vary widely, from a small section of a bureau (such as the economics department of a university) to a very broad bureau (such as the entire Defense Department). (5)

Statesmen, as Downs sees them,

are loyal to the nation or society as a whole—hence they resemble the 'ideal' officials of public administration textbooks. However, like advocates and zealots, they seek power and prestige for personal as well as altruistic reasons, since they enjoy having an influence upon important policies. (5)

Bureaucrats of all classifications, says Downs, operate in an environment that has three characteristics:

1. Information is costly because it takes time, effort, and sometimes money to obtain data and comprehend their meaning.
2. Decision-makers have only limited capabilities regarding the amount of time they can spend making decisions, the number of issues they can consider simultaneously, and the amount of data they can absorb regarding any one problem.

3. **Although some uncertainty can be eliminated by acquiring information, an important degree of ineradicable uncertainty is usually involved in making decisions. (6)**

Downs argues that bureaus normally come into being because of the actions of zealots, and he says, bureaus have a life cycle, i.e., bureaus, like people, age. We are interested in the aging process of bureaus, because our bureau model must be that of a mature bureau, one that has reached a steady state capable, at least in theory, of continuing for the long term. Since we are modeling the whole of society as one bureau, mature bureau characteristics most nearly represent the steady state of our model.

Downs notes six effects of aging upon bureau behavior. First, with the passage of time, he says, “the bureau learns to perform its assigned functions more efficiently.” This creates additional capacity without the need for more resources. The surplus capacity is used to offer more services, acquire new functions, which adds to power and prestige, or to “add to organizational slack by making life easier for themselves” (19-20). In our model, then, we can assume that society has surplus resources that authorities can allocate with some discretion. This assumption is qualified below.

Second, says Downs, the bureau attempts to “organizationally remember” how to deal with situations by making new rules when new situations arise. This implies that our model, being a mature bureau, has a large body of rules and regulations. Third, “the goals of the bureau’s top officials tend to shift towards maintaining and expanding their organization *per se*, and away from achieving the original formal purposes of the bureau” (20). This occurs, Downs says, because large size and more regulations demands that more attention be devoted to administration. Also, officials develop an increased interest in maintaining the organization because they increasingly have more invested in it. This implies that in our model officials at various levels have acquired some goal flexibility and that they choose to focus on maintaining and expanding the formal structure under their control.

The fourth effect of aging on bureaus, according to Downs, is that “the relative importance of various types of officials in the bureau tends to change.” Zealots, he says,

tend to lose power because, being so narrowly focused, they are sufficiently biased that they can't settle internal disputes and are, therefore, bad administrators. "Conservers tend to gain added power and prestige because they are good administrators and because they are more flexible about changing the organization's goals." However, Downs says, "if the bureau faces a rapidly changing environment, its climbers and advocates tend to come to the fore, since they are far more innovation-oriented than conservers" (20). This implies that the supreme authority as well as lower level officials in our model resemble Downs's "conservers," as described above unless the model's bureaucracy is somehow threatened and must make rapid changes.

Downs's fifth effect of aging on bureaus holds that "the older—and larger—a bureau becomes, the more it becomes subject to inertia. The main cause of inertia in any large organization is the enormous 'sunk cost' represented by its established rules, habits, procedures, and inter-personal networks of commutation and authority" (20). Downs says that older organizations tend to reject new ways of doing something because the benefits of innovation seldom outweigh the benefits of the current arrangements plus the costs of altering them. "Since the latter costs may be very large indeed, any innovation must be exceedingly profitable before it is likely to be adopted." In economic terms, Downs is saying that as bureaus age, their marginal rate of substitution of innovation for current arrangements decreases. Taken in conjunction with effect three above, we find that "longevity causes bureaus to become *less* flexible regarding procedures as well as *more* flexible regarding goals" (21). Since our model is of a large and old bureau, we can infer that it is highly resistant to change.

Downs's sixth effect of aging on bureaus states that "the bureau's functions tend to expand in scope. If the relative importance of its initial social function rises and falls, it tends to reach out for new functions so as to maintain its power, income, and prestige. This process of attaining security through diversification gradually broadens the scope of its activities, though it may take decades for this tendency to reveal itself" (21). As this relates to our model, lower level officials may find that the relative importance of their bureaus may rise and fall in the estimation of their superiors. This presents a threat to the

bureau of possible elimination or restructuring. Officials therefore try to nip this threat in the bud by increasing the scope and function of their bureaus.

Before proceeding, I must point out an ironic implication of Downs argument. Downs argues that as a bureau ages it becomes more efficient and therefore has surplus resources, i.e., resources that were initially needed for the completion of the bureau's mission, but are no longer needed because officials have gotten better at their jobs. Rather than return these resources to the supreme authority for further allocation, the bureau officials retain them for personal benefits.

Extending this argument, the more efficiently officials execute their duties, the more resources will be left over for personal use. This, however, depends on the supreme authority not finding out about the surplus resources and removing them for further allocation. Therefore, when under the scrutiny of the supreme authority, officials must appear to need all of their allocated resources even though actually they do not. Thus, the unwritten rule becomes something like this: When the boss is watching, work inefficiently so he thinks that I need all of these resources; when the boss is not watching, work efficiently so that I can get done sooner and have free time. This suggests, contrary to accepted theory, that increased monitoring produces less efficient operation of the bureau rather than more.

Take, for example, the secretary who must complete ten reports per day. Her superior monitors her work in a general way only, i.e., by reading her ten daily reports. This secretary actually only needs six hours to complete these reports. The rest of the time she plays solitaire on her computer, uses the telephone for personal call, files her nails, leaves early and arrives late. In other words, she misappropriates or pilfers the resources of the bureau, for if her superior knew she had extra time he would assign more duties. On the unusual day that her supervisor is monitoring her more closely or "walking the floor" so to speak, the secretary must slow down and make sure that it takes eight hours to complete her reports so that she will not lose her free time on normal days. Thus more monitoring results in less efficient work.

However, no monitoring would likely result in all or most of the bureau's resources being used for personal use. So we finally arrive back with accepted theory in the conclusion that there is an optimal level of monitoring. In the above example, either more or less monitoring results in more cost to the bureau. More monitoring results in higher monitoring costs, and less monitoring results in more resources being pilfered. Therefore, at the optimal level of monitoring, there are leftover resources or surplus resources, and when they are used for personal benefits they become pilfered resources.

We now turn to Phillip Selznick's model of bureaucracy, which has four basic hypotheses:

1. Every organization creates an informal structure.
2. In every organization, the goals of the organization are modified (abandoned, deflected, or elaborated) by processes within it.
3. The process of modification is effected through the informal structure. ("Approach To A Theory Of Bureaucracy" 47)
4. The actual procedures of every organization tend to be molded by action toward those goals which provide operationally relevant solutions for the daily problems of the organization as such. ("Approach To A Theory Of Bureaucracy" 49)

Given these hypotheses, Selznick constructs what he believes to be four steps in the process of bureaucratization. These steps can be summarized as follows:

1. The primary action in a bureau is delegation, because cooperative effort is complex and requires more than one person can do. In other words bureaucratic action is "action through agents."
2. "The use of intermediaries creates a tendency toward a bifurcation of interests between the initiator of action and the agent employed." This is so because of the creation of two sets of problems. The initiator's problem is the goal which caused him to delegate, and the agent's problem concerns his social position as agent. This conflict manifests itself in a conflict between the course of the organization and the interests of the agent.

3. Both initiator and agent want to control the organizational mechanism in order to solve their problems. "In this struggle for control, an *informal structure* is created, based largely on relationships involving personal influences rather than formal rules."
4. "Because of the concentration of skill and control of the organizational mechanism in the hands of the intermediaries, it becomes possible for the problems of the officials as such to become those which operate *for the organization*. The action of officials tends to have an increasingly *internal relevance*, which may result in the deflection of the organization from its original path, which, however, usually remains as the formally professed aim of the organization" ("Approach To A Theory Of Bureaucracy" 51).

Selznick focuses on informal actions and processes that occur within the formal organizational structure. That is, on informal activities that are not part of the duties as specified by formal roles. In order to flesh-out the above skeleton, we must start at the beginning. Selznick sees delegation as the "primordial organizational act, a precarious venture which requires the continuous elaboration of formal mechanisms of coordination and control" ("Foundations Of The Theory Of Organization" 25). He calls the formal structure of delegation and control the "action system" of an organization. Selznick says that the action system or formal structure of organizations does not properly account for people's humanity.

From the standpoint of organization as a formal system, persons are viewed functionally, in respect to their *roles*, as participants in assigned segments of the cooperative system. But in fact individuals have a propensity to resist depersonalization, to spill over the boundaries of their segmentary roles to participate as *wholes*. ("Foundations Of The Theory Of Organization" 26)

Selznick argues that, contrary to conventional theory, "organization may be viewed from two standpoints which are analytically distinct but which are empirically united in a context of reciprocal consequences. On the one hand, any concrete organizational system is an *economy*; at the same time, it is an *adaptive social structure*" ("Foundations Of The Theory Of Organization" 25-26). The economy function is that of

dealing with resources and efficiency. This part, Selznick says, is the main focus of administration. The fact that an organization is also an adaptive social structure becomes evident, says Selznick, when authorities engage in activities aimed at persuasion and increasing the legitimacy of their authority. The fact that authorities engage in these activities implies that they cannot lead without the consent of their subordinates.

Therefore, winning consent and support is an important part of leadership.

“In short, it is recognized that control and consent cannot be divorced even within formally authoritarian structures...The indivisibility of control and consent makes it necessary to view formal organizations as *cooperative* systems...At the point of action, of executive decision, the economic aspect of organization provides inadequate tools for control over the concrete structure. (“Foundations Of The Theory Of Organization” 26)

Traditionally, individual assignments within a formal structure are assignments to roles rather than individuals. These assignments are made with the idea of fulfilling only the economic function of the role. This kind of assignment, however, ignores that

delegation necessarily involves concrete individuals who have interests and goals which do not always coincide with the goals of the formal system. As a consequence, individual personalities may offer resistance to the demands made upon them by the official conditions of delegation. (“Foundations” 27)

It occurs, then, according to Selznick’s theory, that people’s actions in the bureau differ somewhat from the duties of their official roles. These deviations are usually aimed at fulfilling those needs not provided for by the formal structure and may be in the form of resistance to the official goals of the organization. Eventually, he says, deviate action results in informal structures of control.

Selznick notes that Roethlisberger and Dickson observed in one study an informal structure of control that has three characteristics: “(a) it arises spontaneously; (b) the bases of the relationships are personal, involving factors of prestige, acceptance with the group, friendship ties, etc.; and (c) the relationships are power relationships oriented toward techniques of control” (“An Approach To A Theory Of Bureaucracy” 47).

Furthermore, says Selznick,

in large organizations, deviations from the formal system tend to become institutionalized, so that 'unwritten laws' and informal associations are established". "These institutionalized rules and modes of informal cooperation are normally attempts by participants in the formal organization to control the group relations which form the environment of organizational decisions" ("Foundations Of The Theory Of Organization" 27).

According to Selznick's theory, informal structures may either advance or hinder formal goal achievement. Informal structures may assist in the attainment of formal goals by giving authorities new tools with which to manage. However, those that hinder achievement of the formal goals of the organization force a modification of formal goals and leadership structure, and they become a part of the organization's goals and leadership. At this point, the cycle of deviation, the formation of new informal institutions, and transformation, the acceptance of informal institutions by the formal structure, can begin again on a new level ("Foundations Of The Theory Of Organization" 27).

Selznick calls this process of absorbing new elements into the leadership structure of an organization "cooptation." Sometimes, he says, cooptation is formal because it alters the formal structure of the organization. Other times, cooptation is informal, as when formal authority informally changes its behavior or policy due to outside pressure but does not make these changes part of the formal structure ("Foundations Of The Theory Of Organization" 34-35). It is through cooptation, Selznick says, that the organization expresses itself "organically", i.e., independent of the formal, authoritative structure, and in so doing becomes adaptive.

So, what does our model look like after summarizing and integrating the views of the previous writers? According to Weber, our model pre-supposes a money economy, and is a hierarchy of graded authority with fixed jurisdictional areas, where management is based on written documents, expert training, and general rules. Bureaucrats are full-time vocational employees who have a social status commensurate with their place in the

hierarchy, and the supreme authority in our model has limited power to control his bureaucratic structure.

According to Mises, our model, because of the absence of market prices, lacks an indisputable standard by which to judge performance, lacks incentives for progress, thwarts or distorts science to its own ends, and is incapable of economic calculation.

According to Rourke, bureaucrats in our model have some power to influence policy due to their expert knowledge and due to the inertia and momentum of the bureaucratic structure. However, bureaucrats do not act in common because they have conflicting interests. Therefore, super-ordinates have considerable power over subordinates. Subordinates in our model have incentive to tell superordinates what they want to hear rather than the truth, and superordinates have incentive to prefer this situation as well..

According to Downs, bureaucrats in our model are utility maximizers and can be classified as “climbers,” “conservers,” “zealots,” “advocates,” and “statesmen.” These bureaucrats have limited decision-making capabilities and operate in an environment of costly information and uncertainty. Because our model is an old and established bureaucracy, it has surplus resources that can be pilfered by local officials and a large body of rules and regulations that makes it highly resistant to change. Also because our model is old, authorities, including the supreme authority, resemble Downs’s “conserver,” who seeks to maximize his own security and convenience, and who opposes innovations and change and favors the status quo. Authorities increase their security by focusing on increasing the scope and function of their bureaus. At the same time, rank-and-file members have become entrenched and resist efforts to alter their behavior. Hence, there is a gap “between the aspirations of the bureau’s leaders and the actual performance of its rank and file members” (21).

According to Selznick, our model is both an economy and an adaptive social structure. The economy part is the main concern of authorities working through the formal structure to fulfill the purpose of the bureau. The adaptive social structure forms as officials, engaging in activities outside their official roles, work through informal

channels to modify the decisions of authorities in order to provide for personal needs that the formal structure does not allow for. Through the process of cooptation, the adaptive social structure is able to cause our bureau model to absorb new elements into its formal structure. Authorities in our model understand that control and consent cannot be divorced and, therefore, see winning the consent and support of their subordinates as an important part of leadership.

Protection Strategy Effectiveness in the Bureau

We are now ready to begin the analysis. In this section, I compare the necessary requirements for the successful application of protection-from-lying strategies to the institutional constraints of the bureau model. This analysis looks at lying from the point of view of Informee in the information relationship. We are seeking an answer to the question, "How effectively can Informee protect himself from lying in the bureau?"

As in the last chapter, I preface the first analysis by reviewing the protection strategies. First, hostage-taking refers to the practice of holding some part of the promisor's wealth in escrow until the truster has the opportunity to decide if he has been lied to. Second, incrementalizing is the strategy of trying a little bit of something before committing to a lot of it. Third, seeking pointed knowledge is the strategy of developing an information path by asking a series of questions of different people. Fourth, signaling is the strategy of differentiating oneself from liars by investing in costly signals. Fifth, reputation is the strategy of basing one's personal exposure to another person's decisions on what one knows first-hand or from the "grapevine" about his honesty in past dealings. Sixth, community is the strategy of choosing isolation and interdependence with other people in order to increase one's ability to monitor the behavior of those with whom one deals. Seventh, ideology is the strategy of recruiting others into a community of values in which all perpetually reaffirm each other's belief in these values, thereby making everyone's actions and decisions more predictable. People also, strategize by evaluating other's commitment to moral values before dealing with them.

The Simple Strategies

Beginning the analysis, the necessary requirement for hostage-taking is the opportunity to hold part of the promisor's wealth in escrow until his honesty is assured. Within the formal structure of the bureau, a superior cannot require a hostage of his subordinates unless he is authorized to do so. Even if he were so authorized, what hostage could he demand? He could not demand part of their personal wealth, because, as Weber said above, in a bureau, personal wealth and bureau wealth are completely separate. Certainly, subordinates cannot be authorized to require a hostage of their superiors, for this would re-order the authority structure, giving subordinates power over their superiors. Officials (I use this term interchangeably with the term "bureaucrat") of equal rank cannot be authorized to require a hostage of each other, for then they would no longer be of equal status. Therefore, hostage-taking is completely frustrated in the formal structure of the bureau.

Now the question becomes, could hostage-taking occur within the informal structures of the bureau? There are surplus resources in our model of the bureau, and officials can engage in various ploys to pilfer them for personal use. This means that officials at all levels have some resources that could be informally offered as hostages. For example, official A could offer as a hostage to official B the keeping of ten boxes of surplus copier paper as an assurance to B that A will complete a task by the promised deadline. However, even though official B may request such a hostage, official A has no incentive to comply, for he has nothing to gain. If official A is superior to official B, then A is under no obligation to comply with B's deadline and would relinquish part of his authority by doing so. If B is superior to A or if A and B are of equal rank, then A can refuse B's request for a hostage on the grounds that such a transfer is not authorized by the formal structure. Thus, the strategy of hostage-taking is stymied at the informal level as well as the formal level.

The next strategy, incrementalizing, requires that officials have the opportunity to make marginal decisions and to engage in actions that result in preferred changes to their current situations, changes that are either large or small depending on one's desired level

of risk exposure. In other words, officials must have the opportunity to engage in marginal decision making in regard to the execution of the official duties of their offices. However, this is completely contrary to the nature of rules and to the decrees of authorities. If the official regulations says that a bureau will receive sixteen tons of steel and that it will be transformed into six tractors using a specific method, then not only marginal decision making but all decision making is precluded. Officials are not free to satisfy their preferences nor to choose their risks. The exception to this, of course, is the supreme authority who issued the order for sixteen tons of steel, six tractors, and a specific method of production. Being the supreme authority, he could have ordered the amounts and the method to be otherwise.

Relaxing our bureau model to include informal structures, we find that incrementalizing can take place in regard to pilfered resources. Pilfered resources are outside of the purview of the formal structure and, hence, are not allocated by rules but by the discretion of local officials. However, the incrementalization of pilfered resources is, in the first place, subject to the initial choices of the supreme authority. If there is a surplus tractor, it is because the supreme authority chose tractors over alternative possibilities, such as sports cars or airplanes. Thus, what incrementalizing is possible even in the informal structure of a bureau is constrained by the preferences of the supreme authority.

In the second place, incrementalization of pilfered resources is frustrated by the inability of officials to evaluate them. To clarify this, recall from Chapter 2 that goods have inherent qualities that determine the ease of evaluating them. These qualities range from search qualities, which are immediately apparent, to experience qualities, which require using the product to evaluate them, to credence qualities, which are difficult for laymen to evaluate. To minimize their risk, people prefer the greatest amount of incrementalization in regard to goods with credence qualities.

In the bureau, from the point of view of each official, most pilfered resources have credence qualities. This is true for two reasons. First, officials have only specialized knowledge, which prevents them from evaluating the above tractor, for example, in its

totality. Second, there are no alternative tractors for comparison. All surplus tractors in the model are the same, having been designated so, for the sake of efficiency, by the supreme authority. This further restricts officials' ability to evaluate tractors. Thus, a high preference for incrementalization within the informal structure of a bureau is frustrated by officials' inability to evaluate the pilfered resources. We find, then, that the strategy of incrementalizing is completely frustrated in the formal structure of the bureau, with the exception of the supreme authority, and highly so in its informal structure.

We next look at seeking pointed knowledge, which is the strategy of developing an information path by asking a series of questions of different people. This requires that officials have the freedom to choose their problems and to associate with a chosen set of other officials that can provide the solutions. This strategy hardly needs discussion, especially for anyone who has spent time in the military, since it is obviously precluded by the authority structure and the parallel status structure of the bureau. In discussing the bureau, I often refer to the U. S. Army as an example, because it is an excellent example of the bureau, and because I have personal experience with it. Weber also used the Prussian army as an example of his model for the same reasons.

Using the military example, privates do not have the freedom to choose their problems nor the choice of how to solve them. Nor can they freely associate with sergeants or officers. Privates focus on problems chosen by officers, who issue orders to sergeants, who re-issue orders to privates. Privates then comply with these orders according to rules called "standard operating procedures." This same relationship exist at all authority levels. For example lower grade officers do not chose their problems but are assigned them by higher grade officers.

All military personnel are restricted by the formal chain of command to associating with others of their same rank. Privates do not associate with sergeants, nor do sergeants associate with officers. This is true in both formal and informal structures and even during off-duty hours. Weber's contention that social status follows rank is certainly true in the military. Officers' clubs and noncommissioned officers' (NCO) clubs reinforce status association even during off-duty hours. We can conclude that from

the point of view of each soldier, the strategy of seeking pointed knowledge is completely frustrated in both the formal and informal structures of the military.

In nonmilitary bureaus, chains of command may not be as strictly enforced as described above. In public universities, for example, associate professors can make appointments with the university president if they like. However, even in these less formal bureaus, chains of command still exists, and all staff members know where they fit in the authority hierarchy. Chains of command in informal bureaus are, for the most part, adhered to, either out of courtesy, respect, or practical necessity. Professors who ignore the chain of command run the risk of being seen by administrators and fellow professors as noncooperative and, hence, of being excluded from the “inner circle” so to speak. It is also true that professors have limited authority to choose their own problems. Therefore, even in less formal bureaus, the seeking-pointed-knowledge strategy is largely frustrated.

The next strategy, signaling, is the act of differentiating oneself from liars by investing in costly signals. Signaling is possible in the bureau, because officials can invest in costly signals in the form of expert training and examinations. According to Weber above, a prescribed course of training is part of the full-time duties of the office itself, and officials are advanced after completing special examinations. Those officials who possess certificates of course completion can use them to signal their eligibility to move to higher levels of authority.

Even though signaling is possible in the bureau, it is constrained by the supreme authority. Officials cannot choose from all possible signals that may be beneficial for differentiating themselves from liars. Instead, officials must choose their signals from a set of signals previously chosen by the supreme authority, i.e., they must choose from the expert training courses, the contents of which are approved and prescribed by the supreme authority. Signaling under these conditions does not so much differentiate oneself from liars as signal ones willingness to comport oneself according to the preferences of the supreme authority. Officials who possess certificates of course completion or who occupy high positions in the hierarchy are signaling to the supreme authority their

discipleship, and to fellow officials they are signaling their status or relationship to the supreme authority.

Officials can also signal their efficiency in the execution of their duties by the amounts of surplus resources that their office returns to the issuing authority. The more efficient officials do not need all of the resources assigned to them. However, this kind of signaling is not likely to take place, because, as Rourke pointed out above, authorities tend to remove resources from efficient departments and give them to inefficient departments. Any department signaling its efficiency risks being punished with fewer resources in the future. Also, returning surplus resources to the supreme authority is to relinquish the opportunity to pilfer them for personal use.

Summarizing the above strategies before moving to reputation, hostage-taking is defeated at both the formal and informal levels in the bureau. Incrementalizing is completely thwarted in the formal structure of the bureau, except for the supreme authority, and it is highly constrained in the informal structure. Seeking pointed knowledge is completely frustrated in both the formal and informal structures of the bureau, with the exception of the supreme authority. Signaling is possible and is advanced by the formal structure of the bureau; however, instead of being used to differentiate oneself from liars, it is used to signal one's relationship to the supreme authority, that is, one's status.

Reputation

Reputation's necessary requirements are repeated dealings, freely chosen partners, the opportunity to select the "don't play" option, moral seals of approval, informal groups, extended dealings, a relatively high value of the future, and the opportunity for tit-for-tat reciprocity. Repeated dealings means frequently interacting with the same people. Freely chosen partners means the opportunity to select the "don't play" option if one finds one's dealing partner unsatisfactory. Moral seals of approval are granted to members of formal groups that have standards for admission. Informal groups are groups that we can choose to join that have no formal standards of admission. Extended dealings recognizes that people discuss their satisfaction or dissatisfaction

concerning goods and services with others. Valuing the future means valuing future dealings. Tit-for-tat reciprocity is the opportunity to treat others as they treat you.

Looking now at each one of these requirements separately, officials in the bureau have frequent dealings but only in the short term. The time-span for frequent dealings is measured by the length of training courses and examination schedules, after which officials are reassigned to new positions. More importantly, however, repeated dealings do not influence the behavior of officials in the bureau, because all interaction occurs in the course of the execution of formal duties, which are prescribed by rules. Since officials are replaceable cogs in the bureaucratic machine, they cannot offer unique benefits to each other. Therefore, interaction with a specific official is not valued above that of any other that may fill the same office.

Freely chosen partners is also defeated, because in the bureau, partners are not chosen at all but assigned by higher authority. Assigned partners also precludes the “don’t play” option, thereby defeating another necessary condition of reputation. There may be a small amount of discretion regarding one’s partners, such as the right to request a transfer to a duty station where one has a friend or away from a duty station where one has an enemy, but even this depends on the decisions of the authorities.

Moving to the next requirement for reputation, the bureau grants moral seals of approval, as well as a special status, at each level of authority. However, these moral seals of approval in the bureau are constrained by the preferences of the supreme authority. Training courses, prescribed and approved by the supreme authority, act as the standards for admission to the formal group, i.e., the next level of authority, and examinations determine who has met the standards. There are no alternative moral codes in the bureau that officials can use for comparison. Being met in this manner and under these conditions, this requirement is met only weakly.

Informal groups, the next requirement for reputation, are precluded in the bureau since all human relations are ordered by formal rules. However, relaxing the model to include informal structures, informal groups may form with the use of pilfered resources. Downs stated above that one of the discretionary uses of what he calls “surplus resources”

is to make life easier for everyone in the bureau. Pilfered resources, in the form of time away from official duties could be used to participate in informal groups.

Extended dealings, as a requirement for reputation, is the phenomenon of people discussing their likes and dislikes with others. This cannot occur in the formal structure of the bureau, because all interactions are fully prescribed by rules. Assuming informal structures in the bureau, officials may engage in extended dealings by pilfering time away from official duties. In other words, this necessary requirement for reputation, as well as informal groups above, can only be met in the bureau if officials are willing to lie to their superiors.

The next requirement for reputation, valuing the future, can best be evaluated in the bureau by rating it relative to valuing the future in the private property order. We saw in Chapter 3, that people in the private property order value the future primarily because their property rights, including right to their bodies, are secure, that is, they are inviolable; they cannot be confiscated, trespassed, or regulated. Secure property rights prevent both private aggression and state aggression and, thereby, allow long term planning with minimal risk. In contrast, property rights in the bureau are not secure. They are only what the supreme authority says they are, and he may reorder them at will. Property may be confiscated, trespassed, and regulated. This situation makes long-term planning by subordinates a high-risk venture. Time and resources committed to future projects may be lost completely if the supreme authority alters the property rights structures in the interim. Since the supreme authority is not confined to a specific role, he can maximize his utility by ordering property rights in a way that serves his preferences at the expense of individual members of society.

Consequently, individuals have little control over their future in the bureau. As Weber puts it, the official in the bureau “is only a single cog in an ever-moving mechanism which prescribes to him an essentially fixed route of march” (228). Hayek expresses the same sentiment in saying that “individuals have become interchangeable units with no other definite or durable relations to one another than those determined by the all-comprehensive organization” (Individualism: True and False 27). People do not

have the freedom to make incremental choices concerning their future welfare; they can only do as they are instructed by authority. Nor do they have the freedom to enter beneficial associations with others; they associate with those that duty dictates.

We move now to the final necessary requirement for reputation, tit-for-tat reciprocity, which is the opportunity to treat others as they treat you. Reciprocity has no meaning in the formal structure of the bureau. The whole idea of exchange as *quid pro quo* is precluded by formal rules that specify who does what with what, when, and to whom. Reciprocity takes on meaning only in the informal structure of the bureau. Here, officials can use pilfered resources to do favors for those that they believe will reciprocate in the future. As above, however, this requirement being met in the informal structure of the bureau depends on official's willingness to lie to superiors.

Before moving to the next protection strategy, community, I first summarize what has been said about reputation in the bureau: Repeated dealings are restricted to the short term and are of no value to the dealing partners; freely chosen partners and the "don't play" option are defeated in the bureau; moral seals of approval is met but only weakly, since all moral seals reflect only the supreme authority's preferences; informal groups and extended dealings are both precluded by the formal structure of the bureau, but they are possible in the informal structure if officials lie to their superiors; people in the bureau value the future relatively lower than people in the private property order due to insecure property rights; reciprocity is possible only in the informal structure of the bureau, and there it depends on official's willingness to lie to superiors.

The necessary requirements for reputation fare badly in the bureau. For the most part, they are precluded by the bureau's formal structure. Even when they are met in the bureau's informal structures, they are dependent on the presence of pilfered resources and official's willingness to lie to superiors. Since lying as a long term strategy is not likely to be successful, I cannot justify counting as "met" any requirement that depends on lying. I, therefore, conclude that of reputation's eight requirements, only one, moral seals of approval, is weakly met and that reputation is not able to function as a protection-from-lying strategy in the bureau.

Community

As I have stated before, community is a protection-from-lying strategy in the sense that we choose to participate in it. A preference for a more trusting environment may lead us to choose isolation, intense interaction, and interdependence with a group of people so as to develop a history with them that we can refer to in future episodes of risk exposure with them. This choice amounts to a strategy since we are aware that in the process of satisfying our preferences for risk tolerance we are finessing a shared fate with people, which causes everyone to be more concerned about each others well being.

Before starting the analysis of this section, I review our working definitions of community and society and the requirements for community that I use for analysis. The definitions are derived from the works of Hawley, Parsons and Shils's, Tonnies, Durkheim, Hillary, and Pahl as discussed in Chapter 2. Communities are dynamic social networks that are organically formed, that exist in varying intensities, and that influence people's behavior. Society is a social network that contains many communities, that is based on the division of labor, and that is integrated by the state. This definition of society is not inclusive in that it does not describe pre-state societies; however, state societies are our primary focus here.

For reasons given in Chapter 2, I use Merry's requirements for gossip to analyze community in the bureau. They are: isolation, economic interdependence, consensus and sanction, and similar values. Furthermore, since I concluded in Chapter 2 that community exist in different degrees of intensity, I use Ferdinand Tonnies's notions of *Gemeinschaft* of blood, locality, and mind—with their corresponding requirements: kinship relations, collective ownership of land, and common sacred places and worshipped deities—as a measure of what degree of community can exist in the private property order.

As we saw in Chapter 3, society in the private property order takes the form of a spontaneous order. In the bureau, society takes the form of an organization, because it has purpose, design, and a central authority who commands people to conform to plan. In this analysis, we are asking if community, which is of spontaneous origin, can exist in a

planned society. By definition, this cannot occur in the formal structure of the bureau where all activity and human relations are planned. If the supreme authority were to allow spontaneous organizations he must relinquish control over the design and execution of policy. The analytical question that is pertinent here is whether community can occur within the informal structure of the bureau and if so to what degree. To show this, it is necessary to apply community requirements to both the formal and informal structure of the bureau, for the sake of comparison, even though community is precluded in the formal structure.

Beginning with isolation as a requirement for community, as we saw in Chapter 3, social isolation can be achieved by geographical separation, physical obstacles, passwords, transactions costs, language, education, culture, and acquired skills, such as literacy or skills associated with the various divisions of labor. The formal structure of the bureau does not allow those kinds of isolation that are most important for community, i.e., isolation by language, education, and culture. For the sake of efficiency and control, the supreme authority can not allow multiple languages, nor can he allow parents to choose unique education for their children. As future interchangeable cogs in the bureaucratic machine, children must speak the same language and undergo the same basic education. In the long term, which is the temporal condition of our mature model, the same language and the same education lead to a common culture. These conditions are non-negotiable in the informal structure, because allowing people to isolate themselves according to language, education, and culture would result in loss of control of the bureau.

The next requirement for community, economic interdependence, is not met in the formal structure of the bureau, because officials are not dependent upon each other for their economic well-being. According to Weber, officials are paid a full-time wage, allocated according to formal rules as set by the supreme authority. Fellow officials need not even have a sense that they need to cooperate to ensure the success of their bureau. The reason being, as Rourke, suggests, that poorly performing bureaus receive more resources rather than less. In the informal structure of the bureau, economic

interdependence occurs because of pilfered resources. Officials can give and receive pilfered resources as payment for informal debts. Informal economic interdependence must be covert so as not to draw the attention of the supreme authority.

Turning to the next requirement for community, consensus and sanction is met in the formal structure of the bureau but in appearance only. Consensus has a different meaning in the formal structure of the bureau than in the private property order, where it means agreeing by mutual consent. In the bureau there is no consent or nonconsent. There is only compliance. Officials are not free to agree or disagree about anything. They are bound by the rules of the supreme authority. The supreme authority structures his preferences into rules that set standards of behavior for everyone. All officials must appear to accept the supreme authority's preferences to avoid being sanctioned. Sanction is thus separated from consensus and becomes personal vindictiveness on the part of the supreme authority rather than a community response.

In the informal structure of the bureau, the consensus and sanction requirement for community is met, but can lead to a community of liars that sanction each other for truth-telling. In general this can occur because, as Mises argued above, the bureau lacks an indisputable standard by which to judge performance. Without market prices, the supreme authority cannot engage in profit management, i.e., he cannot command officials to make a profit and then use the profit and loss statement to see if they complied. The lack of a definitive standard by which to judge performance gives officials considerable leeway in their compliance to official rules.

Looking more specifically at how a community of liars is formed, lacking the opportunity for profit management, commands from the supreme authority must take the form: Do such-and-such x number of times or to $x\%$. For example, military orders might read: Train each of your troops to hit the bulls-eye eight out of ten times; Train 100% your troops to drive a two-ton truck. However, verification of the implementation of such orders can be difficult. For example, when I went through basic military training during the Viet Nam era, it was common practice on the rifle range to "doctor" the targets so that each trainee qualified. Evidence of marksmanship, of course is what higher authorities

wanted to see. As it worked, trainees qualified in pairs: One fired while the other one scored. If firers did not put enough holes in their paper target to qualify, scorers often added a few with their pencils. Targets were signed and presented upward to sergeants, who passed them up to officers, who presented them to commanders, who used them as documentation that their entire companies qualified.

In the introduction of Altheide and Johnson's *Bureaucratic Propaganda*, Sociologist Joseph Gusfield relates a similar experience as a young man in the U. S. Army:

When I was nineteen and in the U. S. Army, my division began a campaign to teach all men to drive an army two-ton truck. I told the officer in charge that I didn't even know how to drive a car. It was no use. I was ordered into the cab of a truck and given the wheel. Promptly I drove the truck into a ditch. After this display of ignorance or stubbornness, I was dismissed from the training session. My unit, and the entire division, reported that 100 percent of the men were now trained in driving a two-ton truck. Two years later, at another post, I was ordered to assume duties as an auxiliary truck driver. After all, my service record attested to the 'fact' that I had been so trained. (xi)

In a similar fashion, physical training tests are commonly "finessed" so that all or most, especially key personnel, pass them. These examples illustrate, as Gusfield puts it, "the discrepant worlds of 'official facts' and 'realities'" (Altheide and Johnson's *Bureaucratic Propaganda* xi). This is what Altheide and Johnson mean by the term "bureaucratic propaganda," i.e., official organizational records that are deliberately constructed with an eye to reflecting a beneficial reality to outsiders who hold power over the organization.

Bureaucratic propaganda might be thought of as the institutionalized form of subordinates telling their superiors what their superiors want to hear, and of superiors pretending it does not happen since they also benefit. In Gusfield's example, trainees, training sergeants, and company commanders, all tell their superiors what they want to hear and all accumulate promotion points for doing so. This deception continues up to the supreme authority who has no unequivocal standard by which to verify anyone's compliance.

This process of falsifying official records is so prominent in the U. S. Navy that it has acquired the unofficial title of “gundecking.” One junior officer described gundecking as follows:

Well, gundecking , is, ah, the job that you know, but that you don’t actually go ahead and perform the job, you just go ahead and write the results down without performing the job. (qtd. in Altheide and Johnson 184)

As to its prevalence,

I’d say that before PMS [planned maintenance system] began only the officers and most of the leading Petty Officers knew about it, that, well, anyone who had to do a lot of paperwork as part of his job, or who had to handle a lot of chits on an everyday basis. Since PMS I think probably everyone in the navy knows what gundecking is, even to the lowest Seaman Deuce; that is, anybody who’s been out of boot camp for more than a week. (qtd in Altheide and Johnson 186)

This informal charade is the result of military officials at various levels having reached an informal consensus to engage in deception. What is more, the consensus is backed by informal sanctions. According to Selznick, officials use sarcasm, ridicule, and the formation of cliques as a means of exercising control over members of informal groups and thereby eliciting a consensus on informal matters (“Approach To A Theory Of Bureaucracy” 47). In the military, more direct means are often used, such as the unofficial “blanket party.” In Gusfield’s example or the marksmanship or physical training examples above, troops who complain about “doctored” records are shunned and labeled as troublemakers. They encounter a lack of cooperation from fellow troops and their promotability suffers. Thus is formed a community of liars backed by sanctions for those who tell the truth.

The next requirement for community, “similar values,” is similarly split between official policy and actual practice. Officially, everyone has the same values because the supreme authority rules it so. The supreme authority decides what values everyone should hold according to his own preferences. These values become a part of the official

regulations, and everyone is required to act accordingly; they become part of the expert training courses, and they are reinforced at each level with drill and ceremony.

However, each of our above writers shows that values differ among officials in actual practice. Weber pointed out above that officials gain a social status commensurate with their place in the hierarchy, and different statuses are often marked by different values. Mises's indisputable-standard argument points out that officials act according to different values when given the opportunity. Rourke's argument that subordinates tell superiors what they want to hear indicates a difference in values between them.

Rourke also argued above that there are four sources for internal disagreement for bureaucrats. I repeat them here: (1) There is usually a sharp difference in the role and attitude between those at the top, which are often political appointees, and career administrators beneath them; (2) there is a divergence of views between the professionals who do the work of the agency and the administrators who run it; (3) there is a divergence of views between outside advisory experts and full-time staff; (4) there is a divergence of views between people of different psychological orientation toward their work (126-127).

In the first case, Rourke says that "very often, their internal and external responsibilities pull executives in opposite directions. Decisions they make to maintain harmony with the outside world may alienate the organization's employees" (115). In our context, the outside world are all echelons in the hierarchy above or below one's immediate concern. Therefore, there are differences in value between administrators, who must maintain harmony with their superiors, and subordinates, who are alienated by what they consider to be adverse rulings.

In the second case, professional employees such as research scientists participate in the organization because it gives them the opportunity to practice their profession. Their views are mostly formed by their profession. Hence, their main loyalty lies with their profession and not the organization (Rourke 132). Administrators do the housekeeping functions, like managing funds and ensuring efficient use of resources. Their views are shaped by the organization. "In a dichotomy of this sort, professionals

care about effectiveness of policy—achievement of objectives no matter what the cost...Moreover, the inability of professionals to take costs into adequate account in pursuing policy goals, or to follow lines of authority and orderly procedure, is often a source of confusion and conflict within organizations” (Rourke 134).

In the third case, sometimes a department head may bring in outsiders for various reasons. This happens in the military, for example, when a person of lower rank but superior or special knowledge is put in charge of personnel with greater rank. Rourke says that bringing in outsiders can hurt the moral of the career employees who feel left out or mistrusted. “In the long run lateral entrance can thus make it substantially more difficult to attract imaginative and capable personnel to permanent positions within the agency and in this way may actually reinforce mediocrity in the career staff” (140).

In Rourke’s last case, people in the same bureau may differ, because of different psychological orientation toward their work, on the importance of the bureau’s mission, on the necessary degree of structural control over them, and on work ethics.

Downs’s taxonomy of bureaucrats is a further argument that there are differing values within the bureau, because his “climbers,” “conservers,” “zealots,” “advocates,” and “statesmen” all have different goals. Also, Selznick’s contention that organizations are adaptive social structures containing informal structures that work to modify the formal structure in order to provide for unmet needs implies a divergence of values between those in charge of the formal structure and those who are not.

Briefly summarizing the requirements for community, community is precluded by definition in the formal structure of the bureau. In the informal structure of the bureau, two requirements are not met, one is met covertly, and one is met but leads to lying. The isolation requirements that are most important for community—language, education, and culture—are not allowed, because doing so would result in loss of control of the bureau. The economic interdependence requirement is met through pilfered resources but must be covert. The consensus and sanction requirements for community are met, but they lead to a community of liars that sanction each other for truth-telling. The similar-values requirement for community is not met due to internal conflicts in the bureau.

In light of the above conclusion that community essentially does not exist in the bureau, it may seem like an unnecessary exercise to evaluate its degree or intensity. However, such an analysis can give us some idea as to the extent of the covert activities stemming from the existence of pilfered resources. It can also help us gauge the extent of the community of liars, which we saw results from informal consent and sanction in conjunction with the absence of an indisputable standard for judging performance.

Therefore, I next evaluate the degree of community allowed in the bureau by evaluating the opportunities for *Gemeinschaft* of blood, *Gemeinschaft* of locality, and *Gemeinschaft* of mind, with their corresponding requirements: kinship relations, collective ownership of land, and common sacred places and worshipped deities.

At the most basic level, Tonnies's *Gemeinschaft* of blood refers to the family and those conditions that exist among relatives living under one roof (42-43). This degree of community is not allowed in the bureau. Members of a family cannot decide to extend their family relations into the bureau, working together under the same roof. Placement in the bureau depends on having completed expert training and on the preferences of the supreme authority. Authorities at all levels discourage family members in the same bureau because of split loyalties; brothers are more likely to be loyal to each other than to their supervisors.

Supposing, however, that family relations were not prevented by official rules and were not discouraged by authorities, family relations still cannot exist within the bureau. The bureau is antagonistic to family social structure, because it tends to reverse its power structure. Status in the family is based on age, gender and family relationship, whereas status in the bureau is based on one's position in the hierarchy and ignores family social structure altogether. Combining family and the bureau may result in a son or daughter with a higher status than the father. Of course this same result can occur in the private property order; for example, a father may work for his son. However, there such a relationship occurs voluntarily rather than by directive.

Suppose further that a family was assigned to work together in a bureau, and that they were assigned their positions so as to retain the family social structure. Say, for

example, that the father is the head administrator, the mother is next in line, and the children receive authority according to their ages or their sex. According to Weber and Rourke, the subordinate children have power over the father because of their expert knowledge, and according to Selznick, the subordinate children can form informal structures to usurp the power of the father. Also, according to Rourke, the family relations in our model are torn apart because of conflicting interests inherent in bureaus, and they are likely to self-select into different categories in Downs's taxonomy of bureaucrats, causing further conflict of interests. Therefore, extending family relations into the bureau results in the breakdown of family relations.

Moving to *Gemeinschaft* of location, we find that its "collective ownership of land" requirement is met in the bureau. Although resources in the bureau are not collectively owned in the sense that everyone is free to use them, selected resources are allocated by the supreme authority to be used by certain people in common. For example the roof and the walls that comprise the tractor factory are to be used by all employees of the factory for the accomplishment of official purposes. So too is the land upon which the factory sits. In a similar manner, other resources are allocated for common usage to other groups. This is simply a practical matter for the supreme authority who realizes that in some instances common usage of resources is required to meet his needs.

In the informal structure, some resources not intended by the supreme authority to be used in common take on a common property usage and further help meet Tonnie's requirement. This occurs because people refuse to be automatons. As Selznick made clear earlier in this chapter, people resist being depersonalized and tend to participate as wholes. Officials require some discretion as to the conduct, care, and maintenance of their bodies and minds, such as hygiene, health, and social needs. They also require some discretion to complete their official duties, such as where to stand, sit, or walk, how many minutes to discuss an official task, what words to use, whether to loan one's stapler, etc. Because of such needs that the formal structure does not provide for, bureau members work through informal structures to modify the bureau structure so that it will allow for them. Through this process of "cooptation," as Selznick calls it above, the supreme

authority, realizing that control and consent cannot be divorced, allows some common usage of property for personal and official purposes when he believes that it will win the consent and support of his subordinates.

Moving to Tonnies's third type of community, *Gemeinschaft* of mind and its requirement of "common sacred places and worshipped deities," we find that this requirement has both a sacred and a secular context and that both contexts are met in the bureau. The sacred context, of course, is that of churches or other sanctified places, sacred icons, and the worshipping of a supreme being. The secular context is that of parade grounds, war memorials, public coliseums and other state-aggrandizing areas and structures in which legitimation activities take place. Legitimation activities are official celebrations of social institutions. In the real world, we all participate in legitimation activities, such as Fourth-of-July parades and Memorial Day observances. At such events, the American flag fills the role of a sacred icon, and the Pledge of Allegiance is a reaffirmation of one's beliefs.

People in our model, like people of diverse cultures throughout history, have spiritual needs, and they desire to engage in worship and other religious activities. Given this assumption, that spirituality is a part of the human condition, the supreme authority in our model, faces a dilemma. On the one hand, if he officially allows religious worship, then he is ruling that there is a supreme being with authority greater than himself. This is tantamount to ruling that he is not the supreme authority. On the other hand, if he does not allow religious worship, he risks losing the consent and, hence, control of his subordinates. A list of his choices are as follows:

1. Officially allowing religious worship and thereby creating a source of authority greater than himself.
2. Officially allowing religious worship and ruling that he is the earthly manifestation of the supreme being, thereby retaining his supreme authority status and the consent and control of his subordinates.

3. Unofficially allowing religious worship, i.e., looking the other way, thereby retaining official status as supreme authority and official consent and control of his subordinates.
4. Officially disallowing religious worship, thereby retaining supreme authority status but risking the loss of consent and control of his subordinates.

Which choice does the supreme authority make? The supreme authority in our model is a utility maximizing conserver, who seeks to maximize his own security and convenience by focusing on increasing the scope and function of his bureau. He also opposes innovations and change and favors the status quo. He would not choose number one because this choice threatens his security and convenience, reduces the scope and function of his bureau, and is a change from the status quo. Nor would he choose number four, because, even though it represents an attempt to retain the status quo, this choice requires risk taking, it does not increase the scope and function of the bureau, and so, does not maximize security and convenience. Choice three appears a desirable choice, since it retains the official status quo and the security and convenience of the supreme authority. However, it does not increase the scope or function of his bureau. Therefore it does not maximize his security.

The best choice for a utility maximizing conserver is choice two. Earlier, Selznick showed that cooptation can help as well as hinder the official goals of an organization. Choice two is an example of cooptation advancing the interests of the supreme authority. This choice increases his security and convenience by increasing the scope and function of his bureau but otherwise retains the status quo; a perfect solution of "divine right." However, since the supreme authority must rule which god he is the earthly manifestation of, this solution assumes that everyone in the bureau worships the same god. If we assume that all information comes from inside the bureau model, nothing exogenous, then we can assume that total ideology reigns, and hence, that everyone in our model believes in and worships the same god.

So far, I have established only that the sacred context of Tonnies's requirement for *Gemeinschaft* of mind is met throughout the bureau. I now look at the secular or

legitimation context of this requirement in the bureau. Legitimation activities are a part of the official rules and are steeped in ideology, of which religion is a subclass. There are four reasons that this is so: First, our bureau model is old, has a large body of official rules, suffers from inertia and is highly resistant to change; second, it follows from this that the bureau is steeped in tradition that is formalized in official rules; third, given Downs's argument above that "the goals of the bureau's top officials tend to shift towards maintaining and expanding their organization *per se*, and away from achieving the original formal purposes of the bureau," it is in the interest of all authorities that their subordinates periodically reaffirm the legitimacy of and their belief in the bureau as a social institution. Fourth, since authority in the bureau, given the arguments and conclusions above regarding religion, flows from the supreme being, legitimation activities take on a sacred aspect and fulfill the spiritual needs of subordinates.

Summarizing the degree of community in the bureau, *Gemeinschaft* of blood is precluded by the bureau, because families cannot decide to extend their family relations into the bureau, because authorities discourage family members in the bureau due to split loyalties, because the bureau tends to reverse the family's power structure, and because family relations are torn apart due to conflicting interests inherent in bureaus.

Gemeinschaft of location is partially met as a practical matter in the formal structure of the bureau and further met through cooptation in the informal structure. *Gemeinschaft* of mind is met in the sacred sense in the bureau through a process of cooptation initiated to meet spiritual needs, which results in an official policy of "divine right." *Gemeinschaft* of mind is met in the secular sense in the form of legitimation activities.

Two of the three degrees of community are solidly met in the bureau. This conclusion suggests that in spite of the above conclusion that community essentially does not exist in the bureau, those fragments that do exist can be persistent and strong. It further suggests that the above discussed covert activities and community of liars are a persistent feature of the bureau.

Ideology

In this section, I identify conditions in the bureau that allow the formation of total ideology. As I did in Chapter 3, I focus on the necessary requirements of total ideology rather than of particular ideology, both as defined by Mannheim, because total ideology has the ability to prevent people from lying whereas particular ideology does not.

Ideology is the strategy of recruiting others into a community of values in which all perpetually reaffirm each other's belief in these values. thereby making everyone's actions and decisions more predictable. Also, people strategize by evaluating other's commitment to moral values before dealing with them. Ideology's necessary requirements, as identified in Chapter 2 by Mannheim, Sowell, North, and Higgs, are isolation, rigid social classes, no vertical social mobility, no communication between classes, a high cost for alternative information, minimal changes in the terms of exchange, and the opportunity to satisfy the craving for association with like-minded people.

Beginning with isolation, we saw in the last section that the bureau does not allow isolation by language, education, and culture. This conclusion holds in this context as well, because these are the elements of isolation that are important to ideology. The supreme authority finds that a common language and education are necessary to influence the beliefs of his subordinates. Rourke explains why this influence is important to the supreme authority:

Organizational esprit depends very much upon an administrative agency's developing an appropriate ideology or sense of mission, both as a method of binding outside supporters to the agency and as a technique for intensifying its employees' loyalty to its purposes. (107)

In other words, control over subordinates requires their consent, and consent is best gotten by indoctrination. This process of indoctrination both demands and results in a common language, education, and culture. Therefore, isolation is not possible in the bureau, at least not in the sense that isolation is important for ideology, i.e., isolation by differences in language, education, or culture.

Mannheim's "rigid social classes" requirement for ideology is met in the bureau. Rigid social classes result from fixed jurisdictional areas that are insulated from each other by official rules and expert training requirements. These social classes become increasingly static with age, due to increasing inertia. Administrators in the bureau are conservers who focus on maximizing their security and maintaining the status quo. As Downs tells us, "they fear change because it might reduce their present prerogatives; hence they oppose innovations and change in general" (5). Also, following Selznick, officials are able to satisfy their needs through cooptation without the necessity of moving to a different level in the hierarchy.

Mannheim's next requirement for ideology, "no vertical social mobility," is also met in the bureau. This conclusion may seem wrong at first, since officially, bureaucrats are allowed to move up through the hierarchy by taking expert training and passing examinations. At what might be called the micro level, many officials actually do progress up through the ranks. For example, in the U. S. Army, privates advance to specialist, who advance to sergeants. Sergeants then ascend to higher levels of sergeantdom through additional training and time-in-grade. These soldiers are enlisted personnel called "noncommissioned officers" or NCOs. Also at the micro level, there are various ranks that officers advance through, from second lieutenant to general.

At the macro level however, there is a dichotomy between officers and NCOs that is equivalent to the distinction between administrators and employees in the civilian workplace. The crevasse between NCOs and officers is wide and deep and is perpetuated by the official policies of the military. Consequently, few soldiers cross it even though it is not against the rules. An enlisted person can choose to quit the ranks of the NCO and go to officer school and henceforth be a part of the administration. However, as in civilian life, most young people choose the life of an administrator or a professional employee at the onset. As they age, some cross over, but most do not.

This situation is similar to the one in Chapter 3 in which Redneck and Yuppie do not cross over into each others' lifestyles because of how they see themselves. Officers see themselves primarily as "planners" and "strategists." NCOs see themselves as

“doers.” Each group sees the other in a somewhat derogatory light. Officers see NCOs as somewhat dull and unimaginative; NCOs see officers as lazy. The latter is immediately evident to the new recruit who is reprimand for mistakenly calling a sergeant “sir” with, “DON’T CALL ME ‘SIR’ PRIVATE; I WORK FOR A LIVING!” There is a similar disdain of administrators and employees, one for another, in the civilian workplace. I witnessed this phenomenon as I walked home across the University campus one evening. Passing two people talking, I overheard one say, probably only half jokingly, something similar to, “Supervisor? You wanna be a supervisor? I’m not sure I want you for a friend anymore.”

This separation of classes is also evident in Rourke’s four sources of internal disagreement in the bureau, as discussed above. Briefly reviewing, he said that internal disagreement occurs (1) between those at the top, which are often political appointees, and career administrators beneath them; (2) between the professionals who do the work of the agency and the administrators who run it; (3) between outside advisory experts and full-time staff; and (4) between people of different psychological orientation toward their work.

All four of Rourke’s examples are basically conflicts between those who give orders and those who must follow them. Selznick makes this same distinction;

The use of intermediaries creates a tendency toward a *bifurcation of interest* between the initiator of the action and the agent employed. This is due to the creation of two sets of problems: for the initiator, the achievement of the goal which spurred him to action, and for the intermediary, problems which are concerned chiefly with his social position as agent. (“Approach To A Theory Of Bureaucracy” 51)

I, therefore, conclude vertical mobility in our context should be defined as movement from the agent class to the class of those who initiate action. Perhaps a less cumbersome designation is from employee class to the administration class. Given this definition, I further conclude that ascending the ranks at the micro level is not actually vertical mobility. It more nearly resembles what Mannheim earlier called “horizontal mobility” or mobility among people of the same class. Seen in this view, vertical

mobility occurs infrequently in the bureau for essentially the same reasons that it rarely occurs in the private property order, i.e., there are too many personal costs involved in the move. People generally tend to find a comfortable niche and stay there, or at least close by.

Mannheim's next requirement for ideology, "no communication between classes" is also met in the bureau. This is not to say that there is no communication in the bureau. There are, of course, official directives that go between the fixed jurisdictional areas in the bureau, but this is not communication in our context. Mannheim had in mind the kind of communication that can breakdown the ideology of the classes—the kind of communication or information that the country boy experiences as he walks to the city and becomes part of a different social class. This kind of communication allows one to see things from the perspective of a different class.

Lack of ideology-destroying communication in the bureau results primarily from the need to restrict communication to bare essentials, from inherent conflicts between classes in the bureau, and from division of labor, each of which we must discuss further. Downs argues that the need to restrict communication to bare essentials is one of the main reasons that people resort to hierarchical organization. He explains that hierarchical organization prevents supervisors from receiving a flood of irrelevant messages, because at each level, managers scan reports that come from above and from below, then pass them up and down to the appropriate people. Each manager acts as a communication intermediary for managers both above and below his position in the hierarchy. This further restricts communication between classes, because, according to Downs, "such a communications hierarchy implies very different types of knowledge at different levels" (8). The higher one's position in the hierarchy, the more general is his knowledge, and the lower, the more specific.

The need to restrict communication to bare essentials hinders overall communication between classes in the bureau in yet another way. Differences in knowledge among the various levels of the hierarchy and the opportunity to scan and

select messages allows managers acting as communication intermediaries the opportunity to distort messages to serve their own convenience before passing them on.

Since bureaus have no objective measure of success similar to the profits of a business firm, it may be extremely difficult for one's superiors to distinguish between accurate reporting and deliberate distortions... Under such circumstances, officials can engage in considerable distortions without too great a risk of being detected. (Downs 11-12).

Distortions are exacerbated by the bureau's chain of command, which authorizes people to initiate communication only with certain other people. For example in the U. S. Army, personnel are only authorized to initiate communication with their immediate supervisor. A private with a problem must pass his request through as many as five levels to get to the company commander. This requirement is intended to prevent upper echelon commanders from receiving a flood of communication that they cannot handle; however, it also has the effect of reinforcing class status levels rather than breaking them down. As Weber told us above, each position in the hierarchy has its own status level, and a chain of command officially recognizes these status levels.

Communication between classes is also hindered by internal conflicts in the bureau, i.e., conflict between supervisors and subordinates, professionals and administrators, outside advisory experts and full-time staff, and between people of different psychological orientation toward their work. Communication between these classes is restricted due to their lack of similar values. We saw in Chapter 3 that contextual value references is an important part of communication. Such value references are not present among these conflict classes, therefore communication between them is hindered.

Since people in each of these conflict classes are utility maximizers, it sometimes serves their interests to "keep each other in the dark," so to speak, about various issues. Because of their inherent conflicts, they are suspicious of each other, and they often engage in sandbagging or exaggeration in an attempt to alter the other's behavior. Supervisors tend not to reveal to their subordinates the true motivation behind a directive,

and as Rourke qualified our bureau model, subordinates tend to tell their supervisors what they want to hear.

A final problem for communication between classes in the bureau is that of the difficulty of communication between divisions of labor. Communication between divisions of labor in this sense is restricted by different sets of knowledge due to expert training, by technical languages, and by jargon. This inability to communicate because of different technical languages is especially evident in the military where each specialty has its own techno-speak as well as colloquial speech. As Altheide and Johnson explain,

a fundamental feature of the processes leading to organizational competence is learning the specialized lexicon or vocabulary. This socialization involves learning the vocabulary and the situated use of the vocabulary by members in actual occasions of the everyday routine. The various branches of the military form a 'natural language community,' with these languages distinguishing not only the general membership categories within the community (or organization) but also subdivisions of membership. (182).

No small part of the specialized lexicon of various subdivisions of the military is the blizzard of acronyms that one must learn to even follow a casual conversation.

I conclude that the no-communication-between-classes requirement for ideology is met in the bureau even though communication between classes in the form of official directives is a formal part of bureau regulations.

Sowell's requirement for ideology, "a high cost for alternative information," is also met in the bureau. Alternative information in the bureau officially does not exist, because it is information contrary to the interests of the supreme authority and the purpose of the bureau. It is information not authorized by official decree and not codified in formal rules.

Even if alternative information did exist in the bureau, officials would reject it, because it means change. Officials in the bureau are committed to the status quo, because their income depends on the bureau structure remaining unchanged, and because they have a large time-investment in the bureau. Not only are officials committed to the status

quo, they also have considerable influence, opportunity, and resources with which to protect it. Cooptation activities can be aimed at reinforcing the status quo, as can surplus, or as we call them, “pilfered” resources. Subordinates can condition their consent to be led on the leadership’s official continuation of the status quo, and they can punish leaders that champion change with inertia and the general frustration of policy.

The lack of an indisputable standard by which to judge performance and outcomes, due to lack of market prices, also shields officials from alternative information and, hence, reinforces the status quo. The lack of an indisputable standard makes it doubtful that officials could identify alternative information were they to encounter it. This lack of standard creates the opportunity to “goldbrick,” that is, intentionally making one’s bureau look “needy” by not attaining the bureau’s goals. The prospect of increased resources for their “needy” bureau is a reason for officials to thwart alternative information. The lack of an indisputable standard also thwarts alternative information by creating the incentive and the opportunity for officials to tell each other what they want to hear rather than what is objectively measurable. As we shall see later, this is the essence of the process that Mises refers to above whereby science becomes distorted to suit the purposes of the bureau.

Alternative information is also thwarted due to internal conflicts in the bureau. There are four internal conflicts shown by Rourke discussed above, which are essentially conflicts between order givers and order takers, and there is also the conflicts between Downs’s bureaucratic types, i.e. “climbers,” “conservers,” “zealots,” “advocates,” and “statesmen.” Because of internal conflict, there is no united effort, even in the informal structure, to seek or provide alternative information. In our present context, Downs’s climbers and zealots, those most likely to seek or propagate alternative knowledge, are frustrated by conservers who are in positions of power in our mature model.

Turning now to North’s minimal-changes-in-the-terms-of-exchange requirement for total ideology, we first review from Chapter 3 the four changes in terms of exchange that North argues are sufficient to alter peoples’ perception about the fairness of the

economic system and, hence, sufficient to cause people to alter their ideologies. They are as follows:

1. an alteration in property rights which denies individuals access to resources which they had heretofore come to accept as customary or just (the enclosure of common land, for example).
2. a decline in the terms of exchange in a factor or product market away from what had come to be regarded as a just exchange ratio.
3. a decline in the relative income position of a particular group in the labor force.
4. a reduction in information costs that results in individuals perceiving that different and more favorable terms of exchange may prevail elsewhere. (*Structure and Change* 50)

If these terms of exchange do not cause people in the bureau to adopt a different ideology, then North's requirement for ideology is met.

North's first example does not threaten total ideology in the formal structure of the bureau, because there are no just or unjust uses of property. There are only those uses as prescribed by the supreme authority that constitute the duties of one's office. Officials realize that they do not own the resources that they use on a daily basis, and they use them according to official decree.

However, in the informal structure of the bureau, officials may indeed come to see their desk, their, room, their job, or other resources used on a daily basis as belonging to them, and be resentful if these resources are taken away by the supreme authority. Officials may come to regard pilfered resources in the same manner, since they have discretion over them. Even so, this requirement is not threatened in the informal structure, because officials can effectively retain control of such resources through cooptation, inertia, and pilfering. In any event, the supreme authority, realizing that he cannot separate control from consent, *informally* makes the necessary concessions. Otherwise, as Rourke argues, there will develop a gap "between the aspirations of the bureau's leaders and the actual performance of its rank and file members" (21).

North's second and third examples above do not threaten total ideology, because there are no factor or product markets and no declines in relative income positions in the

bureau. Factor or product markets simply do not exist in the bureau, so we need not worry about their declines. Income positions are determined by one's seniority and place in the hierarchy. Increased wages follow greater seniority and heightened expert training. These ranked wages are set by rules and are not affected by the adversities encountered by the bureau nor by the discretion of other officials.

Neither does North's fourth example threaten the bureau's ideology. In this example, the phrase, "a reduction in information costs," is cast with the same meaning as Sowell's "alternative information," already discussed. Information that allows one to see more favorable terms of exchange elsewhere is certainly alternative information. Since it has already been shown that alternative information does not exist in the bureau, I will not consider this example further.

I conclude after examining North's four examples of terms of exchange that his minimal-changes-in-the-terms-of-exchange requirement for total ideology is met.

The final requirement for ideology is Higgs's craving-for-association-with-like-minded-people requirement. This requirement is also met in the bureau. Officials at the same level in the hierarchy have the same social status and similar values. Their position in the hierarchy is determined by their age, ability, training, and personal inclinations. Officials with the same amount of seniority, ability, and expert training, and who are of the same bureaucratic type, i.e., "climbers," "conservers," "zealots," "advocates," and "statesmen," will generally have similar values and end up together on the hierarchy. This is not a contradiction of an earlier conclusion that the similar-value requirement for community is not met in the bureau. That conclusion was in regard to the bureau as a whole, while this conclusion is in regard to one's position on the hierarchy within the bureau. As was pointed out in Chapter 3, this requirement of Higgs's is very similar to Tonnies's *Gemeinschaft* of Mind. Since we have already seen that Tonnies's requirement is met, both in the sacred and the secular sense, I further conclude that Higgs's requirement is met as well.

Summarizing ideology before moving to the benefit-cost analysis section, all the requirements for ideology are met in the bureau except the isolation requirement.

Isolation is not allowed in the form of language, education, and culture, because of the needs of the supreme authority to shape the beliefs of his subordinates. Mannheim's rigid-social-classes requirement for ideology is met because of inertia, resistance to change, fixed jurisdictional areas, and official rules. Mannheim's no-vertical-social-mobility requirement, defined here as movement from the agent class to the class of those who initiate action, is met, because there are too many personal costs involved in the move. Mannheim's no-communication-between-classes requirement for ideology is met, by the need to restrict communication to its essentials, because of inherent conflicts between classes, and because of division of labor. Sowell's high-cost-for-alternative-information requirement is met, because alternative information in the bureau officially does not exist. North's minimal-changes-in-the-terms-of-exchange requirement is met, because there are no property rights nor factor nor product markets in the bureau, because officials can use cooptation to retain control of resources for which they have acquired feelings of ownership, because the supreme authority informally makes concessions to retain control, and because the costs of information, seen as alternative information, cannot be reduced in the bureau. Finally, Higgs's craving-for-association-with-like-minded-people requirement is met in a manner similar to Tonnies's *Gemeinschaft* of Mind requirement for community.

The Benefit-Cost Ratio of Lying in the Bureau

I now turn to the second analysis of the bureau, which is a point-by-point evaluation of six items that affect the benefit-cost ratio of lying. By investigating these items, we will be looking at lying from the other side of the information relation, that is, from the point of view of Informer as he weighs his expected costs and benefits of lying versus truth-telling.

First, I consider how people use Hayek's "particular knowledge" when they are under the constraints of the model. Second, I consider what organizations are possible in the model and how they affect the opportunity to lie. Third, I evaluate the extent of the free-rider problem in the model. Fourth, I consider whether the model has institutional

restrictions on communication. Fifth, I evaluate the time preference level within the model. Lastly, I look at what ethical codes of conduct support the model's constraints.

Particular Knowledge

We saw in Chapter 1 that individuals have unique knowledge that is important to society as a whole. We saw also that Hayek calls this unique knowledge “the knowledge of the particular circumstances of time and place” (“Use of Knowledge” 80). We saw in Chapter 3 that according to Hayek, the economic problem of society is a problem of

how to secure the best use of resources known to any of the members of society, for ends whose relative importance only these individuals know. Or, to put it briefly, it is a problem of the utilization of knowledge which is not given to anyone in its totality. (“Use of Knowledge” 77-78)

Here we look at how the bureau attempts to solve the economic problem and what affect this process has on the benefit-cost ratio of lying.

The term “particular knowledge” refers to the bits of unique knowledge that are safely and secretly tucked away in the minds of individual people. If all of these secret, unrelated bits of knowledge can be integrated and directed toward the betterment of society, then society as a whole is better off. We saw in Chapter 3 that the private property order accomplishes this task with the spontaneous processes of the free market. In the bureau, this task falls to the supreme authority. He cannot resort to spontaneous processes for a solution to the economic problem, because they do not exist in the bureau. There, everything is ordered by design. His only option is to command his subordinates to report their unique information to him so that he can use it to make decisions and set rules and regulations.

Solving the economic problem is important for this study since particular knowledge is private information and, hence, can be used for lying. In the bureau where officials are utility maximizers, the question arises as to whether officials are able to benefit themselves by lying in the process of reporting their particular information to the supreme authority. It is clear that they can if they know the intentions of the supreme authority. For example, suppose that the supreme authority wishes to set a realistic

production schedule for the production of tractors. He, therefore, orders the manager of each tractor factory to report the amount of time and other resources that it takes to manufacture one tractor. With this information he can allocate less resources to the more efficient plants and more resources to the less efficient plants. This situation presents both a threat and an opportunity to plant managers. The threat lies in the realization that the supreme authority intends to allocate future resources on the basis of their reports, and that he will use their reports as base figures for future production. To meet these threats, managers tend to exaggerate the amount of resources necessary for their plants to make one tractor. This assures them greater future allocations of resources and establishes a lower baseline for future production. The situation presents an opportunity for managers in that the information requested by the supreme authority is known only to them. Managers take advantage of this opportunity, again, by exaggerating the figures on their reports, which results in their being allocated more resources and being given a more leisurely production schedule.

In the real world, the process of exaggerating or understating information to a central authority for the purpose of extracting rents is well known. Milgrom and Roberts call the results of this process "influence costs." They argue that attempts at influence are inevitable because central authorities must rely on information provided by others.

Moreover, the employees affected by a decision are often the very ones executives must rely on. In such circumstances, employees will have strong reasons to try to influence decisions, and their attempts at influence will impose costs on the organization. For example, employees may distort the information they report or withhold information from the central office and from other employees. ("Bargaining Costs" 81)

This is the same situation that Downs warned us about earlier. There, he said that officials are tempted to distort information (1) by minimizing or suppressing information unfavorable to their performance or abilities and exaggerating what is favorable to themselves, and (2) by de-emphasizing information likely to displease their superiors and exaggerating that which will please them. One of Rourke's qualifications of our bureau model also speaks to information distortion, i.e., that. "the tendency is strong for career

bureaucrats to tailor their recommendations to fit what they believe are the policy views of the political executive” (128). People who find themselves in the above situation not only have incentive to lie, they also have strong reasons to attempt to increase their leeway to lie. In the bureau this is relatively easy, since the bureau lacks an indisputable standard by which to judge performance.

People who, in this context, engage in distortion of information for personal benefits have received their own appellation from various writers. As we saw earlier, Kingdon calls them “policy entrepreneurs” and North calls them “intellectual entrepreneurs.” Both terms refer to people trying to benefit themselves in the policy-making process by saying the “right” thing rather than what is true. The extent of the “policy entrepreneur” problem in the bureau is suggested by Boulding’s contention that “there is a great deal of evidence that almost all organizational structures tend to produce false images in the decision-maker, and that the larger and more authoritarian the organization, the better the chance that its top decision-makers will be operating in purely imaginary worlds” (30).

We can conclude from this discussion that the economic problem, as described by Hayek, cannot be solved in the bureau, and that attempts by the supreme authority to solve it result in distorted information. This failing of the bureau increases the expected benefits of lying.

Organizations

In this section, we examine the kinds of organizations that come into existence in the bureau and evaluate their effect on the overall benefit-cost ratio of lying in the bureau. To begin with, it should be noted that all organizations that come into existence in the bureau have the same structure as the bureau itself, i.e., they are hierarchically structured with different levels of authority, and exist for the convenience of the supreme authority. It should also be noted that neither the supreme authority nor his subordinate managers can make use of profit management. Earlier, Mises made a fundamental distinction between profit management and bureaucratic management. This distinction does not exist in the bureau, hence, there are no for-profit organizations.

The absence of profit management leaves the bureau susceptible to the internal nesting of the agency problem. Earlier this problem was described as the problem of how to monitor the monitor. This problem is solved systemically in the private property order through for-profit production, but in the bureau, it must be dealt with manually by managers at each level of the hierarchy. This reality necessitates a high level of monitoring of subordinates by managers. However, managers face another problem in the bureau: They do not possess sufficient specific knowledge to monitor their subordinates. Downs explained earlier that “a communications hierarchy implies very different types of knowledge at different levels” (8). Therefore managers, who have only a general knowledge of their subordinates’ specialties, cannot effectively monitor their subordinates.

Managers compensate for their lack of specific knowledge by structuring the bureaucratic hierarchy in such a way that they monitor only subordinates with specific knowledge similar to their own. Instead of managing many subordinates with differing specialties, they manage only a few subordinates with the same specialty. This creates what Downs calls “tall” hierarchies. Tall hierarchies have “narrow spans of control but many levels.” Downs says that tall hierarchies “are appropriate in organizations where a large number of conflicts are likely to occur, since they have a high ratio of conflict-settlers to total members.” Downs contrasts tall hierarchies with what he calls “flat” hierarchies which have “wide spans of control and few levels.” Flat hierarchies “are appropriate for organizations where fewer conflicts are likely” such as “bureaus with relatively simple or clearly-defined functions...” (9).

Even by resorting to tall hierarchies, managers cannot solve the monitoring problem, because tall hierarchies require more levels. We must remember that each level of a hierarchy acts as a communication intermediary for the levels above and below. Downs said earlier that this is necessary in order for managers to avoid message-overload from a flood of nonrelevant messages. He also pointed out that each communication intermediary has the incentive and the opportunity to distort the messages that he scans and sorts before passing them on. Therefore, by increasing the number of levels in the

hierarchy for the purpose of increasing their ability to monitor, managers inadvertently distort the overall communication of the bureau. They face a tradeoff between accurate communication and effective monitoring of subordinates. It might be said that they are between the proverbial “rock and a hard place,” because in regard to reaching the objectives of the bureau, these tradeoffs amount to the same thing.

Managers cannot look outside of their organizations for help with their monitoring problems, because there are no “Dun and Bradstreets” or “Underwriters Laboratories” in the bureau. That is to say, there are no self-monitoring organizations that can be enlisted to help solve monitoring problems. There are, of course, auditing committees and special investigators as appointed by the supreme authority, but the monitoring problem is still not solved. These special purpose organizations must also use bureaucratic management and, hence, suffer the same weaknesses as the bureaucratic structures that they are assigned to scrutinize. By enlisting such help, managers come full-circle and arrive at where we started in Chapter 1, with the question, “Who will monitor the monitor?”

In summary, I conclude that the internal nesting of the agency problem cannot be solved in the bureau. The nesting problem is acute in the bureau due to the absence of profit management. Furthermore, managers’ efforts to compensate for this lack is frustrated at every turn. Their lack of specific knowledge leads them to create tall hierarchies with many levels of authority. Tall hierarchies create overall information distortions in the bureau, which is essentially another monitoring problem. Monitors from outside the organization are no solution, because they also require monitoring. I further conclude that this is a structural deficiency of the bureau, because no institutions exist to solve this problem, and because institutions that do exist preclude individuals from solving it independently. Under these circumstances, the benefit-to-cost ratio of lying is high.

The Free-Rider Problem

In this section, I evaluate the opportunity to free ride in the bureau. In Chapter 3, we looked at three different kinds of free riding: beneficial, conventional, and compulsory. Beneficial free riding does not foster lying; therefore, we need not

considered it further. Conventional free riding—not paying ones share of a collective action—is an important indicator of the benefit-cost ratio of lying because people who engage in it are hiding their true preferences. The presence of compulsory free riding—state granted favors—indicates the opportunity and the incentive to lie in the pursuit of state granted favors.

The conventional view of free riding is closely associated with the concept of “public goods,” at which we looked in detail in the last chapter. In this view, free riders lie by not stating their true preferences for a collectively provided good in order to avoid paying their fair share of its production costs. Public television is the common example of conventional free riding. People who watch public television but do not donate to its support are considered free riders in this view. According to the conventional view, free riding increases as collective action increases in scope, and when it is not backed by excludable incentives, coercion, and ideology.

We have already seen that the collective provision of goods is the condition under which conventional free riding is a problem. Conventional free riding is potentially a huge problem in the bureau, in the first place, because all problems are common problems, i.e., they are all dealt with collectively. In the bureau context, the scope of collective action is as large as it can be; it is total. Therefore, Olson’s advice to keep collective actions small in order to minimize free riding goes completely unheeded.

In the second place, conventional free riding is a potential problem in the bureau because of the need to delegate, coupled with the absence of profit management. Delegation or “action through agents” as Selznick has called it, is necessary because of the “increasing number and complexity of functions.” Selznick argued earlier that delegation creates a bifurcation of interests between the delegator and his agent. The delegator wants to achieve the goals of the organization and the agent wants to solve his personal problems not addressed by the formal structure of the organization. If the agent is to solve his problems, he must engage in free riding. As Selznick puts it, “the character of the agent’s new values are such as to generate actions whose objective consequences undermine the professed aims of the organization” (“Approach To A Theory Of

Bureaucracy” 51). In short, the necessity to delegate provides the motive to free ride, and as has been shown, the lack of an indisputable standard of performance provides the opportunity.

In the third place, conventional free riding is a potential problem in the bureau because officials in the bureau essentially are in a commons environment, i.e., they face the same incentives as the herders in Hardin’s pasture model of the commons as discussed in Chapter 3. The herders in Hardin’s model get marginal benefits greater than marginal costs each time they overgraze, because they privately captured the benefits and publicly share the costs, which result from the depletion of the resource. In our context, officials who use more resources than they need are “overgrazing.” They privately capture the benefits from the overuse of resources in the form of a more leisurely production schedule and pilferable surplus resources, and they share the costs of a smaller resource pool with everyone.

Officials in our bureau model can appropriate resources from the common pool by appearing to be less efficient than they really are. This is the case of our secretary above who operates by the rule: When the boss is watching, work inefficiently so he thinks that I need all of these resources; when the boss is not watching, work efficiently so that I can get done sooner and have free time. The lack of an indisputable standard by which to judge performance in the bureau allows officials to conceal their work effort and ability. Such concealing of one’s ability is free riding according to the conventional view. By so reducing one’s effort, one is not paying one’s fair share of the effort-cost of operating the bureau.

Now that we have seen that the potential for conventional free riding in the bureau is huge, we must now evaluate the effectiveness of excludable incentives, coercion, and ideology in preventing conventional free riding. Excludable incentives are not effective reducers of conventional free riding in the bureau because of the existence of surplus resources. The supreme authority can rule that all subordinates who accomplish their duties up to a certain standard receive a bonus, while those that fail to meet the standard do not. However, such bonus incentives are immediately discounted by officials, because

in order to acquire them, officials must reveal their true abilities and effort potential and, therefore, must give up their relaxed production schedule and surplus resources.

Suppose, for example, that the secretary's supervisor above offered her a secretary-of-the-week award if she could type twelve reports per day rather than ten. She must now choose between the secretary-of-the-week award and two free hours per day that she obtains by pilfering surplus resources, because to obtain the award, she must reveal her true abilities. When her boss discovers that she can type twelve reports, he will assign her more reports on a regular basis. The secretary will lose her leisurely production schedule and her freedom to engage in personal matters while at work. The excludable incentive provides her a short-term benefit but extracts long term costs. The rational choice is that she not change her behavior, so the excludable incentive has not prevented free riding.

Surprisingly, neither can coercion be used to any great extent in the bureau in order to overcome conventional free riding, because the supreme authority has only limited power to control his bureaucratic structure. The supreme authority can order his subordinates to produce up to a standard, but they have the ability to resist such an order. They also have the inclination to resist, because they are conservers that lack incentive for progress and change, and because they are in control of surplus resources that they do not wish to give up. Subordinates can use inertia and momentum to frustrate the supreme authority's policies. They have specific knowledge that the supreme authority does not have, hence, they can distort science to their own ends and use it against the supreme authority. They can conceal their true abilities due to the lack of an indisputable standard by which to judge performance.

Furthermore, it is unlikely that the supreme authority would readily engage in coercion even if he could, because he is a conserver, himself, who seeks to maximize his own security and convenience, and who opposes innovation and change in favor of the status quo. The supreme authority realizes that nullification of compulsion is an objective of sufficient interest to all subordinates that it may temporarily unite them against him in spite of their internal conflicts. The supreme authority also realizes that control of his

bureaucratic structure cannot be divorced from the consent of his subordinates and that winning the support of his subordinates is an important part of leadership. Therefore, coercion does not prevent conventional free riding in the bureau.

The elimination of excludable incentives and coercion leaves ideology as the supreme authority's only tool for controlling conventional free riding in the bureau. We saw earlier that all of the requirements for total ideology are met in the bureau.

Therefore, the supreme authority can rule that an appropriate ideology be a part of the expert training of his subordinates. Rourke, citing Kaufman's *The Forest Ranger*, shows the success of one real-world ideology at preventing conventional free riding:

In a study of the Forest Service, Herbert Kaufman showed how subordinate officials can be so thoroughly indoctrinated with policy goals that the exercise of their discretion can be relied upon to mirror faithfully the organization's objectives. The premises on which their decisions rest have been firmly implanted by a uniform educational background, an effective program of in-service training, and an agency manual that clearly spells out the choices appropriate in particular situations. (39)

However, such faithful execution of the organization's policy objectives is not likely outside pockets of total ideology in the bureau like that of the Forest Service. On a larger scale total ideology is weakened in the bureau because of the existence of internal conflicts and because of structural incentives to act contrary to bureau ideology. Internal conflicts require ideology to be custom-tailored for each homogeneous segment or class interest. Our previous analysis of ideology showed that there is limited contact between classes in the bureau; however, when they do make contact, each shows the other that its ideology is particular in nature, thereby breaking the total ideology spell. Structural incentives in the bureau weaken total ideology by enticing officials to act contrary to formal policy. For example, officials are tempted to acquire surplus resources even though formal policy forbids it. They can also increase their personal security by focusing on increasing the scope and function of their sub-bureau at the expense of the whole bureau. I therefore conclude that ideology is not an effective tool against conventional free riding except in isolated pockets.

Moving now to the compulsory view of free riding, according to this view, free riders are those who use state coercion to fund their personal visions, which are beyond their personal means. These personal visions are always different from what compulsory free riders expect the market or voluntary outcomes to be. According to this view, trade, labor, environmental, and other special interest organizations lobby for compulsory free rides on the backs of taxpayers. In this view, people have an incentive to lie by exaggeration, omission, and misrepresentation in their attempts to persuade state authority to fund their visions. According to the compulsory view, free riding increases as the role of the state is enlarged, allowing it to grant more personal or group favors.

The supreme authority may officially delegate to favored subordinates desired positions or authorizations. In doing so he is granting the favor of power over more people and over greater amounts of resources. To receive such favors is to signal to others one's relationship to the supreme authority and the accompanying status. The supreme authority may also grant favors unofficially by altering his behavior but not the official rules. For example, he may choose not to enforce a rule and thereby benefit a subordinate. Under the conditions of the bureau, favor granting is seen as a virtue by both the supreme authority and his subordinates. The supreme authority sees favor granting as an important tool of control as well as a way to indulge his personal preferences, and his subordinates see it as a desired prize to be won. In short, the supreme authority and his subordinates trade favors and consent.

Compulsory free riding plagues our bureau model, because the official role of the state is a total role, i.e., all problems are common problems. The state, seen as the locus of coercive power, resides in our model as the supreme authority, who alone has the coercive power to officially grant or withhold favors. The supreme authority's most highly prized favor is the delegation of his authority. Delegation is prized by subordinates for two reasons. First, as we have already determined, it allows subordinates to free ride in the conventional sense. Second, it is the source of state granted favors, i.e., compulsory free riding.

In summary, conventional free riding occurs in the bureau because all problems are common problems, because of the necessity for the supreme authority to delegate in the absence of profit management, and because officials face the incentives of a commons environment. Excludable incentives are not effective against conventional free riding, because they are discounted by officials, who must reveal their true abilities to get them. Coercion is not effective against conventional free riding, because subordinates have sufficient informal power to resist the supreme authority's order, and because the supreme authority does not prefer to use coercion, since he realizes that control of his subordinates requires their consent. Total ideology is not effective against conventional free riding except in isolated pockets in the bureau. Compulsory free riding plagues the bureau, because the state's official role is total, and because free riding is seen as a virtue. The supreme authority grants favors out of necessity to win the consent of his subordinates, and they exchange their consent for his favors. I conclude that the benefit-cost ratio of free riding in the bureau favors free riding in both the conventional and compulsory sense.

Institutional Restrictions of Communication

In this section, I evaluate the institutional restrictions of communication in the bureau. These restrictions are the result of two primary features of the bureau: hierarchical structure and the absence of spontaneous processes. It is important to evaluate institutional restrictions to communication in relation to lying, because if people are unable to communicate in a manner meaningful to themselves, they cannot engage in reputation, community, and ideology. Deprived of these strategies, people are vulnerable to lying, and the overall expected benefits of lying exceed the expected costs.

Barriers to communication associated with the hierarchical structure of the bureau are those caused by division of labor, chain of command, inequality of power, and secrecy. We have already discussed the barriers created by the division of labor and found them twofold. First, officials with different duties must acquire different technical specialties. This separates the population of the bureau into pockets of specialist who have difficulty communicating with each other. Second, officials at different levels

acquire knowledge with different degrees of specialty and generality, which makes inter-level communication difficult. We also have seen that a chain of command restricts communication between people of different statuses. Officials can communicate directly only with their immediate supervisor.

Yet to be discussed are restrictions on communication caused by inequality of power, and secrecy. As Rourke explains, “the inequality of power inherent in hierarchy means that the view of highly placed individuals carry immense weight, not because their arguments are persuasive but simply because of the exalted status from which they speak” (148). This is simply to say that higher level officials get more say than lower level officials, because, as Dahl and Lindblom put it, people at the top of a hierarchy “decide when, in what conditions, and with whom consultation takes place” (qtd. in Rourke 149). Rourke concludes that “hierarchy can thus be an immensely important factor inhibiting discussion and free exchange of ideas in bureaucratic policy deliberations” (149).

Secrecy is a barrier to communication for two reasons: First, because it prevents access to desired information; second, because secrets can be used for lying. Regarding the first reason, we saw in Chapter 3 that secrets are minimized in the private property order because people “sell” their secrets, i.e., their secrets are imbedded in goods offered for sale and can be discovered by deconstructing these goods. The second reason above is the essence of Hayek’s “economic problem.” In Chapter 3 we saw that the private property order solves this problem with the free market, which allows people to use their secrets or particular knowledge to benefit themselves without using it for lying.

In the bureau, goods and services do not contain the particular knowledge of the people who make or provide them. Goods and services are made and provided according to directive. Particular knowledge stays with individuals, which is to say, as we saw earlier in this chapter, that the bureau cannot solve the economic problem, and that, therefore, people have the incentive and the opportunity to use particular knowledge for lying.

Rourke says that “the growth of bureaucracy in American government has brought about an enormous expansion in the secretiveness with which public policy is made”

(155). This tendency toward secrecy in the bureau develops because of a need for honest reporting and forthright expression during policy formation. Without secrecy, officials tend to dissemble during policy deliberations concerning controversial issues. Rourke, noting that American administrative agencies have more control of information that is released to the public than does the legislature, concludes that

because privacy is conducive to candor in policy deliberations, administrative policy making may permit more honest exploration of alternatives than is possible in the legislature. People are less often compelled to edit out of their discussions 'dangerous thoughts' that might get them into trouble if they were widely known. (156)

We can now see that the tendency toward secrecy in policy deliberations in the bureau increases the benefit-cost ratio of lying from both sides of the information relation. As a barrier to communication, secrecy makes Informee more vulnerable by restricting his use of reputation, community, and ideology. As a bulwark for private information, it empowers Informer. This constitutes an administrative paradox in that a necessity to elicit truthful reporting by subordinates (secrecy) further empowers them to lie.

Rourke says that there are other costs as well. Because of secrecy, government officials make decisions without the benefit of all the pertinent information that is in the hands of the government itself. "Moreover, when policies are determined in private, the sources of influence on these decisions may be unknown, and many groups whose interests are affected may not be consulted at all" (156). Casting Rourke's views in the context of our model, bureau departments hide their proceedings from each other in order to expedite policy formation, and in the process, they make decisions without pertinent information that affect other departments who have this information.

The second primary source of institutional restrictions to communication in the bureau is the absence of spontaneous processes. Communication barriers resulting from the absence of spontaneous processes manifest themselves in the need for rules to guide human interaction, in the absence of market prices, and in the absence of an indisputable standard for judging performance.

The necessity of rules to guide human interaction in the bureau results in communication being restricted to that which is formally authorized in relation to policy formation and implementation. To this end, communication is initially used to acquire the information necessary to form policy. We have already seen how information becomes distorted in this process. Communication is then used to implement policy. Here it takes the form of written rules and of orders or commands issued orally by superiors to subordinates. Following implementation, communication is used to evaluate policy and its implementation. In this setting, supervisors and subordinates discuss the successes and failures of implementation for the purpose of improving policy and fine tuning implementation.

These uses of communication can easily be observed in the U. S. Army. First, high level officers or NCOs have a dialogue with the social sciences to acquire knowledge about social organization and motivation. From this information, the Army devises official standard operating procedure (SOP), which is its official policy regarding treatment of the troops, e.g., realistic physical expectations, nutritional needs, motivational techniques, leadership characteristics, etc. Implementation takes the form of mission assignments that serve the needs of the Army and are in accordance with SOP. After every mission, squads, platoons, and companies conduct what is called "after action reviews." Here supervisors and subordinates discuss what worked and what did not.

Any communication not related to formation, implementation, or evaluation of policy is forbidden in the bureau. This is so because unofficial communication subverts formal policy. In the Army for example, informal chat about personal matters between sergeants with adjacent desks, though seemingly harmless, delays pursuit of the official mission and thereby threatens it. These sergeants are pilfering time allocated for official duties.

Real-world efforts to restrict unofficial communication in bureaus are readily observable in both the U. S. Army and public schools. Unofficial communication between the troops is allowed only during off hours. During duty hours, SOP restricts communication to policy or mission matters between officials of appropriate status. New

recruits quickly learn the virtue of not speaking unless authorized to do so. So do the students in the public school classroom, who are punished or detained for unauthorized talking with their neighbors. Both the drill sergeants and public school teachers understand the necessity of restricting the unofficial communication of their charges in order to keep them focused on official goals.

The next institutional barrier to communication in the bureau resulting from the absence of spontaneous processes is the absence of market prices. Spontaneous processes like communities and markets provide means of communication in the private property order that are not duplicated in the planned environment of the bureau. As has been shown, members of a spontaneous community can communicate in a more fundamental way than strangers, because they have common intellectual, social, and emotional value references, or what I earlier called the “walk-a-mile-in-my-shoes-condition.” Also, markets, through market prices, constitute an intricate web of communication that makes producers aware of consumer preferences on a minute-to-minute basis.

Without market prices, there is no indisputable standard for judging performance, the third and final instance of communication barriers associated with the absence of spontaneous processes. No indisputable standard makes it difficult for monitors to recognize distorted information. This creates the opportunity to distort information, because it gives reporters of information a certain leeway as to the accuracy of their reports. Hence, they can serve their own needs to some degree by exaggerating this or suppressing that. The incentive to distort comes from the process of policy formation itself. Rourke explains that

most policy issues have a zero-sum quality—gains by some groups will have to be offset by losses for others. The decision of bureaucrats, no less than those of politicians will involve redistribution of costs and benefits, and will as an inevitable result be political. (151-152)

We have seen how supervisors in the bureau, due to the lack of an indisputable standard, resort to the use of tall hierarchies to minimize distortion and how tall hierarchies result in more levels of distortion. To demonstrate the magnitude of this

distortion, Downs uses an example from Tullock's undated, unpublished manuscript "A General Theory of Politics." Tullock's example assumes that messages are altered by 10% at each level in a six level hierarchy. After allowing for errors and for lower levels of ability at lower levels of the hierarchy, the result, regardless of whether information is going up or down, is that when arriving at its final destination, the information has been distorted by 41%. Downs argues that a 10% distortion at each level is conservative, especially for reports of a qualitative rather than a quantitative nature. "As a result, well over half of what people in the bureau are doing may have nothing whatever to do with what its leaders want to accomplish, or what they have ordered to be carried out. Even under the most sanguine interpretation, a large fraction of the behavior of bureau members is likely to be completely irrelevant to it leaders' intentions" (15).

Downs argued earlier that officials distort information in two basic ways: (1) by minimizing or suppressing information unfavorable to themselves and exaggerating what is favorable, and (2) by de-emphasizing information likely to displease their superiors and exaggerating that which will please them. The latter distortion suggests Rourke's contention that subordinates tend to tell superiors what they want to hear. This distortion has implications that deserve further investigation.

Earlier, Rourke argued that presidential advisors gain status if they say the "right things" to the president, and that the president gains credibility if he chooses advisors willing to say the "right things." This situation rings of mutual self-deception as discussed in Chapter 1. There, the liar and the victim both engage in self-deception: the liar so that he does not give himself away by involuntary body language, and the victim, because consciously acknowledging the truth is too costly. We saw that, under such circumstances, liars could assert their lies with the confidence of truth-tellers to victims who are stone deaf to the truth, and that people in such a relationship would not be lying, according to our definition, but would simply be living in a fantasy world.

Cast in our present context, on the one hand an advisor can be more convincing if he believes that his distortions are not really distortions. To believe this, he must ignore all information that casts doubt on his forgone conclusion. He must also block all

thought that his advice in anyway resembles a pandering service rendered in payment for benefits received. A president, on the other hand, has ears only for reports that show that his policies are succeeding, because admitting failure to constituents results in failure at the polls. Such selective hearing requires that he block any thought that his choice of advisors is based on their willingness to engage in sycophancy.

It takes only a minor feat of extrapolation to visualize this relationship in varying degrees between all supervisors and their subordinates at all levels of the bureau. Take for example the troop training cases noted earlier. In both the firing range example and the driver training example, simple deception may take place at the trainee level, but mutual self-deception must surely occur beyond that point in the echelon, because each military authority at each level was, at some point, a trainee himself.

Rourke's president-advisor example and the troop training examples suggest that the hegemonic relationships created by the hierarchy of the bureau are conducive to mutual self-deception, at least to the degree that they provide subordinates with incentive to tell their superior what he wants to hear. Given this, mutual self-deception can then be seen as a barrier to communication in that it prevents communicators from communicating what is true, or rather, what they would believe to be true if they were not involved in a self-deluding relationship.

Taking the example a step farther, Rourke's president-advisor case suggests that scientific advisors have incentive to distort their respective sciences to make them support the official view of things. Because the president wants to believe his economic policies are working, his economic advisors, if they wish to remain the power behind the throne, had better find evidence that this is so. Advisors have some leeway to do this in their choice of theories, data, and quantification techniques.

The social sciences are especially noted for their leeway for purposeful distortion because of their lack of what Richard Burian calls "reality therapy" (ctd. in Bauer 89). Bauer borrows Burian's phrase to describe the process whereby the rational opinion of scientists as to what is true is sensitive to the test of nature. Scientists bump into reality, so to speak, and are thus guided by it (89). He says that reality therapy forces natural

scientists to generally agree on what is true even if some new truth goes against their personal beliefs. However, he says, “in the social sciences, by contrast, it is very difficult to find even trivial things to study that do not have some immediately evident bearing on political, social, or religious doctrine; and so from the very beginning of studies of apparent minutiae, opposing schools of thought will disagree” (135).

Even natural scientists as presidential advisors have some leeway to fashion their reports to support official positions in spite of reality therapy. This leeway is most likely largest in new areas of scientific investigation where theories have not been confirmed or refuted, and hence, a scientific consensus has not been formed. An example in our current world is environmental science. In such cases, as Rourke points out, even quantitative techniques become suspect.

The greatest danger that these quantitative techniques of analysis present is the possibility that they may arm error with the seeming support of scientifically established fact, giving ill-advised policies greater credence. When this occurs, the finely honed rationalizing instruments of managerial science can become dispensers of irrationality measured out with mathematical precision. (175)

From this we can see that quantitative techniques could also arm intentional distortion in the same manner.

So where does all of this lead? We have followed a thread from bureaucracy to hegemony, from hegemony to mutual self-deception, from mutual self-deception to sycophancy, and from sycophancy to the practical distortion of science. This thread connects institutional structure with scientific belief. In short, it suggests a sociology of science.

Sociology of science is certainly not a new idea. Mises points it out in the actions of Marx, whose “main contributions to the success of pro-socialist propaganda was to outlaw the study of the economic problems of a socialist commonwealth” (*Bureaucracy* 57), and in a speech by Emil du Bois-Reymond in 1870 when he was Rector of the University of Berlin and President of the Prussian Academy of Science, who said, “We, the University of Berlin, quartered opposite the King’s palace, are, by the deed of our

foundation, the intellectual bodyguard of the House of Hohenzollern” (qtd. in *Bureaucracy* 82). My argument for the sociology of science is particularly relevant here, because it is evidence that the bureau restricts communication in a fundamental way, i.e., it spurs officials including scientists to communicate with false information.

In summary, communication is institutionally restricted in the bureau by two primary causes: hierarchy and the absence of spontaneous processes. Communication restrictions associated with hierarchy are division of labor, chain of command, inequality of power, and secrecy. The absence of spontaneous processes manifests communication restrictions in the need for rules, in the absence of market prices, and in the lack of an indisputable standard for judging performance. Rules are a barrier to communication because they preclude unofficial communication. Market prices are an important form of communication that are not duplicated in the bureau. Their absence leaves the bureau without an indisputable standard for judging performance and results in monitoring difficulties. Hence, it creates the opportunity to purposely distort information for personal benefits. The incentive to purposely distort information springs from the nature of policy procedures, which are necessarily conducted in the form of a zero-sum game and, hence, are inherently political. Purposeful information distortion can lead to mutual self-deception on the part of both subordinates and supervisors, and can ultimately lead to the socialization of science.

Time Preference

In this section, I evaluate the institutional structures that affect time preference in the bureau. People’s time preference is important in the formulation of their benefit-cost ratio of lying, because as Axelrod’s computer tournament demonstrated in Chapter 2, if one does not value the future sufficiently, the rational choice is a noncooperation strategy. A high time preference imparts an urgency to people’s desire to consume in the present. This increased urgency causes people to discount any expected long-term benefits of truth-telling and any expected long-term costs of lying. It also causes them to put a premium on expected short-term benefits in relation to short-term costs. In short, people are more apt to lie if they have a high time preference.

On the surface of things, it seems intuitive that officials in the bureau have a secure future and therefore a low time preference. Our real-life experience with bureaucracy, say the U. S. Postal Service or the military, indicates that fastidious adherence to bureau rules guarantees that officials will have continuous employment followed by a generous pension. This view of bureaucracy gives rise to the many jokes about civil servants. For example: How is a civil servant like a spent rocket? He serves no useful purpose and cannot be fired.

However, according to our model of the bureau, the future is not as secure as it seems. How secure could one's future be under the following conditions?:

1. Status is fundamental to well-being.
2. There are few incentives for progress.
3. There are severe internal conflicts.
4. Super-ordinates have considerable power over subordinates.
5. Subordinates can subvert official policy.
6. There is severe distortion of information, including the sciences.
7. There are incentives for inefficient use of resources.
8. Officials work in an environment of costly information and uncertainty.
9. There is much pilfering of resources.
10. Officials are resistant to change.
11. Authorities are conservers, who maximize their personal security and convenience, oppose innovation and change, and favor the status quo.

Selznick's argument that the bureau is an adaptive social structure further underscores my argument here that the institutional structure of the bureau creates future uncertainty; for if the bureau were actually serving the perceived future needs of individuals, there would be no need for cooptation; the bureau would not be an adaptive social structure.

There are property rights in the bureau, but they are not secure as they are in the private property order. In their place are *de jure* property rights as granted by the supreme authority and *de facto* property rights as determined by one's physical circumstances. Neither of these forms of property rights is secure. The supreme authority can grant *de jure* property rights or take them away at his discretion. *De facto* property rights come

and go at the discretion of the supreme authority as he reassigns subordinates to new positions and locations. People cannot plan their futures secure in the knowledge that property right relations will not change.

A primary cause of future uncertainty in the bureau is the state's ability to make war with other states. For people living under the unrestrained state, the threat of war is a chronic reality. The state cannot only initiate war, it can conscript its citizens to fight it. The state can initiate war for revenge, for land and booty, to enforce racial or ideological purity, or to glorify itself. The state, being a utility maximizer, also engages in economic nationalism. That is, it antagonizes neighboring states with trade and immigration barriers that are harmful to them but beneficial to itself and its constituents. Sennholz explains using the example of U. S. sugar policy:

To afford our domestic producers a temporary gain, we partially close our markets to Central American sugar. In other words, we cause domestic prices of sugar to rise and depress foreign prices, subsidizing our sugar farmers at the expense of American consumers and Cuban farmers. This is economic nationalism. (92)

Such restrictions create economic pressures that affect the citizens in both countries. Each domestic farmer, wage earner, and manufacturer sees himself as being better off if foreign restrictions are eliminated while domestic restrictions are retained. These economic pressures on top of old hatreds caused by territorial, racial, or ideological disputes set the stage for national aggression with the backing of the populace.

This view of the supreme authority in international affairs is similar to a theory of state called "realism." According to Frieden and Lake, realism is based on three assumptions: First, realism sees the state as the dominant actor in and the proper unit for the analysis of international political economy; second, realism assumes that a nation-state acts in a monolithic manner to maximize its power; third, realism sees the nation-state as acting rationally because it evaluates its options and selects the one that results in the most power for the least cost. In this view, states see themselves as being in an anarchical, zero-sum relationship with each other in which one state's increase in power relative to another state is a gain for it at the other's expense. (31-32).

In the twentieth century, with so many other reasons to go to war, immigration and trade barriers have often been the “straw that broke the camel’s back” so to speak, because they create economic pressures that affect the citizens in both countries. Thus, the stage was set for national aggression with the backing of the populace. This situation is what Mises calls “total war.” He explains that “under free trade and freedom of migration no individual is concerned about the size of his country,” since he is free to cross borders at will in order to take advantage of any perceived advantage from doing so. However, “under the protective measures of economic nationalism nearly every citizen has a substantial interest in these territorial issues” (“War and the Welfare State” 80).

Under these conditions the likelihood of war is high. Supreme authorities can set policies that antagonize each other’s societies. They can conscript troops, marshal armies and resources, and initiate war. The two world wars are testaments of the likelihood of total war when the state is not sufficiently restricted. Applying realism theory to the latter part of the 19th century, many nations adopted protective tariffs which set off a chain reaction. Clarence Carson explains:

This set off a quest for colonies, which would provide both a market and raw materials for the country which possessed them. Germany was a major new entry in the field, but Russia was also expansive, and a united Italy began to take an interest in colonies. To back up the effort, Germany, particularly, enlarged its navy, and countries began an armaments race. (183)

World War I began as a result of nation-states trying to maximize their power relative to neighboring nations by acting opportunistically in regard to the conflict between Serbia and Austria-Hungary. Nations weighed the costs and benefits of waging war or remaining neutral. Some nations quickly took sides and entered the war, and others, including the U. S., waited until the cost-benefit ratio changed before entering. Italy actually switched allegiances when offered a piece of the Austria-Hungary pie. World War II, according to Carson, was the continuation of World War I. Carson says that “the treaties of peace with the defeated Central Powers so badly upset the power

system in Europe and left festering wounds to the pride and status of these truncated countries that another war became, if not inevitable, at least highly likely” (200).

Another important cause of future uncertainty in the bureau is the fact that the supreme authority is in control of money. He controls both the nature of money and the amount or supply of it. Being a utility maximizer, the supreme authority adjusts the nature and supply of money to server his personal preferences. For example, if he wishes to initiate a war, he inflates the money supply so that he can out bid his subordinates for war materials. This view is consistent with Rothbard’s argument in Chapter 3 that “inflation is the health of the State; it is the natural tendency of the State; and it is largely to enable it to inflate for its own benefit that the State is so determined to secure absolute control over the monetary mechanism” (*Logic One* 326-326). Under inflationary conditions, the future worth of present saving is uncertain. Money saved for future consumption may not have purchasing power in the future. Therefore, people in the bureau tend to concentrate their consumption in the present.

Yet another feature of the bureau that undermines people’s attempts to secure their future is its inability to engage in what Mises earlier called “economic calculation,” i.e., the inability to determine which goods should be produced and what combination of inputs should be used in their production so as to maximize want satisfaction in society. Mises concludes in his 1920 *Economic Calculation* that the planned economy on a national scale is not possible in the long run. Mises’s argument, which is supported by recent history, suggests that the material well-being of officials in our bureau model is in question. Besides the fact that the supreme authority is a conserver concerned primarily with his own security and convenience, even should he suddenly have a change of heart and try to maximize the material well-being of his subordinates, due to the absence of market prices, he would be unable to do so. It is reasonable to conclude, that without material well-being and with no prospect of acquiring it, officials in the bureau can place little value on future consumption. They are essentially faced with the choice of consuming if and when they get the chance or possibly not consuming at all. This choice

set imbues people with an urgency for present consumption or, in other words, a high time preference.

There are still other aspects of the bureau economy that suggest that the material well-being of officials is insufficient to instill in them a high value for the future. As Rourke has told us, policy making is essentially a zero-sum game, where a benefit to someone is a loss to someone else. A zero-sum economic environment pits people against each other in a kind of free-for-all that breaks down cooperation. This free-for-all is visible in both conventional and compulsory free riding, whose essence is the zero-sum game. Both kinds of free riding, as I have shown, plague the bureau. Bureau officials are, therefore, threatened by each others' promotions and accomplishments. They see each other as adversaries rather than cohorts. This further exacerbates the tensions already present in the bureau due to internal conflicts.

Summarizing this section, the institutional structure of the bureau is conducive to a higher time preference than those of the private property order. This is because the bureau has no secure property rights to prevent private aggression, no immutable rules to prevent state aggression, and no market prices with which to engage in economic calculation. Without secure property rights, people cannot take a long-term view of the future, because the state may ruin their future plans by changing its mind about the rules. The absence of immutable rules grants the state free reign to provoke wars and to inflate the money supply and conscript its citizens to fight them. Without the ability to engage in economic calculation, the state cannot provide material well-being for its citizens. Material well-being is further deteriorated in the bureau by both conventional and compulsory free riding and by the fact that the bureau incorporates a zero-sum game economic environment, which pits people against each other and breaks down cooperation.

From the above discussion, we can conclude that since people in the bureau have a higher time preference than those in the private property order, their benefit-cost ratio of lying discounts expected long-term benefits and long-term costs and puts a premium on

expected short-term benefits in relation to short-term costs. Therefore, people in the bureau have a greater incentive to lie than they do in the private property order.

Ethical Codes of Conduct Engendered by the Bureau

This section evaluates the institutional structure of the bureau as to its tendency to influence people's ethical codes of conduct. This is important, because what people consider to be ethical simultaneously acts as a constraint on certain behaviors and gives moral justification for others. It, therefore, rearranges their benefit-cost ratio of lying and truth-telling.

Sowell explains one manner in which the bureau affects one's ethical outlook. He says that

an imposed social pattern that leaves many unrealized economic gains to be made from mutually beneficial transactions must devote much political power to prevent these transactions from taking place, and must pay the cost not only economically and in loss of freedom, but in a demoralization of the social fabric as duplicity and/or corruption becomes a way of life. (*Knowledge and Decisions* 330).

The bureau, of necessity, must prohibit many such transactions because they do not advance its overall plan. Everything that is not in accord with official regulations is prohibited. The U. S. military, for example, has prohibitions regarding dress, hair style, speech, human interaction, use of personal property, and nearly every other area of personal life. To demonstrate the costs incurred by a society that prohibits mutually beneficial transactions, Sowell gives the example of America's experience with the prohibition of alcohol. He could just as well have pointed to gambling, prostitution, and drug use. In today's world, we could also point to prohibitions against certain kinds of human interaction as imposed by employment regulations, affirmative action and marital sexual conduct laws, or to prohibitions against certain uses of personal property as imposed by tax laws, land use and firearm regulations, constructions codes, zoning laws, and so on ad infinitum.

The point is that when the state prohibits mutually beneficial transactions, many people will engage in them anyway but do so surreptitiously. This point is underscored

by the well known saying that goes something like this: “income tax laws have made liars out of all of us.” People may even feel that they have a moral right to engage in certain acts that are prohibited by law. For example, land use laws run counter to the moral necessity of private property rights. Under such circumstances, people using duplicity to break the law do so with moral rectitude. This sentiment is also reflected in popular culture with the lyrics “aint nobody’s business if I do.”

This is a case where citizens believe that the law of the land has diverged from a higher law of morality. This divergence was fundamental in American civil rights ferment of the 1960s. Martin Luther King Jr., in his “Letter from Birmingham City Jail” in 1963, invoked this divergence to explain to white clergymen critics what they saw as his willingness to break the law. King explained:

The answer is found in the fact that there are two types of laws: There are *just* and there are *unjust* laws. I would agree with Saint Augustine that ‘An unjust law is no law at all’...A just law is a man-made code that squares with the moral law or the law of God. An unjust law is a code that is out of harmony with the moral law. To put it in the terms of Saint Thomas Aquinas, an unjust law is a human law that is not rooted in eternal and natural law. (17)

More than one hundred years before King’s “Letter,” Frederick Bastiat argued that a divergence between laws of the state and laws of God are the source of a destructive moral dilemma. Bastiat explained it like this:

In the first place, it erases from everyone’s conscience the distinction between justice and injustice...When law and morality contradict each other, the citizen has the cruel alternative of either losing his moral sense or losing his respect for the law. These two evils are of equal consequence, and it would be difficult for a person to choose between them. (12)

Relating King’s and Bastiat’s insights to our context, bureau rules prohibit some things that people feel they have a moral right to, and they allow other things that people feel are wrong. In the first case, people are tempted to ignore the law and follow their conscience. In the second case, people are tempted to ignore their conscience and indulge

in what the law allows. In both cases, as Bastiat pointed out, there is the tendency for people to lose the “distinction between justice and injustice.”

Moving to a second way that the bureau affects moral outlook, in his “Structural Invitations to Deceit,” Robert Jackall argues that there are two aspects of bureaucracy that are particularly crucial in affecting people’s moral consciousness. The first is what he calls the “rational/technical ethos of bureaucracy.” By this, Jackall means “that [bureaucracy’s] positions and roles are intermeshed according to some rational plan for the purpose of reaching a certain goal” (51). Using the example of stockpiling nuclear weapons, Jackall says that the goal may be irrational according to some standard, however, “the actual internal organization of activities to reach that goal is rationally calculated and planned” (51). He says that the rational/technical ethos has a profound effect on full-time managers. That is, it “shapes in these men and women a strong orientation to their bureaucracy’s goals, habits of careful calculation, and a distrust of intangible issues of value which threaten to disrupt the calculated achievement of goals” (52). The upshot, he says, is that “the rational/technical ethos, by emphasizing the calculated achievement of pre-defined goals, tends to transform all issues, even those with grave moral import, into practical concerns” (52).

Consequently, people tend to bracket their moralities, operating on different standards inside and outside of the workplace. This allows them to pursue irrational and immoral goals in a rational manner without moral conflict. To further get emotional distance, officials use a neutralizing vocabulary that removes the emotional content of what they are doing. For example, during the Viet Nam war, Jackall points out, “bombs were called ‘ordnance’; bombing ‘interdiction’; the cultural extirpation of thousands of people ‘pacification’; and defoliation ‘a resources control program’” (53). “In sum, all the elements of functional rationality which mark bureaucracy—goal-orientation, calculated planning to achieve those goals, and abstracted language—make the institution an effective administrative tool, but they also ‘invite’ erosion of moral consciousness.” (54).

The second aspect of bureaucracy that, according to Jackall, is particularly crucial in affecting people's moral consciousness is the fact that bureaucracy separates them from the consequences of their actions. He says this happens because, due to the hierarchical structure, people suffer from a myopia concerning alternative behavior, and because they come to feel that since they are obliged to follow orders, they are not responsible for the outcome. Also important, says Jackall, is the effect of segmented and specialized division of labor. Segmentation is dividing an operation into smaller tasks so as to acquire speed through repetition. This is typical of line personnel. Specialization, which is typical of middle and upper-middle professional personnel, is the narrow but exhaustive application of some expertise to a problem. As Jackall points out,

both processes separate people from their work: segmentation separates workers from a final product; specialization separates experts from the use to which their knowledge is put. This structural compartmentalization, where means and ends, actions and consequences are divorced, often results in a parallel psychic compartmentalization where responsibility for action is lost in the bureaucratic maze. (55).

Organizational goal seeking, segmentation and specialization are also present in the private property order. However, effects similar to those that Jackall describes above can only occur in the short term. In the long run, people cannot bracket their moralities and are not separated from the consequences of their actions because of the need to make a profit. Even large corporations must make socially acceptable products and conduct business in a socially accepted manner.

Another way that the bureau can influence one's moral outlook is one we have already discussed several times in different contexts. I am referring to the opportunity and incentive present in the bureau to benefit one's self by distorting information supplied to a central authority. In this scenario, people are likely to lie and to rationalize their choice to do so. Also, as we have discussed, super-ordinates are in a position to offer illicit favors to their subordinates, and their power position enables super-ordinates to require bribes of their subordinates. The incentives to distort information, grant illicit favors and receive bribes, like Jackall's rational/technical ethos above, creates a milieu

where morality becomes a practical matter. Whatever works to get benefits, favors, and bribes is good. Whatever does not, is bad.

Furthermore, distorted information, in the form of official reports, becomes the official paperwork constituting the files of the bureau. Falsified official reports are what Altheide and Johnson earlier called “bureaucratic propaganda.” A common technique of bureaucratic propaganda is to present contrived reports as though they were done scientifically so as to give them credibility. “The idea is to make the reports appear to be scientific, when in fact they are not” (23). According to Altheide and Johnson “it is the role of bureaucratic propaganda in the guise of official information that creates the impression that the organization is complying with institutional expectations” (31). Official reports should therefore, they say, be viewed as an “organizational product with practical consequences...” Unfortunately, many social scientists do not view them as such and “too readily use official reports for their own research” (36).

Another way that the bureau can influence one’s moral outlook, and the final one that we will discuss, is through the use of propaganda in the traditional sense. Ellul defines propaganda as

a set of methods employed by an organized group that wants to bring about the active or passive participation in its actions of a mass of individuals, psychologically unified through psychological manipulations and incorporated in an organization. (61).

Ellul makes the distinction between what he calls “agitation propaganda” and “integration” propaganda. Agitation propaganda seeks to destroy the established social order through rebellion. Integration propaganda “aims at making the individual participate in his society in every way” (75). Ellul says that agitation propaganda is temporary, lasting only till the desired result is achieved, while integration propaganda is

a long-term propaganda, a self-reproducing propaganda that seeks to obtain stable behavior, to adapt the individual to his everyday life, to reshape his thoughts and behavior in terms of the permanent social setting...Integration propaganda aims at stabilizing the social body, at unifying and reinforcing it. It is thus the preferred instrument of government... (75)

Since our bureau model is old and established, it is integration propaganda that applies to our situation.

Ellul says that “for propaganda to succeed, a society must first have two complementary qualities: it must be both an individualist and a mass society” (90). By “individualist society,” Ellul means one where the individual has been separated from groups like family, village, or parish. These groups must be broken down, says Ellul, because “such groups are organic and having a well-structured material, spiritual, and emotional life, they are not easily penetrated by propaganda” (91). The breaking down of these groups results in a massed society, i.e., a society comprised of individuals in isolation from parochial social norms. This is the social condition that Durkheim and many other writers refer to as “anomie” (304). Ellul also uses the term “total propaganda,” meaning that to be effective, propaganda must completely surround the individual. It must be orchestrated so that it comes through all the mass media, education, and even from the pulpit (9-13).

Ellul’s usage of the term “propaganda” is similar to Hayek’s term “totalitarian propaganda.” Hayek says that

what so completely changes its nature and effect in a totalitarian state is that all propaganda serves the same goal—that all the instruments of propaganda are co-ordinated to influence the individuals in the same direction and to produce the characteristic *Gleichschaltung* of all minds. (*Road to Serfdom* 153-154)

Hayek argues that totalitarian propaganda is necessary for the planning authority that wishes the people to cooperate in the realization of its social plan. To get their cooperation, the planning authority must justify its plan, its decisions, and its values in the minds of the people. This need to rationalize its official position forces the planning authority “to construct theories, i.e., assertions about the connections between facts, which then become an integral part of the governing doctrine” (*Road to Serfdom* 156). In this process, the truth of theories becomes relative to whether it advances or hinders people’s acceptance of the overall social plan. Hayek argues that the moral consequences of totalitarian propaganda are that “they are destructive of all morals because they

undermine one of the foundations of all morals: the sense of and the respect for truth” (*Road to Serfdom* 155).

Church gives a contemporary example of authorities rationalizing their official position at the expense of truth. He says that given the confusion in the science community regarding environmental cause and effect, “paper versus plastic” is a difficult decision and either choice may be “correct.” Under such circumstances, consumers may make environmentally beneficial choices on their own. However, he says, commentators and legislators are not willing to rely on individual choice because they recognize that it may deviate from their desired policy. These people massage the message so that consumers’ choices will advance the “correct” policy goals. Church says that “this approach lacks internal consistency because it manipulates and guides consumer purchasing decisions under the guise of advertising regulation. In other words, to accomplish environmental policy goals, truth becomes irrelevant” (269).

Relating the above to our bureau model, the supreme authority wants everyone in the bureau to cooperate toward the accomplishment of his social plan, which, since he is a conserver, is formulated primarily to maximize his own security and convenience. Knowing that his subordinates can stymie his plans, he realizes that he must have their cooperation. Since he cannot acquire cooperation on their terms without sacrificing his plan, he proceeds to convince his subordinates as to the value of his plan, that is, that his plan is their plan. To alter their values, he first breaks up organic groups like families and brotherhood groups, which result in an individualist and a mass society and leaves individuals vulnerable to propaganda. He then constructs “theories” that justify his plan and surrounds his subordinates, from birth to death, in total propaganda.

With propaganda, the instrumentalization of ethics comes full circle. In Jackall’s view and Milgrom and Roberts’s view, as discussed above, subordinates take a pragmatic view of ethics in order to accomplish the goals of their departments and to acquire personal benefits. In Ellul’s and Hayek’s views, superordinates adopt this view of ethics in order to manipulate their subordinates. This process is reminiscent of Rourke’s president-advisor situation above that we saw can result in a socialization of science.

In summary of this ethics section, we have seen that the bureau tends to engender a disrespect for the law and to instrumentalize morality. Of necessity, it must prohibit what many people consider to be mutually beneficial transactions because these transactions do not advance its overall plan. When such transactions are prohibited, many people will engage in them surreptitiously, especially if people believe that the law of the land is contrary to moral law. When people must choose between the law and their moral code, they lose respect for the law. The bureau tends to transform morality into a pragmatic concern because the bureau emphasizes calculated achievement of pre-determined goals, because it separates people from the consequences of their actions, because it provides the opportunity and incentive to distort information for personal benefit, and because it requires that authorities obtain consent of the people through propaganda.

Before advancing to a direct comparison of the bureau with the private property order in the next and concluding chapter, I first summarize our findings in this second analysis of the bureau.

We found that the economic problem is not solved in the bureau. That is, particular information is not integrated and aimed at the betterment of society, as it is in the private property order, but instead is used for lying. I conclude that this failure and the lack of an indisputable standard of performance result in large expected benefits for lying relative to costs. Thus, people can, with relatively little risk, use their particular knowledge to lie to the supreme authority in order to get personal benefits. This constitutes an institutional-structure bias toward lying in the bureau.

We also found that the internal nesting of the agency problem cannot be solved in the bureau due to the absence of profit management. Managers' lack of specific knowledge leads them to create tall hierarchies with many levels of authority. Instead of solving the nesting of the agency problem, tall hierarchies create overall information distortions in the bureau, which is essentially another monitoring problem. Monitors from outside the organization are no solution, since they also require monitoring. I further conclude that this is a structural deficiency of the bureau, because no institutions

exist to solve this problem, and because institutions that do exist preclude individuals from solving it independently. Under these circumstances, the expected benefit-to-cost ratio of lying is large.

As to free riding, we saw that conventional free riding is rampant in the bureau because all problems must be solved collectively, and because the tools to fight conventional free riding, excludable incentives, coercion, and ideology, are ineffective. We also saw that compulsory free riding plagues the bureau, because the state has the power and the need to grant favors, and because favor granting and receiving are seen as virtues. Compulsory free riding is a structural necessity in that the supreme authority must grant favors to win the consent of his subordinates. I conclude that the benefit-cost ratio of free riding in the bureau favors free riding in both the conventional and compulsory sense.

In regard to communication barriers, we saw that communication is institutionally restricted in the bureau due to elements associated with hierarchy and the lack of spontaneous processes. We saw that restrictions associated with hierarchy are caused by division of labor, chain of command, inequality of power, and secrecy. We saw that the lack of an indisputable standard for judging performance creates the opportunity to purposely distort information for personal gain, and that purposeful information distortion can, in turn, lead to mutual self-deception on the part of both subordinates and supervisors, and can ultimately lead to the socialization of science. I therefore conclude that because of communication restrictions in the bureau, people find it difficult to engage in reputation, community, and ideology. Being deprived of these strategies, people are vulnerable to lying, and, hence, the overall expected benefits of lying exceed the expected costs.

Furthermore, we saw that conditions in the bureau are conducive to a high time preference, because the bureau has no secure property rights nor immutable rules to prevent aggression, and because it has no market prices with which to engage in economic calculation. Without secure property rights and immutable rules, people cannot take a long-term view of the future, because people may be aggressed upon by fellow

citizens or be conscripted to fight wars provoked by the state. People's uncertainty is enhanced by the fact that the state is unable to engage in economic calculation and therefore cannot provide material well-being for them. I conclude that since people in the bureau have a high time preference they adopt a short-term view toward consumption which instills an urgency that increases their expected benefits of lying.

Finally, in regard to ethical codes of conduct, we have just seen that the bureau tends to engender a disrespect for the law and to instrumentalize morality. People lose respect for the law when it diverges from their moral code, and they must choose between them. People adopt an instrumental view of morality because the bureau emphasizes calculated achievement of pre-determined goals, because it separates people from the consequences of their actions, because it provides the opportunity and incentive to distort information for personal benefit, and because it requires that authorities obtain the consent of the people through propaganda. I conclude that the bureau's influence on people's ethics increases the likelihood that they will lie by reducing their overall perceived cost of lying.

In the next and concluding chapter I pull together all of our findings regarding the bureau and the private property order and compare them directly. I also comment as to my perceived achievements of this work and offer some suggestions for further research.

Chapter 5

Conclusions

The focus of this study is to search for theoretical links between institutional structure and the optimal level of lying. Chapter 1 developed the information relation, a two person society engaged in the exchange of information, and showed that this relation is plagued by lying because of the agency problem. Chapter 2 developed seven protection-from-lying strategies. Chapters 3 and 4 developed two models of society that fit at opposite ends of a no-central-planning/total-central-planning continuum and conducted two analyses on each model. The first analysis evaluated how well protection-from-lying strategies are able to function in the models. The second analysis appraised the overall expected benefits of lying in the models. These analyses enable us to determine whether one model has a lower optimal level of lying than the other. If one model is more accommodating to protection strategies than the other, that fact can be counted as an indicator that the same model also has a lower optimal level of lying than the other. If one model has lower overall expected benefits from lying than the other, that fact can be counted as a second indicator that the same model also has a lower optimal level of lying than the other.

In this chapter, I compare the results of the previous analyses, form a conclusion regarding the relationship between institutional structure and lying and bring out some implications of this conclusion. I also discuss how this study relates to the work of other writers and offer some suggestions for further research.

Results of the Analyses

Table 1 below shows the results of the first analysis of each of the two previous chapters and compares the private property order and the bureau directly. As we see, all of the protection strategies are viable in the private property order, which is to say, their necessary requirements are compatible with its institutional structure. The institutional structure of the bureau is much less accommodating to protection strategies. None of the simple strategies are viable. The one strategy among them that is possible is signaling,

and it is not used for separating oneself from liars but to signal ones status. Looking at the complex strategies, of reputation's eight necessary requirements, only "moral seals of approval" is met, and this requirement is restricted to the preferences of the supreme authority. From this, it is easy to conclude that reputation as a protection-from-lying-strategy is not viable in the bureau.

Table 1. Comparison of Protection Strategies—Private Property Order / Bureau					
x = Strategy requirements met					
Ppo	Bur	Strategy	Ppo	Bur	Strategy
		SIMPLE STRATEGIES			COMMUNITY
x		Hostage taking	x		Isolation
x		Incrementalizing	x	x	Economic interdependence
x		Seeking pointed knowledge	x	x	Consensus and sanction
x		Signaling	x		Similar values
		REPUTATION	x		<i>Gemeinschaft</i> of blood
x		Repeated dealings	x	x	<i>Gemeinschaft</i> of locality
x		Freely chosen partners	x	x	<i>Gemeinschaft</i> of mind
x		"Don't play" option			IDEOLOGY
x	x	Moral seals of approval	x		Isolation
x		Informal groups	x	x	Rigid social classes
x		Extended dealings	x	x	No vertical social mobility
x		High value of future	x	x	No communication between classes
x		Tit-for-tat reciprocity	x	x	High costs for alternate information
			na	x	Small changes in terms of exchange
			x	x	Association with like minded people

Community has four necessary requirements, two of which are met in the informal structure of the bureau. The models were also evaluated according to three different degrees or intensities of community known as "*Gemeinschaft* of blood," "*Gemeinschaft* of locality," and "*Gemeinschaft* of mind." Two of these three degrees of community are possible in the bureau. From these results, one might conclude that community is a viable protection strategy; however, these results are deceiving. The two necessary requirements of community that are met in the bureau, economic interdependence, and

consensus and sanction, are, as discussed in Chapter 4, only met in the bureau's informal structure and tend to lead to a community of deceit, because of pilfered resources, and because of a tacit consensus backed by informal sanctions to alter official records to reflect what superordinates want them to reflect. Under these circumstances, exhibiting two of three degrees of community, *Gemeinschaft* of locality and *Gemeinschaft* of mind, does not reflect well on the bureau, as one might expect. Rather, it suggests that the above community of deceit may be persistent in the bureau. I conclude, therefore, that community is not a viable protection strategy in the bureau.

Looking at Ideology in the bureau, of ideology's seven necessary requirements, six are met. This suggests that ideology is a viable protection-from-lying strategy in the bureau. However, these results belie the fact that the bureau's capacity to sustain total ideology is in the hands of the supreme authority. We must remember to what use he puts it. Hayek explained in Chapter 4 that propaganda is necessary for the planning authority that wishes the people to cooperate in the realization of its social plan. To get their cooperation, the planning authority must justify its plan, its decisions, and its values in the minds of the people. This need to rationalize its official position forces the planning authority "to construct theories, i.e., assertions about the connections between facts, which then become an integral part of the governing doctrine" (*Road to Serfdom* 156). In this process, the truth of theories becomes relative to whether it advances or hinders people's acceptance of the overall social plan.

Ellul argued, also in Chapter 4, that for propaganda to succeed, society must exist as individuals isolated from the parochial norms of small social groups. To this end, groups like family, village, and parish must be broken down, because "such groups are organic and having a well-structured material, spiritual, and emotional life, they are not easily penetrated by propaganda" (91). These groups are precisely those groups most able to use community relations and ideology to thwart lying. Therefore, to establish his doctrine, the supreme authority must destroy social relations in which community and ideology are most effective as protection-from-lying strategies. The bureau's capacity to

sustain total ideology is usurped by the supreme authority and used to sustain propaganda. In short, total ideology is transformed into, using Ellul's term, "total propaganda."

I conclude, therefore, that total ideology is not a viable strategy to prevent lying in the bureau, rather, that it is used instead for massive lying campaigns by the supreme authority. This conclusion leaves the bureau with no protection-from-lying strategy as compared to the private property order, which accommodates them all. This suggests that it is more difficult to protect oneself from lying in the bureau than in the private property order. It is clear, then, that our first indicator points to a lower optimal level of lying in the private property order than in the bureau.

Comparing the results of the second analysis, Table 2 shows that each of the six factors that affect expected benefits of lying tends to reduce the expected benefits of lying in the private property order and to increase expected benefits of lying in the bureau.

Table 2. Effect of Six Factors on Benefit-Cost Ratio of Lying—Private Property Order/ Bureau		
I = Increases benefit-cost ratio of lying		
D = Decreases benefit-cost ratio of lying		
Ppo	Bur	Factors
D	I	Particular knowledge
D	I	Organizations
D	I	Free riding
D	I	Institutional restrictions of communication
D	I	Time preference
D	I	Ethical codes of conduct

However, Table 2 does not bring out the huge contrasts between the effects of these factors in private property order and in the bureau. The problem of particular knowledge, or what Hayek earlier called the "economic problem," is systemically solved in the private property order and is systemically aggravated in the bureau. Organizations in the private property order, with the use of the profit-and-loss statement, avoid the

nesting of the agency problem, while organizations in the bureau maximize the bad effects of this problem by trying to solve it. Free riding, both conventional and compulsory, is practically nonexistent in the private property order while both are rampant in the bureau. Except for property rights, institutional restrictions of communication are nonexistent in the private property order, but they are ubiquitous in the formal and informal institutional structure of the bureau. Time preference tends to be relatively low in the private property order and relatively high in the bureau. The private property order engenders an ethics of hard work and honesty, while the bureau engenders an ethics of pragmatism and purposeful deceit.

The lopsided results of the second analysis makes it easy to conclude that the expected benefits of lying in the private property order are lower than they are in the bureau. It is clear, then, that our second indicator also points to a lower optimal level of lying in the private property order than in the bureau.

We are now ready to answer the question that is the main focus of this study, i.e., whether there is a relationship between institutional structure and the optimal level of lying. The results of this study suggest that there is a positive correlation between the amount of central planning in society and the optimal level of lying, i.e., as central planning increases or decreases, so does each individual's perceived optimal level of lying.

In criticizing this conclusion, some may argue that the analyses only apply to extremes in institutional structure, that it cannot be assumed that there is a continuum of more or less lying between them. Perhaps the opportunities for and the expected benefits of lying do not increase at anything resembling a regular rate of change when moving from the market model toward the bureau; perhaps there is no marked difference in the opportunity to lie anywhere on the continuum except very close to the bureau model. If this is the case, then most real-world political structures, fitting safely between the extremes, sail in smooth waters while only totalitarian systems need be concerned.

This criticism can be put to rest by observing the results of relaxing our private-property-order model just enough to include conditions in the present-day U. S. We

quickly see that the necessary requirements of reputation and community are already considerably diminished. Looking at reputation, for example, Americans are prevented from *repeated dealings* in prostitution, the drug trade, and other victimless crimes, and in many business dealings prevented by antitrust laws and other regulations; Americans cannot choose the "*don't play*" option with respect to minorities, homosexuals, the handicapped, and AIDS victims; Americans cannot *freely choose partners* where race, gender, age, sexual preference, body and mind integrity, and AIDS is involved; groups cannot confer *moral seals of approval* on their members by excluding undesirables, for example, a New Jersey Supreme Court ruling prevents Boy Scouts of America from excluding gays; *extended dealings* are interfered with by Federal Communication Commission regulations on telephone, radio, television, and Internet communications; Americans' *valuing of the future* is surely lower than if they had not had to face creeping regulation of private property, inflation, conscription, two world wars, the Korean, the Vietnam, and the Iraq wars, and many armed skirmishes including the latest in Serbia; *tit-for-tat reciprocity* is diminished by bankruptcy laws and courts that let criminals off easy.

Present conditions in America also present obstacles to the necessary requirements of community. *Isolation* is diminished by public education, compulsory attendance, and anti-discriminatory laws. *Economic interdependence* is decreased by bureaucratization and by welfare entitlements; *Consensus and sanction* of local groups is replaced by government backed standards of interaction, such as those inherent in anti-discriminatory laws; *Similar values* become less similar as people compete to get government favors.

Looking at ideology in this context, current conditions in America are that of a central authority striving to see the realization of its social policy. We saw above that in the hands of a central authority, ideology as a strategy takes the form of propaganda to persuade people to cooperate with social policy. Americans have endured state propaganda justifying conscription, all the wars of this century, monetary and economic

policy, social security, forced busing of school children, affirmative action, environmental legislation, and many other state actions.

I will refrain from examining in this context each of the six factors that affect the expected benefits of lying. However, it would be an easy task to show that in present day America each factor tends to raise the expected benefits of lying. The point of this discussion is to show that it is not justified to criticize the above conclusion on the basis that lying problems may bunch around the bureau end of the continuum.

Support for the above conclusion can be found in the evolution of the Law Merchant, the body of rules, customs, and practices that rose spontaneously between the eleventh through the fifteenth century and formed the basic concepts and institutions of modern Western mercantile law. Bruce Benson, in his "The Spontaneous Evolution of Commercial Law," says that merchants of this period developed this body of laws out of necessity, since there were no existing body of laws that could support inter-regional and international trade. This body of laws was produced, adjudicated, and enforced voluntarily. Benson explains:

The Law Merchant 'governed' without the coercive power of a state. Merchants formed their own courts to adjudicate disputes in accordance with their own laws. These courts' decisions were accepted by winners and losers alike because they were backed by the threat of ostracism by the merchant community at large—a very effective boycott sanction. (172).

According to Benson, in the twelfth century, the governments of Europe and England began enacting the customary practices and rules of the Law Merchant as official commercial law. Merchants, however, continued to use their own courts, so governments passed laws that made royal courts more desirable and merchant courts less desirable. For example, new laws gave merchants access to royal appeal, which weakened the authority of merchant courts.

Thus, through a gradual process of absorption by creating governmentally backed institutional arrangements and laws which would be acceptable to the merchants, and by weakening the authority of the merchant courts, commercial law began to become part of common law. (176).

The Law Merchant was weakened further by an English law in 1606 that allowed the royal court to reverse the rulings of merchant courts. From that point, the Law Merchant became less universal and more localized and “began to reflect the policies, interests and procedures of kings” (178). “National states inevitably required that their indigenous policies and concerns be given direct consideration in the regulation of commerce. As a result, distinctly domestic systems of law evolved as the official regulators of both domestic and international business” (Trakman qtd. in Benson 178). By the nineteenth century, especially in England, commercial law had lost the characteristics most needed for international trade: flexibility, ability to change, informality and speed, and reliance on commercial custom and practice.

The Law Merchant was absorbed by European civil law more nearly intact than it was by English common law. English courts were thus at a disadvantage with European national courts in competition for international dispute arbitration. “As England’s relative position in world trade began to decline, common law courts began to lose international business disputes to other nations’ courts” (Benson 179). Further pressure on English courts was caused by the American Civil War. The naval blockade of the South resulted in congestion of the English courts. To avoid lengthy delays, merchants engaged in arbitration that bypassed the courts. English courts were thus pressured into reintroducing the international Law Merchant into English Law.

Putting the evolution of the Law Merchant into the context of our models, international commerce of the time was a large-scale, private-property-order community based on similar values. It was through the Law Merchant that this community established economic interdependence and consensus and sanction. As the English state increasingly intervened in this community, the economic interdependence, consensus and sanction, and similar values that form community relations were gradually replaced with the central planning of the bureau. When central planning became predominant, commercial law became sovereign-serving and unable to meet the needs of international commerce. Traders then re-established community relations outside of the bureau.

The history of the Law Merchant is support for the above conclusion by the fact that when it was interfered with by the nation states, international trade floundered. In more detail, international trade of the time was necessarily based on a system of trust, i.e. a voluntary system of norms and sanctions that lowered the expected benefits and raised expected costs of lying by rewarding honesty and punish cheating. It was necessarily so because there was no international sovereign to oversee international trade. There simply was no basis other than trust for international trade. Therefore, during the time that international trade was flourishing, we can assume that this system was firmly in place, that trust was high and lying was low. Conversely, when international trade floundered, we can assume that this system broke down, that trust was low and lying was high.

Further support for the above conclusion can be seen in the fact that early on when merchants could choose between voluntary courts and royal courts, they chose the voluntary courts. This suggests that merchants found more trusting relations in voluntary courts than in royal courts. Support for the idea of a continuum of lying between the private property order and the bureau can be seen in the fact that later on, when the authority of voluntary courts had become undermined and were therefore no longer a viable choice, international traders abandoned the English courts, whose laws had absorbed less of the Law Merchant, and looked to European courts, whose laws had absorbed more of it.

Final support from this example stems from the realization that the evolution of the Law Merchant parallels what our models would predict given those circumstances. Looking at these circumstances through our bureau model, the supreme authority cannot allow the existence of a spontaneous body of laws in the informal structure of the bureau, because it frustrates the implementation of his policy preferences. Realizing that he cannot lead without the consent of his subordinates, he enacts their customs as his laws and offers them bribes to use his official courts while he gradually undermines their informal processes of consensus and sanction. Once the transformation is complete, the supreme authority administers international trading according to his personal preferences. These conditions, however, do not meet the needs of his subordinates. They, therefore,

through cooptation, pressure the supreme authority to make changes to the formal structure of the bureau.

Implications of the Conclusion

In this section, I discuss five implications of the main conclusion of this study, which, once again, is that there is a positive correlation between the amount of central planning used in the solution of society's problems and the optimal level of lying in society. The five implications discussed below are that movement on our continuum away from the private property order and toward the bureau tends (1) to breakdown community relations, (2) to cause a sociology of value relativism, (3) to change the nature of competition (4) to lower society's overall material standard of living, and (5) to create a social environment of mutual self-deception.

The first implication, that increased bureaucracy tends to breakdown community, was argued by Ellul in Chapter 4. There he said that the state must breakdown community relations in order for propaganda to succeed. Michael Taylor similarly argues in his *Community, Anarchy and Liberty* that the state destroys the main social controls that primitive societies and peasant communities use to maintain social order. He concludes that "the weakening of community and the development of gross inequality are the *concomitants* and *consequences* of state formation" (133). Ernest Gellner, leaning heavily on Ibn Khaldun's study of Moslem pastoral societies in northern Africa, reaches the same conclusion. He argues that "it is precisely anarchy which engenders trust or, if you want to use another name, which engenders social cohesion. It is effective government which destroys trust" (143).

Shearmur and Klein argue that a breakdown of community caused by state intervention can be seen in the public schools. He says that

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

forces of individual liberty but rather the result of usurpations of that principle”(41).

In the study cited by Shearmur and Klein above, Coleman and Hoffer compare public and private schools. They argue that the orientation of public schools “sees schools as society’s instrument for releasing a child from the blinders imposed by accident of birth into this family or that family,” while the orientation of private schools “sees a school as an extension of the family, reinforcing the family’s values. The school is in *loco parentis*, vested with the authority of the parent to carry out the parent’s will” (3).

Coleman and Hoffer found that “within curriculum programs, private, particularly Catholic, school students take more academic courses and fewer vocational courses” and that “parental involvement in private schools is greater” (56). All of the authors’ comparisons “show strong evidence of greater growth in Catholic schools than in public schools, in both verbal skills and mathematics” (92). The study also showed a much lower dropout rate in Catholic schools than in both public and non-Catholic private schools (116). The most striking result of Coleman and Hoffer’s study, from the point of view of this study, is that “Catholic schools are more effective than public or other private schools in raising the academic achievement of subpopulations that traditionally achieve at lower levels: blacks, Hispanics, children from families that provide lower levels of parental support, and children from families with lower socioeconomic standing” (147). In other words, Catholic schools not only better serve the needs of the traditional white mainstream society than do public schools, they also better serve the needs of those segments of society that traditionally have had difficulty fitting into the mainstream.

Perhaps this absence of functional communities within the public school system, due to compulsory attendance, partially explains increasing incidences of students striking out violently against fellow students as at Columbine High School in the spring of 1999. As Shearmur and Klein put it, “coerced homogenization stamps out social differentiation and personal individuality, which are important preventatives to personal frustration, envy, intolerance, and open hostility” (41). Perhaps their argument can also

aid in explaining increased violence in the workplace. Government regulation of the workplace essentially moves the social relations of the workplace away from those of the private property order, and toward those of the bureau. Shearmur and Klein point out that

in a world of fewer regulations and lower taxes, one might see more fluid crossover at the workplace between the economic and the social. The firm represents a stock of social capital, which, under a more voluntaristic regime, could be adapted more easily to serve community goals like education, prayer, culture, charity, recreation, and conviviality” (41).

A final thought pertaining to the breakdown of community relations by the state, perhaps much of the criticism that the market has traditionally received for breaking up community and allowing fraud is not so much the fault of the market as the fault of governments intervention on the choices and the free movement of people.

The second implication from the conclusions of this study suggest that as a society moves along the private-property-order /bureau continuum in the direction of the bureau, peoples’ values change from those able to support social order to values less able to do so. We saw important arguments to this effect in Chapter 4: Sowell explained that an imposed social order criminalizes many mutually beneficial economic transactions, and that people dissemble and deceive to get these benefits; King argued that sometimes the law diverges from a higher law of morality, and Bastiat argued that when such a divergence occurs, people loose either their moral sense or their respect for the law; Jackall argued that under bureaucracy people tend to adopt instrumental values; Milgrom and Roberts argued that people in bureaucratic relations lie to influence the policy of the bureau; Altheide and Johnson argued that bureaus themselves lie in the form of falsified official reports or what they call “bureaucratic propaganda.” Hayek argued that central authorities lie to get subordinates to cooperate in the implementation of policy.

This idea that bureaucracy breeds values detrimental to social order is argued further by Taylor, who sees a problem with the state provision of public goods. In his *Anarchy and Cooperation*, Taylor argues that “the more the state intervenes in such situations, the more ‘necessary’ ...it becomes, because positive altruism and voluntary cooperative behaviour *atrophy* in the presence of the state and *grow* in its absence” (134).

Taylor argues that the state weakens local communities by encouraging the “national community,” such as national defense and domestic markets. In this process, those relations between people that ensured cooperation and social order in pre-state or minimal-state times are broken down. The state becomes a mediator between people who once worked out their own problems, hence, the state is increasingly seen as having the responsibility for social cooperation. Peter Kropotkin describes this process as it occurred in Europe between the fifteenth and the eighteenth centuries in his *Mutual Aid*. As Kropotkin puts it, “in proportion as the obligations towards the State grew in numbers the citizens were evidently relieved from their obligations towards each other” (qtd. in Taylor *Anarchy and Cooperation* 135).

Further support for the second implication above is found in Kaplar and Maines’s argument that government regulation of the media, particularly the broadcast industry, is largely responsible for the low ethical standards of journalism. They argue that regulation of the media stifles ethical development in journalism in two ways. First, laws and regulations take the place of ethical standards, thus, substituting government ethics for private ethics. Second, government regulation presents barriers to the development of technologies capable of creating an environment more hospitable to the practice of ethical journalism.

To illustrate the first effect above, Kaplar and Maines point to the Fairness Doctrine and similar regulations on political editorializing, personal attacks, licensing requirements, prime-time access, and children’s programming. The effect of these regulations “is that journalists (electronic and print) end up making more and more decisions not because of a desire to follow ethical standards of their own choosing (private sector or ‘private’ ethics) but because they must comply with government regulations and fear the consequences if they don’t” (34).

The second effect above, Kaplar and Maines argue, occurs when government regulations interfere with the development of cable television. Because of its revenue structure, cable television does not depend on sensationalism and showmanship to attract a large audience and, hence, revenue through advertising as does network television.

Cable television, therefore, can create an environment

where journalism can be practiced in a way that is more accommodating of ethical considerations and less influenced by the commercial pressures besetting broadcasters...By retarding the development of this technology, however, the government has also retarded an opportunity for the development of journalistic ethics (75-76).

Kaplar and Maines discuss the main obstacles that have retarded the development of cable television. In addition to being restricted by the Fairness Doctrine and must-carry regulations, they cite the FCC's 1966 *Second Report and Order* as restricting cable markets, and the *Cable Communications Policy Act of 1984* as giving local authorities rate and regulation control of cable companies. The authors cite the *Cable Television Consumer Protection and Competition Act of 1992*, which rolled back consumer prices 17% as being the most recent and most repressive of barriers to the development of the cable industry. Kaplar and Maines argue that "the implications here for journalistic ethics are not promising. A reduction in subscriber revenues could easily mean that the cable industry is forced to place a greater emphasis on advertising revenue with the concomitant need to attract ever-larger audiences" (82). This, they argue, would make sensationalism and entertainment the guiding principle of cable as it currently is of network television.

Moving to the third implication of this study, we see that a move along the private-property-order/bureau continuum toward the bureau changes the nature of competition from competing to provide goods and services to competing to acquire authority-granted favors. Mises suggests as much when he remarks of competition that "the capitalist variety is to outdo other people on the market through offering better and cheaper goods. The bureaucratic variety consists in intrigues at the 'courts' of those in power" (*Bureaucracy* 105). Milgrom and Roberts argued in Chapter 4 that under bureaucratic conditions, lying is an important tool in the competition for policy benefits. Their argument and this third implication is substantiated by the case of Robert P. Liburdy, a cell biologist at the Lawrence Berkeley Laboratory in Berkeley, an arm of the Energy Department. Liburdy was found to have published two papers in which he

eliminated data that did not support his conclusion that there is a link between electromagnetic radiation and cancer. "Federal officials say his misrepresentations helped him win \$3.3 million in grants from the National Institutes of Health, the Department of Energy and the Department of Defense to investigate a link between electric power and cancer. (*Fairbanks Daily News Miner*, July 24, 1999)

This implication is further substantiated by a study done by psychology professor Judith S. Kleinfeld at the University of Alaska, Fairbanks in May of 1998. Kleinfeld re-examined the study *How Schools Shortchange Girls* published in 1992 by the American Association of University Women (AAUW). The findings of the highly publicized AAUW study, were that girls were systematically deprived of equal opportunity in the classroom. In her re-examination of this report, Kleinfeld found that

the findings in this report are based on a selective review of the research and that findings contrary to the report's message were suppressed. These contrary findings actually show up in studies the AAUW itself commissioned; the AAUW not only omitted these findings from their media kits but made the data difficult to obtain. (3).

Kleinfeld concludes that

women's advocacy groups have waged an intense media campaign to promote the idea that the 'schools shortchange girls.' Their goal is to intensify the image of women as 'victims' deserving special treatment and policy attention. Their sophisticated public relations campaign has succeeded. The idea that girls are victimized by the schools has become the common wisdom, what educated people just assume to be true. (3).

In the competition for favors, every point of view, whether true or not, improves somebody's prospects at persuading those in control of the state to grant them favors. Therefore, all intellectual disciplines are potentially useful as arguments in the favor-seeking process and are therefore, potential interest groups.

The fourth implication of this study is that a move along the private-property-order/bureau continuum toward the bureau lowers society's material standard of living. This implication springs directly from the main conclusion of this study, i.e., that lying increases with increased bureaucratization. The relationship between lying and standard

of living is that more lying means fewer divisions of labor. Increased overall lying requires people to retreat from previous more exposed social relations of production to less exposed social relations. In general, society must reduce its overall divisions of labor.

As division of labor becomes less intense, people must increasingly devote their conscious mind-space to new categories, which were previously the specialty of those now precluded divisions of labor. People must now divide their total amount of time and energy between more categories of knowledge than before regulation, which means less time and energy per category. In other words, bureaucratization tends to make society knowledge poorer. As compared to the private property order, the bureau can only make use of a smaller set of total information and its social organization must become less complex.

This fourth implication is also supported by several arguments in Chapter 4. The first is Hayek's argument concerning particular knowledge. We saw that the private property order can solve the "economic problem" and that the bureau cannot. The second is Mises's argument that the bureau cannot engage in economic calculation. The third supporting argument from Chapter 3 is my argument that the bureau cannot solve the nesting of the agency problem.

A final supporting argument for this fourth implication is related to the change in the nature of competition as we approach the bureau end of the continuum. As discussed above, competition in the private property order centers around the production of goods and services, while in the bureau, it centers around obtaining favors. This is a change away from innovation and production to passing around existing goods. Said differently, it is a change from a nonzero-sum economic environment to a zero-sum environment. As Rourke reminds us, "it is clear that most policy issues have a zero-sum quality—gains by some groups will have to be offset by losses for others(151-152).

The fifth implication of this study, that a move toward the bureau end of our continuum is a move toward a social environment of mutual self-deception and a ruination of science, is perhaps the most disturbing. The argument in Chapter 4 went as

follows: In the bureau, a subordinate has an incentive to tell his superordinates what they want to hear rather than what is true; superordinates benefit in this process by being “right” or “vindicated” while the subordinate receives various benefits including higher status; this process is enhanced first by mutual self-deception then by reconstructing science to provide the required “truth.” In other words, subordinates use science to lie convincingly to superordinates to obtain benefits.

Ironically, the implication of self-deception in the bureau is supported by Marxist Alan Wolfe in his description of conditions of what he calls “late capitalism” but what in our context is called “bureaucratic relations.” Wolfe writes:

Ultimately, the politics of illusion becomes a politics of falsehood. The decision maker learns that lies are more highly valued than truths, and the collective work of the bureaucracy becomes the ritualistic construction of myths that most men know to be false but that the conditions of their work force them to accept as true. (276)

The process, according to Wolfe, does not stop there:

If men of state were able to maintain the distinction between truth and falsehood, this whole matter would be Machiavellian and therefore neither new nor noteworthy. But it is unique, for just as officials believe their own illusions, eventually they accept as true what they had originally held to be false. Entrapped by their own lies, their ability to govern becomes hindered by the by-now-almost-instinctive tendency to hide the truth from themselves. Like hardened criminals, lying becomes so automatic to late capitalist officials that their sincerity could fool the best polygraph. (277)

Mutual self-deception as it applies to the sciences suggests a reconstruction or deconstruction of science to make it more amenable to supporting cherished myths and favored positions. Experts start out deceiving policy makers and the public and end up believing their own lies. This implication is supported by Hannah Arendt’s remarks concerning the use of scientific problem-solvers to formulate policy during the Viet Nam War. Arendt argues that

the internal world of government, with its bureaucracy on one hand, its social life on the other, made self-deception relatively easy. No ivory tower of the scholars has ever better prepared the mind for ignoring the facts of life than did the various think tanks for the problem-solvers and

the reputation of the White House for the President's advisers. (*Crisis Of The Republic* 35-36)

Arendt concludes that the war was lost "because of the willful, deliberate disregard of all facts, historical, political, geographical, for more than twenty-five years" (*Crisis Of The Republic* 32).

Further support for the implication of the misuse of science is found in a study done for the Alaska Council on Economic Education that rated thirty-three textbooks used to teach environmental issues to Alaska's 6th through 10th graders. The texts were rate according to three considerations:

1. Do the texts fairly and accurately state the facts which are generally agreed upon by scientists working on the issue?
2. Do the texts fairly and accurately explain difficulties and complexity of scientific methodology?
3. If the available evidence leads scientists to differing conclusions and different theories, do the texts fairly and accurately explain these to students?

The study's authors concluded:

With few exceptions, we found that textbook treatment of environmental issues is generally one-sided and incomplete. Textbooks often omit basic scientific facts, ignore economic reasoning, and paint an overly pessimistic picture of the status of the environment. Western industrial societies in general and the United States in particular are blamed for virtually every environmental ill. (Sanera and Sielaff 5)

The state of environmental education in Alaska likely reflects that of the whole nation. The textbooks examined were published by Glencoe, Prentice Hall, Worth, Benjamin/Cummings, HarperCollins, Holt, Rinehart and Winston, D. C. Heath, Macmillan/McGraw Hill, McDougal Littell, Harcourt Brace Jovanovich, Scott Foresman, and Merrill. These are publishers that combined probably reach most American youth.

Commenting on this study in a separate article, Stephen Jackstadt, director of the Center for Economic Education in Alaska, and Michael Sanera, co-author of the study, found no fault with getting children personally involved in political issues. "What is wrong," they say, "is to use biased and misleading information about environmental

issues such as acid rain, global warming, and the so-called population crisis to recruit children as shock troops in a crusade to support a particular political agenda”(649).

Finally, in support of the fifth implication, we might ask and then answer the following question: If the supreme authority in our bureau model could personally design the social sciences in an *ad hoc* manner, what would the social sciences look like? His philosophy would be flexible so that he would always have philosophical support for the “truth” of his changing preferences. His economics would “prove” a failing of spontaneous processes, show how the supreme authority himself could maximize social well-being, and justify his control of money and fiscal policies, all of which would strengthen his power over his subordinates by making them dependent upon him. His psychology and sociology would “prove” the futility of free-choice, making his subordinates still further dependent upon him. His political science would laud the state and collective action, and demean the market.

Comparing our answers to the real-world development of the social sciences provides perspective concerning their use and perhaps misuse in the service of the state. According to social science philosopher Peter Manicas, first in England, then in Germany and finally in the U. S., the social sciences developed as instruments of state to formulate policies to address social problems. In England, the need for social research was met by the formation of various social improvement organizations, such as the Manchester Statistical Society, that were independent from the established universities. Germany, thirty years after England, responded to its social problems with the formation of state instigated seminars and institutes for the purpose of developing sciences that could direct social policy (194-200).

Manicas argues that although the social sciences had long been and instrument of the state, the modern social sciences took their present shape primarily in America between the late 1800s and the end of World War I and have changed only superficially since (193). During this time, the natural sciences as well as the social sciences become, as Manicas says, “industrialized,” i.e. there developed a “symbiosis of science, business, industry, and the state” for the purpose of solving social problems (201). Industrialization

of science split science into “pure” science and “applied” science with the state backing the “applied” portion. Today, says Manicas, “‘science’ is ‘industrialized science’ is ‘technocratic science’, and that in critical ways, this is a fundamental problem of our time” (207).

This period described by Manicas coincides with America’s progressive era, during which the role of the American state grew to unprecedented proportions. Under such circumstances, our model would predict that the current state of the social sciences would resemble the personally-designed sciences of the supreme authority above. Comparing them, we find that this is so. Philosophy in 20th century America has been dominated by the relativism of James and Dewey and others, which essentially holds that truth is not objective but relative to the situation. Economics is dominated by neo-classical economics’ market-failure theories, by welfare economics’ government-maximization-of-social-welfare theories, and by macroeconomics’ theories of government fine tuning of the national economy. Psychology is dominated by behaviorism, which undermines freewill and sees people as “victims” of their internal processes and of circumstances. Sociology is dominated by social determinism, which simultaneously undermines freewill and holds that truth is relative to social circumstances. Political science is dominated by social democracy, which sees an ever increasing role for the state and collective action.

Research Achievements

My work has two implications for economics. First, it shows a serious oversight in the economics of information. Currently, most economists approach the study of information through the perfect competition model. Consequently, they focus on how the state can finesse the optimal production of information in a monopoly ridden market, with no thought of information’s content. Such theories that support state intervention implicitly assume that the content of information is not affected by the institutional structure in which it is produced. When lying is addressed in the literature, as it is in the concepts “adverse selection,” “signaling,” “free riding,” and “moral hazard,” its is most

often done with an eye to what the state can do to prevent it, essentially ignoring the effect that people's relation to the state has on information.

Second, this study adds a new dimension to the theory of government regulation. Government regulation can be seen as piecemeal transformation of spontaneous market organization into bureaucratic rule following. In other words, government regulation moves society piecemeal toward the bureau end of our continuum, which, according to this study, increases lying, breakdowns community relations, engenders an instrumental view of morality, causes people to compete less in the production of goods and more in the pursuit of government favors, lowers society's overall material well-being, and spawns mutual self-deception and a ruination of science. In short, this study points out heretofore unrecognized opportunity costs of government regulation.

This study complements Mises's price ruination theory by showing that government intervention increasingly causes people as well as prices to relay faulty information to resource users. It also complements Hayek's "particular knowledge" argument by showing that particular knowledge frustrates central planners because it can be used for lying as well as the fact that, as Hayek pointed out, it is dispersed and temporal. This study is also an addition to the meager writings on the sociology of markets and bureaus in that it shows that these institutional structure tends to "create" certain kinds of people, in this case, truth-tellers and liars. It is also an addition to the literature on the sociology of science, since it suggests that under certain institutional structures, the sciences, especially the social sciences, are valued more for shaping or serving policy than for acquiring knowledge.

This study partially bridges the gap between economics and sociology. In doing so, it becomes part of a line of research that Both Douglass North and Kenneth Boulding forcefully argue is important for the future development of economics. Boulding aptly calls this line of research "economic sociology" (29). North sees this line of research as one that expands neo-classical economic theory to include the sociology of knowledge. North says that "without an explicit theory of ideology or, more generally, of the

sociology of knowledge there are immense gaps in our ability to account for either current allocation of resources or historical change” (*Structure and Change* 47).

Recommendations for Further Research

This study points out that information economics and perhaps economics in general does not have theories to explain the social effects of the policy measures that they recommend. Further research might address the question: How does government provision of information affect the quality of information?

This study also provides support that increased bureaucratization changes competition from a more beneficial type to a less beneficial or even detrimental type. This contradicts the claims of the perfect competition model that that government intervention changes competition from less beneficial to more beneficial. This suggest that the *ceteris paribus* assumption in regard to state action is not useful. Therefore, new research in this area might focus on empirical measurement of a relation between increased regulation of industry and increased favor seeking of industry.

Furthermore, this study gives support for the idea that there exists a link between institutional structure and people’s values, specifically, that increased bureaucratization engenders value relativism. Given the implications that this has for government regulation, public schools, and social order in general, it would seem an important possibility for research. This relationship should be rather easy to operationalize and test empirically. For example, the researcher could collect survey data from both highly regulated industries and those that are minimally regulated, or from private schools and public schools. A historical approach might compare people’s values in the same industry both before bureaucratization and afterward. Research could address the questions: Does value relativism result in undesirable economic effects?; are there epistemological ramifications of value relativism that affect learning?; is there a relation between value relativism and social order? Economics has several theories of value but no theory of “values,” i.e. how people acquire specific values or systems of values like value relativism. In his *Structure and Change* North recommended that such an investigation become a part of economic theory, and he certainly approached this question

in his minimal-changes-in-the -terms-of-exchange condition for ideology as discussed in Chapters 3 and 4 of this study, but I am not aware of any follow-up by other writers.

An obvious recommendation for further study is to test empirically the theory that was developed above, i.e., that there is a positive relationship between the degree of bureaucratization and the amount of lying in society. The topic of lying does not lend itself easily to testing by data analysis, which takes the following form: lying = function(character, benefits, ideology, opportunity, sanctions, etc.). Nor does it lend itself to laboratory testing, that must compare what the subject says with what he believes to be true. Nor does it lend itself to field studies where the researcher lives among the subjects and observes their lying behavior.

Each of these kinds of testing require that researchers “count” the number of lies that took place. However, counting lies may be near to impossible, because, as we discussed in Chapter 1, identifying a lie as a lie requires that one know what the liar believes and what is his intent. Without knowing the subject’s current beliefs and intent, all the researcher has is a count of mis-informations, which may be lies, accidents, oversights, sloppiness, or a number of other things.

How are researchers to get a handle on what others believe and on their intent. We cannot ask them in surveys if they are lying, for how do we know that their responses are not lies? One approach that may prove useful is historical research comparing what people said in the past compared to what they believed and intended at the time. This might be done if researchers have access to private diaries or letters as well as public statements. However, great care must be taken to ascertain what future use if any the author of such diaries and letters foresaw for these writings. As we saw in Chapter 3, if the author suspects that his private actions may be scrutinized by others, even future generations, he will likely make adjustments in them.

A similar possibility is that of comparing public declarations with private actions: for example comparing what someone says about the potential of a given investment with how he personally invests his own money. In this contrast, private action could reasonable be thought to reflect beliefs and actions of the subject, but, again, only if these

private actions are indeed believed by the subject to be concealed from the scrutiny of others. This last suggestion is far from ideal because it implies a certain amount of deception on the part of the researcher to gain access to private records. What is more, if access somehow serendipitously appeared, the researcher would still not have captured intent.

Researchers interested in empirically measuring lying might consider using community or rather the lack of community as a proxy for lying. Appropriately specified, it would perhaps be easier to identify and hence “count” the absence or presence of community than it is to identify and “count” lies. This approach is similar to that used in this study.

Case studies may prove more promising than any of the above approaches. Researchers may deduce predictions from my models or from those of their own construction and compare these predictions with actual events, similar to how this study uses the example of the Law Merchant above. A prime area for such an investigation, in my opinion, is that of American education. American education has a definite pre-public and after-public history, and it exists currently in private and public forms. These facts both speak to a clear delineation between institutional structures. Also, there is a tremendous body of literature and research that can be drawn on. What is more, each school is an organization supported by ideology with formal and informal internal structures.

A final very general recommendation for further research is that of bringing together three large and disparate literatures, that of community, the state, and regulation of the economy. Community springs primarily from the sociology literature, while the state is traditionally the subject of political philosophy, and regulation is found primarily in economics. As nearly as I can tell, these literatures rest comfortably each within its disciplinary cocoon with little interaction among them. Yet, it seems to me that they have important implications for each other, and that they could each benefit by accounting for the ideas of the other. I believe that this study has made inroads into this kind of research

by showing a relationship between state action and the optimal level of lying, which of course speaks to both community relations and regulation of the economy.

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