

## Generalized trust in Taiwan and (as evidence for) Hirschman's *doux commerce* thesis

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**Abstract** Data from the World Values Survey shows that generalized trust in Mainland China—trust in out-group members—is very low, but generalized trust in Taiwan is much higher. The present paper argues that positive interactions with out-group members in the context of Taiwan's export-oriented economy fostered generalized trust—and so explains this difference. This line of argument provides evidence for Albert O. Hirschman's *doux commerce* thesis, that market interaction can improve persons and even stabilize the social order. The present paper defends this point by separating two theses that Hirschman combines under that label, a countervailing forces thesis and a *doux commerce* thesis narrowly understood. These theses offer different explanations (or mechanisms) for how commerce could have those positive effects. The data about Taiwanese trust practices provides evidence for the latter.

Generalized trust is most often defined as trust in unfamiliar others or (equivalently) as out-group trust, and as such generalized trust is distinguished from particularized or personal trust—which is an attitude toward in-group members (family members, friends, close

neighbors, and close co-workers). As Markus Freitag and Richard Traunmueller put it, for example, generalized trust is “a rather abstract attitude toward people in general, encompassing those beyond immediate familiarity, including strangers (people one randomly meets in the street, fellow citizens, foreigners, etc.).”<sup>1</sup>

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<sup>1</sup> Marcus Freitag and Richard Traunmueller, “Spheres of Trust: An Empirical Analysis of The Foundations of Particularised and Generalised Trust,” *European Journal of Political Research* 48 (2009): 782-803, 784. Note that there are more fundamental questions—and much disagreement—about what it means to trust and about how to understand generalized trust. In the empirical literature on generalized trust, this disagreement is often mentioned at the beginning of published papers, but then papers quickly move on to their data. Researchers do not have to specify and commit to one or another conception of trust—and research projects can operate with the intuitive definition of generalized trust that refers to the out-group—because, in practice, those researchers take generalized trust to be what is measured by particular survey questions (discussed in the next section). Peter Nannestad notes this pattern; see his paper, “What Have We Learned About Generalized Trust, If Anything?,” *Annual Review of Political Science* 11 (2008): 413-436, especially 415-416. My paper, “Alternative Conceptions of Generalized Trust, and the Foundations of the Social Order,” *The Journal of Social Philosophy* 46(4) (2015): 463-478, provides a systematic account of the different ways of understanding generalized trust. The present paper relies on the first sense of generalized trust outlined in that paper—generalized trust is a person’s willingness to interact with and rely on out-group members, making themselves vulnerable. But, the survey questions used in the research summarized in the present paper are consistent with other conceptualizations of

And, generalized trust so-conceived is widely thought to be essential in modern society, which requires regular interaction with out-group members and strangers; generalized trust is said to be the “basis of reciprocity, social connectedness, peaceful collective action, inclusiveness, tolerance, gender equality, confidence in institutions, and democracy itself”;<sup>2</sup> it is said to be essential for economic prosperity.<sup>3</sup>

Data from the Fifth and Sixth Waves of the World Values Survey (conducted between 2005 and 2014, discussed in the next section) showed that Mainland Chinese trust in-group members at very high levels, but generalized trust—trust in out-group members—is very low. Taiwan, however, was noticeably different: the Taiwanese trust strangers and foreigners at much higher levels than the Mainland Chinese.

The present paper argues that Taiwanese trust practices provide evidence for Albert O. Hirschman’s *doux commerce* thesis—that market interaction can improve persons’ character and even stabilize the social order, a thesis which, ultimately, Hirschman finds in Montesquieu’s *The Spirit of the Laws*.<sup>4</sup> This suggestion, that market interaction can improve

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generalized trust, so the argument presented here does not depend on that particular conceptualization from my work.

<sup>2</sup> Jan Delhey, Kenneth Newton, and Christian Welzel, “How General Is Trust in ‘Most People’? Solving the Radius of Trust Problem,” *American Sociological Review* 76(5) (2011): 786-807, 787.

<sup>3</sup> Francis Fukuyama, *Trust: The Social Virtues and the Creation of Prosperity* (New York: Free Press, 1995).

<sup>4</sup> Albert O. Hirschman, *The Passions and the Interests: Political Arguments for Capitalism Before Its Triumph* (Princeton: Princeton University Press, 1977). The later extension mentioned in the next paragraph in the main text is Hirschman, “Rival

persons and stabilize the social order, is (perhaps) counterintuitive, but Hirschman shows that these positive effects of markets were widely expected in the seventeenth and eighteenth centuries, as more complex and open markets developed in Western European countries. Hirschman looked back at that literature because of the “frequently calamitous political correlates of economic growth.”<sup>5</sup> And, despite his abstract, academic way of putting the point, here Hirschman has in mind his own experience in Europe between the two world wars and his own experience in economic development in Latin America during the 1960s-1980s.

The present paper defends this point by separating two theses that Hirschman combined under that label in his book, *The Passions and the Interests*, and in a later extension—a countervailing forces thesis and a *doux commerce* thesis narrowly understood. These theses are also combined in Montesquieu’s work, but they offer different explanations (or mechanisms) for how commerce could have positive effects on persons and/or society. Market interaction and markets themselves will, of course, have many effects, and those effects will occur in a broader political context. So many, and conflicting, forces—both positive and negative—will affect persons and social orders. The present paper argues that Hirschman (following Montesquieu) identifies *two* such mechanisms.

The first section below summarizes the trust data from Mainland China and Taiwan. The second section provides a very brief history of Taiwan’s export-oriented economy. The third section then argues that Taiwan’s export-oriented economy fostered generalized trust, which is evidence for the *doux commerce* thesis narrowly understood.

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Interpretations of Market Society: Civilizing, Destructive, or Feeble?,” *Journal of Economic Literature* 20 (December 1982): 1463-1484.

<sup>5</sup> Hirschman, *Passions*, 3.

## **1. Generalized trust in Mainland China and Taiwan**

Aggregate national levels of generalized trust have been widely measured using surveys, and in particular using a question developed in 1948 for the First Wave of the World Values Survey: “Generally speaking, would you say that most people can be trusted or that you can’t be too careful in dealing with people?” This question has been asked across a number of surveys and there is longitudinal data at the national level going back to that first World Values Survey in 1948. Problems with this question are widely noted: if trust relationships have three terms, A trusts B to do x, the question’s reference to “most people” (term B) is ambiguous, and the content of the trust relationship—x in the schematic formulation—is not specified at all. Nevertheless, despite these problems, results are consistent across multiple surveys at the national level, so we can assume that within countries survey respondents make the same assumptions about the meaning of “most people” and also the same assumptions about the content of trust, though perhaps there is no such agreement across countries. As a result, researchers can study the relationship between trust and other social factors within countries. And, national levels of generalized trust are consistent with (corroborated by) other measures of trustworthiness, so the survey results are plausible. For example, generalized trust is higher in countries where there is less corruption and less violent crime; and, using data from experiments, generalized trust as measured on surveys is higher in countries where persons are more likely to return a lost wallet intact. So, the survey question has generated useful data, and empirical work concerns the individual, social, and psychological factors that support

and/or damage generalized trust.<sup>6</sup>

Successive surveys consistently showed high levels of generalized trust in Mainland China (and in other Confucian countries, though the focus here is on China and Taiwan). For example, the Third Wave of the World Values Survey (1995-1999) showed positive responses to the survey question above (about whether most people can be trusted) by 50.4% of Chinese respondents and 36.9% of Taiwanese compared—for context—to 35.0% of Americans and 56.6% of Swedes (Sweden is consistently one of the highest trust countries).

(World Values Survey data reported in the previous paragraph and below is compiled in the table at the end of this paper with the sources referenced there.)

The data showing high levels of generalized trust in Mainland China is consistent with characterizations of Chinese society as collectivist and, in that way, different from individualist American society. But, at the same time, the high levels of generalized trust reported in Mainland China and even the somewhat lower results from Taiwan conflict with an assertion made in Francis Fukuyama's book, *Trust: The Social Virtues and the Creation of Prosperity*—namely that within Chinese culture there is a very strong inclination to trust only within the family and kinship group. According to Fukuyama, personal or particularized trust is high, but generalized (out-group) trust is low. Fukuyama quotes a study of Chinese business as evidence: “The key feature would appear to be that you trust your family absolutely, your friends and acquaintances to the degree that mutual dependence has been established and face invested in them.”<sup>7</sup> But, “With everybody else

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<sup>6</sup> For background on the World Values Survey and discussion of the problems with the survey question, see Nannestad, “Generalized Trust.”

<sup>7</sup> Fukuyama, *Trust*, 75.

you make no assumptions about their goodwill. You have the right to expect their politeness and their following of the social proprieties, but beyond that you must anticipate that, just as you are, they are looking primarily to their own, i.e., their family's, best interests.”<sup>8</sup> For Fukuyama, this is a manifestation of the “Confucian personal ethic”—locating the family as the most important social relationship—which is distinct from “political Confucianism,” the Confucian support for hierarchical social relationships and clearly defined roles within that hierarchical system.<sup>9</sup>

The Fifth Wave of the World Values Survey, conducted 2005-2009, added new questions to study the conflict between the earlier survey data (which showed high levels of generalized trust in Mainland China) and Fukuyama's suggestion (that generalized trust is low in Mainland China). In particular, the Fifth Wave added six questions designed by German sociologist Christian Welzel, to better distinguish in-group from out-group trust: “Could you tell me for each, whether you trust people from this group completely, somewhat, not very much, or not at all: your family, your neighborhood, people you know personally, people you meet for the first time, people of another religion, people of another nationality.” The subsequent Sixth Wave included these questions, too.

Using responses to these new questions, Jan Delhey, Kenneth Newton, and Christian Welzel were able to resolve the conflict. Researchers had assumed that the phrase “most people” in the original survey question referred to out-group members, and so had assumed that the question measured generalized trust; the high levels of trust reported in the older surveys in Mainland China, including the Third Wave, therefore conflicted with Fukuyama's

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<sup>8</sup> Ibid.

<sup>9</sup> See Fukuyama, *Trust*, 84-85, on this distinction between the two forms of Confucianism and for Fukuyama's own references.

claim about low levels of generalized (i.e., out-group) trust. But the data from the Fifth and also the Sixth Waves of the World Values Survey showed that, while Mainland Chinese trust in-group members at very high levels, out-group trust is very low: in the Sixth Wave, only 10.9% of Mainland Chinese respondents reported trusting people they meet for the first time completely or somewhat, and only 8.8% reported trusting people of another nationality completely or somewhat (compared to 56.9% and 70.3% of Swedes respectively). So, *levels* of trust in Mainland China as measured by the original survey question are very high—Delhey et al. argue—because the Chinese define “most people” as referring to the in-group. And, as a result, in Mainland China that original survey question didn’t measure out-group trust. Delhey et al. therefore distinguish between the level or strength of trust and the radius of trust: even though trust in Mainland China is high, the radius is very narrow. This is of great interest for the reasons noted above—as Delhey et al. put it, “the radius of trust is important because the wider it is, the more inclusive the circle of cooperation.”<sup>10</sup>

(This background material, the conflict between the older World Values Survey data and Fukuyama’s account, and the later data used to resolve the conflict, is important because the characterization of Chinese society as collectivist is widespread—though only defensible if the collective unit is the family.)

Taiwan, however, was noticeably different: Taiwanese trust out-group members at much higher levels; for example, according to data from the Sixth Wave, 41.6% of Taiwanese trust people of another nationality, compared to 8.8% of Mainland Chinese. Given the shared history and the shared cultural heritage, this difference is surprising. How could it be explained?

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<sup>10</sup> Delhey, Newton, Welzel, “How General Is Trust in ‘Most People,’” 787.



Empirical work focuses on four factors thought to affect levels of generalized trust in society:<sup>11</sup> (i) Civic engagement: participation in social organizations and civic activities is thought to contribute to higher levels of generalized trust, because persons learn to trust by participating in those organizations/ activities. This is a position most widely associated with Robert Putnam's work on social capital.<sup>12</sup> (ii) Core values and their transmission over time: religious values and egalitarianism support generalized trust. (iii) Institutions: corrupt institutions could destroy trust, and good governance is widely said to correlate with (and sustain) generalized trust. (iv) Ethnic and/or linguistic heterogeneity: these factors increase social distance between persons and so are thought to decrease levels of generalized trust.

None of these factors provides a compelling explanation for levels of generalized trust in Taiwan. Very briefly, regarding civic engagement, the first factor: accounts of Taiwanese civic associations suggest that membership in associations grew dramatically as the island's political system gradually released control. According to one historian: in 1972, even before the lifting of martial law in 1987, there were more than 6,000 civic organizations with 22,000 branches in Taiwan, "ranging from Rotary clubs to Buddhist organizations to collectors of Chinese snuff bottles."<sup>13</sup> And participation in civic associations in Taiwan grew dramatically after martial law was lifted. We lack comparable data for

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<sup>11</sup> See Nannestad, "Generalized Trust," for an overview of the empirical evidence for each of these.

<sup>12</sup> Robert Putnam, *Bowling Alone: The Collapse and Revival of American Community* (New York: Simon & Schuster, 2000).

<sup>13</sup> Jay Taylor, *The Generalissimo's Son: Chiang Ching-Kuo and the Revolutions in China and Taiwan* (Cambridge, MA: Harvard University Press, 2000), 307.

Mainland China, though we might expect that participation in civic associations is much lower—and this data would seem to fit with the civic engagement thesis. But there are two problems. First, even if higher levels of generalized trust are correlated with membership in civic associations, we cannot conclude that membership in civic associations explains (causes) the higher levels of trust; the causal connection could move in the opposite direction, Taiwanese might participate in civic associations because they trust more widely—or the causal process could work in both directions. This is a widely-noted difficulty with the civic association hypothesis. And, second, the correlation is not consistent: participation in civic organizations in Japan and South Korea (82.5% and 76.17%) is much higher compared to Taiwan (36.65%), while out-group trust in those countries is lower.<sup>14</sup>

Regarding the second factor: Confucian values are thought to limit generalized trust, so those values cannot account for higher levels of generalized trust in Taiwan.

Regarding the third factor, institutions/governance: Taiwan was controlled by the Japanese from 1895 until 1945, and the country was under martial law between 1949 and 1987—so it would be difficult to appeal to a set of positive government institutions to explain levels of out-group trust in Taiwan (unless generalized trust practices changed very quickly and dramatically in a very short period of time after 1987, which seems unlikely because the process of building democratic social and political institutions was gradual).

Regarding the fourth factor: the Taiwanese data is in part striking because the level of trust in those of another nationality is particularly high, and we could not appeal to *lower*

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<sup>14</sup> Data from Ray-May Hsung, “Social Capital and Trust: Reflections on Data from the East Asia Social Capital Survey,” *Taiwan She Hui Xue Kan [Taiwan Journal of Sociology]* 54 (2014): 1-30 [in Chinese].

social distance as an explanation for trust in foreigners—because social distance is high. Or, put another way, we need a further, separate account of the factors that reduced this social distance and made trusting foreigners possible.

The present paper suggests an alternative to these four explanations, namely that positive interactions with out-group members in the context of Taiwan’s export-oriented economy fostered generalized trust. Further, this line of argument then provides evidence for Albert O. Hirschman’s *doux commerce* thesis, mentioned in the introduction. As background for these two points, the next section provides a short overview of Taiwan’s economic history.

## **2. Taiwanese economic history (very briefly)**

In the period of growth after the second World War, the Taiwanese economy was very much dominated by small- and medium-sized enterprises (SMEs), driven by entrepreneurs (as opposed to state-run/sponsored organizations and state investment), and focused on exporting products. Economists Frank S.T. Hsiao and Mei-Chu Wang Hsiao compiled Taiwanese economic data in a systematic way and summarize this recent history as follows:

“The Taiwanese private SMEs are very much export-oriented. The public enterprises made almost no direct contribution to exports in the 1970s and 1980s. Public enterprises and large private enterprises generally dominated the production of non-traded goods [like electricity] and domestic markets, and are monopolistic or simply monopolize domestic markets.”<sup>15</sup>

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<sup>15</sup> Frank S.T. Hsiao and Mei-Chu Wang Hsiao, “The Historical Traditions of Taiwanese Small-and-Medium Enterprises—Origins of Taiwanese Capitalism,” in F.S.T.

In contrast, “The vanguard of export expansion and economic growth is the Taiwanese SMEs, mostly supported by imports of intermediate goods, raw materials, or capital equipment from foreign countries, and strengthened by technology transfer from direct foreign investment.”<sup>16</sup> To give a sense of the data: through the 1970s and 1980s, each year two-thirds or more of Taiwanese exports were done by small- and medium-sized enterprises; and for context, in Korea during the first half of the 1980s, small- and medium-sized enterprises contributed approximately only 25 percent of exports. To pick one industry and to emphasize the growth, the number of SMEs in the fabricated metal products industry in Taiwan grew from 1,630 in 1966 to 26,690 in 1983, and then to 31,389 in 1987.<sup>17</sup>

At the same time, however, Hsiao and Hsiao argue that the roots of Taiwanese capitalism—in particular, the well-developed, widespread small- and medium-sized enterprises and the export-oriented focus—pre-date Japanese control. In particular, the Taiwanese economy was already export-oriented in the seventeenth century. The Dutch colonized the southern part of Taiwan in 1624 to facilitate trade with China, occupying Taiwan until 1661. The Dutch collected commodities and monopolized the export business, which was very profitable: Taiwan alone accounted for 25.6 percent of Dutch profits among

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Hsiao and M.-C.W. Hsiao, *Economic Development of Taiwan: Early Experiences and the Pacific Trade Triangle* (New Jersey: World Scientific Publishing, 2015), 325-373, 334.

<sup>16</sup> Ibid.

<sup>17</sup> Frank S.T. Hsiao and Mei-Chu Wang Hsiao, “Taiwanese Economic Development and Foreign Trade,” in F.S.T. Hsiao and M.-C.W. Hsiao, *Economic Development of Taiwan: Early experiences and the Pacific Trade Triangle* (New Jersey: World Scientific Publishing, 2015), 17-170, see the table at 132.

19 trading outposts, second only to trade with Japan, which contributed 38.6 percent of profit.<sup>18</sup>

The Dutch were driven out of Taiwan in 1661 (by Koxinga, also known as Zheng Chenggong, a Ming general fleeing the new Qing Dynasty); then, in 1683, the Qing Dynasty conquered Taiwan; and, over the next two centuries, waves of immigrants to Taiwan from Mainland built trade networks and an export-oriented economy, with exports directed to the Mainland. These immigrants built social and commercial networks through religious connections: groups were united into hamlets, hamlets united into villages, and villages into towns, through shared worship ceremonies associated with particular temples/gods brought from the Mainland.<sup>19</sup>

Over those two centuries, between 1683 and 1860, Taiwan traded almost exclusively with Mainland China, exporting agricultural products and importing manufactured products (fabric, cloth, paper, agricultural equipment). As one measure of the export-orientation of the economy, 23 percent of rice grown on Taiwan was exported in 1742.<sup>20</sup> Two Taiwanese harbors were opened to foreign trade in 1860, and after 1860 tea became the largest export product; to emphasize (again) the magnitude of trade, in 1895 Taiwan exported 16 million pounds of tea to the United States and another four million pounds to Europe.<sup>21</sup> Other export products included camphor and coal. At first, after 1860, exports were managed by foreign trading companies, but by the end of the nineteenth

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<sup>18</sup> Hsiao and Hsiao, "The Historical Traditions," 339.

<sup>19</sup> See Ian A. Skoggard, *The Indigenous Dynamic in Taiwan's Postwar Development: The Religious and Historical Roots of Entrepreneurship* (New York: N.E. Sharp, 1996), 7ff.

<sup>20</sup> *Ibid*, 9.

<sup>21</sup> Hsiao and Hsiao, "The Historical Traditions," 341.

century Taiwanese firms came to dominate trade itself. As a result, Taiwanese merchants accumulated wealth and the country was on the verge of a commercial revolution, at the point of developing a genuinely capitalist economic system.

But in 1895 the Mainland Chinese Qing government lost the first Sino-Japanese war and ceded control of Taiwan to the Japanese. The Japanese colonial government adopted policies that limited the growth of Taiwanese companies and concentrated economic control in the hands of the Japanese. But small- and medium-sized enterprises nevertheless increased during the period of Japanese rule and export-oriented activity was directed toward Japan (again with agricultural products being exported).<sup>22</sup> After World War II, the Kuomintang (KMT) government converted the Japanese-owned companies into public enterprises—as Hsiao and Hsiao put it, non-Taiwanese speaking Chinese bureaucrats and managers replaced non-Taiwanese speaking Japanese capitalists. But already by 1947 Taiwan was again exporting agricultural products to Japan. New products were exported in the 1960s.

So, in short, there was continuous development in small- and medium-sized enterprises across the three periods discussed here, prewar, war, and postwar. Hsiao and Hsiao: “When the KMT government started its export-promotion policy after the mid-1960s, the Taiwanese people already had more than 400 years of export experience, which was intensified and modernized under the Japanese colonial regime.”<sup>23</sup>

One more detailed example:<sup>24</sup> Taiwan by 1980 was the largest exporter of shoes in the world, exporting 413 million pairs of shoes, produced by 582 factories with 110,955

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<sup>22</sup> See the data presented in Hsiao and Hsiao, “The Historical Traditions,” 348-349.

<sup>23</sup> *Ibid.*, 352.

<sup>24</sup> From Skoggard, *The Indigenous Dynamic*.

employees, earning US\$1.4 billion. The numbers had roughly doubled by 1986, the peak of Taiwanese shoe exports. At that point, the average number of employees per factory was 134—confirming the small- and medium-sized nature of Taiwanese exports. In his study of Taiwanese business, cited above, Skoggard suggests that the origins of the shoe industry were in the grass hat industry which began in central Taiwan in 1897. By 1934, that industry produced 15.3 million hats, most of which were exported. Most of the workers were women earning very low wages, engaged in “sideline” work—work intended to supplement low wages earned in farming. This example fits with Hsiao and Hsiao’s account of the continuity of export-oriented activity by Taiwanese small- and medium-sized enterprises before and after World War II. Hsiao and Hsiao: “The spirit of massive and systematic production for exports in rural areas was encouraged and developed by the Japanese colonial government. Here is the root of Taiwanese rural industry and a source of the Taiwanese SMEs in the postwar era.”<sup>25</sup> A parallel account, describing the growth of small food processing plants in a small village in central Taiwan, comparing the 1930s and the 1970s, shows the same pattern though at a smaller scale—also without the involvement of the KMT government. Instead, the growth in the food processing plants shows “the transformation of land capital into industrial capital, the risk-taking venture, the source of venture capital, and transfer of technology in a small Taiwanese village.”<sup>26</sup>

### **3. Explanation for Taiwanese trust practices, and Hirschman’s two theses (countervailing forces and *doux commerce* narrowly understood)**

*3.1 Explaining out-group trust among the Taiwanese.* Freitag and Traunmueller

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<sup>25</sup> Hsiao and Hsiao, “The Historical Traditions,” 360.

<sup>26</sup> *Ibid.*, 361.

studied the foundations for in-group and out-group (generalized) trust using data from the German Socio-Economic Panel surveys, to understand the social effects of German reunification after 1989. They argue that trust is a product of both domain-specific experiences and domain-specific psychological predispositions. In-group trust depends on experiences with friends, neighbors, and relatives, and also on involvement in formal networks of civic engagement—both of which supported higher levels of in-group trust. But experiences of these sorts did not have an impact on out-group trust. Instead, experience/interaction with strangers increased out-group trust: for example, “People who reported that they had previously benefited from the generosity of people unknown to them scored higher on generalized trust.”<sup>27</sup> So the experience-based sources of trust are particular to the spheres, they are domain-specific in that sense. The same was true for dispositional foundations: in-group trust depends on a sense of control over one’s life, while out-group trust depends on comfort with, and strategies for dealing with, risk. And there was a positive relationship between the two domains: in-group trust had a significant effect on out-group trust; Freitag and Traunmueller therefore suggest that in-group trust is a necessary foundation for out-group trust. But in-group trust will only support out-group trust in the context of positive experiences with strangers.<sup>28</sup>

The role of small- and medium-sized enterprises, as opposed to large and/or state-owned ones, and the export-focused development of the economy—both outlined in the

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<sup>27</sup> Freitag and Traunmueller, “Spheres of Trust,” 794.

<sup>28</sup> This domain-specific logic is consistent with the experimental results reported in Nee et al., who studied the attitudes of Chinese business executives. See their, “Social Exchange and Generalized Trust in China,” Working Paper, Department of Economics, Lund University (2014). Accessed on-line April 2016.



previous section—suggest that interaction (in markets) with out-group members and those of other nationalities was widespread in Taiwan. The small- and medium-sized businesses themselves were organized into networks of suppliers and manufacturers, requiring connections with Taiwanese out-group members. And contact with foreigners was widespread: in the late 1970s and early 1980s, the top 500 exporters only controlled 12 percent of Taiwanese exports—suggesting that *many* small export companies were working directly with foreign customers.<sup>29</sup> Travel data provides additional support for this suggestion with respect to interaction with foreigners: in 1980, to pick one year as an example, 484,901 Taiwanese traveled abroad, roughly 2.7 percent of the population and, to contextualize this number, this is three times the 0.9 percent of Koreans who traveled abroad the same year. (The Korean data provides for a good comparison because both the Taiwanese and Korean economies were rebuilt after the second World War and produced exceptional economic growth during that period). In short, then, Taiwanese contact with out-group members and foreigners was widespread and could have played the role suggested here, consistent with Freitag and Traunmueller’s account: experience/interaction with strangers and foreigners in the context of export-oriented economic activity increased out-group trust among the Taiwanese.

3.2 *Hirschman’s doux commerce thesis.* Economist Albert O. Hirschman distinguished between competing claims about the effects of capitalism and markets on persons and on the social order. One claim, and the more widely held one today, is that capitalism corrodes traditional social values and destabilizes social orders; in that way, capitalism—ironically—undermines the moral foundation on which a capitalist society itself depends. But on the other claim, interaction in markets can foster sociability, so

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<sup>29</sup> Hsiao and Hsiao, “Taiwanese Economic Development,” 131.

market systems “help hold society together.”<sup>30</sup> As mentioned, these positive effects of markets were widely expected in the seventeenth and eighteenth centuries. John Stuart Mill (for example) defended a position of this latter sort: “The economical advantages of commerce are surpassed in importance by those of its effects, which are intellectual and moral.”<sup>31</sup> Taiwanese trust practices (as compared to those in Mainland China) provide evidence for Hirschman’s (and Mill’s) claim about the positive effects of markets: market interaction, and in particular market interaction across national borders, contributed to the development of a broader trust radius among Taiwanese. The remainder of this section outlines Hirschman’s account, distinguishing two mechanisms Hirschman runs together, in order to defend Hirschman’s account of the positive effects of commerce.

According to Hirschman, as the influence of the church declined in seventeenth century Western Europe, social theorists became increasingly concerned with the question of how to restrain dangerous and destructive human passions. The question arises because religious precepts could no longer be relied on to restrain those passions. One possibility is that a sovereign could coerce individuals and repress those passions, but this raised a further problem for those social theorists: what forces could restrain the sovereign? There is no higher or outside authority to repress the sovereign’s own dangerous and destructive passions, and religious precepts had come to be seen as ineffective. So the social order, it seemed, could not rely on repression to contain dangerous and destructive passions.

(Hirschman traces this line of thought to St. Augustine, not to Hobbes as we might expect;<sup>32</sup>

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<sup>30</sup> Hirschman, “Rival Interpretations,” 1473.

<sup>31</sup> John Stuart Mill, *Principles of Political Economy*, abridged edition, ed. S. Nathanson (Indianapolis: Hackett Publishing Company, 2004 [1848]), 174.

<sup>32</sup> Hirschman, *Passions*, 31-32.

more on Hobbes in a moment.)

A second possibility is that those passions could be harnessed rather than repressed; Hirschman finds roots of this thought in Vico and Mandeville, though the details of how passions can be harnessed and transformed is left unclear until Adam Smith's *Wealth of Nations*.

A third possibility, and the one that interests Hirschman, is this: we might discriminate between the dangerous and the more innocuous passions, and then use the innocuous passions to oppose and restrain the dangerous ones. The innocuous passions can serve as countervailing forces. Hirschman finds aspects of this view in Spinoza's work ("An affect cannot be restrained or taken away except by an affect opposite to, and stronger than, the affect to be restrained," *Ethics* IV, proposition 7) and also in Hume's *Treatise*; Hirschman shows, further, that the idea of countervailing forces had become common in seventeenth century social thought; and he identifies applications in the *Federalist Papers* in separating government powers.<sup>33</sup> On Hirschman's reading, this is Hobbes's approach: persons enter into Hobbes's social contract because they fear death and desire more comfortable lives, these passions supersede those tied to domination and the aggressive pursuit of goods.

New terminology was introduced to mark the distinction between the dangerous and the innocuous passions; the latter were referred to as *interests*. As Hirschman notes, there is significant "drift" in the meaning of the term 'interests.' When the term was introduced into this context in the late sixteenth century, it did not refer to material well-being; "rather, it comprised the totality of human aspirations, but denoted an element of reflection and calculation with respect to the manner in which these aspirations were to be

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<sup>33</sup> Ibid., 28-30.

pursued.”<sup>34</sup> Only later, with Adam Smith, did the term come to refer to the narrower collection of economic interests. But, an important change takes place with the introduction of the new terminology, even as the term’s meaning evolves. The thesis—that the passions associated with greed could be used to oppose and restrain the passions associated with ambition and lust for power—could seem peculiar as long as greed has negative connotations. But when the pursuit of welfare, the pursuit of material gain in particular, and even the pursuit of profit are re-categorized as interests and, further, associated with rational calculation, then the negative value—the stigma associated with greed (the passion)—is in effect washed away. So, the interests, understood as an innocuous and rational concern with welfare and material gain, can serve as a countervailing force able to oppose the more destructive passions.

Taking the interest in material gain to be innocuous could surprise modern readers, but Hirschman quotes a number of eighteenth century thinkers on the point—including Samuel Johnson: “There are few ways in which a man can be more innocently employed than in getting money.”<sup>35</sup> And even if, with hindsight, or with more historical experience, we resist characterizing the pursuit of economic self-interest as innocuous (or as purely innocuous), there is still a compelling point here: the pursuit of self-interest in commercial markets makes for a more stable social order compared to one composed of violent clans or authoritarian sovereigns, where goods are taken rather than exchanged. This opposing of the (innocuous) interests to the (dangerous) passions is Hirschman’s central theme, captured in the following passage from Montesquieu’s *The Spirit of the Laws*, which serves as the book’s epigraph and Hirschman’s original inspiration: “It is fortunate for men to be in

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<sup>34</sup> Ibid., 32.

<sup>35</sup> Quoted in Ibid., 58.

a situation where, though their passions may prompt them to be wicked, they nevertheless have an interest in not being so.”<sup>36</sup>

Hirschman notes a number of further applications of (what we could call) his countervailing forces thesis. For Montesquieu, separating powers in a mixed form of republican government could prevent the abuse of unlimited government power (this is an application of the doctrine of countervailing forces at the institutional level).<sup>37</sup> An independent market system will also, according to Montesquieu, curb the abuse of the sovereign’s power; one of Montesquieu’s examples concerns the use of the bill of exchange, which enables commerce outside of the control of the sovereign, preventing the sovereign from abusing his power to interfere with trade and arbitrarily seize wealth. Moreover, the commercial class itself can serve as a countervailing force—“the merchant, though he never overlooks his private advantage, is accustomed to connect his own gain with that of his brethren”<sup>38</sup>—and, once unified, the commercial class will protest arbitrary action on the part of a sovereign, providing a further countervailing force. Related, Hirschman cites Scottish philosopher John Millar, who argued that commerce requires regular communication and builds relationships among citizens—another stabilizing force.

Finally, perhaps most important, commerce creates mutual dependencies between nations and, as a result, a nation’s economic interests can oppose the passion for war and

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<sup>36</sup> Hirschman, *Passions*, epigraph, 3, and 73. The quote is from Montesquieu, *The Spirit of the Laws*, trans. A.M. Cohler, B.C. Miller and H.S. Stone (Cambridge: Cambridge University Press, 1989 [1748]), 389-390. Hirschman finds parallel passages in Sir James Steuart’s *Inquiry into the Principles of Political Economy* [1767].)

<sup>37</sup> See Montesquieu, *Spirit of the Laws*, 155-156.

<sup>38</sup> See Hirschman, *Passions*, 91.

conquest. The literature in political science on the so-called “capitalist peace” thesis addresses this last application of the Hirschman/ Montesquieu thesis (though that literature often identifies the thesis with later writers). Erik Gartzke, in a widely cited paper, argues (with reference to quantitative data) for a version of this claim, namely (in part) that economic development and capital market integration make countries less likely to engage in conflict.<sup>39</sup>

3.3 *Hirschman’s doux commerce thesis, narrowly understood.* There is a related but distinct line of thought in both Hirschman’s account and in the historical material—a *doux commerce* thesis distinct from the countervailing forces one. Hirschman uses the label ‘the *doux commerce* thesis’ to refer to these as a unit, but they are important to separate because the mechanism involved is different. So, where Hirschman uses the label “*doux commerce* thesis,” the present paper distinguishes the countervailing forces thesis from the *doux*

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<sup>39</sup> See Gartzke, “The Capitalist Peace,” *American Journal of Political Science* 51(1) (2007): 166-191. Gartzke argues that these economic factors account for lower levels of militarized conflict among democracies, where this argument is presented as an alternative to the claim that democratic governments themselves are responsible for reducing conflict. There is, nevertheless, disagreement on the point. For a brief overview of the broader literature see Gerald Schneider and Nils Petter Gleditsch, “The Capitalist Peace: The Origins and Prospects of a Liberal Idea,” *International Interactions* 36 (2010): 107-114. This theme has also been discussed in the popular press, connected with the Donald J. Trump administration’s trade wars; see, for example, J. Sommer, “Why Trade Disputes Are More Than a Money Problem,” *New York Times* (Sept. 23, 2018), accessed here: <https://www.nytimes.com/2018/09/21/business/trade-disputes-more-than-a-money-problem.html>.

*commerce* thesis narrowly understood as follows.<sup>40</sup>

In the eighteenth century, the material interests were widely described as *doucer* in French, a word suggesting calmness, gentleness, and politeness, and denoting socially useful behavior more generally. Hirschman quotes Montesquieu on this association: “it is almost a general rule that wherever the ways of man are gentle [*moeurs douces*] there is commerce; and wherever there is commerce, there the ways of men are gentle.”<sup>41</sup> And, further, the claim is *causal*. Montesquieu expects that persons will be changed by market interaction, and this is different from the claim that the interests will oppose dangerous passions which themselves still exist. The causal connection is emphasized in another passage Hirschman takes from Montesquieu: “Commerce... polishes and softens barbarian ways as we can see every day.”<sup>42</sup> At more length: “the spirit of commerce brings with it the spirit of frugality, of economy, of moderation, of work, of wisdom, of tranquility, of order, and of regularity. In

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<sup>40</sup> Separating these two causal mechanisms is important for the broader application of Hirschman’s and Montesquieu’s work in capitalist peace theory, mentioned earlier. For example, Haig Patapan combines the two theses—reading Montesquieu as arguing that, “commerce leads to more gentle manners and thereby makes international relations between states more peaceful. See his “Democratic International Relations: Montesquieu and the Theoretical Foundations of Democratic Peace Theory,” *Australian Journal of International Affairs* 66:3 (2012), p. 314. But, combining the two theses obscures the difference between one nation deciding that war is too expensive (a matter of countervailing forces) or that war is no longer desirable for other reasons (*doucer* desires determine policy).

<sup>41</sup> Hirschman, *Passions*, 60; Montesquieu, *Spirit of the Laws*, 338.

<sup>42</sup> *Ibid.*

this matter, as long as this spirit prevails, the riches it creates do not have any bad effect.”<sup>43</sup> Hirschman finds parallel passages in a number of works from the eighteenth century; this is worth emphasizing here because the expectation can seem so counterintuitive. For example, Hirschman takes one such passage from an eighteenth century technical business book: “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.”<sup>44</sup> Moreover, “Through commerce, man learns to deliberate, to be honest, to acquire manners, to be prudent and reserved in both talk and action.”<sup>45</sup> The passage from Mill quoted above draws on this tradition; the moral and intellectual effects of market interaction are more important than the economic effects.

There are further questions—even with the point formulated in the seventeenth and eighteenth century terminology—about how commerce could make persons calmer, more regular, etc.; and about the exact effects/changes in persons’ character and behavior. The intuitions are consistent but the specific formulations of the thesis vary. The present paper does not defend the *doux commerce* thesis as an abstract, general pattern in human affairs but, instead, offers—as an example for consideration—Taiwanese trust practices and, by extension, Taiwanese attitudes about strangers and foreigners. This narrower case captures the central intuition that market interaction can have *some* positive effect on persons, and it leaves open the question of possible further effects beyond trust attitudes. So, the present paper does not claim that Taiwanese business practices are *doucer*, or that commerce will always make persons more *doucer*, or that commerce will have the full range of effects

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<sup>43</sup> Hirschman, *Passions*, 71; Montesquieu, *Spirit of the Laws*, 48.

<sup>44</sup> Hirschman, “Rival Interpretations,” 1465.

<sup>45</sup> *Ibid.*



listed by Montesquieu—making persons more frugal, moderate, wise, and regular. Moreover, as mentioned, commerce will have many effects, some positive, some negative; the goal here is to isolate one positive effect as evidence for Hirschman’s theses understood narrowly.

Prior to the passage quoted two paragraphs above (about the general rule), Montesquieu writes, “Commerce cures destructive prejudices.”<sup>46</sup> Hirschman doesn’t mention this comment, but it captures the central argument advanced here (and we should reformulate the point in more cautious terms, commerce *mitigated* destructive prejudices). Trust involves expectations about and attitudes toward others.<sup>47</sup> And the data, the higher level of generalized trust in Taiwan, suggests that market interaction *changed* those expectations about and attitudes toward out-group members, making generalized trust possible. We can refer back to Freitag and Traunmueller for an explanation of how this could happen, namely that commercial interaction with out-group Taiwanese and foreigners—positive interaction of that sort, even only in the minimal sense that Taiwanese were not exploited for trusting—provided an experiential foundation for extending trust to the out-group and foreigners.

The focus on trust is important here. One might advance a different argument, taking Taiwanese trust practices to be evidence for Hirschman’s countervailing forces thesis. On this line of thought, the survey data from Mainland China reflects distrust of out-

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<sup>46</sup> Montesquieu, *Spirit of the Laws*, 338.

<sup>47</sup> The place of expectations in trust conceptualizations is widely accepted in philosophy and in the social sciences; for one example of the latter see Denise M. Rousseau, Sim B. Sitkin, Ronald S. Burt, and Colin Camerer, “Not So Different After All: A Cross-Discipline View of Trust,” *Academy of Management Review* 23(3) (1998): 393-404.

group members and of foreigners deeply embedded in Chinese culture and Chinese society; but, the economic interests of the Taiwanese required regular interaction with Taiwanese out-group members (those outside of kin groups) and also with foreigners; and the Taiwanese acted accordingly, their economic interests superseded—countervailed—the traditional (and historically well-established) pattern of out-group distrust. Put more bluntly, one might think that economic interests countervailed xenophobic behavior and xenophobic attitudes. However, if those xenophobic passions/ prejudices were countervailed but still present, the Taiwanese would have developed mechanisms to reduce risk in market transactions with out-group members, making those transactions possible (palatable) despite high levels of distrust. Instead, the survey data suggests that those xenophobic attitudes were changed, regular interaction with out-group members reduced (in part “cured”) those xenophobic passions/prejudices—and this is the *doux commerce* thesis narrowly understood.

At the same time, in another passage that Hirschman does not discuss, Montesquieu suggests that commerce has harmful effects on persons, by introducing economic considerations into other dimensions of human interaction: “We see that in countries where one is affected only by the spirit of commerce, there is traffic in all activities and all moral virtues, the smallest things, those required by humanity, are done or given for money.”<sup>48</sup> This is a plausible concern and Adam Smith follows Montesquieu here; in a passage Hirschman taken from his *Lectures* Smith writes: “These are the disadvantages of a commercial spirit. The minds of men are contracted, and rendered incapable of elevation. Education is despised or, at least neglected, and the heroic spirit is almost utterly

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<sup>48</sup> Montesquieu, *Spirit of the Laws*, 338-389.

extinguished.”<sup>49</sup> So, to emphasize: the claim here is narrow. Taiwanese trust practices can be taken to be evidence for Hirschman’s *doux commerce* thesis applied to, or in the context of, out-group relationships: commerce had positive effects in broadening inter-personal relationships. And this is consistent with commerce having other effects, including negative ones.

Hirschman sees Adam Smith’s *Wealth of Nations* as a turning point in this intellectual history, in that Smith offers an economic justification for the pursuit of interests in markets as opposed to the justifications discussed here—which refer to the positive political and social effects of markets. And, where Montesquieu saw the effect of markets in terms of countervailing dangerous passions, for Smith in the *Wealth of Nations*, the passions are channeled into and pursued in commercial activity. With Smith, the opposition of the interests to the passions is replaced by the pursuit of passions in the market, and the passions come to explain the pursuit of particular interests (or particular goods)—rather than being a distinct category of human motivation as with Montesquieu. For Hirschman this marks the end of the Montesquieu-inspired line of thought. But this conclusion is, perhaps, too fast as a matter of intellectual history. Very briefly, instead we could take Smith to have shifted the thesis: the pursuit of passions in the market, or the possibilities of satisfying those passions in the market, is a countervailing force suppressing the extra-market satisfaction of those passions. And, we can similarly re-phrase the *doux commerce* thesis in Smith-consistent terms, re-combining the two theses separated here: perhaps over time this sort of suppression becomes habitual and persons’ passions are actually changed as a result. This line of thought would require more defense, my point is only that Smith’s

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<sup>49</sup> Hirschman, *Passions*, 106; quoting Adam Smith, *Lectures on Justice, Police, Revenue and Arms*, ed. E. Cannan (Oxford: Oxford University Press, 1896 [1763]), 529.

work does not necessarily mark the end of the two theses discussed here as a matter of intellectual history.

#### **4. Three concluding comments**

*4.1 Ruling out further alternative explanations.* The present paper uses Taiwanese trust practices as a case study, explaining the unexpected difference in generalized trust between Mainland China and Taiwan: widespread contact with out-group members over time provided a foundation for higher levels of out-group trust in Taiwan (meaning that widespread contact changed Taiwanese attitudes toward out-group members). The causal mechanism identified here, widespread contact with out-group members, is consistent with Freitag and Traunmueller's work on the causal antecedents of generalized trust. Taiwanese trust practices can therefore serve as evidence for one of the two theses found in Hirschman's work: commerce had positive effects on the Taiwanese in fostering out-group trust among individuals. Other potential explanations for higher levels of generalized trust—civic engagement, core values and their transmission over time, institutions, and ethnic/linguistic heterogeneity—trust were ruled out.

The argument presented here assumes that Mainland Chinese trust practices serve as the point of reference, and higher levels of generalized trust in Taiwan are the change to be explained. The shared Confucian heritage in Taiwan and Mainland China suggests a common starting point, but the explanation might be reversed: perhaps levels of generalized trust in Taiwan represent the shared starting point and, instead, we should explain the lower levels of generalized trust in Mainland China—with reference to the country's violent and tumultuous recent history. Mainland China was at war during much of the nineteenth century and during the first half of the twentieth century, civil war as well as wars with the Western powers and Japan.

But, two considerations support the direction of argument pursued here. (i) The introductory section above referred to Francis Fukuyama’s work on trust, and the direction of argument here—out-group trust among the Mainland Chinese is very low, higher levels of such trust among the Taiwanese is to be explained—is consistent with the anthropological and sociological evidence Fukuyama provides about low levels of out-group trust in Chinese culture. (ii) The direction of argument here is also consistent with Fei Xiaotong’s foundational work on the sociology of Chinese society.<sup>50</sup> Fei describes traditional Chinese society as composed of “ranked categories of social relationships” occupying concentric circles around an individual. That individual’s responsibilities to persons depend on the particular category of social relationship; this is Fei’s “differential mode of association.” Outsiders “live on the margin of the community”—“they often do not have the same rights as the residents. They are not seen as ‘insiders’ and cannot be trusted.”<sup>51</sup> So there is support for the direction of argument pursued here in Fei’s work.

Moreover, given that Taiwanese trust practices represent the change to be explained, the explanation might be thought to be the reverse: a broader trust radius or, equivalently, higher levels of out-group trust, made the growth/development of the Taiwanese economy possible. To be sure, the two effects will be mutually reinforcing; there is no single point of departure; and the change was most certainly gradual. But we can provide a plausible narrative account in support of the argument presented here: immigrants to Taiwan were forced to build social and trade networks with other

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<sup>50</sup> Fei Xiaotong, *From the Soil: The Foundations of Chinese Society*, trans. G.G. Hamilton and W. Zheng (Berkeley, CA: University of California Press, 1992) [1947]).

<sup>51</sup> *Ibid.*, 124.

immigrants who were strangers;<sup>52</sup> this process began the change in trust practices because the immigrants could not rely on their prior kinship networks. The export-oriented Taiwanese economy traces its roots back to these immigrants and their newly developed trust in out-group members, which further evolved as the Taiwanese economy developed—with out-group trust extending from fellow but unrelated immigrants, to Mainland Chinese and other trading partners, to foreigners.<sup>53</sup>

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<sup>52</sup> See Skoggard, *Indigenous Dynamic*, and for a parallel account in South Asia see Kenneth Dean, “Ritual Revolutions: Temple and Trust Networks Linking Putian and Southeast Asia,” *Cultural Diversity in China* 1 (2015): 8-26.

<sup>53</sup> One reviewer for this journal suggested another alternative hypothesis, namely that American geopolitical support for Taiwan after the Second World War could have led to more trusting attitudes toward foreigners. To be sure, there were significant ties binding the Chinese Nationalists (KMT) and the United States: many Nationalist officials were educated in the United States in the first part of the twentieth century, including Sun Yat-sen himself, Sun’s wife, Chiang Kai-shek’s wife, and T.V. Soong; the U.S. actively supported the Nationalists during the war with the Japanese, supplying Nationalist forces from bases in Burma; and the United States provided military protection after the Nationalists fled to Taiwan. This alternative hypothesis is consistent with the explanation offered in the main text, meaning that both geopolitical support and foreign trade could have changed Taiwanese attitudes toward foreigners; so this alternative does not have to be ruled out to defend the account here. But, that said, four considerations support emphasizing the account presented in the main text. First, the United States cut diplomatic ties with Taiwan in 1978, so even if there had been positive attitudes toward Americans prior to that date, we would expect that effect to reverse dramatically. Second, setting aside that point about

4.2 On related claims in Deidre McCloskey's work on bourgeois virtues. Deidre McCloskey's work on the "bourgeois virtues" makes related claims.<sup>54</sup> First, McCloskey argues that capitalism depends on and even requires a set of virtues. As evidence she cites wide-ranging historical and literary sources, including this passage from Weber: "Along

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1978, the data from the World Values Survey reports Taiwanese attitudes toward strangers and foreigners, not just Americans—so even if there were positive attitudes toward Americans because of the geopolitical relationship, it might not result in positive attitudes toward all strangers and foreigners. Third, the number of U.S. military personnel in Taiwan was small: the number of U.S. troops in Taiwan jumped from 811 to 4,174 in 1954, presumably connected to the Republic of China-U.S. Mutual Security Treaty signed that year; troop levels peaked at 19,000 in 1958; and troop levels fluctuated between 4,000 and 10,000 between that year and 1977 (data reported in T. Kane, "Global US Troop Deployment, 1950-2005," *Heritage Center for Data Analysis* (2004), accessed at <https://www.heritage.org/defense/report/global-us-troop-deployment-1950-2005>). These numbers suggest that contact between U.S. military personnel and Taiwanese would have been limited and so could not have played the role suggested here in changing trust practices. Fourth—and perhaps most important—U.S. government involvement in Taiwan was overwhelmingly driven by geopolitical considerations, involvement in the Taiwanese economic system was largely confined to the areas of policy-making and investment in infrastructure; so geopolitical factors might not explain the attitudes of Taiwanese businessmen and -women.

<sup>54</sup> Deidre McCloskey, *The Bourgeois Virtues: Ethics for an Age of Commerce* (Chicago: University of Chicago Press, 2006), and her earlier formulation in "Bourgeois Virtues," *American Scholar* 63:2 (1994): 177-191.

with clarity of vision and ability to act, it is only by virtue [note the word] of very definite and highly developed ethical qualities that it has been possible for [an entrepreneur of this new type] to command the indispensable confidence of his customers and workmen.”<sup>55</sup> This first claim, that markets depend on a background set of ethical commitments and a foundation of social solidarity, is plausible and somewhat widely asserted, though much more remains to be said about the details—which commitments, what kind of solidarity—because there is evidence to the contrary. Most notably, the American economy (measured in terms of GDP) grew between 1960 and 2000 even as levels of trust have declined dramatically;<sup>56</sup> economic growth in China has been extraordinary despite very high levels of corruption; and Robert Axelrod showed, using computer simulations, that cooperation, which for him is a system of consensual transactions, does not require trust.<sup>57</sup>

McCloskey also makes a second, stronger claim in the other direction, which is directly relevant here: that the market “supports the virtues” (3), that capitalism has “improved” our souls (23)—even though not all market behavior is good for our souls (29). For example, McCloskey writes, consider behavior at a local farmers’ market:

“As a woman walking her dog passes the earliest dealer setting up his stall, the woman and the dealer exchange pleasantries about the early bird and the worm. The two people are here enacting a script of citizenly courtesies and of

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<sup>55</sup> McCloskey, *The Bourgeois Virtues*, 3, with her own comments in brackets. She is quoting Max Weber, *The Protestant Ethic and the Spirit of Capitalism*, trans. T. Parsons (New York: Scribners 1930 [1904]).

<sup>56</sup> See Nannestad, “Generalized Trust,” 429.

<sup>57</sup> Robert Axelrod, *The Evolution of Cooperation* (Cambridge, MA: Basic Books, 2006 revised edition), 182.



encouragement for prudence and enterprise and good relations between seller and buyer. Some hours later the woman feels impelled to buy \$1.50 worth of tomatoes from him. But that's not the point. The market was an occasion for virtue, an expression of solidarity across gender, social class, ethnicity."<sup>58</sup>

This second, stronger claim is directed against uncritical opponents of markets, who assert—without argument, according to McCloskey—that markets corrupt values, fracture communities, and exploit (that, for example, Western prosperity is a product of exploitation of the developing world). Reformulated outside of McCloskey's virtue ethics, McCloskey claims that market interaction can foster ethical behavior. But anecdotes like the one above (the woman at the farmer's market) are not compelling as argument. We might construct equally plausible anecdotes that show the opposite: on the way to work this morning, the present author stopped at a grocery store pharmacy to pick up his Lipitor refill; the cashier located the medication and processed the transaction without saying anything, and the present author left the store with a medication invented by doctors, tested on subjects, manufactured by chemical engineers—all of whom the present author has never met and

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<sup>58</sup> McCloskey, *The Bourgeois Virtues*, 4. Note that McCloskey's earlier (1994) paper puts the point in different terms: there she suggests that market participants *internalize* the required virtue. So, in her example, a roofer is careful with his work because he is concerned with his reputation, bad work would hurt his business, but over time he internalizes the virtue associated with careful work and honest contracts and, as a result, "he would not put on a bad roof even if he could get away with it" (1994: 182). This line of argument is not in the more systematic book, but it could be consistent with a comment in the present paper about Smith, namely that over time the satisfaction of the passions in the market could become habitual and persons' passions are actually changed as a result.

will never meet. This market transaction had no apparent effect, positive or negative, on the present author's human relationships or character. If the present author was more patient with on-line systems, he might have dispensed with the stop at the grocery store and arranged for an on-line pharmacy to renew his prescription, charge his credit card, and ship the medicine automatically—without any human interaction. Perhaps McCloskey would respond, suggesting that the present author observed the conventions of the market in paying for the medication and in that small way fostered the ethical foundation on which markets depend. But that is a very weak sense in which the market is, as McCloskey wants to suggest, an occasion for virtue, and this weaker claim does not yet show that market interaction has a positive effect on us as persons.

McCloskey herself allows that a market operating overwhelmingly “through calculation, interest, and exchange” could not generate trust.<sup>59</sup> But she suggests that, “Markets cannot function effectively outside the framework of families and communities built on values of love, obligation, and reciprocity,” markets sit on top of this framework and so are “infused” with virtues beyond prudence—and these additional factors could generate trust.<sup>60</sup> Market interaction, then, on McCloskey's account, provides opportunities for that deeper social foundation to foster virtue and generate trust, but does not *itself* foster virtue and/or generate trust. This result is weaker than the position McCloskey sets out to defend, that the market improves our souls. But, the data presented in the present paper does provide evidence for her stronger claim that market interaction can actually further human relationships and foster trust, or that market interaction can further human relationships by fostering trust.

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<sup>59</sup> McCloskey, *The Bourgeois Virtues*, 432.

<sup>60</sup> *Ibid.*, 432.

Moreover, the claim advanced in the present paper is that market interaction broadened the radius of trust; broadening the radius of trust could be explained in terms of existing solidarity or social relationships, so interaction in markets is part of a causal explanation, markets are not merely a space in which the existing social solidarity or already present human relationships can be enacted.

*4.3 Conclusion.* Reflecting later, Hirschman describes the *doux commerce* thesis as having been “engaging, genius, and... wrong.”<sup>61</sup> But in the *Passions* and the later extension Hirschman was more measured. He suggests that the *doux commerce* thesis was eclipsed as the industrial revolution began to transform European society in fundamental ways; because of the upheaval, the *doux commerce* thesis was replaced (among social theorists) by what Hirschman calls the self-destruction thesis. According to this self-destruction thesis, market interaction legitimizes—and so encourages—acting on individual self-interest, and narrowly self-interested action can undermine the social order’s moral values, and even undermines the values on which capitalism itself rests.<sup>62</sup> But at the same time, the two theses are compatible: market interaction could “generate[] feelings of trust, empathy for others, and similar *doux* feelings,” while at the same time instrumental/ economic reasoning enters into aspects of life where it corrodes relationships.<sup>63</sup> Richard Craswell notes this risk in the context of a broader discussion of trust and personal relationships: if persons become conditioned to make decisions about their lives in economic terms, “calculative habits may become so ‘deeply etched’ in our souls that we are unable to set those habits aside, even

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<sup>61</sup> Hirschman, “Social Conflicts as Pillars of Democratic Market Society,” *Political Theory* 22(2) (1994): 203-218, 212.

<sup>62</sup> See Hirschman, “Rival Interpretations,” 1470-1474.

<sup>63</sup> *Ibid*, 1483.

when we would like to do so in order to sustain a loving relationship.”<sup>64</sup> Craswell’s worry is a modern formulation of the point above from Montesquieu (in markets “all activities and all moral virtues, the smallest things, those required by humanity, are done or given for money”). And Craswell’s worry is part of—it is an academic version of—a broad concern about the application of economic reasoning to all aspects of life, undermining the possibility of collective action and richer human relationships. But the Taiwanese trust data provides a case study that enables us to recover the positive effect of market interaction even in the context of the widely-expressed critique. And so the Taiwanese trust data could help inform our understanding of the effects of capitalism, beyond (often reflexive) acceptance of the self-destruction thesis.

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<sup>64</sup> Richard Craswell, “On the Use of ‘Trust’: Comment on Williamson, ‘Calculativeness, Trust, and Economic Organization’,” *The Journal of Law and Economics* 36 (1993): 486-500, 497.

**Data summary**, from <http://www.worldvaluessurvey.org/WVSDocumentationWV6.jsp>

**Source:** Inglehart, R., C. Haerpfer, A. Moreno, C. Welzel, K. Kizilova, J. Diez-Medrano, M. Lagos, P. Norris, E. Ponarin & B. Puranen et al. (eds.). 2014. World Values Survey: Round Six - Country-Pooled Datafile Version (Madrid: JD Systems Institute).

General survey question, from <b>WVS Wave Three, 1995-1999, question V27</b>				
	China	Taiwan	U.S.	Sweden
Generally speaking, would you say that most people can be trusted...	50.4%	36.9%	35.0%	56.6%
...or that you can't be too careful in dealing with people?	45.9%	59.7%	63.1%	38.3%
General survey question, from <b>WVS Wave Six, 2010-2014, question V24</b>				
Generally speaking, would you say that most people can be trusted...	60.3%	30.3%		
...or that you can't be too careful in dealing with people?	35.2%	67.7%		
How strongly do you trust ... sum of "trust completely" and "trust somewhat," from <b>WVS Wave Six, 2010-2014</b>				
...people you know personally [question V104]	71.9%	80.5%	90.7%	96.9%
...people in your neighborhood [question V103]	78.4%	75.3%	72.0%	79.4%
... people you meet for the first time [question V105]	10.9%	28.5%	35.2%	56.9%
...people of another nationality [question V107]	8.8%	41.6%	65.7%	70.3%
...people of another religion [question V107]	9.1%	51.2%	75.3%	69.0%

Note: According to the World Values Survey Wave Six, 60.3% of Mainland Chinese say that “most people” can be trusted, compared to only 30.3% of Taiwanese. This data seems to conflict with the main point in the present paper, and it is surprising because the Taiwanese trust at higher levels on almost all of the more specific questions—about trusting people known personally, people in your neighborhood, etc. The gap here emphasizes the point made by Delhey, Newton, and Welzel, (from “How General Is Trust in ‘Most People?’”), discussed in the main text, namely that the general question can be interpreted differently in different places. It’s unclear who counts as “most people” and we don’t have gradations (trust completely, trust somewhat, etc.). We could explain the data on the general question in these terms: Mainland Chinese likely answer the general question (about most people) thinking about people known personally (71.9% of Mainland Chinese “completely” or “somewhat” trust people known personally), while the Taiwanese respond thinking about people met for the first time (only 28.5% of Taiwanese trust people met for the first time “completely” or “somewhat”).