

**THE CONTINUING RELEVANCE OF FRED
HIRSCH'S INSIGHTS ON MARKETS AND
MORALITY**

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Julho de 2005

WP nº 2005/43

DOCUMENTO DE TRABALHO

WORKING PAPER



FCT
Fundação para a Ciência e a Tecnologia
agência para a ciência, tecnologia e inovação

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Abstract

This article argues for the continuing relevance of Fred Hirsch's *The Social Limits to Growth* (1976), valued as a critical analysis of the consequences of markets on the moral fabric of society. Two concepts that are fundamental to Hirsch – the commercialization bias and the depleting moral legacy – will be scrutinised. We further claim that this book, by emphasizing the tendency to market expansion and the corresponding commodification of increasing spheres of social life, while simultaneously acknowledging its adverse consequences on the motivational appeal of social and moral norms, offers insights that are more relevant today than when it was conceived.

Keywords: Fred Hirsch, Markets, Morality, Neoliberalism.

¹ A version of this article was accepted for publication in the *Review of Social Economy*.

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Once a social system such as capitalism convinces everyone that it can dispense with morality and public spirit, the universal pursuit of self-interest being all that is needed for satisfactory performance, the system will undermine its own viability, which in fact is premised on civic behaviour and on the respect of certain moral norms to a far greater extent than capitalism's official ideology avows

Albert Hirschman, *Against Parsimony*

1. Introduction

The above quotation sums up one of the most important insights developed by Fred Hirsch in *Social Limits to Growth*, published in 1976. This article is an effort to bring into contemporary debate the analysis forged in this remarkable and much neglected work of economic theory. As with almost all ambitious efforts aimed at analysing the nature of social relations in capitalism, it is very difficult to make a critical analysis of this book. Nevertheless, the effort is worth making, not only because it contains insights and concepts that may prove useful for current debates about market institutions, but also because it was written at a time of transition to a new phase of capitalism which it tentatively tries to capture and anticipate. In the spirit of Polanyi (1957), this new phase of capitalism can be thought of as the product of the unleashing of a second great transformation. By that we mean that there is again an ongoing process, both at theoretical and policy levels, which aims to extend the reach of markets. If what Radin (1997) labels the aim of "universal commodification" is well entrenched today, then our argument is that Hirsch's critical analysis of the consequences of markets on the moral fabric of society is more valuable than ever.

Therefore, in order to analyse the consequences of this transformative dynamics within the framework of Hirsch, we will try to summarize his main points in the following sections. In the second section we will briefly put Fred Hirsch's work in the context of his troubled epoch and provide an overview of the theoretical framework which supports his analysis. Afterwards, we

will enter into a detailed analysis of the so-called “commercialisation bias”, pointing out how it hinders relevant and strategic choices while paradoxically claiming the centrality of freedom of choice (third section). In the fourth and fifth sections we will try to assess the continuing relevance of the contradiction put forward by Hirsch, between the individualistic and egoistic ethos promoted by the market and the social and moral norms that are crucial to the reproduction of capitalism. This point was discussed in depth by Hirsch when he spoke of “capitalism as a value system”. In the sixth section, a critical assessment of Hirsch's conception of morality will be made. Finally, we will briefly appraise the relevance of his framework in the current neoliberal phase of capitalism. Some provisional conclusions will be drawn in this last section, within an effort to present a balanced view of the continuing relevance of Hirsch's work.

2. Hirsch in his context

Fred Hirsch's *Social Limits to Growth* is a resourceful book that defies simple categorizations. Perhaps that is why it came to be considered a ‘classic’ shortly after its appearance. Since it emerges as an isolated effort in the context of Hirsch's intellectual trajectory - he died prematurely in 1978, two years after the book was first published - we cannot search back or forward in his personal reflections for additional insights. As for the main arguments developed, the critical perspectives on the consequences of sustained economic growth within the framework of a market based society descend from a diverse and sometimes antagonistic ancestry in the history of economic and social thought, some of which is explicitly mentioned by him - Smith, Marx, Scitovsky or Schelling are some of the main references. Furthermore, his arguments do not immediately fit into conventional ideological boundaries, giving rise to a multitude of readings (and misreadings) – hence one can speak of conservative/right-wing hirschians or progressive/left-wing hirschians, or even of ‘Hirsch, the social democrat’ (Crouch 1983)², obliterating that maybe Hirsch himself was after all proposing a deliberate ambivalence towards these rigid strictures.

Hirsch's inquiry on the limits to the growth process must be understood in the context of the seventies crisis-ridden atmosphere. The economic crisis in the affluent western societies, in tandem with the perceived shortcomings of keynesianism and the post-war Welfare State, the (then) dominant model of socio-economic regulation, are present throughout the book.

² For different assessments of Hirsch's political implications see Ellis and Kumar (1983) where Crouch's article appears.

Additionally, with the first report to the Club of Rome (Meadows et al. 1972) and the Stockholm Conference of the same year, the environmental crisis, which emerged at the time as a subject of widespread concern, is also present, albeit in a critical way. In fact, one of Hirsch's purposes is precisely to somehow respond to the Club of Rome report - as he stated in the introduction, "...the concern with the limits to growth that has been voiced by and through the Club of Rome is strikingly misplaced. It focuses on distant and uncertain physical limits and overlooks the immediate if less apocalyptic presence of social limits to growth" (Hirsch 1976: 4).

But what were these social limits? The reflection is introduced as an 'economist's answer' to three issues: (1) the 'paradox of affluence', or why economic growth delivers 'frustration'; (2) the 'distributional compulsion', or why focus on the partition of the pie and not on its mere addition; (3) the 'reluctant collectivism', or why the trend towards collective provision goes hand in hand with the enhancement of individual autonomy and personal achievement.

Once more, we should invoke the climate of the seventies to have a clear perception of the reach of those questions. The paradox of affluence must be set against the socio-political upheaval of the sixties, precisely at the end of a period of unprecedented sustained economic growth in the western world. The distributional compulsion suggests the pervasiveness of the struggles for income distribution, mainly through collective bargaining, in a period of decreasing growth. The reluctant collectivism should be understood in the context of the increasing contradictions between the growth of collective provision under the Welfare State and the individualistic ethos promoted by an economy which, in spite of all transformations, remained capitalist.

Hirsch argues for the interconnectedness of the three problems, advancing a new theoretical approach to economic growth. In his view, and following Roy Harrod's distinction between "oligarchic wealth and democratic wealth" (Hirsch 1976: 23-24), the economy is composed of two sectors: the material and the positional. The material sector comprises the production of goods and services that can be quantitatively increased without losses in quality, and with continued productivity gains. In the positional sector, individual consumption is influenced by consumption and/or fruition by others, involving goods, services or, more broadly, social relationships, that are subjected to physical or social scarcity, or prone to congestion by means of extension in use.

Traditional economic growth solves the problems of the material economy but not those of the positional economy. In fact, Hirsch suggests that economic growth may even exacerbate the

problems of the positional economy, since material affluence contributes to the intensification of 'positional competition'. The individual quest for goods, services and social relationships, which by their very nature cannot be shared by all and thus possess positional attributes, forces those same individuals to spend an increasing amount of time and/or material resources to attain, or simply to retain, a certain position in the social hierarchy: "More wealth of the kind attainable by all paradoxically means an increased scramble for the kind of wealth attainable by some" (Hirsch 1976: 26).

This theoretical framework, and especially the concepts of positional economy and positional 'goods', is Fred Hirsch's most renowned contribution, and has been applied to a considerable extent in fields such as education, urban planning, tourism or the economics and sociology of culture³.

Although our inquiry does not delve directly into a critical analysis of the above-mentioned concepts, one should be aware that they form a thread running through the entire argument. We choose to focus instead on two related topics that are closer to our concerns with Hirsch's contribution to the understanding of the imbrications of markets and morality: the "tyranny of small decisions" and the "commercialization bias", and the "depleting moral legacy" of capitalism.

3. The "tyranny of small decisions" and the "commercialization bias"

In this section we will point out how, according to Hirsch, the extension of market relations⁴, in spite of the rhetoric of free choice that usually supports it, hinders some of our most relevant and strategic choices, creating obstacles to the realization of important social values and thus eroding them.

³ See for example Brown (2000).

⁴ By market relations we mean social interactions mediated by a set of institutional arrangements through which goods are produced, distributed and subject to contractual forms of exchange involving the voluntary transfer of money and property rights (O'Neill 1998). The fact of being exchanged through markets and thus having a price turns these goods into commodities. A market is thus an institutionalised exchange of commodities (Hodgson 1988).

Against several misrepresentations of Hirsch's points, one has to agree with Crouch (1983: 156) that one of Hirsch's main contributions lies in a clear understanding of the limitations of the market: "the political contribution of *Social Limits to Growth* lies in its analysis of the cost of reliance on the free market as the main means of pursuing human ends". Again according to Crouch (1983), this view is related to the idea that there is an unavoidable incompleteness in the market provision of goods and services to the extent that one is unable to demand non-tradable goods or the non-tradable aspects of goods. This point has been developed at great length by Anderson (1990: 180) who has argued that the market is associated with a particular concept of freedom that is "primarily exercised in the choice and consumption of commodities in private life". The problem is that there are certain values that cannot be realized in the private realm of commodity consumption, presupposing instead shared public understandings that the market is intrinsically incapable of providing.

Let us consider for now the fundamental concept of the "tyranny of small decisions". Here, Hirsch is very much influenced by the analysis developed by Schelling (1978) about the consequences of unrestricted decentralized individual decision-making that the market tends to foster:

Individual choices, each made separately and thereby necessarily without taking account of the interaction between them, combine to have destructive social consequences. These consequences are destructive in the sense that they produce a worse result for the individual concerned than could have been obtained by coordination of individual choices by some method that took account of the mutual interaction (Hirsch 1976: 37).

The idea that uncertainty and incompleteness pervade individual choice within a market context is captured precisely by the concept of the "tyranny of small decisions". This conveys the message that the choices made by individuals in a piecemeal and incremental way have a "range and or a time span too small to take all relevant factors into account" (Hirsch 1976: 40). If this is so, one has to conclude that individual choice is not always the best guide to assess what individuals would have preferred to do if they could take into account all the consequences of their combined isolated actions. It is precisely here that a gulf appears between what is beneficial from an individual point of view and what is beneficial for society:

It is now questionable whether the road to the carefree society can run through the market economy, dominated as it is by piecemeal choices exercised by individuals in response to

their immediate situation. The choices offered by market opportunities are justly celebrated as liberating for the individual. Unfortunately, individual liberation does not make them liberating for all individuals together (Hirsch 1976: 26).

Hirsch argues that positional competition, which arises out of the “tyranny of small decisions” that autonomous market transactions favour, induces a kind of pecuniary mentality influencing individuals even outside strictly pecuniary matters⁵. The preoccupation with the social consequences of an excessively “money-minded” individual, exclusively guided by self-interest, runs through his entire work and will be analysed in the fourth section of this article. For the moment, we just want to emphasize that this pecuniary mentality tends to be reinforced by what Hirsch calls the “commercialisation bias”, implying that an “excessive proportion of individual activity is channelled through the market so that the commercial sector of our lives is unduly large” (Hirsch 1976: 84). What one has to understand at this point are the mechanisms by which the market tends to play an increasing role in social life.

Those mechanisms are related precisely, on the one hand, with the nature of individual choice in a socio-economic system dominated by markets and, on the other hand, with the type of individual motivations that this system tends to favour. Hirsch's (1976: 106) point of departure is that “the market economy is institutionally focused on the wants of the individual in his isolated capacity”. If this is so, then it is clear that for Hirsch the “tyranny of small decisions” is the product of a specific type of institution, namely the market. In a system where the market is the dominant institution, Hirsch finds a tendency for a self-reinforcing interaction between individual private decisions and the expansion of the commercial sector, mediated by an erosion of non-market institutional arrangements and values.

Associated with this bias is the notion of the “commercialisation effect”. In order to understand the usefulness of this concept one has to bear in mind that for Hirsch the fruition of goods and services and the interaction among individuals takes place within a social context that profoundly affects not only the satisfaction that one gets, but also the social meanings that are attached to them. Therefore, one cannot assess the benefits that an individual takes from certain goods or services simply out of its supposed embodied characteristics abstracting from the environmental and institutional conditions in which they are provided and used. Furthermore, the motivations of the individuals who participate in a particular exchange, what he calls “the spirit in which the exchange is undertaken” (Hirsch 1976: 87), cannot be ignored.

⁵ This is a point familiar to the old institutionalist tradition as for instance in Veblen (1990).

With this in mind, one can understand that when he speaks about the commercialisation effect he is simply referring to the necessity of assessing “the effect on the characteristics of the product or activity of supplying it exclusively or predominantly on commercial terms rather than on some other basis - such as informal exchange, mutual obligation, altruism or love, or feelings of service or obligation” (Hirsch 1976: 87). Hirsch's strategy is then to show that individuals attribute value to goods, services and specific social interactions that the market is unable to deliver, while at the same time it can preclude the creation of the institutional contexts where its deliverance could be assured.

We think that Anderson's (1990) distinction between commodity values, gift values and shared values provides a very good systematisation of Hirsch's concern with capturing essential differences between goods provided through market and non-market institutions. Gift values find their worth in the fact that they are given for reasons other than self-interest, having an expressive dimension that is associated with the fact that they convey a message about the intrinsic value of certain specific relationships or of a more general and abstract social bond⁶. Therefore, certain goods can only be conceived as the expression of a gift relationship if non-market institutions are created, allowing room for the acknowledgement of individual motivations that cannot be reduced to self-interest. Shared values, whose importance was also very much emphasized by Hirsch, presuppose that the goods can be valued by the fact that they are held in common by the members of a certain group, signalling the existence of a group to which its members are jointly committed (Anderson 1990). This also presupposes non-market institutions because the good that is shared must be held in common by the members of the group, meaning that its fruition expresses the participation in a collective endeavour. Furthermore, goods to which public access is guaranteed tend to favour the participation of people in shaping their attributes (Anderson 1990).

One of Hirsch's contentions is that shared and gift values are lost when a good previously delivered by non-market means is brought under the market. This is one of the mechanisms by which certain individual motivations and social expectations, like trust and mutual obligation, themselves the product of non-market institutional arrangements, are always threatened in a system where the market is the central institution: “by influencing social norms and expectations, commercialization (...) embodies its own dynamic (...) of privatization, or internalisation, of benefits that were earlier assumed to be available through the influence of conventional norms of give and take” (Hirsch 1976: 88).

⁶ This point was voiced by Titmuss (1970) whose study on blood donation seemed to have influenced Hirsch.

Hirsch (1976: 109) seems to be arguing that there is a more or less spontaneous tendency of the market to expand when he writes: “More generally, the effect of privatisation of facilities previously outside the strict commercial domain, and of substitution of commercial exchange for social convention (...) tends to have a cumulative effect. It makes privatisation more attractive or more necessary to those who have still to adopt it”. This “spontaneity” has its root in the interaction between a system that is structurally geared “to cater to those consumer demands that are amenable to commercialisation” (Hirsch 1976: 91) and individual choice increasingly oriented to the satisfaction of immediate wants in the private sphere, producing what Schelling (1978) calls a “tipping effect” whereby “individual behaviour on the basis of given preferences produces a chain of reactions that works itself out only after culminating in a pattern that no single individual would himself choose” (Hirsch 1976: 89). This gives rise to an undesired paradox that is overlooked in conventional economic theory: the extension of choice through the market presupposes an extension of private property rights which have to be enacted by the spreading of restrictive laws and barriers. These are justified by a rhetoric of freedom, but freedom, Hirsch argues, seems precisely what is disallowed by this institutional change. The consequence is to threaten those non-market institutions where gift values and shared values may flourish.

The young Marx provides a classic statement of this thesis, which Hirsch (1976: 105) approvingly quotes:

Finally, there came a time when everything men had considered as inalienable became an object of exchange, of traffic, and could be alienated. This is the time when the very things which till then had been communicated, but never exchanged; given, but never sold; acquired, but never bought – virtue, love, conviction, knowledge, conscience, etc. – when everything, in short, passed into commerce. It is the time of general corruption, of universal venality.

4. “The Depleting Moral Legacy”

A theme which runs through Hirsch's work is the so-called “depleting moral legacy of capitalism”, that is the idea that capitalism “lives on borrowed time off a borrowed morality” (Kumar 1983: 156). This leads Kumar to touch at one of the crucial points in Hirsch's analysis

of capitalism by asking the following question: “might it not be that, in general ‘non-capitalist’ elements formed a significant component in the social order of capitalism, not simply as residues or hang-overs from the past but essential props to its regular functioning?” (Kumar 1983: 153).

For Hirsch these non-capitalist elements have a functional role to play in the structuration of capitalism as a viable social order because they gave the system the moral elements that guided individual behaviour, thereby tempering the individualistic pursuit of self-interested ends with notions of mutual obligation, trust or reciprocity. Nevertheless, and here is the locus of the main contradiction identified by Hirsch, the expansive nature of capitalism seems to endanger these shared values that, as he argued, were a fortunate inheritance from a pre-capitalist past:

The social morality that has served as an understructure for economic individualism has been a legacy of the precapitalist and preindustrial past. This legacy has diminished with time and with the corrosive contact of the active capitalist values – and more generally with the greater anonymity and mobility of industrial society. The system has thereby lost its outside support that was previously taken for granted by the individual (Hirsch 1976: 117).

It is clear that for him the problem lies in the so-called “essence of capitalism as a value system”. Contrary to the view that considers capitalism to be neutral from the point of view of the values that it promotes⁷, Hirsch argued that capitalism fosters a set of very distinctive values. These are related with the “pursuit of private and essentially individualistic economic goals by enterprises, consumers and workers” (Hirsch 1976: 117). Hirsch, at this point within the institutionalist tradition, argues that capitalist institutions impact on individual behaviours and motivations⁸, and shows how problematic it is for a social order, based on institutions that favour self-centred motivations, to secure the social ties required for its existence.

To summarize, one can say that individual motivations and preferences cannot be understood without taking into account the institutional context that partially shapes and defines them. This means that economic behaviour is acquired. If men tend to be generous in one place and egoistic

⁷ See Compte-Sponville (2004).

⁸ This is the endogenous preference argument, which according to Hodgson (1988) constitutes a kind of “Rubicon Line” that divides neoclassical economics and even some of its critics from an institutionalist perspective. For a thoroughly analysis on the issue of preference endogeneity see Bowles (1998).

in another it is not the supposed human nature that varies but the ruling social organization that appeals to and emphasizes certain human traits. This is very much in line with Polanyi's remarks: "human beings will work for a variety of reasons as things are arranged accordingly" (quoted in Block and Somers 1991: 64). If this is so, "individual motives cannot be ignored or assumed to be benign" (Hirsch 1976: 132). As we will see below, this emphasis on individual motivations, and on the context that shapes them, provides a privileged position to criticize those who argued for the so-called Keynesian compromise based on democratic control and regulation of markets, without taking into account its motivational underpinnings.

Let us for now explore Hirsch's idea that the strength of market capitalism laid in the fact that it had "never been the exclusive basis of the political economy in any country in any time" and, in particular, that the vitality of post-war capitalism, based as it was on the Keynesian compromise, was due to the fact that it was a "hybrid politico-economic system with resilience and plasticity to survive" (Hirsch 1976: 118). This argument is of course not a new one, bearing an obvious relation to one of Polanyi's general main points about capitalist development: "Our Thesis is that the idea of a self-adjusting market implied a stark utopia. Such an institution could not exist for any length of time without annihilating the human and natural substance of society" (Polanyi 1957: 3). This thesis has been very well captured by Hodgson's "impurity principle" according to which "every socioeconomic system needs at least one structurally dissimilar subsystem to function" (Hodgson 1999: 126). In capitalism there is an uneasy coexistence of different institutional realities associated with different patterns of human interaction that by making appeal to different motivations favour the emergence of a functional plurality of values. In spite of this, and in line with Jessop (1997), one can argue that contemporarily a tendency seems to be operative, according to which the prerogatives of markets seem to shape all institutional orders, market and non-market, fostering a kind of asymmetrical interdependence between them. The point is precisely that the growing institutional purity that capitalism seems to favour, is confronted with the unavoidable fact that the "whole of society [cannot] be subsumed under the commodity form and subordinated to market forces (...) capitalism would be impossible if this were the case" (Jessop 1997: 566).

As we have already noticed the contribution of Hirsch was to make us look afresh at the roots of the impossibility of a growing systemic purity, focusing mainly on those "aspects of social morality that are affected by the means and motives prevalent in the economic system" (Hirsch 1976: 124). The non-viability of the continuous expansion of capitalist central institutions and patterns of interaction lies on the corrosive effects caused on individual's voluntary cooperation

in the public sphere and the related social morality, crucially needed for the system's own reproduction. That is why capitalism "may sabotage its own foundations" (Hirsch 1976: 143).

At this point, it is important to underline Hirsch's critique of Keynesian managed capitalism, the main historical attempt to circumvent several mechanisms that may sabotage the system's survival. The thrust of his argument, which is directed to Keynes himself, points to the neglect of the necessary moral foundations of capitalism. According to Hirsch (1976: 134) although "Keynes acknowledged a moral problem at the micro-level (...) he too kept morality and economics in separate compartments". Consequently:

Keynes assumed that the managers of the system would be motivated by higher goals than maximization of their own interests (...). These noble and for the most part implicit assumptions enabled Keynes to by-pass the implementation problem of superimposing collective objectives on an individualistic calculus (Hirsch 1976: 124).

It is important to notice that Hirsch does not criticize managed capitalism per se. This means that he cannot be confounded with neoliberal critiques of the perverse effects generated by post-war institutional arrangements. On the contrary, he seems to point to the still excessive reliance on markets and on individual decentralized decision-making authorised by the Keynesian compromise. The market ethos still played the dominant role in shaping individual motivations in capitalism:

The essence of this strategy is to impose the necessary minimum of central control and guidance on an economy whose operating units remained motivated by individualistic aims and horizons and are guided by these individualistic aims in everyday behavior (Hirsch 1976: 119).

In this context, he identified what was perhaps the main contradiction of managed capitalism which had to do with the definition of the proper place of self-interest: "At the individual or micro-level, therefore, motivation under managed capitalism has to be kept in compartments; but there is no way of communicating to individuals just where maximisation of private interests is to stop short" (Hirsch 1976: 131). Together with the above-identified neglect of the motivational prerequisites for the successful working of the system, this opened the door to the triumphant challenge mounted by public choice theorists. In fact, they were able to argue with great efficacy that if individuals acted as rational self-interested agents in the marketplace there

was no reason to suppose that this would cease to be true when they enter non-market situations. This meant that a theoretical effort was made to argue for the universal validity of self-interest as the most natural motivational drive, supposed to be operative even in the behaviour of the most dedicated public managers (O'Neill 1998). Perhaps more than anything, these critiques undermined the intellectual legitimacy of managed capitalism, a tendency that Hirsch seemed to have captured.

Public choice theory is one of the building blocks of the successful intellectual effort to make neoliberalism, which can be considered as the latest instance of the above mentioned utopian effort to turn the market into the sole foundation of human relations, the dominant ideology of our times. A question that should be posed in this context, although not with the pretension of providing an answer to it, is the following: does capitalist development tend to create the conditions that favour the re-emergence over and over again of theoretical frameworks exclusively centred on markets?

5. The burden of monetary incentives

Albert Hirschman (1982; 1985), who is one of the few economists to recognize the importance of Fred Hirsch, considers him as a representative of a certain tradition that put forward the idea that capitalism depletes or “erodes” the moral foundation needed for its functioning. Nevertheless, Hirschman critically points to the lack of a clear and well-systematized account of the possible causal links by which “certain aspects of social morality (...) are affected by the means and motives prevalent in the economic system” (Hirsch 1976: 124).

Although this critique is pertinent, it underestimates some important and very accurate points made by Hirsch when he discusses the potential adverse effects of the excessive reliance on monetary incentives, meaning by this the “potential cost in weakening ‘internalized’ sanctions, (...) such weakening of the individual sanctions from within tends to encourage response only against specific reward” (Hirsch 1976: 130). This issue anticipated one of behavioural economics’ research topics, opened by Frey (1997), which explores the idea that in certain

circumstances an excessive reliance on monetary incentives, favoured by market economies, might erode individual's intrinsic motivations⁹.

The adoption of monetary incentives, by eroding intrinsic motivations, may lead to unexpected and perverse policy results. This is the so-called “crowding-out effect” of intrinsic motivations induced by the transformation of previously non-monetary relationships into explicitly monetary ones (Frey 1997). This effect holds when a certain activity is being carried out by the voluntary cooperative effort of individuals, as happens when they are moved by intrinsic motivations to contribute their fair share to securing public goods. In these contexts, economic incentives may be a highly ineffective way of inducing a desired behaviour. If the crowding-out effect holds, the opposite of the most fundamental economic law may be observed: raising monetary incentives reduces, rather than increases, the supply of the desired activity (Frey and Jegen 2001).

According to Hirsch (1976: 140): “liberal market society has become accustomed to a different emphasis. Internalising ad hoc incentives for people with privately oriented norms so that they direct their self-regarding actions in socially desirable way is easier and more practicable than attempting to internalise social norms of behaviour”. Therefore, monetary incentives, by repeatedly shaping people's choices to elicit particular behaviours through deliberate modifications in individuals' external environment, may have an impact on individual preferences and values (Grant 2002).

Although most economists still tend to be quite convinced that economics is all about incentives, deriving “its strength from being able to predict how people change their behaviour in response to changes in incentives” (Fehr and Falk 2002: 687), we think that Hirsch's remarks, now supported by a host of empirical evidence on the “psychological foundations of incentives” (Fehr and Falk 2002), are a relevant antidote to this one-sided view. Furthermore, it is worth exploring his remarks on the importance of creating institutions that make a continuous appeal to fellow-feeling, generosity, civic virtues and the like, therefore contributing to engrained and generalized habits of thought¹⁰ which help to sustain a viable and decent society.

Nevertheless, we once again need the subtle thinking of Hirschman (1985: 157) in order to temper an excessive malleable view of individuals' motivations:

⁹ Frey (1997) indeed recognises that Hirsch has already made this point.

¹⁰ See Hodgson (2003) for a development within economics of an inquiry into the mutual relation, to which Hirsch himself alludes, between habits and institutions.

Love, benevolence, and civic spirit neither are scarce factors in fixed supply nor do they act like skills and abilities that expand more or less indefinitely with practice. Rather they exhibit a complex, composite behaviour: they atrophy when not adequately practiced and appealed to by the ruling socio-economic regime, yet will once again make themselves scarce when preached and relied on to excess. To make matters worse, the precise location of these two danger zones (...) is by no means known, nor are these zones ever stable.

6. Morality as stock and heritage

Hirsch seems to equate morality with what Bowles (1998) calls “nice traits”, i.e., with altruism, trust, reciprocity, commitment or a sense of duty to oneself and to others. In fact, throughout the book one can find morality loosely associated with certain individual traits which are functional to temper the negative consequences for social order of the unrestrained pursuit of self-interest. Time and time again, Hirsch emphasises the beneficial effects of morality for a well-functioning contractual capitalist economy where collective action problems abound¹¹.

This perspective about the system's need to make a constant appeal to morality goes against the view, favoured by mainstream economists, that has tended to see morality as an exogenous and scarce resource that should therefore be economized (Hirschman, 1985). In an important footnote, Hirsch argues against Arrow's (1972) criticism of Titmuss (1970) because of its being based on the “questionable premise” that altruism is “a depleting stock rather than a self-generating flow feeding partly on itself” (Hirsch 1976: 95). By criticising this perspective on a crucial component of morality, Hirsch contributes to uncovering a connection between morality as a scarce resource and the universal prescription that institutional design should be market-based, emphasizing the use of monetary incentives.

¹¹ It is very interesting to note that Hirsch uses Olson's (1965) rational choice approach to collective action to show how its dismal predictions about the possibility of groups achieving their desired ends can be applied to a varied host of social problems in capitalism. Having pointed out this, Hirsch then shows how cooperation problems seem to call for a greater demand of “an internalized social ethic” overlooked in Olson's framework (Hirsch 1976: 144).

Nevertheless, an unresolved ambiguity seems to emerge in Hirsch's view of morality. The ambiguity is located in the argument that morality is a heritage of a pre-capitalist past, where closed and integrated communities based on non-market patterns of social interaction, together with the influence of religion, assured a "fortunate legacy" – in terms of a "pre-market social ethos" – on the shoulders of which the initial success of the market rested (Hirsch 1976: 12). As time passed, the institutional transformations of capitalism seemed to erode the foundations on which the morality that the system badly needs laid. At a certain point, this argument makes Hirsch vulnerable to the charge that he is actually considering morality as a kind of depletable stock. If this is so, Hirsch's view of morality as a fortunate heritage from an irrecoverable past is open to the same criticism that he directed against Arrow (1972). The only difference between his perspective and Arrow's is that the latter does not venture into an exercise of locating the historical origin of the morality. This, in spite Arrow's (1974) own recognition that morality is required for a well functioning capitalism.

Hirsch's view of morality as depletable stock is clearly present in his view about the functional role of religion. Here, he seems to take two things almost for granted: (1) that religion was an almost irreplaceable fountain that originated, from outside the economic system, the morality that assured the "necessary social binding for an individualistic, *nonaltruistic* market economy", thereby contributing to "reconcile the conflict between private and social needs at the individual level" (Hirsch 1976: 142); (2) that this beneficial economic role played by religion was in the process of being eroded by the secular forces of the market.

It is not our intention to critically engage with these views. At this point, we just want to emphasize that at least the second thesis does not seem to be corroborated by what Haddorf (2000) calls the ambiguous relation between market and religion, derived from the apparent resilience of the religious sentiment in the most extreme market environments. As for the first thesis, Hirsch himself conceives possible secular functional substitutes for the beneficial role supposedly played by religion. These may be located on the principles of justice and community that can be the outcome of non-market institutions enacted through political initiative.

In the last instance, what seems to be at stake is Hirsch's tendency to repeatedly overlook the fact that, as Sayer (2004: 2) has argued, "economic processes [market as well as non-market] are internally as well as externally morally influenced and structured". This means that the relation between markets and morality is more open and ambivalent than Hirsch thought. Polanyi captured this with the notion of a "double movement" that governs the historical development of modern societies: "the market expanded continuously but this movement was

met by a countermovement checking the expansion in definite directions” (Polanyi 1957:130). This countermovement emanates partially from within market social relations, being the outcome of the moral agency of “those most immediately affected by the deleterious action of the market (...) using protective legislation, restrictive associations, and other instruments of invention as its methods” (Polanyi 1957: 132). It is precisely this capacity for moral agency that Hirsch underestimates, thereby missing a crucial element in the explanation of the capacity that capitalism has exhibited to accommodate a certain institutional variety that assured its reproduction as a value system.

7. Neoliberalism or the contemporary relevance of Fred Hirsch: some final remarks

The contradictions touched upon by Hirsch almost thirty years ago have not yet been surpassed. On the contrary, they are probably operative in an unprecedented way following the progressive emergence of a new phase of capitalism that Crotty (2000) labels “global neoliberal regime”, which took root in the eighties and consolidated in the nineties. However, the use of this expression does not mean that one intends to deny, as Hodgson (1999) underlined, the maintenance of a tremendous institutional variety of forms of capitalism at national, sub-national and supra-national levels. It simply tries to convey the idea of a common trend operating at the global level, a widely pursued policy agenda, still largely unchallenged, consisting of deregulation, privatisation, liberalization and growing global integration which in themselves are the product of a deliberate state-supported choice made by economic elites around the globe (Crotty 2000).

This trend was partially fuelled by neoliberal economic theory which, according to Chang (2003), emerged as an alliance between neoclassical economics and the Austrian-libertarian tradition, based on a more or less clear division of work: the former provided the analytical tools with a universalistic ambition, encompassing in its analysis all kinds of human behaviours and social interactions; the latter supplied a robust moral and political philosophy able to create a new “common sense” discourse about the desirability of a “new free-market capitalism”. One can therefore conceive neoliberalism as a renewed theoretical effort to justify and argue for the universalization of market-based social relations, with the corresponding penetration in almost every single aspect of our lives of the discourse and/or practice of commodification, capital accumulation and profit making (Wood 1997).

Furthermore, we argue, in line with Le Grand (2003), that this project was successful inasmuch as it was capable of inducing a change in the views and beliefs of policy-makers and other institutional designers about human nature and the dominant motivations of human behaviour. By this we mean that public choice theorists and other neoliberal intellectuals were capable of turning a particular picture of individuals into the hegemonic understanding of what it means to “take men as they really are”. In the face of this, it is not surprising that an agenda emphasizing markets and monetary incentives has become the dominant policy menu of our epoch, contributing, in a kind of perverse self-fulfilling prophecy, to moulding individual values to dangerously fit the above mentioned dismal portrait. The sheer contemporary political success of this project allows us to speak, in line with Polanyi (1957), of the unfolding of a second great transformation, in the sense of a new utopian and ultimately unsustainable effort of turning the market and self-interest into the only foundations for social order.

Fred Hirsch, writing precisely in the midst of the transitional phase that would lead to the dominance of neoliberalism, was able to foresee some of its key features and troublesome implications. It should be noted that Hirsch, although sceptical about the survival possibilities of post-war keynesianism, probably had in mind a quite different historical outcome – he even considered a “reversion” to the liberal-conservative approach (of, say, Hayek) as “morally and politically unthinkable” (Hirsch 1976: 189). Nevertheless, by identifying the tendency to market expansion and the corresponding commodification of increasing spheres of social life, while simultaneously acknowledging its adverse consequences on the motivational appeal of social and moral norms, Hirsch unintentionally offered a work which is more relevant today than when it was conceived.

Acknowledgements

This article was written in the context of the NORMEC (Normative Dimensions of Action and Order – The Economics of an Inclusive Europe) project, partially financed by the European Union (HPSE-CT 2001-00081). Helena Lopes, José Castro Caldas Ana Santos and Ana Costa gave us detailed criticisms and suggestions that improved the final outcome significantly. All errors and omissions are of the authors own making.

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