Appendix F: Civil Development: The Cultural Component

Every individual necessarily labours to render the annual revenue of the society as great as he can. He generally neither intends to promote the public interest, nor knows how much he is promoting it...He intends only his own gain, and he is in this, as in many other cases, led by an invisible hand to promote an end which was no part of his intention. Nor is it always the worse for society that it was no part of his intention. By pursuing his own interest he frequently promotes that of the society more effectually than when he really intends to promote it. I have never known much good done by those who affected to trade for the public good.
Adam Smith, An Inquiry into the Nature and Causes of the Wealth of Nations, 1776.

If you label everything "rational," you can indeed use "rationality" as the explanation --- but what is the point?
Albert O. Hirschman[1]

Sociologist Paul DiMaggio argues that economic processes have an "irreducible 'cultural' component." Taking culture seriously in the social sciences, argues DiMaggio, not only enriches our interpretive understanding of economic phenomena but also helps explain them better.[2]

If we were to embark on a cultural study of economic processes, we would see that symbolic phenomena are interwoven with economic phenomena. Indeed, the study and practice of civil development is about how people bring symbolic life in culture - core values and standards - into the interior structures of markets. For example, we discussed earlier how cultural values enter into markets when accreditors in higher education promote standards of academic excellence in competing (nonprofit/for-profit) universities. It also happens when business leaders set up health and safety norms for their industries. Both examples demonstrate the degree to which a cultural component is involved in economic processes, a fact not always acknowledged in the mainstream economic rationale.[3]

In A CIVIL REPUBLIC we noted that public accountability systems require corporations to integrate their economic values (e.g. private profits, competition, productivity, and efficiency) with cultural values (e.g. honesty, fairness, cooperation, and transparency). In capitalist markets, the move towards integrating cultural values often occurs quietly. The study of how the integration of cultural values takes place requires conceptualizing how the economy resides in a culture transcending the narrow interests and values of business.[4]

There are indeed interests in the larger culture that shape the economy. Richard Swedberg argues that the (multi-meaning) concept of "interest" is critical to the analysis of economic phenomena. Historically, "interests" have been defined as "interests in many ways: religious interest, political interest, artistic interest, etc. Toward the end of the nineteenth century, however, economists began to restrict the term to exclusively "economic interests," and replaced it with other terms like "utility" and "preferences." Economic interests became part of *homo economicus*, the characterization of humans as isolated, rational-choice creatures driven largely by material interests. Swedberg challenges this usage by referring to Max Weber's outlook on interests, "not ideas, but material and ideal interests, directly govern men's conduct." We add to "interests" the concepts of "ideals" and "values" as part of the cultural component in the market.[5]

The difference in how the words "interests" and "values" are used in economic discourse and everyday vernacular suggest the degree to which economic processes have been conceptually removed from social and cultural processes. An "interest" in traditional market usage may be a financial charge made for a loan, or a payment made by a bank for the use of money. It may be a legal right to claim a share of something in business. A "value" in the market, on the other hand, is more than a financial consideration, For example, it may be an amount of money that is thought to be a fair exchange, or a satisfactory return or compensation for something. Yet in their everyday use, “interest” and “value” transcend narrow economic meanings. An “interest” by its broader definition is more than a financial return. It is, rather, a feeling of curiosity about something, or a concern that makes people turn their attention toward it. It may be something that people enjoy doing. Likewise, “value,” is more than a fair market price more abstract and ideal in its common usage. It is a fundamental worth of something, more vital and idyllic than “interest.”

So, these two terms are both used in the market but are different from their use in everyday culture. Both concepts - interests and values - have their place in civil (economic) development. Only “values,” however, signify in both market and everyday language that a cultural process has occurred, as well as an economic one, reminding us that social and cultural interests are broader than economic and financial interests. Such interests have meanings that extend beyond finance, hidden from the language of traditional economics. To this end, we must open the door to a rationale that better recognizes and accounts for social and cultural interests and values, and not merely economic ones.[6]

Social and cultural interests and values are indeed central, yet often ignored, factors in economic processes. One place this is often overlooked in economic analyses is in the interaction between subcultures and the lives of people in business. Business people have economic/financial interests but also social/cultural interests in buying and selling. These hidden (non-economic) phenomena help to shape the direction of production and exchange.[7] One can look, for example, at buying and selling on religious holidays. For Christians there is a special market for Easter and Christmas; for Jews there is special market for Roshashana, Chanukah and Passover; for Hindus there is Baisakhi and Diwali; for Moslems there is Aashurah (especially in Shi'a Islam) and Ramadan. The markets for these holidays are based on economic foundations but also on social and cultural foundations. The study of civil development is thus about how social/cultural interests have and can influence markets. It is about how the Third Sector strives to be a market player by interjecting social/cultural (substantive) interests into the market itself. It is about how societal and cultural interests conflict and combine with economic interests.

In this Appendix we explore the social and cultural interests that are lost in the economic rationale and how the capitalist system gains direction and legitimacy through the masking and subordination of social and cultural interests. In economic worldviews, the concept of culture is often seen analytically to be separate from the economy. Yet this is misleading; culture is like the air we breathe, the ground upon which we walk. We forget about it being there, like fish in the sea that do not know that they are in water.[8]

This "forgetfulness" is more than misleading, however, it is dangerous. Karl Marx's analysis of industry and culture in the nineteenth century - detailed the production of commodity fetishism; laborers faced a fundamental alienation from their own product at work, stolen from themselves as producers. Today, economic sociologists like Vivianna Zelizer argue that the market often serves as a culturally destructive force , indeed, as an "amoral cash nexus" that permeates daily life.[9]

Not all economists are willing to make such a clean distinction between economy and culture, however. Amartya K. Sen has examined economic development as a component of larger cultural processes. Sen speaks of "development as freedom." He says that being free includes civil and political rights, such as the right to life. It also includes the right not to be tortured. It includes freedom of movement, free speech, the right to practice one's religion, freedom of assembly, the right not to be discriminated against because of race, ethnicity, religion, gender, or sexual orientation and the right to vote. These are "civil" rights that represent the broad interests of government and citizens in a market economy. So, some economists do break through the mainstream rationale.[10]

To look more deeply into how social and cultural processes affect economic processes requires a comparative analysis of different types of reasoning that exist in different cultures around the world. It was the German sociologist, Max Weber, who first suggested the usefulness of comparative and historical analysis as a means for better understanding how "rationalization" had come to govern the culture of western society. For Weber, western rationality had liberal and progressive elements, but for Weber it also evidenced an intolerance and dangerousness as it had historically developed in relation to business, law, religion, politics, the city, music and art. This tension was central in much of Weber's economic works, and his analysis of the development of western rationality is worth exploring further.

Substantive vs. Formal Rationality

In Max Weber's last book, A General Economic History, Weber argued that capitalism had developed along with other types of rationality acceptable to western culture: practical, theoretical, formal, and substantive rationality. Of interest for Weber, specifically in the case of capitalist markets, was the difference between what he called formal (instrumental) and substantive (value) rationality.[11]

Formal rationality, argued Weber, is typical of capitalist markets in that the functions of such markets are based on the calculation of profit and the measurement of business success. Capitalism, in this regard,, had developed by “rational enterprise” and the deliberate pursuit of profits. A business enterprise is the very model of “rational economic action,” Weber concluded. It rests on an expectation of profit by “utilizing opportunities for exchange and formally peaceful chances to gain wealth.” Formal rationality connects intricately with all of western culture, science, music, and government, but in a Weberian analysis, the capitalist market is notable for the prominence of its “economic action,” which involves a “quantitative calculation or accounting.”[12]

Substantive rationality, on the other hand, was for Weber based on ultimate values and appeals to ethical norms. Such rationality is not practical or pragmatic in comparison to formal rationality; in so far that it does not take seriously the outcome of decisions based solely on logical calculation. A decision in this rationality is based on a belief, a faith or a creed, or a philosophical principle, such as freedom, truth or justice. It appeals to ultimate values or truths beyond those reducible to “quantitative calculation.”[13]

One major shortcoming inherent to modern economic thought is the dearth of analysis regarding how these two ideal types link with one another. Yet it seems clear, as in the examples discussed above, that people engaged in markets *do* link with ultimate (core) values and the ethical norms of society. Formal rationality is made legitimate in the high order of moral thought. Substantive (core) values influence laws and all patterns of social action in this and all economic systems of production and exchange.

This fact is most evident in the comparison of different state economies. The markets in Israel and China are not identical to those in the United States; other countries have market economies that adjust to different moral orders. How then is capitalism, as a single market system, able to operate in such different cultures?[14]

The answer: this capitalist market has certain features that define it around the world but it also adjusts to the moral order of each society. And each society adjusts to it. Formal rationality is one of its features, but this is an "ideal type," to use Weber's language. This type does not fit reality, perfectly. It is interactive, so to speak, with the moral order (substantive rationality) in the life of society. The market is in reality co-present with a social and cultural order. These ideal types (formal and substantive) appear as separate from one another, but they show connections in actual markets.[15]

In this regard, capitalist markets are more than the historical emergence of "formal" logic. Sociologist Mark Granovetter has argued that "calculative rationality" was indeed more prevalent in pre-capitalist formations and less universal in capitalist societies than is commonly recognized. The important point here is the recognition that capitalist markets are created with the attributes of both substantive and formal rationality, and not just the latter, as supposed by much of modern economic thought. Moreover, as we shall see, civil development is based on the resolution of such differences between these different rationalities.[16]

In sum, a rationale for civil development assumes that markets have interests and values drawn from the larger culture, not just business alone, and that they in turn influence economic exchange. Further, the larger culture interpenetrates these markets and gives legitimacy to them. The important question in this regard is how to study this cultural component of markets.

The Methodology

The concept of a market in the nineteenth century referred to a particular place or geographical location where people bought and sold goods. By the early twentieth century, however, the notion of the "market" had become largely abstract. The idea of social interaction as related to the buying and selling of goods slowly disappeared into formulas and charts of the economists. Whereas even the prominent economist Alfred Marshal saw the importance of a social and cultural bond between buyers and sellers, the resulting concept of a generalized market relegated the economic study of transactions to the realm of abstract, hypothetical, and esoteric economic modeling.[17]

Social research on how interests and values play in a market requires field observation. Field studies are not based on mathematical modeling but rather on the observation of how people live and act in various settings, in our case markets. Max Weber calls this approach to understanding social organization and social action *Verstehen*. The word means "understanding" in German, and Weber's use of the word suggests that sociologists and others interested in human action must look beyond external causes to the internal motivations, values and "understandings" that people hold. Thus, any study of the market that takes seriously the role of substantive rationality must investigate how people "understand," how they feel, and how they think in a market. Weber's *Verstehen* is thus in effect a call to study the norms of social action. It is accomplished through participant observation, close interviews, case studies, and interpretations of documents. We have already seen that markets are based on interpersonal relations and shared norms, so it is appropriate to use Weber's methodological approach. The question for researchers, then, is how best to interpret the social (subjective) life of people who buy and sell and organize markets.[18]

This methodology affords us the possibility of understanding what exists in the minds of market participants when they make economic transactions. The data are in the social life of market participants. What do people mean by a substantive value like "fairness" and a formal value like "efficiency" in the market? It is not just a formulaic study of markets, but a study of how substantive rationality unfolds in peoples' relation to markets. Field observers learn what is going on "subjectively" in markets and learn better what this may mean for the future of both markets and those whose lives are affected by them.[19]

Non-profit corporations (temples, universities, museums, etc.) are increasingly more inclined to buy and sell by combining, let us say, substantive reasoning with calculated reasoning. In this manner, by purchasing clothing made in "sweat-free" factories, or screening their stock portfolio for socially responsible companies, nonprofit colleges, hospitals and other institutions can influence production and distribution on the basis of substantive (non-economic) interests and values. Indeed, an ethical investor might reverse the more traditional priorities found in many economic models and calculate how to best <u>reduce economic returns</u> for purposes that serve the investor, the company and society. All such calculations represent a special mix of formal and substantive reasoning.[20]

Civil planning is about enhancing the possibilities for substantive interests to develop in market rationality. What evidence do we have then of this mix of rationalities?

To begin with, substantive (societal) interests include “public health, ”which are fostered by business, sometimes, as in for-profit clinics and hospitals. Such interests also include “academic excellence,” developed by for-profit colleges and universities. As stated above, such interests may also include the use of endowments for purposes other than equity building.

Importantly, substantive values and interests do not preclude the need for market competition. Corporations like HMOs and hospitals are in “competition” for profit, but in another sense they are also “competing” to advance the societal interest (value) in public health. The hospital with the best healthcare record may win the competition in the public’s eye but may not win the profit game. Or, a university with the highest measure of excellence could win the competition for students in education and not win the income game. Financial and economic motives are not always the bottom line in this market, nor are they mutually exclusive. There are different interests, motives, priorities, values, and outcomes that lie outside the traditional economic model.[21]

Perhaps the most visible example of substantive reasoning entering into the market is the case of religious organizations like churches and synagogues. Religious organizations carry core (non-monetary) interests, like “faith” and “forgiveness,” and “charity.” These are substantially different from business interests, but integral to the missions of these organizations that also interact with and constitute part of the market. Substantive reasoning tells us about the quality and value of these institutions in society. Such reasoning requires a different rationale beyond the formal rationality found in “economic action,” a type of rationale that mainstream economists are not attuned to and so in turn, not focused on the larger development of society outside the strict limits of the market.

A New Rationale

As we have seen, the development of the economy in a civil society requires an analysis of cultural values and beliefs that explicate the connection between formal and substantive interests in markets. To this end, cultural studies can tell us about how substantive (core) interests are created in economic transactions and markets, and how substantive reasoning based on core values is for many people an essential part of doing business, as much as economic values and formal reasoning.[22]

The advance of substantive interests and values into markets does not mean (necessarily) the loss of formal rationality. Substantive reasoning may link positively with profits and formal reasoning. For example, creating an ethical workplace in the factory or investing in slum areas based on ethical motives may result (accidentally or intentionally) in higher financial returns. In a rationale for civil development we usually see social interests (e.g. public health) at odds with economic interests (e.g. efficiency), but we should also imagine ways in which the two are linked to one another. The key question then becomes: how does substantive reasoning contribute to the development of an economy inside civil society?

Social Reasoning

Substantive interests and core values may be considered the "cultural heritage" of a society. Religious leaders, poets and philosophers speak of *truth, faith, freedom, justice, love,* and *beauty*. From the beginning of civilization, such components of culture have played a central part of the formation of economies. They become part of what we call social reasoning.

Social reasoning refers to the way people think about their core values along with their physical needs. It can become a skill as professional investors link Weber's two types of rationality. Social investors are learning this skill when they combine social values with economic values. They see how the rules of economic exchange are interlaced together with formal and substantive reasoning. CEOs think in both formal and substantive types of rationality when they create corporate codes for conduct. They do so for reasons of profit and for reasons of conscience.

This is what we call (see appendix G) a "civil rationale", different from an economic rationale. The great principles that legitimatize capitalist markets, like "freedom," include middle-range (allied) concepts such as *personal choice* and *voluntary exchange.* Economists from Friederich Hayek to Milton Friedman have defined them in operational terms. These attributes are indeed part of an economic (capitalist) rationale, but unfortunately they do not define "justice" and civil order in the market. This is too often left to the government, and specifically to the U.S. Department of Justice and other governmental entities entrusted with upholding such values.[23]

Many religious principles and interests do operate in the market without notice. The Golden Rule, for example, ("Do unto others as you would have them do unto you") was conceived as a principle in ancient times and it is used now on occasions in the corporation. Corporate codes of conduct that govern a corporations internal and external actions or workings are one example. In this manner, people do create corporations and market sectors with such principles that are drawn from the larger culture.[24]

There is more evidence on the mix of values here. Christian clergy buy crosses they deem sacred and scientists purchase laboratory instruments they deem accurate. These goods have a price but the reasons for buying them are based on substantive (value-based) interests, not formal rationality. For clergy, it is a sense of the sacred that determines their purchase of crosses, not profit. The cross, as a symbol of holiness, shapes the decision. The substantive rationality for making this decision is explained in theology, not in economics. For scientists, a search for truth is behind their decision to buy finely tuned laboratory instruments, not money. The basis for such decisions is explained in science, not economics.

Social reasoning is not economic reasoning. Third Sector core interests enter the market on a regular basis through what economists call consumer preference. But this is economic reasoning and it excludes the real origins of value in the purchase; it puts the choice to purchase solely into an economic rationale. This principled action in the market cannot be reduced to an economic framework. The framework of economics cannot explain the social reality that takes place in making market decisions.

So, this is the premise of social reasoning. Markets cannot be viewed isolated from substantive interests and values. Formal rationality cannot explain the substantive meaning of these transactions in any real (full) sense. Formal calculations link with substantive rationality in reality. The contextual basis for these decisions is outside economics, in the rationale of society's civil orders outside business.

In other words, economists may describe the purchase of Christian crosses and scientific instruments as a "consumer preference" but there is more to this meaning than is conveyed in the market version. This economic interpretation assumes that markets can be explained by a rationale based on scarcity, supply and demand, and principles of finance. Yet the fact is: clergy and scientists want these items to advance substantive interests in their fields of religion and science. The market for them is a means to achieve their interests. The explanation of these purchases, based on the economic rationale of "consumer preferences," is, for this reason, a type of economic reductionism.

There is more to substantive interests, however, than non-economic consumer choices. Clergy and scientists are collective actors. They belong to national and international associations that carry their cultural interests and values. They are Third Sector actors that give a purpose to production that is more complex than economists can explain. The business sector may have manifest power to shape consumer interests, but Third Sector actors hold a type of "latent power" to shape the organization of business. Third Sector professionals are collective actors writing the standards for products and services. Physicians, lawyers, architects, accountants, city planners, librarians, and dentists, are not just individuals; they are collective actors whose members shape the market according the values of their respective fields.

In other words, substantive interests and core values influence market behavior. They are generated in the larger culture, and are visible in the subcultures of the Third Sector and government. Substantive reasoning mixes with formal reasoning and social action - based on a symbolic life - mixes with economic action in the market.[25]

Max Weber knew this. Ever since Max Weber published his study of *The Protestant Ethic and the Spirit of Capitalism* in 1905 there has been controversy about the degree of impact of religious belief on economic development. Was it religion, the doctrines of Protestantism and Calvinism that impelled people to economic achievement?

Were the Protestant nations more successful economically than the Catholic nations and, if so, does religious belief provide the explanation for this development? The answer to this question is still debated but we can see how Weber could have assumed that both rationales (formal and substantive) were linked and essential to understand the economy in society.[26]

This is social reasoning not economic reasoning. Substantive interests are not included in an economic rationale, but they ought to be included in a different rationale for markets. Substantive values cannot be reduced to "consumer preferences." Consumer preferences are not merely a function of business. Rather, they are a function of civil orders in society. (See Chapter 5, A CIVIL REPUBLIC). Incalculable interests such as those discussed above (i.e. What is sacred? What is justice? What is truth?) motivate buyers and direct manufacturers to make things. Substantive interests are in the civil (non-business) orders of society that are interacting with the market.

Put another way, the core interests and values of Third Sector organizations—learned societies, professional associations, church federations, educational associations, library associations, and science organizations – govern the market along with the core interests of business. It is not just the other way around - economic interests shaping Third Sector core values and interests. To be sure, the market is commercializing the fields of science, education and the professions. This is a two-way street, however, that is either not understood or often overlooked in economics. And it has yet to be researched in socio-economics and economic sociology. Thus, these Third Sector fields bring substantive values into the order of economic life. How can this subject be studied?[27]

Empirical Studies

The extent to which substantive interests and core values shape a market can be studied empirically in many ways. Here are a few illustrative questions for research.

Production: Broadly, to what extent is the production of a textbook determined by educational values as opposed to economic values? To what extent in a specific market does a business firm determine the content of a school textbook for profit motives as opposed to faculty motives? (How much is based on the core values in a specialized field?) This same question applies across disciplines: How much do business interests influence professional interests in writing textbooks and the teaching of courses in law, science, and health?[28]

State Charters: Hospitals and HMOs are chartered as for-profit corporations. Is the number of "for-profit hospitals" and "for-profit HMOs" increasing today? To what extent in a specific case are core values and substantive interests (e.g. "human caring" and "well-being") governing the maintenance of a hospital as opposed to profit interests? How do core health interests in medical practice influence business interests inside of these for-profit hospitals? How do workplace cultures differ between for-profit and nonprofit medical clinics?

Construction: When churches build retirement homes, how much do their spiritual interests influence the construction as opposed to their economic interests? To what extent are core (religious) interests determining the construction (architecture) and the medical services?

Public Standards: Substantive interests and values generate market standards in religion, art, science, law, medicine, philosophy, and law. By what measure do people in these different orders of society independently develop public standards in the market?

Political scientists, social economists, and economic sociologists can examine how substantive (core) interests enter– or do not enter – into the market. The study is done by fieldwork, surveys and empirical research. Economic values (e.g. profits, productivity, efficiency) are co-present with core values (e.g. health, democracy, truth, and fairness) that are at the foundation of a civil society.

<u>The Latent Power (Hidden) Side of Markets</u>

The economic model is in the myth of everyday life. Everyday speech about freedom in the market carries a myth Yet, as we have seen, markets are not fully "free" and they could never exist at all without order. And they cannot be based on profits without core values supporting them. Governments demand the core value of fairness in competition; they insist on democratic practices in business associations. Fairness and democracy are substantive values that are not a part of the economic model.

Returning for a moment to Max Weber, we might say that in one sense Weber missed some parts of the market story. He defined capitalist markets by the development of business enterprise, competition, and profit making. Weber but did not, however, examine how markets were developing through nonprofit associations. Business leaders charter nonprofit associations by the thousands and they are based on democratic principles, not-for-profit. They hold elections on what they see to be democratic and fair and create judiciaries based on what they see as procedural justice. Many elections can be perfunctory but if electoral practices are not followed properly, dissenting members can file suit. Members can demand in court that fair elections and due process be followed. When competitors in a business association find that democratic practices are flawed, they have recourse to the courts. These constitute a significant part of market development that Weber did not discuss.

Commercial interests may typify markets but substantive interests are there as well. Yet they remain hidden from the economist's eye in the typical measure of "performance." Once substantive interests are recorded, we can see how they represent a latent power in the market system. . Economists measure market performance for their efficiency not for the substantive interests that are in them. We cannot see how such interests are created and destroyed in this model.[29] Stated otherwise, social and cultural interests and values are created and destroyed everyday. The capitalist system in this regard may be thought of like the human body. It has cells changing constantly. The cellular changes in markets can be studied as they reshape values everyday.[30]

In sum, markets that are today explained by economic reasoning need to be explained by social reasoning as well. Business interests interweave with the interests of people in all civil orders. Here are a few examples of how that interweaving is happening.

Box 1 Inter-sector Relations: Business and the Third Sector

First, there are traditional *business donations* that allocate funds, goods, and services to nonprofit Third Sector organizations. Recent examples of donations include Home Depot offering cash to KaBLOOM! to build playgrounds in low-income neighborhoods, and Microsoft providing software, hardware, and technical expertise to public libraries through the American Library Association. There is a type of social interaction here that would show social and cultural interests as well as business interests[31]

Second, there are *marketing transactions* deemed necessary for the public good.

Businesses work with Third Sector organizations to improve their images and thus their marketing positions. (This is called social marketing, which became a management strategy in the 1970s.) To cite a few examples, the Denny's restaurant chain raises money for Save the Children's urban programs in the United States; thus, it rebuilds its public image and increases employee morale. BankBoston strengthens its community relationships by sponsoring a team of City Year members to spend a year in full-time national service, and Calphalon increases sales and its association with top chefs through cause-related marketing deals with Share Our Strength, a leading anti-hunger organization. There are clearly profit motives here, but these transactions also bring a change in business interests; they bring social and cultural interests into the for-profit sector.

Third, there are *operational transactions* that claim to serve a common good but are also profit-making opportunities at the same time. For example, in the Northwest, Pioneer Human Services provides jobs for its ex-offender clients by contracting with Boeing to make parts for commercial aircraft. In a Boston suburb, the Newton-Conover Middle School increases parent involvement by sending guidance counselors to meet with parents at their business workplaces. Ridgeview, Inc., a hosiery manufacturer, seeks to attract workers through "family-friendly policies," and this includes links with family-oriented nonprofits.[32]

These cases show how people in business interact with people in other civil orders and mix economic interests with society's core interests.

Let's now illustrate a case in which competition takes place between business and a Third Sector corporation. Nonprofit corporations in the Third Sector compete with business. Let's start with museums as one example.[33]

<u>Museums</u>

The Museum of Fine Arts (MFA) in Boston is a not-for-profit corporation. It is engaged in social reasoning, bringing core values together with profit making. Its director, Malcolm Rogers must reconcile financial interests with aesthetic interests in the fine arts. The Museum states clearly:

> Our mission is to create unique gifts that educate, entertain, emotionally involve, aesthetically stimulate, and encourage awareness of the rich artistic heritage contained within the Museum. Through exhibitions, educational programming, research, publications, gift shops, and mail order catalogs, we continually strive to expand the public's awareness and appreciation of fine art. The MFA has commissioned artisans from all over the world to create our collection of museum-quality gifts. Each object has artistic and historical significance and is reproduced or adapted from an original work of art from our galleries. The permanent collection is comprised of over one million objects providing us with endless inspiration for creating these treasures for your enjoyment. The MFA aims for the highest standards in all of its endeavors. It serves as a resource for both those who are already familiar with art, and for those to whom art is a new experience.[34]

In the fiscal year that ended June 30, 2000, the MFA's attendance held steady at 1.3 million; and membership and financial contributions were up. The Museum and its School of Fine Arts had surpluses in the previous year, but there was financial trouble. The "business" revenues from its retail operation, which accounts for nearly 40 percent of its annual operating budget, were down. Income from its "enterprise" division includes profits from shops; merchandise catalogs, and the museum's Web site. The revenue was down between 16 and 17 percent below what Museum officials counted on during the previous year. For months, MFA officials had to re-think their "enterprise." The MFA's shortfall reflected a nationwide trend. Museum retailing in general had been rocked by competition in the marketplace and from cyberspace, and changing consumer habits. Museums across the country were stimulating a new consumer demand.

Museum stores and catalogs were novelties to the public a decade ago and the goods sold very well. Museums sold cards and calendars, wearable art, coffee table books that were not available elsewhere. The "business" side helped museums stay alive in the first part of the 1990s when governments were cutting back on support. The government cutback and the subsequent effort to sell art objects to make up for the losses had distressed long-time museum visitors and aficionados. But the Monet mugs and Sargent reproduction scarves enhanced the MFA's "brand name" recognition and helped to sustain itself in the economy.

MFA's problem today is that it must compete with businesses that copy its practice of selling artifacts and fine art. The museum's idea for selling artifacts has become a growing business in the for-profit world. The boutique business has boomed. Boutiques are stocked with high-end pottery and glassware, wearable art and hand-loomed clothing. Chain stores carry museum merchandise encroaching on the museum's niche in the market.

How does this crossing of sectors in the market relate to connecting formal and substantive rationality? More specifically, in the case of the MFA, how does this museum integrate financial principles with its historical, scientific, inspirational, and aesthetic principles? How does it integrate business principles with aesthetic and scientific principles - such as valuing the "beauty" of an art object and seeking the "truth" about an artifact found in an archaeological discovery? People buy things from museums for their perennial (non-market) value: an Egyptian jar, or a Greek vase with an indefinable beauty that would carry the buyer beyond commercial values. The value of a commodity may grow in price in relation to its felt beauty,; carry a high rating in its exchange value, simply based on aesthetic principles. This is the cultural component, the substantive value of goods and services. The selling of an art object is thus not simply the commodification of a great painting. It may also be a case in which principles of finance and principles of art are joined in decision-making.

In the museum example above, we see how things may be deemed to be of historic value, a good that exists for its own sake beyond its price. A great work of art, for example a documented 20,000 year-old Native American artifact, contributes toward the understanding of human history for customers of the museum, and not just more money for an enterprise. Can we not say that a newly discovered painting by Rembrandt contributes then to a greater appreciation of the artist, or the personal delight of the viewers? Such appreciation or delight, however, is missed or forgotten when it is reduced to the measuring "consumer satisfaction."

So the market is a place that crosses all sectors of society, like the Agora in ancient Greece. Could a beautiful object on the market put us on a path toward what Aristotle called human fulfillment or *eudaimonia*?

In this case of the nonprofit museum, the principles of fine art are weighed against the principles of finance. The value of an object is not measured by its exchange value alone. Sociologically speaking, the culture of the Third Sector is influencing the culture of business. Because the MFA is a not-for-profit, however, it is restricted in what it can sell. It sells everything from vases of Van Gogh-inspired sunflowers to Frank Lloyd Wright jewelry. But everything that the MFA puts into the market is required by law to be related to its collection, exhibitions, or programs. The MFA could endanger its nonprofit status by selling manufactured products that are on the borderline.

Regular businesses, like the Museum Company, have copied what nonprofit Museums are doing, and they are tough competitors. The for-profit Museum Company can sell items sold at the MFA along with non-museum products that attract more customers to its store. In the business (for-profit) Museum Company store window at this moment of writing, Andy Warhol glassware from the nonprofit MFA is displayed. Inside, there are other museum pieces for sale such as videos, CDs, stationery, jewelry, and an array of pottery and glassware, all items that nonprofit museums cannot sell. A prominent sign posted inside the Museum Company says that it is dedicated to bringing customers the best reproductions from the world's great museums.[35]

In the example above of non-profit museums and The Museum Company, we see how the Third Sector of nonprofits has an influence on the direction of markets and vice versa. The value orientations of these non-profits and corporations can influence each other. They can also be so close that an observer cannot distinguish between them. All corporations (profit/nonprofit) compete for a market niche. And this profit/nonprofit competition happens across society.[36]

At the same time, a lot of cooperation is also going on between sectors that need to be studied. Religious interests are intersecting with business interests. In 1999, *Business-Week* reported on one example:

> The big splash at the Young President's Organization powwow in June at the Rome's Excelsior Hotel wasn't a ballroom seminar about e-commerce juggernauts or Y2K blowups. Instead, the buzz at this confab of some of the world's youngest and most powerful chief executives was about the shamanic healing journey going on down in the basement. There, in a candlelit room thick with a haze of incense, 17 blindfolded captains of industry lay on towels, breathed deeply and delved into the "lower world" to the sound of a lone tribal drum. Leading the group was Richard Whiteley, a Harvard business school-educated best selling author and management consultant [instructing] the executives how to retrieve from their inner depths their "power animals," who would guide their companies to 21st century success.[37]

For the last decade "spiritual events" like this have been happening in hotels and executive suites across the country. This is not just a simple story of business destroying the core values of the Third Sector or vice versa. The close interactions between people in business and the Third Sector can strengthen the power of capitalist markets in their destructive propensities as well as create pathways to a new economy.[38]

Social Reasoning Again

Social reasoning is different from economic reasoning. It involves the recognition of non-economic factors operating in markets. It reveals how the cultural components of norms and values become habits, customs, and other regularities and patterns. Weber engaged in social reasoning when he saw how different types of rationality are embedded in industrialized societies, not just one type of rationality in profit making. He saw a means-ends rationality (*zweckrational*) and a value-oriented rationality (*wertrational*) rooted in social action. Social reasoning sees economic interests as linked with non-economic interests; it is a link between Weber's value-oriented rationality and formal rationality, both involved in market transactions. The question is: How does this happen?

One way we have seen that this happens is when cultural (substantive) values outweigh means-end and utilitarian values. They can be seen in the context of markets, the ocean of social life surrounding people in the production and sale of things. Social reasoning makes the invisible, visible. It brings to light the role of great values like democracy, justice, human security and safety in the economy; it links qualities of life, like human dignity and worth, the quality of human compassion, and those classic values of beauty, truth, and goodness with the formal economy. These are perennial values in civil society.[39]

The political scientist Robert Putnam argues that developing a “civil society” requires social capital and good government policies. His use of “social capital” refers to building networks of trust, reciprocity, and habits of cooperation in voluntary associations like soccer clubs, the Lion's Club, and local choral societies. In social reasoning, these values are latent inside capitalist markets.[40]

Core Interests Generate Public Standards

Political scientists, social economists, and economic sociologists can assume that social/cultural interests generate public standards. How this occurs, however, is less clear. Public standards are developed through government but, as we argue here, also through the unhindered social life of markets. Public standards are drawn from broad (society-wide) interests - like human safety and security. Society-wide interests become translated into market-specific standards. The highest interests (e.g. freedom) cannot be measured yet they become rendered measurable in markets.

Notice the difference between the generality of a broad-scale interest (or substantive value) and how it is translated into the particularity of a market standard. Public safety is a core interest in society that cannot be measured but that is not true for "standards." Safety locks for doors are standardized, measured and calculated. Public standards for carpentry saws or restaurant cleanliness are standardized and calculated in business. Public safety is given operational definitions in market sectors.

Let's notice again the difference between the general and the particular interest/value. "Job safety" is a core value that cannot be measured in its broad meaning, but is defined operationally in labor-management contracts. Contracts specify precise workplace rules. "Product safety" cannot be measured by its abstract meaning but it can be made operational for government agencies. "Human security" is a core interest that cannot be measured in its general meaning. But this interest is in the language of the market, notably in the insurance and the securities markets. The core values of human safety and security are "operationalized" in capitalist markets. The question remains: to what extent do generalized substantive interests/values shape markets?[41]

Hypotheses: Standards and the Invisible Hand

We know that economic exchange develops in a moral order but we could do more to research how it happens. We also may attempt to explain how the moral order (non-economic factors) of such exchange creates the so-called "invisible hand." The economist Adam Smith thought that a hidden hand existed in markets. To this end, Smith argued that in certain respects free markets work mysteriously for the public good. But Smith also saw a moral order in the economy when wrote about the "Influence of Custom and Fashion upon the Sentiments of Moral Approbation and Disapprobation." He saw moral sentiments as part of society and simply never extrapolated this insight into his study of how wealth was produced in nations. We suggest that it is that moral order of substantive values that produced a degree of self-regulation in the market. The hidden hand was that moral order.[42]

So, sociologists interested in the development of civil society should account for how the market becomes self-regulating through the development of public standards generated in the moral order. This formation of public standards is the basis for capitalist markets to develop with an interior moral structure. The proper introduction of standards brought through public accountability systems, in turn, creates civil markets (See Box 1).

Box 2 The Societal Background: Core Values Create Civil Markets

Substantive (Core) Interests/Values ➔ Public Standards ➔ Civil (Self-regulating) Markets

In this theory, substantive interests—such as freedom, fairness, human safety, and a respect for nature—generate formal standards in the market. The core interest/value of human safety becomes the background for specific rules on "job safety" and "product safety." A core value like "respect for nature" is part of a moral order that is behind market and government standards. The abstract value generates particular rule or standard for environmental protection.

This theory (generality to particularity) suggests more. It suggests that sociologists should study how standards develop through voluntary associations, not just government. The government can create standards to make the market work for the common good, but they cannot create them alone. Associations set standards without government involvement. Standard making takes place in trade, business, professional, medical, legal, art, and union associations. Business writes contracts with labor unions in the Third Sector, which are rooted in a human interest for more security, justice, equity, and a sense of self-worth. The particular rules for pensions, higher wages, and job safety are in this manner generated from the general moral order of society.[43]

Capitalist markets are in all categories: constructive and destructive, creative and exploitive. The creation of public standards is also part of these categories. The right type of standards can be constructive; too many standards can be destructive, stifling. This stifling side is what aggravates business leaders when government regulates the market. But if it is stifling, government can call on business and Third Sector organizations to establish them properly for the common good.

Standard making is inevitable and necessary for civil order. Business leaders standardize their own products (nails, light bulbs) for customers, which appear to be the hidden hand leading the market to work for the public good.

Conclusion

Substantive interests and values are in all of society's civil orders. They are in the life of the family (e.g. "caring") religion (e.g. "compassion"), science (e.g. "truth"), recreation (e.g. "relaxation"), and art (e.g. "gracefulness"). These values are not defined by calculation. Yet they should be studied as a latent (not so invisible) part of judgment making in the market.

These broad interests and values can be researched using Weber's Verstehen. They can be understood subjectively through interviews and fieldwork, and surveys that "objectify" findings. This is a sociological method for studying markets. It is not in the model of economists and it introduces a new type of reasoning and rationale for markets.

Core interests and values cannot be judged by a market price. If an economic rationale for judging values were to stay typical in public reasoning, core values would be lost. A Jewish Star and a Christian Cross become judged symbolically by their market price, not as a symbol of faith and compassion.

Weber worried about civil decline. He despaired about extreme reasoning. Formal rationality should not be overemphasized, he said, like people quantifying everything. This would lead to an "unacceptable narrowness of thought." On the other hand, substantive rationality could be overemphasized and lead to an "intolerable ambiguity." Here we are talking about creating a balance, a proper mix in the market, a creative combination of rationalities.[44]

The concept of public standards helps to combine Weber's ideal types. Governments can set public standards as substantive goals. Government goals are calculable by the degree to which they are achieved. Free market goals, such as "fair" trade and "transparency" in the market are achievable by measured degrees. The government can set these goals and the best CEOs can develop them apart from government.[45]

A public standard can be a goal for whole industries. It is then like the economist's concept of a "public good;" everyone in the market can share it and benefit. Public standards are held in common by competitors. In public planning, economic and financial interests (e.g. profit and efficiency) then mix constructively with social and cultural interests (e.g. "fairness" and "equity"). Economic goals can link with social goals.[46]

In conclusion we can see how business and the Third Sector could produce a different "goal structure" for the market. A market could have a new alignment of core interests even as the two sectors remain different and in tension. These separate sectors are countervailing powers while at the same time they establish links in their own interest. University studies could reveal the possibilities for such links and show how a public domain could develop in private systems of exchange.

A public domain is thus latent, i.e. hiding so to speak inside the private domain. But to reveal how the latent becomes manifest requires research on how different cultural components – norms, values, principles, and societal interests - work in markets. The cultural component needs to become more apparent to the public and given its own legitimacy in markets.[47]

University studies should then reach the mass media and the public mind. But how that happens will depend upon how universities develop a civil rationale that challenges the popular economic rationale. The economic rationale by itself is, as we have seen, misleading. So, this new rationale becomes our next topic.

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[1] Cited in Richard Swedberg, Economics and Sociology (Princeton, NJ: Princeton University Press, 1990) p. 330.

[2] Paul DiMaggio, "Culture and the Economy," Ed. Neil Smelser and Richard Swedberg, The Handbook of Economic Sociology (Princeton, N.J.: Princeton University Press, 1994) p.27.

[3] Every economy has a rationale that justifies its operations in the larger interests and values of a country. The capitalist economy is no exception to the degree that its rationale holds economic interests to be primary in all transactions. But this rationale can be misleading. The economy also includes social and cultural interests, values, and symbols. This fact should be large in the mind of economists, political scientists and economic sociologists.

[4] In A CIVIL REPUBLIC we said that certain values of the capitalist market (e.g., efficiency and competition) might be advanced in a civil market where systems of accountability and justice develop. We would anticipate, for example, that efficiency would increase in civil markets with the reduced cost of government enforcement of laws and monitoring. In the development of systems of public accountability that include a wider range of stakeholders, the allied concepts of justice are applied, and gains may be made both economically and culturally in this creative mixture of values (freedom and justice). Stated otherwise, the "efficiency argument" suggests that, instead of passing "externality costs" (e.g., the cost of pollution from sulfur-producing smokestacks) on to government, the problem can be resolved inside the economy itself by creating a –a revised market structure where cultural values can be balanced with economic values to include the largest number of stakeholders. Some stakeholders would of course be concerned with only the "bottom line," but other stakeholders would act with other interests, for example interests that prevent companies from externalizing costs to the government or to stakeholders' local communities. Many expenses that are now taken up by the government such as pollution, workplace injuries and the distribution of unsafe products are "preventative costs," in that the wide inclusion of stakeholders can reduce

both the cost to industry and the cost to government when stakeholders are allowed to monitor not only the "bottom line" economic costs of corporations, but the economic, cultural and social "effects" of corporate behavior as well.

[5] Richard Swedberg. Op. cit pp. 1-5.

[6] The rationale of economics is filled with myth and irony. The idea of "market freedom" is a myth without a concept of civil order. The idea of the competitive market is ironic to the degree that it causes its own destruction. The so-called free market in this economic rational has no sense of civil order and justice built into its rationale. Its rationale leads to market anarchy and government controls. Government controls increase constantly under these conditions, which means less and less freedom and more danger for government to become bureaucratic, even totalitarian.

[7] Historically, big business interests are almost always dominant and Third Sector interests are always subdominant. For example, the charity movement began in the nineteenth century, when the lords of industry turned towards philanthropy. Big business was sacking labor and exploiting land while giving great large sums of money to charitable (Third Sector) foundations grateful to receive them. These charity foundations then took care of many problems produced by business itself, i.e. the caring for the poor, finding housing for people fired from their jobs, etc. People in the Third Sector have taken many roles in the economy, as in open rebellion against business, other times as a resisters of market culture, and then contrarily, as a strong supporter of business.

[8] If we were to accept the anthropological definition of culture, it would stand for all things produced by human beings. It would represent all production and all patterns of social life, i.e. languages, institutions, and symbols woven into the fabric of a nation or region. The anthropological concept of culture includes all norms and values and theory making itself. Indeed, the only thing that this concept of culture does not include is the physical world. Therefore, we cannot say that "culture shapes the economy" because culture includes, technically, the values and organization of the economy. But the concept of culture is useful when we study special ways of life within the larger society, and when we contrast the norms and values of different countries. A civil rationale that focuses on the role of norms and values in the market is only a strategy for research and theory, a strategy for explaining how the market works.

[9] Viviana Zelizer, "Beyond the Polemics of the Market: Establishing an Empirical Agenda," Sociological Forum, 3, 1988.

[10] A. K. Sen, Development as Freedom (NY: Vintage Books, 2000).

[11] Weber notes how capitalist markets emerged under historical conditions, which allows us to see how this system of markets can change again, even transform and disappear. Capitalism, he says, is 'rational' in the sense that it is based on "calculations of likely return." It depends upon predictability. It requires a dependable legal system; a context in

which there can be open markets for products and for labor. Among the preconditions of capitalist development are a state bureaucracy and a habit of treating people as having rights in “law-regulated commercial dealings.” Randall Collins in “Weber's Last Theory of Capitalism,” American Sociological Review 45 (1980), pp.925-42.

[12] In the Weberian tradition, capitalism and bureaucracy are characterized by certain features: (a) Calculability (counting and quantifying); (b) Efficiency (best means to a given end); (c) Predictability (things operate in the same way from time to time and place to place); and (d) Control of uncertainty (especially the uncertainty posed by human error). For Weber, capitalism bore the general properties of free labor, rational industrial organization, bookkeeping, legal separation of corporate and personal property and the integration of science into the service of markets. Formal rationality was critical to its subculture. Various elements of capitalism appeared outside the West, Weber asserted, including “capitalistic acquisition with rational pursuit of profits resting on calculations in terms of capital and the conduct of activity in terms of balances with the certainty of profit and loss.” But only in the West did this form of rationality -- most evident in science and business -- become the norm of thought. Precise knowledge (and refined observation) as related to commerce appeared in other countries and civilizations, but not with the fervor, high mindedness and predominance of influence in the West. For Weber, this dominion of rationality extended far beyond commerce and business, to modern culture itself, from the fields of jurisprudence and chemistry to music and architecture. Max Weber, Economy and Society, Ed. G. Roth and G. Wittich (NY: Bedminster Press 1968) [1922].

[13] Some theorists question whether substantive rationality is “rational” at all since it is rooted in feeling and a value orientation, rather than in the processes of thought.

[14] We should remember how “capitalism” has changed over the centuries and is defined differently by different scholars. Capitalism developed in Europe between the 16th and 19th centuries involving the trade in ownership of corporations for buying and selling goods, especially capital goods (including land and labor), relatively free from state control. Some proponents of capitalism (like Milton Friedman) emphasize the role of efficient free markets, which promote individual freedom and democracy. For many (like Immanuel Wallerstein), capitalism hinges on the elaboration of an economic system in which goods and services are traded in markets, and capital goods belong to non-state entities, on a global scale. For others (like Marx), it is defined by the creation of a labor market. Marx saw capitalism as distinguished from other market economies by private ownership and the concentration of the means of production in the hands of a few.

[15] The subtle connection between “societal interests” and these rationalities is not studied in economics. Economics is based mainly on principles of formal rationality and does not explain substantive interests. The field of economics has taken capitalist interests to a higher level, i.e. at a principled level of values. “Efficiency,” for example, is a driving interest for a business but it becomes a “principle” for analysis in economics.

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[16] Mark Granovetter, “Economic Action and Social Structure: The Problem of Embeddness,” American Journal of Sociology (1985), 91.

[17] On this battle over methods among economists, see Richard Swedberg, Principles of Economic Sociology (Princeton, NJ: Princeton University Press, 2003), p. 109ff.

[18] Max Weber emphasized the individual actions of people as the ground for the existence of all associations. This emphasis is different from that of other sociologists. Emile Durkheim emphasized the association as sui generis, as a collective body existing autonomously in its own right. See Max Weber, Sociological Writings. Ed. by Wolf Heydebrand (New York: Continuum, 1994). See also “The Methodological Foundations of Sociology,” http://www.marxists.org/reference/subject/philosophy/works/ge/weber.htm.

[19] The substantive values that exist in the market can be researched by participant observation and by case studies. What “could happen” is an inquiry into the destruction and creation of norms in business and nonprofit markets. See the literature in sociology on participant observation, including Patricia A. Adler and Peter Adler. Observational techniques," In Handbook of Qualitative Research, Ed. Norman Denzin and Yvonna S. Lincon (Newbury Park: Sage, 1994) pp. 377-392. Severyn Bruyn. The Human Perspective in Sociology: The methodology of participant observation (Englewood Cliffs, NJ: Prentice-Hall, 1966).

[20] Timothy Smith, “Shareholder Activism,” in The Social Investment Almanac, Ed. Peter Kinder, et al (NY: Henry Holt, 1992).

[21] We discussed for-profit universities in A CIVIL REPUBLIC. One example is the University of Phoenix. Investigative reporters have slightly different figures for The University of Phoenix. Symonds says, for example, that Phoenix offers graduate and undergraduate degrees and certificate programs to working professionals around the world. In the winter of 2003, it had 96,000 students scattered among 134 campuses (satellite locations) across 28 states in the United States, a growing number of online programs that claim “to know no boundaries.” Instead of maintaining tenured faculty, over 95% of its university's lecturers are working professionals who teach only part-time. Phoenix is opening campuses in the Netherlands and Germany and planning to enter markets in Europe and in Asia. Sixty percent of Phoenix students get tuition reimbursement from their employers. William C. Symonds, "Cash-Cow Universities," *BusinessWeek*, November 17, 2003, p. 71.

[22] For a discussion on how “economic action” goes too far to eliminate non-economic motives, see Richard Swedberg and Mark Granovetter, “Introduction,” The Sociology of Economic Life, (Boulder: Westview Press, 1992), pp. 6-7.

[23] In A CIVIL REPUBLIC, we proposed that stakeholders inside markets define them as they protest the impact of corporations on their lives. The "self-interest" of a corporation,

for example, can be preserved by the higher principle of mutual (self) governance. A trade association is a mutually governed association of competitors. But in civil planning we think one step further to advance the idea of a civil association, generating a new synthesis of interests. When a business firm collaborates with Third Sector associations, it becomes usually more civil but it could also, paradoxically, become more dangerous. So each step is filled with promise and peril. Competing churches are like competing businesses in this sense. They settle differences by mediation and develop new (mutual) associations to represent their new agreements. Some of them work and some do not. But when this process is successful, a higher linking of differences develops, a synthesis of interests. Because we are talking at a high level of abstraction here, any reference to "synthesis" in a theory of markets should *not* be identified with Hegel's philosophy, as though civil development was part of a "dialectical progression." We are working with "middle range" concepts in which different model attributes need a "progressive specification" of definitions.

[24] The Biblical principles, "Love your neighbor as your self" was about the development of a spiritual life, not about the development of market life. Such "rules" were based in the idea of a human spirit, not the mind and pure reasoning. But are such valued "rules" totally separate from the market? We think, "not entirely."

The same question is true for great philosophical principles, like Immanuel Kant's "ultimate criterion" for making daily decisions. All moral decisions, Kant said, should be based on one universal principle: "Act as if the maxim of your action were to become a general law binding on everyone." The principle is not a basis for calculating transactions in a market. Today, civic leaders and social scientists have sought to define substantive principles that would apply in today's capitalist markets. Sociologist Amitai Etzioni proposes, "Respect and uphold society's moral order as you would have society respect and uphold your autonomy to live a full life." This becomes a broad rule for constructing markets. Here we see the principle of "autonomy" optimized with the principle of "community." See Amitai Etzioni, The New Golden Rule (NY: Basic Books, 1996).

At the beginning of civilization over 3,000 years ago, substantive principles (or values) began to be formulated. A first principle, primum non nocere ("above all, not knowingly to do harm"), appeared in ancient Hindu literature and also in ancient Greece where it was translated into the Hippocratic Oath. It was brought forward into the practice of medicine and it remains today as a central motif guiding the decisions of that profession even as it engages the market. To see how these principles enter corporate codes of ethics firms and markets, see Principles and Codes for Socially Responsible practices, http://www.goodmoney.com/directry_codes.htm

[25] Economic sociologists point out how the real world is based on the institutional life of society. See Gary Hamilton, "Civilization and Economics," The Handbook of Economic

Sociology, Ed. Neil Smelser and Richard Swedberg, (Princeton NJ: Princeton University Press, 1994).

[26] See, for example, Jani Erola's, "Economic Sociology: Past, Present and Prospects for the Future," presented at the section of Economic Sociology at the American Sociological Association, 2003. This paper is about differences in rationalities and economic action,

[27] The different non-business orders of society have a rationale that mixes with the market's formal rationality. Formal rationality may explain the market, but non-economic and non-formal values shape it as well. These non-economic (substantive) values are translated into economic transactions, and they have been vitalized in the larger culture. When these non-business orders of society act collectively according to their core values, they have an influence on the shape of markets. When religious organizations and universities decided to withdraw their capital investments in corporations supporting the Apartheid government in South Africa, for example, they altered the direction of capitalist involvement in that repressive regime.

[28] Then, there are related questions, such as: How much are faculty motivated to write books for money rather than advancing their scientific or educational purpose? Does a money motive interfere with the quality of scientific work? To what extent does the whole capitalist system influence scientists without realizing how it impacts on their own field? As we shall see, in a "civil rationale" the task is to study the development of substantive (core) values like truth and accuracy in markets. To what extent do Third Sector organizations influence the production of goods according to their core (nonprofit) values? And how are Third Sector groups organized to advance their purposes in markets?

[29] For readers interested in this point on performance, let us look at the meaning of "economic rationality." Five main "performance criteria" for economists include a) productive efficiency, b. distributive efficiency, c) allocative efficiency, d) technological progressiveness, and e) product performance. With these criteria, economists study the ability of a market to produce and distribute products at the lowest possible cost and to charge consumers prices consistent with those costs. Market performance is judged in terms of whether firms introduce new cost-cutting production and distribution techniques, and better products over time. Under pure competition, the equality between output price and marginal cost connects the actions of firms with the actions of consumers. "Allocative efficiency" refers to the overall state of "optimization" that occurs when price is equal to marginal cost. In a theory of markets, economists measure performance by the interaction of "market structure" and "market conduct" while market performance itself affects market structure and conduct. On the theory of "allocative efficiency," see Stephen Casler, Introduction to Economics (New York: Harper Perennial, 1992), p. 298.

[30] The change is not all rational. These non-commercial interests and values could be described as part of the "habitus," as Pierre Bourdieu might say. They are part of the hidden framework behind market organization. Economists do not measure a market's

performance by this framework, rather, by its capacity to "utilize scarce resources and meet consumers' demand for goods and services." Economic sociologists have yet to assess this larger "habitus." Habitus refers to a deep-seated worldview that "socially conditions behavior." Bourdieu used it to critique the capitalist system and here we are using it to indicate the positive side of what may be hidden in it. See Pierre Bourdieu and Jean-Claude Passeron, Reproduction in Education Society and Culture, Trans. Richard Nice (Beverly Hills, California: Sage, 1977).

[31] Before the 1930s, such donations were illegal, even deemed morally wrong. They were considered by courts to keep profits from the rightful recipients, the shareholders. We need to see what happens in field studies of this social process. For example, the A. P. Smith Manufacturing Company sought to make a grant of $1500 to Princeton University regardless of stockholder demands for dividends in place of that grant. Stockholders fought against management's policy of giving a gift to Princeton. In this case, Judge J. C. Stein made a decision in favor of the company's gift, breaking with the previous legal tradition. See Severyn T. Bruyn, The Social Economy (New York: John Wiley, 1977), p. 24.

[32] These cases are drawn from a report by the Independent Sector, which is a nonprofit organization devoted to advancing the common good of both profit and nonprofit sectors. It examined seven types of partnerships that have developed between businesses and what it calls "social sector organizations." Corporate-Nonprofit Partnerships is an organization that wants to enhance both a nonprofit mission and business goals. Independent Sector, http://www.independentsector.org/mission_market. Also see Shirley Sagaw and Eli Segal, Common Interest, Common Good: Creating Value through Business and Social Sector Partnerships (Cambridge, Mass.: Harvard Business School, 2000).

[33] Profit is the difference that appears when a firm's total revenue exceeds its total costs. This definition of profit differs from that used conventionally by business people in determining "accounting profit," which only measures explicit costs. Economists, on the other hand, view profit in other ways, for example, in terms of: "the return accruing to entrepreneurs after payment of all explicit costs – payments such as wages to outside factor-input suppliers – and all implicit costs – payments for use of factor inputs – that is, capital and labor supplied by the owners, a residual return to owners of a firm for providing capital and for taking a risk." Christopher Pass, Bryan Lowes, et.al, The HarperCollins Dictionary of Economics (Harper Perennial: 1991) pp. 427-8.

[34] See the MFA mission statement at http://store.yahoo.com/mfa/misstat.html

[35] Maureen Dezell, "Retail, once the star of the MFA, struggles," The Boston Globe, September 15, 2000, D1, D11.

[36] We said in A CIVIL REPUBLIC that the same problem exists in other nonprofit sectors. Will for-profit universities eliminate nonprofit universities?

Could great principles of art, science, and knowledge in the nonprofit organization of museums, universities and healthcare organizations be lost? Or, could nonprofits, through their civil associations, act to civilize and uplift the market to operate on higher principles? There are other questions here. Could nonprofit university associations (not just one university) in higher education stop lowering standards in colleges and universities in the competition across America? Could church associations (not just one church) work on television programming to stop excessive violence in the mass media?

[37] Michelle Conlin, "Religion in the Workplace," *BusinessWeek,* November 1, 1999, p.151.

[38] We noted in THE CIVIL REPUBLIC (Chapter 3) that scientists and academics move into business and then conduct proprietary (secret) research. Contracts between universities and for-profit corporations shape the direction of scientific research, big churches move into shopping malls with a marketing mentality, etc. There is a lot of overlapping of interests between sectors and slippage of interests between sectors. The slippage in interests is created when corporations in business and the Third Sector move into regular and close interaction. We showed how that slippage (Chapter 3) could result in decline, a loss in Third Sector values. But the "slippage" works both ways as business may also acquire Third Sector values through this interaction.

[39] Put another way, Weber defines market rationality in terms of formal rationality where participants are engaged in a quantitative calculation "to prove the achievement of a definable goal." This calculating rationality goes beyond the market but it stands in tension with "substantive rationality," which expresses values with no basis for calculation. Substantive rationality includes core values that incorporate sentiments and feelings. These values and sentiments are seen in the expression of "love," "understanding," "beauty," symbols of the inner life, a spiritual as well as an intellectual life, but not identified with market life, typically. These words, rooted in feelings and emotions, are incalculable in their meaning. Civil society theorists have spoken of the need to cultivate such values, such as advancing reciprocity, gifting, friendship, sharing, and community.

[40] Putnam reported a decline in civil society participation in the United States over the past several decades, and postulated that one of the reasons for decline could have been that many millions of American women moved out of the home and into paid employment. This change, he theorized, reduced the time and energy available for building social capital in certain organizations, such as the PTA, the League of Women Voters, the Federation of Women's Clubs, and the Red Cross. Putnam suggests that we are now going through a decline in civic values and participation similar to that of the period 1865-1890, this time due to factors such as television, the global economy, and two-career families. He argues for a new round of reform to invent new social organizations. (The list of responses to Putnam's argument is longer than we can indicate here, but here are a few examples: Xavier de Souza Briggs, "Social Capital and the

Cities: Advice to Change Agents," *National Civic Review* 86, no. 2 (Summer 1997), pp. 111-118; Nicholas Lemann, "Kicking in Groups," *Atlantic Monthly,* April 1996, pp. 22-24; Glenn Loury, "The Social Capital Deficit," *The New Democrat,* May-June 1995, pp. 28-29; Alejandro Portes and Patricia Landolt, "The Downside of Social Capital," *American Prospect* 26 [May-June 1996]: pp. 18-21, p. 94. See also http://muse.jhu.edu/demo/journal_of_democracy/v006/putnam.html#FOOT1.

[41] We could go further to explore the subject of a civil rationality and ask how public standards -- that appear to be informed or guided by core values, might become self-generated in the market. How do 'substantive standards' -- e.g. product safety standards set by government, or job safety standards set by a business -- become self-perpetuating? How do they carry on during changes in a government administration or a business owner? If great (core) values generate public standards in the market, how do those standards become self-regulating in associations? And for our purposes, how could this happen through associations established at the intersection of business and Third Sector organizations?

[42] Property rights must be strong, Adam Smith said, and there must be widespread adherence to norms, such as prohibitions against theft and misrepresentation. Smith saw that society – with its mores and standards – was part of the economy in society. A moral order must exist before people can indulge their self-interests and thus realize any public good through the market. People had to establish social norms for a market to exist in order to pursue self-interest with a positive outcome. For a quick reference to Adam Smith's The Theory of Moral Sentiments, go to http://www.socsci.mcmaster.ca/~econ/ugcm/3ll3/smith/moral.html

[43] We are saying the obvious first: substantive interests and values appear in markets. Customers demand products that show aesthetic values, which economists call consumer preference. Consumer preferences are based on core interests drawn from different civil orders, not just the business order. Many are based in societal interests and values. This is the basis for civil development. We are also saying that these core (non-economic) interests cannot be explained by an economic rationale. They are explained in aesthetics and all the other orders of thought that could be located in philosophy, theology, the field of education, science, etc.

44 Max Weber, Economy and Society, Ed. G. Roth and G. Wittich (NY: Bedminster Press, 1968) [1922]. Other sociologists in the Frankfurt School took a different view and argued that improvements in substantive rationality must be a central focus of sociological efforts.

45 The federal government defines what is "fair" competition. It looks at corporate networks and ratios of market concentration to measure it. The variables that define "fairness" (e.g. "market concentration") are operationally defined. But no single operational definition is adequate by itself. Similarly, the standard of "transparency" is complex. For example, it can apply to what should be disclosed to the public by a

corporation registered on the stock exchange. It can apply to what should be disclosed by CEOs who are about to make a big financial deal affecting the stock market. Fair competition and transparency are then substantive goals, calling for greater definition, and eluding perfect calculation. To see the difficulty in defining market concentration and "fair competition" see Severyn T. Bruyn, A Future for the American Economy (Stanford, CA: Stanford University Press, 1991). See especially Chapter 8, "A Method of Measurement." concerning the discussion of public standards that carry subjective meanings about what such standards actually "mean" (e.g. "fair competition"), and how such standards are not generally visible to the naked eye. "Transparency" carries shades of meaning that must be assessed in a market context.

[46] The link between economic and social goals introduces the term "instrumental rationality," which refers to the effectiveness of groups to achieve their end. But the type of instrumental (rational) action that emphasizes utilitarian interests ("utilitarian") is also, paradoxically, a philosophy with substantive goals, as expressed in the goal to achieve happiness. See E. Gellner, Plough, Sword, and Book (London: Collins Harvill, 1988).

[47] University researchers need to calculate what is the institutional cost of market sectors to governments. Governments sustain capitalist markets by subsidies and tax incentives. The civil goal for government, on the other hand, is to build private markets into public (self-supporting) systems. Researchers would calculate the cost of markets to society. In other words, researchers should study how the development of civil markets can be more efficient and productive while more substantial in value to society. Our assumption is that substantive goals can be calculated and are achievable. A study of society's core interests and values (substantive rationality) in the market should show how the economy could develop with a greater value to everyone.