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International Civil Society
Trust, Trade and “Open Government”**

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TOWARDS AN ECONOMIC THEORY
OF
INTERNATIONAL CIVIL SOCIETY
Trust, trade and 'open government'¹

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This paper discusses the recent revival of interest in the concept of *civil society* and explores its possible utilization in the analysis of a cluster of relationships and processes that we shall denote with the concept of *international civil society*. The ambition of this paper is to cast the discussion on civil society into an original theoretical mould. In particular, the elaboration of what will be called an 'economic theory of civil society' will be attempted by following a sequence of logical steps. First, the conceptual field of civil society will be explored by considering the historical setting in which the early discussion and later evolution of the concept took place. Against such a background, we shall then proceed to outline a logical framework which decomposes the concept of civil society into a number of constitutive elements, such as trust, commercial society, division of labour, horizontal (or 'civil') network of interpersonal relationships. Such an analytical exercise is carried out with the aim of developing a consistent theoretical framework that is stimulated by the classical discussion on civil society, but attempts to develop it beyond the interpretative framework of the classical writers.

The main purpose of the paper is thus analytical rather than historical: a theoretical approach is followed in order better to explore the manifold implications of the classical concepts and to bring to the fore the virtual relationships and processes that may be identified on the basis of the classical framework. In this

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The usual disclaimer applies.

way economic theory will be used in order to detect unknown or unexplored relationships, rather than in order to explain phenomena that are already known.²

Such an approach is then applied in the exploration of the concept of 'international civil society', which is considered to be especially interesting for the theoretical (virtual) possibilities it highlights, and also for the manifold implications it may have in the interpretation of current historical events.³ We demonstrate that the notion of international civil society emphasizes the role of *trust*, together with the relationships of trust with the 'translation procedures' of exchange and the division of labour. Against such a background, issues linked with the emergence and persistence of international money are considered.

Finally the paper hints at some of the implications of the concept of international civil society in the analysis of the logical and historical conditions for 'partnership equilibrium'.

1. INTRODUCTION.

Around the middle of the 18th century the great work of Montesquieu provides the source of inspiration to a number of writers on civil society. In Pocock's chapter on "Virtue, Passion and Commerce" Montesquieu's work is described as the new paradigm of a "sociology of civic ethics". "Politics must be reduced to ethics if it was not to reduce itself to corruption", Pocock characteristically argues. Therefore - he adds - "the Aristotelian, Polybian, Machiavellian, and now Harringtonian 'science of virtue', or sociology of civic ethics, had to be restated with paradigmatic force and comprehensiveness for the eighteenth century West at large. Montesquieu, seen from this angle, is the greatest practitioner of that science".⁴

A signal instance of the pervasive influence of Montesquieu's *Spirit of the Laws* is to be found in the Scottish writers on civil society. Among the latter Adam Ferguson is perhaps the most adamant in his acknowledgement of Montesquieu's inspiration. To those writers, a different equally important source of inspiration comes through David Hume. A well-known passage of Ferguson's *Essay on the History of Civil Society*, of 1767 carries a distinct Humean flavour. Ferguson writes:

² The above view of economic theory is obviously different from the positivist or empiricist perspective. It rather considers theory as a free but logically rigorous conceptual construction, which may originate as a 'rational reconstruction' of current (ordinary) discourse but then goes much beyond it, because of its capability to identify unexpected or unexplored patterns and relationships. Such a view of theory has its roots in some earlier methodological discussion by William Whewell (1849 and 1860) and Federigo Enriques (1914). Recently René Thom (1989) has discussed a similar methodological perspective. The view of economic theory as originating in the rational reconstruction of ordinary discourse has been clearly expounded by John Hicks (1986). A general appraisal of such a view of economic theorizing is given in Scazzieri, 1989. See also Porta, 1994.

³ For example the discussion of 'international civil society' brings out the economic implications of the current reconsideration of the role of the concept of nation-states in political analysis. See the note by Bolton, Roland, Spolaore, 1996.

For what probably is the first use of the notion of 'international civil society', see Bazzoli, 1990.

⁴ See Pocock, 1975, ch. xiv, p. 484.

Every step and every movement of the multitude, even in what are termed enlightened ages, are made with equal blindness to the future; and nations stumble upon establishments, which are indeed the result of human action, but not the execution of any human design. If Cromwell said, That a man never mounts higher, than when he knows not whither he is going; it may with more reason be affirmed of communities, that they admit of the greatest revolutions where no change is intended, and that the most refined politicians do not always know whither they are leading the state by their projects. (⁵)

This passage is important in the present context, especially as it contains one the best known expressions of a vital principle, which would be termed later the *Heterogonie der Zwecke* principle, (⁶) namely the principle of unintended consequences.

Ferguson's system rules out the "idea that the fate of nations depends on the 'modelling' of its government", as if political institutions were to be conceived to be "made by 'Legislators and Founders of States'"; this is a set of ideas in which the connections between Ferguson and Hume are prominent (⁷). In rather general terms we may refer, for example, to Hume's observation on individual acts of justice, which, though they "may be contrary, either to public or private interest, 'tis certain that the whole plan of scheme is highly conducive, or indeed absolutely requisite, both to the support of society, and the well-being of every individual". This should be coupled with Hume's pervasive idea that the rules of justice establish themselves only gradually and acquire force from the repeated experience of the inconveniences of their transgression.⁸

It is not difficult - even apart from the any reference to the title of his book - to sense immediately how and why Ferguson's statement can find its place in a conceptual history on the issue. A critical appreciation of the reasons behind the remark seems especially timely at the present moment as the appeal of the idea of 'civil society' seems to acquire greater and greater significance. (⁹) Accordingly, it is the purpose of this paper to propose a conceptual scheme and set the analysis of the concept of 'civil society' on a more definite theoretical foundation, using a historico-analytical method.

⁵Ferguson, 1767, pt. III, sec. ii. Cp. Forbes edn., 1966, p. 122.

⁶ See Wundt, 1892. "While it is granted only to a very few favoured mortals directly to seek and attain the ends of universal humanity, yet all, even the lowest, may do so indirectly in various ways. Here, too, we find the principle of the heterogony of ends and the law of the inexhaustibility of the creative power in mind running through the whole process. The mission that any nation has to perform in the world's history is the function of innumerable individual forces which go to make up the various departments of that nation's social life and political organization: it is thus in the end the function of individual wills". (pt. III, ch. 2 (Moral ends), par. 4 (The ends of humanity).

Also by Wundt, 1911. This principle acquires other names in the German literature: cp. for example Hegel's *List der Vernunft*.

⁷ Forbes, 1975, p. 229 and passim, who, however sees a cleavage between Ferguson and Hume on the issue. Cp. also Forbes' introduction to Ferguson (1767).

This important point, however, cannot be pursued here: it involves, for example, Forbes' distinction on 'vulgar' vs. 'sceptical' whiggism. See, for example, the discussion in Porta, 1990, esp. pp. 718-19.

⁸ See Hume, 1739-40, bk. III, pt. II, sec. II; p. 497, cp. also p.490.

⁹Examples of this are Cohen & Arato, 1992; Gambetta, 1988; Fukuyama, 1995.

The special contention we are emphasizing in this paper concerns the significance of the connection between the concepts of 'competition' on the one hand and of 'civil society' on the other, as a subject for analysis which calls for further elaboration than has been emerging through the recent literature. It is, more precisely, the peculiar link between *competition* and *civil society* that suggests itself as an *economic theory* of civil society. We shall discuss in what follows, how and why the connection between competition and civil society implies the concept of *trust*. The notion of competition is designed to cover both the exchange side and the production side. On the exchange side, it refers to the form of market relationships and thereby it provides a description of *commercial society*; on this account therefore the economic theory of civil society is based on the study of the relationships of commercial and civil society. On the production side, the notion of competition refers to the interaction of human *capabilities*. Competition, in the present context, refers to the process by which a self-organizing order is brought about: this has often been described as an 'invisible hand process', sometimes a favourite name for the principle of unintended consequences. The working of the process itself is effected through the mediation of diverging interests (in exchange) as well as through the composition of different 'virtues' or capabilities of the agents involved (in production).¹⁰

The paper is organized as follows.

Section 2 considers some recent discussions in economic and political thought. There emerges the suggestion that the revival of interest in the concept of *civil society* calls for some attempt at a more comprehensive assessment of the meaning and implications of the concept itself..

Section 3 outlines a logical framework in which the concept of civil society is first decomposed into a number of constitutive elements (such as *trust*, commercial society, civil network of interpersonal relationships) and then redefined as the basis for the analytical reconstruction of a variety of historical and institutional set-ups.

Section 4 introduces the notion of *international civil society*, as an analytical benchmark based upon the application of the 'civil society' family of concepts to the sphere of international relationships (defined as interpersonal contacts beyond national borders). Here the special role of trust is again emphasized and its relationships with the 'translation procedures' of exchange and the division of labour is investigated. The notion of subsidiarity and problem levels of governance comes into the picture. Against such a background, issues associated with the emergence and persistence of *international money* (an internationally accepted standard of value) are considered in section 5. Section 6 brings the paper to a close by examining some implications of the concept of *international civil society* on a pattern of horizontal relationships, which we shall call 'partnership equilibrium'.

¹⁰ The present paper is connected with Porta and Scazzieri, 1996, where the analysis of competition and civil society is brought to bear on the interpretation of a century of Italian political economy, including Romagnosi's notion of *incivilimento*. It is worth mentioning that the issue of the composition of 'virtues' and capabilities in social life is a recurrent theme in the classical tradition. A late outstanding example is presented by the Neapolitan philosopher Paolo Mattia Doria (Doria, 1729). On the concept of capabilities, see also Sen, 1985.

2. THE NOTION OF 'CIVIL SOCIETY': CONTEMPORARY DEVELOPMENTS IN THE LIGHT OF INTELLECTUAL HISTORY.

2.1. *The contemporary scenario.*

In an increasing number of latter-day contexts the need is increasingly felt for the use of the concept of 'civil society'. One can, only cursorily, mention at this point such issues as the 'globalization' of markets (financial and otherwise), the process of democratization of specific political systems and the dynamics of the 'transition' to the market. Phenomena or processes of these kinds surface under a variety of appearances: for example they take a rather definite shape in the crisis of the welfare state or through the developments affecting the former socialist countries. In a number of contexts or cases, we seem to be confronted with generalized phenomena of retrenchment of the power or of the activity of the State (and of the Nation-State more particularly) and that is at the root of the increasingly larger role acquired by institutions which may be encompassed within the sphere of 'civil society' at large.

The issue of 'civil society' in contemporary political analysis very often crops up in relation with the 'third sector' or 'third sphere' of political systems, so-called mainly because it must be distinguished from the 'economic sphere', i.e. the economy, on one side and from the 'political sphere', i.e. the State or the political system, on the other. Here is an issue in the contemporary debate which can be a useful starting point for theoretical considerations. In the present treatment, we move from a presupposition of a similar kind and adopt, for analytical purposes, the tri-partite division of 'state', 'civil society' and 'economy' as separate spheres. The point of the distinction will soon become apparent: for example the distinction between 'civil society' and the 'economy' makes it possible to distinguish issues concerning 'trust' on one side and 'competition' on the other. The subsequent *combination* of the two concepts plays a key role in the present analytical framework, for the study of the relationship between civil society and the economy can also be described as a two-way relationship of trust to competition.

In slightly more general terms the significance of the approach proposed in this paper lies in establishing (or, rather, *re-establishing*, as will appear from the historico-analytic side of the present argument) a legitimate conceptual space in between the political system and the economy, as *the* space of 'political economy' proper. This general contention is reflected in a number of separate standpoints. For example, it is a contention of this paper that the particular section of the existing social order, as may or ought to materialize in a conscious outcome of human reason - typically the political order or sphere - is but a fairly small portion of the whole set of the relationships constituting society. In other words, the state - as the expression of deliberately organized and consciously directed power - constitutes, or ought to constitute, but a small section of the much richer and more elaborate fabric of 'civil society'. From a standpoint of this kind, we find reason to argue that the state - or, more precisely, the nation-state - is generally overemphasized in current economic and political analysis. ⁽¹¹⁾ As already hinted, an implication of our analysis leads to the explicit introduction of the notion of international civil society; the latter embodies an

¹¹On the issue, see Gellner, 1983 and 1994.

alternative view compared to the nation-state philosophy which carries the personification of the 'State' to its highest degree.

If, on one side, a considerable part of economic analysis, and particularly macroeconomics, seems to have fallen under the spell of the dominant nation-state philosophy, which provides no room for the analysis of civil society, there is a parallel view which needs to be considered and which superficially appears to lead in the opposite direction; in fact it merely reflects the historical nullification of the intellectual space of 'political economy'. A remarkable aspect of the current movement to retrieve the concept of civil society is to be found in the fact that the working of the competitive market, as the decentralized allocative mechanism, depicted by general equilibrium economics, only partially captures the competitive market processes relevant to economic analysis. General equilibrium theory, as the highest form of 'pure economics', carries to the furthest extent the partition of the conceptual territory between State and the economy, leaving no room for a discourse on civil society. As a reaction to that, a new research program commands greater and greater attention, whereby market relationships appear to be embedded in a thick network of institutional realities, much more complex and articulated than the image afforded by the ideal of perfect and complete markets typified by the Arrow-Debreu model. Thereby a significant chapter in the study of civil society comes to be found in the research on 'informal constraints'.⁽¹²⁾ 'Informal constraints' are conventions by which coordination problems are resolved; they are rules, never explicitly designed, which nevertheless exist. Their existence may be explained, even if this is by no means the only or the preferred explanation, by the fact that it is in the interest of everybody to abide by them. Whenever such conventions or rules acquire moral effectiveness, it is possible to speak of a 'morality of cooperation', based on a 'principle of reciprocity'. It has been shown that the 'principle of reciprocity' can also be explained on reductionist self-interest rationality premisses.⁽¹³⁾

The above arguments already induce some revision, and simplification, of the tri-partite division we introduced as a working assumption at the outset of the present section of this paper. The above outlined view has the advantage of bringing into light the *embedding* nature of civil society with respect to the economy. As a matter of fact, we shall develop a view of civil society which *includes* the economy. The notion of the 'economy' *taken by itself* is, in fact, bound to disappear as a residual from the discarded pure-economics approach; the surviving notion of the 'economy' is no longer entirely autonomous from the notion of 'civil society'. Competition, in particular, becomes a different object once it is conceived within civil society itself: it is here that 'trust' - as we shall argue - becomes essential, in the sense that uncertainty may be reduced by the existence of shared beliefs and ethical rules. It is vital to observe that competition has, directly and immediately, to do with the realm of exchange *and* of production. The "increasing complexity of commercial society makes increasing demands upon coordination and trust. A growing number of complementary activities has to be supported. And the mutual credibility of commitments has to be ensured. ... [R]ules, conflicts and standards are inherently ambiguous and lead to unstable and fragile

¹² The fundamental reference is to North, 1990, esp. ch. 5. Cp. also Poni & Scazzieri, 1994; North, 1994, Scazzieri (1996).

¹³ See esp. Sugden, 1986, esp. ch. 6 and 9.

The concept of 'reciprocity' is investigated along a different line by Zamagni, 1996.

agreements. Consolidation of trust may take place in civil societies able to sanction those individuals whose success is based upon tricks and bad faith and to allow the free practice of creativity and invention".⁽¹⁴⁾

2.2. *Intellectual history.*

Our first aim is to see the economic theory of civil society at work in paradigmatic instances. For this purpose, we show, particularly in the next section, that the reciprocal interaction between civil society and commercial society has a place in the 18th century debate and that it provides one of the building blocks of 'classical political economy'.⁽¹⁵⁾ The terms *civitas* and *polis* were used interchangeably for a long time and translated either by 'political society' or 'civil society'. 'Civil economy' was an expression sometime made use of, then superseded by the expression, still current today, of 'political economy' which retains essentially the same meaning. Later in time, and especially in the 19th century, it became common to distinguish between state, or political society, and society, or civil society. In extremely simplified terms, we may say that European thought travelled all the way from the Hobbesian view, in which civil society is the polity itself (namely the *civitas*, or Common-wealth, or State in the Hobbesian sense) to the Hegelian view of a sharp division between the 'civil society' and the 'State', or the realm of private transactions and the public sphere of law and government. Hegel's legal philosophy is explicitly *Staatswissenschaft*, where the State embodies a superior form of morality compared to the *buengerliche Gesellschaft*, or civil (but literally bourgeois) society.

The interpretation of Adam Smith has long been the bone of contention between the two polarities. The mainstream confinement of Adam Smith's thought within the realm of economics is precisely the result of the breaking up of the unity of the science of politics. This has been adverted to by Smithian scholars, who have made recourse to radical appeals.¹⁶

The starting point of the present conceptual reconstruction is the notion of 'civil society' developed in Britain in the anti-Hobbesian tradition to which Adam Smith himself belongs. With respect to that tradition, the transformation, taking place especially in the 19th century, affects the concept of civil society as opposed to the new reality of the State. More particularly, it is the rise and the personification of the modern concept of the State, and particularly of the Nation-state, that causes a tremendous emphasis on the distinction between state and society.

The new concept of the State, as opposed to civil society, is a profound modification of the older concept of the political order, in which the term 'civil society' could be used to indicate an order in which 'civil

¹⁴ See Poni & Scazzieri, 1994, p. ix.

¹⁵ While a historical analysis would also be very important, we basically confine ourselves here to the realm of the history of ideas.

This paper is, methodologically, a sequel to Porta & Scazzieri, 1991 and 1996.

¹⁶ Winch's 1978 title is explicitly announcing the revisionist program.

Smith belongs to a set of XVIII century authors who, "according to modern discipline-historians, were in the business of founding social sciences that would fatally undermine the serious study of politics". In the case of Adam Smith, his "concept of the 'invisible hand' and the self-regulating properties of a competitive economic system could be made to seem quintessentially a-political". His definition of political economy as "a branch of the science of the statesman or legislator" was completely submerged or entirely forgotten. Cp. Burinchini, 1983, pp. 11-12.

society' would include the 'state' in the sense of limited government as a guarantor of negative liberty. This was precisely the notion of 'civil society' adopted by Ferguson and used throughout the 18th century. The concept of state, characterizing the 18th century, is not to be confounded with the modern deification of the State, in the form of 'Nation-state' as the source of all power and authority. The older conception of the political order includes the 'state' according to the Augustinian view of temporal power as a partial remedy to human weakness, where temporal power works by shrewdly - the *List der Vernunft* reappears - taking advantage of human perversity to achieve a tolerable measure of justice.

With these considerations in mind, it seems justified for us to take up Ferguson's analysis along with the 18th century debate as the practical example of what is meant by 'economic theory of civil society'. In what follows we propose to make use of the concept of 'civil society', in which the 'state' is itself included in the sense of limited government. That new conception of the polity, typical of the anti-Hobbesian tradition, is what comes under Ferguson's term. The idea of 'civil society' clearly becomes the central concept in our analysis, in a sense which is perceptively expressed by Tom Paine's 1776 description.

Some writers have so confounded society with government, as to leave little or no distinction between them; whereas they are not only different, but have different origins. Society is produced by our wants, and government by our wickedness; the former promotes our happiness *positively* by uniting our affections, the latter *negatively* by restraining our vices. The one encourages intercourse, the other creates distinctions. The first is a patron, the last a punisher. Society in every state is a blessing, but government even in its best state is but a necessary evil; in its worst state an intolerable one; for when we suffer, or are exposed to the same miseries *by a government*, which we might expect in a country *without government*, our calamities are heightened by reflecting that we furnish the means by which we suffer. Government, like dress, is the badge of lost innocence...¹⁷

The thread leading from Montesquieu to Ferguson must be retrieved here, for it is also relevant for an emphasis on *manners* and *politeness* which is significantly part of our analysis on civil society and part of the justification for the appeal of Ferguson's conjectural history of the civil society. This aspect of what we describe here as the anti-Hobbesian tradition has been effectively described by Pocock with a reference to other authors, notably Burke.

Virtue was redefined - though there are signs of an inclination to abandon the word - with the aid of a concept of 'manners'. As the individual moved from the farmer-warrior world of ancient citizenship or Gothic *libertas*, he entered an increasingly transactional universe of 'commerce and the arts' - the latter term signifying both the productive and audio-visual skills - in which his relationships and interactions with other social beings, and with their products, became increasingly complex and various, modifying and developing more and more aspects of his personality. Commerce, leisure, cultivation, and - it was soon perceived with momentous consequences - the division and diversification of labour combined to bring this about; and if he could no longer engage directly in the activity and equality of ruling and being ruled, but had to depute his government and defense to specialized and professional representatives, he was more than compensated for his loss of antique virtue by an indefinite and perhaps infinite enrichment of his personality, the product of the multiplying relationships, with both things and persons, in which he became progressively involved.

¹⁷ Paine, 1776, in Paine, 1987, p. 66.

However it is not always easy to recognise the *direct* link between manners, politeness and polity.¹⁸ This is the case with Pocock himself, who confines the described developments to the realm of the 'social'. "Since these new relationships were *social* and not *political* in character, - he continues (emphasis added) - the capacities which they led the individual to develop were called not 'virtues' but 'manners', a term in which the ethical *mores* and the juristic *consuetudines* were combined, with the former predominating". It is perhaps a matter of interpretation to decide how closely the new conception of the polity as civil society (as we have outlined above) is in fact approached, when it is observed (as Pocock does) that "it was preeminently the function of commerce to refine the passions and polish the manners; and the social ethos of the age of enlightenment was built upon the concept of close encounters of the third kind".¹⁹

3. CIVIL SOCIETY AND COMMERCIAL SOCIETY.

The transformation of the idea of *virtus* through the *mores* (manners) in the passage towards to polished stage of society is a central point in the explanation of the 18th century development of the concept of civil society. That transformation points at the *structural* conditions for the existence of civil society together with the commercial society embedded in it. It is at this point that it may be useful to introduce the notion of *trust* as the basis of civil society itself. Civil society can be conceived, quite simply, as the entire set of the institutions, i.e. of formal and informal constraints, which harbour and preserve the concept of 'trust'. The life of the competitive market itself *draws* on forms of self-restraint, creating manners conducive to a regular life in the commercial sphere. But it is through the concept of trust that we are enabled to understand the role of self-restraint and the nature of link between civil society and commercial society.

Historically speaking, in the "medieval world, the respect for commitments undertaken, not to say the notion of trust itself, was founded on a common Christian faith". In later times, however, "faith remained rooted in the individual conscience, but was reinforced by strong juridical interpretations of social relationships. The language of trust became legalized and restructured in the form of the contract. This shift was encouraged by the emphasis the new humanist culture placed on the importance of contract and civil society".²⁰

Gerald de Malynes wrote in 1622, in his *Lex Mercatoria* that "trust in economic dealing was basic to the formation of society", that the laws of the merchant were consequently "older than the moral law of Moses" and that "the customs of trade were spread by right reason and the instinct of nature".

¹⁸ See Porta, 1988.

¹⁹ See Pocock's "Virtues, Rights and Manners" in Pocock, 1985, pp. 37-50; esp. pp. 48-9.

²⁰ The argument is developed by Poni & Scazzieri, 1994, p. vii.

A related subject, connected with the history of civil society, concerns the rise and consolidation of quality standards. Poni, 1995, has recently given a fascinating analysis on how the "establishment of new measurable standards of quality... constitutes an important moment in the history of civil society". Poni's analysis explicitly links the issue of 'standards' with 'trust' and 'civil society'.

On the other hand, for Thomas Hobbes, the maintenance of obligations in the market place could only be guaranteed by a sovereign "with an absolute contracted power of political authority".⁽²¹⁾

It appears that in the Hobbesian view, civil society is absorbed, as it were, within the State itself. To Hobbes himself "civil societies are not mere meetings, but bonds, to the making whereof faith and compacts are necessary"; his analysis, however, then turns to the conception of a Leviathan out of exclusive emphasis on "fear" and "love of ourselves".⁽²²⁾ Arguments based on self-love or self-interest are of special significance in this context. In his *Theory* (pt. VII, sec.ii, ch. 4) Smith criticizes the "licentious" system of moral philosophy of "Dr. Mandeville", "which seems to take away altogether the distinction between vice and virtue ... Dr. Mandeville considers whatever is done ... as being done from a love of praise and commendation, or as he calls it from vanity". Man is naturally much more interested - in Mandeville's view - in his own happiness than in that of others. "Among his other selfish passions, vanity is one of the strongest". Again here self-interest emerges as the critical element in the interpretation of human action.

It is now essential for the present argument to observe that the Smithian system of thought must be understood within a debate, taking place in or leading to the formative years of Smithian political economy, which really amounts to a critical discussion of the self-interest view. This is an essential qualification of the historico-analytic source of our economic theory of the civil society and it is also essential in order to understand Smith's distance from the Hobbesian notion of civil society.⁽²³⁾ A significant anti-Hobbesian strand within the Scottish and English traditions - including authors such as Cudworth, Cumberland, Shaftesbury, largely falling within the scope of 'natural law' philosophy and which through time came to form the theory of moral sentiments - can explain the formative process of Smithian political economy. John Millar, in discussing the "Progress of Science relative to Law and Government", would describe the work of Smith, along with that of Kames and Montesquieu, as "directed to examine the first formation and subsequent advancement of civil society; the rise, the gradual development, and cultivation of arts and sciences; the acquisition and extension of property in all its different modifications, and the combined influence of these and other political causes, upon the manners and customs, the institutions and laws of any people".⁽²⁴⁾

At the same time, as it is sometimes well-known to be customary, the formative process of Smithian political economy is described as to a considerable extent happening under the spell of Mandeville's *Fable*

²¹ The quotations are given and discussed in Poni & Scazzieri (1994), pp. vii-viii.

²² See Hobbes, 1647, ch. 1, note.

²³ The conceptual developments, recalled here, largely reflect what A. L. Macfie called the "Scottish Tradition in Economic Thought". See Macfie, 1967, pp. 19-41.

²⁴ See Millar, 1803, vol IV, bk. 2, ch. 7, p. 284. The passage is included among the 'dissertations' added to the 1803 edition of Millar's work.

It should be noted that the emphasis on civil society, though still retaining justice as the first and basic pillar of society itself, makes considerable room for manners, benevolence, friendship as bonds of relevance to the analysis of social life. Linking civil society with the panoply of moral sentiments shows the limited character of the self-love view.

of the Bees and, thereby, as coming under the prevailing influence of the principle of self-interest or self-love as the ultimate motive source of human action. It is in fact sometimes questioned whether or not Smith's own critical observations on the 'licentious systems' in the *Theory of Moral Sentiments* do in fact carry over and still appeal to the writer of the *Wealth of Nations*.⁽²⁵⁾ Put in this way the issue falls back within the range of the old 'Adam Smith problem', sometime leading to the *Umschwungstheorie*, which implied Smith's turnabout from benevolence to egoism after exposure to French materialist ideas. The debate is not entirely over even today, insofar as readings of the *Wealth of Nations*, conceived as a new start in itself, are still holding currency, precisely as a way to wedge Smith's moral philosophy from his Political Economy.

One particular point in the debate on Smith's position with respect to self-interest is rarely made satisfactorily clear. Both sides in that debate seem to stick to the view, or implicitly uphold as a corollary, that the principle of self-interest on one side and the *Heterogonie der Zwecke* principle on the other are inextricably linked together and are almost one and the same thing in Smith's own system. This must be stressed as a point on which, even in the recent literature, insufficient light is shed either way; but it is a point essential to any appreciation of Smith's own contribution and to the highlighting of his conception of the civil society. Before proceeding to discuss trust, we propose to show that there is no basis for that view. The *Heterogonie der Zwecke* principle does in fact provide an important pillar of the Smithian system; but it does by no means entail the acceptance of the principle of self-interest as the unique motive of human action. Only by preliminarily clarifying this point we feel it is possible to maintain the Smithian view of the polity as 'civil society', structured in terms of horizontal relationships and therefore completely different from the Hobbesian view of the polity. More particularly, only in this way, can we explain *trust* as a basis for civil society and then proceed to describe civil society itself, in its turn, as the *embedding* concept, i.e. the entity generating the 'trust' on which commercial or market society draws.

The issue strictly parallels the better-known problem of *sympathy* in the double context of the *Theory of Moral Sentiments* and of the *Wealth of Nations*, which again links up with the old Adam Smith problem. Smith *does* in fact believe in the importance of unintended consequences and is perfectly prepared to take advantage of the Mandevillian lesson; nevertheless his criticism of Mandeville, summarized above, is definitely still *there* to remind us that an exclusive emphasis on self-interest (in the Hobbes-Mandeville tradition) would be misplaced and would by no means provide the critical clue to human motivation.⁽²⁶⁾

The first point to be recalled here is that Smith's *sympathy* is not to be equated with benevolence; sympathy in Smith is not an altruistic moral sentiment, but refers to the *sharing* of *any* feeling. Smith's *Theory* is fairly evidently supporting the thesis of a *plurality* of moral sentiments: this central point of Smith's treatment is, however, open to be misunderstood when sympathy is interpreted as *the* particular moral feeling on which Smith's moral theory is based. Against this we maintain that 1. sympathy is not itself a moral feeling and 2. Smith's theory is a rejection of the idea of a single moral sentiment. That

²⁵See Smith, 1759, part VII, sec. 2, ch. vi; Oxford, 1976, edn., pp. 306-14.

²⁶ In this paper we only refer to the XVIII century literature; however it should be emphasized that a full treatment of the *Heterogonie der Zwecke* principle in Smith would also require to take his classical sources into account, with particular reference to Stoic philosophers. One of the best recent treatments is to be found in Vivenza, 1986.

misunderstanding invariably goes together a second one which consists in interpreting the *Wealth* as a change in Smith from one moral feeling (allegedly sympathy) to another (egoism): in this way Smith's pluralism gets completely lost. In other words, "Smith's unusually wide definition of 'sympathy' needs to be noted because some scholars, more familiar with his economics than his moral philosophy, have mistakenly equated sympathy with benevolence and have inferred that TMS deals with the altruistic side of human conduct and WN with its egoistic side".⁽²⁷⁾ We shall see presently how this argument applies also to the concept of 'trust'.

The second point to be noted is that the acceptance of the principle of unintended consequences on the one side, coupled with the criticism the selfish motive on the other, is implied by a number of authors in Smith's own time.

One of the clearest statements of that position is to be found in Adam Ferguson: Ferguson's main target in fact is the 'selfish system', while we have already mentioned his own firm commitment to the unintended consequences principle. "Mankind, we are told - Ferguson argues - are devoted to interest; and this, in all commercial nations, is undoubtedly true: but it does not follow, that they are, by their natural dispositions, averse to society and mutual affection: proofs of the contrary remain, even where interest triumphs most"⁽²⁸⁾ In a more general way, what Ferguson does is counter the view that self-interest, or the care for one's material welfare, is the 'cause' of society. Contrarywise, in his section "On the principles of union among mankind", he contends that "[m]en are so far from valuing society on account of its mere external conveniences, that they are commonly most attached where those conveniences are least frequent". Therefore the bonds of society are more strict among primitive tribes, when men are poorly provided and "the tribute of their allegiance is paid in blood"; social bonds are looser "in a commercial state";⁽²⁹⁾ that will lead Ferguson to his analysis of the "Manners of Polished and Commercial Nations" in part 4 of his *Essay*.

The third and final point, in placing Smith's analysis within the debate in his own time, is that Smith was really influenced by a plurality of positions. This is not to say that he did not take sides and could only produce a learned summary of the science of morals of the time; the contrary is true. It only means that it is difficult to single out one particular position in the debate as the major influence on him. If certainly there is scope for some impact on Smith of the Mandevillian position, one should not forget that Mandeville was the object of a wave of criticisms from him. We may well read Hume in the 'civil society' tradition: and Hume certainly is another major influence on Smith.⁽³⁰⁾

²⁷ See Smith, 1759, I.i.1; Oxford edition, 1976, p. 10-11, fn. 1.

Smith's definition (TMS, I. 1. 5) reads as follows: "Pity and compassion are words appropriated to signify our fellow-feeling with the sorrow of others. Sympathy, though its meaning was, perhaps, originally the same, may now, however, without much impropriety, be made use of to denote our fellow-feeling with any passion whatever".

²⁸Ferguson, 1767, I. 1. 6 ("Of Moral Sentiment"). Cp. 1966 (Forbes edn.), cit. p. 35.

²⁹Ferguson, 1767, I. 1. 3. Cp. 1966 (Forbes edn.), cit. p. 19.

³⁰See Skinner, 1993, spec. pp. 114-19; also Raphael & Macfie, 1976, spec. pp. 11-15.

Smith was influenced also by Hutcheson. Already in Ferguson (I.1.2-"Of the principles of self-preservation", Forbes edn. cit., p. 13) we find the indictment on the term 'self-love' as an oxymoron: an important source here certainly is Hutcheson.

Whether our Sense of the *moral Good or Evil* in the Actions of others can be overbalanc'd, or brib'd by Views of *Interest*. Now I may indeed easily be capable of wishing, that another would do an Action I abhor as *morally evil*, if it were *advantageous* to me: *Interest* in that Case may overbalance my Desire of *Virtue* in another: But no *Interest to myself*, will make me approve an Action as morally good, which without that *Interest to myself*, would have appear'd morally evil; if upon computing its whole Effects, it appears to produce as great a Moment of Good in the Whole, when it is not beneficial to me, as it did before when it was. In our *Sense of moral Good or Evil*, our own private Advantage of Loss is of no more moment, than the Advantage or Loss of a third Person, to make an Action appear *Good or Evil*. This Sense therefore cannot be over-balanc'd by *Interest*. How ridiculous an Attempt would it be, to engage a Man by Rewards of Threatenings into a good Opinion of an Action, which was contrary to his moral *Notion*? We may procure Dissimulation by such means, and that is all.
(³¹)

'Amor sui' cannot be the sole principle. (³²) It is at this point that the Smithian discourse will necessarily lead to link sympathy with the impartial spectator.

"You have heard it my friend, as a common saying that interest governs the world. But, I believe, whoever looks narrowly into the affairs of it will find that passion, humour, caprice, zeal, faction, and a thousand other springs, which are counter to self-interest, have as considerable a part in the movements of this machine. There are more wheels and counterpoises in this engine than are easily imagined". (³³)

Smith provides all the ingredients for a theory of social life, i.e. for a theory of, as we call it, *civil society*. At the same time, he does not proceed to actually develop such a theory. We may argue that such a development, in fact, is the *Wealth of Nations*. This is precisely the matter at stake; it is a matter of interpretation, especially as Smith does not make the task easy by quoting his sources and assembling the pieces of his discourse in an explicit way. What the concept of 'trust', or *fides*, in fact does is to combine together the twin separate elements of sympathy (fellow-feeling) on one side and the impartial spectator (rational evaluation) on the other. Therefore trust may be considered as the cement and the defining element of the concept of civil society discussed in this paper, within which the notion of commercial society - as the sphere of market relationships - acquires its full sense. Without trust you either have fellow-feeling without rational calculation or cold inhuman calculation without the essential connective element. (³⁴) Much as sympathy is *not* to be confounded with benevolence, so trust is *not* a good moral

³¹Hutcheson, 1738, Treatise II ("An Inquiry concerning Moral Good and evil"). Cp. Facsimile 1969 edn., pp. 123-24.

³² One might be tempted to add 'Amor Dei', as in Saint Augustine's *De Civitate Dei* (XIV, 28). But this would not do, for Hutcheson rejects the theological foundation of morals. "Does not every spectator approve the pursuit of public good more than the private? - the answer is obvious, that he does; but not for any reason or truth but from *moral sense* in the constitution of the soul". See Hutcheson, 1730, sec. I; Peach edn., 1971, p. 128, emph. added.

³³From Shaftesbury, 1711 (Treatise II: "An Essay on the Freedom of Wit and Humour", pt. III, sec. 3); Robertson edn., 1963, vol. I, p. 77.

³⁴Especially significant references are here Macfie, 1967, in part. ch. 4 ("Adam Smith's Moral Sentiments as Foundation of his *Wealth of Nations*", pp. 59-81, see esp. p. 63); a perceptive analysis of the issues involved, with special attention to the Mandevillian component, is to be found in Winch, 1993, esp. pp. 90-101.

sentiment. It certainly includes an unselfish emotion and a rational judgement; but, just because of that, its meaning differs from ordinary language. For it must include what in the ordinary language is 'mistrust'; it is an ambiguous term, in the same way as the term 'Gift' has polar meanings in the English and in the German language. The civil society is not a place of naive trust, in the same way as Smith's *Theory* is not a naive celebration of enthusiastic 'sympathy' (whose opposite would then be egoism).

An important character in Smith's analysis is the 'prudent man', which should be analysed at this point.³⁵ It is clear in Smith that the notion of 'prudent man' has a rational connotation, while at the same time suggesting that rationality must be distinguished from the unrestrained pursuit of self-interest. As a matter of fact, "[s]ecurity ... is the first and the principal object of prudence. It is averse to expose our health, our fortune, our rank, or reputation, to any sort of hazard. It is rather cautious than enterprising and more anxious to preserve the advantages which we already possess, than forward to prompt us to the acquisition of still greater advantages".³⁶ In this perspective prudence emerges as a critical connective attitude of society by means of which the rational (self-restrained) pursuit of individual aims may be made compatible with the element of fellow-feeling.

It is important to note that the notion of civil society is very general and can be applied at various levels as the source of concrete political institutions. Two aspects must be singled out immediately. In the first place, the notion rejects the significance, and indeed the applicability, to the study of the body politic of 'pure economic rationality', in the sense developing later in the history of economic analysis. Secondly there is no presumption in Smith that the national level of analysis, in spite of his title, should in any sense be a privileged level of application of the notion itself. Smith pays lip service to the era of Nation-states, but his analysis is perfectly cosmopolitan in nature and scope. We need not perhaps enter at this stage the discernible implications of this discourse in terms of the division of labour, a common thread in the 18th century literature, which Smith notoriously contributed to develop.

4. INTERNATIONAL CIVIL SOCIETY.

Civil and commercial society emerge as the fundamental building blocks of classical economic theory. Although international civil society is seldom explicitly considered, it provides the social and political background of self-sustained trade and division of labour involving linkages across national boundaries. An

It is interesting to recall here that Richard Cumberland, in his main work of 1672, almost seems to suggest the name of *fides* for the precondition of contracts and *fidelitas* for the virtue of keeping the word.

"Non occurrit tamen - he writes (p. 365) - speciale aliquod nomen virtutis quae ad faciendas promissiones hujusmodi ac contractus bono publico utilissimos rationales determinet, at virtus illa quae promissa ac pacta ejusmodi servet, *fidei* aut *fidelitatis* nomine ubique celebratur.

Ejusdem interim est animi et virtutis pacta talia inire velle, et inita observare".

³⁵ See in part. Smith, 1759. It is interesting that Part VI of the *Theory of Moral Sentiments*, which deals extensively with the concept of 'prudent man', was added in the last edition of 1790.

See Macfie, 1967, esp. pp. 68, 71, 74.

³⁶ Cp. Smith, 1759, Part VI, sec. I, p. 213.

economic theory of the *international civil society* should be rooted upon the mechanism of *trust*; this is implicit in trade and production relationships based upon market rather than administrative coordination ('command economy'). The concept of 'international civil society' is an extension to the international sphere of the concepts of commercial society and division of labour; an important concept in the same direction is the concept of international money as a 'pledge' embodying trust across national boundaries.

The international division of labour requires trust in an essential way, especially if the coordination among producing partners is of a non-hierarchical type. Any evolving pattern of division of labour has both trust-reinforcing and trust-dissolving features, depending on whether particular partnerships become more or less essential in supporting a given production network. Trust over time leads to analyse the proper *governance dimension*, and to evaluate its role in repairing damaged relationships and accelerating the consolidation of trust among new partners. The complex dynamics of the division of labour (reflecting principles such as variety and self-organization) suggest a governance structure based upon subsidiarity and the diffusion of sovereignty.

Economic analysis, in particular, has often considered the *nation state* (however defined) as its natural unit of investigation. Even international economics is essentially conceived as the analysis of trade relationships among *nations*. However, the growth of trade and the deepening of the division of labour involve the existence of a conceptual and institutional set-up (we may call it a *belief-system*) such that uncertainty is reduced and mutual trust established between trading or producing partners across national borders. The actors of trade and production relationships are individuals or communities that often relate to one another independently of national sovereignty and national government.

Government, i.e. national government with the administrative dimension associated to it, is not central to the establishment of markets and trade relationships, nor is it essential if division of labour is considered. In either case (trade and division of labour) trust appears to be the critical bond that makes mutual commitments credible both at the national and international level. The issue of sovereignty can certainly be related to the enforcement of rules and commitments; trust, however, is of a more general, informal and pervasive kind. Indeed, trust makes economic commitments credible even in cases where their administrative enforcement would be difficult or too costly.

The diffusion of trust is essential to the practice of trade beyond the relatively protected spheres of local market places or international faires. Indeed, it is with the diffusion of 'horizontal' trust (that is of trust rooted in the pattern of international relationships independently of sanctioning agents) that trade may link otherwise distant communities and cultures, thus allowing for a more pervasive integration of resources and capabilities. A remarkable qualification should be added here to the idea of 'trust'. Its meaning, in the present context, does not refer to the nature of relationships establishing themselves within an individual community to the exclusion of external relationships. On the contrary: 'trust' has to do precisely with a process of *distancing* from local or otherwise specific or national habits and ways of thinking. ⁽³⁷⁾

³⁷Scazzieri (1995, p. 8) stresses the 'translatability' problem and draws a parallel between language and money: "both translation and exchange are possible on the condition that a common meaning may be identified across different languages and means of payment". See also Perlin, 1994.

An important aspect of this analysis is that a rational attitude to the expression of economic interests and to their connection with territorial sovereignty should make economic theory think that the relevant economic units (as well as their most effective political expression) are not given forever.

As Cesare Beccaria once noted "the borders between nations are a matter of fact, not a law of nature".⁽³⁸⁾ They reflect contingent historical circumstances, not natural and everlasting features of human communities. Emerich de Vattel, in his treatise on *jus gentium*, confirms the conceptual priority of the notion of 'civil society', as he contends that "[l]a perfection d'une nature se trouve dans ce qui la rend capable d'obtenir la fin de la société civile" (de Vattel, nouvelle edit. 1777, 1ere partie, p. 13); again he states that "[u]n sage conducteur de l'état trouvera dans les fins de la société civile la règle et l'indication generale des ses devoirs" (ib. p. 43). He also finds a signal instance of the emergence of the institutions of civil society at the political-international level as he reports that "[l]es villes de Suisse, telles que Neuchatel et Bienne, qui jouissent du *droit de bannière*, ont par-la le droit de traiter avec les puissances étrangères, quoique ces villes soient sous la domination d'un prince" (de Vattel, op. cit., nouvelle edit., 2eme partie, p. 160).⁽³⁹⁾

It is an important conception in intellectual history to conceive of cities as cities of the world and not as units of a particular nation state. The intellectual model of civil society - a social and economic network essentially based upon horizontal relationships of trust and contract rather than vertical relationships of command and obedience - provides a useful framework to the identification of interests, and clusters of interests, quite independent of national identities and national sovereignty. The 'modern State' is no longer the obvious form in which political sovereignty can be conceived. There is widespread recognition that there are so many difficulties for existing nation states and so many requirements for them to remain economically viable, that economists should start conceiving of a new conceptual map in which nation states are no longer exerting monopoly upon the entitlement and practice of sovereignty.

On the other hand, civil society cannot be reduced to the network of relationships based upon trade and the division of labour (see below). As recent contributions have emphasized, patterns of trust-based and trust-reinforcing relationships not necessarily of an economic type may be essential features of a 'civic community'. This entails that *international partnerships of a non-economic type* may be an essential breeding ground for international civil society. An example here could be the learned exchanges taking place across national borders within the international community of scholars (the eighteenth century 'republique des lettres'). The paradigm of civil society lends itself quite naturally to an application to the sphere of international relationships. In particular, the concept of 'international civil society' suggests a distinction between different layers of sovereignty, which may be associated with the distinction between different levels of government: this is hinted below under the principle of subsidiarity.

³⁸Beccaria, 1804.

³⁹E. de Vattel is quoted by Pocock (1988) as the theorist "who stood closest in time to Americans of the founding generation - some of whom read him with attention". See Pocock, 1988, p. 15.

5. INTERNATIONAL MONEY AS A 'PLEDGE' OF TRUST.

The close relationship between the belief structure of commercial society and the utilization of an appropriate monetary standard was clearly recognized by Pietro Verri in his *Reflections on Political Economy* of 1771.

Once the idea of money is introduced to a people, the concept of value becomes more uniform, because every individual measures it with the universal commodity. Carriage from one country to another becomes much simpler; for the nation from which a particular commodity is received will not refuse an equivalent amount of the universal commodity in return, and so, instead of there being two difficult and inconvenient shipments of goods, one becomes exceedingly simple. [...] *With the introduction of the universal commodity, societies come close together, get to know each other, and communicate reciprocally.*

From this it will clearly be seen that mankind is far more indebted to the invention of money than might have been inferred from agricultural activity and that artificial organization of wants and industry, which has separated civilized societies from the rudeness and isolation of savages. All man's most worthwhile inventions, and those which have most stretched the ingenuity and power of our minds, are those which bring men closer to one another, facilitate the communication of ideas, wants and feelings, and make of humanity a single mass. Such are the perfecting of the art of navigation, postal services, the press, and before all these, money. ⁽⁴⁰⁾

Verri's remarks clearly point to the critical connection between commercial society and its monetary basis; they also highlight the role of money as a *trust reinforcing* institution across distant cultures and social groups.

A few years earlier Ferdinando Galiani in his essay *Della moneta* (On money) had considered the relationship between money and trust in somehow different terms, by noting that the amount of wealth deposited with Neapolitan banks in spite of a zero interest rate is due to the pervasive influence of bad faith and mistrust, which makes the holding of bank deposits a generally accepted requirement in order to enter commercial relationships.

Thus what is elsewhere achieved by the strength of laws and the incentive of gain, is with us obtained by corrupted customs and bad faith. But it cannot be denied that to use banks in order to solve litigations has been a good and thoughtful achievement. ⁽⁴¹⁾

Money as a medium of exchange entails money as a 'pledge of trust'. In this way a close relationship emerges between trust and the commercial activities of a monetary economy.

Galiani noted in this connection that

republics are more inclined to occupy monetary wealth rather than lands, and to get involved with trade rather than in conquest; for manufacturing and the carrying trade, being based upon multiple societies, require stable and long tranquillity and security [...]. In republics sovereignty accrues to the citizens themselves, so that it may be said that trade belongs to the sovereign and that he is a security to himself. ⁽⁴²⁾

⁴⁰Verri, 1986, pp. 7-9; our italics. The passage is from the 1st edn. of 1771.

⁴¹Galiani, 1751, libro IV, c. 4; Ricciardi, 1975 edn., p. 246.

⁴²Galiani, 1751, libro IV, c. 3; Ricciardi, 1975 edn., p. 228.

Similarly international money could be considered as a feature of trust across national borders. The belief system entailed by international trade and division of labour makes a generally accepted monetary standard necessary to the consolidation of trust and to the establishment of long-term partnerships in trade and production across national borders. It thus appears that international money, if considered from the point of view of its trust-reinforcing features, is not essentially connected to the sovereignty of individual states (even if it may for a time be expressed in terms of a particular national currency).

The above features of international money may be illustrated by considering the critical role performed by the so-called 'imaginary money' in European commercial transactions over a time period spanning a number of centuries through the Middle Ages and in early modern times (see Einaudi, 1936 and 1937). 'Imaginary money' was for a long time a purely conventional *unit of account* in terms of which exchanges could take place, quite independently of the monetary standards used in actual transactions. This led to an apparently complicated accounting framework in which a multiplicity of currencies (and of monetary authorities) could co-exist with a system of prices that was independent of variations in the value of the medium of exchange.

Changing rates of exchange between particular currencies could modify the value of any given commodity in terms of the chosen means of transaction, but left the corresponding 'imaginary price' (that is, the price of that commodity in terms of imaginary money) unaffected.

The medieval and early modern convention of imaginary money was perhaps the unavoidable outcome of a historical situation characterized by a large number of monetary authorities often exerting their sovereignty in a 'nested' form over the same territories. Such a convention had the remarkable implication of by-passing the association between monetary sovereignty and monetary trust. Trust was thus based upon a generally accepted international norm (imaginary money), whereas the free play of market forces could not disrupt the system of relative values (see also Dutot, 1754, vol. II, pp. 5-6; and Melon, 1761, pp. 166-68).

The monetary arrangements of pre-modern Europe suggest a new perspective in terms of which the European Monetary System could be assessed. In particular, as pointed out by John Hicks in his *Market Theory of Money* (Hicks, 1989, esp. ch. 14 "An international economy", pp. 121-31), a 'polycentric' set-up of many currencies is one in which the role of international standard of value is essentially based upon trust (see also Hagemann and Hamouda, 1991). But trust could be either embodied in the strength assigned to a particular country and central bank (as Hicks's *Centralia*), or disembodied and attached to a pervasive nexus of multi-lateral long-term agreements between trading partners.

The paradigm of international civil society suggests that 'horizontal' trust and acceptance of standards are essential prerequisites for the emergence of a single unit of value in terms of which contracts could be stipulated and obligations fulfilled. For example, a network of *private* commitments based on ecus could slowly develop into a miniature monetary system in which international money would be both means of valuation and means of payment.

International trust would be the breeding ground of a new set of monetary arrangements quite independent of national sovereignties and institutions. ⁽⁴³⁾

⁴³There may be an interesting correspondence between the international standard of value provided by imaginary money and the concept of a 'dynamic standard commodity' recently introduced by Luigi Pasinetti as "an analytic tool that gives rigorous

6. GOVERNMENT, SUBSIDIARITY AND THE DIFFUSION OF SOVEREIGNTY.

We propose to close this exposition by hinting at another important consequence of our approach to civil society and commercial society.

It has long been recognized that commercial relationships may introduce a kind of 'partnership equilibrium' conducive to trust and 'politeness'. In other words, the notion of 'partnership equilibrium' expresses a relatively persistent position resulting from mutual checks and balances in the context of horizontal international relationships; this reduces uncertainty and hazard at the international level.⁴⁴

As the French writer and economist Joseph Accarias de Serionne wrote at mid-18th century:

The equilibrium of Europe has for some time been the great purpose of politics. It has been one of the great means of which the ambition of one nation has made use of in order to attain boundless power. Nothing is ultimately more illusory than this equilibrium, as it has generally been conceived [...] It is more effective and more human to aim at equilibrium by means of commerce than by means of war. May such a truth impress the heads of the different states composing the large European family [...] If one day the spirit of commerce is everywhere established, wars will become less common in Europe. The rivalry of nations will only stimulate a general emulation: instead of making a context of power, people will enter a context of industry. (Serionne, 1766, pp. 1-5)

Montesquieu's well-known remarks on the trust-reinforcing influence of trade are explicitly mentioned by Serionne (Serionne, 1766, p. 5). This author also develops Montesquieu's view that international trade makes different nations reciprocally dependent (Serionne, *ib.*), and argues that a special type of a 'happy revolution' (Serionne, 1766, 384) occurred in Europe with the modern diffusion of commercial linkages:

Ferocity, strength and iron are no longer sufficient to conquer. Industry knows how to use accumulated wealth, in order to preserve itself. [...] It binds Nations to each other, and such a union gives to the weakest the strength of all their neighbours.
(Serionne, 1766, p. 384)

The diffusion of horizontal economic relationships, which is a characteristic feature of international civil society, gradually breeds a new pattern of political interaction among different states, and requires them to adapt to a different form and distribution of sovereignty. This entails a shift to a concept of political community that is both looser and wider than the traditional nation state. In this way, international civil society may be the breeding ground of new political relationships, which take full advantage of the 'multiple sovereignties and multiple obligations' (Pocock, 1988, p. 15) emerging within a network of trade and production relationships. (⁴⁵)

physical content to the norm of stability of the general price level" (Pasinetti, 1993, p. 74). Such a correspondence is acknowledged by Pasinetti himself in a footnote to the above passage (*ib.*).

⁴⁴ This, as a conception of the polity which falls largely outside the scope of the Nation-state, has been considered by Bazzoli, 1990.

⁴⁵ On this point, see Casella, 1994.

The emphasis on horizontal relationships in the international civil society requires 'flexible' governmental arrangements, i.e. a governance dimension - resulting from and providing an appropriate basic incentive structure to society - which is essential to repairing damaged relationships and to easing the consolidation of trust among new partners. On this point Locke's analysis is relevant, especially in his second *Treatise on Government* (esp. ch. XII and ff.), where the structure of a commonwealth based on consent is discussed at the various levels of government. Both Giandomenico Romagnosi's and Carlo Cattaneo's work, within the Italian tradition, would provide important contributions, although they are merely mentioned here.⁴⁶

A significant aspect of this point is the principle of subsidiarity; this can be described as a kind of 'Occam's razor principle', stating that recourse to a higher or a more general authority should be invoked only whenever it is absolutely necessary. More precisely the twin ideas of horizontal relationships and diffusion of sovereignty are summarized in the notions of, respectively, subsidiarity and federalism. The semantics of *foedus* and *subsidium* is in tune with our emphasis on contractual arrangements and the limited extent of the authority of the state. Not unexpectedly both concepts have been repeatedly invoked in the process of construction of the European Union since its inception, which seems to provide a most interesting practical ground for their application in recent times. (⁴⁷)

Subsidiarity, however, should not be confused with its 'practical' counterpart, that is, administrative decentralization. For the principle of subsidiarity is rooted in a conception of sovereignty that is sharply different from the modern conception of the monopoly of sovereignty by the nation state; it reflects a view of diffused sovereignty of which decentralization of government functions is simply a consequence. In this way, it may be claimed that the principle of subsidiarity is rooted in a conception of government that is not necessarily limited in the *content* of its action, but it should be limited in terms of the *range* of governmental actions assigned to any given agency. In particular, subsidiarity entails a nested structure of governmental levels that cannot be reduced to a single encompassing hierarchy: agency A may leave the exercise of the 'higher' governmental function f_1 to agency B_1 and the exercise of another 'higher' governmental function f_2 to agency B_2 in the absence of any hierarchical relationship between the two agencies B_1 and B_2 . In other words, the principle of subsidiarity may work along parallel routes (that link agency A with agencies B_1 and B_2 respectively); but the existence of a particular subsidiarity relationship linking A with any given 'higher order' agency (such as B_1) does not preclude A to establish a separate relationship with another 'higher order' agency (such as B_2). As with the Swiss *droit de bannière* (enjoyed, according to Vattel, by Neuchatel and Bienne, cp. sec. 4 above), the assignment of a particular governmental function to any given 'higher order' agency does not preclude the 'lower order' agency to enter other subsidiarity relationships with 'higher order' agencies of a different type. Multiple allegiance is the rule rather than the exception and government appears as relatively loose structure, that is, as a pattern of *open government* based upon the specialization of governmental functions and their separation from an encompassing conception of sovereignty.

⁴⁶ See Porta & Scazzieri, 1996.

⁴⁷ See, for example, *Subsidiarity: The Challenge of Change*, Proceedings of the Jacques Delors Colloquium, Maastricht, 21. March 1991.

Federalism, in Lord Acton's words, "means coordination instead of subordination; association instead of hierarchical order; independent forces curbing each other; balance, therefore liberty". (48) The idea follows in modern times Althusius' definition of politics as *symbiotics*, or *ars consociandi*. (49)

The idea of a republican federation was to the founding fathers of America the key to dissolve too strict a link between the political community and its territorial basis; its was obviously of the utmost interest to them that the notion of the political community, they were creating, should not be tied up to definite physical boundaries. The idea runs in the same spirit of the quotation from Beccaria, given above; however, not insignificantly, it comes from Montesquieu, who describes the republican federation (*république fédérative*) as "une convention par laquelle plusieurs Corps politiques consentent a devenir citoyens d'un Etat plus grand qu'ils veulent former. C'est une société de sociétés, qui en font une nouvelle, qui peut s'agrandir par de nouveaux associés qui se sont unis". (50)

7. CONCLUDING REMARKS.

It has been the object of this paper to outline the building blocks of an economic theory of international civil society.

The analysis, presented in this paper, draws inspiration from two sources. On the one hand, the concept of competition in economics has been considerably modified by the drift toward *pure* economics. This has been conducive to a highly abstract view of commercial society; in particular, it is a view which deprives the notion of commercial society of its necessary political and civil background. The current reading of much of the 18th century literature is still heavily influenced by the purist bias. In this sense the present paper is a contribution to a redefinition and rediscovery of the classical paradigm in economic analysis.

Secondly, this paper parallels a general present-day tendency to lay emphasis on the notion of civil society as a way to correct, normatively, the almost exclusive focus on the State and State power under the historical process of consolidation of Nation States. Methodologically this paper falls outside the positive-normative division; it does not pursue a normative line of thinking; what it provides is an attempt at discovery, through the history of political economy, of a paradigm of 'civil society' (which includes Government), a paradigm, we believe, of great significance in the current development of political economy.

The reconstruction of the paradigm has far-reaching implications; the historico-analytic retrieval of the paradigm amounts to a re-writing of the history of political economy in a perspective that may be termed *classical*. This teaches us a lesson about the nature of the 'classical school' in Political economy as a separate tradition compared to subsequent a-institutionalism or 'purism' in economic theory; even more

⁴⁸Lord Acton, 1988, p. 558.

⁴⁹Althusius, 1610.

⁵⁰Montesquieu, (1748), livre IX, ch. 1.

interestingly, perhaps, this is likely to teach us some lesson about the possible uses of history in political economy.

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