Chapter 1 – Introduction

In 1945, after returning from War to Cambridge, Raymond Williams began to notice something about the language he was using. It was not so much that the words themselves had changed but rather that their meanings had shifted. Where once the word ‘culture’ had referred to the fine arts or a certain refinement of breeding, now it seemed to mean the history, practices and beliefs of a whole nation of people. Williams recognised that language is a living thing. It is only natural for it to change, but nonetheless he felt that the ambiguity of certain words, particularly those words that were used in different contexts or in different disciplines, could be a source of frustration and misunderstanding. In response he developed a dictionary of ‘keywords’ (Williams 1983).

Williams’ dictionary focused on words that crossed over between common usage and, sometimes numerous, academic usages. At that time it included words like ‘industry’, ‘class’ and ‘pragmatic’. In a later edition he included others such as ‘anarchism’, ‘ecology’ and ‘racial’. His approach seemed to move between disciplines. It was not a dictionary in the conventional sense, nor a series of footnotes to dictionary histories or definitions. He aimed to provide a ‘record of an inquiry into a vocabulary’ (1983, p.15, emphasis in original). His dictionary explored the history of these words, their numerous meanings, how these meanings were related and how new meanings had evolved. It was a project that involved elements of semantics, history, sociology and philosophy.

Williams’ approach has informed more recent work, such as Nancy Fraser and Linda Gordon’s (1994; 1997) examination of the term ‘dependency’. Fraser and Gordon argue that the term dependency has become a keyword in debates over the welfare state, particularly in the United States. By examining the term’s history and how its meanings have evolved over time they reveal how the term creates an idealised ‘independence’ based largely on access to market income, whilst denying the value of unpaid work, largely performed by women. Thus, those with market income are
independent, despite their very real dependence on unpaid work, while those without market income are dependent, despite often providing support to numerous others as well as themselves. Such an insight is not simply theoretical; Fraser and Gordon argue that this construction has very real implications for the way policy is formed.

Fraser and Gordon’s work has since informed a broader debate over the power of language in shaping the way we think about and talk about issues, particularly in terms of the welfare state. Marion Smiley (2001) has argued that the concept of dependency incorporates norms, beliefs and values that are often harmful to welfare recipients and which maintain and reinforce an artificial divide between the class of welfare recipients and the rest of society. She argues that by exploring and understanding the unstated meanings implicit in our use of terms like dependency we can confront these implications and try to avoid them. Similarly Brendon O’Connor has built on Fraser and Gordon’s work in developing his own account of the history and impact of the term ‘welfare dependency’ within Australia. O’Connor traces the American origins of the term, and shows how these ideas have influenced politics in both America and Australia (2001).

Elsewhere others have inquired into the origins, uses and impacts of other key terms. Richard Mulgan has examined the ever expanding definitions of ‘accountability’ and how these have influenced our understanding of the term, as well as our expectations for accountability in various arenas (2000). Likewise, Bernard Barber has explored the ‘career’ of the concept of ‘embeddedness’, a subject close to social capital (1995).1 And Matthew Watson and Colin Hay (2003) are among a number of authors to argue that the discourse surrounding the term ‘globalisation’ has created a logic of ‘no alternative’ that presents the policies of market reform, privatisation and deregulation not as a choice but as an inevitable outcome of structural forces largely beyond the control of individuals or nation states.

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1 The concept of embeddedness is used by Granovetter to capture how social structure conditions individual agency. Putnam, who popularised the concept of social capital, draws on Granovetter’s work, and Portes and Sensenbrenner, in one of the first reviews of the concept of social capital, argue that social capital may be a better way to capture this relationship than Granovetter’s embeddedness (Portes & Sensenbrenner 1993, p.1321).
The common theme in these writings is that it is important to understand and examine the language we use in discussing politics because this language helps to inform and frame our opinions and approaches. In particular, we need to better understand the origins of key words, how they have developed, the purposes for which they have been used, and the significance of these origins and purposes for contemporary debates.

The project of interrogating the political significance of language is not straightforward. John Campbell (2002) has argued that the literature on how ideas influence policy making has been successful in identifying a number of possible relationships but has often failed to identify clear causal links. Trevor Purvis and Alan Hunt have argued that the literature often confuses the terms ‘ideology’ and ‘discourse’ (1993). They argue that it is useful to draw on the benefits of discourse theory by examining how language is used to construct identities and subjective relations, but that we must also retain a notion of directionality, understanding how discourse can be used to systematically reinforce and reproduce dominant social relations. This they describe as the ‘ideological effects’ of discourse. Their position is similar to Fraser’s. Fraser (1997) also argues that discursive analysis must be combined with an understanding of power inequalities and the political project of human emancipation.

It is within this tradition that I situate the current project. Building on the work of Williams, Fraser and Gordon I look to a new term that has emerged as a key word in debates over the welfare state – ‘social capital’. Unlike the term dependency the concept of social capital has emerged relatively recently and was largely associated with academic rather than popular use in its initial development. It is a term that its proponents claim subverts the divide between economics and social theory and allows for a new form of inquiry that benefits from the insights of both traditions. Likewise, it is associated with a new brand of politics that moves away from the ideological divide of left and right and seeks an ‘evidenced-based’ alternative which has become associated with the political project of the Third Way.\(^2\) I wish to interrogate the claims that the concept of social capital overcomes these divides and unifies social science thereby transcending ideology.

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\(^2\) The Third Way is a political position developed by a number of social democratic theorists and politicians, most notably Giddens and Blair. I discuss this in more detail in chapter 10.
The concept of social capital has experienced a meteoric rise. It has been embraced by social scientists of every discipline; from sociologists to anthropologists, political scientists to economists. This literature (or literatures) has gathered a remarkable momentum since burgeoning in the mid-1990s. A recent survey of the literature by Kai Schafft and David Brown suggests that its growth shows no signs of slowing with the number of articles produced on the topic increasing significantly each year between 1995 and 2002 (Schafft & Brown 2003).

Interest in the concept of social capital has not been confined to academia. Among its many admirers are prime ministers and ministers, World Bank officials, lobbyists and social commentators. The term social capital now appears in government reports, mainstream books and newspapers. It would certainly appear that the concept of social capital has tapped into the popular mood, at least in the Anglophone developed West.

Part of the concept’s popularity stems from its apparent ability to transcend disciplinary boundaries and combine key concerns of different methodologies and approaches. Indeed the term itself, combining ‘social’ and ‘capital’ seems to bring together the principal approaches to the social sciences, those of sociology and economics respectively. In doing this, the concept of social capital appears to offer a bridge, a way of opening up dialogue between the disciplines and uniting social scientific inquiry. As Ronald Labonte has put it, ‘The present popularity of social capital rests in its combining the gluey stuff of social cohesion with the economic stuff of capital’ (Labonte 1999, p.432).

One of the most significant institutions to embrace the concept has been the World Bank (see World Bank 2003). But the national governments of Ireland (National Social and Economic Forum (NSEF) 2003) and Britain (see Office of National Statistics (ONS) 2003; ONS 2001) are also undertaking social capital projects. Social capital is now discussed in policy debates over education (see Dika & Singh 2002; Hughes Bellamy & Black 2000), health (Miller, Murray & Palmer 1999; Hyde 1999), the welfare state (Rothstein 2001; Latham 2001a) and community development (Onyx & Bullen 1997; McClenaghan 2000) amongst other areas. It is seen as both a vehicle to enable growth (Knack & Keefer 1997) and the foundation for effective political
participation (Putnam 2002; Hogan & Owen 2000). Sociologists have incorporated the concept into network analysis (Lin, Cook & Burt 2001) and values research (Paxton 2002), while within economics it has been integrated into the more abstract methods of experimental economics (Karlan 2003), game theory (Paldam 2000) and preference functions (Becker 1996).

In Australia think-tanks, university departments and academics have taken up the concept of social capital. State Governments have initiated their own projects both to measure social capital and to assess how it can be harnessed (Australian Bureau of Statistics (ABS) 2002, pp.1-2). At the federal level the Department of Family and Community Services has begun its own investigations (Black & Hughes 2001). And the ABS (2000; 2002) and the Productivity Commission (2003) have both conducted research into the concept’s usefulness.

The concept of social capital has had a significant political impact. In Britain the concept has informed Tony Blair’s ‘New Labour’ platform. In Australia the former parliamentary leader of the federal Australian Labor Party (ALP), Mark Latham, was a champion of both social capital and the Third Way. Drawing on the Blair experience and linking this to the earlier reform agenda of the Labor Governments led by Bob Hawke and Paul Keating in Australia, Latham has developed a second wave of Third Way reform proposals (Latham 1997; 1998; Botsman & Latham 2001).

Yet the popularity of the concept has not been confined to any one element of the party political spectrum. It has been embraced both by Latham, a member of the right faction of the ALP, and by his left-wing colleague Lindsay Tanner (for example Tanner 1999). Perhaps more surprisingly the current Coalition Treasurer, Peter Costello, used the concept of social capital when outlining his vision for Australian politics (2003) which was widely interpreted as an attempt to re-brand himself in anticipation of succeeding the current Prime Minister (Grattan 2003). Likewise the hard-line conservative Health Minister, Tony Abbott, has also used the term (2000a). This popularity has extended outside the parliament with both left-wing activist and social critic Eva Cox (1995) and the right-wing Centre for Independent Studies (Norton, et al 1997; Stewart-Weeks & Richardson 1998) becoming prominent proponents of the concept.
However, social capital is not a concept that is universally welcomed. There remains little consensus over the term’s definition, with many authors offering their own definition at the beginning of articles which employ the concept (Adam & Roncevic 2003, p.158). Social capital has something to do with the political and economic usefulness of social resources like networks, trust and norms but beyond this there remains considerable debate. There is disagreement over whether social capital is a good thing (Cox & Caldwell 2000), a neutral resource for action (Coleman 1990), or something that is possibly detrimental to the promotion of egalitarianism and social cohesion (Levi 1996). Some claim social capital is nothing new – simply a novel term for an old concept, once referred to as ‘community capacity’, ‘social fabric’ or even ‘empowerment’ (Labonte 1999; Cox 1995, pp.15-6). Or more generally, that social capital theory is little more than the long standing acknowledgment that civic involvement and social networks can have positive implications for individuals and society as a whole (Portes 1998, p.2).

Others have more comprehensively rejected the concept. In a volume published by the World Bank to review the development of the social capital literature and discuss its possible implications (Dasgupta & Serageldin 2000), the concept was effectively dismissed by two of the economics profession’s most respected figures. Nobel laureates Kenneth Arrow (2000) and Robert Solow (2000) both questioned how social capital related to orthodox economic theory and rejected claims that it added anything to the existing analysis. Others such as Ben Fine have rejected the concept of social capital for different reasons, arguing that it is acting like a neo-liberal ‘Trojan Horse’ (Fine & Green 2000, pp.91-3), allowing the techniques and ideology of economics to colonise the social sciences.

Fine’s analysis has become perhaps the most notable inquiry into the origins of the concept of social capital, something I discuss in more detail in the next section. Many studies have simply acknowledged an intellectual debt to the concept’s founders however some, like Fine, have attempted to situate the concept within various intellectual traditions. Some, such as Alejendro Portes (1998), have claimed that the concept is primarily a product of sociology, albeit sociology informed by interaction with economic theory. Others have seen the concept as the product of complex
interactions between numerous disciplines, reflecting the concept’s ability to speak to different traditions (Schuller, Baron & Field 2000). In both cases, these authors have argued in favour of the new theory of social capital as a useful addition to the tools available to social scientists.

In contrast, Fine and others have looked to the origins of the concept of social capital to argue against its usefulness. While variations of this case have been made by Stephen Smith and Jessica Kulynych (2002), James DeFilippis (2001) and Davydd Greenwood (2002), Fine’s stands out as the most comprehensive and influential. His book, *Social Capital versus Social Theory* (2001), has been widely reviewed (for example Burkett 2004; Sabatini 2003; Bassani 2002; Healy 2001; Staveren 2003; Tamayo 2003; Sugden 2002) and quoted within the literature, and has been taken by numerous authors as an exemplar of the case against social capital (see Schuller, Baron & Field 2000; Winter 2000b). Since publishing this book Fine has continued to build his case by exploring the link between the social capital literature and the literature on the economics of information (2002) and by reviewing the new institutionalist literature, particularly the work of Douglass North (Fine & Milonakis 2003). His work is thus a logical choice for framing the current study.

Fine argues that the social capital literature is the latest phase in an on-going process of academic colonisation by rational choice economics of social theory. His account builds on his earlier work focused on the economist Gary Becker. Fine argues that Becker’s economics represented a particularly explicit attempt at colonisation with Becker setting out to apply the preference function methodology of Chicago-style economics to virtually every aspect of social and political life (for example Becker 1971; 1981). However, Fine claims that this method of colonisation has been less effective than the transfer of concepts developed within rational choice theory, but which are transferred to social theory without their mathematical formulation. This, Fine argues, has been the case with the concept of human capital, which was developed in large part by Becker, but is now employed by academics from numerous disciplines who are often unaware of the concept’s origins.

A similar process, Fine argues, is underway with the concept of social capital. Once again the origins of the concept are to be found within the rational choice tradition of
economics. Again the concept has been separated from its abstract, reductionist and universal methodology and transported into the social sciences. Fine suggests this has made the concept more appealing to social theorists, particularly those wanting to engage with mainstream economics. Fine rejects the concept, claiming it naturalises the market, undermines any attempt at class analysis, and focuses attention on micro, individual level analysis at the expense of structural analysis. Even if the concept were to be made more useful, Fine argues that it would then be rejected by economists thus undermining its purpose as a bridge between the disciplines without adding anything significant to social theory.

Fine’s account is useful for three reasons. Firstly, he identifies the concept of social capital as developing within the rational choice tradition of economics, and distinguishes between this approach and the more social theoretic approach of Pierre Bourdieu who also uses the term. Secondly, Fine identifies the importance of information theory within economics as a key to understanding the development of the concept of social capital. And thirdly, Fine places his discussion in a normative context, asking how useful the concept will prove for progressive social theorists committed to social change and human emancipation. This final point creates a strong methodological link to the work of Fraser, myself and others who see methodology as being informed by the purpose of study.

However, I argue that Fine’s analysis is incomplete, or misguided, in several respects. First I argue that Fine has cast the net too broadly. As I will discuss in more detail in chapter three Fine focuses much of his analysis on two authors who are not properly part of the social capital lineage – Bourdieu and Becker. Bourdieu may have used the same term but was not engaged in the same debate; Becker only appropriated the term after its development, and his work has barely been noticed in the mainstream social capital literature. By constructing the literature in this way I argue that Fine focuses too much on the link between social capital theory and human capital theory, and creates a tenuous link to the colonial aspirations of Becker and the Chicago school that is not the primary driving force behind the concept’s development.

A second, but related, criticism, is that Fine treats economics as too homogeneous an entity. I argue that the concept of social capital developed on the edges of the
discipline, largely informed by debates within game theory that extend well outside the mainstream of the economics profession. For the scholars developing the idea of social capital many of the criticisms made by Fine about the abstract, universalist methods of economics are less true. This is a point acknowledged in part in Fine’s work on North and the economics of information (Fine & Milonakis 2003), but even here Fine does not fully appreciate the diversity within economics, nor the contest of ideas that characterises the discipline. Nor does he properly situate these debates in the historical and political context that informed those economists participating in the development of theory.

Many of Fine’s criticisms of economics are partly addressed by those involved in the development of the concept of social capital. As I argue below, at the edges of the discipline economists have indeed been responding to their critics. They have attempted to build contingency and uncertainty into their analysis. They have acknowledged the role of history in shaping the present, thereby undermining the universalism of neo-classical economics. In some cases economists have even borrowed the language and concepts of social theorists, describing their work as ‘story telling’, and attempting to understand economics as discourse rather than science.

I argue that precisely these trends were responsible for informing the emerging social capital debate. Authors such as North and Oliver Williamson within new institutional economics, and others within game theory and economic methodology were part of the initial debate surrounding social capital. Their own methodological concerns are reflected in Robert Putnam’s comment, in his most famous study of social capital Making Democracy Work (1993, p.xiv), that his work was more like a ‘detective story’ than a traditional academic study.

To understand these trends within the economic mainstream I look beyond the social capital literature and the discursive literature on the origins and importance of keywords to a heterodox literature on the history of economic ideas. Theorists such as Bruce Caldwell, D. Wade Hands, Philip Mirowski, Sheila Dow and Geoffrey Hodgson have developed a sophisticated and incisive account of how economic methodology has changed and how this change has been informed by, and has in turn shaped, political and social circumstance. The work of these theorists tells a more complex
story of the internal dynamics within economics, one that adds to Fine’s analysis and which is consistent with the approach of Fraser, Williams and others who seek to contextualise theoretical and discursive development in terms of historical and political change. I argue by drawing on these historians of economic thought we gain a more grounded appreciation of developments within economics, developments that reflect the contest of ideas that has taken place within the mainstream.

Finally, I argue that Fine blurs two distinct criticisms of the concept of social capital. Fine argues that the neoclassical origins of the concept of social capital should raise concerns for progressive social theorists because neoclassical economics is an atomistic, universalist approach to social science that is intrinsically tied to the ideology of neoliberalism. While accepting that this claim should raise concerns for progressive social theorists I argue that we should differentiate between two elements of Fine’s argument. The first is that neoclassical economics represents an atomistic, universalist and asocial method unsuitable for social analysis. The second is that neoclassical economics supports the ideology of neoliberalism.

I argue that Fine misrepresents the discursive development of the concept of social capital by associating the concept with neoclassical economics. I agree with Fine that neoclassical economics has employed an abstract, reductionist and universalising methodology. Following Dow, I dub these traits ‘modernist’. However I argue that the concept of social capital is associated with a move away from this modernist extreme within rational choice theory. While some neoclassical economists have helped inform the social capital debate, I argue that it has primarily been informed by non-neoclassical rational choice theorists, particularly those identified with game theoretic and Austrian approaches. While a diverse and sometimes contradictory school, I argue some Austrian theorists have developed a critique of the modernism of neoclassical economics which is remarkably similar to that developed by Fine and other progressive social theorists.

However I do not necessarily suggest that the movement against modernism within rational choice theory has been accompanied by a movement against the ideological commitments of neoclassicism. By clearly differentiating between the two claims; that neoclassicism is modernist, and that neoclassicism is neoliberal, I argue we are better
able to assess the origins of the concept and to determine the implications of those origins for progressive social theorists.

My approach represents a substantially different approach to the genealogy of social capital. I take more seriously the claim that the concept represents real movement within the economic community towards the concerns that inform social theorists. I also wish to take more seriously than Fine the internal differences between economists, the contest of ideas that has occurred within economics and the possibility that the concept of social capital is a product of this sort of contest rather than the result of imperialist designs. At the same time I remain wary as I agree that the concept of social capital has often been misunderstood by those embracing it, that its origins continue to inform its contemporary usage, and that these origins might suggest a political agenda at odds with that proposed by most progressive social theorists.

In doing this, I tend to analyse liberalism, and market economics, on its own terms. Rather than emphasising how these traditions fall short of the achievements of social theory, I wish to explore how theorists from these traditions themselves see their engagement with social concerns. By forestalling judgement, I hope to better understand the dynamics within these market and rational choice traditions, and thus better understand both the promises and the threats posed by the emerging social capital literature.

I also wish to demonstrate the contemporary relevance of this genealogical analysis to contemporary Australian debates about welfare reform. The approach is again similar to Fine. He ends his book on the social capital literature with an analysis of the World Bank’s social capital project (Fine 2001). Here, however, I focus on the social capital debate within Australia. I do so because the Australian debate first drew my attention to the concept of social capital, and my curiosity on discovering that the concept was essentially game theoretic, despite almost no Australian participant referring to game theory, sparked my interest in understanding the concept’s origins.

I also do so because the Australian debate about social capital is one of the most interesting tests of heterodox claims that the concept is associated with a commitment to neoliberalism. In Australia the concept was first popularised by a progressive social
theorist and commentator – Cox. It has since been taken up widely within the community sector. At the same time the concept has been championed by a number of right-wing think-tanks, the most notable being the Centre for Independent Studies. In assessing the Australian debate I draw on an emerging body of work that has taken a similar methodological perspective to my own focusing on a number of key concepts in debates over reform of the welfare state, such as ‘community’ and ‘Third Way’, in particular the work of Christine Everingham. This literature has also begun to examine the concept of social capital and I argue that my own analysis of the economic origins of the concept of social capital can add considerable insight to this existing body of work.

I argue that the Australian social capital debate continues an earlier debate over the merits and influence of ‘economic rationalism’. While some, like Cox, have attempted to subvert the term in order to gain the legitimacy of economic discourse others have used the concept as the basis for a ‘civic neoliberalism’. This latter approach, I argue, has built on the concept’s origins, using it to modify the excessively abstract claims of neoclassical economics while continuing to advocate market reforms that undermine the universality of the welfare state. By understanding the origins of the concept of social capital and how it has come to be used within this new neoliberal discourse, I argue we can better understand and resist the renewed assault on institutions of collectivism and redistribution.

**Overview of the thesis**

This thesis is divided into four sections. The first section, comprising chapters two and three, reviews the existing literature on social capital and situates my thesis within this literature. In chapter three I focus on Fine’s critique of the concept of social capital. While broadly agreeing with Fine’s project I identify a number of shortcomings in his approach. In particular I argue that it is useful to differentiate between two aspects of mainstream economics of which Fine is critical; its supposed commitment to abstract and rationalist methods, which I term ‘modernism’, and its supposed normative commitment to the market. This distinction between modernism and support for the market informs and helps structure the remainder of the thesis.
In section two I both explain and justify my use of the modernism/market (methodological/ideological) distinction. Chapter four explains the category of modernism. I argue that critics of the concept of social capital, like Fine, are critical of abstract, universal and reductionist approaches to the social world. However, I argue that there is clear evidence within economics of a move away from modernism. More importantly, I argue that this move away from modernism is associated with the development of the concept of social capital. Thus, there is evidence that the concept of social capital may have been the product of a genuine engagement between economics and social theory.

Before moving on it is useful, even here, to touch on some of the issues surrounding the use of the concept of modernism. Modernism, like the associated concepts of modernity and post modernism, has become a frequently used concept across a range of different disciplines. This breadth of use brings with it a variety of different meanings and understandings. It is important to stress that whilst I use the term modernism in a manner that is connected to these different debates, I also use it in a far more specific sense connected to a particular literature within economic methodology. I argue that this literature, primarily associated with the work of Deidre McCloskey, but also with Jack Amaraglio, Shelia Dow, Arjo Klamer and others, helps us understand the development of the concept of social capital. Indeed it is a literature upon which Fine himself draws in discussing the development of both neoclassical economics and the concept of social capital in particular. However, I am also wary of confusing my use of the term modernism with either the traditional sociological understanding of modernity, or the more artistic and cultural studies understanding of modernism and post modernism. I discuss this in more detail in chapter four, but I note it now to avoid confusion.

In chapter five I complicate the story. I argue that Fine and many social theorists have come to associate modernism with an ideological commitment to the market. I demonstrate that the move away from modernism within economics has not necessarily meant a rejection, or questioning, of the market. Instead I look to the Socialist Calculation Controversy (SCC), the Methodenstreit and more recent debates between the Old and New Institutional Economics (OIE and NIE) to argue that many
of the critics of modernism have also been explicit advocates of markets and individualism. Thus I argue that we need to differentiate between a critique of social capital theory based on a rejection of modernism, and a critique based on the rejection of the market and individualism.

Section three more specifically focuses on the development of the concept of social capital within rational choice theory. It follows the same structure as section two, reflecting the importance of the distinction between modernism and support for the market. Both chapter six and chapter seven focus on game theoretic debates over problems of collective action, particularly the famous Prisoner’s Dilemma (PD).

In chapter six I argue that the concept of social capital was developed as an internal response by rational choice theorists to problems within their own theory, rather than as a deliberate strategy for colonising other social sciences. Indeed, I argue that during the process of developing the concept, rational choice theorists moved away from the modernism of neoclassicism and embraced a methodology closer to approaches in social theory.

In chapter seven I return to the concerns of chapter five, viz. the importance of the modernism/market distinction. I argue that while the game theoretic debates which informed the development of social capital did involve a move away from modernism, these debates also reinforced the normative commitment of many rational choice theorists to the market. Focusing on those authors who directly informed the work of Putnam and James Coleman, the two most important early social capital theorists, I argue that the concept of social capital reflected the influence of elements of Austrian economic thinking within game theory and NIE, particularly the Austrian emphasis on the importance of spontaneous or organic order. Thus, I conclude that the concept is associated with the ideology of neoliberalism and a fierce opposition to deliberative collective action, particularly through the state.

Having explored the origins of the concept of social capital, in section four I examine how these origins have informed contemporary social capital debate within Australia. The structure of section four differs from the previous two sections, reflecting chronology rather than theme. However, I argue that the distinction between
modernism and support for the market remains important, and that by better understanding this distinction we can better understand the Australian social capital debate.

I argue that the current social capital debate should be understood, in part at least, as a continuation of an earlier debate over the merits of economic reform. To explore this connection I focus on two groups of participants in the early Australian social capital debate. The first were members of think-tanks, particularly the Sydney based Centre for Independent Studies (CIS). The CIS and other think-tanks were important advocates of economic reform, and more generally of classical liberalism, a position I identify with the Austrian tradition within economics. The CIS was also one of the first institutions to formally begin research on social capital in Australia. The second group comprises opponents of economic reform who were involved with community organisations, particularly Cox, who popularised the concept in Australia, and the Centre for Australian Community Organisations and Management (CACOM).

In chapter eight I examine the debate over the merits of economic reform, focusing specifically on Michael Pusey’s (1992) critique of what he terms ‘economic rationalism’. I argue there were two important aspects of this debate. First, the participants in the debate saw themselves playing a crucial role in influencing public policy. Both opponents and proponents of economic reform argued that intellectuals helped shape policy agendas. Second, I argue that Pusey’s critique of economic reform was primarily a critique of modernism, rather than the economics of reform. I argue that Pusey’s critique was seen as successfully aiding the electoral defeat of the pro-reform Coalition parties. Thus, by the mid-1990s, I argue that many advocates of reform were looking for an intellectual response to Pusey’s anti-modernist critique.

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3 Finding appropriate language to describe the Austrian/classical liberal tradition is very difficult. Perhaps the most prominent figure in this tradition is Hayek, who claims to be a liberal, although many describe him as a conservative. This is further confused by the associations of the term ‘liberal’ with conservative politics in Australia, and left politics in the United States. I am referring to a tradition that is deeply sceptical of government and collective rule making, preferring the market. But which justifies the efficacy of market institutions through an appeal to evolutionary theory rather than deductive claims of efficiency. This is discussed in more detail below.
In chapter nine I examine the initial Australian social capital debate, particularly the work of CIS, Cox and CACOM. I argue that all of these participants were responding to developments in the debate over the merits of economic reform. The CIS explicitly identified the need to move beyond the narrowly economic justification of economic reform to a more general justification of classical liberal principles. I argue that it (correctly) saw the concept of social capital as part of the intellectual tradition of classical liberalism and employed the concept to develop an account of civil society that was compatible with their advocacy of the market. By embracing the concept the CIS was able to develop a less modernist defence of the market, while also extending their claims to the social sphere of civil society.

In contrast Cox and CACOM employed the concept of social capital as part of a critique of economic reform. Cox was attempting to place social concerns back on the public agenda by using the language of economics to make her case. CACOM was attempting to demonstrate the economic worth of community work to allow community organisations to develop performance measures to justify their funding. For both Cox and CACOM, the concept of social capital was a means of engaging with the dominant economic discourse, but also a strategy for moving economics away from modernism.

Thus, Cox, CACOM and the CIS all used the concept of social capital to move away from the modernism of economic rationalism. My argument is that they actually developed very different understandings of both social capital and civil society, and that these differences reflected different ideological positions. While the CIS retained a strong normative commitment to markets and individualism, Cox and CACOM were committed to deliberative forms of collectivism and state action.

Finally, in chapter 10 I apply the insights developed in the thesis to more contemporary aspects of the Australian social capital debate, specifically the politics of the Third Way. I focus on the work of former federal parliamentary leader of the Australian Labor Party, Latham, who remains the most influential and prolific Third Way writer in Australia. I argue that Latham confuses the rejection of modernism with the rejection of collectivism. As a result, I argue that he often employs a conception of social capital and civil society closer to that developed by the CIS. Thus, I argue that
by better understanding the distinction between the use of modernist methods and support for the market we are better able to understand the political implications of the social capital debate, and to criticise claims that ideological distinctions no longer apply.

I conclude by noting two important implications for progressive social theorists attempting to engage with economics. Firstly, I argue that the concept of social capital has done relatively little to advance our understanding of the social world, although it may have played a role in placing social issues on the political and academic agenda at a time when economic issues had come to dominate. However, by examining the concept’s origins within rational choice theory, progressive social theorists may be able to identify a range of trends within economics which are far more useful for understanding the social world then the social capital debate.

Secondly, I argue that the current social capital debate in Australia continues the debate over economic rationalism. The concept has been used strategically by critics of collective decision making and government intervention to argue for a retreat by the state from interventionist social policy. By understanding the historical connections between the development of the concept of social capital and the development of a civic neoliberalism I contend that progressive social theorists will be better able to engage with the debate over welfare reform, and to criticise proposals which seek to advance an individualist account of social wellbeing. By understanding the history of the social capital debate we are both more able to reveal and resist neoliberal policy prescriptions, as well as embrace those elements of mainstream economics that may offer possibilities for collaboration.
Section 1 – Origins
Chapter 2 – Coming to Grips with Social Capital

This thesis is focused on the origins and implications of the concept of social capital. Section two deals with the context of economic theory out of which the concept arose. Section three deals with the process of developing the concept itself from within the rational choice tradition. And section four examines the implications of the concept’s origins for Australian debates around the welfare state. In other words, very little of the thesis is focused on the substance of the social capital literature itself. However, understanding the social capital literature is an important context for the work to come. As was made clear in the last chapter the social capital literature is vast, amorphous and ever expanding. My aim in this chapter is not to give a comprehensive review of this literature but rather to justify, and give a context for, my focus on the origins of the concept within economics. I identify two critiques of the concept of social capital, which I label orthodox and heterodox, which I use as the basis for discussing the origins of the concept. In particular, I focus on the work of heterodox critic, Ben Fine.

In many ways this chapter charts my own journey towards understanding what the concept of social capital is about. It begins with the most prominent work in the field – Robert Putnam’s *Making Democracy Work* (1993). Putnam’s study is widely, almost universally, acknowledged as the starting point for the current popularisation of the concept. Putnam’s use of the concept was primarily as a theoretical frame for already well developed empirical work. Putnam did not develop a theory of social capital and then conduct empirical work to verify his theory. Instead his empirical work was largely completed well before the concept was developed. I argue that a similar process was at work within the Australian social capital literature. In Australia, the concept of social capital was effectively defined through factor analysis of empirical evidence, rather than developed as part of a broader theoretical framework.

The empirical origins of the concept of social capital help to explain much subsequent work. There has been an explosion of literature aimed at measuring or increasing social capital in various contexts. It has been taken up by governmental and bureaucratic organisations at every level (from local to global), partly because it offers
the promise of pragmatic policy advice. At the same time this focus on the empirical and the applied has led to other problems. There has been relatively little consensus over the concept’s definition or appropriate methods of application. In many ways there has been a separation of theory from practice with the original context of the concept, largely in game theory, almost forgotten in much of the later empirical literature. I argue that the separation of theory and practice has led to two different types of critiques of social capital theory. The first, a relatively orthodox critique, has looked to the concept’s origins in search of a coherent framework. The latter heterodox critique has looked to the concept’s origins to establish the concept’s links to neoclassical economics and thus to the ideology of neoliberalism. It is in this context that the origins of the concept, particularly within economics, have become such an important and contested terrain.

**Measurement without theory – the empirical roots of social capital**

Putnam was not the first to use the term ‘social capital’ and he was not the first to apply the theory to concrete empirical data. However his study on Italian democracy, *Making Democracy Work*, was responsible for generating the interest in the concept that later led to the bourgeoning literature. Putnam claimed to identify the cause of the poor economic and political performance of southern Italy compared to northern Italy. The difference was social capital. Thus social capital became of instant interest to all those concerned with developing economic and political wellbeing. In a different but related manner, the first model of social capital developed in Australia also relied on an initial empirical study. The work of the Centre for Australian Community Organisations Management (CACOM) used survey tools and factor analysis to discover the nature of social capital rather than relying on any particular approach or theory.

Putnam’s book remains a touchstone of the social capital literature. It is therefore important to spend a little time exploring this initial contribution. Putnam, along with Robert Leonardi and Raffaella Nanetti, undertook an empirical study of institutional and economic performance in Italy over more than two decades. The project developed out of a decision by the Italian Government to introduce significant regional reform,
which established the same institutional structure in each region (Putnam 1993, p.xiii). Putnam decided it was the perfect opportunity to evaluate the effect of institutional reform – with so many different case studies taking place simultaneously. Between 1970 and the 1990s the team conducted a number of surveys of local officials, gathered statistical evidence of institutional performance, and even made phoney queries of bureaucracies to gauge their response time, thus building up a formidable array of empirical data – both qualitative and quantitative.

The results of this research were striking. The regional governments certainly did have an effect. By 1990 regionalism was a more significant factor in Italian politics; regional governments had grown in prominence and popularity and officials were more likely to follow career paths within the regions. But not all the regions had fared as well. The poorer southern regions in the 1970s were still poor in the 1990s and richer northern ones only became richer. Regional government had not succeeded in equalising outcomes.

In the second half of the book Putnam seeks answers to this apparent stability in the pattern of development. He discusses a number of possible explanations – from the importance of harmony and consensus to levels of education and urbanisation, from social stability to personal stability. None of these provides an adequate explanation of the consistent differential in development outcomes between the North and the South.4

So what is going on? Putnam’s next stop is an eight hundred year history of Italy, drawing on J. K. Hyde’s (1973) explanation of institutional transition in Italy during the 1100s. In the North the dominance of Roman Catholicism gradually receded leaving in its place a range of regional communal republics, while in the South the Byzantine Empire gave way to the Norman Kingdom, which quickly re-established the dominance of central control. The regional communities in the North experienced flourishing civil societies where artisans and merchants were regulated by local networks. In contrast, ‘any glimmerings of communal autonomy were extinguished as soon as they appeared’ by the Norman administration in the South (Putnam 1993,

4 The one possible exception noted by Putnam, but not developed, is the role of the Italian Communist Party. Its success closely parallels economic and political development. (1993, pp.118-20).
This past has proven to be very powerful. Putnam concludes his sojourn into history noting that,

‘… the regions characterized by civic involvement in the late twentieth century are almost precisely the same regions where cooperatives and cultural associations and mutual aid societies were most abundant in the nineteenth century, and where neighbourhood associations and religious confraternities and guilds had contributed to the flourishing communal republics of the twelfth century’ (Putnam 1993, p.162).5

Furthermore, Putnam suggests that these civic traditions in the North preceded economic development. While not conclusively establishing causation Putnam does suggest that the “economics -> civics” loop in these interactions is not dominant’ (1993, p.162).

Sidney Tarrow (1996) has pointed out that Putnam, along with Leonardi and Nanetti, had already published extensively on their Italian study and the results had been available for a decade. None of this work, nor the first four-fifths of Making Democracy Work, deals with the concept of social capital. It is only in the final chapter, having already established his conclusions and reconstructed hundreds of years of history that Putnam finally mentions ‘social capital’. It is the theoretical explanation for the long-run stability and importance of civic culture. Social capital explains why some people and communities cooperate and why others do not. And it explains why, once established, these tendencies become self-reinforcing, creating ‘virtuous’ and ‘vicious’ cycles. Social capital, defined as ‘features of social organisation, such as trust, norms, and networks, that can improve the efficiency of society by facilitating coordinated actions’ (1993, p.167), is offered as a theoretical frame to explain the empirical work that was completed well before the concept was even developed. As Tarrow notes,

‘But still more impressive is that, without suffering visibly from discontinuity, Making Democracy Work reads like a stratified rock formation of U.S. political science over

5 Indeed in a footnote Putnam claims this slice of history may not be sufficient to get to the source of the difference. As the communal republics of the North coincide with the area of Roman Catholic dominance prior to the twelfth century and the Southern Norman Kingdom coincides with the Byzantine empire, it may be that the differences go back further, something deserving of ‘future research’ according to Putnam, 1993, p.228 ff2.
The last three decades: from the behavioural methods and political culture theories of the 1960s to the policy-orientated studies of the 1970s, to the game theoretical perspectives and historical turn of the 1980s and early 1990s’ (Tarrow 1996, p.390).

The measure of social capital developed by Putnam, and later used extensively throughout the literature, was not designed as a measure of social capital. Indeed, the concept did not really exist in 1970 when the study began. As Putnam himself notes, this was not the conventional process whereby ‘hypotheses are straightforwardly deduced from theory, evidence gathered, and verdicts rendered’. Instead, Putnam saw the process as more akin to ‘an engrossing detective story’ (1993, p.xiv). We, like Putnam, only find out who (or more properly ‘what’) did it at the end.

The first study of social capital in Australia also defined social capital in light of empirical data, rather than being purely deduced from theory. Following Eva Cox’s popularisation of the concept in 1995, Centre for Australian Community Organisations and Management (CACOM), at the University of Technology, Sydney where Cox was based, began an empirical assessment of social capital in five New South Wales communities. Jenny Onyx and Paul Bullen from CACOM initially remained agnostic as to exactly what might constitute social capital. They identified a range of themes in the literature and developed measures of each.

The survey included questions on participation in networks, reciprocity, trust, social norms, reducing free riding in common pool resources and pro-activity in different social contexts (Onyx & Bullen 1997, p.6). They then selected groups of people in five New South Wales communities (rural and urban) on whom to conduct the survey. What they discovered (through factor analysis) was that most of the elements for which they were testing were in fact related. They developed a composite measure of social capital, which included most of the variables in the survey – although not all. They demonstrated that this composite measure was not associated with gender, age or ethnicity, but knowing a community’s score did allow you to predict what community an individual came from. Thus, they concluded that it was valid to look at social capital as a genuine measure with several components (1997, pp.12-4).
Having developed their social capital instrument the two researchers then expanded their scope to other areas, including the recipients of family support services (Bullen & Onyx 1999; Onyx & Bullen 2000). Interestingly, while their initial study did find the possible elements of social capital were positively related there was no positive relationship to economic wealth. Indeed social capital increased as economic resources decreased, largely because rural communities tended to be higher in social capital (Onyx & Bullen 1997, pp.23-4). While this allowed Onyx and Bullen to claim that social capital was a resource of the poor it also brought into question Putnam’s claim that social capital was responsible for higher economic development and whether, in fact, it was a ‘resource’ at all.6

Like Putnam’s social capital instrument the Onyx and Bullen measure of social capital was not ‘straightforwardly deduced from theory’. Theory obviously played a role in what factors to test for, but there was no firm affiliation to any one position. Instead social capital emerged as the result of factor analysis. Not all factors were related, some, like the questions on trust in government and contractual obligations, were left out of the final measure. Social capital was effectively a composite ‘x factor’ with little theoretical foundation beyond the fact that it appeared to fit the facts in this particular case.

The initial interest in the concept of social capital certainly seems to be a product of its apparent empirical bite rather than any direct contribution to a theoretical tradition. More recent research on social capital has continued to focus on measurement. Putnam applied his own framework to the United States of America (USA) claiming that there had been a significant decline in social capital – where once there were bowling leagues now Americans were ‘bowling alone’ (Putnam 1995; 2000). This has led to a distinctly American literature assessing the plausibility and implications of Putnam’s thesis (for example Paxton 1999).

Economic studies took up the question of whether social capital contributed to economic growth. The most prominent of these, S. Knack and P. Keefer (1997), compared growth rates achieved by different countries to their results in the World

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6 As is noted below Putnam’s later work has revealed the same finding – poorer states in the US tend to have higher social capital ratings than richer ones (see Putnam 2000).
Values survey. While they found that trust was positively correlated to growth, associational activity was not. Empirical studies have claimed to have established that increased state intervention undermines social capital (such as in Eastern Europe, (Paldam & Svendsen 2000)) and contradictorily that increased state intervention (in Western Europe) increases social capital (Rothstein 2001).

The World Bank’s decision to embrace the concept of social capital has led to a series of country studies aimed at establishing the various relationships between social capital and development. Not only has the Bank commissioned its own work it has brought together an array of country studies into a social capital library (for example, it includes studies of Kenya (Gugerty & Kremer 2002), Indonesia (Isham & Kähkönen 2002) and Bangladesh (Pargal, Huq & Gilligan 1999)). Drawing upon this literature the Bank’s ‘Social Capital Thematic Group’ has developed an empirical tool for use in the developing world (Grootaert, Narayan, Jones & Woolcock 2003). Their discussion reflects the empirical orientation of much of the literature. They acknowledge problems with the conceptualisation of social capital but claim that ‘conceptual debates cannot be resolved in an empirical vacuum’ (2003, p.3) – instead we need to push through and get some data.

Cox (2002) has undertaken a country study of social capital in Australia. Drawing on a range of data she concludes that the evidence is mixed. On the one hand Australians have become less trusting and less involved in formal collective process, on the other, Australia has become a more tolerant, open and diverse culture. The Australian Institute of Family Studies (AIFS) has undertaken a national quantitative study based on individual telephone interviews. While similar in many respects to CACOM’s work the Institute’s methodology has been more explicitly grounded in conceptual debates (see Stone 2001; Stone & Hughes 2002). The AIFS has found that there are different types of social capital and has questioned the claim that it is a resource of the poor, linking the more useful types of social capital with the possession of economic resources and a lack of social capital with unemployment (Stone, Gray & Hughes 2003). A more qualitative approach has been taken by the Centre for Independent Studies (CIS) who interviewed 12 households from around Sydney and regional New South Wales (NSW), asking what networks they participated in and what social resources they had access to (Stewart-Weeks & Richardson 1998). In South Australia a
study undertaken by the Department of Public Health at Flinders University and the South Australian Community Health Research Unit applied qualitative methods to group analysis focusing on 25 community organisations (Miller, Murray & Palmer 1999). However each of these studies has applied the concept of social capital differently, ranging from qualitative to quantitative approaches, and including different variables.

Like the World Bank government agencies in Australia have attempted to create standardised social capital measures. The Australian Bureau of Statistics (ABS) has attempted to develop a social capital framework and indicators. While initially drawing on Australian definitions (ABS 2000) the ABS has since adopted the Organisation for Economic Cooperation and Development (OECD) definition of ‘networks, together with shared norms, values and understandings which facilitate cooperation within or among groups’ (ABS 2002, p.v, quoting OECD 2001). The ABS has recently released a paper outlining their approach to measurement (2004). The Productivity Commission has also investigated the policy implications of the concept but concluded that it remains problematic in terms of assessing macro policy changes because of the lack of a clear measure, the complexity of causation and the ambiguity of the concept itself (2003, pp.58-60).

The lack of clarity over the definition of the concept of social capital reflects the way in which the concept has been applied. Those employing the concept have focused on measurement, not conceptual frameworks. Thus the application of the concept seemed to detach from the initial framework used by Putnam. Reading through much of the initial CACOM work one would be genuinely surprised to discover that Putnam couched most of his discussion of the concept in terms of game theory. In most of the CACOM work game theory is not even mentioned let alone used as a framework for analysis. I do not claim that conceptual debates have been missing altogether, nor that the origins of the concept remain unexamined. Rather, that the conceptual debates have been constantly playing catch-up to an ever expanding empirical literature. The momentum of the literature has been the product of its empirical claims, and its heuristic promise of marrying the social sciences, and not the result of a well thought out and accepted theoretical framework.
These origins partly explain the tone of much of the social capital debate as ‘evidenced-based’ and free of ideology. The concept is grounded in concrete empirical studies not part of an abstract theory. However, the lack of conceptual clarity has also been the root of most critiques of the concept. As critics have sought to understand the concept they have looked back to its origins and initial uses. For those sympathetic to the social capital literature this has been a search for coherence, an attempt to find a more consistent, or at least agreed, approach to applying the concept empirically. For others the concept’s origins betray its neoliberal ideological baggage. These critics argue that the inconsistencies in application conceal a deeper commitment to individualism.

**How can you measure ‘it’ if you don’t know what ‘it’ is?**

The appeal of the concept of social capital is obvious. It is potentially a cure to problems of economic and political stagnation, a way of crossing disciplinary boundaries, and a means of empowering communities that is not simply about spending government money. Yet the empirical literature has raised as many questions as answers, not least because we are yet to arrive at any single measure (or measures) or any single framework. Arnaldo Bagnasco recently claimed that social capital was to modern social science what time was to St Augustine of Hippo – ‘I know exactly what it is, but if I start thinking about it I don’t know any more’ (2003, p.359). Such a situation has understandably caused considerable discomfort for many theorists.

Most initial debate over social capital focused on Putnam’s Italy study. A number of authors queried Putnam’s account of Italian history on which his notion of social capital was based (see Fine 2001, pp.85-9 for a discussion). All suggest that Putnam’s account is too simplistic and did not take account of the variations within either the north or south of Italy. Putnam’s many measures of social capital are questioned, both in terms of what types of associations are left in and out and because Putnam appears to conflate indicators of social capital with the outcomes of social capital (for example Levi 1996).

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7 Of these Tarrow (1996) remains one of the most powerful, although also see Goldberg (1996); Grote (1997); Harriss and de Renzio (1997); and Sabetti (1996).
Ironically, the north of Italy began to experience a range of institutional difficulties at precisely the time Putnam was writing, with revelations of corruption, Mafia connections and the collapse of the Marxist and Catholic base of many civic associations. Simultaneously there appeared to be evidence that the civic culture of the south was beginning to flourish. All of this suggested that the factors Putnam was discussing were more contingent and historically specific than his eight hundred year history suggested. The story appeared to be too neat – leaving out the role of the state and paying remarkably little attention to the dynamics of colonisation in the south.

Out of this initial debate developed a number of themes less specific to Italy, although the focus has continued to be on Putnam’s work. Astonishingly, Putnam himself appeared to recant his initial suggestion that social capital was a long run phenomenon by claiming that it had declined dramatically in post-war America (1995). It became unclear whether social capital lasted hundreds of years or could change in a matter of decades. At a more methodological level a number of authors questioned the framework for measuring social capital. In particular, Putnam was criticised for failing to differentiate between different types of trust (Lenci 1997; Fattore, Turnbull & Wilson 2003), between the components of social capital and the consequences of social capital (Portes 1998) and between ‘good’ social capital, which helped lift individuals and communities out of poverty, and ‘bad’ social capital, which promoted sectarianism and held individuals back (Portes & Landolt 1996; Levi 1996; Lyons 1997), with some claiming that social capital should only refer to positive attributes (Cox & Caldwell 2000, pp.50-6).

As mentioned in the previous chapter the usefulness of social capital theory has been questioned by some of the luminaries of the economics profession. Kenneth Arrow (2000) and Robert Solow (2000) have both acknowledged that trust plays an important role in economic transactions but have rejected the claim that it can be conceived as a capital stock. They also question whether the concept of social capital adds anything to existing economic theory that is not already captured by other concepts such as reputation theory.
These many difficulties in defining and operationalising the concept may account for the number of books and articles which focus on the concept’s origins. Frane Adam and Borut Roncevic have claimed that,

‘Even a decade after social capital started gaining relevance, it is very common that an author applying the concept in a particular analysis first discusses the concept and points to its intellectual origins, to its diversity of applications and to some unresolved issues. Most authors then also adopt one of the schools of thought and sometimes contribute their own definition to the general framework of this school. Only then do they start dealing with their specific issue’ (Adam & Roncevic 2003, p.158).

Likewise, Michael Woolcock, one of the economists involved in the World Bank’s social capital project, has looked to further investigations of the concept’s origins as the basis for resolving the many outstanding issues in the literature.

‘Unravelling and resolving these issues requires a more dynamic than static understanding of social capital; it invites a more detailed examination of the intellectual history of social capital, and the search for lessons from empirical research...’ (Woolcock 1998, p.159).

The search for coherence has led in a number of directions. Many reviewers have identified a range of different social capital resources, or different traditions within the literature. Gordon Johnston and Janie Percy-Smith examine what they term ‘the main schools of thought relating to social capital’ (2003, p.321). They are critical of the numerous definitions and applications, concluding that ‘the social capital debate lacks the level of minimal agreement about the meaning of the key operational concept to sustain meaningful debate and dialogue’ (2003, p.332), although they do set out an agenda for putting the debate back on track. In Australia, the Productivity Commission’s 2003 report suggested there were four approaches in the literature; reflecting economic, political, sociological and anthropological traditions. Similarly, Woolcock and D. Narayan’s widely cited review of the literature in the World Bank Research Observer also identified four views of social capital, but classified them as communitarian, networking, institutional and ‘synergy’ approaches (2000). Alejandro Portes has noted two different traditions of social capital theory claiming one is superior to the other (1998). Others, such as Tom Schuller, Stephen Baron and John
Field (2000) and Ian Winter (2000b), have acknowledged differences between the main authors, but none-the-less claimed that the concept has retained an overall sense of coherence.

Reconciling current practice with the concept’s theoretical origins and ensuring that the framework developed is itself internally coherent has proved an immensely challenging task. Some have recommended that the task, at least in its current form, be either abandoned or at least its limitations recognised. John Harriss and Paul de Renzio argue that the separation of civil society and state posited in the Putnam version of social capital theory is ‘almost certainly misconceived’ (1997, p.919). Bob Edwards and Michael Foley (1998) have argued that social capital is better understood as a heuristic device for focusing attention on the important role of social relations rather than a quantifiable measure of progress.

Yet overwhelmingly these authors remain positively disposed to the project itself. They recognise that the goal of social capital theory is a useful one – because it enables better accounts of the interplay of social and economic factors. The discontent of these theorists is focused on the inability of social capital theorists to converge on a single definition or framework, or to display the appropriate level of intellectual rigour. Their examination of the concept’s genealogy has been aimed at developing a coherent framework for understanding the literature and for informing future research. In this sense, one might think of this theoretical literature as ‘orthodox’ despite its critique of social capital theory. In contrast, another band of theorists have looked to the concept’s origins for another reason. They claim that the current social capital debate has emerged from within economic discourse. For them the incoherence and uncertainty are superficial – underlying the debate is an approach that reflects a neoclassical, individualist approach to social science. In revealing this, these heterodox critics aim to undermine the mainstream social capital debate, and resist the concept’s entry into social theory.
The Trojan horse of the social sciences?

In contrast to the orthodox critique, heterodox critics do not accept the value of the social capital project. Heterodox critics tend to treat work on social capital as discourse rather than (social) science. They argue that the language of the social capital debate naturalises the system of capitalist economic production and downplays or ignores issues of inequality and differential power. Thus, the concept is not simply imperfect, or improperly applied; instead the concept has ideological effects which heterodox critics oppose. The most prominent and prolific heterodox critic is Fine who, along with Francis Green, is responsible for labelling the concept of social capital a ‘Trojan horse’ (Fine & Green 2000, pp.91-3). His work is also the most explicitly focused on the relationship between the idea of social capital and economics. However, the critique has been far broader than Fine. It is therefore useful to gain some perspective on the debate as a whole.

The first part of the heterodox critique is focused on how the concept of social capital relates to the concept of community. Community development theorists, such as Pauline McClenaghan (2000) and James DeFilipis (2001), have questioned the way in which the social capital debate conceives of community and social relations. McClenaghan claims that social capital is effectively defined as a sort of social cohesion. Where social cohesion is high so social capital is high, where there is social conflict, social capital is low. Thus the literature seems to promote forms of social control that aid social cohesion whilst simultaneously discouraging forms of collective action that seek to challenge the status quo because they lead to social conflict. In this sense the social capital debate is inherently conservative.

DeFilipis (2001) takes this one step further, looking to the types of social relations included within social capital and questioning their usefulness. DeFilipis argues that the theory of social capital proffers increased social connectivity as a solution to problems of economic development, but that the evidence does not bear this out. In America for example, he claims that the greatest concentration of community organisations is in poor neighbourhoods, and points to Putnam’s own findings that see higher levels of social capital in poorer states. DeFilipis claims that the number of social connections you possess is less important than the economic and social status of
the people in your social network. Thus, extensive social networks in poor communities have far less effect than in more affluent communities, and indeed many affluent communities may have an incentive to lock themselves away from less affluent citizens, in order to protect their more powerful networks. DeFilipis argues that this might explain the increasing number of gated communities. While dismissing the mainstream social capital literature, DeFilipis looks to an alternative, grounded in the writings of Pierre Bourdieu, which conceives of capital in a more Marxist sense – as a resource of differential (and often subjugating) power.

Outside the specific field of community development Greenwood has also pointed to the tendency of the social capital debate to construct an ideal community without conflict. The result is to downplay growing divisions, making '(s)ocial conflict between haves and have nots' appear irrelevant (2002, p.6). Christine Everingham has expressed similar ideas in the Australian literature, both about the concepts of community (2001) and social capital (2003).

Stephen Smith and Jessica Kulynych (2002) claim that social capital theory is part of an economic imperialism. They argue that the term reflects a broader move to embrace the language of economics and to relate a range of political and social situations in economics terms. One effect of this is to naturalise the language of capitalism, and therefore to naturalise capitalism itself, to make it appear inevitable. By discussing the social in terms of capital we are led to believe that ‘capital’ is a natural phenomenon, rather than the historically specific product of capitalism. However, the social capital debate also obscures important differences in the social world. The authors claim that by lumping all social institutions together, such as trade unions, Parent and Teacher Associations (PTAs) and chambers of commerce, the discourse of social capital strips these institutions of their political meaning. Revolutionary zeal to change the structures of society is equated to the social benefits of meeting for tea and biscuits. Again, the discourse effectively papers over difference, conflict and inequality.

Smith and Kulynych (2002) claim that the social capital discourse represents a distinctly liberal conception of ‘capital’ as a neutral resource for action. Like De Fillipis, they point to an alternative tradition based on the Marxist meaning of capital. For Karl Marx, productive equipment only becomes capital when its ownership is
separated from its use – when it is used as ‘a means of exploitation and subjection of the labourer’ (Marx 1967, p.767, quoted in Smith and Kulynych 2002, p.153). In a similar manner Ann Davies (2001) identifies two traditions within the social capital literature, a ‘neo-pluralist’ account given by Putnam, and a less dominant ‘neo-Marxist’ account given by Bourdieu. Indeed, nearly all these heterodox critics distinguish between the Putnam/James Coleman account of social capital and that proffered by Bourdieu, with all showing considerably more sympathy towards Bourdieu’s account.8

**The Ben Fine project**

Fine draws a similar conclusion to Smith and Kulynych, claiming the concept of social capital has ideological implications. Fine has been recognised as an exemplar of the heterodox critique. Fine is the most widely cited heterodox critic of the concept of social capital. His main work, *Social Capital versus Social Theory* (2001), has been the subject of numerous reviews and has been mentioned in most subsequent reviews of the literature. Fine has written numerous articles on the topic, beginning in 1998 and continuing through to the present. Fine's work on social capital continues his interest in the colonisation of social science by neoclassical economics. Earlier Fine had focused on the work of Gary Becker, a Nobel laureate economist famous for his application of methodological individualism and economic thinking to what are often assumed to be non-economic subjects, such as the family. Fine was highly critical of Becker’s work and attempted to resist the process of colonisation Becker was explicitly engaged in (Fine 1997; 1998a).

Fine’s analysis of social capital is a continuation of his interest in the work of Becker. Both Becker, an economist strongly identified with neoliberalism, and Bourdieu, a social theorist highly critical of neoliberalism, employed the concept of social capital, and this appears to have drawn Fine to the debate. Fine argues that the concept of social capital represents the second wave of colonisation of social theory by

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8 Not all of these heterodox critics endorse Bourdieu’s version of social capital. Many, like Smith and Kulynych (2002) and Fine (2001), claim that Bourdieu’s work is also flawed. However even in these cases Bourdieu’s work is generally portrayed in a more sympathetic light.
economics. The first wave, associated with the work of Becker, involved economists explicitly applying economic method to the social sciences. In contrast, the concept of social capital mixed together sociological concepts and language into what Fine maintained was a fundamentally economic analysis. This second advance of colonisation has been aided, Fine argues, by the dominance of post modernism within the social sciences, which has allowed theorists to draw upon numerous traditions without needing to ensure consistency (1998b, p.2), whilst a backlash against post modernism has led some in search of a more material basis for social theory (Fine & Milonakis 2003, p.546).

Fine’s colonisation thesis rests on the claim that the concept of social capital is the product of economics, not a genuine meeting point between economics and social theory. For Fine, as I noted earlier, social capital is a ‘Trojan Horse’ that brings neoliberal economics into the social sciences (Fine & Green 2000). Fine’s argument is in two parts. Firstly, Fine focuses on the initial use of the term social capital and its links to economic theory. This was the starting point for Fine’s investigations (1998b) and takes up the majority of his (2001) book. Secondly, Fine examines a more recent development literature, which has emphasised the importance of social capital, particularly that produced by the World Bank, to argue that the concept has informed a new Washington consensus (1999). It is the first of these two foci that is of most interest here.

Fine’s interest in social capital appears to have begun with Becker, who used the concept in constructing an amended theory of preference functions. Becker argued that an individual’s social and personal capital (equivalent to their social networks and prior experience) affected their tastes and therefore their preferences. By incorporating these additional components Becker argued that the traditional approach to preference theory was made more effective and insightful (Becker 1996). In Social Capital versus Social Theory Fine examines the work of four of the initial contributors to the social capital debate; Becker, Bourdieu, Coleman and Putnam. While critical of Bourdieu, Fine is somewhat sympathetic to the French sociologist’s goals and acknowledges that ‘Taken seriously, his work would be incapable of supporting the colonisation of the social sciences by economics’ (1998b, p.20). However, Fine claims that Bourdieu’s
work has been marginalised within the literature, which has instead focused on the work of Coleman and Putnam (2001, p.17).

Fine sees the social capital debate beginning with Coleman. Coleman was a sociologist, but one who explicitly attempts to apply insights from rational choice theory. Fine (2001, pp.66-80) notes that Coleman was a keen participant in the social exchange literature (Coleman 1972; 1973; 1975), which attempted to understand social behaviour in the light of individual behaviour. Coleman’s social capital work takes up the theme of explaining macro outcomes through microanalysis— that is aggregate behaviour through an understanding of individual behaviour.9

Coleman’s first mention of social capital (1987) is in a volume explicitly focused on how economic methodology can colonise the social sciences (Radnitzky & Bernholz 1987). Coleman is also explicitly operating within a rational choice framework (see Coleman 1990). However Fine argues that unlike Becker’s more explicit approach, Coleman is attempting to transform sociology, rather than simply extending economics. As such, Coleman continues to use the language of sociology, something that makes his analysis more acceptable to social theorists (Fine 2001, p.76).

Fine claims that Putnam’s work on Italy further broadened the appeal of the concept by removing it from Coleman’s explicitly rational choice framework. Fine argues that Putnam’s Italian study had a similar effect to D. Benjamin & L. Kochin’s (1979) argument that unemployment was voluntary, a result of high social security payments and low wages. Both Putnam’s and Benjamin and Kochin’s arguments, Fine suggests, went against conventional wisdom, but straddled popular and academic consciousness (in the first case that the unemployed are work-shy, in the second that different regions have different cultures that are deeply resistant to change). Both arguments are fundamentally flawed but generate a voluminous literature. In both cases critiques of the initial work only serve to focus attention on the thesis, reinforcing its importance as a subject of inquiry (Fine 2001, pp.82-96). Fine also relates the development of the

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9 This micro foundations project has produced an immense literature. I argue that many of those involved in developing the concept of social capital are attempting to construct micro foundations. However, in chapter five I question whether this project is necessarily synonymous with the pursuit of methodological individualism.
concept to broader changes taking place within economics, a theme I pick up later in the chapter.

Fine argues that as the social capital literature has progressed, the rational choice origins of the concept have become less obvious and less acknowledged but that the Coleman/Putnam heritage has continued to influence mainstream debates. While Coleman’s attachment to rational choice theory is acknowledged in a number of reviews of the social capital literature, the significance of this attachment is generally downplayed (for example Winter 2000b, pp.20-1). Fine’s critics point to the importance of other theorists, such as Bourdieu and Mark Granovetter, as evidence that rational choice theory is only one, relatively small part of the concept’s heritage. Others argue that Coleman effectively mediates between the traditions of sociology and economics and thus his work should itself be recognised as only partly influenced by the rational choice tradition.

It is in this context that the search for the economic origins of the concept of social capital has become such an important and contested terrain. While the orthodox theoretical literature looks to the origins of the concept of social capital in search of coherence, the heterodox literature looks to the concept’s origins to establish a discursive continuity between the economic and social capital literatures as evidence of the concept’s tainted ideological baggage. For these critics the concept’s origins reveal a hidden agenda, one in which ‘social’ is short for social cohesion and social order, and one in which ‘capital’ is a neutral resource devoid of any appreciation of differential power or exploitation. Thus the differences in definition and application that are the focus of orthodox theoretical critiques are seen by heterodox critiques as a sideshow. Regardless of the specific application, the concept is more fundamentally flawed in its very understanding of either the ‘social’ or of ‘capital’. The heterodox reading of the concept’s origins leads to a very different prescription. Rather than strengthening the concept, their main goal is to resist it. It is this reading of the concept’s origins that lies at the heart of Fine’s more influential analysis - and through his work the debate over the concept’s origins and ideological content have become the subject of a debate over the legitimacy of the concept of social capital and its usefulness to progressive social theorists.
In this thesis I explore the heterodox critique of the concept of social capital. I too wish to examine the ideological implications of the concept by better understanding the concept’s genealogy. However, unlike most heterodox critics, I am not uniformly hostile to mainstream economics, but instead entertain the possibility that the concept of social capital may reflect changes within economics, which move it closer to social theory. In the next chapter I look at the concept’s genealogy, arguing that it is best understood as a product of rational choice theory.
Chapter 3 – A Question of Colonisation

In the last chapter I showed that initial interest in the concept of social capital came from its supposed empirical insight not its theoretical coherence. If anything the lack of firm theoretical foundations was seen by some as a virtue, moving away from high theory and ideology to an evidenced-based approach. However, the definitional and methodological fuzziness in the debate led some to search the concept’s intellectual origins hoping to find solid foundations, or at least some coherence. Identifying more solid theoretical foundations was part of an orthodox critique of the social capital literature, one critical of the multitude of definitions, but one fundamentally sympathetic to the project. Alternatively, another critique sought to undermine the project itself, regarding the concept of social capital, at least in its Robert Putnam/James Coleman guise, as ideologically driven. This more radical critique I termed heterodox. Like their orthodox counterparts heterodox critics have also looked to the concept’s origins to establish their case. However, they are looking for a different kind of coherence by attempting to establish continuity between neoclassical economics, neoliberal politics and the social capital literature.

In this chapter I examine the initial usage of the concept of social capital, and evaluate the heterodox claim that the concept is best understood as the product of rational choice theory. I begin by identifying the first authors to employ the concept of social capital and discussing the context in which they used the term. In particular I focus on the work of Pierre Bourdieu, Coleman and Putnam, the three theorists most widely credited with developing the concept. I then examine the claim made by Ben Fine and other heterodox critics, that Bourdieu’s work has been marginalised in the social capital literature, and that the origins of the concept are thus best understood in terms of Coleman’s and Putnam’s work.

Finally, I address Fine’s claim that the concept of social capital is part of a broader second wave of colonisation by economics of social theory. Here Fine places the development of the concept of social capital in the context of the emerging discourse about the economics of information, arguing that by focusing on imperfect markets
neoclassical economics has been able to incorporate social institutions whilst retaining its commitment to methodological individualism and utility maximisation. I argue that while Fine’s claim that the social capital literature emerged out of economics is valid, his analysis only takes us part of the way to understanding the dynamics involved. In particular, I dispute Fine’s claim that economics has remained largely unchanged as theorists have focused on information, market imperfections and institutions. The relationship between economics and the concept of social capital is more complex than simply the imposition of a neoclassical framework on social theory. Instead other market economic traditions, such as Austrian economics, have informed the debate, as well as economics being influenced by non-economic traditions. In the coming chapters I argue that understanding the complex dynamics within economics considerably aids our understanding of the possible relationship between the concept of social capital and the advance of neoliberalism.

**Origins of the concept of social capital**

As with many popular concepts there have been numerous attempts to identify the first use of the term social capital. Putnam has identified the work of L.J. Hanifan, a mildly progressive reformer from West Virginia who used the term social capital to refer to the social connections that underpin the individual’s engagement with family and community (see Hanifan 1916, pp.130-8; 1920). Others have cited the use of the term social capital in a Canadian Royal Commission (Dube, Howes & McQueen 1957) and George Homans’ *Social Behavior* (1961).

The supposed commonality between contemporary writing on social capital and these authors is sometimes seen as a sign of the underlying usefulness of the debate, but there is little evidence that Hanifan, Homans or the authors of the Canadian Royal Commission directly influenced contemporary theorists. Instead, a consensus has emerged that credits three people in particular with developing the concept of social capital, and perhaps more importantly of placing the concept in a theoretical framework – Putnam, Coleman and Bourdieu. Two other authors have also been credited with a less prominent, but still significant role – Jane Jacobs and Glen Loury.
Perhaps the first thing to note about this group is that only one of them, Loury, is an economist. Putnam is a political scientist, Coleman and Bourdieu are sociologists and Jacobs is best known as a town planner and social activist. This goes a long way to explaining why most authors have argued the concept emerged from within sociology rather than economics (for example Portes 1998; Adam & Roncevic 2003, pp.156-7). It also hints at the breadth of the term’s appeal across the social sciences. The diversity of approaches taken to the concept, even amongst this group, highlights the difficulties in pinning down any single formulation of the concept within the literature. Instead, the authors share themes or approaches rather than a tightly specified conception of social capital.

Jacobs’ work has consistently reflected a concern for understanding how trust between citizens and within communities is developed and maintained, and a belief that such trust cannot be institutionalised but is rather built through the grass roots interactions of people’s everyday lives. Jacobs (1961) describes the web of interconnections between people in well functioning local communities as ‘social capital’. Social capital includes the web of ‘eyes on the street’ that discourages break-ins, and the trust between neighbours that gives parents the confidence to allow their children to play in the park. It is a fragile resource developed slowly through interaction and is often harmed by planned interventions that change the way communities work without drawing on local knowledge. Jacobs does not attempt to quantify social capital nor construct a theoretical framework into which the concept fits. However the tone of Jacobs’ work and the themes she expresses about localism, interconnectedness and the intangible nature of social resources are all picked up by later writers on social capital.

A more theoretical approach to the concept began with Loury’s work, later quoted by both Coleman and Putnam. Loury (1977; 1987) reflects a similar concern to Coleman. He wishes to account for the persistence of group inequality (in his case racial inequality in the United States of America (USA)) within the individualist framework of liberal economics. The model he sets up creates a competitive labour market where jobs are assigned purely on the basis of ability and skill (1987). Loury then allows for two additional forms of potential differentiation. Firstly, people begin life with endowments from their parents that affect their ability to gain skills and experience, with more affluent families faring better. Secondly, communities provide a series of
‘public goods’ that advantage those in the community, again favouring the more affluent. Loury shows that even in a competitive labour market these two forms of social capital can have persistent effects explaining why an initially disadvantaged group (black Americans) can remain disadvantaged between generations.\footnote{De Filippis has argued that Loury’s focus on persistent inequality mirrors Bourdieu’s work and that the work of both men should be differentiated from Coleman and Putnam (2001, pp.783-4). While agreeing that both are interested in intergenerational inequality I will argue that Loury is drawing on the tools and traditions of neoclassical economics, in a similar manner to Coleman and Putnam, while Bourdieu is not.}

Loury and Jacobs do not quote each other, and while their work has been acknowledged as informing later work to come, it is the other three thinkers, Bourdieu, Coleman and Putnam, who have generally been credited as the concept’s founders. Bourdieu is the only one of the five social capital theorists who is not American. His work is influenced by continental traditions and is more in keeping with the class analysis of Karl Marx than the neoclassical approach of mainstream economics. By contrast both Coleman and Putnam place the concept of social capital in the tradition of game theory and rational choice theory more generally.

Bourdieu’s analysis of social capital is a small part of his overall work. The concept is mentioned fleetingly in a number of his works but only dealt with in detail on one occasion, ‘Forms of Capital’ (1986), originally published in 1983. Bourdieu claims that understanding the operation of social structure requires an understanding of capital, not only in its economic form but in all forms (1986, p.242). Here he equates capital to power (1986, p.243)\footnote{Also see Fine (1998b, pp.12-3), for a discussion of Bourdieu equating capital to power.} and argues that explaining the distribution and reproduction of capital is fundamental to understanding the social world.

Bourdieu argues that economic capital remains the primary resource of power, with other forms of capital derived from it through processes that require various degrees of effort and entail various degrees of risk. The different forms of capital allow privilege to be obscured making it easier for a more powerful class to pass on privilege between generations. Bourdieu posits the theory as a critical alternative to mainstream economics rather than an addition. The best example of this is Bourdieu’s better developed concept of cultural capital, which is used to directly rebut the neoclassical conception of human capital (see Bourdieu 1984).
It is in this context that Bourdieu defines social capital as:

‘…the aggregate of the actual or potential resources which are linked to the possession of a durable network of more or less institutionalized relationships of mutual acquaintance and recognition – or in other words, to membership in a group – which provides each of its members with the backing of the collectively-owned capital, a “credential” which entitles them to credit, in the various sense of the word’ (Bourdieu, 1986, pp.248-9).

Bourdieu sees each agent as having access to different levels of social capital, which can be measured by the size of the networks they can access and by the volume of capital owned by each of the individuals in these networks. Social capital is about relationships but it remains a resource of individuals, a concealed and transsubstantiated form of economic capital. It is not a collective resource in the sense used by Jacobs. Social capital allows those with power to hold that power in a different less explicit form opening up a new strategy in the conflict over resources. This formulation is part of Bourdieu’s broader theoretical approach that attempts to blend Marxist economics with a less materialist cultural studies.

Bourdieu’s class analysis marks him out most starkly from Coleman and Putnam and has been praised by heterodox theorists. However there are also similarities, particularly between Bourdieu and Coleman. Coleman and Bourdieu are both sociologists and both raise social capital in the context of education and the transmission of resources between generations within the family. Like Bourdieu, Coleman is trying to build a methodological bridge between micro and macro analysis; and in doing so account for both structure and agency. This is a common theme to much of the early literature, including the work of Mark Granovetter (1985) who is later a key source in Putnam’s account of social capital. Indeed this desire to mediate between a socially determined agent and a completely atomistic agent appears to be the central purpose for Coleman creating the concept:

‘There are two broad intellectual streams in the description and explanation of social action. One, characteristic of the work of most sociologists, sees the actor as socialized and action as governed by social norms, rules, and obligations… The other intellectual
stream, characteristic of the work of most economists, sees the actor as having goals independently arrived at, as acting independently, and as wholly self-interested… In earlier works… I have argued for and engaged in the development of a theoretical orientation in sociology that includes components from both these intellectual streams… In the present paper, I introduce a conceptual tool for use in the theoretical enterprise: social capital’ (Coleman, 1988, pp.595-596).

But unlike Bourdieu, Coleman does not focus on issues of class or power. Instead he embraces methodological individualism in a manner broadly consistent with the economic mainstream. Thus, unlike Bourdieu, Coleman adds social capital to the existing conceptual framework of economics, creating social capital alongside physical, financial and human capital. As Coleman states at the beginning of his *Foundations of Social Theory*, ‘For this I will use the conception of rationality employed in economics, the conception that forms the basis of the rational actor in economic theory’ (1990, p.14).

Despite Coleman clearly placing social capital within a broader theoretical framework it appears that he, like Putnam, initially came to the concept as a post hoc explanation of empirical research. Coleman used the concept to explain why students from Catholic schools outperformed their non-Catholic school peers (see Schuller, Baron & Field 2000, p.6). This empirical story is a central feature of Coleman’s most influential discussion of social capital (1988).

For Coleman, social capital is a series of resources not a single entity. He defines the concept broadly, including almost everything that is social that can be used for economic ends:

‘Social capital is defined by its function. It is not a single entity but a variety of different entities, with two elements in common: they all consist of some aspect of social structures, and they facilitate certain actions of actors – whether persons or corporate actors – within the structure’ (Coleman 1988, p.598).

Coleman identifies three particular types of social capital – social resources that allow obligations and expectations to be created and met; social resources that allow information to be distributed and accessed more efficiently; and social norms that
discourage individual self-interest when it conflicts with the collective good. All of these resources facilitate action where it would otherwise be costly, cumbersome or simply unachievable. Importantly, while some elements of social capital are clearly collective, like the trustworthiness of the environment in which obligations are created, or the presence of beneficial social norms, social capital as a whole is not evenly distributed even within any one social group. The ability of individuals to generate obligations or to access information varies within any given society or community. Social capital may be an aspect of social relations, but individuals can access it differentially.

It is Putnam who takes Coleman’s concept and transforms it into a positive attribute of communities. For Putnam the most significant aspect of social capital is trust, and this, in turn, is underpinned by two features of social relations – norms and networks. In particular, trust is facilitated by norms of reciprocity, where people do things for each other, and networks of civic engagement where people develop relationships with each other through voluntary associations. Putnam emphasises that social capital is built up through horizontal relationships, implying an equality of power, rather than more vertical or authoritarian relations. Following on from the work of Granovetter (1973) he argues that it is better to have relatively weak relationships with many people than extremely strong relationships with a few, as this allows more sources of information and less dependence. These norms and networks help overcome problems of collective action; situations where instrumental rational action leads to socially sub-optimal results, a subject discussed in detail in chapter six.

Putnam, drawing on Coleman’s more expanded development of social capital in *Foundations of Social Theory* (1990), claims that collective action problems are usually the result of ‘externalities’ – where the full benefits and costs of an action are not experienced by the actor (Putnam 1993, p.171). Putnam claims that social capital is the resource that overcomes such problems. Without it, communities are left unable to act for the collective good. Putnam applies this analysis to his study of Italian democracy (1993). He claims that two very different situations have emerged in Italy. In the north, the development of social capital has allowed spontaneous cooperation and economic prosperity. In the south, a lack of social capital has forced people to work largely within the family and has restricted economic opportunities that extend
beyond the family. Putnam argues that both cooperation and distrust are ‘social equilibria’, self-reinforcing situations that persist over time. In section three I explore how Putnam’s understanding of civic and non-civic communities as constituting social equilibria relates to notions of equilibrium in rational choice theory.

This is the most theoretical treatment of the concept of social capital in Putnam’s work. Putnam’s later work is empirical, examining the decline of clubs and associations across America. This reflects the influence of Alexis de Tocqueville on Putnam’s research agenda. Putnam is focused on establishing the importance of associationalism for the political and economic health of society. For him, social capital is really a borrowed concept, a way of adding theoretical bite to his already developed empirical claims. Yet the theoretical frame he chooses is important for shaping the subsequent debate.

**The economic origins of social capital**

As discussed in the previous chapter, Fine and other heterodox critics of the concept of social capital, have claimed that the concept is the product of rational choice theory, rather than the coming together of disparate traditions. Fine’s claim that the concept of social capital is firmly embedded in the discourse of rational choice economics has come under attack. Perhaps most directly, Simon Szreter has argued that Fine’s claim rests on a ‘highly selective reading, both of [the concept’s] historiographical origins and of the most important currents in the theoretical debate’ (2002, p.616, ff14). Szreter points to Fine’s focus on Gary Becker’s work on social capital, which in Fine (2001) is as substantial as his focus on Bourdieu. Szreter argues that this gives a warped perspective. While Becker might fit the imperialist argument well, his work ‘plays almost no role in the current debate and is hardly ever cited’ (Szreter 2002, p.616, ff14). In contrast Szreter points out that Bourdieu is widely acknowledged as one of the concept’s founders.

There is some substance to Szreter’s criticisms of Fine. It is certainly true that Becker has had virtually no direct impact on the social capital debate beyond incorporating the concept into his own work. It is also true that the most widely cited literature reviews
(other than Fine’s) give Bourdieu considerable credit for developing the concept of social capital (for example Portes 1998; Woolcock 1998; Foley & Edwards 1999). Yet in the broader debate, Bourdieu’s influence is less clear.

Here Alejandro Portes’ work is of particular interest, both because he was one of the first to identify the concept (even before Putnam’s book) and because he is generally identified with progressive sociology. Portes claims that ‘The first systematic contemporary analysis of social capital was produced by Pierre Bourdieu’ (1998, p.3) and that ‘Bourdieu’s analysis is arguably the most theoretically refined among those that introduced the term in contemporary sociological discourse’ (1998, p.3).

However, he does recognise that as a result of Bourdieu initially publishing his ideas in French, and not English, his work did ‘not garner widespread attention in the English-speaking world’ (1998, p.3).

Portes’ initial collaborative work identifying the concept of social capital (Portes & Sensenbrenner 1993) was a review of literature on the social determinants of economic action. The authors were searching for a theoretical frame that went beyond criticism of rational choice theory and instead provided a framework for positive contributions. They identify social capital as a possible alternative to Granovetter’s concept of embeddedness, believing the latter ‘suffers from theoretical vagueness’ (1993, p.1321).

The two authors then offer a review of the literature, stating that the concept was ‘introduced in the recent sociological literature by Pierre Bourdieu and developed in English by James Coleman…’ (Portes & Sensenbrenner 1993, p.1321).

This appears to be the first occasion where Bourdieu and Coleman are jointly credited as the concept’s founders. Yet until this point it is far from clear that Bourdieu and Coleman were engaged in any real form of debate. Both certainly used the term ‘social capital’, but they were not necessarily talking about the same thing, nor taking part in the same discussion. Bourdieu does not quote Coleman in any of his work on social capital. Similarly, Coleman does not initially attribute the concept to anyone (1987; 1988), and when he does it is to the economist Loury and not to Bourdieu, stating twice that ‘Loury introduced the term “social capital”’ (1990, pp.300; 301). Coleman
goes on to note, in a section in parentheses, ‘(See also Bourdieu, 1980, and Flap and De Graaf, 1986, who have used this term in a similar fashion)’ (1990, p.300).

This is the only reference to Bourdieu in any of Coleman’s significant works on social capital. The reference is to a brief French note Bourdieu made on the topic rather than his more extensive treatment in ‘Forms of Capital’ (1986). There is no substantive discussion of Bourdieu’s work. All this is despite the two men co-organising a conference in the late 1980s (after both had published their social capital work) and then coediting the conference proceedings (Bourdieu & Coleman 1991). This hardly constitutes ‘developing’ Bourdieu’s notion of social capital in English as Portes and Julia Sensenbrenner claim.

Looked at on their own it is quite easy to argue, as Fine does, that Bourdieu and Coleman were talking about quite different things. Bourdieu was discussing class, Coleman discussing the micro/macro transition within rational choice theory. Bourdieu was interested in issues of power and the reproduction of privilege; Coleman was focused on integrating economics and sociology. As neither Bourdieu nor Coleman directly discussed the other’s work it is difficult to see exactly how either man drew on the other’s contribution.

In a sense it could be argued that Portes & Sensenbrenner (1993) constructed the link, and the history of the concept, in the process of reviewing it. Elsewhere Roy Weintraub (1991) has argued that survey articles construct the literature. Using the example of Takashi Negishi’s (1962) survey of the stability of competitive dynamics literature Weintraub argues that what Negishi surveyed has since been built upon, while what he omitted has been forgotten. He suggests that such reviews of the literature create a false sense of an orderly and unified progress, which those participating in the literature would not have recognised at the time. In the same way Portes & Sensenbrenner appear to have constructed a history for the concept of social capital that does not sit easily alongside the actual contributions of either Bourdieu or Coleman. Yet once published the connection has been picked up and reinforced. This

12 Flap and de Graf built a network model of social capital similar in some respects to Granovetter. This approach has been reviewed and developed by Lin (1999). Their approach is more firmly grounded in sociology, but has had little impact outside the network theory literature, and so I do not treat it in detail here.
review has informed much of Portes’ work on social capital, including his 1998 review of the concept that has since become the most downloaded article from the *Annual Review of Sociology*. \(^\text{13}\) Portes (1998) has thus substantially influenced how the social capital literature as a whole has perceived the links between Bourdieu’s and Coleman’s work.

This has created an interesting situation where a number of contributors have felt the need to reconcile Bourdieu’s and Coleman’s work. For example both Ian Winter (2000) and Tom Schuller, Stephen Baron and John Field (2000) are up front in acknowledging the differences between Bourdieu and Coleman, including the very different frameworks used by the two men. Both acknowledge Bourdieu’s focus on differential advantage and power. Yet this does not appear to present any obstacle to conceiving of both Bourdieu’s and Coleman’s work as part of the same literature.

Winter quotes Bourdieu stating that social capital may be ‘institutionalised in the form of a title of nobility’ (Bourdieu 1986, p.243 in Winter 2000, p.23). But Winter goes on to say that this ‘does not mean that it (social capital) is the preserve of the “well to do”’ (Winter 2000, p.23) even though Bourdieu only applies the concept to the privileged. Winter eventually manages to bring the two conceptions together in a single line ‘When compared with Bourdieu, Coleman uses different terms to define social capital, uses the concept for a different purpose and works within a different theoretical tradition, but fundamentally constructs the same theoretical concept’ (2000, p.24).

Schuller, Baron and Field are even more emphatic about the differences between Bourdieu and Coleman. They acknowledge that Bourdieu is discussing class, power and privilege stating ‘The use of the “capital” signals the intention of addressing differential resources of power’ (2000, p.3) and ‘this sustained attempt to theorise class relations’ (p.5). And yet Bourdieu’s work is still discussed as the precursor to what the authors treat as a single, coherent literature on social capital ‘The recent interest in the

\(^{13}\) Portes (1998) had been downloaded 5,406 times as of July 23 2005, roughly 2,000 more downloads than the next most downloaded article from the journal. See http://arjournals.annualreviews.org/action/showMostReadArticles?journalCode=soc.
concept of social capital can in part be traced to the early work of Pierre Bourdieu’
(2000, p.3). And eventually Bourdieu and Coleman are explicitly reconciled.

‘By contrast with Bourdieu, who used social capital to denote the ways in which elite
groups used their contacts to reproduce their privilege, Coleman extended the scope of
the concept to encompass the social relationships of non-elite groups’ (Schuller, Baron
& Field 2000, p.8).

It is simply not possible to ‘extend’ a concept about the maintenance of privilege to
‘non-elite groups’. It makes no sense. Yet so firmly embedded in the literature is the
notion that Bourdieu and Coleman are talking about the same thing that this statement
goes unremarked and the analysis uncritically quoted in the rest of the literature.
Stephen Smith & Jessica Kulynych (2002, p.176) make a similar argument, claiming
that Bourdieu’s words have taken on a life of their own. They cite Bourdieu’s denial of
any similarity between his work and the economic mainstream, ‘The only thing I share
with economic orthodoxy… are a number of words’ (Bourdieu & Wacquant 1992,
p.118). And yet, they note, Bourdieu himself acknowledges (in a different context) that
‘there is always an extraordinary danger of losing control of what you write’ (1992,
p.62). It would appear, in this case, exactly this fate has befallen him.

Is economics changing?

If Bourdieu is excluded from the social capital lineage then it becomes much easier to
sustain Fine’s claim that the concept’s origins lie within the tradition of rational choice
economics. As Szreter points out, ‘Bourdieu’s impeccable credentials as one of his
generation’s foremost critical sociologists’ (2002, p.616, ffl4) makes it difficult for
Fine to dismiss the social capital literature. However without Bourdieu the main
theorists14 are all within the rational choice tradition. Loury, the man Coleman
acknowledges as the concept’s originator, is a neoclassical economist; Coleman is
explicitly working within the framework of rational choice theory; and Putnam
couches most of his discussion in the context of game theory.

14 I exclude Jacobs here as I have argued that she did not discuss or develop a theory of social
capital, unlike Bourdieu, Loury, Coleman and Putnam.
However simply making the link to economics does not deal with the substance of Fine’s claim of colonisation. For this we need to look to Fine’s broader critique of economic colonisation, of which the debate surrounding the concept of social capital is only one component. As mentioned earlier, Fine’s interest in the colonisation of social theory by economics began with his work on Becker. Fine cites Becker’s work as an explicit, almost arrogant, attempt at colonisation, with Becker simply extending ‘mainstream economics to the non-economic’ (1999, p.404). However in recent decades Fine believes that a second wave of colonisation developed, which has sought to incorporate social relations into the model of rational choice economics.

Changes, Fine argues, in the economics of information and the mainstream acceptance of market imperfections reflect this second wave colonisation (1999; 2002). In traditional neoclassical economics individuals and firms are assumed to have perfect knowledge and transaction costs are assumed to be zero. Both assumptions are necessary for individuals to make efficient choices in most neoclassical models. However, the economics of information questions these assumptions. It allows for individuals to have different information, even incorrect information, and for transaction costs to impede business, thus creating market imperfections.

Fine acknowledges that the economics of information has heralded a degree of change, at least ostensibly, within neoclassical economics. Fine also acknowledges the existence of a rhetorical critique from within the neoclassical tradition pioneered by Deirdre McCloskey (1999). McCloskey’s critique, dealt with in more detail in chapter four, essentially questions the objective, scientific nature of economics and instead contends that neoclassical economics is simply rhetoric, like other social sciences (and science itself). Fine also acknowledges some change to economic practice, particularly the acceptance of multiple equilibria and path dependence, and a less formal and less mathematical style of academic prose (Fine 1999, p.411; Fine & Milonakis 2003, pp.551-553).

However Fine dismisses these changes as superficial. The rhetorical critique, he contends, is limited in itself as it focuses exclusively on economic methodology but leaves the substance of neoclassical theory untouched. What is more, its impact on the
practice of economists has been virtually non-existent (1999, p.406). Fine also dismisses the importance of the economics of information. While multiple equilibria allow for more than one outcome, the underlying logic is still deterministic, with an initial event determining which equilibrium path is taken (1999, pp.409-12).

Somewhat differently, but just as importantly, Fine also dismisses the potential for economics to accept any real change even were it to occur. He argues that all the apparent change that has taken place has been entirely the result of internal dynamics, such as the impact of increased computing power allowing models to cope with multiple equilibria (1999, pp.410-12). He continues to assert that the discipline is fundamentally obsessed with mathematical and abstract model building. Technical skills are prized above all else. Thus economists wishing to pursue alternatives are marginalised, and the profession as a whole ignores approaches that diverge from this excessive deductivism. Even if social theorists were to succeed in engaging more assertively with the economics of information through the social capital debate, Fine argues, the results would have no impact on economics (Fine & Green 2000).

The result, Fine argues, is that the problems which progressive social theorists identified with neoclassical analysis continue to apply. Neoclassical economists continue to act as if they are within their own private citadel largely ignoring the work and influence of other social sciences. Neoclassical economics continues to be largely asocial and ahistorical. By solely employing methodological individualism economists are unable to understand the nature of what are fundamentally social relationships.

‘On the face of it, very little has changed. Whatever its methodological deficiencies, mainstream economics has remained firmly committed to an unchanging method – one attached to methodological individualism of a special type, utility maximization, to equilibrium as an organising concept, and to considerations of efficiency, the three distinctive scientific elements emphasised by Lazear (2000)’ (Fine 2002, p.2064).

More disturbingly, Fine argues that the superficial change has only extended the breadth of economics and opened the door to a new type of colonisation. The economics of information continues to conceive of individuals as acting rationally and the market continues to be the central mechanism for economic interaction. However
where markets act imperfectly individuals are presumed to develop institutions to correct for these imperfections. Thus, Fine argues, economics is able to develop a theory of institutions conceived entirely as the solution to problems of market imperfection, or to quote Fine, ‘The social is the nonmarket response to market imperfections’ (2002, p.2060).

This raises a very real potential for economics to simply usurp the ground of social theorists. Economists are now armed with a theoretical apparatus that allows them to take virtually any social arrangement and model it according to the theory of imperfect markets without engaging with the theoretical traditions of social theory. This is how Fine sees the concept of social capital, ‘social capital... has its origins within neoclassical economics as social experience and networks over which individuals can optimize’ (Fine 1999, p.416). Fine & Francis Green outline the process this way,

‘Tell us what non-economic factors you think are important to the economy and how they reflect or create market imperfections. We will then model them on the basis of our own methodology and return them to you as a contribution to your own discipline’ (Fine & Green 2000, p.85).

However Fine’s dismissive attitude to the possibility of genuine change within economics begs the question of what he understands genuine change to involve. In places Fine does suggest an answer,

‘Traditionally, the barriers between social science and economics have primarily rested on the latter’s peculiar form of methodological individualism [behaviour reduced to utility maximization], analytical focus around equilibrium and the uncritical use of ahistorical and asocial concepts [capital as physical object, utility, commodities as goods, production as technical relations between inputs and outputs, etc.]]’ (Fine 1999, p.413).

Given this sort of benchmark I will argue that when we look in detail at the development of the concept of social capital there is significant evidence of genuine change in economics. In the next chapter I argue that much of what Fine identifies as problematic about neoclassical methodology could be equated with what McCloskey, Shelia Dow and Arjo Klamer have termed ‘modernism’. In later chapters I argue that
while neoclassical economics certainly has been guilty of excessive modernism, there are signs of a change, and that these indications are often connected to the development of the concept of social capital.

The real problem for progressive social theorists, I argue, is economics’ commitment to the market as the primary mechanism for dealing with economic questions – a commitment which I argue is more ideological than methodological. Obviously the two concepts (ideology and methodology) are related, however I argue that by treating them separately we gain a better understanding of the dynamics affecting economics, and therefore of the context in which the concept of social capital developed.

In drawing this alternative conclusion I share parts of Fine’s analysis, particularly his identification of the importance of the economics of information, and the relationship between the analysis of market imperfection and the concept of social capital. However, my analysis also diverges in a number of significant respects. Firstly, while sympathising with much of Fine’s critique, I agree with Robert Sugden (2002), Karen Healy (2001) and others who claim that Fine’s thesis is undermined by the dismissive, almost derogatory tone he takes towards both neoclassical economics and those employing the concept of social capital. I attempt to treat more seriously the proposition that the concept of social capital may represent genuine change within economics.15 As a result I believe I reveal a more complex dynamic within rational choice economics.

Secondly, I argue that at times Fine conflates new approaches emerging at the edges of economics with the mainstream of neoclassical economic practice. For example, while many new institutional economists have explicitly moved away from formal economic models the vast majority of the economics profession has continued to focus on more abstract modelling techniques. However, I argue that it is in areas such as the New Institutionalist Economics (NIE) that the concept of social capital has developed. While acknowledging that mainstream economic practice remains limited, I see this as

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15 Sugden, who I argue helped contribute, perhaps unwittingly, to the development of the concept of social capital, argues that precisely this type of analysis is needed. In his review of Fine’s Social Capital versus Social Theory, Sugden claims that ‘A critical survey of the literature of social capital is badly needed’ (2002, p.676), but claims that Fine’s account misses the mark because it too dogmatically adheres to Marxist political economy, and too dismissively engages with rational choice economics.
less relevant than identifying changes within those elements of economic discourse that are more directly associated with the development of the concept of social capital.

Thirdly, by treating rational choice theory as a largely homogeneous school of thought, Fine downplays the importance of the rhetorical critique in mainstream economics. Again I acknowledge that this type of critique remains relatively distant from the practice of many economists. However, in the next chapter I argue that the rhetorical critique has played a role in the development of the concept of social capital, even though its broader significance may have been minimal. I argue that the rhetorical critique, and other critiques of economic methodology, have been informed by broader intellectual trends, including post modernism and the cultural turn. Viewed in this way, these methodological debates act in some respects as a bridge between social theory and economics.

Fourthly, I argue that economics has simply changed more than Fine concedes. Some elements of economics that Fine sees as defining neoclassical economics, such as utility maximisation, have been explicitly and substantively disavowed by some working within the rational choice tradition. Again I argue that those involved in developing alternative understandings of rationality have been closely associated with the development of the concept of social capital. I argue that this methodological movement demonstrates that economics is moving away from the extremes of modernism and towards a brand of methodology more (although not entirely) consistent with social theory.

Finally, and perhaps most importantly, I argue that Fine’s exclusive focus upon neoclassical economics is not justified. Particularly within the game theoretic debates that I claim led to the development of the concept of social capital, Austrian concepts, metaphors and methods have been highly influential. The Austrian tradition is itself critical of many of the aspects of neoclassical economics that Fine identifies as problematic. In chapter five I argue that the influence of elements of Austrian economics accounts for the simultaneous movement away from modernism but towards support for the free market. By understanding the importance of Austrian economics I argue that we can better understand the ideological nature of the social capital debate, as well as acknowledging and understanding the potential
commonalities between the initial proponents of social capital theory and social theorists. We may even be able to identify alternative approaches to engaging with elements of the rational choice tradition that may be more acceptable to social theorists.
Section 2 - Framework
Chapter 4 – Change from Within

By now, the concept of social capital should be a little more familiar. It relates to social resources that make collective action possible. We are yet to develop a single definition, but the concept includes resources like social norms, networks and trust. There remain a number of outstanding issues, such as distinguishing the resource of social capital from the supposed outcomes produced by social capital, establishing its relationship to other forms of capital, indeed establishing whether it is a type of ‘capital’ at all. These issues are the focus of what I termed in the last section an orthodox critique of the concept of social capital. There, I discussed two types of critique of the social capital literature. Both critiques focused attention on the initial uses of the concept, particularly in the work of James Coleman, Robert Putnam and Pierre Bourdieu. However, where the orthodox critique was searching for a coherent and intellectually rigorous framework for the concept, the heterodox critique was attempting to dismiss the concept as a product of neoclassical economics, and as tied to neoliberal ideology.

In the last chapter I focused on the work of Ben Fine as an exemplar of the heterodox critique. I agreed with Fine that there was a link between economics and the concept of social capital. I further agreed that the mainstream social capital literature had focused attention on the work of Coleman and Putnam rather than the more critical work of Bourdieu. However I disputed Fine’s understanding of the relationship between economics and the development of the concept of social capital. I argued that mainstream economics was less homogeneous and static than Fine suggested and that we needed a more nuanced understanding of the changing dynamics within economics in order to better understand how these processes helped shape the concept of social capital.

In this section I begin to build a framework for understanding the changing dynamics within economics, and how these dynamics might relate to the development of the concept of social capital. To do this, I argue that it is useful to differentiate between various related claims made by Fine. In particular, I argue that part of Fine’s critique is
based on a rejection of the extreme modernism often evident in neoclassical economics. Alternatively, Fine also objects to the pro-market bias of neoclassical economics. While accepting that these claims are interrelated, I develop each separately to illustrate the complex ways in which economics has been evolving.

In this chapter I focus on the concept of modernism. I draw on an emerging literature focusing on the effect of post modernism on neoclassical economics, particularly the work of Deirdre McCloskey, Arjo Klamer, Sheila Dow and Jack Armagilio.\(^\text{16}\) I argue that the neoclassical tradition has been marked by an excessive commitment to modernism, leading to an overly abstract, universalising and mathematical methodology, and that precisely these attributes of neoclassical method have been cited by Fine and other heterodox critics as one important reason for rejecting the advance of neoclassical ideas into social theory. However, taking McCloskey’s work as an exemplar, I argue against Fine, claiming that there is evidence both that economics is changing, and that it is beginning to engage with social theory.

**Against modernism**

Elsewhere in the social sciences understanding the significance of modernist and postmodernist ideas has become a staple of intellectual debate. Postmodernism has reshaped the landscape of social theory, effectively giving birth to new disciplines, and radically transforming existing disciplines. Even where postmodernism has been criticised and rejected its effects are still evident. Yet, at least ostensibly, within economics, postmodernism has had far less impact. For the majority of practising economists postmodernism has barely affected their work. It is not that the postmodern critique has been dismissed so much as ignored.

However modernism, and its effect upon neoclassical economic thought, has been discussed within the somewhat more restricted confines of economic methodology. This interest was sparked in large part by McCloskey’s critique of economic method in *The Rhetoric of Economics* (1985). In it McCloskey attacks what she terms  

\(^{16}\) Armagilio describes McCloskey, Klamer and Dow as the ‘venerable threesome’ – the first economic methodologists to recognise and name the modernism of neoclassical economics and to attempt to move beyond it (Armagilio 2001, p.129).
modernism, the desire to create economics in the image of a perfect (S)cience. The logic of falsification, she argues, is not cogent. Prediction, she asserts, is not possible in economics. Indeed, modernism as a method is impossible. The problem, she claims, has come from a disconnection between economics and philosophy. While modernism was adopted on the authority of philosophers, economists have not kept in touch, and so have remained ignorant of the changing philosophical mood (1985, pp.11-19).

‘Even philosophical economists appear to read about as much in professional philosophy as philosophers do in professional economics. It is not surprising, therefore, that the news of the decline of modernism has not reached all ears’ (McCloskey 1985, p.12).

McCloskey’s work remains controversial within neoclassical economics, and within economic discourse more generally. Its effect has been more pronounced at the margins of the discipline, particularly within economic methodology, and at the edges between orthodox and heterodox economic thought. One challenge for those engaging with the debate about modernism in economics has been coming to terms with exactly what the term modernism means.

This task is made even more difficult by the complex of meanings and associations that both ‘modernism’ and ‘modernity’ have acquired over time across a range of historical and social scientific discourses. As B. Valade put it,

‘If it is true that a notion is intuitive knowledge, synthetic and inaccurate enough about one thing, then modernity belongs to this type of mental representations which, as opposed to concept, does not offer clearly defined contours of the abstract object to which it refers’ (Valade 2001, p.9939).

One of the most puzzling aspects of understanding these terms is the difficulty in separating out modernism as a characterisation of theories and modernity as a characterisation of the world. The two are deeply connected, but none-the-less distinct. Modernity is generally held to be a period in history, a time differentiated from ‘traditional’ societies, usually beginning somewhere between the 1500s and 1800s, and often confined to the Western world. On this account, modernity is essentially the
period covered by sociology, and is characterised by institutions of market capitalism, mass production, urbanisation, the advent of science and technology and representative democracy. Indeed most of the early sociologists identified the need for a new set of theories and ideas to understand the dynamics of this modern world from the dynamics (or stasis) or the traditional world (see for example McGettigan 2000).

This understanding of modernity has led some, including political economists like Fredric Jameson (1991), to argue that the period of modernity is drawing to a close, and we are now entering a period of post-modernity. This transition is marked by the decline of mass, Fordist systems of production and the rise of niche marketing, and by the almost complete commodification of every aspect of life. However, characterisations of postmodernism like Jameson’s have led some to question the understanding of modern (and hence post-modern) that underpins this type of analysis.

Anthony Giddens (1990), for example, has argued that the changes we are witnessing, such as increased global integration, the questioning of identities and the rise of subcultures, all of which accompany the form of capitalism described by Jameson, are in fact the realisation of modernity, rather than evidence of its transcendence. Giddens argues that modernity is essentially about the Enlightenment project, the search for knowledge and the promotion of reason. Likewise Bernard Yack (1997) argues that the sort of periodisation of history that is assumed in the claim that we are entering a post-modern era, is itself a deeply modern approach. Yack claimed that an era could not, by definition, be postmodern.

Yack’s thesis presumes that post modernism is first a critique of the theoretical approach of modernism, rather than an attempt at characterising a period of history. Thus, post modernism is a rejection of the modernist project, not a claim that the period of modernity has come to an end. One popular interpretation of that rejection is Jean-Francois Lyotard’s famous claim that postmodernism is ‘incredulity toward metanarratives’ (1984, p.27). Thus, the project of post modernism is to reject the hegemony of scientific and professional discourses and to recognise the legitimacy and importance of multiple local histories and knowledges. As Michel Foucault described his project of understanding genealogies,
‘It is based on a reactivisation of local knowledges – of minor knowledges, as Deleuze might call them – in opposition to the scientific hierarchisation of knowledges and the effects intrinsic to their power: this, then is the project of these disordered and fragmentary genealogies’ (1977, p.44).

On this view modernism is bound up with a particular epistemology. Modernist theories claim to be a special type of knowledge, knowledge that corresponds to the way things really are. To reject modernism is thus to reject such totalising accounts of reality and instead give voice to multiple realities.

The discourse on modernism in economics is less epistemologically extreme than the post modern sentiments of Lyotard or Foucault. Economics, perhaps more than any other social scientific discipline, has aspired to the modernist scientific ideal of a ‘unified framework’ (see Becker 1976, p.14). There has been very little discussion at all within economics of the critique of modernism, the thesis of post modernism, or what this might mean for the study of economics. The most discussion has taken place on the edges of the discipline, both in political economy and in economic methodology.

McCloskey is perhaps the best known of the economic methodologists to discuss modernism, her work has since inspired a literature assessing both the desirability of modernism, and the apparent decline of modernist methods. However, the modernism discussed by McCloskey and her colleagues is somewhat more specific than that debated in other disciplines. Modernism is not necessarily bound to Enlightenment project as a whole, and McCloskey continues to see science and scientific knowledge holding a justifiably special place within discourse.

Instead, modernism in this literature on economic methodology is defined as a particular approach to science, one that views scientific method as comprising quite specific rules, and which aspires to theories that can predict and control the external environment. Modernism, in this case, refers to those approaches within the scientific tradition that strictly demarcate between objective and subjective, that seek grand theories of everything, and that tend to promote centralised and totalising forms of knowledge, action and control.
Within the economic discourse on modernism, McCloskey did give an initial definition, contained in what she referred to as ‘The Ten Commandments and the Golden Rule of modernism in economic and other sciences...’ (1985, p.7). Her definition includes the desire for prediction and control, a separation between object and subject, a predilection for numbers and universal laws, and a strict insistence on ‘correct methodology’, between what is science and what is nonsense (1985, pp.7-8).

However, the definition of modernism, even within the more specific literature on economic methodology, has not always been clear, possibly because of the somewhat ill-defined boundaries between the economic debate and the many other debates on modernism on which these economic methodologists drew. Early in the debate Dow (1991) pointed to the work of Edmund Phelps (1990), which appeared to define (or apply) modernism in a significantly different manner from other theorists such as Klamer (1987) and Amariglio (1990). Of particular note in this thesis, Michael Pusey (1992), whose critique of economic rationalism is the subject of much of section four, uses the term postmodernism in a similar way to how I use the term modernism.

The various, and apparently contradictory, connotations of the term modernism can perhaps be explained by placing the concept in a broader context. By understanding the various ways in which the concept has been applied, and the reasons behind this, we can both understand the common elements that help define the concept across applications, as well as clarify what distinguishes the economic definition from its use in other fields. In doing precisely this, Klamer helped to provide a more nuanced understanding of the economic understanding of the modernist mood (1987; 1993).

Building on the work of Klamer and others, McCloskey later identified two schools of modernism.

On the one hand McCloskey pointed to an artistic modernism associated with figures like Virginia Woolf and James Joyce which attacked big ‘S’ Science, breeched decorum, disturbed chronological and spatial order and promoted ambiguity. On the other an ‘architectural’ modernism, associated with Bertrand Russell and Paul Samuelson worshiped big ‘S’ Science, promoted ‘Scientific’ decorum, elevated order and mechanical rules and avoided ambiguity. However, McCloskey and others such as
Amariglio have argued that modernism still retained a sense of unity (McCloskey 1994, pp.xxi-xxii; Amariglio 1990). Its aim was to transcend time and space. For those in economics, following the architectural tradition, this meant searching for universal categories in the language of mathematics. Within art and literature it meant looking beyond the immediately apparent, such as Pablo Picasso’s cubist attempts to view the world from all angles simultaneously.

Modernism, then, is not an explicit code to which theorists signed up at the beginning of their intellectual careers. Indeed, Klamer (2001, p.78) has argued that modernism’s appeal comes from its claim to universalism. It does not present itself as one of many approaches to knowledge generation, but as synonymous with knowledge generation. It is not an approach to science, but the approach. As such those who subscribe to modernism do not call themselves modernist, but scientists or economists. Rather than identifying with the school of thought, they assert the legitimacy of their approach by (usually implicitly) denying the existence of alternative approaches and simply identifying with the subject of study.

Thus, defining exactly what modernism is (and then consistently applying this concept to actual practice) can be challenging. None-the-less, there is something about this discourse on modernism within economic methodology that I argue captures an important aspect of the dynamics within economics leading to the development of the concept of social capital. To try and overcome some of the difficulties associated with the concept I want to clearly set out the type of modernism I am referring to – the modernism of McCloskey and the other economists with whom she is conversing, and in doing so note that whilst this understanding of modernism shares much in common with debates in sociology, it remains distinct.

Even within the more specific confines of economic methodology, a number of definitions for modernism have been offered (McCloskey 1985; Klamer 1993, pp.242-3; Dow 1992, p.149). Each is similar, pointing to the desire for universalism, formalism, rationalism and abstraction; the desire for a rigorous ‘scientific knowledge’ devoid of the subjectivity of individual scientists and truly independent of time and space; and a commitment to reductionism which encourages specialisation. Klamer also refers to reliance on a ‘machine’ metaphor, where prediction and control are the
main aims, rather than understanding. However, here I refer in detail to Dow’s six points, as hers is the most concise definition, and most directly relevant to the subject matter of this thesis. Dow describes modernism in the following terms;

1. ‘desire for progress in thought, so that each successive generation uses all that is useful from the past (no specific reference therefore need be made to history);
2. search for universal theories, independent of history and context;
3. although belief in unity of science, tendency to professionalisation and separation of disciplines;
4. achievement of 2 and 3 by formalism in terms of classical logic, particularly favouring axiomatic, reductionist, dualistic reasoning and mathematical expression;
5. self-referential approach to methodology and theory, achieved by formalism applied to fictional, as opposed to realist, concepts;
6. split between normative and positive analysis’ (Dow 1992, p.149).

What is striking about this discussion of modernism in economics is that so much of it resonates with the earlier discussion of Fine’s critique of economics, and of the social capital debate. In establishing his case for the success of economic colonisation, Fine argues that social theory has been marked by a dual retreat from the excesses of neoliberalism and postmodernism (2002, p.2058). Thus, social theorists have found comfort in the concept of social capital, which both emphasises community over the state-market dichotomy, and is also linked to the materialism of economics. However, economics, he argues, faces no such retreat. Quoting Amariglio and David Ruccio (1998), Fine claims that economics has never participated in the postmodern debate, and so has nothing to retreat from (Fine 2002, p.2059).

Neither Fine, nor McCloskey, Klamer, Dow or Amariglio (see Amariglio 2001), fully embrace the postmodern critique. Most remain highly critical of the supposed nihilism entailed by postmodern thought. It is also important to note that all these theorists continue to subscribe to some version of the scientific thesis – that there are better and worse ways of testing knowledge claims. However, Fine’s critique focuses on a

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17 The importance of the machine metaphor is a theme of both Mirowski’s and Hodgson’s analysis, referred to in coming chapters, and so I include reference to it here also.
number of aspects of neoclassical economics that can rightly be described, by this economic definition, as modernist. He criticises the neoclassical use of universal categories, its obsession with mathematical expression and modelling and its refusal to properly engage with other social sciences by dismissing approaches outside the rational choice tradition as somewhat less scientific. And it is these aspects of neoclassical practice (in part at least) that make it so difficult for social theorists to accept the intellectual products of economists.

The fact that Fine both attacks aspects of modernism, but also critiques postmodernism, points to another difficulty. It is not immediately clear that postmodernism is necessarily the opposite of modernism. In moving away from modernism, then, what is economics moving towards? Addressing this issue in the early 1990s, Dow (1991) shied away from using the term postmodernism to describe the various trends against modernism in economics. Later, Klamer referred to the same difficulty in discussing McCloskey’s unique approach to economic methodology, stating ‘When the only terms available to us are “modernist” and “postmodernist”, her critique of modernism should make her a postmodernist. Yet she is not.’ (Klamer 2001, p.80). Defining postmodernism is perhaps even more problematic than defining modernism (although see Cullenberg, Amargilio & Ruccio 2001a for a good account of the different ways in which economics could be considered to be postmodern).18 Like Dow, I am more interested in what economics is moving away from, rather than what it is moving towards, and so I too will simply refer to the alternative as ‘non-modernism’.

It is important to recognise that not all of Fine’s critique of social capital fits the ‘modernist’ description. Much of Fine’s argument rests on his aversion to methodological individualism – or at least the brand of methodological individualism

18 An alternative understanding is given by Fredric Jameson (1991), who uses postmodernism to describe a stage of capitalist development associated with the commodification of social and cultural forms, as well as the purely economic. Ironically, as Cullenberg, Amargilio and Ruccio (2001a, p.7) point out, Jameson’s definition is ‘almost the exact opposite’ of that taken by McCloskey, Dow, Klamer and Amargilio. While Jameson’s approach has been popular in some heterodox circles, his work does not focus primarily on the dynamics of rational choice methodology, but on postmodernism as a mode of production rather than a set of ideas. Jameson’s approach also conflates the move against modernism with the extension of the market, something I argue is unhelpful in this instance. For these reasons I have ommitted Jameson’s work from this chapter.
practiced by neoclassical economics. However, were neoclassicism to genuinely move away from the extremes of modernism, were the discipline to reject universal categories, to seek out context and contingency, to embrace discursive argument rather than abstract mathematical models and to genuinely engage with other disciplines, then part of Fine’s criticism would be answered. In this sense, then, we could justifiably claim that part of Fine’s critique of economic colonisation is a critique of the discipline’s excessive modernism.

Dissent within the citadel

While there clearly are signs that some economists are becoming uncomfortable with the extent of modernism within mainstream economics, there remains considerable dispute over the extent to which economics as a discipline is changing. A systematic investigation of the methods employed by neoclassical economists is beyond the scope of this chapter (but see Dow 1996; Hands 2001; Mirowski 2002 as some examples). My purpose is two-fold. First, to provide a context for understanding the relationship between the critique of modernism and developments within economics that have helped inform the development of the concept of social capital. Second, to provide a framework to specifically address Fine’s claim that neoclassical economists have not genuinely changed their methodology.

To simplify this task, I focus primarily on the work of McCloskey. McCloskey is widely recognised as having initiated the debate over modernism in neoclassical economics. Of those writing in the field, her work is closest to that of Friedrich von Hayek, who will be the subject of the next chapter, in that she retains a commitment to liberal principles, and in her appreciation of the intellectual tradition of the Scottish Enlightenment. Fine specifically refutes the significance of McCloskey’s work. Thus, McCloskey’s work provides a good frame for addressing Fine’s argument, and for providing a context for the work to come.19

19 The literature on modernism and postmodernism in economics has expanded greatly since the early 1990s. While I use McCloskey to frame this discussion, a useful overview of perspectives is given in the volume edited by Cullenberg, Amariglio and Ruccio (2001b).
McCloskey is not entirely dismissive of economics; indeed she continues to call herself a neoclassical economist. However, she is critical of the scientific pretensions of the discipline. For her, economics, like all other intellectual endeavour, is really conversation. Economists attempt to persuade one another of claims, and to do this they use rhetoric. As she puts it ‘Economists are tellers of stories and makers of poems, and from recognizing this we can know better what economists do.’ (McCloskey 1990, p.5). This does not make their work invalid – indeed it is the only way economics can really be done. Instead it helps us understand the task, and therefore to go about it in better ways.

McCloskey claims that if we understand that the promise of modernism is a myth, then we are able to remove the methodological straightjacket it places us in. Modernism imposes strict methodological rules and insists that these be followed in order to produce reliable knowledge. Thus, economists who follow the rules, applying logic wherever possible and testing propositions against the standard of falsification, generate knowledge, while those that follow other rules do not. The problem is that the rules can rarely if ever be practised. 20 In economics, in particular, falsification is impossible given the sheer complexity of the situations in which statements are to be tested.

Instead, McCloskey argues, we should own up to the fact that economics, like science, is more about conversation and persuasion than about rule following. This does not leave us in a methodological void. McCloskey argues that there are three levels of methodology (1985, pp.24-6), and she only criticises the middle level. At the bottom is the everyday tool kit of the practicing economist. This ‘m’ methodology offers practical advice, such as how to correct for various forms of statistical error. It tends to be specific, and applied. At the top level is what McCloskey, drawing on Jurgen Habermas (1973, p.110 in McCloskey 1985, p.24), labels Sprachethik. This refers to the rules of good conversation, which make it possible to even engage with each other sensibly. This top level includes things like ‘don’t lie’ and ‘be open-minded’. McCloskey has very little issue with either of these forms of method.

20 Interestingly Mark Blaug (1992), who continues to argue in favour of following the rules of economic methodology, concedes that in practice the rules are rarely followed.
The problem lies in the middle, in what McCloskey calls ‘Capital M’ Methodology. This level lays down rules for what will and will not count as knowledge. It is more specific than Sprachethik but does not offer the practical advice of methodology. Each school of economics has a different Methodology. While Marxists will assert that ‘The history of all hitherto existing society is the history of class struggle’, neoclassical economists will assert that ‘The history of all hitherto existing society is the history of interactions among selfish individuals’ (McCloskey 1985, p.25). Thus, the prescriptions of methodological individualism would be understood as an example of ‘Capital M’ Method.

‘Capital M’ Methodology is problematic for two reasons. First, it makes for bad conversation because it refuses to engage with alternative Methods. In other words, it breeches the spirit of Sprachethik. Second, it is impossible to follow in any case. The precepts of logical positivism, of falsificationism and of all the other Methodologies, are so strict that they deny virtually all forms of actual argument.

There are two important things to note about this approach. The first is that this account of modernism is not specific to any one philosophical school of thought. Empiricists and rationalists can both be modernist if their goal is to find a totalising theory, to exclude alternative methods and to both predict and control the environment. Secondly, in this approach, modernism is not synonymous with science, as it is sometimes represented in more radical critiques. Instead it is limited to a particular way of practicing science, one that separates knowledge from the community that produces it, which separates out types of knowledge is a highly specialised and reductionist manner, and which seeks totalising or universalist theories of the world. In defining modernism in this more specific way McCloskey remains firmly committed to the enlightenment project.

Fortunately, McCloskey claims, economists do not follow the dictates of Methodology, even if they claim to, and even if this is the basis for them claiming a superior status to social theorists. Instead, they employ metaphors, such as humans as calculating machines. And they tell (although rarely write) stories, such as how the invisible hand brings supply and demand into equilibrium. McCloskey claims that this rhetorical nature is not confined to prose. She equates mathematics with the same
conversational logic, arguing, for example, that differential equations are the critical meeting point between metaphor and story, using abstract categories, like a metaphor, but explaining how they change over time, like a story (1991).

McCloskey argues that once we see economics as conversation we are able to better appreciate what it does well and what it does poorly. If economics is conversation, McCloskey claims, then mathematics and statistics are still useful, but they do not enjoy a privileged position above other forms of rhetoric. Many of the insights economists claim, she argues, may still be useful, but that does not mean they can dismiss the insights of other disciplines without first listening carefully to their arguments.

Finally, she claims that economics has tended to focus too much on a particular type of narrative (or model), one in which large causes lead to large consequences (1991). Instead, she argues that we need to put greater stock in the approach of what she terms ‘horseshoe nail history’. In this logic, small events can have large consequences, as when, in a battle, the loss of a horseshoe nail leads to the loss of the horse, then the rider, then the battle and then the kingdom. This is the same logic as the butterfly effect, and much of chaos theory. The logic of large cause – large effect, McCloskey, argues, is linear; the logic of small cause – large effect is non-linear. Modernists have been reluctant to embrace this latter, alternative logic, McCloskey claims, but it is equally as important. Economists, then, need to take different types of stories seriously.

Combined, McCloskey seems to be offering a relatively comprehensive critique of the problems with modernism, a critique largely in keeping with much of Fine’s own work. However, Fine largely rejects McCloskey’s work, and certainly does not see McCloskey as offering neoclassical economics the hope of moving away from its excessive abstraction and universalism. Fine makes three criticisms of McCloskey. Firstly, he argues that McCloskey’s work has had virtually no impact on economic practice. Secondly, her critique has only gained recognition because she had already developed a reputation as a neoclassical economist and was therefore within the citadel. Finally, he rejects McCloskey’s work because it does not deal with the substance of neoclassical theory, only with its method; in other words, it leaves intact
the individualism, and the predilection for market solutions of neoclassicism. As Fine puts it ‘McCloskey continues to tell the same neoclassical stories as before, even if more entertainingly and often with tongue in cheek’ (1999, p.406). It is to Fine’s criticisms that I now turn.

**Breaching the citadel?**

It is certainly true that McCloskey is a product of neoclassicism (see McCloskey 1994, chapters 1-2). Indeed she developed much of her economic thinking in the Chicago school – the same school that produced Milton Friedman and Gary Becker (and the same university as Coleman). More importantly, perhaps, McCloskey continues to identify as a neoclassical economist – ‘Neoclassicism, when it sees itself rightly, works well in economics’ (McCloskey 1994, p.343). Fine’s claim, then, has some justification. McCloskey is a product of the citadel, and even if her colleagues have become wary, she wants to stay (at least for residential purposes) within the walls.

But this is not the full story. McCloskey, while residing in the citadel, makes numerous excursions outside it. She acknowledges that much of the critique she is building has its origins in social theory. The philosophical foundations of modernism, she notes, began to shake with W.V. Quine’s (1951) article on the formation of beliefs and knowledge (McCloskey 1985, p.12). McCloskey draws on a critique of science theory based largely on Thomas Kuhn’s classic work *The Structure of Scientific Revolutions* (1996). She also builds on the work of philosophers like John Dewey and Richard Rorty. Indeed, McCloskey specifically credits social theory with the critique of modernism. This is where she found the light.

‘The philosophers are here following antimethodological findings from other fields. In particular the sociology and history of science over the past two decades have left the old rules of methodology looking unpersuasive. The sociologists and historians took to discovering what actually happened in science, favoring what happened over the Astounding Stories retailed in the opening chapters of science books. By this unremarkable device the methodological claims of modernism have been rejected, repeatedly. It might be tried in economics’ (McCloskey 1985, pp.23-4).
Close analysis of trends in economic methodology reveal a more interactive process of engagement between economics, science, philosophy and social theory. Here, the discipline is letting down the drawbridge and beginning to engage in a more genuine conversation. The most comprehensive and accessible review of this engagement is perhaps Wade Hands’ (2001) *Reflection without Rules*. Hands reveals an interplay between economists, philosophers, social theorists and scientists that has transformed both science theory and economic methodology. He traces the impact of Kuhn’s and Quine’s critiques on both fields, demonstrating a range of responses, from McCloskey’s relatively enthusiastic embrace of economics as rhetoric, to Mark Blaug’s more reserved attempt to defend the citadel. Yet, Hands notes that even Blaug, one of the most respected economic methodologists within the neoclassical tradition, has had to confront the philosophical critique of science (Hands 2001, pp.277-8).

Indeed, Blaug is a good example of how economic methodologists (if not many frontline economists) have engaged outside the citadel. Blaug directly responds to McCloskey (Blaug 1992). And while he maintains that the strictures of falsification still have force, he applies his critique (in detail) to both orthodox and heterodox economics, critiquing Marxist as well as neoclassical practice (1990). Reading the *Journal of Economic Methodology* one finds examples from a range of different methodological traditions. As its editorial board reflects, the journal is a site of engagement and contestation between various orthodox and heterodox schools.

McCloskey herself has continued the conversation with her more heterodox colleagues. Her work has been widely discussed outside neoclassical economics, and McCloskey has been involved in the discussion. Amariglio and Klamer have both expressed similar concerns about economic method, however they have gone further than McCloskey by critiquing the neoclassical tradition as a whole. Both men are to the left of McCloskey, Amariglio is a Marxist and Klamer is a social democrat. But McCloskey engages with both. Indeed, she claims that ‘My main leftist critic is my main collaborator, Arjo Klamer’ (1994, p.343).

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21 Bruno Frey (2001) also discusses a number of ways in which economics can and is learning from other social sciences and social theory.
So, despite McCloskey’s Chicago school training, despite her continued commitment to many Chicago school teachings, she has also been a product of social theory. What is more, she continues the conversation, discussing and debating with political economists, many favourably quoted by Fine, and ceding ground to them occasionally, whilst standing her ground at other times. What is more, the field of economic methodology more broadly has followed a similar path. Economists and political economists have come together, contributed to the same journals, engaged in the same debates. The critiques developed by historians and sociologists that challenge the supremacy of scientific knowledge have been confronted (more or less convincingly), and have changed the nature of the debate within economic methodology.

**Changing practice**

Despite the changes evident within economic methodology, despite the engagement between orthodox and heterodox theorists, between economists and social theorists, that is taking place within economic methodology, part of Fine’s argument remains valid. If the practice of the bulk of economists has remained unchanged, and if it was from this practice, not from within economic methodology, that the concept of social capital developed, then Fine’s claim of colonisation would stand. I do not intend to give an account of economic practice as a whole, the task is both too large and is also unproductive for the current purpose. Instead, I wish to point to only a couple of examples of a changing economic method. I do so briefly, highlighting the links between these more dynamic elements within the discipline and the development of the concept of social capital. My purpose is to set out a prima facie case; the detail of the development of the concept will come in section three, while the detail of the broader economic trends remains outside the scope of the thesis.

One of the most obvious sites of relatively radical change within a broadly neoclassical framework has been within complexity economics. The field has been given a number of titles, and like so many of the subjects of this thesis, its boundaries are often poorly defined. It is most readily associated with developments at the Santa Fe Institute, but as Barkley Rosser Jr (1999) has pointed out, the ideas behind the Santa Fe Institute were developed in large part in Europe, particularly by Ilya Prigogine, the Nobel-Prize
winning physical chemist (and to some extent popularised in his collaborative work Prigogine and Isabelle Stengers (1984)).

Just as developments in economic methodology led on from developments in science theory, in particular Kuhn’s and Quine’s critiques of science theory, so developments at Santa Fe have been based on developments in scientific thinking. The early developments at Santa Fe have been captured in a popular history (Waldrop 1992) strikingly similar in approach to James Gleick’s (1987) popularisation of the development of chaos theory. Waldrop’s book provides a good overview of the ideas that underpinned Santa Fe’s early years.

Waldrop focuses his story around Brian Arthur, an economist now resident at Santa Fe.22 Arthur is best known for his work on increasing returns to scale. He claimed that the assumption in traditional neoclassical theory of decreasing returns (meaning that the income derived from additional investment decreased with each additional unit of investment) was not universally true. In many instances, he asserted, per unit returns actually increased with additional investment. This assertion threw a spanner into the works of neoclassical reasoning. Decreasing returns is an essential component of single-equilibrium systems. With increasing returns, small changes in the initial stages of a model can result in significant variations at the end (see Arthur 1989; 1990a).23

Arthur’s analysis of increasing returns helped spark a broader analysis of non-linear dynamics. More traditional linear economics assumed a high degree of proportionality between cause and effect. Small changes in initial conditions, or the parameters of a model, generally result in small changes to the results. Non-linear models do not have this sense of proportionality. Some small changes in initial conditions or parameters result in small changes to results, others can result in very large changes (eg Arthur 1990a; 1990b). The results depend on the exact model and the exact nature of the

22 Waldrop’s focus on Arthur as the pivotal figure in the development of Santa Fe makes him an obvious focus for me. However, it is important to note that Arthur was only one of a number of important figures, and that in many ways it was other theorists, such as John Holland (1975) and Stuart Kauffman (1993), who brought much of the intellectual weight to the project.
23 Arthur was not the first to discover economies of scale in economics. As early as the 1920s Young published similar ideas (1928). David (1985) developed a similar argument in accounting for the prevalence of the QWERTY typewriter, which is less efficient than other keyboard configurations for current purposes.
change. As with McCloskey’s horseshoe nail history, some horseshoe nails might lose the kingdom; others will be largely irrelevant, even to the horse.

The logic of non-linear dynamics seems intuitively appealing to many. It has been used to explain a range of phenomena, from the fall of the Berlin wall, to the way liquids change state to solids (see Waldrop 1992; Prigogine & Stengers 1984). The phenomenon has been summed up and popularised in the phrase ‘the butterfly effect’. The phrase refers to the complexity of weather patterns, where the flapping of a butterfly’s wings in one continent could conceivably change the weather in another. Studies in complexity have led to the discovery of a range of phenomena, from strange attractors to emergent order. Most rely on non-linear dynamics and attempt to explain how interactions, which follow relatively simple rules at the local level, can lead to complex and apparently unpredictable behaviour at the global level.

However, the sensitivity of non-linear systems creates an important dilemma for neoclassical economics. If the implications of a small change are so difficult to predict, then the logic of rational expectations theory fails. As a result, those at Santa Fe, like Arthur, have not only examined non-linear dynamics, they have also become fascinated with alternative models of rationality. Models of group behaviour have been developed based on rule-governed rationalities (such as Alan Kirman’s (1993) models based on the behaviour of ants). In a similar vein Arthur, and others, have attempted to build an ‘economy under glass’, using computer simulations to model stock market crashes and trading behaviour (Arthur, et. al. 1994).

Geoffrey Hodgson (1993, chapter 1) has argued that the themes from complexity economics and chaos theory, as well as developments in game theory, have sparked a reassessment of the foundations of neoclassical economics from within the discipline. Within game theory, which is both the focus of section three and where I claim the concept of social capital first emerged, rationality has become a topic of heated debate. Philip Mirowski has noted that game theory has produced numerous definitions of rationality (1986, p.257). Amongst game theorists, Yanis Varoufakis (1993), Shaun Hargreaves-Heap (1995) and Robert Sugden (1991a) have identified different conceptions of rationality with different social theoretic and philosophical traditions.
Both game theory’s focus on different conceptions of rationality and complexity economics’ focus on non-linear systems have also informed other aspects of economics. Both have informed the new institutionalist economics (NIE), which I also claim has been a significant influence in the development of the concept of social capital. While economics may not have been entirely transformed, the fact that Douglass North, a key NIE theorist, and Herbert Simon, whose model of satisficing and bounded rationality has informed the development of alternative conceptions of rationality within economics, have both won Nobel Prizes for economics, suggests a degree of mainstream recognition and acceptance. I deal with both North’s and Simon’s work in the next three chapters.

There is a very real link between these developments at the ‘edges’ of economics, and the development of the concept of social capital. While the detail of this development must be left until the next section, it is useful here to note the pivotal role played by Robert Axelrod in game theory, complexity economics and the initial social capital debate. Like Putnam and Coleman, Axelrod is not an economist, but a political scientist. But he has worked within the rational choice tradition. Axelrod is best known for his work on the game theoretic problem the Prisoner’s Dilemma (PD) (Axelrod 1984; 1986). The work was done while he was at the Centre for Peace Studies and Conflict Resolution at Michigan University, were he worked closely with John Holland.

Holland has pioneered work into computer simulations of living systems and the science of complexity (see Holland 1995). He was also a central figure in establishing the Santa Fe Institute (see Waldrop 1992, chapter 5). His influence is seen in Axelrod’s PD work, with Axelrod using computer models to simulate players repeatedly interacting in PD-like situations. Axelrod applied the model, which demonstrated the possibility of cooperation in these situations, to a range of natural and social situations, including the evolution of implicit rules surrounding trench fighting during World War I (Axelrod 1984, pp.73-87). Through Holland, Axelrod was introduced to Santa Fe where his computer simulation work has continued to influence

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24 Mueller (2004) has recently argued that these themes have now been taken up by a ‘non-negligible minority’ within the economics profession through behavioural and evolutionary economics.

25 These concepts are discussed more in chapter six.
Santa Fe research. Also he directly influenced (I will argue later actually shaped) the emerging concept of social capital, and is directly quoted by both Putnam (1993) and Coleman (1990).

A similar connection emerges through the NIE. The NIE was itself influenced by Axelrod, and its links to the social capital debate are well acknowledged, particularly by Fine. Putnam and Coleman extensively quote NIE theorists, such as North. A more detailed discussion of the NIE is given in the next chapter. Here I simply wish to illustrate the links between a non-modern economics and the NIE. While the direct influence of McCloskey is uncertain, there is clear evidence that NIE theorists have taken up the essence of her call to arms.

The sentiment is perhaps best summed up by Richard Nelson and Sidney Winter, two NIE theorists who lie somewhat between the neoclassical and heterodox approaches within the school.

‘Our complaint about the current fashionable style of formal modelling does not mean we believe economists don’t theorize about processes and the effects of institutions. If one listens to how economists talk about particular events – their origins or their likely effects – one quickly realizes that such talk generally does involve a characterization of process. This economists’ talk is by no means simple description; indeed, it is not clear what the term “simple description” might mean. Our verbal storytelling focuses on certain variables, certain mechanisms, certain connections, rather than others. Winter and I have argued that this storytelling ought to be recognized as a form of theorizing, which we call appreciative theory’ (Nelson 1986, p.136, emphasis in original).

Describing economic writing as story telling is a common theme within the NIE. Oliver Williamson, the theorist widely credited with initiating the NIE and someone firmly associated with the neoclassical tradition, describes his work as ‘telling plausible stories’ (1975), a phrase that is almost exactly repeated by Putnam in his study of Italian democracy (1993, p.xiv). Likewise, North has directly contributed to complexity economics, linking ideas about history to notions of non-linearity (1997).
Conclusion

I have argued that part of Fine’s critique of neoclassical economics and its supposed colonisation of social theory is based on a rejection of the extreme modernism of much neoclassicism. If we are to take this claim seriously, then it must be conceded that there are some signs that modernism is on the wane. The methodological writings of McCloskey, while considered radical within neoclassicism, have had a profound effect on the broader trends within economic methodology. Similar themes are evident in particular sub disciplines of economics, in complexity economics, game theory and the NIE. And there are clear links between these sub-disciplines of neoclassicism and the development of the concept of social capital.

If economics is becoming less modernist, and this trend is connected to the development of the concept of social capital, then Fine’s claim of colonisation is questionable. Modernist economics is a likely colonialist. Modernism seeks to apply universal methods across all categories of knowledge. Such an approach is also at odds with the more contingent and discursive techniques practiced within social theory. A non-modernist economics, however, is more likely to be engaging in a genuine conversation, not a colonialist take over.

Of course, Fine may be correct in claiming that these trends do not necessarily reflect the thinking of the bulk of practising economists, or the bulk of the work published in the leading economic journals. Many economists may still aspire to the scientific ideal and might still reject discursive and qualitative theorising as ‘soft’. But if the concept of social capital emerged, not from the work of the bulk of economists, but from those parts of the discipline that are moving away from modernism, then there is a possibility of a more genuine engagement between economics and social theory through the concept. Economics may not have been transformed yet, but the concept of social capital may be a tool in assisting the process.

Finally, to return to McCloskey, I am not suggesting that neoclassical economics has embraced social theory. Rather there are signs of movement at the edges, signs that could signal a more genuine engagement. Such an engagement would allow a real conversation between social theorists and neoclassical economics, even if the two
traditions remained distinct and intact. As McCloskey puts it, this would be a conversation based on intelligent criticism, not name-calling. “‘Criticize,’” I say, not “lambast” or “sneer at” or even “blindly worship”, which are some of the present ways the two cultures deal with each other’ (1994, p.246).

It is a challenge I wish to take up in the remainder of the thesis, and one that I believe has been lacking in much of the heterodox critique of the social capital debate. But embracing the conversation does not mean embracing the substance of the argument. Even at the edges of economics, the ability of economists to meaningfully engage with social scientists has been limited. More importantly, as I will argue in the next chapter, while some economists may have been influenced by social theory critiques of modernism, this has not translated into the politics of economics. Method and ideology are not necessarily connected. Or as McCloskey put it, in responding to the challenge of the Marxist methodologist Amariglio,

‘But if Amariglio's radical suggestion to me is that I turn in my Chicago School card and abandon supply and demand, no way. I say it's spinach and I say to hell with it. Radicalism in methodology, or against Methodology, does not necessarily go with radicalism in politics’ (McCloskey 1994, p.343).

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26 While economic methodologists may have succeeded in genuinely engaging with theorists from alternative traditions, this may not be so for the other new subdisciplines of economics. Michael Davern and Stanley Eitzen (1995) have found that while sociologists involved in the new economic sociology regularly quote economists, economists are far less likely to quote sociologists.
Chapter 5 – Retaining the Market

In the last chapter I argued that part of Ben Fine’s criticism of the social capital debate could be viewed as a rejection of the sometimes extreme modernism that characterises neoclassical economics. Fine is critical of economists’ reliance on mathematics, deductive reason, abstract models and universal categories. These attributes, he claims, make neoclassical economics asocial and ahistorical. Economics as a discipline has also shut itself off from much of the rest of academia. It is as if economics has built itself a citadel and now refuses to engage with developments in other disciplines.

I argued that while Fine’s description of economics contained more than a grain of truth, there was also evidence of a move away from modernism. Within some parts of mainstream economics a more discursive, more open and more contingent analysis is being developed. The results may not yet be adequate by Fine’s reckoning, but there is a clear move in the direction of socially and historically grounded theory. What is more, it appears that the development of the concept of social capital has been part of the same trend, away from modernism and towards a more genuine conversation with other social sciences.

However, I ended the chapter with a cautionary note to progressive social theorists. Quoting Deirdre McCloskey I argued that the move away from modernism did not necessitate a move away from neoliberalism, nor a less rigorous endorsement of the market. I argued that Fine’s criticism of the social capital debate is not only grounded in a critique of modernism, but also in a rejection of the politics of the market and neoliberalism. Fine claims that neoclassical economics is built on methodological individualism (of a particular kind). This commitment to individualism leaves economists unable to properly comprehend either the importance of power or the social nature of human activity. Thus neoclassical economics promotes a reliance on markets that many social theorists find unacceptable.

In this chapter I will examine two important aspects of Fine’s argument. Both relate to the reasons why Fine believes neoclassical economics has developed such a strong
pro-market ideology. In both cases Fine argues that this ideology is the result of the methodological assumptions and practices of neoclassical economists. The first is the association between modernism and the market. Fine clearly argues that the embrace of modernism has contributed to the discipline’s obsession with market prescriptions. Secondly, but in a similar manner, Fine argues that neoclassical economics’ reliance on methodological individualism (and other assumptions that go with this, like the rationality principle) leads in a similar direction.

I dispute Fine’s assessment. Firstly, I argue that we need to look beyond the neoclassical tradition, and also address the influence of Austrian and new institutionalist approaches upon the development of the concept of social capital. Secondly, I argue that the commitment to the market is better understood as a normative commitment, rather than the result of a particular methodological approach.

It is important to make clear that I accept that normative and methodological commitments do condition each other, and cannot be dealt with completely independently. My argument is that the association between modernism and the market (or indeed between modernism and socialism) is not necessary, but rather historically contingent. Thus, I wish to construct an alternative understanding of the development of the concept of social capital by distinguishing these two elements of Fine’s critique – his opposition to the modernism of neoclassical economics and his opposition to the ideology of the market.

Drawing on the work of James Scott’s (1998) *Seeing Like a State* I discuss the historical circumstances in which neoclassical economics came to embrace modernist method. I argue that initially, modernism was associated, not with the ideology of the market, but with socialism. The initial resistance to modernism came from proponents of the market during the socialist calculation controversy (SCC). Thus, a parallel school of thought developed with a very similar critique of modernism, but a strong commitment to the market. I argue that this anti-modernist, anti-socialist position, exemplified in the work of Friedrich von Hayek, has been a significant influence on the emerging social capital debate.
This historical context is useful for understanding the development of the social capital debate. In the second half of the chapter I examine in greater detail the relationship between the methods of modernism and the promotion of the market (and its association with methodological individualism). I do this by focusing on the two debates, the SCC and the *Methodenstreit*. I argue that the methodological differences between the grounded German historical school and the Austrians were exaggerated during the *Methodenstreit*, and that Austrian economics actually embraced elements of the historical tradition in developing its critique of socialism during the SCC. I end by arguing that a key difference between the Austrian and the New Institutionalist Economics on the one hand and the German historical school and the Old Institutional Economics on the other lies in their differing attitudes to the market and the process of unplanned evolution. While methodological differences remain, I argue that this is best understood as a normative distinction.

**Appearances can be deceiving**

In the previous chapter I drew upon the literatures on postmodern economics, the economics of complexity and the new institutional economics to argue that parts of the neoclassical school are beginning to embrace non-modernism. Methodologists like McCloskey are talking about ‘story telling’. Economists like Brian Arthur, of the Santa Fe Institute, are building computer simulations of economies inhabited by actors who follow rules, and who themselves ‘evolve’ over time. North is discussing how history effects the present.

While this should encourage social theorists who are critical of the economics profession, it does not necessarily signal a change in attitude to either the market or individualism. The same theorists involved in these changes have also continued to advocate for predominantly market based economic policies. Arthur apparently rejected the idea of embracing Marxism as the basis for an alternative economic analysis as ‘just plain silly’ (Waldrop 1992, p.24). Others at Santa Fe saw in their new computer programs the work of Adam Smith’s ‘invisible hand’ (Waldrop 1992, p.279). McCloskey has remained wedded to neoclassicism, despite her critique of neoclassical method. And even Milton Friedman, the bastion of neo-liberal politics,
has been claimed as a pragmatist (in practice if not in theory) (see Hirsch & Marchi 1990).

Yet, outside economics, particularly in social theory, arguments against modernism are often associated with progressive critiques of the market. The point is well illustrated in Scott’s Seeing Like a State (1998), and Bradford DeLong’s (1999) subsequent critique. Scott is not an economist. His book is neither about economic theory nor economic methodology. But it addresses precisely the same theme – the rejection of modernism. Scott also draws quite substantially on the work of Jane Jacobs – one of the first theorists credited with using the term ‘social capital’. His work has since been taken up by some involved in the social capital debate (for example Latham 2001e, p.239)

*Seeing Like a State* is a cry against the excesses of what the author calls ‘high modernism’. Scott claims that many nation states see the world through the eyes of the modernist order – abstracting away from the messiness and complexity of reality to find straight lines, perfect curves and efficient plans. The book ranges through instances of disastrous planning, from the mono-cultural forests of Germany to the planned capital of Brazil. In each instance, a centrally planned enterprise failed to live up to expectations because it did not recognise the interdependencies that allow complex systems to function properly. In some cases, as in the process of forcing Tanzanians into villages, the results were not disappointing, they were disastrous.

In building his case Scott draws on Jacobs’ critique of town planning, discussed in chapter two of this thesis. To briefly recap, Jacobs argues that while the many everyday interactions of people on city streets might seem trivial ‘the sum is not trivial at all’ (Jacobs 1961, p.56, quoted in Scott 1998, p.136). These interactions form a web of ‘eyes on the street’ that monitor behaviour, facilitate information exchange and foster trust. Without this web, cities do not function properly – this is what Jacobs calls social capital. Jacobs argues that planned changes to cities often result in the destruction of social capital by disrupting people’s everyday interaction. It is the same critique discussed in the previous chapter, albeit in a somewhat new context. Jacobs and Scott both want to see local solutions based on a firm understanding of the complexities involved, rather than an abstract plan imposed from above.
But for progressive social theorists there is a catch. Scott’s argument appears to draw heavily on economic traditions. As DeLong argues in his review of Scott’s book, ‘All of these (arguments) seem familiar to economists because they are the points made by Ludwig von Mises (1920) and Friedrich Hayek (1937) and other Austrian economists…’ (1999). Indeed, Delong argues, ‘Friedrich Hayek, after all, won the Nobel Prize in Economic Science for making many of Scott’s key arguments’. Yet, DeLong notes that Hayek is barely mentioned in Scott’s book. I argue a similar omission has been a recurring theme in the social capital debate.

The problem for Scott is that while he embraces Hayek’s critique of the centralised state, he does not want to embrace the ideological package that comes with it – the rejection of the welfare state and the embrace of free markets and radical individualism. As DeLong puts it, ‘Scott cannot embrace Friedrich Hayek out of the fear that it will turn his book into a “case for politically-unfettered market coordination”’.

Scott goes out of his way to show that his argument also has credence with the Left. He quotes Rosa Luxembourg and Alexandra Kollontai in opposition to Lenin’s brand of socialism (Scott 1998, pp.168-79, quoted in DeLong 1999). In one of his few (six) references to Hayek he notes the ‘curious unanimity’ between Hayek, left-wing critic Prince Peter Kropotkin and Michel Foucault (Scott 1998 pp. 101-2, 344-5, 381(ff51), quoted in DeLong 1999).

The point is not that the rejection of modernism entails the acceptance of the market. Quite the contrary is true. Scott’s own examples are good ones, to which he might add Antonio Gramsci and many of the so-called ‘new social movements’. As DeLong points out, both left and right wing anarchism have common roots, and many economists have come to accept the Austrian critique of central planning while

27 Although DeLong is puzzled by the comparison with Foucault, it may not be that surprising. Discussing different interpretations of Hayek’s work, Mirowski (1989, p.412 ff1) relates a passage by Richard Rorty (1986, p.45), substituting Hayek’s name for Foucault’s. The point being both rejected a notion of historicism understood as a variant of Cartesianism. Burczak (1994) has also argued that Hayek’s work reflects postmodernism, despite Hayek’s own denial.

28 I discuss the role of social movements in progressive social theory in chapters nine and ten.
continuing to support the welfare state and Keynesian demand management. Instead, I argue that there is a useful distinction to be drawn between the type of methods (the degree of modernism) used in analysis and the normative or ideological commitments that underpin an analysis.

**Why is modernism socialist?**

Scott’s dilemma, of endorsing the Austrian critique of modernism but not the Austrian defence of the market, is one keenly felt in the social capital debate. For many in Australia economic liberalism has become synonymous with the attributes of modernism. The term ‘economic rationalism’ was coined in Australia to describe what everyone else in the English-speaking world called the New Right. And the critique of modernism has been closely associated with progressive politics and social theory. Michael Pusey’s (1992) famous *Economic Rationalism in Canberra*, discussed in detail in section 4, is not only an attack on the values of economic rationalism but is also a plea for a more contingent approach to policy based on tacit learning, rather than abstract plans. Likewise, the progressive side of the History Wars have used postmodern themes to give voice to Aboriginal histories (see Macintyre & Clark 2003). Fine’s fears of colonisation are grounded in similar sentiments.

The association between modernism and ‘economic rationalism’ is historically quite recent. As Philip Mirowski has noted in a discussion of the influence of the computer on economic theory, ‘An economist in the run up to the 1950s would have almost inevitably associated a fascination with the existence of something called a computer with a leftish inclination to believe that market economies could be controlled through some form of scientific planning’ (2002, p.232). Planning and control were given a ‘pinkish’ hue.

At the time, the socialist vision was built on the desire to remove the inefficiencies and irrationalities of capitalism, as well as its inhumanity. Market socialists claimed that by gaining a scientific understanding of economics we would be able to take control of the forces of production and turn them to truly human ends. Thus, in the 1940s the most prominent opponent of the trend towards modernist economics was not a social.
theorist, but an Austrian economist – Hayek, and the debate that defined not only his work, but shaped much of the Austrian tradition to come, was the socialist calculation controversy.

The Socialist Calculation Controversy

The importance of the Socialist Calculation Controversy (SCC) to the development of Austrian economic thinking in general, and the ideas of Hayek in particular, is not universally acknowledged (see Lavoie 1985). However, this has begun to change in recent years as a number of prominent theorists have revisited the period and reassessed its significance. Israel Kirzner, while insisting his thesis was consistent with Don Lavoie’s, has argued that the SCC was a crucial turning point for Austrian economics. He argued that it helped to identify the role of information, and the conception of the market as a discovery process, as key themes in Austrian economic thinking (1988).

Bruce Caldwell has since developed Kirzner’s position (1997; 2004a). Andrew Gamble (1996) has argued that Hayek’s involvement in the SCC marked a turning point in his career that led him to focus on promoting political liberalism, and Hayek himself has credited the SCC as inspiring his work on the knowledge problem (Hayek 1995, p.62; also see Ebenstein 2001, pp.89-100).29 I argue that the SCC provides a crucial historical background to the emergence of a non-modern, anti-socialist economics, which I claim has gone on to influence the emerging social capital debate.

Before going on, it is important to qualify what I mean by the non-modernism of Austrian economics. Austrian economics is an old and diverse tradition, full of the complexities and contradictions that mark most schools of thought. There are elements of this tradition that fit neatly with the conception of modernism discussed in the last chapter, particularly the Misean commitment to a priori epistemology. Even Hayek’s own thinking is often contradictory, involving elements of a priorism, teleology and determinism, alongside more contingent and empirical accounts. Examining this

29 Caldwell cautions that Hayek’s own recollections may not be entirely accurate, but none-the-less comes to a similar conclusion arguing that ‘although many factors were involved, it was thinking about the problems of socialism that helped Hayek put the ideas together in the way that he did’ (Caldwell 2004a, p.220).
diversity is made more challenging by the attempts of many Austrian economists to emphasise the continuity and coherence of Austrian thinking (for example Stalebrink 2004), and the relative lack of interest in Austrian economics from outside the school.

My purpose in engaging with this Austrian tradition is to examine how certain elements of the tradition have informed the development of the concept of social capital. Therefore my focus is only on part of the Austrian tradition, on elements that I argue challenge the modernism of mainstream economics. I accept that this is only a partial account of Austrian economics, and that other elements of the Austrian tradition remain firmly committed to the modernist project, as well as containing their own contradictions. But as my purpose is not to explore the Austrian tradition per se, and as any such exploration is itself a substantial project easily constituting its own thesis, I have refrained from a broader evaluation of the modernism of Austrian economics.

The SCC developed out of a challenge from Ludwig von Mises (1920) for socialists to demonstrate how their theory of socialism would work in practice.\textsuperscript{30} Interpretations of Mises argument differ (see Kirzner 1988), however the substance of his argument focused on the inability of socialist economies to generate prices, particularly for capital goods which would be entirely the property of the state.\textsuperscript{31} Hayek (1935) later added to the argument, reprinting Mises’ contribution in English as well as his own thinking.

In response, market socialists\textsuperscript{32} such as Oskar Lange (1938), Frederick Taylor (1929) and Henry Dickson (1933) turned to the tools of neoclassical economics. They argued that the Walrasian price system was not specific to a capitalist economy. Taylor (1929) argued that provisional prices could be used in the place of actual prices, with managers in socialist plants using these provisional prices to decide which materials to

\textsuperscript{30} Although this 1920 article is widely accepted as the starting point of the controversy, Hayek claims that Mises first engaged with the problem in 1919 (see Mises 1983) in response to a volume by Otto Neurath on the effectiveness of the socialist war economy (see Hayek 1992, p.139, quoted in Caldwell 2004a, p.116).

\textsuperscript{31} Stalebrink (2004) gives a useful account of Hayek’s and Mises’ contributions from an Austrian perspective, dealing with the controversy over the relative merits of each within Austrian economics. Here I am most interested in what Stalebrink calls Hayek’s knowledge argument.

\textsuperscript{32} A good summary of the socialist position, given at the time, is Lippincott (1938).
purchase and which production processes to employ. Any mistake in the setting of provisional prices would then reveal itself as a surplus (or deficit) of that factor, and the prices could be altered accordingly. Lange (1938) then followed on from this arguing that the process of trial and error employed by socialist managers would be very similar to that employed by entrepreneurs in the market. However, socialist managers would be in the somewhat more favourable position of having much greater access to price data.

The socialists’ response was to demonstrate that the equations of marginalist analysis could be used to set pseudo-prices in a socialist economy just as well as for actual prices in a market economy. As Mirowski puts it, ‘Lange’s Economic Theory of Socialism embraced the mathematical model of Walrasian general equilibrium as a faithful representation of market operation and, in that light, found it relatively easy to substitute a central planning authority for the mythical Walrasian auctioneer’ (2002, p.233).

With the market socialists effectively claiming marginalist analysis to advance the argument against the market, Kirzner (1988) argues that Mises and Hayek were forced to better articulate their claims against socialism. Hayek’s initial arguments had emphasised the ability of the market to tend towards equilibrium, thus emphasising a relatively static ‘end point’. His later writing instead emphasised the dynamics of the market process itself, as a process of discovery and innovation (see Hayek 2002; Stalebrink 2004). It was the ability of the market to foster innovation, new ideas and new discoveries that made it so productive. While the market socialists could replace the mechanism for arriving at equilibrium – replacing the market with the socialist planner – it was much more difficult for the socialists to mimic the entrepreneurial nature of the market system.\(^\text{33}\)

The key to the Austrian argument was the importance of information, rather than the tendency towards equilibrium. Hayek led the attack claiming that the information assumed to exist in the neoclassical model was simply unavailable. No one mind could

\(^{33}\) As Hayek put it, ‘If anyone actually knew everything that economic theory designated as “data”, competition would indeed be a highly wasteful method of securing adjustment to these facts.’ (2002, p.9).
ever know everything that was necessary to make marginalist analysis work. In ‘Economics and Knowledge’ (Hayek 1937) he recasts the economic problem away from the efficient distribution of scarce resources in favour of a knowledge-based understanding of the economy,

‘The reason for this is that the “data” from which the economic calculus starts are never for the whole society “given” to a single mind which could work out the implications, and can never be so given… The economic problem of society is thus not merely a problem of how to allocate “given” resources – if “given” is taken to mean given to a single mind which deliberately solves the problem set by these “data”. It is rather a problem of how to secure the best use of resources known to any of the members of society, for ends whose relative importance only these individuals know. Or, to put it briefly, it is a problem of the utilization of knowledge not given to anyone in its totality’ (Hayek 1945, pp.519-20. Also see Hayek 1948, pp.77-8 for a similar account).

Hayek’s disdain for mainstream methods was further reinforced by the success of market socialists in developing the neoclassical paradigm during the 1940s. Mirowksi notes that many market socialists, including Lange, were involved in the Cowles Commission, which Mirowksi argues framed the development of the general equilibrium project in the post war era (2002, pp.232-49). While most of these theorists later fell prey to McCarthyism and the fears generated by the Cold War, their association with the neoclassical project no doubt tainted the project in Hayek’s eyes. The result, as Caldwell contends, was that Austrian theory was both anti-socialist and anti-neoclassical (1988, pp.536-8).

Hayek’s rejection of neoclassicism led him away from the modernist adventure on which the discipline had embarked. Hayek, like other Austrians, became increasingly critical of the use of statistics and equilibrium modelling. He used the term ‘scientism’ (see 1952a) to describe an approach that sought rational and conscious design of human institutions through ‘a deductive process from a few obvious and undoubtable premises (sic)” (1967a, p.85). And, rather than fencing himself off from other disciplines, Hayek began to actively contribute to them. He made significant contributions to psychology (1952b), law (1973-79) and political science (1942).
Hayek’s rejection of modernist science, and his rejection of socialist principles, left him isolated from intellectual debate in the early 1940s (see Caldwell 1997, p.1867).

McCloskey has argued that Hayek’s commitment to liberalism and the principle of freedom made it impossible for him to support the modernist project. While Hayek’s teacher, Mises, embraced a priori methods and rationalism, Hayek explicitly differentiated himself from his teacher, and in so doing helped to explain his own aversion to modernism.

‘I believe I can now… explain why… [the] masterly critique by Mises of socialism has not really been effective. Because Mises remained in the end himself a rationalist-utilitarian, and with a rationalist-utilitarianism, the rejection of socialism is irreconcilable… If we remain strictly rationalists, utilitarians, that implies we can arrange everything according to our pleasure… In one place he says we can’t do it, in another place he argues, being rational people, we must try to do it’ (Hayek 1994, quoted in McCloskey 2001, p.111).

As McCloskey puts it, ‘By the end of the twentieth century [Hayek] became old-fashioned enough to be postmodern’ (2001, p.111).

In contrast to the equilibrium modelling of the neoclassical school, Hayek developed an evolutionary approach built on the concept of spontaneous order. Hayek argued that positive social institutions emerged spontaneously from the interactions of individuals, rather than through deliberate planning (1964; 1967c). This was aided by the market’s unique ability to make use of knowledge, both formal and tacit, throughout the economy. Conversely, attempts to plan economic outcomes were bound to fail because the processes by which the outcomes came about were so complex that one could only discern patterns and rules, rather than predict individual outcomes (Hayek 1955; 1967b).

Hayek explicitly traced the lineage of his ideas. He associated the logic of spontaneous order with the evolutionary logic of Charles Darwin, arguing that economics should be understood in similar terms to biological sciences. This evolutionary tradition, he claimed, was pioneered by Bernard Mandeville, in his famous account *The Fable of*
*The Bees* (1924 [1723-9]), was then embraced by Smith and the Scottish Enlightenment, and was finally developed by Carl Menger, Mises and the Austrians (1967c, pp.98-100).

Hayek took the argument one step further in developing his evolutionary account of institutions. He argued that the rules of the market themselves were the result of evolutionary forces. Groups of individuals who followed the rules of the market were more likely to succeed than those following alternative sets of rules—because of the spontaneous properties of market orders. Thus, through a process of group selection, those groups following the rules of the market would come to dominate other groups (see 1967b; 1973-9). The market itself, it would appear, was the result of spontaneous evolutionary order.

Hayek’s alternative view of economics, based on spontaneous order and an evolutionary understanding of the development of institutions, also built on other developments discussed in the previous chapter. Hayek saw his own work as drawing on non-linear dynamics and chaos theory (Hayek 1988, p.9). In other words, Hayek’s initial critique of the modernism of the neoclassical project continued on throughout his career, strengthened, no doubt, by his engagement with other disciplines that were moving in a similar direction.

*Comparing institutionalists*

Re-evaluating the importance of the SCC in shaping the Austrian economic tradition has meant also re-evaluating the importance and implications of another important debate involving the Austrians—*the Methodenstreit*. This earlier debate had pitted the Austrians against the German historical school and, later, the American (old) institutionalists. As a result the commonalities between the Austrians and the neoclassical school were emphasised. However, the re-evaluation of the SCC has led many to question this conclusion. While the *Methodenstreit* clearly left a lasting antipathy between the protagonists, there is significant evidence that Austrians and institutionalists actually share significant common ground.
Focusing on this debate helps to demonstrate how important the competing normative commitments of the different institutionalist traditions have been in defining them. Both traditions share elements of a common critique of neoclassicism, and both look to common questions in understanding economics. There may remain methodological differences between the schools, but the historical antagonism between the traditions is possibly better understand with reference to their normative disagreements. As the OIE is associated with social theory, and the NIE with market economics, this comparison offers useful insights for evaluating Fine’s critique of the social capital debate. I argue that a new consensus has emerged that highlights the commonalities between these two traditions and that highlights the normative nature of the differences.

From Methodenstreit to institutionalist economics

The Methodenstreit was a dispute over appropriate economic method. The debate was initially between Menger (1963 [1883]), the founder of the Austrian school, in the 1880s, and Gustav Schmoller (1883), the leader of the younger German historical school. The debate spread from these two primary protagonists to many of the other members of the two schools and carried on for approximately three decades (Romani 2004, p.39). Even after the debate had more or less finished, members of the Austrian school, such as Hayek, continued to make reference to the Methodenstreit, often developing a relatively vitriolic critique of the German historical position. Likewise members of the American Institutionalist school, who were influenced by the German historical school (see Nardinelli & Meiners 1988), have continued to strongly critique Austrian economics (Rutherford 1994b).

Menger initiated the Methodenstreit after his more theoretical work (particularly Menger (1950 [1871])) received a cool reception within German historical circles. The German historical school had developed a more empirical method, largely in reaction to the deductive approach of David Ricardo. This antipathy to deductive, theoretical economics was taken further by the second generation of German historical theorists led by Schmoller.

34 Useful discussions of the Methodenstreit are given by C. Gide and C. Rist (1948), J. A. Schumpeter (1954), Caldwell (2004a) and Samuel Bostaph (1994). I draw on these works below.
In essence the conflict was over the usefulness of abstraction in the development of economic theory. Menger (1950 [1871]) argued that economics demanded both historical analysis and theoretical analysis. He argued that economic science involved deducing laws from the interactions of self-interested individuals, an approach that would later be dubbed methodological individualism. Menger did not claim that this was the only job of economics, and he continued to recognise the importance of historical approaches, but insisted that this type of abstract theory was an important component of the economic project.

Conversely, Schmoller (1904) argued that such abstract and deductive reasoning could only proceed from more comprehensive foundations taking account of all human motivations rather than simply self-interest. Schmoller did not dismiss the need for some form of abstract reasoning but was far more cautious. Without a more holistic understanding of human motivation he argued that the historical approach was the only legitimate means of advancing economics.

The Methodenstreit became increasingly vitriolic and served to define the Austrian school in sharp opposition to both the German historical school and the emerging American (old) institutionalists. Hayek’s own writing reinforced this perception through his condemnation of historical method (for example 1934). Yet, in retrospect, the differences between the two sides of the Methodenstreit appear less clear. At the same time that Menger was criticising the historical school for a lack of abstract thinking, he was also critical of the level of mathematical abstraction that was developing in the emerging neoclassical tradition (Barkai 1996). Thus, even at the beginning of the marginalist revolution, there were already clear differences emerging between the Austrian and neoclassical schools.

More recently a number of theorists have argued that the Methodenstreit significantly exaggerated the differences between the historicals and the Austrians. Caldwell and Roberto Romani have noted that neither Schmoller nor Menger took particularly extreme methodological positions, and there remained important points of commonality. Both schools focused their attention on the creation and evolution of institutions, a subject virtually eliminated from traditional neoclassical analysis. Both
rejected the positivist methodology that was being embraced by the neoclassical mainstream, and both rejected the sole reliance on the narrowly defined homo economus that formed the basis of much neoclassical theorising (Caldwell 2004a, pp.77-8; Romani 2004, p.38).

It is interesting that the Austrian and historical traditions have been credited with inspiring the NIE and OIE respectively. Menger’s theoretical work was largely dedicated to understanding the origins of institutions, exemplified in his work on the evolution of money (Menger 1892). Hayek embraced this part of the Mengerian tradition, building on Menger’s theory of money to develop his own account of spontaneous order. Hayek has since influenced the development of experimental economics (see Smith 1991, esp. p.223) and more particularly the NIE. A number of prominent members of the NIE have credited Hayek as a key source of inspiration (for example Williamson 1975, pp.4-5), with some seeing themselves as carrying on a Hayekian, spontaneous order tradition (such as Schotter 1981).

The exact relationship between Hayek’s work, the Austrian school in general and developments within neoclassical economics remains contested.35 However, Hayek’s focus on spontaneous order, on the emergence of institutions and on the properties of market institutions, echoed a number of concerns of the earlier historical and OIE theorists. Romani has recently argued that, despite their differences, Hayek’s economics can be viewed as pursuing the same agenda, and answering the same questions as the historical school (2004, pp.40-1). Similarly, Mirowski has argued that Hayek’s involvement in the SCC reflected the influence of the Methodenstreit and the historical school on his thinking (1989, pp.354-5). From the other side, Malcolm Rutherford has argued that the OIE has much in common with the Austrian tradition (1994b).

Opinion remains divided over the nature and extent of difference between the NIE and OIE. Some within each tradition claim the differences are deep and irreconcilable (for example Langlois 1986; Dugger 1990). However, other theorists have argued that

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35 Caldwell has argued that Hayek, properly understood, is not part of the economics of information (1997, pp.1875-7) while Mirowski argues that it is better to see Hayek as transmitting themes through to the mainstream at second or third hand, rather than being a direct influence (2002, p.238).
there is far more common ground than previously thought. Rutherford has argued that the OIE and NIE share much in common, and that each school would do well to learn from the other (Rutherford 1989; 1994a; 1995; 2001). Likewise, Geoffrey Hodgson has argued that there is a degree of convergence between the old and new institutionalisms that could potentially offer a basis for an alternative framework to the dominant neoclassical paradigm (Hodgson 1998; 2002; 2003). Indeed, as early as 1993, Usali Maki was asking whether this convergence signalled the possible irrelevance of the old/new distinction (Maki 1993, p.35). Similarities have also been noted between members of the NIE and the earlier German historical school (Richter 1996).

Two of the most detailed comparisons of the OIE and NIE have come from Rutherford and Warren Samuels (1989a; 1989b). Both argue there is significant methodological common ground between the OIE and NIE, and instead identify normative and ideological differences as the key distinction. At the same time, there remains enormous diversity both within and between each of these schools. A detailed account of the OIE and NIE is clearly beyond the scope of this thesis. What is interesting, however, is the growing acknowledgement of the similarities that lie behind the two schools’ shared history. Both reject the modernism of neoclassicism. Both focus on social institutions and history as a way of understanding economics. While methodological differences might remain, the depth of antagonism between the schools is perhaps better explained by reference to their competing normative commitments.

Finally, I want to highlight one way in which the normative distinctions between the OIE and NIE might correspond to different understandings of the process of evolution. Here I draw on the work of Hodgson (1993), and the recent debate between Hodgson and Caldwell (Hodgson 2004; Caldwell 2001; 2004b) over Hodgson’s characterisation of Hayek’s use of evolutionary theory. Hodgson (1993) distinguishes between the ways different economists understand evolutionary process, and how they apply these concepts of evolution to institutional economics. In particular, he distinguishes
between those employing an ontogenetic conception of evolution, and those employing a phylogenetic conception.\textsuperscript{36}

Both ontogeny and phylogeny refer to theories that explain a macroscopic order in terms of some component (gene). What is taken as the gene varies, from individuals, to habits, to institutions. Ontogeny explains how a given set of genes leads to a particular type of order – such as a seed growing into a plant. But it does not involve selection between genes, thus the type of order that is produced is relatively stable, as there is no mechanism for the gene pool to change (except perhaps for exogenous shock). Hodgson cites Menger’s theory of money, and Smith’s invisible hand as examples of this type of approach.

Alternatively, phylogeny refers to the ‘complete and ongoing evolution of a population’ (Hodgson 2004, p.296). This includes the selection of genes and thus changes in the gene pool over time. Phylogenetic systems must account not only for the process by which a given set of genes produces a particular type of order, but also how that order then selects for and changes the gene pool. While not explicitly applying the ontogeny/phylogeny distinction to distinguish between the new and old institutionalisms, Hodgson does characterise a number of those associated with the NIE as applying ontogenetic concepts, and a number of OIE theorists as applying phylogenetic concepts.

Recently, however, Caldwell (2001; 2004b) has questioned Hodgson’s characterisation of Hayek’s economic theory as ontogenetic. Caldwell argues that Hayek’s theory is not only explicitly phylogenetic, but that his account of the market as discovery process allows for ongoing and emerging diversity. I argue that Caldwell’s critique has highlighted the limitations of using strict methodological categories to distinguish between the NIE and OIE traditions,\textsuperscript{37} but that Hodgson’s focus on different evolutionary metaphors remains useful.

\textsuperscript{36} Hodgson’s (1993) schema is more complex than the ontogeny/phylogeny distinction, however, my interest is only in this section of his taxonomy.

\textsuperscript{37} Whether it has done so because Caldwell detected a flaw in Hodgson’s analysis, or simply because Caldwell helped to highlight and clarify an aspect of Hodgson’s initial work, is contested, and not relevant to the point I make here. However, I tend to agree with Hodgson
First, both Hodgson and Caldwell agree that Hayek explicitly claims to employ a phylogenetic conception of evolution. Both also acknowledge that any strict methodological analysis would categorise Hayek as developing a phylogenetic model (Hodgson 1993, pp.152-3, 179-80; 2004, p.296; Caldwell 2004b, p.303). However, Hodgson claims that Hayek’s commitment to spontaneous order means his theory has limited sources of new variety, and so is largely confined to ontogeny. Evolution only produces one type of order, the spontaneous order of the market. Hodgson claims that Hayek focuses too heavily on the influence of the Scottish Enlightenment on Darwin’s theory of evolution, and too little on the influence of Thomas Malthus. Caldwell disputes Hayek’s motives for downplaying Malthus’ influence on Darwin, and notes the continued scope for diversity within market systems, but largely concedes Hodgson’s claim that Hayek does ignore Malthus.

I agree with Hodgson’s analysis that Hayek’s commitment to spontaneous order distinguishes him from both Malthus and many OIE theorists. However, I argue that the basis of this distinction is more usefully understood in terms of the type of evolutionary story each theorist is trying to tell, rather than the selection process their evolutionary theory employs. As Hodgson asserts, Malthus provides a very different account of evolutionary processes to that given by the Scottish Enlightenment. While Mandeville and the Scottish School focus on the processes by which evolution produces spontaneous order, Malthus describes how evolution produces disorder and disaster. Hodgson’s point is that a balanced reading of Darwin allows for evolution to produce both order and disorder. However, Hayek’s commitment to the spontaneous order, Hodgson claims, means he is unwilling to take up Malthus’ alternative evolutionary theory.

By focusing on the type of order that is produced, rather than the specifics of the evolutionary metaphor of the methodology used, I argue we are better able to understand what differentiates Hayek from many evolutionary economic theorists from the OIE. This is not to deny methodological differences, but rather to argue that the different types of evolutionary story these theorists are attempting to tell helps us that Hayek’s commitment to phylogeny, alongside his commitment to spontaneous order, suggests a tension which at the very least Hayek does little to satisfactorily address.
understand their differences. In this sense ontogeny is a type of story (in McCloskey’s sense), rather than a particular type of evolutionary selection. Alternatively, OIE theorists, by and large, are committed to a phylogenetic story. They assert that evolution produces disorder as well as order, and thus see a need for deliberative intervention to address the problems generated by the unplanned interactions of individuals. Hayek’s theory of spontaneous order reveals a commitment to an ontogenetic story, a story of how order is inevitably produced. In chapter seven I argue that those involved in the development of the concept of social capital were committed to a similar type of story, and they were inspired, in part, by their rejection of others’ committed to a Malthusian phylogenetic story, which called for planned intervention to counteract inevitable disorder.

**Conclusion**

In this chapter I have argued that Fine and others have confused a commitment to modernism with a commitment to the market and political individualism. Instead there is no necessary relationship between modernism and support for the market, but rather a complex and evolving set of contingencies. In the 1940s modernism would have been associated with socialism, by the 1980s it was associated with neoliberalism (and economic rationalism). Thus, when we examine Fine’s critique of social capital it is important that we understand the history of these ideas, not only their logical properties.

Secondly, in examining two related debates in economics – the SCC and the *Methodenstreit*, we can discern a number of commonalities between the Austrian/NIE position and the historical/OIE position. These similarities relate to the common disagreement with neoclassical economics and a common critique of the modernism of neoclassical economics. Both traditions reject equilibrium analysis; both embrace a more evolutionary method; both are sceptical of deterministic theories. Just as De Long claimed that Scott had borrowed from Hayek, so Richter (1996) claims that Simon and North have borrowed from Schmoller. This is not to deny ongoing differences, but rather to acknowledge the importance of the element of history the two
theoretical traditions share. It is also to acknowledge the importance of normative disagreements to this historical dynamic.

Before concluding I need to clarify my understanding of the normative distinction between these two traditions. Within the Third Way debate both Anthony Giddens and Mark Latham have discussed the issue of ideology through the lens of Norberto Bobbio’s discussion of the Left/Right dichotomy (1995). Bobbio claims that egalitarianism, the desire for greater equality, is at the heart of Left politics. Bobbio suggests that the struggle for collectivism and against private property is itself an expression of the desire for equality between rich and poor (1995, pp.80-6).

I do not dispute Bobbio’s analysis. However, I acknowledge a potential difficulty. Many of the liberal advocates of neoliberalism both in Australia and Britain have questioned the usefulness of the term Right. They argue that classical liberalism is quite different from either fascism or conservatism, (two other doctrines of the Right), and that there is no coherent logic to the concept of the Right (Green 1987, pp.1-3; Norton 1993; Warby 2002).

My purpose is more specific than Bobbio’s, and as such I wish to avoid this debate by focusing on the specific institutions being promoted by different traditions, rather than attempting to construct a general understanding of ‘Left’ or ‘Right’. In my more specific sense, the normative distinction between the Austrian/NIE tradition and the historical/OIE tradition lies in their different attitudes to the market, and the different evolutionary stories they tell. Where the former tend to promote the market as the best institution for solving economic (and possibly social) problems because it inevitably produces order, the latter see the market producing disorder, as well as order, and therefore seek collective, deliberative and interventionist solutions.

My argument then, is that economics is changing in different ways, some favourable to social theory and political economy, others antagonistic. There has been a shift away from modernism with the rise of the NIE, but there has also been a renewed commitment to the market consistent with the spontaneous order tradition. By distinguishing these different trends I argue we are better able to understand the dynamics that produced the concept of social capital and better positioned to interpret
the consequences of the current debate. In the next section I apply the distinction
developed here to structure my account. In chapter six I focus on how the concept of
social capital is related to the move away from modernism within economics, while in
chapter seven I focus on the connection between the development of the concept and a
renewed commitment to the market. Finally, in section four I explore how this
alternative understanding of the dynamics involved in the concept’s development can
help us understand the political implications of the current debate.
Section 3 - Economics
Chapter 6 – The Problem of Collective Action

In the last section I developed an alternative understanding of the dynamics within rational choice economics which helped to give rise to the concept of social capital. I began the analysis with the work of Ben Fine who claims that the concept of social capital is colonising the social sciences. I argued that he gives two related but different reasons for his claim of colonisation. Firstly, Fine argues that neoclassical economics was overly abstract, reductionist and universal in its approach – something I termed modernist. He argues that this type of approach is inconsistent with social theoretic approaches and that by embracing the concept of social capital social theorists may lose their more nuanced, contingent and holistic understanding. Secondly, Fine claims that the concept of social capital reflects the neoliberal ideology – a pro-market bias – of neoclassical economics. Again, he argues that as the concept becomes accepted within social theory so market values would start to marginalise the more critical approach usually associated with social theory.

I argued that by assessing these two claims individually, rather than as a single claim of colonisation, we are able to gain a better understanding of what might be happening within economics, and how this might have effected the development of the concept of social capital. I acknowledged that neoclassical economics was indeed a highly modernist discipline. However, I argued that the concept of social capital is more closely associated with attempts within the rational choice tradition to counter-act, rather than extend, this overly modernist stance. However, I also argued that the opponents of modernism within economics are not opponents of the market, but are in fact even more strongly and explicitly committed to the market than many neoclassical theorists. Thus, the concept of social capital might be a reaction against modernism, but also a continuation of the political project of neoliberalism.

In this section I address in more detail the development of the concept of social capital. I focus on game theory, particularly the literature surrounding the Prisoner’s Dilemma (PD). I argue that the concept of social capital has grown out of the game theoretic debate around the PD. Like the last section, I have divided this section in two. The first
chapter examines how the PD debate has led both to the concept of social capital, but also to a questioning of modernism. Chapter seven examines the normative content and implications of this PD-social capital literature.

This chapter is focused on the problem of rationality.\(^{38}\) I begin by identifying the literature upon which the founders of the social capital debate – James Coleman and Robert Putnam – drew. I then set up the problem of the PD and its significance for both game theory and rational choice economics. In doing this I re-tell much of the history of game theory, as well as spending some time explaining the most important features of game theory. While much of this content is covered elsewhere\(^{39}\) it provides an essential context for what is to come and, I hope, makes the thesis more accessible to an audience unfamiliar with game theory.

I argue that the PD helped to highlight deficiencies in the neoclassical understanding of rationality. It was the basis for empirical attempts at falsification, as well as pointing to deficiencies in the theory itself. I argue that attempts by game theorists to answer the criticisms implicit in the PD led game theory away from the modernism of neoclassical economics and back towards a more open and naturalistic understanding of rationality which, I claim, was consistent with the desires of its founder, John von Neumann. At the same time, the attempts to solve the PD retained key elements of the neoclassical, John Nash conception of game theory. As a result, I argue, the solution to the PD managed to stay within the neoclassical tradition, whilst pushing that tradition in a non-modern direction. It is this solution, I contend, which constitutes the theory of social capital.

\(^{38}\) The focus might be more accurately stated as the problem of incomplete information, rather than the much broader notion of rationality. However, within the rational choice literature, rationality has been given a more narrow definition. Thus, this problem has generally been labelled as the problem of rationality and so I will also use this terminology.

\(^{39}\) The literature on the PD is far too extensive to sensibly reference here. I have instead focused on the work of a number of historians of economic thought, particularly the work of Mirowski (1991; 1992; 2002), Roth (1993; 1995) the various contributors to Weintraub’s *Toward a History of Game Theory* (1992a). In discussing the development of the PD debate I focus on those who have contributed to the development of the concept of social capital.
The origins of the social capital debate remain contested. In chapter three I discussed the numerous definitions of, and approaches to, the concept. I argued that while a number of different theorists have employed the concept most of the debate now centres on a conception of social capital which originated in the work of Coleman and Putnam, rather than an alternative conception developing out of the work of Pierre Bourdieu. I will briefly return to the work of these two men, particularly Putnam’s *Making Democracy Work* (1993) and Coleman’s *Foundations of Social Theory* (1990). Here, my purpose is to identify which literatures and authors Coleman and Putnam drew upon in order to develop a lineage from the initial articulation of the PD through to the concept of social capital.

To briefly recap, Putnam was primarily responsible for the popularisation of the concept of social capital through his 1993 book. He then employed the concept in the American context (1995; 2000) as well as editing a collection of contributions which applied the concept across the world (2002). All of these works are primarily empirical, however there is significant theoretical discussion of the concept in the final chapter of *Making Democracy Work*. This is the first time in the book that Putnam discusses the concept. In that chapter he uses the concept of social capital to explain the empirical data he discussed earlier.

Putnam’s discussion of the concept of social capital in *Making Democracy Work* is explicitly framed through game theoretic debates related to the Prisoner’s Dilemma (PD). Drawing on Coleman, he argues that social capital is a set of norms and networks (also described as trust), which allow people to overcome the problem of collective action – the subject of the PD. Thus, social capital is a resource that allows people to cooperate when otherwise individual rationality would predict that they would not.

Coleman’s initial contribution dealing with the concept of social capital (1987) was explicitly an attempt to apply economic thinking to the social world. His work became better known with his examination of the links between social capital and human capital, his argument being that strong communities and social networks aided learning
(1988). Finally, he integrated his work on social capital into a broader social theory (1990). In each of these works Coleman discusses social capital in a rational choice framework. The last of the three works give perhaps the best context for his thinking, and here Coleman discusses social capital as a resource for overcoming social dilemmas (similar to the collective action problem discussed by Putnam) and specifically refers to the PD.

Both men refer to numerous theorists and literatures in their work. Putnam also frames his analysis in terms of Edward Banfield’s (1967) social theory of moral decline and Alexis de Tocqueville’s discussion of civic associationalism in America (1956). However, both Putnam and Coleman build much of their theoretical understanding of the concept on game theoretic and rational choice debates about collective action and the PD. In particular, Putnam draws heavily on the new institutionalist economics (NIE) quoting Robert Sudgen (1986), Deigo Gambetta (1988a; 1988b), Robert Bates (1988), Douglass North (1990) and Eleanor Ostrom (1990), and network theory in economic sociology, particularly the work of Mark Granovetter (1973; 1985). He also draws on prominent theorists who have informed these game theoretic debates, particularly Robert Axelrod (1984), Michael Taylor (1976; 1982; 1987) and Edna Ullmann-Margalit (1978). Coleman’s work is less explicitly reliant on the work of other theorists and spends more time dealing with the logic of rational choice theory. However, Coleman also refers to Ullmann-Margalit (and Ronald Coase (1960)) in discussing norms and to Granovetter (in particular) in discussing networks.

I will trace the concept of social capital back through these authors. In so doing I will argue that their work was largely an attempt to resolve the problems raised by the PD. The PD literature itself is voluminous. I do not intend to deal with it in its entirety, rather I will set up the initial problem, and then discuss how those involved in the development of the concept of social capital engaged with those problems.

**Game theory**

Game theory marks an important development in the rational choice tradition, one that explicitly deals with individual interaction and the interdependence of decision
making. Its history remains somewhat contested (an issue examined below) but it has become one of the most influential approaches within economics. Not only has game theory revolutionised economics, it has also revolutionised many other social sciences. Because game theory has been embraced by so many different social scientists, it has been hailed by many as providing a universal method, and criticised by others as a means of imposing rational choice theory upon the social sciences.

Yanis Varoufakis (2001b) has recently discussed this tendency for game theory to unite the social sciences, in his introduction to a collection of the most significant game theoretic writings. Focusing specifically on the work of Nobel laureate Nash, Varoufakis argues that Nash’s solution to the bargaining problem has been a major social scientific breakthrough. Varoufakis claims that if Nash is right, and if the implications of his solution are as profound as his modern-day students proclaim, then economics really has stumbled upon a social theory of everything.

‘But if Nash has solved the bargaining problem by discovering a unique solution to it, then in principle game theory holds the key to the legitimacy (or otherwise) of political institutions... If it can be authenticated, game theorists (and, by association, economists) will have gained privileged access to the idea of the Good Society’ (Varoufakis 2001b, p.12, emphasis in original).

Of course this is not a universal view. What the advocates of game theory often claim as its strength, its opponents cite as its key weakness. Philip Mirowski has claimed that rather than providing the theory of everything, by postulating a single definitive notion of rationality, the Nash program has highlighted the absurdity of the task. According to Mirowski, not only has this come to undermine the Nash program within game theory, by implication it is undermining the legitimacy of neoclassical economics and rational choice theory more generally. As Mirowski puts it, ‘(g)ame theorists have opened the

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40 Nash’s bargaining solution (1950a) is given in a separate paper to his solution to non-cooperative games (1951). There are differences between the two, but they are not of interest here. In both cases Nash applies the same conception of rationality, discussed in more detail below.
Pandora’s Box marked “rationality,” and do not know how to close it again” (1986, p.257).

In this chapter I argue that the concept of social capital can be seen as a type of case study in understanding the relationship between game theory and the other social sciences. I acknowledge that game theory has always been an interdisciplinary project. However, I do not believe that the development of the concept of social capital points to the confident export of rational choice principles, as Varoufakis’ comments might suggest. Instead, I argue that the concept emerged as a response to the difficulties Mirowski has identified. Thus, the concept of social capital is less the tool of colonisation and more a rear guard action by those within the citadel trying to close Pandora’s Box.

**An alternative history**

The history of game theory has often been told as a relatively smooth, linear progression of ideas. According to this standard account, interest in games began with Augustine Cournot’s examination of markets with a small number of producers (2001 [1883]). Later the theory was formalised into a mathematical theory of games by Emile Borel (1953 [1921]). Soon after von Neumann provided a solution concept for one class of games (1959 [1928]) and then collaborated with Oskar Morgenstern to develop a more extensive theory of games, and applied this theory to the subject of economics in *Theory of Games and Economic Behavior* (TGEB) (1953). TGEB is often cited as the first real application of game theory in its economic guise.

Shortly after the publication of TGEB, Nash published a more comprehensive solution concept, which acts as a solution to all non-cooperative games (1951; 1950b). Nash’s

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41 It is important to note that Varoufakis’ collection of game theoretic writings includes a volume on dissidents. Here he includes three works individually or jointly authored by Sugden on the problem of rationality (Sugden 1990; 1991b; Hollis & Sugden 1993). I argue below that Sugden is one of those to help develop the concept of social capital by responding to the problem of rationality. It should also be noted that elsewhere Varoufakis himself raises a number of problems with the Nash understanding of rationality (Hargreaves Heap & Varoufakis 1995).

42 Cooperative theory allows for players to negotiate the structure of the game outside the confines of the theory. This allows individuals to choose options that are mutually beneficial,
equilibrium theory has since become the standard means of solving game theoretic problems. However, within economics work tended to focus initially on cooperative game theory as a means to furthering the general equilibrium project. Gerard Debreu and Herbert Scarf demonstrated that the core of the cooperative game converged towards the Walrasian general equilibrium (1963). Later John Harsanyi began to solve one of the most significant outstanding issues from TGEB – the problem of incomplete information – by employing the probabilistic reasoning of Bayesian learning (2001 [1967/8]). More recently, this standard story would claim, game theorists have begun to embrace evolutionary concepts, and have applied game theory to other social sciences.43

However, a number of theorists including Mirowski (1986; 1991; 1992; 2002), Weintraub (1992b), Martin Shubik (1992) and Andrew Schotter (1992), have begun to develop alternative accounts. This critical literature differs from the more standard history in two important respects. Firstly, the critics argue that game theory was not the sole product of economics, but was always interdisciplinary. Indeed much of the early work in game theory was done outside economics. Secondly, the critics argue that the development of game theory was not as smooth as has previously been thought. Instead, they argue that game theorists have often debated and wrestled with the concepts of rationality embodied in various solution concepts.

Of particular importance is the claim, made by numerous authors in Weintraub’s (1992a) collection Towards a History of Game Theory, that there are significant differences between the solution concepts, and notions of rationality, developed by von Neumann and Morgenstern in TGEB and that developed by Nash. The critics argue that Nash constructed a far more precise and predictive notion of rationality than that developed in TGEB. This reflected, they argue, a notion of rationality more consistent

and to secure the full benefits offered by any situation. Non-cooperaitve theory does not allow this out-of-the-game negotiation, and so can result in situations where individual rationality conflicts with achieving the best collective outcome (see Shubik 1982, p.217; Coram 2001, p.15).

with neoclassical economics; a concept that I contend was more in keeping with the modernist aspirations of mid-twentieth century neoclassicism.

I argue that game theory is better understood as an interdisciplinary exploration of rationality within a rational choice framework, not as a specifically economic approach. While the Nash solution concept pushed game theory in a direction more compatible with neoclassical economics, Nash’s solution was not universally embraced. Instead, other game theorists attempted to show the shortcomings in Nash’s approach. The PD was developed as part of this reaction, as a counter-example to the Nash conception of rationality. I argue that much of the development within the PD literature, and the eventual emergence of the concept of social capital, can be understood as the results of game theorists attempting to answer the criticisms of Nash’s theory implicit in the PD. Thus, the concept of social capital is best understood as a defence of rational choice theory, not primarily a means of colonising other disciplines.

**Two concepts of rationality**

As much of the discussion that follows focuses on the different types of solution concepts that have developed within game theory it is useful to spend a little time examining what was initially laid out in TGEB, and how Nash’s equilibrium concept developed upon this. TGEB argued against what its authors called a ‘Robinson Crusoe’ approach to economics. Much neoclassical theory assumes a large number of buyers and sellers, with each individual having little effect on the overall outcome (such as prices or distribution). In this context each individual attempts to maximise their position against a ‘given’ environment (the price prevailing in the market, technologies available, etc).

Von Neumann and Morgenstern, instead, focused on situations where the result was explicitly the product of a combination of different individual decisions. Thus, in Table 1, to achieve outcome ‘Z’, requires both that the row player choose option ‘2’, and that the column player choose option ‘B’. In other words, game theory attempts to explain the interdependence of choice.
Table 1

<table>
<thead>
<tr>
<th></th>
<th>Option A</th>
<th>Option B</th>
</tr>
</thead>
<tbody>
<tr>
<td>Option 1</td>
<td>W</td>
<td>X</td>
</tr>
<tr>
<td>Option 2</td>
<td>Y</td>
<td>Z</td>
</tr>
</tbody>
</table>

The first important implication of this interactive approach to rational choice theory is that it more explicitly deals with a social world, a world where individuals are ‘exposed to factors of imitation, advertising, custom, and so on’ (1953, p.10). Secondly, this alternative approach requires a new type of mathematics. Instead of simple maximum problems (faced by each individual one at a time) and solved using the tools of calculus, there are now many individuals, each with their own maximum problem and each facing a situation where they cannot control all of the factors involved. As TGEB puts it,

‘He [sic] tries to obtain an optimal result. But in order to achieve this, he must enter into relations of exchange with others. If two or more persons exchange goods with each other, then the result for each one will depend in general not merely upon his own actions but on those of the others as well. Thus each participant attempts to maximize a function (his above-mentioned “result”) of which he does not control all variables. This is certainly no maximum problem…’ (von Neumann & Morgenstern 1953, p.11).

Further, because these decisions refer to rational choices, they cannot simply be assumed to accord with a probabilistic distribution, but must follow some independent logic (von Neumann & Morgenstern 1953). Accounting for this logic has been the main source of disagreement between von Neumann and Morgenstern, and other game theorists, most notably Nash.

Mirowski (1992; 2002), Schotter (1992) and Shubik (1992) have all argued that von Neumann and Morgenstern developed a logic of rationality for solving games that was

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44 This form of representing a game shows the options for each player and the outcomes resulting from each combination of choices. Here the row player chooses between Options 1 and 2, and the column player between Options A and B. W, X, Y and Z represent the outcome of each combination of these choices.
substantially less precise than the concept developed by Nash and embraced by most game theorists. Mirowski in particular argues that von Neumann changed course part way through developing game theory. At the time he was developing game theory, von Neumann was also attempting to axiomatise quantum mechanics, a task he pursued as part of the broader formalist program of his teacher, David Hilbert (Mirowski 1992).  

The Hilbert program, as it became known, sought abstract, context-free knowledge. It sought to build knowledge from the ground up, using deductive, axiomatic logic. It was an approach consistent with Bourbakist mathematics, a highly abstract, acontextual mathematical program, and much neoclassical economics. In other words, the Hilbert program was essentially modernist.

However, in 1931 Kurt Godel discovered a limitation. Godel’s incompleteness theorem proved that there was no language (including mathematics and logic) that could be both complete and coherent. Mirowski argues that von Neumann saw Godel’s work as an effective rebuttal of the Hilbert program. He argues that von Neumann turned from Hilbert’s highly abstract project to more concrete and naturalistic approaches to knowledge and rationality.

Von Neumann began to examine the operation of the human brain, he pioneered the theory of automata and, Mirowski claims, laid the foundation for a re-examination of rationality based on simulation and computer theory (see Mirowski 1992; 2002). Mirowski claims that by the early 1940s, game theory had ceased to be a component of a Hilbertian theory of everything, and was instead the first step towards an alternative notion of rationality which was more contingent and social. In Mirowski’s words, ‘while game theory began as an extension of the Hilbert program, with some nudging from Morgenstern it slowly became one component of the anti-Hilbert reaction’ (1992, p.123). Thus, rather than being part of the modernist adventure, game theory was about

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46 This program is named after the fictional Nicolas Bourbaki, the pseudonym chosen by a group of French graduate mathematicians who sort a new axiomatisation of all mathematics. The project became popular in economics, particularly through the work of the French educated Gerard Debreu (see Weintraub 2002, chapter 4).
47 Similar findings published by Turing also had an effect on von Neumann. I discuss this in more detail below.
to become part of a reaction against the modernism of the rest of mainstream economics.

There are two important senses in which TGEB leaves the definition of solution open in a way that is subsequently made precise within economics. The first is in relation to so-called ‘cooperative games’, where there are gains to be made from trade, with the distribution of benefits dependent on the price at which goods are exchanged. Here TGEB draws on Eugen von Bohm-Bawerk’s (1921) idea of marginal pairs and suggests only that the price reached will lie within a certain range, rather than being a fixed point (von Neumann & Morgenstern 1953, pp.560-4; also see Schotter 1992, pp.98-9).

Secondly, and more importantly for the current purpose, TGEB suggests that virtually all games will produce indeterminate results. The one exception to this is the two person zero sum game. This was the focus of von Neumann’s 1928 paper. However, von Neumann and Morgenstern argue that if either condition of the game is altered – i.e. it has more than two players, or the total sum of the game is variable, then the single solution concept no longer holds (1953, pp.34-5).

TGEB argues that where there are more than two players, the players will form two coalitions. As the players resolve into two coalitions, so the game is effectively reduced to two (coalition) players. However, there may be a number of different coalitions that can form. As each coalition combines elements of more than one individual’s payoffs, transitivity of individual preferences does not guarantee transitivity of coalition payoffs (see von Neumann & Morgenstern 1953, pp34-9).

We are left with a system that does not give definite, determinate answers, but a set of possibilities. Which of these possibilities ultimately comes to pass is determined by the ‘standards of behaviour’ present in the society. This is not social theory per se, but it is also a far cry from the modernist image of neoclassicism given by Fine and other heterodox critics. Indeed, even in developing their concept of domination, where one coalition is said to be preferred to another, von Neumann and Morgenstern are sensitive to social definitions, defining this as a situation where society as a whole will
‘accept’ one coalition to another (1953, p.37). In the same way, the definition of standards of behaviour is left open.

‘…(standards of behaviour) has a simple and not unreasonable meaning, namely that given the same physical background different “established orders of society” or “accepted standards of behavior” can be built, all possessing those characteristics of inner stability which we have discussed. Since this concept of stability is admittedly of an “inner” nature – i.e. operative only under the hypothesis of general acceptance of the standards in question – these different standards may perfectly well be in contradiction with each other’ (von Neumann & Morgenstern 1953, p.42).

As a result, TGEB rejects the notion of a solution as a specific point, and instead suggests that a solution is a ‘set of imputations’. But in 1951 Nash provided an alternative approach to determining the solution of non-cooperative games, and allowing for solutions to be specific points.

Nash’s concept builds on TGEB. Nash claimed that a solution constituted a point where no player could improve their outcome, given the fact that no other player changed their strategy. Nash’s logic goes something like this – imagine I am to play strategy A, imagine also that if you knew this, then your best response would be to play strategy 2. If I knew you were to play strategy 2 and my best response was to continue to play strategy A then this would amount to a solution – my best response to your best response.

In TGEB von Neumann and Morgenstern allude to a similar logic. They argue that if a player can improve their position by playing an alternative strategy, then the solution concept being employed must be faulty. This test, ensuring there is no ‘irrational strategy’ that can improve the outcome for any player, is very similar to Nash’s test that there is no other strategy (at this stage in Nash’s framework strategies are yet to be defined as rational) that can improve the outcome for any player.48

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48 Later Sugden (1991a) raises a similar issue by giving examples of situations where ‘irrational’ behaviour leads to better outcomes. He suggests that this seems to violate the very definition of rationality.
‘…the rules of rational behavior must provide definitely for the possibility of irrational conduct on the part of others. In other words: Imagine that we have discovered a set of rules for all participants – to be termed as “optimal” or “rational” – each of which is indeed optimal provided that other participants conform. Then the question remains as to what will happen if some of the participants do not conform. If that should turn out to be advantageous for them – quite particularly, disadvantageous to the conformists – then the above “solution” would seem very questionable’ (von Neumann & Morgenstern, 1953, p.32).

This quotation highlights some continuity between Nash and TGEB. However, both authors of TGEB took issue with aspects of Nash’s new solution concept. Von Neumann rejected Nash’s theory and continued to argue against single equilibria (Shubik 1992, p.155), while Morgenstern continued to argue that convergence to a single equilibrium as the number of players grew was unlikely (1949).

Determinism, however, was welcomed elsewhere. Harsanyi, having claimed that the delayed progress of game theory within economics was largely due to the lack of determinate solutions (1976, quoted in Schotter 1992, p.107 ff2), further solidified the modernist mood. He argued that problems of incomplete information could be solved with the notion of Bayesian learning, in which players use probability theory to estimate the likelihood of different outcomes, and adjust these probabilities as new information comes to light (2001 [1967/8]). Harsanyi’s solution still allowed determinate predictions, by-passing more radical notions of uncertainty that simply do not permit any meaningful allocation of probabilities to potential outcomes, such as Frank Knight’s (1921, chapter 7).49

In other words, I argue that the conception of rationality developed by Nash moved game theory back in the direction of modernism, allowing determinate predictions. But determinate predictions do not only make it easier to construct clean and comprehensive theory, they also involve making strong empirical claims, and this later trait can lead to contradiction. The game that has led to the most empirical testing has

49 This more radical notion, that there are some things we simply do not know, has formed an important component of Austrian thinking (see Hargreaves Heap et. al. 1992, pp.54-5 for a brief discussion) and some post-Keynesian (for example Davidson 1991) thinking.
also been the game that has generated most debate, and I argue, has led most directly to the development of the concept of social capital – the Prisoner’s Dilemma.

**The prisoner’s dilemma**

Initial funding for game theory research came via the military. TGEB was written during the Second World War and the theory found a ready sponsor through operations research (OR) (see Mirowski 1991; 2002). Mirowski has claimed that this historical context shaped game theory, ensuring a focus on two-person zero sum games that reflected battle scenarios, and a desire for applied theories that could inform decision-making (1991). This context also ensured that game theory was interdisciplinary, with practitioners and theorists from a range of backgrounds working within OR.

While economists were focused on cooperative game theory as a means to furthering the general equilibrium project, significant theoretical development was taking place in non-cooperative game theory. Nash’s theory of non-cooperative games caused considerable debate in the broader game theoretic community. Much of the initial response was sceptical. In particular, two game theorists working within OR, Merrill Flood and Melvin Dresher developed the game that would later be known as the PD as an explicit counter-example to Nash’s approach. The game is reproduced below,

Table 2

<table>
<thead>
<tr>
<th></th>
<th>Left</th>
<th>Right</th>
</tr>
</thead>
<tbody>
<tr>
<td>Top</td>
<td>-1, 2</td>
<td>1/2, 1</td>
</tr>
<tr>
<td>Bottom</td>
<td>0, 1/2</td>
<td>1, -1</td>
</tr>
</tbody>
</table>

The Nash solution for the game is Bottom/Left. Regardless of which option the column player chooses, the row player is always better off playing ‘Bottom’. For example, if the column player plays ‘Left’ then the row player either receives –1 for...
To demonstrate that Nash’s reasoning was flawed, the two men conducted an experiment with a couple of their colleagues. The colleagues played the game 100 times, receiving their payoff at the end (in pennies). The two were not allowed to communicate other than by discovering how the other had played at the end of each round. And each was asked to keep a record of their thoughts throughout the experience.

The results were intriguing. On average the row player received 0.4 and the column player 0.65. This is well above the Nash solution, but also short of full cooperation (Flood 1952; 1958). What is perhaps more interesting was that both players became increasingly confused and frustrated as the game progressed, unable to discern what the other was thinking, or why they were behaving as they did (Flood 1958, appendix). Flood concluded that the game demonstrated the limitations of Nash theory (1958). This represented one of the first attempts at empirically testing (and falsifying) the deductive logic of game theory.

It was not the only example of experimentation within game theory. The structure of gaming seemed to invite empirical investigation particularly in its Nash form where the theory provided clear, precise predictions of behaviour. Those involved in experimentation were also those most closely associated with the game theoretic invention, and particularly with TGEB, people such as Shubik and Schotter (Roth 1995, p.18; Smith 1992). As Alvin Roth notes in his respective works on the history of experimental economics,

‘Rather, game theory brought to economics a kind of theory that lent itself to experimental investigation, and in some cases demanded it. The reason is that it seeks to provide precise models of both individual behavior (in von Neumann-Morgenstern utility functions) and of economic environments. This concern with the “rules of the game,” the institutions and mechanisms by which transactions were made, together
with precise assumptions about the behavior of individuals and the information available to them, gave rise to theories that could be tested in the laboratory’ (Roth 1995, p.18; 1993, p.201).

At almost the same time as Flood and Dresher were developing the game, A. W. Tucker dubbed it the Prisoner’s Dilemma (PD) (1950; also see Roth 1993, p.191 ff). He changed the structure of the game so that the player’s received symmetrical payoffs and explained the structure with a story about two prisoners. The story suggests two criminals are caught and interrogated separately. They are then faced with a dilemma. They are better off confessing and doing a deal then holding out. However, they are both better off holding out than if they both confess. The order of preferences is the same as Flood and Dresher’s game. This more popular version of the game has since been tested by other game theorists who have come to similar conclusions to Flood and Dresher (see Riker 1992, p.217). The generic PD is given below, with the widely used terms ‘cooperate’ and ‘defect’ as strategies.

Table 3

<table>
<thead>
<tr>
<th></th>
<th>Cooperate</th>
<th>Defect</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cooperate</td>
<td>a, a</td>
<td>d, b</td>
</tr>
<tr>
<td>Defect</td>
<td>b, d</td>
<td>c, c</td>
</tr>
</tbody>
</table>

(The exact payoffs are not relevant, only that preferences run $b > a > c > d$.)

I argue that game theorists responded in two related but distinct ways. The first was to change the nature of the game to better match the theory of rationality outlined by Nash. This was done both by altering the game structure so that it still resembled the original PD, but allowed for alternative solutions, and by changing the method of experimentation to limit the degree of social interaction allowed between the players. Secondly, some game theorists began to change the theory itself, allowing players to apply a different logic in solving games. I argue that both these strategies informed the development of the concept of social capital. The first ensured that the concept

51 Some game theorists pursued another alternative; to treat the PD as an aberration and ignore it. I discuss this alternative in relation to Shubik in chapter seven. However, this alternative of not engaging with the PD has little relevance to the development of the concept of social capital and so is not discussed in detail here.
remained within the neoclassical tradition. The second ensured the concept was also part of a questioning of neoclassical theory and a move away from modernism.

**Changing the rules**

The first of these responses – to change the structure of the PD game and of the experiments based upon the game, but to defend the broader theory of games – seems to have been largely anticipated by Nash himself in his initial response to Flood and Dresher’s findings. Nash’s view is contained in a letter sent to Flood before publication. Flood published the letter along with the results but rejected Nash’s view, maintaining his initial conclusion that the experiment pointed to the limitations of the Nash concept of rationality.

Nash argued that Flood and Dresher’s experiment was an inappropriate test of the game they had developed. Instead he suggests changes to both the game and the experiment to bring them into closer alignment. He argues the PD should be conceived as just one sub-game in a bigger game incorporating many repetitions of the PD (reflecting the repetitions in the experiment). He also argues that the experiment be changed to minimise the degree of social interaction between the participants. As these comments seem to capture much of what has since transpired, I have included Nash’s comments in full:

‘The flaw in this experiment as a test of equilibrium point theory is that the experiment really amounts to having the players play one large multimove game. One cannot just as well think of the thing as a sequence of interaction, which is obvious in the results of the experiment.

Viewing it as a multimove game a strategy is a complete program of action, including reactions to what the other player had done. In this view it is still true the only real absolute equilibrium point is for [ROW] always to play 2 and [COLUMN] always to play 1.

However, the strategies:
[ROW] plays 1 ‘til [COLOUMN] plays 1, then 2 ever after,
[COLOUMN] plays 2 ‘til [ROW] plays 2, then 1 ever after,
are very nearly at equilibrium and in a game with an indeterminate stop point or an infinite game with interest on utility it is an equilibrium point.

Since 100 trials are so long that the Hangman’s Paradox cannot possibly be well reasoned through on it, it’s fairly clear that one should expect an approximation to this behavior which is most appropriate for indeterminate end games with a little flurry of aggressiveness at the end and perhaps a few sallies, to test the opponent’s mettle during the game.

It is really striking, however, how inefficient [ROW] and [COLOUMN] were in obtaining the rewards. One would have thought them more rational.

If this experiment were conducted with various different players rotating the competition and with no information given to a player of what choices the others have been making until the end of all trials, then the experimental results would have been quite different, for this modification of procedure would remove the interaction between trials,’ (Nash (private communication) reproduced in Flood 1958, p.16, emphasis in original).

Nash does concede some ground. He recognises, firstly, that it is difficult to reason through the full structure of such a complex multimove game, and thus expects only that their behaviour will approximate various solutions. Secondly, he notes ‘how inefficient’ the players are, although he makes no reference to the written accounts made by the players themselves, which reveal the true extent of their confusion. But what is also interesting is that Nash fundamentally rejects the findings. Reflecting Thomas Kuhn’s thesis on the development of scientific paradigms, and the reaction of other economists to the apparent falsification of their theories (see for example Hands and Mirowski 1998), Nash refuses to accept that such empirical evidence constitutes falsification.

Debate over the PD was not confined to game theorists. In the coming decades the debate over the PD widened as the logic of the problem was applied to other situations.
In the 1960s Mancur Olson’s *The Logic of Collective Action* sparked an ongoing debate over the ease or difficulty with which people could work together. Soon after, Olson’s logic was compared to a n-person PD (R. Hardin 1971), allowing the literature on collective action to merge with game theoretic debates about the PD. Likewise, the PD has been compared to the problem of providing public goods, or of deterring free riding, within neoclassical economics. The broadening of the debate reflects Varoufakis’ (2001b) claim that game theory potentially offers solutions that apply across the social sciences, but this has also meant a broader engagement with other social scientific traditions.

However scepticism continued to be voiced across different disciplines and debates. Leif Johansen argued, in relation to the supposed problem of public good provision, that no dilemma actually existed – states all over the world seemed to be able to provide public goods (1977). Sociologists Gerald Marwell and Ruth Ames conducted PD experiments with groups of university students, finding that high levels of cooperation were common, with the exception of those studying economics, who were the only group to really succumb to the dilemma (1981). While this claim has been disputed, the extent of the problems caused by the PD is still questioned (see Roth 1995, pp.33-4), with the suggestion that the problem is more an artefact of theory, than an empirical reality.

With such a disconnect between the predictions of theory and the apparent empirical reality, theorists began to search for ‘solutions’ to the PD. Initially, Anatol Rapoport claimed that Nigel Howard had struck upon the solution by allowing one player to move first, thus effectively making the strategies of the other player conditional on the strategies of the first (Rapoport 1967; Howard 1971, quoted in Taylor 1976, pp.64-5, 68). While this did resolve the problem of cooperation, it also seemed to change the nature of the situation. A more successful line of argument came directly from Nash’s own refutation of Flood and Dresher’s initial experiment. Shubik (1959), Michael Nicholson (1972) and others, focused on the indefinitely repeated version of the PD. Under certain conditions, they argued, cooperation would be an equilibrium outcome.

Taylor, an anarchist political scientist, and one of the theorists most extensively quoted by Putnam in his discussion of social capital in *Making Democracy Work*, soon took
up Shubik’s and Nicholson’s argument. Taylor extended their results, which were largely based on the two-person game, by applying the same logic to the n-person version of the game. Following the same logic as Nash, Taylor demonstrates that a strategy of conditional cooperation is a Nash equilibrium in certain versions of the indefinitely repeated n-person PD (1976, chapter 3).

Taylor’s solution was conditional cooperation. Thus, each player would have a ‘plan of action’ where their choice in each round partly reflected the behaviour of their opponent(s) in previous rounds. Conditional cooperation allowed a player to cooperate so long as their opponent(s) had cooperated in previous rounds, but to defect if their opponent had defected in previous rounds. This has the effect of increasing their opponents payoff for cooperation, thus encouraging cooperation. Taylor extended the result to account for the possibility of altruism. In each of these cases, conditional cooperation proved to be a stable solution (1976). The same logic is embraced by Axelrod, another influential source in both Putnam and Coleman’s accounts, in his more famous discussion of cooperation (1984).

Importantly, both Taylor and Axelrod are explicit in their desire to ensure their analysis remains consistent with (at least some elements) of Nash analysis. Both men explicitly construct versions of the PD in which cooperation can be justified as a Nash equilibrium (and avoid versions where this is not possible).

Taylor recognised that in the one-shot PD there is no possibility of cooperation. Instead, he argued, cooperation was dependent on the possibility of conditional strategies. Thus, he chose to focus on what he called the ‘supergame’, which Nash had earlier called the ‘multimove’ game (1976, p.11).

Similarly, Axelrod recognised that so long as the PD was repeated a finite number of times, as long as there was a certain end point, then the logic of Nash’s theory allowed only one solution – defection (an observation made by Nash in his letter). However Axelrod argued that, ‘with an indefinite number of interactions, cooperation can emerge’ (1984, p.11). It was for this reason that he chose an indefinitely repeated version of the game (see 1984, p.10-1). Importantly, both men also sought to justify indefinite repetition as a more realistic interpretation of real life situations. However,
in both cases the discussions use Nash’s logic to rule out any alternative construction of the game.

At the same time, experimental economists sought to change the nature of experimentation, to reduce social interaction. Players were asked to play games via computers, against randomly rotated opponents whose identity was concealed, and who were physically in a different room. Under these conditions, those playing the PD were far more likely to defect (see for example the discussions in Ostrom 1990; Ullmann-Margalit 1977). This is in keeping with Nash’s understanding of game theory as a predictive science (see also Ledyard 1995, p.114). Despite this, examples have continued to emerge of experimental subjects systematically subverting the logic of Nash equilibrium analysis (for example see Hargreaves Heap, et al 1992, chapter 3).

Taylor and Axelrod are typical of others involved in the PD literature. In recognising the problems presented by the PD, and the substantial empirical evidence of cooperation, theorists have consistently attempted to find solutions that can be reconciled with Nash’s logic. Almost all of the PD literature that led to the concept of social capital focused on the indefinitely repeated PD for just this reason. Thus, the PD literature remained within the game theoretic mainstream. However, demonstrating that cooperation is possible is different from demonstrating that it is likely. Despite the many different versions of the game, defection always remained an equilibrium point. This led Axelrod, in particular, to search for other ways of solving the game, means which were not as consistent with traditional game theory, but which allowed for a stable cooperative solution.

**Changing rationality**

As economists focused on cooperative game theory in pursuit of the general equilibrium project, so another set of problems began to emerge. Neoclassical economics had embraced the bourbakist mathematical tradition and formal deductive proofs. The modernist neoclassical project, similar to Hilbert’s formalist program, attempted to explain the world from first principles, removing empirical observation and instead creating mathematical models. As a result neoclassical economics became
susceptible to critiques similar to Godel’s incompleteness theorem. In addition, the complexity of general equilibrium models led to non-linear dynamics, undermining the stability of the models. This led many within the neoclassical tradition to reduce the complexity of the models, creating an ever more uniform understanding of the individual. However within the PD debate diversity was desirable. Thus, stability came in another form, through alternative notions of rationality.

The general equilibrium project was the focus of most of the intellectual muscle of neoclassical economics during the 1950s and 1960s. The objectives of the project have remained the same over much of the history of modern economics – viz. to establish existence, uniqueness and stability (see Ingrao & Israel 1987). That is, the general equilibrium project sought to establish that within the mathematical model of the economy being developed there existed a general equilibrium where all markets were simultaneously in equilibrium; that within the model the general equilibrium was unique, meaning there was only one such point; and that the equilibrium would be stable, once reached there would be no tendency to move away from the equilibrium. The project experienced some early success. Kenneth Arrow and Gerard Debreu famously established a model for proving the existence of a general equilibrium in the early 1950s (Arrow & Debreu 1954). In the 1960s Debreu and Scarf demonstrated that cooperative game theory also converged to this Walrasian ‘core’ (1963).

However, this early success soon began to give way. The 1970s produced a series of uncomfortable results. Hugo Sonnenschein (1972), Rolf Mantel (1974) and Debreu (1974) showed that prices could be completely unstable for various combinations of preference sets. By the 1980s these results had been generalized further still, to show that even with identical preference sets differences in income distribution could create the same unstable results (Kirman and Koch 1986).

The general equilibrium model developed by Arrow and Debreu was proving unmanageable. While existence had been established, there was little progress in terms of uniqueness, and almost certain failure in terms of stability. But this did not necessarily lead to a change in approach. As Bruno Ingrao and Giorgio Israel have put it, ‘While no agreement has yet been reached as to the implications of the results concerning uniqueness, those concerning global stability (i.e., the market’s ability to
attain equilibrium) are unquestionably negative. So far, this difficult state of affairs has rarely been faced up to with the necessary coherence.’ (1987, p.361). More recently Frank Ackerman had to once again declare, ‘General equilibrium is still dead’ (2002, p.132).

Ackerman argues that the problem confronting neoclassical economics amounted to an inability to deal with diversity. As Donald Saari puts it, ‘the complexity of social sciences derives from the unlimited variety in individual preferences; preferences that define a sufficiently large dimensional domain that, when aggregated, can generate all imaginable forms of pathological behaviour’ (1995, p.229, quoted in Ackerman 2002, p.127). Allowing individuals to be different, combined with the extraordinary number of commodities to be distributed within the economy, creates too many degrees of freedom (Ackerman 2002, pp.124-8).

Mirowski has argued that a common response within neoclassical economics had been to reduce diversity by homogenising the individual actor, an ironic development for a discipline so fiercely committed to individualism (2002, p.450). By limiting the diversity of preferences, in some cases reducing all individuals to the same preference set, diversity is minimised, and thus the models become more tractable and more stable. It is the type of approach taken by Gary Becker, and criticised by Fine.

However, this was not an appropriate strategy within the PD literature. Here there already existed a single, stable solution – to always defect. The challenge was to allow alternative solutions, and to demonstrate how these alternatives could themselves be stable. So rather than retreating from overwhelming diversity, the game theorists involved in the PD began to embrace it.

An alternative understanding of rationality had already begun to develop within the neoclassical tradition, in many ways inspired by the same insights as TGEB. Mirowski has argued that many of the changes taking place within neoclassical economics have been driven by a growing recognition of economics as a ‘cyborg science’ (especially 2002). Mirowski argues that the development of computer science grew out of the same institutions as the post-War neoclassical project, largely within OR. Much of this began with von Neumann, and other thinkers who have explored notions of rationality
through simulation and computer programming have since developed this legacy. Here I build on Mirowski’s thesis, arguing that Alan Turing’s incomputability thesis laid the groundwork for an alternative, process based, understanding of rationality that has since informed the development of the concept of social capital.

Mirowski cites Turing as demonstrating Godel’s incompleteness theorem, but with reference to computers. Turing developed a theory of computation that has since also provided the basis for understanding complexity. He began by asking how a machine could process information and determine the answer to certain mathematical questions. His answer involved developing a broader theory of how machine rationality worked, a project that he linked to understanding human rationality (Turing 1950; Mirowski 1992, pp.125).

Turing understood machines as rule-following systems. They would be given certain input, and then follow particular rules to arrive at a defined output. Each function would be defined by a particular set of rules, which he described in tables. There would be a table for a machine that added numbers together, a different table for a machine that divided numbers. This defined the Turing machine. He then went one step further. If each machine could effectively be defined by a table, and each of these tables be given a number, then it would be possible to produce a machine that mimicked the behaviour of every other machine – the ultimate Turing machine. The table for this machine would define when to use every other table (see Turing 1936/7; Hodges 1983, pp.96-104).

Turing then made a significant discovery. Drawing on the work of German mathematician Georg Cantor, Turing developed his incomputability thesis. Cantor had used what has since been called a ‘diagonal argument’ to demonstrate that no list of real numbers could ever be complete (see Hodges 1983, pp.101-2 for a good summary of Cantor’s argument). Turing used Cantor’s diagonal argument to demonstrate that even his ultimate Turing computer could not compute all possible numbers, thus refuting the Hilbert program.

Turing’s work has since informed critics of maximisation theory within economics. Gerald Kramer and Alain Lewis used the incomputability thesis to argue that it was
not (even theoretically) possible to solve all the equations necessary to effectively maximise (Kramer 1967; Lewis 1985; 1992). To put it in Lewis’ words, the neoclassical model of rationality was ‘computationally non-viable’, meaning it could only be implemented by a procedure that did one of two things ‘either (a) the computation does not halt and fails to converge, or (b) the computation halts at a non-optimal choice’ (1985, p.45). In other words, in some instances, it was simply impossible to determine the optimal choice. In such cases, any attempt to determine the optimal choice would either fail to settle on any option, or would settle for a choice that was not optimal.

Turing’s analysis also led to a very different way of understanding rationality. Instead of seeing rationality as a process of maximisation, computer rationality was based on a much simpler notion of rule following. The limitations of computational capacity in actual computers, as well as the theoretical limitations discovered by Turing, made this type of reasoning far more tractable than the model developed within mainstream economics.

Turing was one of many theorists becoming involved in the theory of computation. Mirowski has observed that Turning’s work parallels von Neumann’s in key respects. Both were initially interested in the possibility of complete and systematic axiomatic knowledge. Both were confronted with the impossibility of the task; and both turned to computers, the theory of automata and more generally the question of rationality in search of answers. Mirowski has also argued that von Neumann’s strong influence over much of the economic research conducted within military think tanks, such as RAND, ensured that economists were engaged in these early computational debates, although economics subsequently became preoccupied with the modernist methods of Boubakist mathematics (Mirowski 2002, esp. pp.393-4).

Herbert Simon was one of those early theorists. He was involved in cybernetics, the study and comparison of how biological and machine processes and communications systems work, and in the early phases of experimentation. Simon took up the message of Turing’s work, the difficulties associated with computation of information. Simon was unconvinced that people either had access to the relevant information, or were able to perform the computations necessary to make these types of decisions (see
Simon 1955). As a result, Simon looked to empirical investigation as a means for understanding rationality, testing the claims of mainstream economics, and correcting the theory in the light of evidence when it proved weak (Simon 1957).

Simon rejected the model of economic man and instead suggested a model of bounded rationality. Rather than attempting to maximise utility, individuals attempted to satisfy minimum requirements (satisfice). They would judge outcomes on a range of criteria and determine minimum positions on each. They would then search for alternatives that satisfied these criteria. Simon also speculated that the criteria themselves might change. If an initial search found several suitable alternatives, the minimum standards might be raised, likewise failure to find suitable alternatives would result in lower standards. This, Simon suggested, would likely result in both existence and uniqueness (1955). But the model remains indeterminate, depending on which alternatives are discovered first a range of different outcomes could ensue. This rule-governed model of rationality also sought to depart from the mechanical approach of economics. Instead, Simon looked to evolutionary metaphors and processes, seeing rationality itself as subject to these processes of learning and development (for example 1955, p.122 ff; 1957, pp.241-60).

Simon is not the only theorist to have developed alternative, process-based or evolutionary notions of rationality, but he is perhaps the best known. His work has also been a direct and explicit influence on the PD debate.\textsuperscript{52} Axelrod refers to Simon’s theory of bounded rationality in developing his own account of rationality (1984, p.18). Axelrod undertakes a subtle task in explaining his approach to rationality. On the one hand he is careful to develop a model of the PD that allows for cooperation as a Nash equilibrium, on the other he does not suggest that the Nash theory of rationality should be the benchmark. He does not require decisions to be made in accordance with maximisation theory; indeed he does not even require decisions to be made consciously.

\textsuperscript{52} In a similar vein to my thesis here, Esther-Mirjam Sent (2004, pp.310-1) has recently argued that Simon’s theory of bounded rationality has proved popular in some game theoretic circles because it provides a potential solution to ‘unintuitive’ results produced by the Nash solution concepts. However, Sent makes no reference to the debates leading to the development of the concept of social capital, nor to how the embrace of bounded rationality has helped to move neoclassical economics away from what I term modernism.
This open-ended approach is part of an attempt to resolve the outstanding problem of the indefinitely iterated solution to the PD – the problem of multiple equilibria and indeterminacy. Once the game is modified to allow alternative equilibria, there is not a single alternative, but numerous possibilities. Which is chosen, and whether the equilibrium is maintained, are thus important questions. As Sugden pointed out in his book, which was later quoted by Putnam, ‘In the extended prisoner’s dilemma game there are countless billions of strategies; it seems that we can analyse the game only by restricting ourselves to a few basic types of strategy, which means that any analysis must be incomplete’ (1986, p.120).

Taylor’s solution to this problem was to only consider six types of strategies. Of these strategies, Taylor discovered that five could be equilibrium strategies given the right ratio of payoffs. He solves this problem of indeterminacy by adding an extra ingredient into the Nash notion of rationality. Taylor claims that ‘An equilibrium is defined as a strategy vector such that no player can obtain a larger payoff using a different strategy while the other players’ strategies remain the same… But a player may have reasons for expecting that a certain equilibrium will not be the outcome. Then he may not use his equilibrium strategy and the equilibrium will not be the outcome’ (1976, p.30, emphasis in original). The first part is just a restatement of the Nash equilibrium principle, but the second part allows Taylor to choose between multiple equilibria. Taylor argues that if there is more than one equilibrium, and one equilibrium is preferred by all players to another (i.e. is Pareto superior), then everyone will expect the Pareto superior outcome to be the result. The effect of this addition is to always chose the best possible equilibrium on offer, and thus make cooperation stable. While this certainly solves the problem of multiple equilibria, it is not entirely satisfactory.

Axelrod gets around this by looking outside economics. In Axelrod’s model, the solution is determined not by maximisation, but by evolution. Perhaps this should not be a surprise. In the same way that game theory seemed to invite experimentation, it also seems to invite computational modelling. After all, the solution concepts discussed by Taylor, Sugden and others, are really just rules. This is particularly clear with the strategies of conditional cooperation discussed in the PD debate. Each strategy is in fact a rule. For example, the strategy known as ‘grim reaper’ refers to the
rule: ‘Begin by cooperating. Continue to cooperate until your opponent defects. Then defect for the remainder.’ Determining which rule works best can be a process of maximisation – but the strategies themselves do not involve maximizing, they simply involve rule following.

Axelrod built on this logic by devising a computer tournament based on the PD. He invited theorists, hobbyists and others, across a range of disciplines, to submit programs (rules) to play a series of indefinitely repeated PDs. Each program was then paired up, one at a time, with each of the others. The results of the games were recorded, and then the scores were added together at the end.

The result was a victory for the TIT-FOR-TAT program, one of the models used in Taylor’s discussion. TIT-FOR-TAT begins by cooperating, and then simply copies its opponent, cooperating when its opponent cooperated in the previous round and defecting when its opponent defected in the previous round. Axelrod published the results, along with a discussion, and invited the same group, along with others, to submit new entries for a second round. TIT-FOR-TAT was again the clear winner (1984).

Axelrod then ran a different type of test. He designed a type of evolutionary model, drawing on evolutionary biology and NIE. The model contained a population of programs (based on the initial entries). After the first round of interactions more successful entries would increase in number, while less successful entries would decrease. Thus in the next round a given program would play a higher proportion of the more successful programs. This process was repeated for 1000 rounds. By this stage most of the less successful programs had died out, while the more successful programs had grown substantially in number, with TIT-FOR-TAT at the top (1984, pp.48-54).

Axelrod’s approach has proven influential. Following the publication of his findings in *Evolution of Cooperation* (1984), Sugden produced a similar analysis. While not employing the computational method of Axelrod, Sugden did apply the same evolutionary argument, asking which strategies would prove resilient in the face of an invasion by a group following a different strategy. Sugden also concluded that TIT-
FOR-TAT was the most likely to succeed (1986). Taylor also revisited his work, incorporating the findings of Axelrod’s tournament in 1987, and Ostrom based her study of collective dilemmas on Axelrod’s findings (1990). Putnam extensively quoted all of these authors in his discussion of social capital in *Making Democracy Work*.

This evolutionary approach marks a significant move away from the modernist ideal embodied in the general equilibrium project, and in much mainstream economics more generally. First, rationality is rule governed rather than based on maximizing the end result. Secondly, there is no single model of rationality; instead each individual can follow different rules. The choice of rules reflects a process similar to bounded rationality. Not all rules are considered in any of these models of the PD. Each theorist selects rules they think are likely to work, or because they are prominent in some other way (for Axelrod this was achieved by inviting submissions, for Taylor and Sugden by selecting the most discussed, and usually most straightforward, strategies). Finally, selection is based on what works, rather than the more deductive approach of maximisation, and reflects a biological metaphor rather than a mechanical or physical one.

Not all the problems have been sorted out. Axelrod notes that the results are still sensitive to the initial population of strategies, discovering that different sets of rules produced different results (1984, pp.204-5). Even the ratio of payoffs (i.e. the magnitudes of the differences between the four possible payoffs) can make a substantial difference. All of this reflects the more complex and contingent nature of the analysis. It suggests that the eventual solution of the PD has been intimately linked to the broader developments within economics that have led it away from the modernist ideal.

**And so to social capital**

Gambetta, another of the authors whose work Putnam draws upon in his Italian study, claimed that game theorists had managed to explain why it was that people sometimes did not cooperate. But, he added, the real problem for game theorists was not explaining the few cases of selfishness, but rather the pervasive nature of cooperation
(1998a, p.217). Having demonstrated that cooperation was possible, Axelrod, Sugden, Taylor and others had to also demonstrate why it was such a regular occurrence. In the real world, it seemed, cooperation was not only possible, but probable.

The solution that each arrived at, and which went on to influence others including Putnam, was to combine their game theoretic analysis with the conceptual tools of sociology. Each of the three – Axelrod, Sugden and Taylor – used their game theoretic solution to the PD as a basis for explaining the development of social norms. In turn, each of them then used the framework of norms to explain why the cooperative solution to the PD was stable.

Explaining sociological phenomena, like norms, through game theory, had begun somewhat earlier. Philosophers David Lewis and Ullmann-Margalit had already applied game theory in this way. Lewis addressed criticisms of the contractarian theory of the development of language by arguing that language could be thought of as the solution to a particular type of coordination game (1969). Ullmann-Margalit then built on Lewis’ work, using a number of different games, including the PD, to explain the existence of different social resources, including norms (1977; 1978). I discuss their work in more detail in the next chapter; however for now it is useful to note that both authors were a direct influence on Taylor and Sugden, and Ullmann-Margalit is an important source in both Putnam’s and Coleman’s discussions of social capital.

Axelrod and Sugden both advance similar arguments, Taylor mentions norms, and cites Ullmann-Margalit and Lewis in particular, but argues that the real problem is explaining how such norms could come about. Axelrod argues that his computer tournament simulates the process of norms evolving. Over time, more successful rules are followed by more people. This is not necessarily through the followers of unsuccessful rules physically dying off, it could be simply through mimicry and adaptation of the individuals themselves. The end result, however, is the same. Norms evolve through a process of selection where more successful rules tend to out-compete less successful ones (Axelrod 1984; 1986).

Sugden (1986) also employs evolutionary logic, although without computer simulation. He also focuses on the indefinitely repeated PD, and asks which
equilibrium strategies are likely to be stable. To assess this he assumes that a population will largely play itself, but can be colonised by a smaller group of players playing a different strategy. Both the colonisers and the colonised will tend to play those from their own group more than those from the other group. He demonstrates that in such a situation the TIT-FOR-TAT strategy is the most effective.

Finally Sugden (1986) goes one step further than Axelrod. He argues that over time a successful strategy will begin to gain moral weight. If everyone plays the same strategy, then this will be seen as correct behaviour, not simply as individually rational behaviour. By imbuing the strategy with moral significance, Sugden claims, the equilibria will become even more stable because it will become more difficult (in the moral sense) to defect. Indeed, this is part of Sugden’s broader theory of how morality itself develops.

While Sugden is sometimes thought of as a member of the NIE, these game theoretic debates were not explicitly contributions to the NIE literature, but rather were part of other game theoretic literatures. The cross over to the NIE literature came in part through Bates, an NIE and development theorist also quoted by Putnam. Bates argued that the NIE had used game theory to show why institutions were sometimes needed to overcome collective action problems, or as he put it ‘as a means of altering incentives such that individual self-interest becomes consistent with the collective welfare’ (1988, p.396).

The problem for Bates was that while the NIE had shown why institutions would be useful, they had not demonstrated why they would be developed. There may still be a ‘failure of supply’. The NIE approach, he contends, attempts to solve this problem through the logic of contractarian philosophy, showing how individuals would each sign away some rights to gain a better outcome, a logic similar to that employed by Thomas Hobbes, David Hume and John Locke. However, he finds such explanations unsatisfactory, largely because these approaches seem to beg the question, by assuming some neutral, trustworthy contracting process that could deliver the outcome.
Instead, Bates argues that NIE theorists need to go beyond the ‘hard’ solutions of contracts, to the ‘soft’ solutions of community and sociology. Bates argues, along similar lines to Lewis, that over time individuals will come to associate certain symbols with certain types of play, and this will allow them to both coordinate their actions, and to effectively enforce norms. In situations of uncertainty, he claims, it pays for people to give signals that they are willing to cooperate with others. Over time, cooperative strategies come to be associated with particular symbols – like wearing the cross (1988, pp.397-8). Thus, cooperation is achieved and enforced through the evolution of customs, symbols and norms that change the dynamics of play by allowing different forms of information to be communicated.

Ostrom brings much of this literature together, just before Putnam writes his famous Italian study. Ostrom focuses on communities which have successfully overcome the problem of collective action, such as communal fisheries or collective management of forestry resources. Ostrom used the PD to explain why some communities managed these collective resources successfully, while in others resources were over-exploited. Following the logic outlined above, she argued that the successful communities had effectively solved the PD by instituting norms that punished defection (Ostrom 1990).

Ostrom describes her analysis as ‘new institutionalist’. She draws on a number of NIE theorists, and also quotes Ullmann-Margalit, Sugden, Taylor and Axelrod. In a sense her book (1990), Governing the Commons, does the job of Putnam but a few years earlier. Like Putnam, Ostrom argues for decentralised, community-based solutions. She argues that these positive norms are the result of trial and error learning and of tacit knowledge that is only possessed by those close to the action. It is a distinctly non-modern version of rational choice theory, one that prioritises social relationships and localism over abstract, universalistic rationalism.

Ostrom also makes the connection between norms and social capital. She makes considerable reference to Coleman’s work on norms, including Foundations. Coleman himself follows much of the logic outlined above (and in a similar fashion to Ostrom), but is less explicit in citing the intellectual heritage of the ideas. Perhaps most importantly, Ostrom defines these norms as social capital. This connection is then reinforced in Putnam’s work, which uses Ostrom’s work as the basis for much of its
argument. To quote Ostrom, ‘Shared norms that reduce the cost of monitoring and sanctioning activities can be viewed as social capital to be utilized in solving CPR [Common Pool Resource] problems’ (Ostrom 1990, p.36).

Putnam applies the lessons of the PD debate to his Italian study. In the north he draws on Ostrom, Axelrod, Sugden and others to demonstrate not only that cooperation is possible, but that social resources like trust, norms and networks are the foundation of this success. He argues that these social resources are the product of local interactions, of tacit knowledge and of a history of contact. In the south, Putnam refers back to a more traditional game theoretic approach, such as Gambetta’s study of the mafia. Here he shows how the PD can result in collective mistrust and defection. Thus, Putnam retains both of the solution concepts in the debate. The north is an example of cooperative norms sustaining cooperation, while the south is an example of a society that has succumb to the dilemma.

Finally, Putnam also makes reference to the work of Granovetter, an economic sociologist, who has engaged with game theory from a similar angle. However, Granovetter differs from the other theorists mentioned here in one important respect. For Sugden, Ostrom and Bates, norms, networks and other social resources are a means to solving problems in the game theoretic framework. These theorists are within the citadel, but are looking outside for tools to assist in theory building. However, Granovetter is a sociologist who is engaging with rational choice theory as a means of creating a bridge between the two traditions.

Granovetter also refers to the PD in framing his thesis of embeddedness (Granovetter 1985). He argues that the problem presented by the PD is overcome through social connectedness. Social networks help to establish trust and to communicate information and in doing so reduce the incentive to defect. Granovetter’s analysis has since been used by others to build a more detailed networking theory that distinguishes between different types of networks and relationships, and attempts to explain how networks facilitate trust, information flows and economic exchange. 

53 For a discussion of how Granovetter’s network theory has been taken up as a distinct approach to social capital see Lin (1999).
Both Putnam and Coleman build on Granovetter’s work. Putnam in particular uses Granovetter’s (1973) distinction between strong and weak ties to compare north and south Italy. Putnam argues that while the south has many strong ties (tight circles of relationships in which each member knows every other), the north has more weak ties (networks that extend beyond circles of like-minded or related people). It is the latter that Granovetter argues is most valuable to the individual as a source of new information, and which Putnam argues strengthens civil society.

However, Putnam restricts much of his discussion of Granovetter to the subject of dilemmas of collective action, and particularly the PD. For example, Putnam quotes the following passage from Granovetter, ‘Prisoner’s Dilemmas are… often obviated by the strength of personal relations...[ thus], the mix of order and disorder, of cooperation and opportunism, in a society will depend on the pre-existing social networks’. (Granovetter 1985, p.491 quoted in Putnam 1993, p.173).

Thus, much of Granovetter’s message is reduced to the same logic as the more traditional game theoretic debate advanced by Ostrom, Axelrod and others. While Granovetter is demonstrating the limitations of rational choice theory, the more traditional literature is demonstrating how rational choice theory helps to explain the social. Where Granovetter explains the limitations of the PD metaphor, Putnam’s quote retains the PD as the dominant mode of explanation. It is a subtle difference, but an important one. And it gives Putnam’s work the flavour of someone within the citadel, building on the rebel currents within rational choice theory, not someone attempting to build a bridge to social theory.

**Conclusion**

The concept of social capital in both the work of Coleman and Putnam is a resource that helps to overcome conflicts between individual and collective rationality. It is a resource that allows instrumentally rational individuals to achieve collectively desirable outcomes, even when individual rationality suggests they cannot. The problem of collective action, particularly the PD, is the frame for the discussions in

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54 See Lenci (1997) for a similar argument.
both Coleman’s and Putnam’s accounts. The solutions to these dilemmas are again primarily constructed in game theoretic terms, even if they make use of concepts from outside the rational choice tradition.

But while the concept of social capital is the product of rational choice theory, it is also the result of a move against the modernist aspirations of economics as a predictive, modernist science. Where similar critiques – both using empirical falsification and deductive contradiction – have resulted in many neoclassical economists rejecting diversity and uncertainty, the PD debate has led to the opposite response. Rather than constructing individuals as ever more abstract and detached, those involved in the PD debate have gone in the other direction, relying on social interaction, history and tacit knowledge to build actors that could overcome the PD.

The implications of this analysis for our evaluation of Fine’s claim of colonisation are twofold. First the concept is the product of rational choice theory. It is essentially an application of the rational choice method to social phenomena. This is true both of Lewis and Ullmann-Margalit, who import rational choice theory into their own philosophical tradition, and of Axelrod and Sugden who essentially import concepts from sociology (such as norms) to aid their rational choice analysis, and then use this analysis to explain the social more generally. In this sense, it is part of a tradition of colonisation, of extending rational choice analysis beyond economics.

But in another sense it demonstrates how economics is behaving as it should; engaging with other disciplines, rather than simply imposing upon them. If this is colonisation, then it is not only a subtler version of the project begun by Becker, it is a different type of project. The concept has emerged from game theory, a tradition within rational choice theory that has never been primarily economic. Through the PD debate game theorists have looked to other social sciences in order to address problems in their own theory and to stabilise the dynamics of multiple equilibrium models. Thus the PD was not primarily used as a tool by rational choice theorists to colonise the social sciences, but rather formed part of a critique within rational choice theory that pushed rational choice theorists to engage with other disciplines. In this sense, the PD might be welcomed by social theorists as a first (tentative) step towards taking the complexity of social interaction more seriously. Alternatively, the debate could also highlight broader
problems facing the rational choice tradition that social theorists may either want to exploit, or else help to solve in different ways.

However one other question remains. If social capital is a resource that explains why some communities can manage collective resources successfully while others cannot, then how is social capital generated? Why do some communities develop cooperative norms and wide networks, and others succumb to the dilemma of collective action. Explaining this has direct implications for public policy. It is a political question. In the next chapter I look at this history again, but instead of focusing on the issues of modernism associated with the project of rational choice theory I examine the issue of ideology and its relationship to these developments.
Chapter 7 – A Question of Order

In the last chapter I explored the development of the game theoretic literature surrounding the Prisoner’s Dilemma (PD) and other problems of collective action. I argued that it was from these debates that the concept of social capital developed. However, I argued that this development was better understood as the result of rational choice theorists responding to problems within their own methodology, rather than the result of a colonialist instinct to apply rational choice theory to the social sciences. I also argued that the process of developing the concept of social capital was part of a broader move against modernism within the rational choice tradition. As such, social theorists might be able to usefully engage with the literature surrounding the initial development of the concept of social capital.

In this chapter I explore the normative context of the debates over the PD and the development of the concept of social capital. S. M. Amadae (2003) has recently argued that the development of rational choice theory, game theory and the PD were the product of committed liberals defending and advancing liberal principles in the face of Cold War Communism. Amadae explores how liberals used the logic of the PD to both reject the possibility of a ‘collective will’ and to justify the creation of a state to defend negative liberties (2003, pp.177-9, 278-81). Amadae’s thesis is an insightful examination of the development of rational choice conceptions of social welfare.

However, the task here is somewhat more specific in two senses. First it focuses on one debate within game theory, the PD, rather than Amadae’s broader focus on the development of conceptions of welfare in rational choice theory. I also concentrate on a specific solution concept, one involving evolutionary logic to demonstrate the possibility of order without deliberative intervention. Second, I argue that this evolutionary solution was the product of a very specific brand of liberalism that is deeply sceptical of any deliberative collective action. By contrast, Amadae analyses a range of liberal approaches to questions of welfare, all couched in rational choice theory, but which advance a variety of conceptions of freedom and justice.
I focus on two questions in particular. First, why was the PD seen as such a central problem. The PD was not the only counter-example developed within experimental economics. There is a range of examples rational choice theorists accept where experimental evidence suggests people do not act ‘rationally’. Alvin Roth has argued that economists only assert the model of rational action as a ‘useful approximation of human behaviour’ and as such individual counter-examples do little to undermine its explanatory power (1995, p.77). Yet, in the case of the PD, the counter-example sparked a voluminous literature suggesting it had greater significance.

These debates over the PD, collective action and social capital relate to the earlier discussion of ideology in the thesis. I examine how the PD debate relates to various theoretical traditions, particularly elements of the Austrian economic tradition discussed in chapter five. I also focus on the political context in which the ideas were developed. I ask what policy debates the PD was associated with, and what policy positions those contributing to the PD literature were attempting to advance. Just as I argued in chapter five that the changing political context changed the nature of Austrian economics, so here I will argue that the development of the concept of social capital cannot be understood only in terms of the development of abstract theory, but also as a response to particular real world problems.

I emphasise the importance of a particular current within the Austrian tradition – the theory of spontaneous order. While some Austrian economists have been sceptical of game theory, others have engaged with game theory, drawing on the institutionalist and spontaneous order traditions that I argue were most significant in the development of the concept of social capital. This has two important implications. The first is that the PD becomes of central importance both because it suggests a potential flaw in the logic of spontaneous order, and because its solution involves differentiating between individual action and unintended collective outcome. Secondly, the debate over spontaneous order echoes the themes of the earlier socialist calculation controversy and the dichotomies drawn between old and new institutionalists discussed in chapter

55 Foss (2000) discusses this ambivalence, arguing that game theory does still hold some attraction for Austrian economists. In doing so he highlights many of the features of game theory that I discuss below.
five, and therefore suggests the continued importance of the ideological distinction between left and right.

This is the longest chapter of the thesis, and the argument is perhaps the most complex. For this reason it is useful to offer a brief outline of the argument first. As with the last chapter I begin with *Theory of Games and Economic Behavior* (TGEB), however here I focus not on John von Neumann but on his collaborator, Oskar Morgenstern. Morgenstern was an Austrian economist and the first to apply game theory to economics. I argue that game theory reflected a number of themes in Morgenstern’s work, which themselves reflected the influence of the socialist calculation controversy and earlier Austrian thinking. This established game theory as potentially Austrian in outlook that is, focusing on subjectivity and rationality, and creating a process based theory, rather than a theory focused on end states and equilibria.

I then examine the work of two of Morgenstern’s pupils, Andrew Schotter and Martin Shubik. Both applied Austrian ideas to game theory and new institutionalist economics (NIE), but that they did so in very different ways. My point is two-fold. First it is important to emphasise the heterogeneity within the rational choice tradition. Even within the game theoretic literature on new institutionalism, and even amongst Morgenstern’s pupils, there are very different approaches. This highlights the need to understand the dynamics within rational choice theory, rather than treating it as a single entity as is often done by heterodox critics of the concept of social capital.

Second, understanding how Schotter’s approach to game theoretic institutionalism differs from Shubiks’ helps to answer the questions posed in this chapter – viz. why focus on the PD and what (political) purpose does a new institutional economics seek to further. I argue it was Schotter’s approach that informed the development of the concept of social capital, an approach that sought to understand how institutions developed through the logic of spontaneous order.

I then relate this spontaneous order approach to the work of the theorists mentioned in the last chapter. I begin with a more theoretical account, focusing on the philosophical writing of Edna Ullmann-Margalit and David Lewis, before turning to a more historical analysis. Here I focus on two debates in particular, which I argue directly
influenced the development of the PD debate, and later the concept of social capital. The first was a debate over militarism, nuclear proliferation and unilateralism. I argue that solving the PD was seen by some as a way of demonstrating the potential of multilateralism and disarmament to succeed. However, while this literature on international relations certainly influenced the development of the PD literature, I argue it had relatively little significance for the concept of social capital itself.

Instead, I argue that the renewed debate over liberal contract theory, specifically in relation to the debate over environmentalism most directly influenced the development of the concept of social capital. Here, the solution to the PD was directly identified with the possibility of spontaneous order and as an alternative to deliberative state planning. Alternatively, advocates of state action used the logic of the dilemma to argue their case. The dichotomy, I argue, parallels the different evolutionary logics outlined by Geoffrey Hodgson in chapter five. While the advocates of spontaneous order associated evolution with the development of more successful institutions and social arrangements, their adversaries looked to the logic of Thomas Malthus to argue that evolution promoted both order and disorder.

Thus, I argue that the same dichotomy that Hodgson identified as differentiating Friedrich von Hayek from old institutionalist theorists was again at the centre of the development of the concept of social capital. This goes beyond the claim of Ben Fine and other heterodox critics of the social capital literature, that the rational choice origins of the concept obscure the role of the state and individualise collective action. Instead I argue that delegitimising the state was a central aim of many of those involved in developing the concept. However, the way the logic of spontaneous order was mobilised, I argue, made it difficult to clearly identify this dichotomy with the dichotomy of state versus market, or left versus right. I end with Robert Putnam’s account of social capital in *Making Democracy Work* (1993), arguing that Putnam mobilises the same argument in favour of spontaneous order, but that he largely strips the account of any explicit reference to the market, individualism or the concept’s Austrian antecedents.
Morgenstern’s game theory

Morgenstern was born in Germany but grew up and studied in Austria. He studied alongside Hayek, joining a study circle initiated by Hayek while at university as well as participating in Ludwig von Mises’ series of private seminars (Leonard 1995, p.742). In 1931 Morgenstern succeeded Hayek as director of Vienna’s Institute for Business Cycle Research, a position he held until he was usurped by Nazi sympathisers while he was away in America in the late 1930s. Unusually this strong Austrian training was combined with a keen interest in mathematics and axiomatic logic.

The impact of Morgenstern’s work has been recounted by a number of theorists. He gave his own account of his collaboration with von Neumann, although it is self-consciously incomplete (Morgenstern 1976). His students, Schotter (1976; 1992) and Shubik (1981; 1991; 1992) have both paid tribute to his influence. More recently, the release of his personal papers has led to a reexamination of his work and influence on game theory by Philip Mirowski (1992; 2002), Robert Leonard (1995), Urs Rellstab (1992) and others. I draw on all of these accounts in what follows.

There remains significant disagreement over aspects of Morgenstern’s contribution. The account given by the man himself presents a remarkably linear progression from his early focus on the interdependence of rational choice to the central themes of game theory (1976). Both Leonard (1995) and Rellstab (1992) have demonstrated that the story is far more complex, but none-the-less there are common themes. What is generally accepted is that Morgenstern’s contribution to TGEB was relatively limited. It was von Neumann who developed the theory, wrote the mathematical proofs, and dominated the final version of the book.

This does not mean, however, that Morgenstern’s role was irrelevant. It is widely accepted that it was Morgenstern who initially made the connection between game theory and economics. TGEB began as an article by Morgenstern which aimed at introducing von Neumann’s 1928 paper to an economic audience, but which grew in scope and size after von Neumann offered to co-author the piece.
Leonard has gone further, arguing that Morgenstern helped to frame the issues in an economic context, and that he acted as a catalyst for von Neumann’s own mathematical prowess (1995, p.753). Mirowski has suggested that the two men agreed on several significant issues. Both were committed to an indeterminate theory of the social world. Both opposed the equilibrium model of economics, and both rejected the Newtonian mathematics of calculus that dominated the profession (1992, p.129, ff14; p.134).

I accept that Morgenstern impacted little on the mathematical structure of either TGEB or game theory more generally. His influence came through his role as mediator between von Neumann and economics. It is true that von Neumann had his own interest in economics, developing his now famous model of an expanding economy (1945 [1937]). But it was Morgenstern who raised a number of issues that would make the theory of games more appealing to economists (such as utility), and ensured that these were dealt with in a way that would at least partly appease the profession.

Morgenstern’s mediating role allowed him to influence the framework by which game theory was applied to economics. Much of this is done in the initial chapters of TGEB, before the more elaborate mathematical proofs. The influence is incomplete, it is a compromise between Morgenstern’s concerns and the structure of the theory von Neumann had developed, but it none-the-less suggests, I believe, continuity with later developments. Schotter (1992) has argued that Morgenstern ensured that game theory was distinctly Austrian and distinctly non-neoclassical. While in places game theory has been reconciled with neoclassical economics, Morgenstern ensured game theory was also developed as part of the Austrian tradition. In the last chapter I argued that the PD debate retained a connection to the neoclassical tradition whilst representing a non-modern influence within that tradition. I argue that Morgenstern’s desire to ensure game theory was acceptable to mainstream economists, combined with his Austrian training, help to explain game theory’s later non-modern influence within the discipline.

Of central importance in Morgenstern’s early work are the difficulties associated with economic planning and prediction, a common theme of Austrian writing. In particular, he focused on the problems of predicting how other people will behave. In his first
book, Morgenstern (1928) outlined the difference between two types of variables, ‘alive’ and ‘dead’. The latter are not the result of any human decision and so can largely be treated as inanimate, but the former are the result of human decision-making and so create a range of problems for economic theorists. Morgenstern claims that this early work directly anticipates a major theme of game theory, namely the ‘social’ component of interdependence of choice (1976, p.806). While the relationship may not be as direct as Morgenstern suggests, there is a common logic underpinning both game theoretic and Austrian economic approaches.

Morgenstern’s Austrian approach is fleshed out in his 1935 article on perfect foresight. The issue of foresight had only become topical relatively recently, following attempts to make explicit the assumptions that underpinned Leon Walras’ equilibrium model. Morgenstern is critical of those (like Hicks 1933) who uncritically suggest perfect foresight as a starting point in developing equilibrium models. Instead, Morgenstern claims that perfect foresight is an impossibility. His argument is largely divided in two and reflects the earlier distinction between ‘alive’ and ‘dead’ variables. On the latter count, perfect foresight effectively assumes that every individual possesses a complete and accurate theory of how economic systems work (something that is in fact to be achieved through the proof). On the former count, it does not recognise the problems of subjective rationality.

In making his argument Morgenstern draws significantly on the work of Hayek (Morgenstern 1935, pp.170-1, quoting Hayek 1935). He argues that each individual acts on the basis of what they believe to be in their interests, and based on what they believe the effects of their actions will be. But there is no guarantee that everybody’s plans will correspond because they are made on the basis of their subjective assessments of the consequences, which do not necessarily accord to an objective reality. This is further complicated for Morgenstern by the fact that as each person becomes aware of others’ plans they will modify their own initial plans. The result is a circular flow of reactions and counter reactions the logic of which is well summed up in Morgenstern’s famous Holmes/Moriarity story.

‘Sherlock Holmes, pursued by his opponent, Moriarity, leaves London for Dover. The train stops at a station on the way, and he alights there rather than travelling on to
Dover. He has seen Moriarity at the railway station, recognizes that he is very clever and expects that Moriarity will take a faster special train in order to catch him in Dover. Holmes’ anticipation turns out to be correct. But what if Moriarity had been still more clever, had estimated Holmes’ mental abilities better and had foreseen his actions accordingly? Then, obviously, he would have travelled to the intermediate station. Holmes, again, would have had to calculate that, and he himself would have decided to go on to Dover. Whereupon, Moriarity would again have “reacted” differently. Because of so much thinking they might not have been able to act at all or the intellectually weaker of the two would have surrendered to the other in the Victorian Station, since the whole flight would have become unnecessary’ (Morgenstern 1935, p.174).

The chain of thinking cannot, Morgenstern contends, be broken by knowledge alone – there is an infinite regress. The only solution is to arbitrarily act.

Interestingly, Morgenstern first made this point in the context of the SCC. While this example is best known in the English-speaking world via Frank Knight’s translation of Morgenstern (1935), it first appears in Morgenstern’s 1928 book. Leonard notes that the story first appears in the context of Morgenstern arguing against the possibility of effective government planning (1995, p.741). As governments make plans, Morgenstern argues, so individuals will change their own actions accordingly, resulting in a different set of consequences. Even when governments attempt to modify their plans, this only leads to further modifications of the plans of individuals. The book was written while Morgenstern was still closely involved with Hayek and von Mises, and as the SCC was beginning to take shape.

Morgenstern’s fascination with the issues of interdependence, subjectivity and uncertainty are not surprising given his Austrian training. However, it is relatively rare for this to be combined with an interest in mathematics. The combination led Morgenstern to the same circles as von Neumann, and it is not surprising that Morgenstern was attracted to the interactive nature of game theory. Morgenstern saw in game theory a possible resolution to what he saw as the central weakness of equilibrium theory.
Not all of this was translated into TGEB. Perhaps most obviously, von Neumann’s theory was static, and therefore at odds with Morgenstern’s previous assertions that economic theory needed to be dynamic. As Rellstab has claimed, Morgenstern’s explanation for the shift reads more like an excuse (1992, p.78 ff1). Secondly, TGEB fails to deal adequately with the issues of information that are implied by Morgenstern’s critique of people’s different subjective construction of choice. But Morgenstern was able to discuss the problem of interdependence, and to suggest game theory as an alternative to what he describes as the ‘Robinson Crusoe’ model of neoclassical economics.

The discussion highlights that this is an attempt to refashion rational choice theory. This is not simply about changing the mathematics. By focusing on the social context of choice, and the difficulties raised by interdependence, TGEB refocuses on the subjectivity of the individual. Instead of the representative agent, there are now lots of individuals, each interacting with the other. While the theory is not properly dynamic or subjective, this can be seen as the first step in constructing a subjectivist rational choice theory. What is more, the system does not close, it is not determinate, not only because of the probabilities implied by mixed strategies, but also because of the potential intransitivity of a coalition’s preferences. This opens the door to a notion of struggle, where individuals genuinely try to outwit each other as Holmes is able to do, rather than succumbing to the fate of their payoffs.

In his later writings Morgenstern repeated the same themes. He continued to advocate the use of mathematics as a tool in the social sciences (1963). But he remained committed to indeterminism. Morgenstern argued against conceiving of economics as a fully predictive science (1972, p.465/705) and claimed that, ‘Uncertainty is one of the basic facts of human existence and must be reflected in economic theory in an absolutely fundamental manner. To the extent that economic theory is deterministic in character it fails to take care of an essential feature of reality’ (1964, p.256/576). Having introduced the Austrian analysis of Eugen von Bohm-Bawerk into TGEB, Morgenstern cautions against the hope that game theory will eventually converge on the single Walrasian equilibrium point (1949, p.53/298; see Schotter 1992, pp.98-9, 105).
Morgenstern ensured that game theory had a distinctly non-neoclassical flavour. The interdependence at the heart of game theoretic reasoning bears striking similarities to the subjective logic of Morgenstern’s other work, and indeed to the Austrian tradition more generally. I argue that this heritage helps inform our understanding of developments within game theoretic NIE, which both build on Morgenstern’s work, and which also informed the development of the concept of social capital. To see these connections it is useful to briefly turn to the work of two of Morgenstern’s students, and two of the pioneers of a game theoretic NIE, Shubik and Schotter.

**Games as institutions or institutions as solutions**

Schotter and Shubik have both been identified as significant figures within the NIE, and both have employed the analytical tools of game theory to progress their institutionalist ideas. I argue that the work of both men reflects their Austrian training. Both are uneasy with more modernist approaches to game theory associated with neoclassical economics. However, the two men have developed very different understandings of the relationship between games and institutions. This highlights the diversity within rational choice theory. Perhaps more importantly, understanding what is distinctive about Schotter’s approach to game theoretic institutional economics helps to explain both the importance of the PD game and the normative context for the subsequent development of the concept of social capital.

Schotter is a useful starting point in considering the connections between the early development of game theory and the later development of the NIE. Schotter was one of Morgenstern’s students (his last student according to Schotter (1992, p.96)). He has also become a significant figure in the NIE. What is more, he is one of the few game theoretic NIE theorists to explicitly draw on, and link his work back to, the earlier work of Morgenstern. Schotter believes that Morgenstern’s influence upon game theory partly explains the subsequent interest of game theorists in institutional economics.

The link is not entirely surprising. In the previous chapter I quoted Roth arguing that the very structure of game theory invited experimentation. Game theory gives exact
specifications of the environment, allowing (at least on Roth’s view) this environment to be reproduced under controlled conditions and the predictions of the theory to be tested. The same structure requires conscious and deliberate determination of the rules of the game. Are the players allowed to communicate? Can they enter into contracts that alter the pay off structure? What does the pay off structure represent? Are players allowed to break the rules (and be punished), or do the payoffs themselves reflect potential punishments for the breaking of other (lower order) rules?

What soon becomes apparent is to an even greater extent than traditional neoclassical theory, game theory allows (or possibly even requires) the theorist to set up the rules or laws in which economic activity takes place. It seems to be suggesting the deliberate contemplation of institutions. In doing this it moves analysis a step closer to the concrete and away from the abstract. It allows for various types of exchange. It can accommodate different rules of money, credit, trade and default. Game theory also requires explicit assumptions about the sort of knowledge different people have about the world and each other. And by doing this, it potentially draws attention to the different sorts of interactions that might be expected from different sorts of institutions (rules).

However, the way that institutions are conceived, and the way games are thought to represent institutions, is not clear-cut. I argue that Schotter’s version of institutional economics is unique and distinctive. It reflects not just an Austrian influence, but also stresses particular themes from within the Austrian tradition. Schotter’s institutionalism is an attempt to give greater substance to the theory of spontaneous order, thus continuing the Austrian critique of ‘constructivism’ begun during the SCC.

Alternatively, Shubik has increasingly recognised the limitations of game theory. Shubik has repeatedly claimed that the search for a single unified game theoretic framework is a search for a ‘philosopher’s stone’, well beyond the reach of current theorists. Instead, he presents a remarkably fragmented view of how game theory can be applied.

First, it is important to note what Shubik means by ‘institution’. For Shubik, games represent institutions. Shubik is attempting to model institutions using the tools of
game theory and mathematics. In doing this he recognises that institutional analysis is broader than economics, it also includes ‘sociological, political and legal structures’ (1982, p.10). These structures need to be modelled as the rules of various games. Different institutional contexts therefore generate different rules and therefore different games.

This is part of the reason for the fragmentation of the theory. In one example, Shubik discusses the construction of a game to represent a simple market economy. He lists six variables (each of which can be constructed in different ways). These six variables produce a whopping 147,456,000 different combinations (or games) for a market with one type of good (1984, p.530).

This level of complexity is only increased by Shubik’s unwillingness to accept any one method of solving games, claiming ‘There are many solution concepts which have been proposed to describe the way individuals behave. No one of them is universally satisfactory’ (1981, p.363). This conclusion may have been influenced by Shubik’s experimental gaming experience, in which he frequently reported results diverging from predictions (eg 1986; 1992, p.159).

The job of the mathematical institutional economist, then, is to properly flesh out the institutional implications given by the rules of different games, to search for commonalities between different classes of games, and to look for optimal rules for particular situations (eg Shubik & Wilson 1977; Dubey & Shubik 1979). But there is no single theory. As he has put it more recently in a discussion of modelling monetary economics,

‘It is hopeless to look for a unique dynamics for all politico-economic systems. The action of a skilled macro-economist with good sense is to provide, a good ad hoc model of the problem at hand combined with a feeling for the tradeoff between political feasibility and economic desirability’ (Shubik 2000, p.12).

Given the limitations Shubik places upon his own analysis, it is perhaps unsurprising that Mirowski describes him as relatively unpretentious (Mirowski 1986, p.247). Game theory is a useful tool in making one’s analysis more structured, systematic and
rigorous. But you get the impression from Shubik’s work, that the real skill comes in being able to translate between the language of mathematical games and the language of concrete institutional realities, and that the theory itself offers relatively little assistance in this regard.

Finally, Shubik does not treat the PD game as significant. Shubik already admits that there is fuzziness surrounding the exact nature of a ‘solution’ in game theory. He also admits the inherent complexity and contingency of the analysis. The fact that one game shows counter-intuitive results given a particular solution concept is therefore of little interest. In one article he states a series of ‘usual misconceptions’ regarding game theory, the first of which is, that ‘…[t]he prisoner’s dilemma is somehow more than a trivial example of some didactic value to those being explained some of the paradoxes encountered in game theoretic reasoning’ (Shubik 1981, p.362).

Shubik is unwilling to treat neoclassical theory as definitive. He deliberately engages with other disciplines and acknowledges that non-economic factors influence behaviour. He questions attempts to create determinate and predictive theories.

On these points, Shubik and Schotter largely agree. But there are also important differences that help to explain the importance of the PD to the development of the concept of social capital, as well as illuminating the broader intellectual project of which the concept’s development has been a part. Schotter is a great promoter of game theory as a tool for understanding institutions. He claims ‘game theory is the only tool available today that holds out hope for creating an institutionally realistic and flexible economic theory’ (1983, p.692, quoted in Mirowski 1986, pp.247-8). His confidence is based on a very different type of analysis to Shubik’s.

Mirowski has aptly described the difference between the two theorists as the difference between Shubik’s ad hoc ‘bootstrap’ rules, and Schotter’s insistence on ‘natural’ rules (1986, pp.257-60). Shubik’s analysis is highly contingent; he is explaining how given institutions operate, but each is taken on a case-by-case basis. Schotter is interested in how institutions develop and evolve (this is what is meant by ‘natural’).
Schotter has a very different understanding of how institutions should be represented in game theory. Rather than seeing games as representations of institutions, games are the ‘natural’ backdrop to the evolution of institutions. Institutions themselves are represented by the patterns of play that define the solutions to games. As he puts it,

‘This view of social institutions, as embodied in the rules of the game, is different from the view presented in this book because here we view social institutions not as various sets of rules but as various and alternative standards of behavior (strategy n-tuples) that are elements of the equilibrium of the game. In other words, our social institutions are not part of the rules of the game but part of the solutions to iterated games of strategy’ (Schotter 1981, p.29).

Schotter is deliberately using the term ‘standards of behavior’ having quoted TGBE on the subject earlier in the book (1981, p.13). He clearly identifies Morgenstern’s use of the term ‘standards of behavior’ with institutions in other work (see 1992, pp.101-2). And he also identifies himself as carrying on Morgenstern’s lineage within the institutional literature.

Schotter’s focus on institutions as solutions, rather than games, leads to a very different type of analysis. Rather than attempting to construct numerous games to match the diversity of institutional types, Schotter focuses on only a few non-cooperative games. He argues that these games represent the situation from which institutions arise, they represent some fundamental dilemmas with which human societies are faced, and he argues that institutions are best understood as attempts to solve these problems.

Schotter identifies strongly with his Austrian training. He embraces Carl Menger’s project of explaining the organic nature of institutions, contrasting this with John Commons’ understanding of institutions as the result of collective, deliberative planning (1981, pp.3-5). Schotter justifies this approach by quoting Hayek’s explanation of economics as a science that explains the unintended consequences of individual action (Hayek 1955, p.39 in Schotter 1981, p.21). Schotter is using game theory to take up the baton of the SCC and the Methodenstreit and explain how
individuals, left to their own devices, can spontaneously develop their own solutions to virtually any problem.

This explanation hints at the importance of the PD to Schotter’s NIE theory. If the job of economics is to explain the unintended consequences of individual action, then it needs a logic that separates individual rationality from collective action. This is precisely what the PD highlights. In the same way the PD presents a challenge to the theory of spontaneous order because it suggests that individuals left to their own devices fail to develop an appropriate solution. Thus, for Schotter, the PD is more than an interesting, but isolated, counter-example. Rather it is fundamental to our understanding of institutional development, both as a challenge to the logic of spontaneous order and as a vehicle for explaining the process of spontaneous order.

Schotter’s is a different project to that pursued by Shubik, pursued for quite separate reasons. Schotter is not interested in designing institutions, but in justifying their existence. Rather than redesigning the game to ensure an optimal or desirable outcome, Schotter wants to show that the solution comes from the game itself, emerging spontaneously. Thus for Shubik recognising the legitimacy of alternative solution concepts is just one more piece in a fragmented and contingent theory, but for Schotter the possibility of alternative solution concepts is the source of diversity, and thus an essential part of what makes his theory ‘Austrian’. What is more, if institutions are conceived as solutions, not games, then alternative solution concepts open the way to new ‘institutions’.

Schotter sums up this view in his discussion of Morgenstern’s contribution to game theory (Schotter 1992) in *Towards a History of Game Theory* (Weintrayb 1992). Schotter expresses his frustration with the focus on planning within institutional economics, a tradition he believes Morgenstern would have rejected. In contrast, he suggests that the very aspect of this literature that frustrates other theorists, indeterminacy, is in fact its saving grace. Morgenstern, he suggests, would feel at home with the multiple equilibria, and the alternative solution concepts to games like the PD. As he puts it,
'From an institutional view, the entire literature on mechanism design, while institutional in focus, concentrates more on the planned aspects of economic and social institutions and less on Menger’s (and Morgenstern’s) emphasis on unplanned orders of societies. I do not personally think that Morgenstern saw game theory as a tool for social planning and institutional engineering... The literature is too “un-Austrian” for Morgenstern...It is ironic, however, that he would have appreciated just that aspect of this literature that frustrates those who work in it – the large indeterminacy of the folk-theorem. For Morgenstern, it would not be surprising (or undesirable) that repetition of a super-game would lead to cooperation possibilities that were not available in one-shot play. For example, the emergence of cooperation in prisoners’ dilemma games is clearly something that could be expected, particularly because one can view the play of repeated noncooperative games as a version of play of a cooperative one-shot bargaining game’ (Schotter, 1992, p.108).

At the beginning of the previous chapter I argued that some see game theory as the new social science theory of everything. If that is the case, it is only because the theory means such different things to different people. For neoclassical economists it is part of a predictive science. Influenced by an Austrian teacher, Shubik saw game theory more as a tool to aid his analysis. By contrast, for Schotter, who was a theorist explicitly advancing an Austrian approach to game theory, it was a way of explaining the logic of spontaneous order. It is because of this diversity that I have argued we need a more nuanced understanding of the dynamics at work within the rational choice tradition than that provided by Fine and other heterodox critics of the social capital literature.

It was not game theory per se that gave rise to the concept of social capital. Rather it was a particular approach to game theory, one consistent with Schotter’s attempt to explain spontaneous order. Thus, Schotter and several other NIE theorists did not view the PD as an exception to the rule, a quaint counter-example of little more than ‘didactic’ value. Instead, it captured the essence of what economics was supposed to be about – explaining how individual actions could lead to unintended consequences. But Schotter’s approach was about more than explaining the unintended consequences

56 The Folk theorem was one of the first to show indeterminacy in the repeated games, particularly the PD. It essentially states that if play is repeated infinitely any outcome is possible.
of individual action, it was also about demonstrating the normative value of spontaneous institutions as opposed to collectively planned ones.

**The invisible hand is everywhere**

Schotter explicitly drew on the same PD debate discussed in the previous chapter. He quotes the work of Michael Taylor and Robert Sugden. But he also came to the discussion after the solution to the iterated PD had begun to take shape. His work has been less relevant as a discussion of how the puzzle might be solved, as it is in framing the PD within an institutional context, and giving the solution institutional meaning. His work identifies different institutional structures as equivalent to social solutions to the PD, and sees the process by which the solution is determined to be equivalent to the process of evolution. In doing this, Schotter (1981, chapter 2; 1994, pp.561-3) drew the framework for his analysis from two philosophers, Lewis and Ullmann-Margalit, whose work was briefly discussed in the last chapter.

Ullmann-Margalit’s analysis is an explicit attempt to create an ‘invisible hand’ explanation for the emergence of norms. She builds on the same traditions as Schotter, using game theory as a means of exploring the logic of spontaneous order. Ullmann-Margalit links this intellectual lineage, which includes the Scottish philosophers David Hume and Adam Smith as well as Hayek and Menger, with Darwinian theory of evolution. Thus, Ullmann-Margalit outlines an evolutionary theory of how individuals spontaneously develop social resources, like norms, to overcome various collective action problems, like those represented by the PD.

Importantly, this is not the only interpretation of the game. Below, I argue that Garret Hardin used the PD to argue an alternative evolutionary logic, one which drew on Malthus rather than the Scottish Enlightenment. Thus, the debate over the PD came to be framed in very similar terms to the way I discussed the debate between new and old institutionalist economics in chapter five. Except here the context was the liberal contractarian debate over the possibility of order.
Ullmann-Margalit builds in large part on the logic outlined by philosopher Lewis. Both used game theory as a means for explaining forms of collective coordination. Both were also responding, in part at least, to a critique of traditional contractarian accounts of the development of social institutions that posited an initial agreement or contract as the basis for social conventions.

A number of philosophers and social theorists had disputed the possibility of original contracts. For example, Emanuel Durkheim (1968, esp. p.381) argued that such agreements required a pre-existing framework of norms. Such a normative framework would specify what rules were admissible, what could be contracted, and would establish expectations that contracts would be kept. W. V. Quine (1936) developed a similar critique of the theory of language as convention, arguing that any initial agreement would require the very language that was supposed to be created.

Lewis addressed Quine’s concern in particular, giving an account of how language may have arisen gradually as a solution to a type of coordination problem. This lay the basis for a broader theory of the evolution of norms that facilitated coordination. Ullmann-Margalit then built on this framework, adding other types of norms that represented the solutions to different types of game situations, including the PD.

Lewis’ coordination game takes several forms, all of which include more than one Nash equilibrium, each of which is equally desirable. The challenge for those playing the game is to jointly anticipate the same equilibrium. He argues that his coordination game corresponds to real situations, such as choosing a place and time to meet, deciding which side of the road to drive on or choosing a currency in which to trade (1969, pp.5-8). In each case (within certain limits) the actual ‘content’ of the decision matters less than the ability of individuals to coordinate with each other.

Lewis develops an argument remarkably similar to Morgenstern, creating a seemingly endless regress as each individual attempts to anticipate how the other will respond. Like Morgenstern, the chain is never settled, but rather arbitrarily ended at some point. Lewis argues that these coordination problems are effectively settled through precedent and history. As we come into contact with more and more examples of a certain type of problem so we come to recognise patterns in the way in which people
behave. We notice that everywhere we go in a certain town people always drive on the left, and so we reason that this is our best response also. Of course, each situation is different, and there is some contingency in how events are interpreted, and what factors are deemed significant. But once a particular solution is established, it pays to conform.

Lewis argues that language developed in a similar way to these other solutions. Lewis treats language formation as a situation where a range of different individuals jointly ascribes the same meaning to a given signal or symbol. Its value comes from the common understanding, rather than anything intrinsic to the symbol itself. In this sense language is a convention, a sort of tacit agreement that develops organically and is maintained because it is in each individual’s interest to do so.

Ullmann-Margalit extends Lewis’ analysis. Like Lewis, she is in part responding to Quine, Durkheim and others who have questioned contractarian accounts of the development of social institutions. Hers is explicitly an attempt to construct a spontaneous account of the development of social institutions, in particular drawing on the state-of-nature theory of Robert Nozick (1975), (see Ullmann-Margalit 1977; 1978). Her account also acknowledges the lineage of the Scottish enlightenment,

‘Another way of looking at the account of norms given here is as exemplifying the so-called invisible-hand type explanations. Such explanations attribute to the generation and maintenance of a social institution (norms, in our case) to people’s “stumbling upon establishments which are indeed the result of human action but not the execution of any human design”. (Ferguson, 1767, p.187) Based on the classical Adam Smith account of the market mechanism, invisible-hand explanations do not as a rule postulate anything beyond the motives, goals, and actions of individuals. And yet, if successful, they account for an over-all social pattern which emerges as the uncoordinated product of the scattered, self-interested actions of numerous individuals’ (Ullmann-Margalit 1977, p.11).

Ullmann-Margalit uses different terminology, but is referring to the same process as Hayek’s spontaneous order and Schotter’s organic explanations for the development of institutions.
Ullmann-Margalit associates the logic of the ‘invisible hand’ with the Darwinian account of evolution. But hers is a particular reading of Charles Darwin drawn largely from Hayek. She cites Hayek’s argument that Darwin effectively transposed an existing social theory, that of the Scottish school, across to biology in developing his account of evolution (Hayek 1960, p.59 quoted in Ullmann-Margalit 1977, p.11, ff5).\(^{57}\) Ullmann-Margalit’s theory of the evolution of norms, like Hayek’s theory of spontaneous order, is based on an understanding of evolution as inherently progressive.

Her model incorporates three types of norms, each reflecting the solution to a different game structure. Lewis’ coordination norms represent one of Ullmann-Margalit’s three types of norms. Another is given by games of partiality, a variation on the coordination game, but where different players favour different coordination solutions, and finally by the PD. Of these, the PD is of most interest here. Ullmann-Margalit argues that situations reflecting these different game structures give rise to instability where the desirable outcome is not guaranteed. This in turn creates a need for some stabilising device, which she argues is provided by norms. In discussing the formation of PD norms, she writes,

> ‘The problem is that of protecting an unstable yet jointly beneficial state of affairs from deteriorating, so to speak, into a stable yet jointly destructive one. My contention concerning such a situation is that a norm, backed by appropriate sanctions, could solve this problem. In this sense it can be said that such situations ‘call for’ norms. It can further be said that a norm solving the problem inherent in a situation of this type is generated by it’ (Ullmann-Margalit, 1977, p.22, emphasis in original).\(^{58}\)

The stabilising device is simply any mechanism that decreases the payoff associated with defection, a solution she draws from Thomas Schelling (1964). Ullmann-Margalit also raises two other important issues. The first is the developing experimental literature, which by this stage was already pointing to variables that seemed to

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57 Of course Hayek was not the only theorist to claim Darwin was inspired by social scientists, including Smith and the Scottish school. For a more detailed discussion of how Darwin drew upon both Smith and Malthus, see Schweber (1977).
58 This is a somewhat functionalist argument for spontaneous order. However, the problem of functionalism is dealt with by other theorists, including Bates whose work is discussed shortly.
influence the outcome of PD situations. The main variable was the extent to which the people involved shared some common bond, be it friendship, a common school/work life, or even some brief pre-game communication. Ullmann-Margalit suggests that these factors are important, but that they only work in relatively specific and confined situations, while the norms she is discussing are generalised across a community.

The second issue is how Ullmann-Margalit applies the concept to concrete situations. Here she notes three situations, all of which recur in the game theoretic NIE literature. The first involves war, where each individual soldier may see desertion as individually rational, but collectively irrational. The second is the provision of public goods, a theme already linked to the PD in the last chapter. And finally, Ullmann-Margalit suggests that the state-of-nature, presented by Thomas Hobbes, is also equivalent to a PD situation. These last two points are of particular significance because they are the two central tenets of the liberal justification of the state. As will be seen, much of the PD debate surrounding norms becomes a debate over the legitimacy of state action given possible alternatives.

Ullmann-Margalit’s account has had a significant influence on the emerging new institutionalist literature. Schotter uses her account to structure his discussion of norms (1981, pp.22-8), as do Ostrom (1990) and Sugden (1986). Likewise her work plays a crucial role in James Coleman’s (1990) Foundations of Social Theory. Coleman is particularly interested in Ullmann-Margalit’s ‘PD norms’. He makes wider reference to the literature, but singles her work out as providing a structure for understanding why such norms are demanded. ‘Much has been written about this structure of outcomes [referring to the PD-game], but most of it is not of interest here… What is of interest is Ullmann-Margalit’s (1977) discussion of this structure as calling for or generating one type of norm, which she calls prisoner’s dilemma (or PD) norms’ (Coleman 1990, p.253). Coleman also draws on Ullmann-Margalit’s framework for categorising different types of norms, however modifies it slightly to allow overlap between various categories (1990, pp.248-9; ff2; ff3).

Ullmann-Margalit, then, developed a framework for understanding norms that explicitly linked the ongoing debate over the PD to the debate over spontaneous order. Her work was a direct influence on Coleman’s understanding of norms and social
capital, and an indirect influence on Putnam’s account, which drew on Coleman, Ostrom and Sugden. What is clear from both Ullmann-Margalit’s work and Schotter’s institutionalism, is that the debate over norms as a solution to the PD was more than a methodological resolution to a problem besetting (a largely neoclassical) rational choice theory. It represented a move away from the neoclassical model of rationality, towards a model of rationality more consistent with the Austrian tradition of spontaneous order.

**Against the bomb, and against the state**

I have argued that the PD was significant because of its relationship to the theory of spontaneous order. However, it was not only the PD in general, but rather its association with specific political questions that was important. Here, I argue that there were two contemporary debates during the 1970s and 1980s that fed into the PD literature and shaped the contributions of those who would later influence Coleman and Putnam. These debates were not isolated from the broader theoretical discussions, but intimately connected. The first concerned the link between game theory and discussions of international relations, war and militarism. The second concerned the link between the PD, the provision of public goods and the emerging debate over environmentalism. I argue that while the former was crucial to the theoretical resolution of the PD, it was the latter that framed the social capital debate.

Before continuing, it is interesting to note that the PD was partly developed by liberals committed to opposing the advance of Communism. Mancur Olson argued in *The Logic of Collective Action* (1965) that the contradiction between individual and collective rationality proved that individuals would not follow a ‘general will’, as Jean-Jacques Rousseau and others argued. Russel Hardin (1971) then incorporated Olson’s thesis into a game theoretic framework, likening his analysis to the PD. Hardin interpreted the game as an argument for the liberal state, whose function is solely to defend negative liberty (Amadae 2003, pp.177-9, 278-81).59 It is ironic that both the

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59 Amadae notes that Hardin’s interpretation of the PD leads to a proposed state that is closer to the Rousseauan position than Olson’s more comprehensive rejection of collective action (2003, p.281). However, she does not draw out the implications of this insight. I argue that Olson’s initial argument, and the later evolutionary solution, are part of a separate tradition
problem and the solution seem to have been inspired by similar sorts of political commitments.

**Game theorists against the bomb**

Mirowski has been at the forefront of demonstrating the links between the United States of America (USA) military and the development of game theory (see particularly Mirowski 1991; 2002). Mirowski argues that ‘the connections between the military and game theory were numerous and pervasive in the first two decades of its existence, extending into the very mathematics itself’ (1991, p.227). This was largely achieved through military funding of research, which increased dramatically during the Second World War, staying at high levels into the 1950s (Forman 1987, p.153).

Military money was behind the development of Operations Research, which brought together practitioners from a range of disciplines to jointly focus on assessing the desirability and feasibility of different decisions involving man-machine interactions. Mirowski argues that von Neumann played a key role in the development of this military connection, ensuring that game theory was a core part of Operations Research at the RAND Corporation, a key institution in setting the agenda for the economics discipline post-War (2002, chapter 4).

The details of Mirowski’s account, while important in the general analysis of the development of game theory, are less important here. What is significant is that this link between game theory and the military shaped the purposes to which game theory was initially put. Mirowski argues that the focus on non-cooperative games was largely a result of a military mind set that saw the gains of one party as losses for another (1991). But the same approach also focused attention on the PD, and its ability to capture various aspects of international relations.

This was particularly the case with atomic warfare. Mirowski (1991, p.249) notes, quoting O’Neill (1990, p.31), that atomic war had no precedent, and therefore had to be planned for deductively, rather than through empirical observation, making game

within liberalism that is far more sceptical of any form of deliberative collective action than the liberal tradition of which Hardin is a part.
theory a perfect method. It was also in this context that the PD gained some popularity, apparently representing the payoffs for two atomic powers facing each other. In this sense, cooperation corresponds to mutual tolerance (either in the form of non-proliferation or at least not firing first). Defection corresponds to actively seeking war. The logic followed that collectively all were better off avoiding conflict, but both were better off fighting then being the victim of unilateral attack, and this meant both should attack earlier rather than later.

Alongside the militaristic RAND Corporation, another group of theorists, focused largely on experimentation and simulation, focused on similar questions but from the opposite viewpoint. Mirowski (2002, pp.484-6) argues that Kenneth Boulding’s Centre for Peace Studies and Conflict Resolution and the affiliated BACH group at the University of Michigan, acted as a sort of anti-RAND Doppelganger. Under the tutelage of Anatol Rapoport, the group attempted to turn the militarism of game theory on its head. One key focus in this task was the PD. It was in this context, that Robert Axelrod, a member of the Peace Studies group, developed his computer tournament. And while many have claimed the results as surprising, Mirowski thinks the opposite is true, that Rapoport could have reasonably foreseen the possibility of cooperation.

This view is backed up both by the fact that Rapoport was responsible for submitting the TIT-FOR-TAT program, and by Axelrod’s later comments on his motivations,

‘The Evolution of Cooperation, with its focus on the Prisoner’s Dilemma, was written during the Cold War. Indeed, one of its primary motivations was to help promote cooperation between the two sides of a bipolar world’ (Axelrod 1997, p.xi, also quoted in Mirowski 2002, pp.486-7).

Solving the PD was both an attack on the methodological foundations of what was perceived to by a militaristic interpretation of game theory, as well as an answer to a specific game theoretic proposition. For Axelrod, solving the PD was about promoting non-violence and international cooperation.

This multilateralist approach to the PD no doubt had some influence on Putnam and the development of the concept of social capital. A continuing theme in the
international relations literature has been the possibility of advancing multilateralism as a mechanism for promoting the peaceful resolution of inter-state conflict. Liberals have long argued for institutions that promote multilateralism, such as the League of Nations and the United Nations. These institutions, they argue, facilitate the development of an international rule of law that can be used to defuse potential conflict, and prevent war.

Opposing this has been the view of realists. Realism (as a doctrine of international relations) is sceptical of the possibility of cooperation. Realists claim that nation states act as rational egoists. They are interested not in promoting a peaceful international order, but in advancing and maximising their own interests and power. It is a view that shares much in common with the militarism of early game theory, and sees gains for one state coming from the losses of another. For realists, the liberal vision of multilateralism is little more than a pipedream, an impossibility given the antagonistic interests of states.60

During the 1980s this debate was increasingly couched in terms of game theory, with the PD providing one of the crucial realist arguments against the possibility of multilateral cooperation. It was in this context that liberal theorists began to advance a critique based on Axelrod’s TIT-FOR-TAT solution. Prominent in this liberal counter-attack was Robert Keohane, who used the iterated PD to argue that cooperation was possible given the right institutional framework, and that a transition from hegemonic cooperation to multilateral cooperation should be pursued (see 1984, chapter 5; 1986, pp.8-10).

Putnam then took up Keohane’s arguments, which drew directly on Axelrod’s work on cooperation, in his discussion of social capital in Making Democracy Work. For example, Putnam argues that ‘The argument that social capital facilitates cooperation in domestic society is parallel in important respects to the thesis of Robert O. Keohane, After Hegemony: Cooperation and Discord in the World Political Economy… that international regimes facilitate cooperation in the world political economy’ (1993, 60 A good overview of this position is given by Donnelly (2000). Also see Morgenthau (1960) and Waltz (1979).
This parallel is hardly surprising given the common origins of the argument.

However, Putnam’s reference is somewhat incidental. Keohane’s work only appears in a footnote, rather than the main text, and the context for Putnam’s use of Keohane’s argument is not primarily international affairs, but rather the contractarian problem of establishing the state itself. Thus, Putnam does not mention or draw upon the context in which Axelrod developed his theory.

The differences between this debate over international relations and the similar debate over the origins of the state demonstrate some of the difficulties in categorising these debates using the traditional left-right dichotomy. Both arguments use a liberal logic that prefers multilateral agreements between autonomous individuals, rather than a single will imposed upon others. Yet, in the context of international relations, this liberal argument is usually seen to constitute the left, in that it opposes realist views of international relations. But in the context of contractarian theory, the view that a hegemon is unnecessary, and therefore the state itself has a weak justification, is part of a libertarian critique usually associated with the right.

We can partly resolve this apparent contradiction by placing these theorists and theories in a political context. In the case of arguments over the state, the hegemon is a government that is usually accountable, in some form, to all of its people, and which often acts to redistribute resources more equitably. In the case of international relations, the hegemon is a single nation state, which is not accountable to all, and which acts to exert its will over the will of others.

Secondly, liberal international relations theory is constructivist, not spontaneous. Keohane might mobilise similar arguments to those advanced by spontaneous order theorists to demonstrate the possibility of international cooperation. But the cooperation Keohane is talking about is cooperation between nations to build multilateral institutions. Keohane is using the PD to argue that building such institutions is feasible, and could effectively solve problems of international conflict. Spontaneous order theorists use the same logic to argue that there is no need to engage in the deliberative planning of institution building. However, confusion between these
different types of liberalism, as well as liberalism’s somewhat middle ground position between conservatism and socialism, help to explain why liberalism can be presented as subverting the left/right divide, a point discussed again in the context of the Third Way in chapter 10.

**Against the Leviathan**

Dichotomies only work in some contexts and for some purposes. It is important not to overstate the differences between the work of Axelrod on the one hand, and Taylor, Ostrom and Douglass North on the other. All are investigating the PD, and all are interested in how order is both established and maintained. All also frame their discussions in terms of the older contractarian debate about the state of nature, in particular quoting the work of Hobbes, John Locke and Hume. But the order they are talking about is not the same. While Axelrod was arguing against the arms race and for multilateralism at the international level, Taylor, Ostrom and North were all discussing the merits, structure and scope of the nation state.

At the heart of much of this debate is an analogy between Hobbes’ state of nature theory and the PD. It is a reference made throughout this literature, by Ullmann-Margalit and Schotter, by Taylor, Ostrom and North, by Axelrod and Keohane and by Putnam and Coleman. All argue that the PD captures the logic of Hobbes’ argument. It is within this context that debates about international and domestic political order have been developed. The debate over the PD has been a modern incarnation of the liberal contractarian debate over the possibility of order.

All the authors cited above have given their own account of the similarities between Hobbes’ problem and the PD (see particularly Taylor 1987, pp.126-42). None-the-less a brief summary remains useful.

Hobbes’ reasoning is outlined in *Leviathan* (1994 [1651]). He sets forth a justification for a unitary state by examining what life would be like in the absence of a state. He uses the device of the state-of-nature, a hypothetical state that predates the formation
of any central authority, in which people live almost completely as isolated individuals (or families) without any broader sense of community or society.\textsuperscript{61}

In the state of nature (largely outlined in chapter 13) all people are equal, or at least virtual equals, both in mental and physical abilities. The main implication Hobbes draws from this equality, is that each person can pose a threat to the others. Equality also generates equality of aspiration, and when these aspirations clash, with two or more people wanting the same thing, there is conflict. Or in Hobbes words, ‘From this equality of ability, ariseth equality of hope in the attaining of our Ends. And therefore if any two men desire the same thing, which nevertheless they cannot both enjoy, they become enemies’ (Hobbes 1994 [1651], p.70).

Hobbes argues that without a central power that can overwhelm each of the individual members of society, conflict is sure to follow. Three features of human nature ensure that conflicts of interest arise. The first is competition, whereby individuals seek to steal from and subdue one another. The second is diffidence, where individuals, anticipating the aggression of others, attempt to ensure their own security through various preemptive acts. Thirdly, there is glory, which refers to people’s desire to be esteemed, and their willingness to do violence to those that do not esteem them highly enough.

Without a central authority, Hobbes argues, all ‘are in that condition which is called WARRE; and such a warre, as is of every man against every man’ (1994 [1651], p.71). The war of all against all, as it is commonly termed, does not necessarily consist in actual fighting, but rather in the preparedness to fight. Even so, industry is virtually impossible because the spoils of effort are not safe from the machinations of others. Thus, life in the state of nature is ‘solitary, poore, nasty, brutish, and short’ (1994 [1651], p.71).

Hobbes’ solution to this situation is the creation of a central power, the Commonwealth or Leviathan (1994 [1651], chapter 17). Each individual enters into a covenant to transfer power over their actions to this central power on condition that

\textsuperscript{61} Such a hypothetical state is itself problematic. See Pateman (1988) for a feminist critique of the isolated individual posited by liberal contract theory.
every other person does the same. The covenant, Hobbes reasons, is only binding if the power to which the authority is given, has the ability to enforce it. If there is no mechanism to enforce the will of the central power, then there is nothing to prevent each from breaking the covenant, and thus no imperative for anyone to hold to their word.

This is how Hobbes justifies the existence of the state. It gives the state remarkable power, in fact virtually unlimited power. But for Hobbes this is the only way to avoid the state of nature. The comparison to the PD is perhaps already evident. Without some form of enforceable contract the result is a state of war that is clearly worse than the state of peace under the sovereign. In the state of war, one is virtually forced to enter the war, because by not doing so they become the victim of attack (this is Hobbes’ justification of diffidence). Likewise, if someone enters a covenant by themselves, then they remain vulnerable to attack. This seems to imply two stable situations – the state of nature, which is war, and the signing of the covenant, which is peace. Peace is preferable, but only possible with the invention of the state.

The parallel drawn by some institutionalists between the Hobbesian story and the PD is explicable for other reasons too. The organic approach to game theoretic institutionalism, such as that developed by Schotter, requires a starting point prior to the development of institutions. If institutions emerge, then they must emerge out of something – the rules of the game have to come from somewhere. But it is not entirely clear what the starting point should be. There is no clear historical period that stands out as ‘pre-institutional’. Alternatively any attempt to construct such a state seems to defy the logic of avoiding ‘constructivism’.

Schotter’s solution is to adopt the contractarian strategy, of positing a hypothetical state of nature which pre-dates institutional form, and which therefore posits individuals as atomistic and autonomous. However, the choice of what constitutes the state of nature remains underdetermined. Importantly, while Hobbes is the most widely cited of the state of nature theorists, he is not the only one. Other theorists also use the work of both Hume and Locke as the basis for institution building from a game theoretic perspective. In some cases this is largely incidental, as the same PD game structure is inferred (see for example Putnam’s (1993, pp.163-7) discussion of Hobbes
and Hume). For others it is more consequential because it leads to alternative game structures, often more conducive to cooperation (e.g., Taylor 1987, chapter 6). Schotter chooses the Lockean model, with little justification other than to cite the work of fellow spontaneous order theorist Nozick (1975).

‘We should start our analyses in a Lockean state of nature in which there are no social institutions at all, only agents, their preferences, and the technology they have at their disposal to transform inputs into outputs. The next step would be to study when, during the evolution of this economy, such institutions as money, banks, property rights, competitive markets, insurance contracts, and the state would evolve’ (Schotter, 1981, p.20).

Nozick’s own work is one of the most famous justifications for an ultra-minimalist state. He argues that protective associations, solving the problem of order, would spontaneously emerge, gradually becoming monopolies in each region. But the scope of these associations would be heavily constrained, extending only to internal and external security. Other state functions, such as welfare, industry policy and regulating market functions, would be left to individuals to determine (1975). This work lies at the extreme end of the libertarian institutionalist literature, but is none-the-less instructive of the general approach. Evolution finds its own solutions to problems of collective action, individuals should be left alone to follow their interests because this leads to the proper solution.

This helps to explain how some institutionalists use contract theory to explain the development and role of the state. But, as with Axelrod’s internationalism, understanding the development of these theories is aided by a more specific understanding of the contingent political context in which these ideas developed. Not only did game theorists compare the PD to the state of nature, they also compared the game to the growing environmental crisis. It was in this context that many of the theorists involved in the development of the concept of social capital developed their ideas. The game theoretic environmental argument was made by Garret Hardin (no relation to Russel) who used it to argue for greater state action.
Garret Hardin’s account of an impending environmental crisis is particularly interesting, not only because it forms the frame for future discussion, but also because it links a number of debates already discussed above. Firstly, Hardin (1968) begins his article with reference to the debate over the arms race and proliferation. He quotes Weisner and York (1964), who, in an article on the potential for nuclear conflict, concluded that in their opinion ‘this dilemma has no technical solution’ (Hardin 1968, p.1243, emphasis in original). Secondly, Hardin relates this logic to environmental problems resulting from over population.

But like Hodgson he draws on an alternative evolutionary logic, that proffered by Malthus. In doing this, Hardin develops the part of Darwinian reasoning that Hodgson has claimed is missing from Hayek’s account of spontaneous order – the potential for evolution to go wrong. Hardin also redefines the ideological ground. Hardin is not so much arguing against the market as he is arguing against spontaneous order. He is happy to accept solutions that use market forms, such as property rights and commercial trading, his point is that such forms need to be deliberately created. Hardin finds spontaneous order, the logic of the invisible hand, wanting, and posits collective deliberative action as the solution.

The difference between Hardin’s approach and that of Ullmann-Margalit, Schotter and the other invisible hand theorists discussed above, is well understood in terms of the different evolutionary metaphors they use. In chapter five I argued that Hodgson’s categories of ontogeny and phylogeny were a useful way of understanding institutionalist thought, so long as they were understood as types of evolutionary stories, rather than as strict methodological categories. While ontogeny sees evolution producing order, phylogeny sees evolution producing both order and disorder. Thus, those using a phylogenetic account of evolution look to deliberative intervention to address disorder. Hardin, like Keohane, advocates the need to establish institutions to manage evolutionary processes, although the nature of institutional intervention may vary.
Hardin relates the logic of the nuclear arms race to the environment. He claims that population growth is subject to the same dilemma. What he means is that the solution to the population question requires more than a technological fix. It cannot be answered, as many neoclassical environmental economists contend, by breakthroughs in technology that allow us to do more with less. Instead, population growth, and a host of other and resulting environmental problems are subject to the ‘tragedy of the commons’. Hardin adopts a rational choice framework, though not a game theoretic one. None-the-less, the problem he discusses parallels institutionalist discussions of the PD.

Resources which are held in common, Hardin argues, are subject to a logic that promotes over-use. This is not a problem so long as the population using the resource is relatively small, but as the population increases, so the resource’s capacity is strained. He uses the example of a pasture open to all. The situation facing each herds-person means that if they increase their flock by one they receive the entire benefit of the new animal, but the resulting burden on the pasture is shared by all. Thus, they continually add to their herds, even though this undermines everyone’s ability to graze. The same logic applies to fisheries, forests and (in reverse) to treating or minimising pollution.

Interestingly Hardin relates this discussion to the logic of Smith’s invisible hand. Smith, Hardin argues, suggests that individuals acting autonomously will work for the common good. An ‘invisible hand’ will ensure the best outcome. The power of Smith’s words has led to a general acceptance of unrestrained individualism.

‘Adam Smith did not assert that this [the beneficial operation of the invisible hand] was invariably true, and perhaps neither did any of his followers. But he contributed to a dominant tendency of thought that has ever since interfered with positive action based on rational analysis, namely, the tendency to assume that decisions reached individually will, in fact, be the best decisions for an entire society’ (Hardin 1968, p.1244).

Hardin rejects this universal application of Smith’s logic. He also rejects the use of mechanisms of social control other than direct coercion, such as shaming and appeals.
to conscience. Instead, his solution is regulation, but regulation by consent. It is logical, he states, for each individual to give up their right to unrestrained use of the commons in return for a system of regulation that places the same restrictions on others. Thus, Hardin directly rebuts the logic of spontaneous order that underlies so much of the PD debate.

Importantly, Hardin does not limit his call for regulation to systems of rationing, as is often implied in political debates between the advocates of ‘markets’ and ‘states’. Any form of regulation that ascribes who can use the resources and who cannot is acceptable, including the introduction of private property rights.

‘What shall we do? We have several options. We might sell them [rights] off as private property. We might keep them as public property, but allocate the right to enter them. The allocation might be on the basis of wealth, by the use of an auction system. It might be on the basis of merit, as defined by some agreed-upon standards. It might be by lottery. Or it might be on a first-come, first-served basis, administered to long queues… They are all objectionable. But we must choose – or acquiesce in the destruction of the commons…’ (Hardin 1968, p.1245).

Hardin’s point is not to endorse a particular policy approach. Instead it is to claim that there is a policy decision to make. He dismisses the logic of the invisible hand, employing a Malthusian logic to argue that such unplanned evolution can go wrong. His solution is simply that we need to make a collective choice, whatever that is. Although the policies may be varied, this is none-the-less an argument against an extreme version of individualism and in favour of a more prominent role for collective (state based) agency.

Hardin’s argument, about the overuse of environmental resources, became central to environmentalist calls for regulation. And it was in response to these calls that both Taylor and Ostrom developed their own case for spontaneous order. This environmental argument in general, and Hardin’s work in particular, is the explicit context for each of their contributions, (for example Ostrom 1990, pp.2-3; Taylor 1976, pp.2-4; 1982, p.52, ff12; 1987, pp.3-4). Each then relates it to the broader issue
of establishing and maintaining order, to the Hobbesian state of nature, and to the specific game theoretic problem of the PD.62

Both Ostrom and Taylor took on Hardin’s environmental argument by addressing the broader desirability of state action. Taylor’s anarchist thesis argued against the need for state action per se. His analysis points to the possibility of all collective action problems being solved through spontaneous action rather than collective deliberation or coercion. Ostrom’s work centres on environmental collective action problems, but again the real issue is whether problems of this nature can be solved without state intervention, through the spontaneous actions of individuals, particularly at the local level.

Ostrom also echoes Hardin’s assessment that any change in regulation constitutes an intervention by the state. She characterises the environmental debate as taking place between those who claim the ‘Leviathan’ is the only way and those claiming that ‘privatisation’ is the only way. But for Ostrom, this demonstrates a common faith in the abilities of the state to take appropriate action.

‘Both centralization advocates and privatization advocates accept as a central tenet that institutional change must come from outside and be imposed on the individuals affected. Despite sharing a faith in the necessity and efficacy of “the state” to change institutions so as to increase efficiency, the institutional change they recommend could hardly be further apart’ (Ostrom 1990, p.14).

Ostrom’s alternative is ‘self-organisation’ and ‘self-governance’. Ostrom develops Taylor’s framework for understanding collective action problems, and norms as a possible solution (see 1990, pp.30-8). In this, as in Taylor’s work, there remains a strong anti-modernist tone. Ostrom starts with a rational choice framework, but goes on to substantially modify the framework, acknowledging problems of information and understanding. She claims,

62 They are not the first to relate Hardin’s argument to a PD, for example Dawes (1973; 1975), also quoted in Ostrom (1990, p.3).
‘Given these levels of uncertainty about the basic structure of the problems appropriators face, the only reasonable assumption to make about the discovery and calculation processes employed is that appropriators engage in a considerable amount of trial-and-error learning… By definition, trial-and-error methods involve error, perhaps even disasters’ (Ostrom 1990, p.34).

Significantly, the argument is anti-modernist, but it is also against the state. All these authors, Taylor, Ostrom and North, present the state as something separate and apart from society – a ‘third-party’. Their argument against centralisation is against the state, and decentralisation corresponds either to no state or a classical liberal minimalist state. In the same way they associate spontaneous order with decentralisation and localism, and deliberative order with coercion and outside interference. These authors do not recognise that planned, deliberative action could also be localised, or responsive to local concerns.

Ostrom, for example, discusses the claims of various environmentalists who argue either that the state or the market can act to solve problems of collective action. In both cases, an individual outside the situation creates and enforces rules.

‘In both the theory of the firm and the theory of the state, the burden of organizing collective action is undertaken by one individual, whose returns are directly related to the surplus generated. Both involve an outsider taking primary responsibility for supplying the needed changes in institutional rules to coordinate activities’ (Ostrom 1990, p.41.)

Ostrom has a distinctly Hobbesian notion of the state as an individual ruler, one player in the game, who imposes a solution upon the situation from outside (also see North, 1990, p.14). And this forms part of her anti-state critique. If the state is to provide a solution to PD-type problems, then the state must act as a neutral third-party. But such an umpire-like institution is itself a public good, and therefore subject to the same problem of collective action it is supposed to solve.
Robert Bates (1988), another source in the Putnam\textsuperscript{63} account, outlines the problem. It is clear that when facing a PD-type situation everyone has an interest in creating an institution that changes the payoff matrix to allow for a cooperative equilibrium. Some new institutionalist writers thus supposed that this demand gave rise to institutional forms. The problem is that there is no guarantee of supply. Different individuals want different types of institutions. And it was to this problem that the state as third-party enforcer, was suggested.

But Bates is not satisfied with the answer. He asks ‘why would the third party be motivated to act benevolently?’ (1988, p.395). If an individual political entrepreneur does offer an institutional solution, what makes anyone think it would be a good one, rather than an institution that maximises the personal benefit of the political entrepreneur? Bates’ alternative is to look for ‘soft solutions’. Essentially this amounts to the same thing Axelrod, Sugden and Ullmann-Margalit propose. People can achieve cooperation without the coercive state by creating positive, cooperative expectations, building a positive reputation. This cooperative equilibrium is then maintained by ‘soft’ social mechanisms, like ‘community, symbolism and trust’ (Bates 1988, p.399).

North expresses the same attitude. He claims that transaction costs mean that even in cooperative games (like the market) increased complexity gives rise to the need for external enforcement. This external enforcement comes from a third-party state. But the same problem arises. As North puts it,

‘Third-party enforcement means the development of the state as a coercive force able to monitor property rights and enforce contracts effectively, but no one at this stage in our knowledge knows how to create such an entity… Put simply, if the state has coercive force, then those who run the state will use that force in their own interest at the expense of the rest of society’ (North 1990, p.59).

Taylor expresses similar concerns, suggesting not only that spontaneous organisation is an alternative solution, but also that the state-based solution causes its own problems. This critique centres on the state’s capacity to undermine the mechanisms

\textsuperscript{63} Coleman does not quote Bates but makes essentially the same argument about the difference between the supply of and demand for institutions.
that facilitate spontaneous action – cooperation, mutual interdependence and local problem solving. The state is not only irrelevant, it actively undermines the capacity of communities to solve their own problems,

‘In this section I suggest that the more the state intervenes in such situations, the more “necessary” (on this view) it becomes, because positive altruism and voluntary cooperative behaviour atrophy in the presence of the state and grow in its absence’ (Taylor 1987, p.168, emphasis in original).

This is the next step in developing the spontaneous solution to institutional development. Having identified the possibility of a spontaneous solution, Taylor, Bates and others now identify problems with the alternative. The deliberative, planned solution is problematic for two reasons. The first is that we cannot trust the state; like all agents in the rational choice world it looks after its own interests, not the interests of the community. Second, its actions undermine the very mechanisms that allow people to solve collective action problems, and therefore it makes the problem worse.

It is worth briefly elaborating on the implications of these observations. The NIE literature in which Putnam and Coleman situate their own analysis is based on solving problems of collective action, the most notable of which is the PD. An initial solution to these problems comes through some external body changing the rules of the game, either by introducing property rights or some other form of regulation. The external body is the state, the Leviathan described by Hobbes.

This is a very particular notion of the state. The state is either not really a part of society at all, or if it is, it operates as if it were a single individual with her own preference function. The state is not a composite of the various groups and interests in society. Nor does it reflect anything like a ‘general will’. Its decisions are either the result of perfect calculation (the notion developed by the socialists in the socialist calculation controversy) of society’s utility, or else the selfish behaviour of an individual wielding supreme power. It does not represent the community, it is apart from it, a separate entity.
This is important because it creates a dichotomy in terms of how collective problems can be solved. Either, problems are solved by the community or by the state. The former is given by the logic of spontaneous order, the later by the Leviathan. Solutions do not come through an interplay of community and state. To draw on Schotter’s earlier analogy, the introduction of the state corresponds to a change in the rules, while spontaneous order corresponds to organic evolutionary order within the rules. Thus, the state is effectively defined outside the game itself. It does not evolve. It does not change. It is a static umpire who simply enforces the rules (well in the case of the perfect calculator, poorly if the state is simply another self-interested actor).

Just as importantly, this logic places the state on the side of modernism. The state is a centralist solution imposed on the community, rather than part of the community. Even if the community accepts the state, it is still accepting someone else to solve its problems for it, and it is accepting an institution with little connection to the community, acting via deductive reasoning, rather than informed by tacit knowledge. Thus, this game theoretic state bears some similarity to the states criticised by Scott in chapter five, but is very different from the social theoretic conception of the state that will be developed in chapter eight.

Alternatively, decentralism comes in the form of spontaneous order, the regularities in behaviour developed within the game by the players (community) themselves. The non-modernist lessons learned from the NIE – that we should encourage stable relationships, learn from history, allow small local groups to develop their own solutions – all these lessons are attributed to spontaneous order, while their opposites – centralised, planned, imposed solutions – constitute the state. Modernism becomes synonymous with centralised state action. Spontaneous order (the order that results from individuals acting independently) becomes the only form of decentralism and non-modernism.
Putnam’s social capital

It is this game theoretic, NIE literature on which Putnam draws to develop his account of social capital. However, where Ullmann-Margalit, Sugden, Taylor and Ostrom make the logic of spontaneous order relatively explicit, it remains unspoken in *Making Democracy Work*. Putnam does not mention the market, and there is no reference to the desirability of spontaneous order. Yet, the logic Putnam applies is exactly the same – taken directly from Sugden, Ostrom and others. Putnam also constructs the argument in a way that privileges liberal democratic states which are supportive of market relations, while being extremely wary of stronger centralised states.

Putnam’s critique of the state is in fact a critique of a very particular kind of state – the *Leviathan*. It is a critique of centralised, bureaucratic, hierarchical and largely corrupt states. It is unlikely that progressive social theorists would stand up for such institutions. However, the way he criticises the state draws on the logic of spontaneous order. Thus, his critique is of the state in general, rather than of specific types of state institutions. More importantly, while the logic of spontaneous action explains how states can destroy social capital, that same logic implies that the state is incapable of generating it. So, social capital develops spontaneously, and is destroyed deliberatively.

In *Making Democracy Work* Putnam argues that social capital explains the persistence of differential development outcomes between north and south Italy. He explicitly equates social capital with the capacity to cooperatively solve collective action problems like the PD. In turn, he claims that ‘cooperation should be easier when players engage in indefinitely repeated games’ and that other conditions helpful to cooperation include ‘that the number of players be limited, that information about each player’s past behavior be abundant, and that players not discount the future too heavily’ (1993 p.166). These are the features of the game that I argued correspond to a non-modern frame, where context and history are important, and people learn by doing, not deduction.

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64 Sugden’s account, while explicitly developing a spontaneous order account, is less explicitly hostile to state action. However, Sugden does claim that where state action goes against spontaneous mechanisms it is unlikely to succeed, and does employ a similar conception of the state as a third party player, rather than a genuinely collective agent (1986).
Putnam’s account explains the differential outcomes in the north and south by equating the two regions to the two equilibria in the indefinitely repeated PD. According to Putnam, social capital is the resource that allows communities to overcome the collective action problem of the PD. When it is present, as in the north, then the community is able to achieve the desirable equilibrium of sustained reciprocal cooperation. When it is absent, as in the south, then the community is doomed to the suboptimal equilibrium of sustained defection. However, while in the broader contractarian game theoretic literature Hobbes’ *Leviathan* is often seen as a potential cooperative solution, for Putnam it represents defection. Echoing Taylor’s description, the Leviathan is the solution you get when cooperation fails.

‘The strategy of “never cooperate” is a stable equilibrium, for reasons that are well explicated in standard accounts of the prisoner’s dilemma… In this setting, we should expect the Hobbesian, hierarchical solution to dilemmas of collective action – coercion, exploitation, and dependence – to predominate…The difficulty in solving dilemmas of collective action in this Hobbesian equilibrium means that society is worse off than in a cooperative outcome… Given an adequate stock of social capital, however, a happier equilibrium is also attainable’ (Putnam 1993, pp.177-8).

The happier equilibrium corresponds to the spontaneous solution to the collective action dilemma. Here Putnam draws on Sugden’s analysis. ‘Brave reciprocity’, the name given by Sugden for contingent cooperation (Sugden 1986, pp.116-7), is also a solution. Thus, two separate conventions can emerge – always defect; or cooperate when others do. And these two solutions correspond to the absence or presence of social capital.

‘Sugden’s analysis leads to the conclusion that both “always defect” and “reciprocate help” are contingent conventions – that is, rules that have evolved in particular communities and, having so evolved, are stable, but that might have evolved otherwise’ (Putnam 1993, p.178).

Putnam uses the language of ‘evolution’, however in discussing Sugden’s analysis he clearly embraces the same logic – that of spontaneous order – that underlies so much of the PD literature. It is interesting to interrogate exactly what Putnam means by
‘evolve’. It turns out that in the case of creating social capital – achieving the reciprocal cooperation equilibrium – evolution refers to a fairly vague process that no one can quite pin down.

‘How did the inhabitants of north-central Italy first come to seek collaborative solutions to their Hobbesian dilemmas? The response to that question must await further research, not least because historians report that the answer seems lost in the mists of the Dark Ages’ (Putnam 1993, p.180).

Cooperation and social capital seem to just spontaneously emerge. Certainly social capital is not the result of any deliberative action or state plan; rather it is the by-product of individual interactions. This is hardly surprising. As Menger originally argued, organic (spontaneous) accounts do not describe actual history. The point is to demonstrate a common logic between institutional forms. The logic explains how people left to themselves will develop the most appropriate institutions.

Menger offered his organic accounts instead of the specific accounts of the German historical school. This was the basis for the Methodenstreit. Menger argued that the evolution of institutions followed a particular logic, but that the specifics of history were largely irrelevant (and probably too hard to prove). The historical school argued that institutions could only be understood in the context of a particular time and place. Putnam’s account of the creation of social capital is a Mengerian story of organic evolution. He uses a logic that explains how social capital develops without having to refer to the specific historical circumstances that produced it. By associating social capital with a logic similar to spontaneous order Putnam is able to claim it simply arises, rather than being deliberately created.

However, Putnam is fairly clear about the origins of defection and the destruction of (or failure to generate) social capital. He lays the blame squarely at the feet of state action and deliberate intervention. It is the fault of the Leviathan. In the south an imperial power destroyed social capital. Likewise, Putnam draws on North’s account of the differences between North and South America. North’s logic is virtually identical, having emerged from the same literature, using the same tools to solve the same problem.
Of course it is difficult to argue that imperialism is a desirable way to advance civil society. But notice that Putnam and North are not actually arguing against imperialism – after all the British did invade North America and they did preside over it and tax it as a colony. It’s the type of imperialism that is the problem. The point becomes even clearer if you take North’s argument as a whole. The reason North America is relatively successful is simply that the imperial power does less and stays out of the way. More particularly, in North’s account at least, it is because British imperialism brought liberal democracy and market capitalism.

With this we come to another omission from Putnam’s text relevant to the political point I am making. While there is ample discussion of the state, and the Leviathan, there is no mention of the market. The state can destroy social capital, but the market is absent. Yet, Putnam, like North, associates positive state action with liberal democratic states that support market capitalism. He does not look to Sweden, the archetypal social democratic state, to see how the state can support a strong civil society. Nor does he mention that one of the other variables he found which did correspond with high levels of social capital in his Italian study was the strength of the Communist Party (except in a brief passage many chapters earlier (Putnam 1993, pp.118-20)).

Yet, the logic of the two PD equilibria that explain social capital conveys a strong anti-state message. The state has no role in creating social capital, only in destroying it. As one Italian reformer claimed, having heard Putnam’s account, ‘This is a counsel of
despair! You’re telling me that nothing I can do will improve our prospects for success. The fate of the reform was sealed centuries ago’ (quoted in Putnam 1993, p.183).

Putnam’s account equates the state with modernism, and thus facilitates a critique of the state that many social theorists would find acceptable. Yet, the alternative is less satisfactory. Non-modernism comes in the guise of spontaneous order, a process that cannot be generated (perhaps not even facilitated) by the state. At best the state can step back, like the British and American states, and let social capital simply emerge, through a process that is both organic and mysterious. Putnam does not mention spontaneous order, organic evolution or the invisible hand. He does not quote Hayek or Menger. He does not mention the market. But the logic he refers to is the same. The argument he develops is based in a literature which carries on the ideological divide outlined in chapter five, between a notion of spontaneous order based on the logic of the market and the story of otogenic, orderly evolution, and a collectivist logic based on a phylogenetic story which acknowledges evolution can go wrong and thus seeks deliberative intervention.

The concept of social capital, then, was the product of a rational choice tradition that lay at the edges of neoclassical economics. It was the product of neoclassical theorists who were transforming their own discipline, and possibly moving beyond it altogether. Part of that transformation, as I discussed in the previous chapter, was informed by a primarily methodological critique. Theorists like Herbert Simon were frustrated by the lack of realism in neoclassical theory, and so developed alternative methodologies based on bounded rationality and evolutionary processes. In doing so, these theorists moved rational choice theory and parts of neoclassical economics away from the modernism of the general equilibrium project.

However, the concept of social capital was also informed by a more normative critique of the methods of neoclassicism, a critique associated with the tradition of Austrian economics and classical liberalism. Austrian game theorists, like Schotter, and others committed to the project of explaining the emergence of spontaneous order, like Ullmann-Margalit, mobilised the same methodological critiques of neoclassicism as Simon, but did so as part of a political project. The nature of the political commitments
of these theorists varies, from Schotter’s explicit desire to see organic evolution, to Axelrod’s commitment to multilateralism and Sugden’s less strident explanation of the limits of state control. However, both Putnam and the NIE theorists upon whom he drew developed the concept of social capital as part of a critique of the state and of collective decision making generally. It was a concept that was not entirely Austrian, nor entirely neoclassical. But its normative foundations were very much in the tradition of spontaneous order. In this sense, and perhaps without being aware of it, Putnam seems to have made a substantial contribution to the Austrian tradition.
Section 4 - Australia
Chapter 8 – The Intellectuals and Economic Rationalism

The previous two sections have focused on the development of the concept of social capital. I have argued that the concept is best understood as a product of the rational choice tradition. However, I have argued that this tradition is more complex than sometimes thought. In contrast to Ben Fine and other critics of social capital theory, I argue that the concept has been influenced by elements of Austrian economics, particularly by the metaphor of spontaneous order. As a result, the concept of social capital does reflect an ideology supportive of the market, but offers a different kind of justification for the market than that traditionally proffered by neoclassicism. In evaluating Fine’s claim of colonisation I agreed that the concept was influenced by the politics of neoliberalism, but that it reflected a critique of the modernism of neoclassical economics.

In this section I explore the implications of these origins for contemporary debates. My focus is on the Australian social capital debate, and specifically three actors within it. I will evaluate the claim that the concept of social capital and the political position of the Third Way transcend ideology, in the sense that traditional ideological categories do not apply to them. It was often this type of claim that provoked the heterodox criticisms of the concept of social capital presented by theorists like Fine. To explore this claim I take Latham’s work on the Third Way as an exemplar of the Australian position. Latham is perhaps the best-known advocate of Third Way politics in Australia, and has been an influential figure in Australian politics until his recent departure.

However, the section begins somewhat earlier. Consistent with the methodology of the previous sections, my aim is to trace how the concept evolved, from its origins in rational choice theory, through Putnam’s Italian study to the Australian context. In addition, I wish to explore the political context in which this development took place, and the political motives of the actors involved. My focus is on the Australian debate over the merits of economic reform, particularly the controversy sparked by Michael Pusey’s (1992) *Economic Rationalism in Canberra*. I argue that Pusey’s criticism was
only partly based on the ideology of economic reform. Most of the criticism of
economic rationalism was directed against what I have called modernism. At the same
time, the advocates of reform, having been inspired by Friedrich von Hayek’s appeal
to make liberalism more appealing to intellectuals, embraced a more utopian version of
liberalism. Thus, I argue that the economic rationalism debate associated economic
reform with modernism.

In the next chapter I focus on some of the first people and institutions to embrace the
concept of social capital within Australia. These first participants in the Australian
social capital debate were also participants in the debate over economic rationalism,
and all took distinct political positions. The first person to popularise the concept
within Australia was Eva Cox, a social theorist and feminist. At the time, and since,
Cox has been clearly identified with the political Left, despite her own critique of the
masculinity of much Leftist theory. Cox developed the concept as part of her Boyer
lecture series focusing on the role of civil society in promoting democracy and
community.

Through Cox the concept was also embraced and developed by the Centre for
Australian Community Organisations and Management (CACOM). CACOM
developed the concept of social capital as a means of evaluating the performance of
community organisations. This was a response to government pressure for quantifiable
indicators of community sector organisation performance, but was also an attempt to
create more holistic measures more suitable to the work of community sector
organisations.

One of the other institutions to first embrace and develop the concept of social capital
within Australia was the Centre for Independent Studies (CIS). The CIS is a think-
tank, often associated with the Right, 65 although it identifies with classical liberalism,
rejecting the validity of the Left/Right distinction. The CIS introduced Latham to the
concept of social capital. The CIS also produced a number of articles and books on the
topic as part of a broader attempt to focus on the role of civil society from the classical
liberal perspective.

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65 As noted earlier, those within the CIS did not necessarily accept the label ‘right’, see Warby
These institutions and individuals have interesting features in common. Both Cox and the CIS were looking to promote and develop the concept of civil society, and thus saw the concept of social capital as a useful tool. Both were clearly identified with (opposing) political positions, yet both distanced themselves from the traditional understanding of Left and Right respectively. Both were also associated with significant actors within civil society. Cox and CACOM worked with non-government organisations, often identified as the backbone of new social movements and the key political actors for many progressive theorists. The CIS was part of a broader network of think tanks, which themselves claim to have, and their critics credit with having, facilitated the rise of neoliberal ideology and policy.

Yet, all of these actors, Cox, CACOM and the CIS, continue to hold strong and divergent views on most key economic issues. Cox has been an outspoken critic of economic reform. She has opposed privatisation and competition policy, and she has strongly criticised what she views as a narrow focus on economic objectives at the expense of broader social goals. Her views are largely reflected in the work of CACOM who have collaborated with the non-government organisation (NGO) sector to oppose many elements of reform (for example Lyons 1995). Alternatively, the CIS has championed economic reform, and lamented the limited extent to which they believe it has been introduced.

This difference of opinion over the merits of economic reform is best captured in the debate over economic rationalism, which is the subject of the current chapter. Both Cox and the CIS contributed (on opposite sides) to the debate over economic rationalism only a couple of years before they then embraced the concept of social capital. The debate was, and to some extent continues to be, one of the most significant popular debates over the direction of public policy in Australia’s recent history. It was a debate that took place at every level – from academic journals to talkback radio. I argue that this debate provided the context for re-engaging with ‘civil society’. It also shaped the approaches taken by Cox, CACOM and the CIS to the social capital debate. Thus understanding the debate over economic rationalism is vital to understanding the current debate over social capital.
Economic rationalism in Australia

The debate over the nature and validity of economic rationalism began in earnest with the publication of Pusey’s *Economic Rationalism in Canberra* (1992). Pusey’s book sparked an enormous response, with those on the Left generally welcoming the book and many on the Right launching savage attacks. Pusey argued that a cadre of econocrats within the federal bureaucracy was advancing the program of economic reform. His book reported the results of a survey of bureaucrats. He claimed that the results revealed the takeover of the state by bureaucrats essentially opposed to state intervention in the economy.

For our purposes, there are two features of the ensuing debate that are of particular significance. The first is that the debate over the merits of economic rationalism was in every sense intellectual. It was fought between intellectuals, not just academics but journalists and opinion formers more generally. Perhaps more importantly, the debate was about the influence of intellectuals. The main actors in Pusey’s account are academics (usually economists), members of think-tanks and bureaucrats. Pusey argues that economic rationalism was essentially an intellectual takeover. Not only did Pusey argue this, but the economic rationalists, particularly the think tanks like the CIS, also claimed credit. They saw themselves as key actors advancing the doctrines of liberalism. Thus, this was a debate about ideas, the power of ideas, and the power of those who convey them.

Secondly, Pusey’s critique was not simply a critique of individualism or market economics. It was also a critique of modernism. Indeed, Pusey spends relatively little time examining the actual economics of economic rationalism. Instead most of his case is built around discrediting the methods of the economic rationalists. He portrays them as ideologues who are taking highly abstract, deductive theories and simply imposing them on an unwilling reality. This anti-modernism is a continuing theme in the critique of economic rationalism.66

66 As I note later, Pusey uses the terms modernism and post-modernism. However, Pusey’s definition of modernism is the reverse of my definition. For Pusey modernism is the approach taken by pragmatic state builders, whilst post-modernism is the more abstract and theoretical disposition of the economic rationalists.
These aspects of the debate have important implications for our understanding of the social capital debate. First, the importance of intellectuals and ideas to the debate over economic rationalism sets the scene for the embrace of yet another idea – social capital. It was in this context, where intellectuals were trying to win a battle of ideas, that participants from both sides of the debate over economic rationalism turned to the concept of social capital.

Second, I have already argued that the critique of modernism has often been associated with a more explicitly normative critique. Hayek, for example, combined a critique of modernist method with a critique of socialist ideology. I also argued that many social theorists have done the opposite, combining their critique of modernism with a critique of neoliberalism. This is exactly what Pusey does. What is more, he combines these two critiques to argue against the heirs to Hayek, the classical liberal think tanks like the CIS. How is it that Hayek is transformed into the defender of an abstract modernism when so much of his career is spent campaigning against such a position?

I start by exploring the potential contradiction between two elements of Hayek’s thought (and that of his followers within the CIS). The first is the critique of modernism, of planning and of rationalism. The second is the strong political advocacy of a particular normative (or political) position – classical liberalism. Drawing on the work of Andrew Gamble (1996), I argue that this tension is best understood as a tension between Hayek the academic and Hayek the activist. To explain this distinction I examine Hayek’s article, ‘The Intellectuals and Socialism’, which has gone on to be a key influence on the development of the CIS and Australian think-tanks as a movement.

Following a brief discussion of the development of Australian think tanks, in particular the CIS, I turn to the debate over economic rationalism. Beginning with Pusey’s book I examine how the debate divided Australian politics, and the importance of modernism to this new division. I end by examining the implications of the 1993 election. Here the Coalition presented the most coherent economic rationalist platform ever developed

67 The Coalition includes the two non-Labor parties in Australian politics, the Liberal Party and the National Party. The Coalition has held government at the federal level for most of the
by a mainstream political party in Australia, and with it lost an apparently ‘unlosable’
election. It was this political defeat of economic rationalism that I argue in the next
chapter set the scene for the turn towards the concept of social capital.

**Hayek and the socialists**

Hayek is now acknowledged as a key figure in the reinvigoration of classical
liberalism, and what the Left generally terms neoliberalism. In his influential account
of the Thatcher Government and the rise of neoliberalism in Britain, Richard Cockett
(1994) named Hayek as one of the most important actors. It was Hayek who helped
establish the Mont Perelin Society and the Institute for Economic Affairs (IEA).
Hayek’s work continued to influence think tanks in Britain which Cockett argues
championed the principles of economic reform.

In Australia Hayek has been the inspiration of numerous politicians and opinion
leaders. He was the inspiration for the CIS, visiting Australia to help establish it. His
words are quoted on the CIS home page and his work and influence are often
discussed in the pages of the Centre’s journal *Policy*. Hayek is now almost universally
acknowledged as one of the most important neoliberal thinkers, indeed one of the most
important thinkers of the twentieth century.

However, Hayek’s role as an activist for liberalism can sit uncomfortably with much
of his economic and social thought. As discussed earlier, Hayek argued that our
knowledge of the social world is severely limited. Social and economic systems are
too complex to discern clear cause and effect relationships, and thus the social sciences
cannot hope to create general predictive theories. As a result, deliberative planning is
either impossible or counter-productive. Instead, Hayek advocated allowing
spontaneous evolutionary order to emerge, believing that this spontaneous order was
most likely to achieve the goals of human advancement.

Yet, as advocate for liberalism, Hayek argued for specific policy changes. Rather than

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period since the Liberal Party’s formation in the 1940s. Despite the name ‘Liberal’, the
Coalition is generally thought to represent the conservative alternative to the Labor Party.
letting liberalism emerge, Hayek deliberately intervened, establishing think tanks, lobbying politicians and promoting a particular set of policy prescriptions. This has led many theorists to see a contradiction in Hayek’s work. Gamble argues that, partly as a result, many on the left have simply dismissed Hayek as a serious thinker, seeing him instead as an ideologue (1996, p.2).

Gamble acknowledges the tension in Hayek’s work, however he does not dismiss Hayek (1996). Instead, he posits a distinction between Hayek’s work as academic and Hayek the activist. The distinction is similar to my own distinction between the methodological critique of modernism and the normative commitment to individualism. Hayek the academic, Gamble argues, raises important questions about the nature of knowledge, of intervention in the world and of social and economic order. He is anti-rationalist (in Gamble's words) or anti-modernist (in mine). However, Hayek also recognises the political utility of ideologies, and this, I argue, leads Hayek to assume the role of activist.

I wish to build on Gamble’s approach. I argue that Hayek is at least partly conscious of this tension. His advocacy of liberalism, and particularly his increasing commitment to government intervention as a means of advancing liberal principles, reflects his pragmatic understanding of the power of ideas as a means of achieving political ends. I argue that Hayek believed that part of socialism’s success was due to its modernism. Thus, despite Hayek the academic arguing against modernism, Hayek the activist ended up advocating for a form of modernism.

Hayek most explicitly wrestles with these questions in his article ‘The Intellectuals and Socialism’ (1960 [1949]), which has since inspired many within the CIS. He begins by arguing that ideas have real effects. These effects come through the class of people he calls intellectuals. This is not confined to academics; indeed Hayek does not really mean serious thinkers. Rather it refers to the broader group of opinion leaders; journalists, teachers, professionals and others to whom the rest of society look when forming their own judgments (what Hayek refers to as ‘secondhand dealers in ideas’ (1960 [1949], p.372)).

It is the intellectuals, Hayek argues, who have advanced socialism. It is through the
propagation of ideas, not through an obvious material need, that people have turned to collectivist solutions.

‘In every country that has moved toward socialism, the phase of the development in which socialism becomes a determining influence on politics has been preceded for many years by a period during which socialist ideals governed the thinking of the more active intellectuals’ (Hayek 1960 [1949], p.371).

Indeed, for Hayek intellectuals are distinct from experts. Intellectuals have knowledge of some area, but they make pronouncements on all. Yet it is their opinion, and not the opinions of the actual experts, which has the most effect. They are the ones who mediate between expert opinion and popular opinion. They are also the people who judge expert opinion, and so they can also influence the academy.

Even when those at the top of an organisation attempt to criticise socialism, the presence of socialist intellectuals within their organisations makes it nearly impossible. In complex organisations the leadership cannot simply impose its view, instead it is the middle managers and the bureaucrats who translate the policy direction into outcomes – and their control of the details usually has more effect than the overall plan. It is an argument that seems to anticipate Pusey’s critique, which focused on the bureaucrats, rather than the politicians.

‘Even where the direction of policy is in the hands of men of affairs of different views, the execution of policy will in general be in the hands of intellectuals, and it is frequently the decision on the detail which determines the net effect. We find this illustrated in almost all fields of contemporary society. Newspapers in "capitalist" ownership, universities presided over by "reactionary" governing bodies, broadcasting systems owned by conservative governments, have all been known to influence public opinion in the direction of socialism, because this was the conviction of the personnel’ (Hayek 1960 [1949], pp.374-5).

Hayek therefore claims that understanding why intellectuals tend to be socialist is central to the fight against socialism. But unlike many of his colleagues, he does not dismiss socialist intellectuals as either pernicious or ill-informed. To the contrary Hayek argues that intellectuals are more likely to be socialist if they are well
intentioned and intelligent.

Intellectuals, Hayek argues, generalise. They take the insights from one area and apply them to all areas. The original insight is often correct but its general application is not. In the case of socialism, Hayek claims, the specific insight was the success of engineering in the physical sciences. However, consistent with Hayek’s critique of modernism, he argues that engineering principles are not applicable to the social sciences.

This desire to generalise means that intellectuals are also more attracted to broad utopian visions than piecemeal reforms. The engineering frame of mind that generates whole plans for society is more appealing to the intellectual. In other words the very modernism of socialism is a source of its success.

‘In particular, socialist thought owes its appeal to the young largely to its visionary character; the very courage to indulge in Utopian thought is in this respect a source of strength to the socialists which traditional liberalism sadly lacks’ (Hayek 1960 [1949], p.380).

Hayek embraces a line of argument not dissimilar to Joseph Schumpeter. Liberalism is the victim of its own success. Now that the project has largely been achieved there is nothing left but piecemeal reform. But this leaves the intellectual unsatisfied. Thus, the very freedom which liberalism provides leads intellectuals in search of a new adventure, and thus to doctrines which undermine both freedom and liberalism.

‘It may be that a free society as we have known it carries in itself the forces of its own destruction, that once freedom has been achieved it is taken for granted and ceases to be valued, and that the free growth of ideas which is the essence of a free society will bring about the destruction of the foundations on which it depends’ (Hayek 1960 [1949], p.383).

However, unlike Schumpeter, Hayek does not accept liberalism’s fate. Instead, he looks to mimic socialism in order to defeat it. He embraces the very tools of thought – universalism, utopianism and grand visions – that he elsewhere condemns. While rejecting the modernism of socialism on academic grounds, Hayek ends up endorsing
modernism as a political strategy.

‘We must make the building of a free society once more an intellectual adventure, a deed of courage. What we lack is a liberal Utopia, a program which seems neither a mere defence of things as they are nor a diluted kind of socialism… which is not too severely practical, and which does not confine itself to what appears today as politically possible… The main lesson which the true liberal must learn from the success of the socialists is that it was their courage to be Utopian which granted them the support of the intellectuals and therefore an influence on public opinion which is daily making possible what only recently seemed utterly remote’ (Hayek 1960 [1949], p.384).

**Dreaming of a liberal utopia**

The creators of classical liberal think tanks were often reacting against what they perceived to be the strength and advance of collectivism. Hayek wrote ‘The Intellectuals and Socialism’ shortly after helping to found the Mont Perelin Society (see Cockett 1994, chapter 3), which itself was established in the wake of Hayek’s famous book *Road to Serfdom* (1944). All of these events took place at a time when Hayek saw socialism on the ascendancy. The 1940s also saw the birth of the IEA in Britain, perhaps the best known and most influential British think tank. In Australia this was also the time at which both the Liberal Party and the Institute of Public Affairs (IPA) were established. By the mid-1950s, however, the IPA was lamenting the apathy of Australian business people, and predicting that it would take an economic downturn, or some other threat to their interests, before they would again become interested in politics (Carey 1987, p.10).

The prediction seems to have been fulfilled. The next significant downturn in economic conditions coincided with the election of another Labor Government and the introduction of a range of social democratic policy measures. In response to this renewed threat the CIS was established. Greg Lindsay, a high school teacher who became increasingly interested in and passionate about classical liberalism, founded the CIS. In an interview for *Policy* Lindsay describes how he became interested in libertarian ideas through the work of Ayn Rand in a film class he attended. He
gradually read more widely, eventually coming to Hayek. His decision to establish the CIS appears to have been directly influenced by Hayek. He describes ‘The Intellectuals and Socialism’ as ‘in one sense …the most important piece that I’d read’ (Lindsay & Norton 1996, p.17). It convinced him that ‘what [he] was seeing was an intellectual problem, not a political problem’ (Lindsay & Norton 1996, p.17). As a result he joined the short-lived Workers Party and began to create the CIS.

In the process of getting the institute off the ground, Lindsay met with Anthony Fisher, founder of the IEA, who himself was interested in establishing an IEA-type think-tank in Australia. Lindsay also met with, and then became a member of, the Mont Perelin Society (Lindsay & Norton 1996, p.18). He saw the CIS as a place to develop and promote liberal ideals, free from the pressures and pragmatism of parliamentary politics. The CIS also proudly proclaims its economic independence, being careful to limit its financial dependence on any one sector of the economy.

But the CIS is also a body of practical political activists. Its research is targeted to specific industries, with an eye to influencing policy making. The CIS undertook its own research along these lines into foreign investment, the taxi industry, and rent and price controls (Lindsay & Norton 1996, p.20). However, their approach was focused on ‘opinion-formers’ rather than ‘policymakers’, a strategy Carey describes as ‘tree top’ rather than ‘grass roots’ campaigning (1987, p.11). The aim was to influence public opinion through intellectuals, rather than to directly gain the ear of government. It is a strategy Lindsay notes was ‘mapped out by Hayek in ‘The Intellectuals and Socialism’’ (Lindsay & Norton 1996, p.20).

Lindsay established the CIS out of a desire to help limit and then reduce the size and scope of the state (Devine 2001/02, p.28). Both this antipathy to the state, and the CIS’ commitment to the philosophy of Hayek more generally, have remained a core part of the Centre’s identity. The CIS is also conscious of, and proud, of the active role Hayek

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68 The Worker’s Party was established in 1975 advocating libertarian principles and ‘Friedmanite’ economic policies. It experienced virtually no electoral success, but included in its ranks activists who would later become prominent advocates of economic reform. For an account of the Workers Party see Sawer (1982).

69 Diane Stone (1996), notes that this independence is pursued by many think tanks and is crucial to them developing and maintaining a reputation for impartial advice.
has played in establishing not only the CIS but also other similar bodies in Australia (see CIS, 1994, pp.4-5).

The efficacy of the CIS’ strategies is less clear. Damien Cahill has recently argued that there has been very little detailed analysis of exactly what the influence of think tanks has been, at least in the Australian case (2004, pp.6-8). There has been significant work on mapping the growth of think tanks in Australia particularly by Ian Marsh (1980; 1991; 1995). In the 1980s, as the New Right, as it was then known, was winning some policy ground, there were attempts to understand the development of neo-liberal ideas, particularly through the formation of think-tanks (such as Carey 1987; Sawer 1982). More recently, Diane Stone has conducted comparative analysis arguing that the Australian experience remains distinctive (1998). However, most of these works either do not address, or else assume, the causal relationship between the actions of think tanks and changes in policy or public debate.

What is clear is that Australian politics, as in the rest of the English-speaking world, moved back in the direction of markets during the 1980s. The 1970s saw a set of economic conditions that challenged conventional economic reasoning. Governments, including the Australian government, increasingly turned away from Keynesian demand management and towards monetarist and then other liberal economic theories to address the crisis (see Battin 1997; Quiggin 1996, chapters 2 and 3). The Labor Governments under Bob Hawke and Paul Keating moved to deregulate finance, decentralise wage fixation, privatisate government assets, reduce tariffs and introduce micro economic reform through competition policy (see Pusey 2003, Appendix A for a list of reforms).

Determining the role of think tanks in promoting this economic shift back towards the market is a difficult task, well beyond the scope of the current project. More importantly, for our purposes, the think tanks were increasingly credited with a key role. Both members of the think tanks themselves (Gregg & Kasper 1999; Hyde 2002),

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70 Cahill’s own thesis is an exception to this rule. He argues persuasively that the think tanks were developed by capital as a class, and then acted to advance the intellectual case of this class interest. However, Cahill is ultimately sceptical of the centrality of think tanks to the success of economic reform.

71 A similar shift in thinking occurred within the Federal Liberal Party, see Mendes (1998).
and critics of economic reform (Pusey 1992, p.13), identified think tanks as significant actors in the advance of economic reform. Thus, not only did think tanks like the CIS see themselves as self-consciously carrying out an ‘intellectual revolution’, but the opponents of reform developed a very similar thesis, which culminated in Pusey’s critique of economic rationalism.

**The economists and economic rationalism**

While Pusey was the person who popularised both the term ‘economic rationalism’ and the critique of economic reform, he was not the first to identify the argument. People around economics had already begun to discuss a change in the Australian economics profession. Economic historian Noel Butlin (1987), economist Hugh Stretton (1987) and historians of economic thought, Peter Groenewegen and Bruce McFarlane (1990), each discussed how the teaching of economics had changed over time, and how, as a result, economics graduates had begun to approach economics in different ways.

All of these authors criticised what Stretton described as the combination of ‘positivism and specialization’ (1987, p.202) they saw in modern economics. They claimed there had been a changing of the guard. They argued that an older generation of economists had received a broad arts education, with economics included as only one component of their studies. These economists had experienced war and sometimes depression. A large proportion of these economists were employed in the public sector (Butlin 1987) and they were taught economics in the context of learning practical skills for managing the economy. Groenewegen and McFarlane (1990) described how this earlier, holistic training had produced a generation of senior bureaucrats dedicated to the positive intervention of the state in markets, the most notable being H.C. ‘Nugget’ Coombs.

However, all these authors argue that a new younger generation took over during the 1960s and 1970s who received a very different apprenticeship. Groenewegen and McFarlane claimed that the generation of state builders had handed over to a generation trained in the highly specialised economic techniques of the American
school. Groenewegen and McFarlane (1990) and Stretton (1987) argued that the bureaucracy had increasingly been captured by this market-friendly doctrine. And importantly, they reached a similar conclusion to Lindsay, the founder of the CIS, in attributing political change to earlier intellectual trends. They saw this change in the opinion and technique of economists translating into institutional support for policies of economic reform.

It should be noted that their conclusion is not uncontroversial. Many dispute both this version of the history of the economics profession and the importance of economists to Australia’s embrace of market economics (Jones 2005). My aim is not to evaluate the merits of this argument, but rather to establish that the argument was influential at the time (and continues to be), and thus influenced many of the key players in the emerging social capital debate. It contributed to an atmosphere in which intellectuals believed that the opinions of professionals, particularly economists, were a key determinant of policy and that economists were increasingly reductionist.

Stretton and Groenewegen and McFarlane were critical of the new economic orthodoxy. They describe it as overly specialised and positivist, and as devoid of pragmatic considerations. Indeed, Groenewegen and McFarlane argue that the new orthodoxy was inconsistent with even the conservative tradition of Australian economics. The critique they develop contains a strong critique of the modernism of neoclassical economics.

‘…the vision of the unqualified benefits of an unfettered market system presented to students in the textbooks would not have been acceptable to even the most conservative of Australia’s economists. This was not because of lack of theoretical sophistication but rather from the strong appreciation of the lack of universality assignable to economic theory and an honest appreciation of the desirability of testing theory with facts’ (Groenewegen & McFarlane 1990, pp.233-4).

However, it was not until Pusey’s *Economic Rationalism in Canberra* that the thesis of an intellectual take over of the economics profession and, through this, the state, was popularised. In the book Pusey argued that the state had been taken over by narrow-
minded economists who strongly favoured economic reform, and wished to reduce the size of the state.

The book was based on interviews carried out with top bureaucrats from across the public service, particularly in key economic portfolios. Pusey was granted unprecedented access, carrying out a total of 240 interviews. His sample included one seventh of the entire Senior Executive Service (SES) and fully one half of the SES in the key departments he focused upon (1992, pp.24-5). The interview was relatively detailed, usually taking about 90 minutes, and containing over 60 questions. The questions ranged across the individuals’ background, political beliefs, attitudes to economic restructuring, the operation of the bureaucracy and their job satisfaction (see 1992, Appendix 1, pp.245-57).

The bureaucrats were, to use Pusey’s terminology, ‘way to the right of centre’ politically. Indeed, he observed, ‘Even among those of our interviewees who designated themselves “centre-left”, we find that nearly half wanted to see “more individual initiative” and “less state provision”’ (1992, p.5). In other words, the bureaucrats systematically preferred the market to the state. Pusey argued that the days when bureaucrats acted as impartial advisors, implementing the wishes of their elected leaders were gone (1992, p.2). Instead, these ‘economic rationalist’ bureaucrats were, in part at least, directing the onslaught of deregulation that was beginning to take place during the 1980s. The process was only exaggerated by Government-initiated restructuring of the public service that further privileged those committed to economic reform.

Like Stretton, Butlin and others on whom he drew, Pusey was arguing that this was an intellectual problem. Pusey argued that the process of reform had been ‘driven by an intellectual triumph… (of) “whiz kid” econometricians’ whose ‘superior “intellectual” capacities’ are accepted by their older bureaucrat colleagues (1992, pp.8-9). Economists have gained ‘unquestioned leadership at the head of the family of “intellectuals”’ (1992, p.202). This intellectual dominance was the result, Pusey claimed, of their economic education. Having an economics degree was the key to success, and was the most striking indicator of pro-market and anti-state policy views.
‘We see that a conspicuously large proportion of [our top public servants] have a training in economics and commerce. This, more than any other factor, seems to confirm or augment whatever measure of conservatism is acquired from family and school and, further, to directly influence their views about the role of the state’ (Pusey, 1992, p.74.)

Pusey’s thesis was broadly welcomed by non-economists and those aligned with progressive politics. Boris Frankel in the left wing journal Arena, for example, stated that it ‘must rank as the most important political intervention against the New Right carried out by an academic in recent years’ (1992). Pusey also notes that the book’s success was in part due to a group of ‘serious’ journalists who already accepted the argument, but lacked the evidence, and the academic credibility, to make the case. Once the book was published these journalists devoted significant space and airtime to discussing it (Pusey 1993a, pp.380-1).

However, the reception was not uniformly welcoming. Those within the think tanks often slammed the book as poorly researched and ideological (for example J. Stone 1993). A number of experienced economists also took issue with Pusey’s analysis. Fred Argy, who would go on to develop his own brand of Third Way thinking (1998), argued that Pusey’s evidence was much weaker than his argument. The questions were not specific enough to be able to clearly discern the preferences of the interviewees, and the answers pointed to significant differences of opinion (Argy 1992). Later Argy conducted his own interview of Canberra economics graduates, arguing that while there was relative consensus on many micro economic issues, there was significant disagreement over reducing the size of the state, macroeconomics and normative questions about distribution (2001).72

Argy’s criticism is particularly interesting because he accepts the general claim that economists have become less interventionist (1992, p.154). His argument is about the specifics, about just how united the non-interventionist position is, and in particular how extreme it is. Argy’s comments reflected a broader sentiment in the debate that

72 A good summary of the early debate over Economic Rationalism in Canberra is provided by Bell (1993). A more recent study of the strategies used by both the critics and supporters of economic rationalism is given by Burton, Dollery and Wallis (2002), although the framework used is not helpful for the current purpose.
the term ‘economic rationalism’ tended to be poorly defined, and often meant different things to different people.

Pusey has given a couple of similar definitions for what he was referring to, all of which echo the sentiments expressed by other critics of economic rationalism, and of economic reform more generally. One such formulation is,

“Economic rationalism” is a doctrine that says that markets and prices are the only reliable means of setting value on anything, and, further, that markets and money can always, at least in principle, deliver better outcomes than states and bureaucracies’ (Pusey 1993b, p.14, emphasis in original).

Two aspects of this definition are of interest here. The first is that the definition is relatively extreme. This no doubt explains Argy’s unease. It also provoked Geoff Brennan to claim that economic rationalism ‘so defined, is such an extreme form of anarcho-capitalism that no-one I know (with the possible exception of David Friedman) would ever endorse it’, (1993, p.3).

Secondly, Pusey focuses very specifically on the economics of the market as the defining characteristic of economic rationalism. This sets economic rationalism apart from the other common term for describing the pro-reform position of the 1980s and 1990s – the New Right. The New Right was generally associated with a mix of market liberalism and social conservatism. However, Australia’s experience of reform was somewhat different to other English-speaking nations. Unlike the Margaret Thatcher and Ronald Reagan Governments, attacks on the welfare state were relatively minimal and contained. The Labor Governments did not appear to succumb to the anti-welfare state rhetoric of American theorists like Charles Murray (1982) and Lawrence Mead (1992). Instead, a number of social movements were quite successful, both in mobilising supporters, and in winning targeted reforms (see Burgmann & Milner 1997; Burgmann 1993; 2003).

In fact the term ‘New Right’ is more applicable to the broad policy direction of Malcolm Fraser’s preceding Coalition Government. Fraser claimed to be a fan of both Hayek and Rand (although many classical liberals dispute his practical commitment to
economic reform). The Fraser Government also set about retrenching significant parts of the welfare state, such as universal health care, and towards the end of its term the government began to employ the rhetoric of ‘welfare dependency’ and the need for government to make space for the traditional role of the family (see discussion in Sawer 1982, pp.9-10). Thus, like both Thatcher and Reagan there was a sense in which the government was becoming both economically liberal and morally conservative.

As Andrew Norton (2001b) argues, by the mid-1980s the term New Right was less applicable in Australia. By focusing specifically on the economic agenda of deregulation, the term ‘economic rationalism’ seemed to better capture what was happening. While there was debate over just how extreme most economic rationalists were, there was acceptance by the advocates of reform that the term did capture something of their agenda. Indeed, Michael Schneider has since traced the modern usage of the word back to the 1970s, when the term economic rationalism was used by advocates of reform to applaud moves by Gough Whitlam’s Government to reduce industry protection (1998). Thus, the term was embraced not only by the critics of reform, but also by its advocates, something Pusey himself found quite surprising (1993a, p.381).

This broad acceptance of the term economic rationalism gave the debate increased momentum – despite ongoing miscommunication over exactly what the term referred to. Pusey’s book was also released at an opportune time. Australia had just entered its most severe recession in decades, and several high profile entrepreneurs, made famous by the boom of the 1980s, had just gone bankrupt and were now facing charges. Pusey placed the blame for the economic crisis at the feet of the economic rationalists, arguing that the program had failed even to deliver the growth it had promised.

But Pusey’s main line of attack was not over the economics of economic reform – something he was relatively poorly equipped to deal with. Instead he focused on what he, somewhat problematically, called the ‘positivism’ of economics. Pusey’s critique of positivism was associated with the narrow focus of economic rationalism. Pusey later claimed that his sociological approach was necessary to make the critique work, because class based analysis also tended to be positivist and ‘you cannot fight one kind of positivism with another’ (1993a, p.383).
Thus, Pusey presented a sociological ‘non-positivist’ critique of the positivist economic rationalism. In the language of this thesis, I argue that Pusey’s critique was as much against modernism as it was against the individualism of economic rationalism. What is more, Pusey associated this critique of modernism with social theory, and against the modernist discourse of economics. The association between modernism and mainstream economics, which I argued in previous sections was not a necessary connection, was reinforced by Pusey’s critique of economic rationalism.

Pusey’s work bears a striking similarity to the earlier critique of modernism presented by Hayek. As if taking the words out of Hayek’s mouth, Pusey denounces economic rationalism as ‘scientism’. 73

‘…there is of course no quarrel with economics per se but rather with an underlying scientism that seems to turn arbitrariness into givenness… What counts, further, is the speed, elegance, and agility with which one can create a purely formal and transcontextual commensurability of reference across goals…’ (Pusey 1992, pp.10-1, emphasis in original).

For Pusey economic rationalism presented a ‘triumph of formal models over practical substance’ (1992, p.8). ‘It is a dynamic that comes “from the top down”’ (1992, p.9). ‘It has no historical memory and it is either asocial or anti-social’ (1992, p.107). ‘It is a narrowness that has become “ideological” as it has lost all philosophical understanding of its own origins and limitations’ (1992, p.174). ‘These “higher intellectual” skills were perceived to be formal, abstract, and, in this sense, opposed to the “hands-on” pragmatism of slowly acquired experience and practice’ (1992, p.109). Economic rationalists were a ‘high-powered intellectual elite that is seen at the same time as a clutch of whiz kids who are “removed and abstracted from the real world”’ (1992, p.179).

This account appeals to much the same sentiments as the contemporary social capital and Third Way positions, setting up the economic rationalists as a privileged elite.

73 It is important to note that Pusey is drawing on Habermas’ concept of scientism, not Hayek’s (1992, p.173 ff45). There are differences, however, both refer to a universal, deductive model that refuses to acknowledge the subjectivity of knowledge.
divorced from both reality and the experiences of ordinary people. He compares the economic rationalist approach to the nobler intentions of the nation builders.

‘The older generation of economists typically came from modest social backgrounds and had some historical memory of the Great Depression, of economic crisis and unemployment, of war, vice and ordinary life in Australia before the largely post-war, modern-day Canberra was even built... Economists of the newer kind may, in contrast, have acquired what looks like a trained incapacity to learn from all later experience’ (Pusey 1992, p.6).

Pusey consistently equates the older generation with the attributes of non-modernism; practicality, learning by doing, recognising complexity and ignorance; while he also equates the economic rationalists with the extremism of modernism. In doing this he creates non-modernism as a sort of moral high ground. The left was reclaiming the territory that once belonged to Hayek and previously to political conservatives.

Pusey’s book also fuelled a debate that was already emerging within conservative politics. At around the same time as the book’s launch, the Coalition released its manifesto for government – Fightback! (Liberal and National Parties 1991). The platform was the centrepiece of Opposition Leader John Hewson’s bid for power. It was described as the epitome of economic rationalism, ‘The stark architecture of this more uncompromising liberal fundamentalism has been fully outlined in Fightback!, which now stands as the high water mark of economic rationalism in Australian politics’ (Vintila, Phillimore & Newman 1992b, p.viii).

Hewson was an economist. He was trained in the United States in the 1970s just as the intellectual tide in that country was turning (Barnes 2003). He worked for the IMF building multi-country economic models (Costa & Duffy 1993, p.123). His platform was reported to be 900-pages long and fully costed (Barnes 2003). It involved dismantling universal health care, the introduction of vouchers to higher education, scrapping of all tariffs, radical reform of the welfare and industrial relations systems and perhaps most notably, substantially reducing income tax and abolishing wholesale and payroll taxes, to be replaced with a 15% goods and services tax (GST). It represented a coherent alternative vision, one based on the economic liberalism that
had already influenced Labor policy, but implemented in a far more comprehensive manner.

Hewson was a radical reformer with a vision of a different Australia that he wanted to shape and mould. In a passage quoted by Pusey, Hewson resembles the image of the intellectual drawn by Hayek in the late 1940s, ‘You cannot tinker. You have to make dramatic change… You cannot have too much change and you cannot do it quickly enough’ (Pusey 1993b, p.24, quoting Woods 1992).

Not only did Hewson’s approach reinforce Pusey’s critique of the modernism of economic rationalism, it exacerbated divisions within conservative politics. Key conservative figures, both within and outside the Liberal Party, began to question economic rationalism (see Toohey 1992). The most obvious example of this was the experience of Robert Manne, the conservative editor of the magazine Quadrant. Manne edited the journal while it debated the issue of protectionism versus liberalisation – a cornerstone of the economic rationalist debate. After declaring his hand as a moderate protectionist, Manne resigned as editor, before being persuaded to resume (see Haigh 1993). Manne then set out systematically attacking economic rationalism, along with friend and fellow conservative John Carroll (in particular Carroll & Manne 1992).

Manne’s criticism reflected the same critique of modernism as that outlined by Pusey. Manne described an emerging gulf between the attitudes and approach of conservatives and those of the new economic rationalists. ‘Where economic rationalism is programmatic and theoretical, older-style conservatism is pragmatic, experimental and, ultimately, sceptical about the role of theory in human affairs’ (1992, p.57). He claimed that economic rationalists ignored evidence of undesirable outcomes, claiming the reforms simply had not gone far enough (1992, p.56). One of the board members of Quadrant, Dame Leonie Kramer, suggested that Manne’s position was in part explained by the severe economic downturn in his home town of

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74 Although I do not deal with the issue in this thesis, the critique of modernism has also been developed by a number of prominent conservatives, for example Oakeshott (1991). As Mann’s comments indicate, scepticism of modernism is largely consistent with a conservative political outlook. This has also led some to speculate on the similarities between Hayek and Oakeshott’s work, for example (Roggeveen 1999).
Melbourne. Confronted with daily reminders of business failure, Kramer could understand why Manne was more cautious and more sceptical of the benefits of economic reform (Haigh 1993).

The non-modernist attack on economic rationalism was also reflected in the rest of the debate, which was still predominantly launched from the Left, despite the addition of a few conservatives. A number of books were released attacking economic rationalism. Donald Horne (1992) edited *The Trouble with Economic Rationalism*, Stuart Rees, Gordon Rodley and Frank Stilwell (1993) edited *Beyond the Market: Alternatives to Economic Rationalism*, and Peter Vintila, John Phillimore and Peter Newman (1992a) edited *Markets, Morals and Manifestos: Fightback! & the Politics of Economic Rationalism in the 1990s*. The general tone of these texts is summed up in a contribution from one of the few economists, Stilwell who claimed that the reformers were ‘rationalist’ in that they obeyed ‘an economic theory based on deductive reasoning rather than careful observation of economic events’ (1993, p.27-8).

The attacks on economic rationalism did not go unchallenged. A number of people came to the defence of economic rationalism. In particular, Stephen King and Peter Lloyd (1993a) put together a series of papers given at a conference examining both sides of the debate, *Economic Rationalism: Dead end or way forward?*, and a group of university students, Chris James, Chris Jones and Norton (the last of whom would soon become a key figure in the CIS’ social capital project) (1993a), put together *A Defence of Economic Rationalism*. The defence was partly an attack on the credentials of the critics. Many of the economists argued that the critics did not properly understand neoclassical economics. King and Lloyd, for example, noted that few of the critics were actually economists. Pusey was a sociologist, Manne and Horne were both historians (1993b, p.vii), and they argued that ‘The difference between what neoclassical economics actually says and what its critics think it says is enormous’ (1993b, p.ix).

However, more broadly, economic rationalists defended themselves against the charge of hyper-rationality levelled against them. Sure, the economic rationalists argued, they

75 The most notable conservative contribution came from Carroll and Manne (1992) *Shutdown: the failure of economic rationalism and how to rescue Australia*. 
were in favour of a range of market reforms – but that did not mean that they were ideologues. Michael Costa and Mark Duffy responded from a Labor Party perspective arguing that, ‘For Labor in government, economic rationalism has not meant the domination of policy formation by barren econometric models. It has meant a commitment to economic growth and economic responsibility in a broad and practical sense’ (1993, p.124). While Richard Blandy wrote,

‘The economic rationalist (i.e., microeconomic reform) agenda is… a considered, coherent response to the problems of achieving the goals Australians have for their society and themselves. These goals have not changed over time but the circumstances confronting Australia have, and the experience with some past solutions has found them wanting’ (Blandy 1993, p.35).

In the political realm, however, economic rationalism was about to suffer its first serious defeat. The release of Fightback! had given Hewson the political initiative. The Labor Party was trailing in the polls, and the incumbent Prime Minister, Hawke seemed unable to effectively respond. Soon after, Paul Keating, the Labor Treasurer, successfully challenged for the leadership. What then followed was a considerable about face in Labor economic policy. Faced with a recession Keating developed his own (somewhat less fulsome) manifesto, which later became Working Nation (Prime Minister 1994). It set out a retreat from the market reform position, and instead proposed employment and industry policies to help the country return to growth.

Keating then set about tearing apart Fightback! and opposing the Coalition’s plans for further reform. At the same time he offered an alternative vision that would see Australia become a republic, reach out to its Asian neighbours and begin a process of national reconciliation with its Indigenous peoples. Despite giving a significant head start to Hewson, Keating won what has since been termed the unwinnable election. The press credited Keating’s scare campaign over the introduction of a GST as the main reason for his success, but Australian electoral survey data suggests that similar campaigns to defend Medicare and the industrial relations system were equally important (Bean 1994).
The critique of economic rationalism had already created the impression that economic rationalism was a narrow, economic and abstract program. Before the election, Manne had predicted that a Hewson loss would spell trouble for the economic rationalist agenda, ‘If the strategy fails, and the election is lost, a Coalition crisis, between rationalists and pragmatists, seems likely’ (1992, p.60). Journalist and political commentator Paul Kelly had similarly observed that if economic rationalism was to succeed, it would need to develop a social theory to complement its economic critique of the state (1992, p.418). When Hewson lost the election, this view became more widespread and prompted a re-evaluation amongst market liberals.

This was the context in which Putnam’s (1993) *Making Democracy Work* arrived in Australia. It seemed people from both sides of the ideological divide were searching for an antidote to the dose of economics they had been fed in the previous decade. Abstract, reductionist reasoning was on the way out, and more concrete, pragmatic approaches were on the way in. Soon after its publication, two very different organisations took up Putnam’s call. Both used the social capital debate to refocus attention on social issues, and to reopen a debate about the importance of civil society. But they were not necessarily talking about the same thing. I now turn to these different approaches to the social capital debate, the first summed up in the work of the CIS, the other in the work of Cox and CACOM. I deal with each separately before turning to the common issue of civil society and the possibility of a third sector or institution between the market and the state.
Chapter 9 – The Social Capital Cure for Economic Rationalism

Up until this point, the thesis has examined the origins and context of the current social capital debate. I have traced the beginnings of the concept through the development of rational choice theory, and have set out the context in which the concept emerged within Australia. In this chapter I examine the beginnings of the Australian social capital debate itself. I argue that the debate over economic rationalism set the scene for the Australian social capital debate and that those initially involved in the debate used the concept of social capital to advance competing political claims.

Throughout the thesis I have argued that it is useful to distinguish between the ideological commitment to the market (or individualism) and the use of modernist methods. In section three I argued that by making this distinction we can better understand the origins of the concept of social capital. The concept, I contend, is the product of a dissident, non-modernist tradition within rational choice theory, but a tradition strongly committed to the normative goals of individualism and market process. I contrasted this thesis to existing critiques of social capital theory, particularly the critique made by Ben Fine, who attacked both the individualism and the modernism of neoclassical economics.

In the last chapter I argued that the association between modernism, rational choice economics and the normative commitment to individualism was a central feature of another critique – Michael Pusey’s critique of economic rationalism. Pusey rejected economic reform, partly by criticising the methodology of economics as overly abstract and deductive and partly by criticising economists as detached and unable to learn from experience. In developing his critique, Pusey created a dichotomy between a modernist economic rationalism and a non-modernist social theory.

While I argued earlier that Friedrich von Hayek and elements of the Austrian economic tradition had rejected modernism, including the modernism of neoclassical theory, I argued that we needed to draw a distinction between Hayek the academic and
Hayek the activist. I claimed that think-tanks like the Centre for Independent Studies (CIS) followed Hayek the activist in identifying the need for a new utopian form of liberalism with a distinct program of action. Simultaneously, Australian universities were embracing a more modernist economics, described by Peter Groenewegen and Bruce McFarlane (1990) as ‘American school’. Thus, Pusey’s critique of the modernism of economic rationalism was particularly apt.

In this chapter I argue that it is useful to distinguish between two groups who supported economic rationalism, those who supported economic reform because of their background in economics, and those who supported reform because of their commitment to classical liberalism. While the charge of modernism may describe the first group well, I argue that it somewhat misunderstands the second, for whom modernism was more a strategy than an integral part of their goal. I argue that it is this second group which took up the concept of social capital through think-tanks like the CIS.

In the aftermath of the Coalition’s defeat in the 1993 election, and the sustained attack upon economic rationalism as detached, abstract and remote, I argue that classical liberals began to refocus their attention on developing a coherent social agenda. The concept of social capital was taken up by the CIS as part of this process, as a response to the non-modernist critique of economic rationalism, and the desire of classical liberals to portray themselves as interested in more than narrow economic questions. In addition, many in the CIS had been disappointed by their failure to reduce the size of the welfare state. They saw developing a social vision as one way of advancing this goal.

Looking at the publications of the CIS, it is clear that those involved in the Centre’s social capital project placed the concept within the tradition of classical liberalism. I argue that the CIS developed the concept of social capital in the same spirit as it was initially conceived, as a product of spontaneous order.

However, the CIS was not the organisation to popularise the concept. Instead, Eva Cox, a critic of economic rationalism and classical liberalism, employed the concept in her influential Boyer lecture series. Cox does not refer to the concept’s origins in
rational choice theory, but instead explicitly uses the concept strategically, as a means of engaging economics in a conversation about civil society, thus gaining status for social issues.

Cox inspired the first serious Australian research into social capital, conducted by the Centre for Australian Community Organisations and Management (CACOM). CACOM’s social capital work was aimed at countering the potentially negative effects of the advance of economic reform and competition policy into the community sector. Thus, where the CIS developed the concept to argue for limiting the welfare state, CACOM used the concept to defend the community sector against the intrusion of market principles.

Both these responses were in part a reaction to the dynamics of the debate over economic rationalism and the advance of economic reform. The CIS responded to the perceived failures of that program, its electoral unpopularity and its inability to reduce the size of the welfare state. Cox and CACOM responded to the success of the economic rationalists, the continuing advance of competition policy and the lack of authority enjoyed by social critics. Thus the social capital debate represented a continuation of the debate over economic rationalism.

The two groups used the concept to advance very different positions. I argue that they in fact developed two different concepts, reflecting different understandings of civil society. The CIS understood civil society, and the source of social capital, as the spontaneous order of free exchange. Cox, CACOM and Pusey all understood civil society as a realm of deliberative and collective decision making. Just as in the debate over economic rationalism, the focus of the debate over social capital has been on ideas as a tool for advancing particular policy programs.

I argue that the critique of modernism has driven much of the Australian social capital debate. The CIS embraced the concept as a response to the anti-modernist critique developed by Pusey. The failure to halt the advance of economic reform led Cox to try to engage with economics, employing a concept that both reflected the language of economics and her scepticism of economics’ modernist tendencies. The debate also reflects the ongoing importance of ideology, particularly the normative commitment of
classical liberals to individualism. However, as both sides used the same language, and emphasised the same non-modernist themes, ideology was obscured.

**Liberalism and social capital**

Proponents from both sides of the debate over economic rationalism questioned the adequacy of the intellectual training received by their opponents. Those supportive of economic rationalism often pointed to the lack of trained economists opposed to them. They claimed that their opponents consisted largely of historians and sociologists who simply did not understand the economics involved. Likewise, critics of economic rationalism, including Pusey, argued that the supporters were narrowly trained economists who were incapable of engaging with arguments from other perspectives.

The evidence on which Pusey drew, such as the study of economic graduates by Noel Butlin (1987) and Groenewegen and McFarlane’s (1990) account of the history of Australian economic thought, do show the economics profession becoming more specialised, more technical and less tolerant of other perspectives. Economics within the academy was no doubt becoming more modernist, and this had flow-on effects for those trained in economics. Many of the participants in the economic rationalism debate were neoclassical economists who were far more confident in the efficacy of markets than a previous generation of economists may have been.

However, this was not necessarily a very apt description of the more political advocates of economic reform within think-tanks, and within the Liberal Party. This second group appear to have embraced a broader classical liberal agenda, one that was primarily a political rather than an economic position. Whilst the think-tanks drew on the work of economists, and certainly used economic research to justify their position, I contend that it is useful to distinguish between the economic advocates of economic rationalism (the neoclassically trained), and the political advocates (the classical liberals).76

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76 Battin (1991) also argues that economic rationalism was not a single school of thought. He distinguishes between an empiricist Chicago tradition and an a priori Austrian tradition. While useful in critiquing the coherence of economic rationalism, Battin does not identify the economic versus political justifications of economic reform, nor relate this to the development.
Those within the think-tanks had a broader set of educational and life experiences than the bureaucrats criticised by Pusey. Greg Lindsay, the founder of the CIS was a teacher, and his interest in classical liberalism came through a film studies class. John Hyde, one of the best known of the Liberal Party Dries, and later Director of both the Australian Institute of Public Policy (AIPP) and the Institute of Public Affairs (IPA), proudly proclaimed his broad education in science, arts and economics (Hyde 2002, p.100). Michael Warby, an editor of the CIS journal Policy, studied history, education and philosophy and had a career in the public service before leaving to join the think-tank (James, Jones & Norton 1993a, p.xix). Even Andrew Norton, a key contributor to the CIS’ social capital project and an economics graduate, studied under Hugh Emy, a well known opponent of economic rationalism (Norton 1997a).

The arguments of these classical liberals also differed from the arguments often advanced by economists. Economic reform was just one component of a broader liberal approach to ensuring a free society (Lindsay & Norton 1996, p.21). The CIS used freedom as a key argument against government regulation and ownership, rather than the more ‘economic’ claim of efficiency. Their justification was more philosophical and less technical. As Hyde somewhat spitefully put it in his book defending economic rationalism,

‘Warm and fuzzy people and calculating people defending privileges often accuse Dries of believing that material well-being is all that there is to life and that people are always rational in its pursuit. I recall no Dry who believed either falsehood’ (Hyde 2002, p.7).

The focus on economics per se, and the reliance on economic models, which did not involve the explicit support of liberal principles of freedom served a useful purpose. Libertarians dominated the movement of classical liberalism in Australia in its early years, leading to the formation of the Worker’s Party (see Sawer 1982). However,

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of an internal critique of neoclassical economics. In addition, Battin’s categorisation of neoclassical economics raises a number of questions, which are beyond the scope of this thesis. For these reasons I have not drawn heavily on Battin’s work.

The dries were a group within the Liberal Party supportive of economic reform and free trade. The name reflects a distinction between the supporters of reform and those more supportive of interventionist industry and welfare policies known as the wets.
many supporters of free trade were more conservative on moral issues. Thus, by
confining the debate to economic reform, justified in terms of ‘efficiency’, economic
rationalism managed to build a broader constituency.

However, people within the think-tanks were aware of the danger of being caste as the
dry, technical econocrats, detached from real people and focused on abstract, imperfect
models. Tom Valentine argued in Policy that neoclassical economics represented only
one aspect of the broader philosophical project of liberalism – and a highly abstract
and mathematical version. He preferred to align himself with the more practical
‘Austrian school’ (1996, p.5). Likewise, David Green, one of the Directors of the
Institute of Economic Affairs (IEA) in Britain, and a participant in the Australian
debate, railed against what he described as a ‘group of hard-boiled economic
rationalists’ who dominated policymaking in the 1980s and who derided all talk of
social responsibility or moral virtue (1993, p.2).

At the beginning of the 1990s Michael James argued that economic reform had to be
justified as part of a broader liberal agenda. He claimed that the narrow economic
justification of reform was unlikely to win the wider goal of limited government.
Indeed, he notes that as the government has withdrawn from the economy, it has
become even more involved in social policy. Thus, classical liberals required an
argument that carried across both economic and social realms.

‘My argument is that the free-market policies of economic rationalism are best
defended in the context of an explicit restatement of the liberal tradition. There are two
strands to this argument. First, economic rationalism is ultimately justified in terms of
the liberal principle of limited government… Second, limited government is itself a
necessary precondition of the revival of voluntary individual and collective enterprise
in all areas of life, not just the economy’ (James 1991, p.2).

In the wake of John Hewson’s 1993 election loss, others begun to heed Michael
James’ call. Chris James, Chris Jones and Norton (1993b) argued that it was not
possible to walk away from the economic reform agenda of economic rationalism, but
they conceded that by itself, economic reform had alienated much of the public. What
was needed, they argued, was for the Liberal Party to develop a genuine social agenda
that sought to expand and support civil society while continuing to advocate for economic reform.

Thus, among this group of classical liberals there was an emerging sense that the program of economic rationalism needed to move beyond the narrowly economic. Both criticism of economic rationalism and its inability to effect social policy meant that it was unable to deliver what classical liberals wanted – a much broader limit to state action and the extension of the principles of free exchange to all aspects of human life. In this context the CIS began its social capital project.

The CIS and social capital

The CIS began discussing the concept of social capital soon after the publication of Robert Putnam’s (1993) *Making Democracy Work*. Norton (1994) published a review of the book in *Policy*. A series of other articles on social capital and civil society were published soon after Cox’s Boyer lecture (Warby 1996; Norton 1996; Stewart-Weeks 1996), including one by Putnam on the decline of social capital in America (1996). In 1997 the centre held a workshop on the issues surrounding the concept, publishing a series of essays on social capital later that year (Norton, et al 1997). Also in 1997 the Centre launched its *Social Matters* program to inquire into the state of social capital in Australia – the most notable result being a qualitative analysis of how 12 Australian households experienced trust, cooperative action and social capital (Stewart-Weeks & Richardson 1998).

The CIS’s focus on the concept of social capital has continued through numerous articles in *Policy* and fed into other CIS projects, such as their *Social Foundations* project on civility in Australia, and their ongoing work examining the operation of the welfare state. Other liberal think-tanks followed a similar path. For example, the IPA published social capital related articles in its *Review* (Gough, 1994; Putnam 1994).

The CIS and to a lesser extent the IPA have facilitated the emerging Third Way debate. Mark Latham participated in the CIS’ initial workshop and contributed a paper to the subsequent publication (Latham 1997). Both Latham (1996; 2001b) and Liberal
Minister Tony Abbott (2000b; 2001) have contributed to Policy and have been involved in the Centre’s activities. The CIS has also promoted a related debate about the importance of social entrepreneurs, particularly through its existing connections to key people in emerging social entrepreneurs organisations, such as Vern Hughes.

Interestingly, those within the CIS related the concept of social capital to the tradition of explaining spontaneous order. The most extensive account is given by Gary Sturgess (1997). Sturgess sees Putnam’s account as continuing a tradition of theorists attempting to explain how order can arise as the unintended outcome of individual actions. He identifies the origins of this tradition with the Scottish Enlightenment, particularly David Hume and Adam Smith, claiming that the tradition was then developed by the Austrian school, particularly Hayek, and finally by a range of theorists including new institutionalist economists and game theorists. While Sturgess claims this tradition began by focusing on the order generated by markets, it has since been extended to social order as well.

‘While the political economists were primarily concerned with trying to explain the order produced by markets, Hume had recognised that the underlying principle had much broader application. He was also interested in conventions about language and mutual respect for private property. Numerous other examples could be added, from the informal rules governing behaviour on crowded roads and in the formation of queues, through to something as fascinating and unimportant as the emergence of a Mexican wave at a football match’ (Sturgess 1997, p.59).

Sturgess’ account differs from my own in two important ways. First Sturgess does not make explicit the links between Putnam’s work and these various explanations of spontaneous order. Rather he identifies common themes and insights between Putnam’s work and other literatures. Thus, Sturgess looks to a much broader literature, some of which I argue has directly informed the social capital debate (such as the work of Michael Taylor, Eleanor Ostrom and Robert Axelrod), and other literature which expresses similar themes. Sturgess’ point is not that Putnam drew upon this literature, instead he is attempting to build on Putnam’s framework by drawing on similar insights elsewhere to highlight the importance of trust, norms and social relations to market economies.
Second, Sturgess does not discuss the political context in which these ideas developed. Instead, he presents the developing understanding of cooperative social relations as a relatively linear and objective research agenda, albeit one that has experienced more rapid progress in recent times. There is certainly no discussion of the explicit normative commitment to demonstrating the merits of individual decision making made by so many theorists in this spontaneous order tradition.

However, Sturgess’ paper reveals his awareness of the commonalities between Putnam’s theory and the older spontaneous order tradition. His own familiarity with this literature, as well as Putnam’s explicit reference to a number of authors within it, no doubt helped Sturgess make the connection.

Nor is Sturgess the only one to identify the concept of social capital within this tradition. Martin Stewart-Weeks (2000) outlines a similar lineage, drawing on Ostrom’s analysis of collective action and naming the central problem as the classical liberal ideal of ‘cooperation without coercion’ (2000, pp.277-8). In a later reflection on the social capital project Nicole Billante and Peter Saunders define the concept as follows, ‘social capital relates to the spirit of mutual trust and norms of reciprocity which enable members of a social group to cooperate spontaneously to achieve shared outcomes’ (2002, p.34), a definition they attribute to Ian Winter (2000b) and Wendy Stone and Jody Hughes (2002), despite neither using the term ‘spontaneous’.

A more explicit and detailed connection is made in Institutional Economics, co-authored by Wolfgang Kasper, member of the Mont Perelin Society and frequent contributor to Policy, and Manfred Streit (1998). The account attempts to build a coherent theory of institutions from an Austrian perspective, in both its economic and political senses. Kasper and Streit describe social capital as the stability of social values, which allows a division of labour, greater complexity and greater prosperity (1998, p.75). Their account uses similar evolutionary logic to Hayek’s account of the development of spontaneous order, with the authors likening values to DNA.

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78 Kasper was also a co-author of the influential Australia at the Crossroads, which outlined a policy agenda for Australian economic reform in the 1980s (Kasper, et.al. 1980).
Their analysis is similar to Andrew Schotter’s game theory, discussed in chapter seven. Schotter defined institutions as the patterns of behaviour that emerged as solutions to different game situations. Likewise, Kasper and Streit see institutions as the various patterns of behaviour that emerge without being externally enforced. In the language of game theory institutions are spontaneous solutions, while the rules of the game are those behaviours which are externally enforced. And social capital corresponds to the spontaneous institutions. ‘It is now increasingly being realised that institutions constitute critical social capital: they are, so to speak, the ‘software’ that channels the interaction of people and the development of society.’ (Kasper & Streit 1998, p.6).

Those within the CIS identify the concept of social capital with the tradition of explaining spontaneous order, a connection that is seldom if ever made in the remainder of the Australian literature. This was not a coincidence. Rather, I argue that in doing so they correctly identify the concept’s origins, although they do not explore the exact nature of the relationship between Putnam’s theory and the broader literature.

Just as importantly, the timing of the debate in Australia also helps explain why the concept was such a significant part of the CIS’ work. In section three I argued that that concept of social capital emerged not only through efforts to explore the logic of spontaneous order, and to justify the collective results of individual action, but also as part of a methodological critique of the modernism of neoclassical theory. In the context of the debate over economic rationalism, the concept of social capital enabled classical liberals at the CIS to recast their project in two important ways. Firstly, it provided a social theory compatible with their commitment to market economics. Secondly, it provided a mechanism for critiquing the modernism of the state and reclaiming what had become the moral high ground of non-modernism.

Norton makes this point well. Norton has consistently contributed to debates between advocates and critics of reform, and has largely done so in a constructive way, free of the scorn of Hyde and others. Yet, he mobilises the social capital critique of the state to great effect. States are forced to work by the rules of bureaucracy. They have to be impartial; they have to strictly follow rules. This prevents them from taking account of
micro differences, to develop relationships and to reward and punish individuals according to their adherence to positive behaviour (Norton 1998, p.41).

Secondly, the state undermines the system of incentives that aids relationship building through the market. In market societies social capital is produced as a by-product of the system. The logic is similar to the invisible hand, which leads people to behave in socially desirable ways, even though this may not be their intention. Markets give people a cash incentive to form relationships and to maintain relationships. Networks are a necessary part of exchange. And trustworthy behaviour is rewarded through a good reputation and expanded networks, whilst untrustworthy behaviour is punished through a bad reputation and shunning (Norton 2001a).

In contrast, the state interferes with these positive incentives. It grants directly what people would otherwise have to cooperate to achieve, undermining the need for voluntary associations. Norton describes how state action, while well intentioned, has unintended consequences. It creates disincentives to participate in the market, through work, and thus undermines a crucial source of social connections. As Norton puts it, as the state acts, so ‘The incentive to invest in these social relationships declines, and so social capital is lost’ (1998, p.41).

Others involved in the debate express the same sentiment. Stewart-Weeks argues that governments need to let go of welfare policy, encouraging autonomous local networks to take up the job. One implication, he acknowledges, is accepting increased inequality of outcome. People need to sort out their own problems, and that means some will do it better than others. But intervening and providing things directly does not help. Echoing the community sector’s critique of economic reform, Stewart-Weeks redirects the blame, arguing that it is states (not market-type reforms) that require quantitative measures, which cannot capture the qualitative nature of social outcomes (2000, pp.289-90). The state is simply not suited to this sort of local decentralised task.

Stewart-Weeks is careful not to go too far. He acknowledges that we should not simply dismantle government, but rather need small steps that are reversible (2000, pp.288, 300). Government still has a role in ‘facilitating’ social capital by providing physical infrastructure (2000, p.296). But the state is ill-suited to the broader job of building
social capital as it is, ‘by definition, large lumbering and dangerously distant from the point at which the “rubber hits the road”’ (1996, pp.36-7) The bottom line is that social capital cannot be manufactured by the modernist state, it must be made by the spontaneous institutions of civil society.

It is astonishing just how appropriate this new concept proved for the times. Indeed, the social capital argument seemed to take the market agenda that had been criticised by Pusey and others even further, but in a way that seemed to appeal to the same non-modernist instincts as the critics of economic rationalism. Geoff Brennan argued during the economic rationalist debate that neoclassical economics acknowledged the flaws of the market; ‘Welfare economics, after the public-goods revolution, is as much a catalogue of possible market failures as of general market success’ (1993, p.7). Now, economic liberals were armed with a concept whose very origins lay in solving those problems, and demonstrating that even when faced with externalities, public goods and the rest, spontaneous solutions were still preferable to the state.

**Cox’s social capital – contesting the market**

As I have noted, economic liberals were not the ones to popularise the concept of social capital. Instead, Cox took the initiative, integrating the concept into her 1995 Boyer lecture series on civil society. Cox presented a very different view of social capital. Rather than presenting social capital as the product of spontaneous order, Cox argued that the process of economic reform and the extension of the market had undermined social capital. She argued for a greater role for the state to encourage mutualism, collectivism and equality.

Cox shares a lot of history with the CIS tradition, although often on opposite sides. Like Hayek, Cox’s story also begins in Austria. She was born in Vienna just before the outbreak of the Second World War, and fled to Australia as a refugee. Like the CIS much of her political outlook was informed by that terrible event, although through the philosophy of Hanna Arendt rather than Hayek. She too was a participant in the debates over economic rationalism that had immediately preceded the social capital
debate. She opposed what she termed ‘economic fundamentalism’. However, her critique differed from some others.

Cox’s opposition to economic rationalism was informed as much by feminism as by the more social democratic impulses of Pusey. In her contribution to *Beyond Economic Rationalism*, Cox describes economic fundamentalism as ‘distinctly linked with a version of primitive capitalist machismo’ (1993, p.270). Unlike the criticisms coming from Manne and others, she did not focus on the failure of economic rationalism to deliver economic returns. She did question the scientific basis of economic rationalism’s economics, but she was not primarily concerned with these ‘economic’ indicators. Instead, Cox argued that by focusing on the ‘economic’, economic rationalism reflected a division between economic and social which mirrored the public/private distinction. This left women responsible for social reproduction, but largely denied the rights of citizenship which were defined in terms of participation in the public sphere.

Cox was more critical of both the social democratic welfare state and the discourse of ‘social justice’ than Pusey and other contributors to the debate. Social justice, Cox claimed ‘is still posited on an individualised view of society’ (1993, p.273). Cox is strongly committed to collective politics. She was seeking an approach that would meld public and private, production and reproduction, to create a more complex and holistic account of social order.

Thus, her argument remains consistent with the non-modernism of other critics. She notes that economic rationalists wish to change the world to match the theory, not the other way around (Cox 1993, pp.271-2). But she is also critical of some developments within the state. She claims we ‘need models for state institutions which are less hierarchical and more responsive to the varied and legitimate needs and wishes of people’ (1993, p.271). However, Cox also believed that the state plays a desirable role in overcoming the social/economic divide by actively intervening and shaping social policy (1993, pp.272-3). Thus, the economic rationalist assault on the state was something to be resisted.
Cox’s lectures coincided with significant changes in the community sector. Government funding of welfare was being reconciled with the broader implementation of competition policy. In 1993 the Industry Commission was asked to examine the implications of competition policy for welfare service provision. Despite both the Industry Commission (1995; 1996) and the Hilmer Report (Independent Committee 1993) concluding that there were significant obstacles in applying competition frameworks to the provision of welfare services, the Productivity Commission (1996) recommended that competition principles be applied to welfare services as a means of increasing productivity (see Honner 1998, p.30; also see McDonald 2002). The non-government sector strongly opposed a number of aspects of the move towards competition during the various reviews (see Lyons 1995).

As a consequence, governments have shown an ongoing commitment to the principles of competition (see National Competition Council 1999; Moore 1996), and have required organisations to report against performance indicators and benchmarks, as well as opening up service organisations to direct competition (see Harris 1999; Steering Committee 1999; Walker 1998). This process has increased the influence of New Public Management (NPM) (Barrett 2000; Hood 1995), which has sought to emphasise the distinct roles of purchaser and provider of social services and attempted to separate these roles and clarify them in a contractual and managerial manner (Smith 1995; Stewart 1999).

Cox’s involvement with CACOM, and her broader involvement with the community sector, meant she was keenly aware of the dilemmas facing community organisations. Without measurement tools, these organisations found it difficult to gain access to funding, but the tools themselves seemed at odds with the highly differentiated work done by these organisations. I noted above that Stewart-Weeks, from the CIS, responded to this situation by claiming that governments’ need for measurable outcomes made it a poor provider of community and social services. Cox took a different tack. She identified market reforms as the cause of government’s increased desire for quantitative reporting of community service outputs. To counteract this she attempted to gain access to the dominant economic discourse by using language that incorporated the social world into economics. It was an attempt to legitimate social
concerns in a policy environment that was overwhelmingly dominated by economic considerations.

In her Boyer lectures, Cox makes it abundantly clear that she is using the term ‘social capital’ strategically. She states that ‘These processes are also known as social fabric or glue, but I am deliberately using the term “capital” because it invests the concept with reflected status from other forms of capital’ (1995, pp.15-6, emphasis in original). In another lecture she reveals that ‘I’ve used the term “social capital” deliberately throughout these lectures because this is masculine language, and I want to emphasise the relationship between the social and other forms of capital’ (1995, p.72).

Cox claims that her lectures represent ‘dissident views which don’t fit the current fashions’ (1995, p.13). This may have been true of the direction of government policy, which did seem to emphasise the economic over the social, and which was increasingly demanding quantitative measures and competitive relations. However, amongst intellectuals, her desire to re-focus on the social world, and to seek a less modernist framework for integrating social concerns, were far from counter-cultural. Her critique fits well with both the non-modernist critique of economic rationalism mounted by Pusey, and the non-modernist response being developed by the CIS.

Cox espouses a distinctly non-modernist critique of contemporary economic and political debate. She likens her approach to Robert Lindblom’s (see Lindblom 1959) ‘Muddling Through’, who promotes a ‘gradual, small-steps approach because he recognised complex societies bred complex problems’ (Cox 1995, p.12). And she links this to the Fabian movement’s desire to see ‘small eclectic social changes’ rather than the more radical option of revolution (1995, pp.12-3).

‘We have all seen a variety of political systems, from markets to Marx and back to markets, based on theories which purport to explain everything. There are few if any easy answers to where human society is going. So maybe we need to take small steps rather than great leaps’ (Cox 1995, p.58).

Here, Cox is expressing the same sentiment as Pusey and Hayek. Theories that claim to explain everything, and which are then thrust upon an unwilling reality, are bound
to fail. Instead, we need more pragmatic solutions, still based on principle, but which accommodate local contingencies and which respond to new information through a process of learning by doing.

Cox is also calling for a better understanding of the interdependencies between social and economic phenomena. She rejects the economism of the economic rationalist agenda – ‘Financial capital, physical capital and human capital cannot exist without a social base, ergo the need for high social capital’ (1995, p.72). Cox picks up Putnam as a counter to the dominant logic of economics and finance. She quotes his studies – both Making Democracy Work (Putnam 1993) and ‘Bowling Alone’ (Putnam 1995), to argue that social relationships and group dynamics can affect, or even determine, economic and political outcomes (Cox 1995, pp.17-26). ‘The omission of the social weakens the ability of any theory to predict what may happen’ (1995, p.58).

Yet, unlike the CIS, Cox does not think that this means the end of the centralised state. Despite acknowledging the limitations of the state, as often representing the interests of ‘capital, colonialism and masculinity’ (1995, p.42), Cox does not wish to limit its scope. Instead she says, ‘I want to defend government, the role of the state, the concept of elected officers and their public servants as our servants’ (1995, p.42, emphasis in original). And she links government to the creation of social capital, ‘… how do we create social cohesion? We need to increase the functions and visibility of governments. We need specific cultures of civic concern – of mutual responsibility – and resources for social capital formation’ (Cox 1995, p.53).

Cox’s defence of the state is very different to the argument for market socialism that Hayek rejected in the 1930s, and her conception of the state is likewise different to that criticised by the CIS in the 1990s. She is not extolling the benefits of the perfect plan. She recognises the limitations of making the world resemble theory. Instead, she offers a very pragmatic defence. Like Pusey’s description of the nation-building bureaucrats who helped to build the institutions of the Australian welfare state, Cox defends the state on its record – ‘For one thing, it worked’ (1995 p.46).

Cox gives a series of practical reforms initiated by the Commonwealth Government that she argues have helped to build social cohesion and social capital; from ensuring
equal pay to legislating against discrimination; from providing childcare to combating homophobia. In each of these cases the Commonwealth, she argues, acted, often reluctantly, to defend the interests of the disadvantaged. In doing so it created a fairer, more egalitarian society that was more able to express compassion and empathy. The Commonwealth contributed to a culture of trust, and so built up our stocks of social capital. Alternatively, markets produce inequality, and ‘It is inequality rather than poverty that destroys the social capital because unfairness creates crises of belief in political systems’ (1995, p.49).

CACOM embraced this alternative approach to the concept of social capital. In 1994 CACOM began examining ways of measuring the output of small non-government organisations. As their website explained, the project aimed to ‘find ways of measuring community development, to develop appropriate performance indicators so that organisations could provide evidence to funding bodies that community development was real, measurable, produced positive outcomes for the community and therefore was worth funding’ (CACOM 2003). As part of the project they held a number of workshops on the topic, one of which involved Cox who was in the midst of developing her Boyer lectures. Cox suggested the concept of social capital as a possible line of research (CACOM 2003).

CACOM is significantly different to the CIS. It is not a think-tank but part of a university. It is focused on conducting practical research into fund raising, volunteering and governance issues for the ‘Third Sector’ – volunteer non-profit organisations. Their research into social capital makes clear the relationship between the social capital and economic rationalist debates. Not only was their work on social capital a continuation of the critique of economic reform, it was also an attempt to engage the economic rationalists on their own turf.

Jenny Onyx, for example argued that what had once been called community development had now simply been ‘subsumed’ within the concept of social capital (1996, p.12). Paul Bullen claimed the term was useful because ‘social fabric has more status as social capital in an economic rationalist world view’ (1999, p.20, emphasis in original). And the two authors also air the suspicion that perhaps ‘social capital is
simply community development recycled’ (Onyx & Bullen 1997, p.25), although they go on to clarify what they see as the distinction.

Like Cox, those involved in CACOM have tended to be more sympathetic to government provision, although often critical of particular government policies and approaches. Onyx points to the possibility of governments creating social capital (1996, pp.7-8) as well as reducing it. Mark Lyons disputes the capacity of non-profit, volunteer organisations to take over the role of government (2000). Elsewhere Cox argued that the social capital debate had to be about improving government and community sector provision, not replacing it (1997). And Onyx and Bullen continued to place the concept in opposition to ‘economic rationalism’ (for example, Bullen & Onyx 1999, p.30).

What is absent from CACOM’s discussion of the concept of social capital is any real mention of the rational choice origins of the concept. Putnam’s initial discussion of the topic is almost entirely about game theory, yet game theory does not feature in CACOM’s or Cox’s work. Where Sturgess placed the concept of social capital in the same lineage as Smith and Hayek; Cox, Onyx and Bullen place the concept in the distinctly progressive literature on community development, enriching the social fabric, and empowerment.

**Comparing social capitals**

In other words, the first two significant institutions to embrace the concept of social capital did so in very different, but equally strategic, ways. The CIS embraced the concept in the wake of Pusey’s accusations of economic rationalism and the electoral failure of Hewson’s Fightback! (Liberal and National Parties 1991) While they and other classical liberals had long advocated a more complex and contingent agenda, their work, along with the attitudes of many bureaucrats and politicians, had focused primarily on economic reform. In part this reflected a conscious intention to build a ‘liberal Utopia’ that would inspire intellectuals and allow liberalism to regain the political initiative, but this also reflected the specialisation and positivism of the economics profession.
Putnam’s discussion of social capital came at exactly the right time. It presented a conception of the ‘social’ that fitted into the liberal agenda of spontaneous order. It allowed liberals to combat Pusey’s critique of the excessive modernism of the economic rationalist agenda, without giving up their ideological commitment to individualism, freedom and a smaller state. Indeed, by focusing attention on the social, they opened the door to reducing the one element of the state that had eluded reform – the welfare state.

Cox and CACOM developed a very different understanding of social capital. For them, the concept created a bridge between modernist economics and non-modernist social theory. Their aim was also to move the rhetoric of economic rationalism away from the extremes of modernism. The concept of social capital allowed them to put community development back on the public agenda, as well as providing community organisations with the quantitative measures they needed to justify their funding. This was still an attempt to move away from the excessive modernism of the economic rationalist discourse, but it sought to do this by engaging with economics, rather than simply critiquing it. Unlike the CIS, Cox and CACOM remained sceptical of, and hostile towards, economic rationalism. They continued to see the state in a largely positive light, and saw the debate more about the structure and practice of the state than about its continued involvement in the provision of services.

This is not to suggest that the entire social capital debate was entirely strategic, or entirely predicated on existing ideological commitments. Researchers from both sides of the debate conducted useful empirical studies into what made communities work (for example Stewart-Weeks & Richardson 1998; Onyx & Bullen 1997). This early work has since inspired other studies which have helped shed light on the interdependence between social connections and economic wellbeing (see especially Stone, Gray & J. Hughes 2003). What it does suggest, however, is that contrary to the claims of many of those involved in the social capital debate, ideology was not expunged during the process.

Advocates of the usefulness of the concept of social capital have claimed that it helps us move away from ideological dichotomies like state/market. They claim that the
concept of social capital highlights the importance of civil society, and thus creates a tripartite division between state/market/civil society. Thus, the advocates of social capital present themselves as on the side of the ideologically neutral ‘civil society’. Prior to the popularisation of the concept of social capital, Pusey made a similar claim in his initial critique of economic rationalism, in which he claimed that either too much state or too much market undermined the operation of civil society (1992).

It is particularly interesting to note that both Cox and the CIS linked their understanding of social capital to the concept of civil society. Others have already argued that such a concept is invariably vague, and tends to change meanings across different social and historical contexts (Edwards & Foley 1998). I wish to argue a slightly different point. In the Australian context, the dichotomy of state and market was never overcome, because those discussing civil society were discussing two very different concepts – one based on the state, and the other on the market.

**The two worlds of civil society**

My argument here builds on the work of Christine Everingham, who has discussed the politics of the term community, and its relationship to the Australian social capital debate (2001; 2003). Echoing Bob Edwards and Michael Foley, Everingham argues that the term community is imbued with positive connotations, but is empty of any precise meaning. Thus it becomes a useful political tool to advance particular types of community whilst obscuring the political content of the position being advocated. Like the terms civil society and social capital, community has been used by people across the political spectrum, often with opposite definitions; ‘It [community] is a wonderful rhetorical device, alluding to an apparent spatial location between ‘the state’ and ‘society’ – a nebulous location that can easily slide from meaning not the state to being a pseudonym for the state’ (Everingham 2003, p.15 (emphasis in original)).

Everingham argues that the rhetoric of community was re-established by the left during the 1970s. The Gough Whitlam’s Labor Government, drawing inspiration from new social movements, used the term community to refer to its extensive program of extending and decentralising public provision, without the undesirable connotations of
‘the state’. Alternatively, conservatives have used the term to mean ‘not the government’, in practice often referring to large non-government organisations that can deliver welfare services on behalf of government (2003, pp.15-20; 2001).

Like Everingham I argue that the related concepts of community, civil society and social capital are ambiguous. Similarly, I concur with Everingham in acknowledging that the different definitions offered for these concepts correspond to different understandings of the ideal community. Finally, I agree that one of the most crucial ways in which these definitions differ is in terms of the relationship between civil society/community/social capital and the state.

However, I also wish to develop Everingham’s analysis. I argue that whilst the concepts of civil society and social capital were used to suggest a tripartite division of the social and economic world – between state, market and civil society – in fact each side developed an analysis which had only two logics, not three. In neither account was civil society simply equated to either the market or the state. However, in both cases civil society shared a common logic with one of these institutions, and not with the other.

Finally, these different approaches reflected the ideological differences between the protagonists. For the CIS, civil society is based on freedom of action and spontaneous order, the same logic that classical liberals associate with the market. In contrast the CIS defines the state in terms of its coercive powers, which impose an unwanted collective framework on individuals. Alternatively, Cox and other critics of classical liberalism understood civil society as sharing a common logic with the state. For them both the state and civil society require egalitarian, deliberative processes, which are inherently collective. In contrast the market is based on individuals acting as autonomous units.

Thus, the debate over social capital and civil society became a conceptual debate between competing world views. The focus on language, and its meaning, echoed Hayek’s earlier critique of the socialists. Then, Hayek had argued that socialists had appropriated language, and twisted definitions to advance their ideology. The most prominent example was the term ‘planning’. All economics, Hayek claimed, involved
planning, and it would thus be ‘absurd for an economist to oppose “planning”’ (1967a, p.82). Yet in the hands of socialists, planning had come to mean central collectivist planning, and thus liberals like himself were forced into the invidious position of opposing planning.

In the same way, those at the CIS feared that Cox, in her strategic use of the terms social capital and civil society, would suggest a new meaning to these concepts, rendering them useless to classical liberals. In a review of Cox’s lectures published in Policy, Warby described Cox’s use of the term ‘civil society’ as ‘probably the decade’s most outrageous hijacking of a concept’ (1996, p.44), a line repeated in a follow up article in the same edition by Norton (1996, p.46). They claimed that Cox used civil society to refer to collectivist endeavours that were the province of the state, not civil society. Their critique of Cox’s lectures highlights the very different ways in which each side conceived of civil society.

Warby argues that Cox does not understand what the concept of ‘civil society’ is all about – ‘After all, the state is pre-eminently the realm of authority and coercion, NOT egalitarian voluntariness’ (1996, p.44, emphasise in original). Warby makes a distinction between the realm of civil society and the coercive nature of the state. For Warby, the term ‘civil’ means civilian, as in ‘It is as if the contrast between civilian and military is merely a matter of no uniforms and not saluting’ (1996, p.44).

The division that Warby presents is a similar division to that developed by other members of the CIS, and other classical liberals contributing to the social capital debate. Each identifies the state with authority. In contrast, civil society is about freedom and autonomy. Of course, most definitions of civil define it in opposition to the state. What is more important is that the logic upon which the separation of civil society and the state is based does not distinguish civil society from the market.

Norton, for example, in defining the bounds of civil society (which he sees as an essential component of social capital) argues strongly for the for-profit sector to be included in the definition, largely because civil society is supposed to be THE alternative to the state,
‘Thinking again about what civil society is for pushes us towards inclusion of the firm. In finding alternatives to state provision, any idea which rules out profit-making institutions is not going to get us far. Also, even from a communitarian perspective, this exclusion would be a major mistake. Firms are major social institutions; indeed after the family more people are involved in firms than any other institutional form’ (Norton 1997b, p.3).

For the CIS, civil society cannot really be separated from the market. People in civil society come together without being coerced. Civil society operates on the principle of spontaneous order, not planned order and not compulsion. As Lindsay puts it, ‘[t]he idea was that the market was one of the institutions that made us free. It’s a fundamental component of our civil society’ (Lindsay & Norton 1996, p.21).

Thus, the market and the voluntary associations of civil society share a common logic. Referring to his frustration with Cox, Warby writes ‘Hayekian concepts of spontaneous order are almost entirely foreign to her thinking’ (1996, p.44). In claiming this, Warby suggests that the logic of spontaneous order is the basis, not only of the market, but also of civil society.

This CIS approach to civil society differs from alternatives offered by other theorists. Edwards and Foley (1998) point to attempts by theorists such as Norman Uphoff (1993) to conceive of civil society as a distinct realm with its own distinct logic – a project they believe is fruitless. However, in the case of the CIS, civil society does not constitute a realm that is separate from both the market and the state – it does not have an independent logic. On this view, civil society shares the same logic of uncoerced spontaneous action as the market. In contrast, the state is conceived solely in terms of its monopoly on violence – it is the realm of coerced behaviour.

Such a definition of civil society fits well with both the Austrian heritage of the concept of social capital, and the strategic aims of classical liberals in the wake of the economic rationalism debate. Here, civil society extends the logic of the market to explain how spontaneous order can achieve social as well as economic goals.
This is clearly different to the way in which Cox conceives civil society. Warby argues, somewhat disdainfully, that Cox’s aim is to ‘reclaim the concept of civic virtue as a collective rather than an individual manifestation of a truly civil society’ (Cox 1995, p.24, quoted in Warby 1996, p.44). Cox employs the concept of civil society (and social capital) to critique the market, not to extend it. She also argues for an increased role for the state.

I argue that this difference in purpose denotes more than a simple difference of definition. Instead, I argue that both Cox and Pusey have in mind a different model to those within the CIS. They too see two logics, but instead of associating civil society with the logic of the market, they associate it with the logic of the state. Civil society on this reading is bound to notions of discursive democracy. It is inherently collective, and inherently egalitarian. For both Cox and Pusey, civil society is bound to democracy and politics. Where Warby understood civil as the antonym of military, Cox and Pusey equate civil with citizen.\footnote{This is not dissimilar to the notion of democracy described by John Dewey, a significant intellectual influence upon the Old Institutionalist Economics (OIE) (see Honneth 1998).}

Drawing on the work of Arendt, Cox argues that the logic of citizen is shared by both the state and voluntary organisations. ‘This concept of citizenship can operate in a formalized framework of state power, as well as in less formal voluntaristic groups’ (1995, pp.53-4). On the other hand, markets serve ‘customers’ and not citizens (1995, p.42). The logic of the market is individualistic, comprising the choices of people made as individuals. There is no necessary group process, no need for collective deliberation or the democratic processes that exist in the realm of citizens.

Likewise, despite Pusey’s claim to identify three realms – of state, market and civil society – it is clear that he too identifies a common logic between the state and civil society (1996, pp.83-4). Pusey claims that civil society is based on a ‘communitarian self’ which is realised through collective engagement with other citizens (1996). It is the realm of democracy, a form of choice that ensures both that the participants are equal, and which aims for a collective decision, not simply the sum of individual decisions. In the same way, Cox suggests that civil society is an inherently collective space, based on group processes, ‘[w]e work best when we make decisions
collectively, by drawing on each other’s experience and by debating different views. The solo decision maker is not, one might say, the full human bottle!’ (Cox 1995, p.54).

In many ways the differences are summed up in the competing understandings of the ‘Third Sector’. For the CIS what defines organisations that are neither part of government, nor for-profit enterprises, is that they are voluntary organisations, allowing free individuals to come together as and how they see fit. This is the way these organisations are always described. In contrast, what is important about these organisations for Cox is that that they are egalitarian (1995, p.20). For her, being involved in voluntary organisations is not about the spontaneous action of cooperation without coercion, it is about working the collective mind, deliberating and learning the ‘rough and tumble of group process’ (1995, p.16).

Cox and CACOM also present us with only two realms, not three. There is the realm of individual action. This is the realm of the consumer and the producer and it is governed by the logic of the market. It involves people making decisions as individuals, and presumes a certain sense of autonomy. The second is the realm of collective deliberation. This is the realm of the citizen. It involves people acting in the public sphere, making decisions through group processes as equals. It is the realm of both the state (the formal institution of the public sphere) and civil society (the informal institutions of the public sphere).

Cox’s view of civil society fits a different theoretical tradition and is associated with different institutional actors. As Everingham has argued, this conception of civil society/community derives from the emancipatory traditions of new social movements (2001, pp.107-8; 2003, pp.16-7). Their defining feature is a desire for equality and collective engagement. Everingham argues that these movements have been sympathetic to the state, but at the same time have sought to restructure and redefine the state to be more democratic, more decentralised and more participatory.

Everingham claims that this tradition has sometimes used community as a simple synonym for the state. I do not suggest that this is what either Cox or Pusey have done. It is not that the state and civil society are synonymous. Rather the state operates
according to the same logic as civil society. They are complementary in a way that neither is complementary to the market. In this sense, civil society is the non-modernist version of the state. It involves similar collective processes, but it is less formal, less centralised and less hierarchical. Thus civil society captures the direction in which the state should move, it is a realm which shares the logic and structure of an idealised state.

We have, then, two notions of civil society, each associating civil society with a different logic and different institutions. This creates a false sense of coming together and consensus. While both the CIS and Cox want to expand social capital by strengthening civil society, they employ almost opposite means. The only common ground is that both sides critique excessive modernism. For the CIS, the concept of civil society reinforces the non-modernist justification of the market as process, rather than its ability to maximise utility. It also extends this logic to the social, thus addressing the critique of economic rationalism as narrowly economic. For Cox, civil society embodies a left critique of the state. It still promotes collective solutions, but highlights the importance of decentralisation and participation, rather than justifying the state as the perfect planner.

**Conclusion**

There is a direct continuity between the development of the concept of social capital and its Australian incarnation. Those at the CIS were part of the same classical liberal tradition, they espoused the same philosophy of spontaneous order. And importantly, the concept of social capital filled the same methodological and ideological hole in Australia as it did in rational choice theory more generally. By the 1980s, classical liberalism had effectively become economic liberalism. This reflected Hayek’s call for a new liberal utopia, one that ignored the problems of knowledge and the limitations of intervening in complex systems, which were his intellectual trademark, in order to secure the excitement and adherence of a new band of intellectuals. It also reflected the more complex dynamics within the Australian (and international) economics profession, where specialisation and rationalism were transforming economic analysis. Economics in Australia reflected the broader rationalist trend of neoclassical
economics around the world, particularly the influence of both the deductive logic of general equilibrium and reflected the broader rationalist trends of the variants of neoclassical economics around the world.

I argued in the previous section that the concept of social capital grew out of a desire to reconcile the methodological problems raised by game theory, where theory did not match reality, and the ideological commitment of classical liberals to develop an account of spontaneous order. In Australia during the 1980s and early 1990s, a similar non-modernist critique of economics began to emerge. That critique was summed up in Pusey’s claim of an economic rationalist takeover of democracy. While being critical of the individualism of the market, the substance of the attack was more in keeping with James Scott’s rejection of ‘high modernism’. The economic rationalists were too sure of themselves, their thinking was too abstract, they did not appreciate the complexities of the world, their education was limited and they had little ‘real world’ experience. Whether Pusey’s critique was accurate or not, it was influential and it did frame much of the proceeding debate.

In response, many economic liberals reverted to their more holistic heritage. They again embraced the moral philosophy of Smith, and the complexity teachings of Hayek. They began to emphasise the interdependence of social and economic systems. It was in this context that the concept of social capital was embraced by the CIS. It suited the times. It linked economic and social systems. It emphasised the importance of complexity, local knowledge and practicality. But importantly, it was also consistent with the broader ideological story of spontaneous order. It was, in effect, a social theory of spontaneous order, one completely compatible with the economic agenda of the CIS.

What makes the Australian story more interesting is the role of Cox in transplanting this concept onto the other side of the ideological divide. It was a strategic intervention. Cox saw in the concept of social capital parallels to the older community development debates about the social fabric, as well as the new left critique of the social democratic state. She, quite explicitly, adopted the new language, not because she necessarily felt it offered new insights, but simply because it allowed a debate with the economists on their own turf. While the political and academic debate in Australia
may have been following the trend against high modernism, the Australian state was increasingly demanding numbers, and the concept of social capital seemed a promising response.

With Cox’s intervention the ideological divisions that helped to shape the development of the concept of social capital were reinforced. Cox reconceptualised social capital. Instead of being the product of spontaneous order, she argued that social capital was developed through deliberative collective action, echoing the sentiments of her earlier attack on economic rationalism. For the CIS the basis of civil society were the ‘little platoons’ established by voluntary association. What was important about them was that they were voluntary, free from the coercion of the state to impose the will of the majority. Their members would work together while it suited them, but could leave when it did not. In this sense they organised spontaneously.

For Cox, voluntary organisations were important because they taught people group processes, the processes of deliberation and collective organisation. They worked when they were egalitarian, not just in the formal sense, but also in a substantive sense. Inequality corroded them, as did uniformity. Such an approach reflects the left politics of the 1990s where the goal was ‘different but equal’. Cox did not approve of any voluntary organisation, only those organisations that embodied the principles of collective deliberation.

The ideology of this new debate over civil society and social capital is remarkably similar to the century of debate which preceded it. Just like the socialist calculation controversy and the debate over economic rationalism, we see a distinction between a normative commitment to markets and individuals versus a normative commitment to collective action and equality. What has changed is not the ideology, but rather the popularity of modernism. In the past, modernism was a recipe for success. The market socialists experienced significant success by employing a modernist justification for the state as the perfect centralised planner. Likewise, later in the century, neoclassical

80 Cox is not the only one in the social capital literature to do this. Also see Rothstein (2001).
81 More recently, Fraser has expressed this sentiment in her concept of ‘parity of participation’, meaning that all have an equal ability to participate in society, even if the mode of participation or the identity of the individuals differs (Fraser & Honneth 2003, pp.36-7).
economists experienced success by advancing a modernist justification for the market, as maximising utility via general equilibrium.

However, by the end of the century modernism was no longer in favour. Both the left and the right had employed critiques of modernism to counter the arguments of their opponents. I highlighted this change in mood in my analysis of the debate over economic rationalism in the previous chapter. But the rejection of modernism did not mean a rejection of the normative commitments that defined the ideological battleground. The debate was still between markets, individuals and freedom versus states, collectives and equality. However, the justifications for these positions changed. Instead of the perfect planner, the state became a pragmatic tool for collectively managing complex systems, and engaging citizens in participatory processes. Instead of maximising utility, the market was justified by the theory of spontaneous order, as a problem solver, innovator and promoter of freedom.

The Australian debate was aimed at influencing public policy, it was not primarily about the academy. This more public focus meant much wider participation in the debate. By the end of the 1990s Onyx, from CACOM, was working with the World Bank, Cox had collaborated with Putnam, the Australian Institute of Family Studies began a national survey of social capital and state and federal governments had begun their own work. Such a flurry of activity, particularly around such a nebulous concept, surely changed the nature of the debate. In the final chapter, I examine one of the most politically significant developments within the social capital debate – the rise of the Third Way in Australian politics. I ask, can we better understand and evaluate the claims of Third Way theorists by differentiating between the move away from modernism and the political advocacy of individualism?
Chapter 10 – The Third Way and Civic Neoliberalism

In this section I have explored the development of the initial social capital debate in Australia, arguing that the initial use of the concept was conditioned by the preceding debate over the merits of economic rationalism. For those committed to economic reform and classical liberal principles, the concept of social capital represented a theoretical framework for extending the principle of spontaneous order beyond the economic relations of the market to the social relations of voluntary organisations. Alternatively, those opposed to economic reform were able to use the concept of social capital to engage with the discourse of economic rationalism and raise the significance of social issues.

For both proponents and opponents of economic reform, then, the concept of social capital was a means of moving the debate over economic rationalism away from the extremes of modernism. At the same time, the new debate over social capital continued to reflect the normative distinction between those committed to individualism and the market, and those committed to a more collective and deliberative politics. In this sense, I argued that the distinction drawn earlier in the thesis, in relation to the development of the concept, between a methodological commitment to modernism and a normative commitment to individualism, was just as useful to understanding the dynamics of the initial Australian debate.

In each section of this thesis I have attempted to tell the story of how a particular set of ideas have developed, and to place the development of these various ideas in an historical context. In this chapter I attempt a new task. I apply the insights already developed in the thesis to more contemporary debates. Even within Australia, debate surrounding the concept of social capital has grown dramatically. Specific studies have been undertaken by the Australian Institute of Family Studies (Stone & Hughes 2002), the Productivity Commission (2003) and the Australian Bureau of Statistics (2002). The concept has been applied to numerous disciplines and in countless policy areas by a number of different governments.
Describing how these numerous inter-related debates have developed is a task well beyond what remains of this thesis. Instead, my aim is to demonstrate how the insights from the thesis can be applied to, and help inform our understanding of, aspects of the contemporary social capital debate. My focus is on one of the most politically significant aspects of the social capital debate – the philosophy of Third Way politics. Third Way politics has been a significant influence on both the Australian and British Labo(u)r Parties. Both British Prime Minister Tony Blair and former federal leader of the Australian Labor Party (ALP), Mark Latham, have identified themselves as Third Way politicians. A number of other prominent parliamentarians and intellectuals within the Australian labour movement have also identified with Third Way politics, including federal shadow Minister Lindsay Tanner, Queensland Premier Peter Beattie and Evatt Foundation member Peter Botsman.

Prior to retiring from politics, Latham had become the most prominent advocate of Third Way ideas. He has written extensively on the topic, authoring a number of books and articles since 1998. Latham’s conception of the Third Way is the most detailed and coherent in Australian politics, as well as being arguably the most debated and influential. Latham identified the concept of social capital as central to what he terms the second wave of Third Way reforms. His work is part of a broader debate about welfare reform, social capital and social entrepreneurs. For these reasons I will focus on Latham’s account of the Third Way as an exemplar of the broader position.

However, before addressing the Third Way directly, I first explore the work of two liberal welfare theorists, Vern Hughes and David Green. Both contribute to what I term civic neoliberalism. Hughes identifies the need for classical liberals to present a less modernist vision, and draws on the work of Green to develop his own ‘civic’ version of neoliberalism. I argue that the work of Hughes and Green helps us to understand the influence of classical liberalism on Latham’s Third Way thinking, whilst it also creates a continuity between the previous chapters and my analysis of the Third Way.

I began this thesis by examining Ben Fine’s critique of the concept of social capital. Fine claimed that the concept was the product of rational choice theory, and as such was a threat to the tradition of progressive social theory. A number of progressive
theorists have criticised both the Third Way and the discourse of social capital. I argue that by differentiating between the methodological commitment to modernism and the normative commitment to individualism, and by understanding the connection between the concept of social capital and the tradition of spontaneous order, we can better understand why both the Third Way and the concept of social capital sit uncomfortably with the tradition of progressive social theory.

**Civic neo-liberalism**

In the last chapter I discussed how classical liberals saw the concept of social capital as a way of addressing concerns that their program of economic reform was too economistic and did not address social and civic concerns. I argued that the concept of social capital enabled classical liberals to refocus the debate from the highly modernist approach of neoclassical economics, to a broader understanding of classical liberal principles. In doing this, classical liberals extended the logic of spontaneous order from the economic sphere of the market to the social sphere of civil society.

Hughes’ discussion is perhaps most explicit in arguing the need for a civic version of neoliberalism. Hughes remains committed to market reform, but wants to integrate this economic agenda with a broader vision of civic renewal. Green, who has produced a number of historical studies of voluntary organisations, has expressed the same sentiment. I argue that Green’s and Hughes’ work represents a distinctly non-modern liberalism that extends the logic of the market to civil society. It thus provides a good example of the sort of classical liberal vision developed in response to the debate over economic rationalism. I also argue that by understanding their work we can better appreciate the relationship between Latham’s Third Way and classical liberalism.

Green has an interesting history having been a Labour councillor in Britain before taking up a research post at the Australian National University, and then moving to the Institute of Economic Affairs (IEA) in Britain. In 1986 he became the IEA’s Director of health and welfare, before becoming Director of Civitas, a civil society think tank. His research has focused on the role played by mutuals and friendly societies in providing the services and support now provided by the welfare state. He has
conducted detailed studies of these organisations both in Britain and in Australia. His work has since been used by those associated with the Centre for Independent Studies (CIS), including Andrew Norton, to develop their approach to promoting civil society and social capital. Latham also draws on Green’s work in developing his Third Way.

Hughes has also built on both Green’s empirical work and the themes of mutualism and self-reliance that underpin his research. During the mid-1990s Hughes made a number of contributions on how to foster a civic culture to the journals of classical liberal think-thanks. During the mid-1990s Hughes was the Director of the Cooperative Federation of Victoria. He has since become a pioneer of the social entrepreneurs movement. He was the Development Manager of the Social Entrepreneurs Network (SEN) until that body collapsed, after which he resurrected it as Social Enterprise Partnerships. He jointly founded and is now National President of the People’s Power political party, whose philosophy is based on developing social capital and social entrepreneurialism (see Hughes 2003c; Hughes 2004).

Both Green and Hughes have had a significant influence on the debates around social capital and social entrepreneurialism, and both have informed the work of Latham. Green and Hughes have also linked their calls for welfare reform to an explicit commitment to liberalism. The ideas developed by Green in the 1980s and by Hughes in the 1990s now appear to be gaining greater acceptance, although their connection to the classical liberal tradition is often unacknowledged. Thus, their work provides a useful context for examining Latham’s Third Way.

In 1995 Hughes wrote an article for the *Institute of Public Affairs (IPA) Review* arguing that classical liberals needed to look towards a new social theory of reform. Reflecting the sentiments expressed by Michael James (1991), Hughes argued that John Hewson’s 1993 election defeat was the result of a vision too focused on economics. Hughes was committed to the same anti-statist mission as Hewson, but argued that dismantling the state must be accompanied by the development of a new social vision.

‘Indeed a successful anti-statist project in Australia must seek to reconstitute civil society with a rich and diverse associational life while simultaneously dismantling our
inherited statist institutions and practices. One can’t be done without the other’ (Hughes 1995, p.33).

In a review of Green’s work, Hughes proposed what he termed a ‘civil society version of neo-liberalism’, based on voluntary associations rather than government provision (1996, p.44), a philosophy I will call civic neoliberalism. Hughes recognised that people were increasingly focused on community and localism, rather than the more abstract and macro agenda of economic reform. However, both liberals and conservatives, he argued, had failed to focus sufficient attention on civil society. Thus, the shift in focus to community was being harnessed by the anti-globalisation movement, ‘in either its “green” or “Old Labor” or “new protectionist” forms’ (Hughes 1995, p.34). Winning the electoral battle, Hughes argued, required winning the hearts and minds of Australia’s socially conservative ‘blue-collar’ working class, and this could only be done with a well developed social alternative to the welfare state.

Hughes’ vision was based in large part on the research of Green. Writing in the British context, Green strongly supported the New Right, seeing it as a continuation of the classical liberal tradition begun by Adam Smith and the Scottish Enlightenment, and continued by Friedrich von Hayek (see Green 1987). However, Green was also concerned that the New Right’s focus on economic reform would undermine the broader project of liberalism. As mentioned before, Green criticised a ‘hard-boiled’ (1993, p.2) form of economic rationalism that focused exclusively on economic reform and ignored the broader arguments of classical liberals. Unlike many of his colleagues, Green did not believe that the resilience of the welfare state was primarily the result of the political power of special interest groups. Instead, he blamed the New Right itself for failing to develop a coherent social agenda (1996).

Green’s analysis reflects the broader shift away from modernism within classical liberalism in two important respects. Firstly, his analysis fits the model of ‘story telling’. He has produced two volumes on the history of voluntary associations, one focused on Britain (1985) the other on Australia (Green & Cromwell 1984). In both he self-consciously tries to tell the stories of ordinary people. He quotes from the minutes of various meetings, discusses the key individuals involved in establishing and running
the organisations and discusses how these organisations developed over time. In many ways, Green’s work parallels E.P. Thompson’s (1991 [1963]) famous study of the English working class. It is a concrete, empirical and historical account of how civil society actually worked, rather than a deductive theory of how it might or should.

‘This book focuses instead on the most neglected part of the evidence: how the great majority of the population, manual workers and their families, fared in the system that existed for a hundred years and more before the NHS. What actually happened when, at one particular time in history, working-class patients set out to organize health care for themselves?’ (Green 1985, p.5).

Secondly, Green focuses on the importance of civil society, particularly self-help organisations like friendly societies. Green favours these forms of organisation because they respect autonomy. They allow members to provide their own services, without the assistance of the state, and they do not impose upon any other members of society. His language reflects this. He describes friendly societies as aiding ‘consumer sovereignty’. In contrast, he argues that the state only acts to support producer interests at the expense of consumers.

‘The central change this century has been the monumental growth in the power of the state. This has strengthened the hand of the organized medical profession at the expense of consumers. In particular, the consumer’s spontaneous organizations have been dismantled, whilst the producer’s have remained’ (Green 1985, p.200).

Green explicitly endorses the market over the state. He structures his arguments around the criticisms levelled against the market, and then uses historical evidence to dispute these criticisms. Like Norton, he argues a form of the crowding out thesis. But also like Norton, the argument is as much about autonomy as efficiency, ending the passage quoted above by calling for a transition from ‘statism to freedom’ (Green 1985, p.200). Unlike general equilibrium theorists he does not endorse all the outcomes of markets – rather he endorses the process itself, its ability to allow individuals to act in their own interests, and to shape their own future.

‘The standpoint of the book is that a free market is generally preferable to government control. But this must not be taken to be an argument in favour of every outcome that
has ever emerged in any free market. To argue in favour of a free market as against
government control is one thing; to struggle for some particular outcome within that
free market is quite another. A free market has many merits. One of these merits is
that it is always possible for any number of alternatives to emerge. Mutual aid has
been one such alternative. Government control strips people of their resources and
compels expenditure on welfare schemes selected by government. In doing so it denies
them the very means which make mutual aid possible’ (Green & Cromwell 1984,
p.xvi).

This allows Green to position his work in a less ideological frame. Rather than
advocating the market on the basis that it fulfils an explicitly economic objective –
efficiency – an argument which reinforces the dichotomy of an economic market
versus a social state, Green advocates the market as the promoter of social values. He
also attempts to engage the left, not just critique it. He consistently refers to the
working class as a central actor in his historical story. And he claims that the values of
autonomy and self-determination that he believes the market promotes, are also held
by the left. Indeed, he points to traditions within the left that advance a similar critique
of the state (Green 1985, pp.4-5; Green & Cromwell 1984, pp.xvi-xviii).

‘Today, to advance arguments such as these invites immediate dismissal by those who
identify with the Left. But the enhancement of individual freedom has not always been
limited to right-wingers. Indeed, it is not so many years since there was a school of
socialist thought which rejected the use of the state machine as the main instrument of
social change’ (Green & Cromwell 1984, pp.xvi-xvii).

By rejecting modernism Green is able to blur the ideological boundaries. Throughout
this thesis I have argued that the distinction between the methodological critique of
modernism, and the normative commitment to either individualism or collectivism has
been repeatedly blurred. Thus, by rejecting modernism, whilst advocating the market,
Green’s position seems less ideological. It is a position developed well before the
social capital debate, but one which uniquely suited the approach being taken within
the CIS. Green’s work informed a number of people connected with the CIS, and
inspired Hughes to his civic neoliberalism.
Hughes has also increasingly rejected the relevance of ideology. In the 1990s he clearly identified himself with a movement against the state. He used terms like ‘anti-statist’ and ‘neo-liberalism’ in an unquestionably positive manner. Yet, his more recent comments reject the left/right divide, and like Latham, argue for a middle ground based on evidence rather than ideology, and community rather than either markets or states. He claims that the central issue for Australian society is trust, arguing that this falls outside the traditional left/right divide (2003d).

This has not meant a shift in the sorts of solutions Hughes proposes. He looks to traditional voluntary organisations as the basis for a civic revival, arguing that organisations like Churches need to independently finance welfare work themselves, rather than lobbying government to change the structure of welfare programs (2003d). Likewise, he points to a number of emerging Indigenous leaders, such as Noel Pearson and Ah Mat, who have embraced the Third Way agenda, arguing that they have rejected the left and are looking elsewhere for answers (2003b). And finally, he has continued to argue against Medicare, the system of universal health care, arguing that this function should be delegated to health cooperatives set up as voluntary organisations. Indeed, Hughes claims that moves to wind back private health insurance constitute a Soviet-style politics (2003a).

Hughes’ call for a civic neoliberalism now seems somewhat prophetic. The Howard Government’s electoral success has been ascribed by many commentators to the Government’s success in appealing to the conservative blue-collar working class.\(^\text{82}\) The Government has done this, in part, by employing the type of rhetoric about self-reliance and mutualism that Hughes advocated in the mid-1990s. It has since developed a range of policies based on the principle of ‘mutual obligation’, which have delegated functions of the welfare state to non-government organisations.

It is important to note that the institutions identified by Hughes, Green and even Norton, as forming the basis of civil society are different from those usually identified by progressive social theorists. These classical liberals focus on mutual institutions

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\(^{82}\) Anthony Green (1997) argues that this popular perception misrepresents the situation, and that it was a relatively small change in the voting preference of ‘swinging voters’, not a rebellion within Labor’s base vote which actually determined the result.
that provide for their members, and whose aims generally do not extend to broader advocacy or pursuing structural social change. All three accept the role of the market, and see these types of civic institutions complementing the market, even working according to the same processes. Hughes in particular focuses on the role of consumer sovereignty in determining the delivery of welfare services. These forms of member based organisations are seen as the most effective way of empowering consumers because they allow freedom of association and freedom of choice, as well as self-government.

In contrast, progressive social theorists, like those discussed by Fine, tend to focus on different civic actors. Christine Everingham, for example, notes the importance of social movements and identifies their aims of emancipatory structural change as central to their significance in social theory (2001, pp.107-8; 2003, pp.16-7). Similarly, Jenny Onyx, from the Centre for Australian Community Organisations and Management (CACOM), identifies the advocacy role of small community organisations, the core constituency of CACOM, as one of the most important functions of these organisations engaging with and representing their communities (Williams & Onyx 2002, pp.53-55).

These actors represent different types of communities that extend beyond the membership of individual organisations. The women’s movement, for example, claims to represent the interests of women as a group, rather than the interests or beliefs of the particular women who constitute the membership of the various women’s organisations. And because advocacy is seen as a legitimate, even vital, role of all civic institutions, it is difficult to clearly identify the boundaries of any social movement.

Employing the distinction between modernism and individualism helps clarify the distinction between the types of civic actors involved in Hughes’ civic neoliberalism and Everingham’s emancipatory social movements. Both critique modernism. Hughes and Green embrace the market on the basis of the freedoms it affords, rather than justifying its every outcome. They extend the logic of spontaneous order to social relations, as well as the economic sphere. Likewise, progressive social theorists tend to be critical of centralised decision making – either by large corporations or state
bureaucracies. New social movements are credited with identifying alternative sources of power outside the state, and employing different strategies based on a politics of recognition, rather than using state power for redistribution (Cohen 1985; Touraine 1990).

Nonetheless there are important differences. Green and Hughes champion civic institutions which are based on the principles of spontaneous order. They want to see members in charge of providing their own services, through institutions that they can choose to join or leave. And they see the role of civil institutions to be limited to provision for members, rather than to critique social and economic structures, or attempt to change the behaviour of other members of society.

Progressive social theorists focus on actors that represent broader communities that are not defined by membership, but rather by perceptions of structural injustice. It is the fact that women, as a group, are discriminated against, that gives rise to the women’s movement; that Indigenous people are discriminated against that gives rise to the Indigenous rights movement, and so on. These movements may comprise institutions that deliver services, but their goals extend beyond this, to challenging the basis of discrimination, either through the exercise of state power, or through other means. Social theorists may have moved beyond class, but the communities they discuss are still defined by structural injustice (see Mullulay 2001; Fisher & Kling 1994).

In other words, Hughes and Green, along with progressive social theorists, criticise the modernism of previous positions, from economic rationalism to statist social democracy. However, they propose very different solutions based on different normative traditions. Following the debate over economic rationalism, as well as the influence of post modernism within social theory, the critique of modernism has come to be associated with a critique of the market. Thus, by combining elements of a critique associated with progressive politics (the critique of modernism) with a critique associated with classical liberal politics (the critique of the state), civic neoliberalism has been able to position itself as beyond the categories of left and right. More interestingly, this blurring of the lines has also influenced those on the other side of politics through the Third Way.
Social capital and the Third Way

The Third Way is an attempt to update social democratic politics. Its popularity stems in part from its political success. In Britain, after 18 years of conservative rule, Blair led the Labour Party to a resounding victory based on a Third Way platform. In the United States, Bill Clinton seemed to adopt a similar approach to great political effect (see Morris 1997). Blair has since joined with other European social democratic leaders to develop a European Third Way approach (Blair & Schroeder 1999). Alongside this, British sociologist, Anthony Giddens has developed the Third Way as an intellectual project. Following on from his critique of social democratic theory in Beyond Left and Right (1994), Giddens wrote what became a best seller, outlining the Third Way agenda (1998), and has since published and spoken extensively on the theme (see for example Giddens 1999). This has given the Third Way intellectual legitimacy it may have lacked had it been confined to the realm of electoral politics.

In Australia Francis Castles and Chris Pierson (1997) have argued that the global Third Way movement has its origins in the success of the Labor Governments of Bob Hawke and Paul Keating. They argue that Hawke’s consensus approach, which combined market economic reform with progressive, but targeted, social policies, embodied the approach later outlined by Giddens. This approach to left politics gained Australian (and New Zealand) Labor considerable political success during the 1980s, at a time when the right dominated electoral politics in other Anglophone developed nations (also see Pierson & Castles 2001).

The most prominent Australian advocate of the Third Way, former federal parliamentary leader of the ALP Latham, acknowledges the Australian origins of the approach, and sees his own thinking as outlining a second wave of Third Way politics in Australia. Latham has built his approach on the philosophy of the Clinton and Blair Governments, and on the work of Giddens. He has also drawn on theorists less sympathetic to social democratic politics, such as Francis Fukuyama. Latham has written extensively on the Third Way since the late 1990s and the concept of social capital has formed a foundation for much of this work.

83 Frankel makes a similar argument from a more explicitly left perspective (Frankel 1997).
Latham’s Third Way has several distinctive features. It is fiercely anti-elitist and anti-establishment. He advocates decentralisation and democratisation. He sees a continued role for the state, but also acknowledges a vital role played by the market in providing growth and prosperity. He argues that the political landscape has been redrawn as a result of globalisation, with a new divide opening up between the information-rich and the information-poor. He sees government playing a role in promoting competition within the economic realm, and in ensuring access to social goods, such as health and education. Finally, he sees a new role for the community in rebuilding social capital, and argues that government needs to become increasingly transparent, accountable and flexible in order to win back public confidence and to engage with people on a human level.

Both Latham’s specific brand of Third Way politics, and the broader Third Way approach, have come in for significant criticism, particularly from those on the left, who claim it is simply a move towards the right. Jeff Faux has argued that the Third Way is not a systematic approach, but a series of pragmatic compromises that accept the dominance of market liberalism (1999). In Britain Stuart Hall has argued that in attempting to avoid adversaries, the Third Way simply accepts the world as it is, and therefore accepts markets rather than attempting to transform them (1998). And Alan Ryan (1999) argues the Third Way is just liberalism by a new name (also see Crouch 1999).84

In Australia Christopher Scanlon (2001; 2003; 2004) and Guy Rundle (1997) have argued that the Third Way is a thinly disguised shift to the right. They claim that Third Way theorists improperly rely on a logic of no alternative. This logic states that globalisation necessitates the acceptance of markets because of the increased interdependence of national economies and increased economic complexity. However, a number of theorists have critiqued this claim, arguing that globalisation itself is the result of political choice (Watson & Hay 2003; Walsh & Bahnisch 2000).

84 I have selected these critiques as a sample of the broader literature in part because they were identified by Giddens as representative of the left critique of the Third Way in his response to the critics (Giddens 2000).
As discussed in the last chapter, Everingham has argued that the debate over community has obscured important differences between different visions of community (2003, pp.15-7). She argues that those advocating the Third Way, such as Latham, have accepted a highly individualist conception of community based on creating economically autonomous individuals. This builds on the arguments of others who claim that the language of the Third Way and social capital extends the rationality of rational choice economics into the realm of social interaction (see Mayer & Rankin 2002; Frankel 1997).

Each of these critiques identifies a shift within the Third Way from the traditional approach of social democracy towards liberalism. This is evidenced in the Third Way’s acceptance of the market as the primary economic institution and the Third Way’s use of a more individualistic and rationalistic language to describe community. However, those within the Third Way explicitly acknowledge that they are more willing to embrace the market (Latham 1998; Giddens 2000), and to move away from some of the traditional concerns of social democracy, particularly its emphasis on the state.

In other words, there is substantial consensus between critics and proponents that the Third Way does represent a move towards, at least some, of the elements of liberalism. Debate has focused on whether such a shift is a necessary and inevitable result of globalisation, and whether the Third Way continues to represent a progressive, ‘left’, response to changing material circumstances. In other words, even as the left/right dichotomy is, according to the Third Way, becoming less relevant, nonetheless, the Third Way remains consistent with the principles of the left tradition, and remains a part of this tradition.

This is particularly the case for Latham who strongly identifies with progressive politics. Latham’s approach to the Third Way is more partisan than Giddens. Where Giddens insists that we need to move beyond both the left’s and right’s simplistic demonisation of different institutions, and look to core principles (Giddens 2000, pp.38-9), Latham retains a fierce dislike, even hatred, for what he perceives as ruling elites. Latham retains a strong sense of anti-establishment politics, however, he advocates different means to advance his goals. It is a position which reflects the
traditions of the right-wing of the Labor Party, pursuing pragmatic means to advance the material circumstances of working people.

I intend to complement the existing critical literature on the Third Way by focusing on how Latham’s Third Way relates to the classical liberal tradition of spontaneous order. My focus is not on the Third Way’s advocacy of the market, but rather its vision of community and its understanding of social capital. Here I largely concur with Everingham’s assessment that Latham’s Third Way focuses on self-reliance to a greater extent than other progressive discourse. My aim is to extend this analysis in two ways, firstly by explaining how Latham’s understanding of community can be understood as a partial embrace of civic neoliberalism, and second by explaining why progressive theorists, like Latham, might have endorsed a view from a tradition they otherwise seem hostile towards.

**Latham’s Third Way**

Latham distinguishes between what he describes as two stages of the Third Way. In the first of these stages, Latham argues that Australian politics saw a compromise emerge which accepted economic liberalism’s commitment to the market as a source of growth and dynamism, but which also accepted social democracy’s commitment to the state provision of social goods such as health and education. Indeed, Latham suggests that the two go hand in hand, with the market effectively paying for the expansion of public services.

‘The public sector requires the growth potential of a market economy to fund the supply of basic community services… (but)… People want essential services in their lives to be governed by the social principles of participation and cooperation, not the economic principles of the market’ (Latham, 2001c, p.15).

Much of Latham’s reform agenda, particularly on social policy, seems to fit a continued commitment to social democracy. He is a staunch opponent of the health insurance rebate (a subsidy paid to those with private health insurance) (see Metherell 2004). He argues for increased public funding to education, and in some cases the abolition of fees (2001d). He advocates for government funded child care, and he
proposes a radical restructuring of the tax system, away from traditional income and consumption taxes, and towards the Kaldor model of a progressive consumption tax (1998, chapter 14). But it is the second wave of the Third Way project that is of most interest here. The new challenge, according to Latham is ‘the upsizing of society’ (2001c, p.18).

This second wave of Third Way politics is the main focus of Latham’s writing, in which the concept of social capital plays a central role. There are three significant components to Latham’s second wave Third Way. The first is a devolution and democratisation of government, designed to increase trust and participation, and therefore to foster social capital. The second is a recognition that a post-industrial economy is dependent on non-material resources such as human and social capital, and that these need to be developed. Finally, he seeks to overhaul the delivery of services and the structure of the welfare state to allow people greater control, to involve them in setting their own rules and encourage mutualism. Again, all of this is focused on building social capital. ‘In its origins, however, social capital is much more than a public policy question. It is a matter of public philosophy’ (Latham 2000, p.193).

Latham’s approach reflects the broader trend against modernism described in earlier chapters. He describes himself as an ‘institutionalist’ and focuses on diversity and complexity. He argues against any conception of the market ‘as an homogeneous entity’ (1998, p.39), claiming that both liberalism and social democracy have come to focus on promoting or resisting markets as an end, rather than a means to a range of broader social goals. Throughout his work he constantly refers to an ‘evidenced-based’ approach, one that looks to what works rather than to the dogmas of ideology. And finally, he emphasises how different parts of economy and society interrelate, forming a more complex picture.

‘There are no natural laws in economics, only dogmatists who try to invent them. Better results can be achieved through an institutionalist approach to economic analysis, with a reliance on the empirical methods of observation and adaptation.'

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85 Latham studied political economy at Sydney University, where institutional economics is taught as a distinct school of economic thought. It would therefore seem likely that Latham is referring to the tradition of institutional economics, rather than a more general and less theoretical concept.
Economic behaviour is best understood by acknowledging its diversity…” (Latham 1998, p.39).

It is this commitment to an institutionalist, contingent and empirical approach to policy that drives much of Latham’s critique of the alternative models on offer. Latham describes both the right and left as having engaged in a dogmatic debate between state and market, more aimed at arriving at the right pre-determined policy outcomes than properly analysing and assessing the evidence. This has been combined with an overly rationalist approach. The right has focused too heavily on ‘rational economic man’ (e.g. 1998, p.39), while the left has developed a ‘mechanistic style of policy making’ (1997, p.7). Both are centralised, top-down and detached from the experiences of ordinary people.

This anti-rationalism is combined with an anti-elitist and anti-intellectual tone. Latham portrays the dogmas of right and left as the intellectual product of various elites, and argues for a pragmatism that he associates with the ‘outsiders’ living in the suburbs. He associates the elite of the right with think-tanks and the ownership of commercial media. He sees the elite of the left as the winners of globalisation; those with white-collar, high paid jobs, who are well educated, live in the inner-city and engage in cultural debates.

Latham clearly depicts both elites as overly abstract and detached from reality.

Of the left he claims,

‘This abstract lifestyle has produced an abstract style of politics. Symbolic and ideological campaigns are given top priority. This involves a particular methodology: adopting a predetermined position on issues and then looking for evidence to support that position’ (Latham 2003, p.20).

Of the right (and using the CIS as an example) he states,

‘Even though its members have no first-hand experience with poverty or welfare recipients, it aggressively pursues a radical program of welfare reform. Several years
ago the CIS organized a mini-bus tour of the public housing estate in my electorate. This is the way Tories get to see the world: poverty tourism from a bus window’ (Latham 2003, p.22).

Thus, Latham constructs his opponents as ideologues, detached from the real world, interested in abstract theoretical discussions and immune to practical evidence. It is in this sense that he claims the Third Way is beyond ideology, even though it remains in the tradition of the left. The point is that the Third Way is a pragmatic, institutionalist approach to economics and politics, rather than the modernist dreams of the old left and right. This is partly explained as a populist appeal to the electorate, but Latham’s analysis is not only anti-establishment and anti-intellectual, it is also anti-modern in the more theoretical sense, embracing empirical and abductive methods and rejecting grand plans (see Latham 2001e).

Despite the popularism, Latham’s approach is also more nuanced than many of his critics claim. Latham is critical of the political agendas of the other participants in the social capital debate, and he does not simply accept the arguments of those advocating a classical liberal version of social capital. He explicitly acknowledges a range of market failures, and the need for state intervention as a result (1998, pp.184-6). While critical of those who support or oppose markets as an end rather than a means to broader political goals, Latham continues to distinguish between individual and collective approaches. He also acknowledges the problems associated with conflating the state with centralism and the market with decentralism – a similar binary to the modern state and non-modern market dichotomy discussed earlier. He states that the traditional right/left binary,

‘…positions individuals and economic markets – purportedly representing the virtues of small, freely formed networks – at the opposite end of the organizational spectrum to the state public sector, which is usually identified with large, centralised organisations operating on a national scale… A better understanding of these questions of size and scale lies outside the traditional binary’ (Latham 1998, p.296).

The more useful distinction, Latham argues, and one that appears to retain the essence of the left/right divide, is the difference between ‘collectivism’ and ‘individualism’.
The important distinction, for Latham, is not between states and markets, but between collective and individual forms of acting, ‘It is more productive, in this respect, to develop a binary based on the role of collective institutions in society, whether from the state or non-state public sector, as against the tendency of economic markets to foster individualism’ (Latham 1998, p.323).

However, Latham draws exclusively on the intellectual tradition of liberalism, and this, I argue, shapes his approach to social capital and community.

**Latham's social capital**

As I noted earlier, Latham first engaged with the concept of social capital through the CIS. He was one of four contributors to the initial CIS forum on the concept, and contributed to their initial publication, *Social Capital: The Individual, the state and civil society* (Norton et al 1997). This initial article is essentially reproduced in *Civilising Global Capital* (Latham 1998). Latham does differentiate himself from the CIS. He argues that the initial social capital debate had simply transposed existing ideologies onto the social capital debate, with the left arguing for more state intervention and the right for less. Latham rejects the crowding out hypothesis of the right, but also questions the left’s claim that competition is necessarily inimicable to cooperation (1997, pp.22-5, 33-4).

What is noticeable about Latham’s discussion of social capital, though, is his consistent reference to liberal theorists. Latham clearly identifies the concept of social capital with the tradition of the Scottish Enlightenment. He states that,

> ‘We need to recapture the original intent of the Scottish Enlightenment. It is too easily forgotten that Adam Smith – by vocation a professor of moral philosophy – regarded social capital as essential to the smooth running of a market economy’ (Latham 2001c, p.19).

Or ‘For two hundred years or more, this tension has been at the centre of political and social thought. Adam Smith and Adam Ferguson squared the debate by pointing to the importance of trust and morality.’ (Latham 2000, p.218).
Latham presents this older liberal tradition as a rejection of the economism of economic rationalism, and draws on a range of more recent liberals to reinforce the point. He notes that ‘(e)ven the Institute of Economic Affairs… has acknowledged the flaws in “economism”’ (2001c, p.19). And he draws on the work of Fukuyama, the theorist famous for claiming the triumph of liberalism as the end of history (Fukuyama 1992), to build an alternative account of human rationality (1998, pp.270-3).

However, the substance of Latham’s critiques, from Smith to the IEA and Fukuyama, is against what I have termed modernism. Each continues to argue for a spontaneous understanding of collective action. While Latham draws on these theorists to criticise economic rationalist man, he also uses them as the basis for constructing his understanding of social capital. In doing so, Latham constructs this classical liberal position as an ideological middle ground, without properly differentiating between their critique of modernism and their commitment to the market and individualism.

While Latham argues that the left need to reclaim the language of decentralisation, he does not draw on any of the progressive theorists who actually do this. He dismisses the politics of recognition associated with new social movement theory, although he appears entirely unaware of similar concerns being expressed within progressive social theory (for example Burgmann 2003; Burgmann & Milner 1997; Frankel 1992; Fraser 2000). He also dismisses the discourse of community development (Latham 2001a, pp.121-3). Latham recognises the need for the left to critique modernism, but he does not engage with any progressive theorist who attempts this task. Instead, he looks to liberalism to provide a critique of modernism, and in doing this, I argue, he confuses the critique of modernism and the critique of the state which classical liberalism combines.

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86 Here I refer to the political campaigns associated with new social movements that seek to advance the interests of some disadvantaged group, such as women, homosexuals, Aborigines or the disabled. Latham is highly critical of this type of ‘segment of life’ politics, (2003, chapter 1). However, Latham is supportive of what he calls a politics of recognition, by which he means placing social relationships, reciprocity and social capital at the centre of political discussion (1998, chapter 29). Interestingly, Latham’s politics of recognition is based on his reading of Fukuyama’s reinterpretation of Hegel (1998), and Hegel also forms the basis for a politics of recognition associated with a radical left position (Fraser & Honneth 2003, pp.243-4). While there are similarities in the two recognition debates, my point is that Latham relies exclusively on a liberal literature on recognition, rather than drawing on more radical currents.
The result is that Latham tends to construct the state in the same way as classical liberalism. He echoes a view made popular in conservative histories, that Australia has suffered from a dearth of civic associations between the strong bonds of mateship and the centralised authority of the state. Such a view neglects the strong Australian history of social movements, particularly the labour movement, which have shaped the Australian state and involved large sections of the community. It is an odd omission for a Labor politician to make, and suggests instead that Latham does not view unions as civic institutions.

‘Generally, history tells us that Australians have been more inclined to pursue the logic of collective action through personal networks of mateship and/or the patronage of the central state than by spontaneously civic means at the middle’ (Latham 1998, p.288).

Rather than seeing unions as an important component of civil society, Latham views their role narrowly, as pursuing better wages and conditions for members through the market. Unions are a part of the economic, not the civic, sphere. Giving an example of market institutions which, like the state, are highly centralised and bureaucratic, Latham cites multinational firms and trade unions (1998, p.296). As with many of the distinctions drawn by Latham, what is included within civil society is less clear than for other participants in the social capital debate.

Latham’s main historical example of civic associationalism is taken from Green and Cromwell’s (1984) history of Australian friendly societies (Latham 1997, pp.31-3). While Latham qualifies his argument to reject a simple return to the days of private associations, he does so largely on the basis that the social capital on which these associations depended has declined. Presumably were social capital levels to recover, and Latham sees this as a central aim of government policy, then such associations could play a larger role.

‘One cannot reasonably expect – as some libertarians might – that the abandonment of the welfare state will be replaced by the mass formation of intermediary associations if, as appears plain, the social capital for such a task is insufficient. The friendly
societies cannot spontaneously re-emerge because, just as their role dissolved earlier this century, so too did the social capital upon which they relied’ (Latham 1997, p.32).

It may be true that unions have become more bureaucratic. However, even in relatively recent times, and certainly more recent than the hey day of friendly societies, there are examples of unions helping to develop new social movements, such as the Green Ban movement involving the Builders Labourers Federation (BLF) (Burgmann & Burgmann 1998). By placing himself exclusively within the discourse of liberalism, and avoiding any real engagement with progressive social theory, Latham is left relying on the histories and frameworks of liberalism.

Likewise, Latham associates the state with the role of umpire, enforcing the rules of the game, rather than the institution in which the players regulate their own actions. This later, and more desirable, role is played by a non-state civil society, and Latham clearly places this in opposition to the role of the state, claiming that ‘(t)he rule making of civil society is replaced by the law making of government’ (2001e, p.233).

Latham’s distinction between individual and collective, like his categories of state, market and civil society, is often blurred. He makes little distinction between different types of voluntary organisation. He deems all to be collective because they involve people working together. But on this definition the market is also a civic institution, bringing together many people in voluntary exchange – a point frequently made by members of the CIS.

When Latham discusses the processes that generate social capital, he uses both the logic of spontaneous order and the language of game theory. In one of the most explicit references to how communities are already generating social capital through the use of new technology, Latham picks an example where there is no formal organisation, no process of group decision making or deliberation, and no advocacy or agitation for social change. Indeed, it is these features which make the action all the more civic and all the more likely to generate social capital.

‘Many of the acts of spontaneous civic life now find their expression in modern forms of technology. To give an example, each year many Sydney suburbs engage in the
mass decoration of homes with Christmas lights. This is a spontaneous event in that
the residents of these suburbs do not formally press each other to organize the lights,
either with incentives or sanctions’ (Latham 1998, p.277).

The same themes are expressed in Latham’s discussion of devolution. Importantly,
Latham primarily argues for the state to be devolved. He leaves the main hierarchical
institution of the market, the firm, largely untouched. However, more significant is the
language Latham uses to describe how government might be devolved to civil society.
It is the language of spontaneous order, of individuals being left to form their own
associations to cater to their own needs. Latham proposes giving government resources
for health, education or welfare directly to the individual citizen, and then allowing the
citizens to form voluntary associations to provide these services.

‘Citizens would be able to aggregate their entitlements into self-governing units of
public administration, within which they would be able to interact and build the bonds
of public mutuality and cooperation. Government would need to fulfil its role as a
regulator by establishing sound guidelines, prudential and administrative, by which
these mutual bodies might operate’ (Latham 1998, p.301).

The institutions that such a policy is likely to establish are exactly the types of mutuals
Green and Hughes advocate as the basis of a civic neoliberalism. The organisations are
established by individuals voluntarily joining together to provide services for
members, they are not formed around any social identity that might extend beyond
members. Also, it presumes that the functions of welfare are really just an
administrative task. Latham is creating a market of mutuals regulated by the impartial
umpire state. This separates the job of providing welfare from any broader political
questions. In fact, the only way these institutions interact with the broader political
economy is through the generation of trust (i.e. social capital), which supports the
operation of the market more generally, ‘Through policies of devolution and the
consequent creation of social trust, it is entirely possible for market systems, carrying
the benefits of economic effort and growth, to coexist with conditions of social
mutuality and equality’ (Latham 1998, p.312).

87 The main exception is Latham’s strong support for tighter anti-trust laws through the Trades
Practices Act. However, this forms a relatively small part of his writing compared to his focus
on devolution within the state.
This congruency between Latham’s advocacy for civic renewal and what he sees as the right conditions for fostering the market is hardly surprising. I have argued the conception of social capital and civil society developed by classical liberals reflects a commitment to spontaneous order which extends the logic of the market into civil society. However, Latham’s account is not simply civic neoliberalism. He does retain a strong commitment to many of the principles of the labour movement, including worker control of industry. Latham makes two points; first that collective bargaining, an article of faith of both the Labor Party and labour movement in Australia, is an effective means of encouraging sociability (1998, p.307); second, Latham argues that workers should have more control of their workplace by forming worker-owner cooperatives. Yet even here, Latham’s understanding is informed by the classical liberal view of social capital and civil society. Latham wants to grant individual workers increased decision-making power. But the mechanisms he proposes for doing so do not treat workers as a social group with collective interests, but rather as individual stakeholders.

First, Latham sees workers having influence through share ownership rather than through more direct mechanisms of managerial control. But even given this, Latham proposes two quite different forms of share ownership without making any distinction between the degree to which the two options represent collective or individual approaches. The first is to encourage employers to pay workers in the form of shares. Thus, individual workers would become part owners of the businesses in which they work. The second is that workers form a trust, and the trust then purchases shares and exercises some form of control on management. This clearly involves workers acting collectively. The main difference Latham sees between the two options is simply one of scale, with a trust potentially acquiring more shares, more quickly (2003, pp.77-9).

A similar approach is taken by Giddens, the British theorist who has done most to develop a theory of the Third Way. Giddens’ critique of socialism is based on a critique of centralism and mechanism, essentially amounting to a critique of modernism. He argues that the socialist ideal has become unworkable in the new globalised world because it is based on a cybernetic model that presumes centralised decision-making. In a world with ‘action at a distance’, that is increasingly complex,
interconnected and where time is compressed, centralised decision making simply does not work (1994, pp.66-9).

The main source of Giddens’ critique of cybernetic centralism is the Austrian school, especially Hayek and Ludwig von Mises, although he also draws on the conservative Michael Oakeshott. He develops the same themes, emphasising the importance of practical, local knowledge. According to Giddens, states simply do not possess this sort of on the ground insight, and can never hope to because much of the knowledge is tacit (also see Nigel Pleasants (1997) who develops a similar argument in more detail). It is a familiar critique, used not only by the Austrians, but also by James Scott in his critique of ‘high modernism’ and the early social capital authors such as Jane Jacobs and Eleanor Ostrom. Latham makes essentially the same point about the state’s incapacity to deal with people at a human level, also referring to Scott’s (2001) work in *Seeing Like a State* (Latham 2001e, p.239).

Latham’s and Giddens’ critiques of the state mark an important shift in progressive politics. Only a few years earlier Michael Pusey had written that the economic rationalists had ignored the practical knowledge of state-building bureaucrats, who learned through experience. Now Pusey’s allegation, then levelled at the economic rationalists in defence of the state, is being used by Giddens and Latham to attack the state. Particularly in his later work, Latham asserts the superiority of the market as a mechanism for producing economic wealth without qualification. His argument is based less on deductive theory, which he believes is too rationalist, and more on the shortcomings of bureaucracy (see Latham 2003, chapter 3). In other words it is a critique of modernism, a critique very similar to the Austrian critique of market socialism.

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88 Mouzelis (2001) also recognises the difference between Giddens’ desire to develop a theory appropriate to late modernity (in my language a theory that acknowledges non-modernist concerns) and the continuing relevance and continuity of the left/right divide. However, where Mouzelis is attempting to construct an alternative Third Way, I am focusing on accounting for the continuity and how the two issues were separated historically. Also see Storper (2001), mentioned earlier, for his account of the left searching for a less modernist theory in the later part of the twentieth century. In the Australian context, however, the left developed a politically successful non-modernist defence of collectivism through Pusey’s critique of economic rationalism. Rather, I have argued that it has been classical liberals who have had to reaffirm their commitment to a non-modernist vision.
**Conclusion**

In this chapter I have moved from telling the story of how the concept of social capital developed and the debate began in Australia to applying the insights from this story to contemporary debates. I have argued that two insights from this thesis can inform our understanding of the Third Way, and of related debates surrounding the concept of social capital. The first is the distinction between the critique of modernism and the critique of the state embodied in classical liberalism, and the emerging civic neoliberalism. The second is understanding the historical relationship between the tradition of classical liberalism and the concept of social capital, as distinct from the more modernist approach of neoclassicism.

The concept of social capital reflects a critique of modernism, including the modernism of economic rationalism. This helps explain how the work of Hughes, Green and other liberals can sound substantially different to economic rationalist defences of the market, while at the same time advancing very similar principles. The fact that in Australia the critique of modernism had so recently been associated with a critique of the market also helps explain how this civic neoliberalism could be presented as a move away from ideology.

Secondly, by differentiating between the methodological critique of modernism and the ongoing normative battle between individualism and collectivism, we can better understand both how Latham’s Third Way conceives of social capital and civil society, and why his theory might have developed as it has. I do not argue that Latham simply reproduces the civic neoliberalism of Hughes and others. However, he places himself entirely within a liberal discourse. As a result he consistently refers to civil society in terms of spontaneous action, and consistently identifies the same institutional actors as classical liberalism. In attempting to marry the market and civil society, Latham has turned to an account of civil society which he presents as outside the dichotomy of ideology, but which in fact emanates from the avowedly political tradition of classical liberalism.
Chapter 11 - Conclusion

I began this thesis by discussing Raymond Williams’ dictionary of keywords. Williams argued that it was important to understand the different meanings and histories of keywords. Over time meanings changed and evolved, and this sometimes caused ambiguity and frustration. Williams’ approach was to chart the history of these words, to understand how and why they developed as they had. In this thesis I have argued that ‘social capital’ is just such a keyword. It is a term that crosses between different academic and non-academic uses. And like Williams, and those like Nancy Fraser and Linda Gordon who have followed him, I have sought to understand where this term came from in order to understand the ways in which it is currently used and its implications for different academic and policy debates.

The concept of social capital has enjoyed immense popularity. References to the concept have soared, and institutions from local councils and community centres to national governments and the World Bank have embraced it as a key concept in understanding issues of development and community well being. Its popularity has transcended virtually every border of discourse, ranging from the official reports of bureaucrats to a common sense notion in local papers, from sociological debates to economics and anthropology.

One of the problems with this rapid growth in popularity has been the ambiguity surrounding the concept’s meaning. Critics have claimed that the concept has almost become a byword for anything that helps a community work (even if this set of resources is internally contradictory), and that it has been used to describe both the resources that help a community achieve development, as well as being a measure of development itself. However, the most interesting criticism from the viewpoint of this thesis, and the focus of much of the previous chapters, has been what I termed the heterodox critique of social capital. In short, heterodox critics claim that the concept of social capital is not just wrong headed, but that it actively undermines more useful and progressive conceptions, and instead promotes an individualistic and reactionary politics.
The most influential and widely discussed critique of the concept of social capital has been the work of Ben Fine. Fine’s critique developed from his work on Gary Becker. Fine claimed Becker’s work was responsible for colonising social theory through the concept of human capital. Fine argues that social capital is a neo-liberal Trojan horse, a concept that seems appealing to social theorists precisely because it rejects aspects of conventional neoclassical economic analysis, but in reality only extends the principles of neoclassical analysis beyond economics and into the other social sciences. This is a serious claim, which, if true, sounds an important and disturbing warning to the many progressive social theorists, and other sceptics of neoclassicism, who have embraced the term. For this reason I framed much of the thesis around Fine’s critique.

Fine also examined the origins of the concept of social capital, arguing that the concept developed out of neoclassical economics and contained the same commitments to individualism, abstraction and the extension of markets. In evaluating Fine’s critique I also focused on the relationship between the development of the concept of social capital and mainstream economics. Because of this focus I narrowed the scope of this thesis to examine the initial work of James Coleman, Robert Putnam and the literatures they both drew upon and subsequently spawned. In doing this I excluded two other elements of the social capital literature, the work of Pierre Bourdieu and those who have drawn upon his work, and the vast array of works that use the term with little reference to its origins, and often without any clear definition.

The decision to limit the scope of the thesis obviously suggests some limitations in the generality of the conclusions I draw. However, I have argued that the conclusions remain significant, and the limitations justifiable. First I argued that the work of Bourdieu was distinct and often incompatible with the work of either Coleman or Putnam. I noted that there was no evidence that Bourdieu influenced the work of either later theorist, nor that his work was influenced by them. Instead, I claimed, Bourdieu’s work is better understood as containing a coincidental linguistic similarity, rather than being part of the same literature. What is more, I demonstrated that Bourdieu’s work has been marginalised from the mainstream social capital debate and has been given only a symbolic place within that literature. While Bourdieu’s work has inspired
further study, I argued this is better understood as a distinct body of research to be examined independently.

Instead I argued that it is the Coleman/Puntam lineage that is of most interest for those seeking to understand the origins of the mainstream social capital debate. I argued that this lineage had clearly been identified by most of those within the mainstream social capital debate as the main source of inspiration. I also argued that it is significant because it was influential in informing the Australian social capital debate, particularly the work of the classical liberal think tank, the Centre for Independent Studies (CIS).

Perhaps more importantly, it was Putnam’s analysis of Italian political economy that first popularised the concept of social capital. I have argued that Putnam’s account treated the concept of social capital as an afterthought. The majority of the book is dedicated to making a series of empirical claims about the importance of civic culture, only at the end does he then link this to the concept of social capital. By doing this Putnam effectively generalised his claim that civic culture was the driver of economic development beyond Italy, and gave empirical credence to the concept of social capital. These twin effects popularised the concept. The concept became popular because of the empirical claims being made for it, not because of the previous theoretical work that had been done to develop it. Yet, I have argued, the theoretical origins of the concept that informed Putnam’s own account, have proven influential in the later literature.

As the Coleman/Putnam lineage has proved the most influential in so much of the mainstream social capital debate it is also arguable that it has influenced the more heuristic discourse about social capital that has been less interested in either the concept’s origins or its precise definition, although this question lies beyond the scope of the current thesis. As such, while this thesis does not provide a comprehensive account of the origins of the concept, it does provide an important insight into one of the most influential aspects of the current social capital discourse. Tightening the focus of the thesis also enabled a more careful examination of the links between mainstream economics and the development of the concept.
In short I argued that Fine’s analysis is useful, but that it can be made more useful by better distinguishing between two elements of his critique. I argued that Fine effectively rejects both the methodological approach of neoclassical economics and the ideological project of neoliberalism associated with neoclassicism. I argued that Fine’s criticisms of neoclassical method come very close to a critique of what a number of economic methodologists, such as Deirdre McCloskey and Sheila Dow, have labelled the ‘modernism’ of neoclassicism.

Following these economic methodologists, I used modernism in a more specific sense than in the broader sociological literatures on modernity and modernist theories. In my usage, modernism refers to a relatively extreme form of the Enlightenment project that seeks to find certain, context free knowledge that can be used to both predict and control the social world. Modernist approaches, on this definition, seek to compartmentalise knowledge. This leads both to specialisation between different fields of knowledge, and presumes that knowledge develops in an incremental manner. Finally, it understands knowledge as an objective entity, whose validity and existence is distinct from the individual scientist, or community or scientists, who identified it.

Many of Fine’s criticisms of neoclassical economics fit this understanding of modernism. Fine argues that neoclassicism is overly abstract and mechanistic, and is both asocial and ahistorical. Neoclassical economics seeks ‘hard’, objective knowledge, a model that does not take account of the complexity or interdependence of social scientific knowledge. Neoclassicism, according to Fine, also denies the political nature of its theory, its proponents asserting as objective a framework that Fine argues is ideologically loaded. Fine fears that by extending this approach to social theory, theorists will fail to engage with more nuanced and sophisticated approaches that take better account of historical and social contingency.

I argued that Fine’s criticism of the modernism of neoclassicism is best understood as a related but distinct claim to his claim of ideological imperialism. Fine also argues that neoclassical economics promotes an individualist analysis in the social sciences that tends to prioritise markets over more collective social institutions and tends to obscure power relations. He argued that this is integral to the abstract and universal methodology of neoclassicism. I argued that while the two claims are clearly related,
is useful to distinguish between modernism and neoliberalism in analysing the origins of the social capital debate.

By separating these two related claims, I argued we are able to identify a set of contingent associations between them. In chapter five I argued that recently modernist methodology has been associated with an individualistic and market based ideology. I pointed to the debate over economic rationalism in Australia where this association is particularly pronounced. However, I argued that this was a relatively recent and contingent association. I also pointed to an earlier association, during the 1930s and 1940s, where a modernist approach in economics and science was often associated with a socialist ideology, particularly with the debate over market socialism. By distinguishing between Fine’s methodological and ideological claims, I argued we are better placed to understand the historical development of these associations and their relevance to the social capital debate.

In section three I used the distinction between modernism (method) and market individualism (ideology) to identify two factors that affected the development of the concept of social capital within rational choice theory, particularly within game theory. I argued that those involved in developing the concept had also been critical of the extremes of modernism. This critical reaction to modernism was often the result of economists bumping up against the limits of modernist methodology. In the Prisoner’s Dilemma (PD) debate this was experienced in two ways. Firstly, experimentation revealed a level of cooperation that seemed irreconcilable with the theoretical predictions. Secondly, as the number of moves in a game increased, so the game became theoretically less tractable through backward induction. In addition, problems of incommutability developed elsewhere in rational choice theory. Both factors pushed game theorists to develop less deductive methods for solving games, incorporating elements of experimentation, evolutionary theory and social theory.

I argued that in their attempts to resolve the methodological problems raised by the PD, game theorists were in fact addressing many of the criticisms of the modernist excesses of rational choice theory. In the process they also developed a new concept – social capital – which helped explain the high levels of cooperation in the PD without invalidating the theoretical approach as a whole. In this sense the concept represented
a real, albeit limited, movement within the rational choice tradition. While the concept might have offered few new insights to social theorists, it did suggest rational choice theory was moving in an inclusive methodological direction, and thus opened up the possibility of more meaningful engagement between economists and social theorists, breaking down the modernist silos of specialisation between the disciplines.

The cooperative solution to the PD was not only a solution to methodological problems within the rational choice tradition, it also represented a theoretical justification of individual, as opposed to deliberative, problem solving. The PD was a focal point within rational choice theory for debate over the merits of state intervention. The failure to resolve the PD indicated to some the need for a central body to step in and regulate individual interaction. In this scenario the state acted as a public good. Many of those involved in developing the concept of social capital were explicitly seeking an alternative interpretation of the PD. By demonstrating the possibility of cooperation these theorists were able to build on the tradition of spontaneous order explanations developed by Fredrick Hayek.

Thus, the concept of social capital reflected two trends moving in apparently different directions. On the one hand the concept was the product of reflection upon the limitations of modernist methods within rational choice theory, and signalled a move to embrace a more contingent, complex and less dogmatic approach to methodology. In this sense the concept was part of broader trends in rational choice theory, and potentially a sign that social theorists could more fruitfully engage with economists. On the other hand, the concept reflected attempts by some game theorists to reassert the importance and desirability of individual decision making, and to critique approaches that justified the need for deliberative collective responses to social problems. These two elements were combined in the tradition of spontaneous order, which rejected collectivism on the grounds that collectivism was premised on a centralising and totalising logic that failed to properly understand the complexity and contingency of real social systems.

Finally, I sought to apply the framework of differentiating method from ideology in understanding the origins of the concept of social capital to more recent developments in the debate. In section four I argued that the concept’s origins made it an ideal
vehicle for proponents of market economic reform to rebut allegations of ‘rationalism’ and extend their influence in social policy. As I noted earlier, Fine’s criticisms of the social capital literature reflected a more popular criticism of neoclassical economics and neoliberal politics, viz. that these doctrines combined a modernist approach to the social sciences with a pro-market and individualist politics.

This same criticism was exemplified in Michael Pusey’s critique of ‘economic rationalism’. Pusey claimed that the federal bureaucracy in Australia had been taken over by a group of economic rationalists. This new group of bureaucrats subscribed to a highly abstract theory of economics and sought to apply their theories in inappropriate ways to an unwilling reality. The result was a set of market reforms that might work in theory, but which failed dismally when imposed in practice.

Pusey’s critique of economic rationalism hit a chord within Australian society. Whereas elsewhere the same economic reforms were labelled ‘New Right’ or ‘neoliberal’, in Australia they were more commonly known as economic rationalism. The term did reflect some of the nuances of the Australian case. Here, opposition to economic reform came as much from conservatives as social democrats, and economic reform tended to be accompanied, at least during the 1980s and early 1990s, by relatively progressive social policy rather than conservatism. For both these reasons opposition focused more directly on the economics of the reform process, and on the central role of economic theory in justifying the reforms.

The criticism of the reformers as ‘rationalists’ had much in common with the various criticisms of modernist theory within economics. Pusey rejected economic reforms as too dependent on abstract, deductive theoretical devices that were divorced from the complexity and contingency of social reality. I argued that although Pusey attacked both the individualism and the modernism/rationalism of economic reform, his criticisms focused on the later. I argued that Pusey’s critique did gain traction in the Australian community, and thus by the mid-1990s the label of ‘rationalism’ was weakening the case for economic reform.

It was in this context, I argued, that the concept of social capital found such an appropriate and welcome home amongst those supporting market reform within
Australia. I have already outlined how the genealogy of the concept suggests that it is
the product of both a rejection of modernism and an affirmation of an ideological
commitment to individualism and the market. Thus, the concept provided an avenue
for market reformers to address Pusey’s critique whilst advancing their ideological
agenda. I argue that this is what the Centre for Independent Studies (CIS) and other
classical liberal think tanks did by engaging in the social capital debate.

The concept of social capital allowed advocates like those at the CIS to reject the label
of rationalism by discussing the social context of individual decision making and
economic development, whilst also arguing for a ‘spontaneous order’ approach to
social as well as economic problems. Thus, not only did the concept help address
Pusey’s criticisms, it also extended the market reform agenda into the realm of social
policy, where market reformers had been least effective. The concept of social capital
helped explain how communities could solve the social problems caused by
deregulation, while also explaining how communities worked best when governments
left them alone to develop their own solutions.

At the same time social democratic advocates, such as Eva Cox, embraced the concept.
Here the concept was largely separated from its game theoretic roots and instead filled
with the content of a progressive and socially aware social democracy. Cox used the
concept to draw attention to the social problems caused by market reform and
deregulation. She argued that government intervention was necessary to support
community and social networks and to balance the individualising force of the market.
But like the CIS, Cox focused much of her criticism on attributes I have defined as
modernism. She claimed that economic rationalism was too theoretical and totalising,
and that its ignorance of social factors undermined its effectiveness. But Cox also
positioned herself against modernism generally; she also argued against the
reductionist masculine obsession of the left with state control of the economy, which
ignores social connectedness. For her, the concept of social capital shifted attention on
to the social fabric and forced us to address the needs of society, not just the economy.

Thus, I argued that two very different conceptions of social capital developed in
Australia in the late 1990s. The first, associated with the CIS, drew on the rational
choice heritage of Putnam and Coleman. The second, associated with Cox and Centre
for Australian Community and Organisational Management (CACOM), developed the concept largely in isolation from its roots. Both were critical of modernism, both used the concept to refocus attention on social, rather than purely economic, approaches, and to advocate a more contingent and complex understanding of the interplay of social and economic factors. But the two differed in their understanding of how social capital was developed and sustained. For the CIS social capital was the product of, and sustenance for, spontaneous order based on individual autonomy. For Cox social capital was the product of explicitly deliberative and collective decision making processes and was corroded by the individualism of the market. While both rejected modernism, the two understandings reflected the long running tension between individualism and collectivism, rather than representing the ‘end of ideology’.

This bifurcation of the social capital debate caused a significant degree of confusion. In the final chapter I argued that this confusion has obscured the political implications and origins of some aspects of the social capital debate. In particular I pointed to the work of Third Way theorist Mark Latham. I argued that Latham’s work suggested a conflation of modernism and ideology, such that the rejection of modernism that was central to both strains of the social capital debate, along with the very different political conclusions the participants drew, led those like Latham to conclude that the rejection of modernism was also a rejection of ideology. But on closer inspection I argued that this was not the case. Instead, Latham seemed to have embraced many aspects of the CIS approach to the social capital debate, arguing for a form of spontaneous action and a withdrawal of the state. Latham did not simply reproduce the work of the CIS, but I argued that by confusing the methodological and ideological content of the social capital debate Latham’s approach often embraced highly individualised solutions, and obscured the role of collectivist institutions like the state, unions and social movements.

Of course this is only part of what continues to be a large and amorphous debate. Some have reconnected the term to its roots in Bourdieu’s social theory, thus constructing a concept of social capital that I have argued has little connection to the Coleman–Putnam genealogy discussed here. However, the aspects of the debate that I have examined continue to be central to political discussions both in Australia and overseas, particularly discussions of the Third Way, about the connections between society and
economy, the implications of globalisation, and the definitions and reconstitution of
community. There is also, no doubt, more to even this genealogy then I have been able
to cover. However, by identifying the importance of the rejection of modernism and
the reaffirmation of individualism to the concept’s genealogy I believe I have provided
a framework for understanding the significance of the concept.

The concept of social capital does signal a shift by some in economics away from the
heights of modernism, specialisation and atomism and towards a more reasonable
discussion with social theory. This has fed through to a political discourse was
searching for something beyond the narrowly economic prescriptions of market reform.
But the concept’s origins were also bound to advocacy of spontaneous mechanisms
emerging out of individual choices for resolving social and economic problems. Thus,
social capital was not so much a move away from the market as it was an extension of
the logic of the market to the social as well as economic realm. While the effect of the
concept’s origins are contested by social democrats within the current social capital
debate, these origins have been profoundly important in shaping and framing political
discussions of social policy. It is in this sense that the concept of social capital is not
so much the direct product of neoliberalism, but is perhaps better understood as a
social theory informed by neoliberalism


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