

Institutions and virtues

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Abstract

The claim of this article is that virtues support and complement institutional rules. The advantage of virtues is that they are voluntary, not imposed. Virtues have a goal, the good life, but also have intrinsic value in performing them. With that, they go beyond utility. In this way there are two dimensions of value, which are not commensurable, blocking the urge of orthodox economics to maximize an objective function (Hodgson 2019). To argue my case, I discuss the nature of institutions, trace ethics in the history of philosophy, discuss virtues, and relate institutions and virtues in the frame of a causality of action and I give a clarification of trust in contrast with reliance.

Introduction

Hodgson (1989, p. 183) discussed the meaning of institutions. He reported Veblen's (1919, p. 239) definition of institutions as 'settled habits of thought common to the generality of men' and North's (1990, p.3) definition as 'the rules of the game or 'the humanly devised constraints that shape human interaction'. Let us here define institutions as humanly devised rules of the game and habits that guide human conduct. They are enabling constraints: They not only constrain but also enable conduct. Richard Nelson once gave the example of a path through a swamp. It constrains your steps, not to fall into the swamp, but it enables you to cross that swamp.

Rules are, originally at least, explicit and conscious, but they can develop into habits. They are of the nature: if X, do Y. Habits can be and are often tacit or even unconscious, assimilated in education. They are not, however, instinctive, innate. Hodgson (1989, p. 179) characterized institutions as having five common characteristics: they involve interaction of agents, have common conceptions and routines, sustain and are sustained by shared conceptions and expectations, are relatively durable, incorporate values, and are seen as morally just.

Examples of rules are laws, as of property and trade, regulations of many kinds, including, say, traffic signs, but also language with its grammar and syntax. Organizations such as business firms are also Institutions. How about morality, ethics and virtues? Morality yields rules of conduct and hence seems to be included in institutions. However, moral rules derive from an underlying ethics that can also guide behaviour voluntarily and spontaneously, without rules, as motivators that are acquired as habits or possibly are innate.

Ethics is needed both to enable institutions and to complement them, as something different than rules, not imposed, not to limit individual freedom too much. They yield voluntary guidance.

The point of this article is the claim that the more conduct is voluntary, driven by will and inclination, the fewer rules one needs, although rules will always be needed. This has ambiguous implications for liberalism. On the one hand, traditionally, liberalism has rejected public moral debate, seeing morality and ethics as a private affair, not to be meddled with by the state. On the other hand, ethics, as voluntary guidance of behaviour, can reduce the need for rules, thus allowing for more individual liberty. The wariness concerning public moral

debate has been ascribed to the view that morality is a matter of religion, and when liberalism arose, in the 17th century, after disastrous religious wars, to prevent those from happening again, it was best to leave morality and ethics as a private, not public affair (Copleston, 1964-67). However, in present times, there are excesses of unethical behaviour, yielding injustice and inequality, which call for public debate, and inclusion of ethics in education and training, not to impose any particular ethics, but to generate awareness of the options and arguments for them. Much thought has gone into them, in 2500 years of philosophy and scientific experiments, in child research, game theory and anthropology, and it would be unwise not to take them into account. In any case we are involved in thoughts and discussions on ethics in daily life, mostly implicitly, in the raising of children, relations of marriage, family, friendship and community, and are confronted with ethical issues in literature, films, series on TV, and news. It would be foolish not to make use of the thought that has gone into it.

This article discusses the history of morality and ethics, in philosophy, elaborates one particular kind, virtue ethics, developed since Aristotle, and analyses the relation with the causality of action, using the multiple causality of Aristotle. Finally, it is used to clarify the distinction between reliability and trustworthiness, with the illustration in a comparison between the US and Japan.

Philosophy of ethics

Ethics concerns the purpose of life. What is that purpose? Here, I adopt the view from the Pragmatist philosopher John Dewey (in the 19th-20th century) that the purpose of life is spiritual growth of Man, in realising his potential, in a balance of material pleasure and spiritual well-being, in response to the exigencies of life, solving problems. My definition of the good life is: contributing to something greater than yourself, and if you do this with optimal development and use of your talents it is pleasurable. This is in contrast to the goal of life as trying to satisfy some eternal, fixed, Platonic, absolute good. I would find that suffocating. My slogan is 'imperfection on the move': one will never achieve perfection, but improvement is possible. What succeeds, in pragmatic adaptation, depends on the uncertain and unpredictable contingencies of life. The pragmatic intention to deal with those is not always successful. There are numerous examples in history where thought and societal conditions deteriorated, often disastrously, due to unintended consequences. Dewey's claim presupposes a criterion of progress and regress. What is it? I claim that this lies in ethics, in particular virtues that one sees fulfilled or violated.

Let us take a step back in the history of ideas.

Most thinkers in the history of philosophy held that human beings are primarily motivated by self-interest but also have a moral sense. In the 17th century, Hobbes was one of the few who was of the opinion that people are driven only by self interest, and have to be held in check by a moral law imposed by an authoritarian ruler. In the 17th-18th century, Shaftesbury and Hutcheson objected that people are naturally social, with a moral sense. Bernard de Mandeville (1714) objected that there is little evidence of virtue and that a society endowed with all the virtues would be a static, stagnant society (Copleston, Vol 5 part I, p. 188). Private vices are public virtues. Hutcheson claimed that 'by the moral sense "we perceive pleasure, in the contemplation of such good actions in others, and are determined to love the agent (and much more do we perceive pleasure in being conscious of having done such actions ourselves) without any view of further natural advantage from them "' (Copleston, op cit, p. 190). It is not clear whether he meant, as an object of 'pleasure', the actions or the underlying virtues.

In the 17th century, David Hume had postulated an innate instinct for benevolence, regardless of utility, and justice as a more utilitarian, what he called 'artificial', principle needed for a viable society (Copleston vol 5, part II, 1959, p. 131, 40; Stroud, 1977, p.216-217). The puzzle in his philosophy then is why people honour rules of justice even if that is to their disadvantage, when they can avoid punishment or loss of reputation. The only solution I can see is that this virtue is inculcated in education and practice, turning it into an often subconscious habit, or as an instinct, in the genes, acquired in the evolution of humanity, to become as natural and innate as benevolence. It becomes part of the person one wants to be. If it is in the genes, this would raise the puzzle that the advantage is to society, while genes are individual, and the temptation would still be to cheat and gain advantage in selection, whereby selfish genes would in the end prevail. I will return to that puzzle presently.

Even Machiavelli, in the 15th century, who had pleaded for an opportunistic, devious, lying, cheating monarch, admitted that this does not apply to the population at large, since that would disable a viable society.

The key question is how to define what is good. What is the purpose of morality? A recent tradition that I follow (Moseley, 2019; Tomasello, 2016) is that morality served humanity in its evolution. For survival, people needed each other and became interdependent, and this required morality. This started with building an ability to conduct specific joint projects such as hunting big game, or defense, in dedicated mutual support, and then, as communities grew, relations became wider and more impersonal, in a variety of cooperation, and it became inefficient to build up dedicated relations of mutual understanding and forbearance each time, and a generalized ability to cooperate developed (Tomasello 2016, Nooteboom, 2020).

There is a puzzle here that frequently recurs in debates. If collaboration is needed for survival, the morality needed for it is said to reduce to self-interest, and utilitarian philosophers and economists are right in saying that there really is nothing beyond it. But while morality and altruism are useful in the long run, the proximate cause, in the short run, is genuine otherdirectedness and altruism, possibly yielding sacrifice. They are adaptive, but that is not necessarily the motive for them. Interestingly, here an 'ought'(morality) is derived from an 'is'(evolution), which according to David Hume could not be done.

Of course, morality competes with self-interest, in the short term, as a proximate cause, in the form of individual survival and pleasure, which often is stronger and wins out. The point here is that other-interest does exist and sometimes does win.

Virtues may replace or support institutional rules, making them more viable. For example, in the Netherlands the maximum speed on all roads will be set at 100 kilometers per hour. Some people have already announced that they will not abide by the rule. Others will do so, supported by a conviction of the need to protect the environment. Without that the limit would not work. It would require too much control and sanction.

In the 18th-19th century, Bentham, father of utilitarianism, was a follower of the hedonist Epicurus, in founding human conduct exclusively on the enhancement of pleasure and avoidance of pain, but like most utilitarians he was committed to the commonality of Man, with the most pleasure and least pain for as many people as possible. He granted that the human being has empathy by association: seeing people suffering one imagines oneself in that position. J.S. Mill was a follower of Bentham, but he went beyond him in claiming that the human being is not by nature purely selfish. His argument was that pleasures are not all of the

same sort. Mental or spiritual pleasures are not the same as material ones, and do not only differ in quantity but in quality. They have intrinsic value, regardless of any instrumental utility.

This is disastrous for the habit and purpose that is characteristic of orthodox, mainstream economics, to maximize a utility function (Hodgson 2019), which has the implicit claim that all pleasures are commensurable, can be subsumed in the same utility function. As Milbank and Pabst (2016, p.130) put it: ‘...more intangible goals of community belonging, work satisfaction, and aspirations for cultural richness and beauty are set aside.’ I add: the intrinsic value of morals and ethical principles is not commensurable with their utility. Furthermore, virtue may yield material sacrifice, so that one value is to be sacrificed for another, and utility functions are not independent between people since they include censure of conduct and loss of reputation.

J.S. Mill made an important step in recognizing that not all values are of the same kind. Spiritual satisfaction is not the same as material consumption. In the present context; as mentioned before, the intrinsic value of enacting virtues is not of the same kind as material pleasure. J.S. Mill also saw the human being as a social animal. In fact, that goes back to Aristotle, who saw that community was needed for the individual to realise its potential. That has great consequences for economics, in the need to bring in sociology and anthropology. He, and Aristotle, held the view that the human being is not only ‘thrown’ ready-made into society, but is constituted by it, developing his or her ideas in interaction with things and people. That is also a modern view, deviating from orthodox economics, found in Heideggers later notion (in the 20th century) of ‘Dasein’ and of the idea of the American pragmatist philosopher John Dewey (in the 19th-20th century) that the human being is no mere spectator, outside the world looking in, so to speak, but a participant whose thought is formed in action in the world.

It is difficult to decide whether certain virtues are innate or acquired in education and operating in the world and adjusting to censure. There is, however, an evolutionary argument that some virtues are innate or virtually innate, which means that the human being has an innate capability of developing them in experience. That innateness applies, for example, to fear: one has an inborn proclivity to fear, but whether this is fear of snakes, spiders, or snakes depends on one’s environment.

Here, the notion of ‘prewiring’ of the brain, or ‘virtual innateness’, is useful: we inherit not specific, determinate features, but the potential to develop them in interaction with the environment, for optimal adaptiveness. That helps in the well-known controversy of ‘nature vs. nurture’. How else can we reconcile them, in the effects of both?

Groups, of kinship or tribes, were internally helpful and solidary wth each other and at the same time engaged in vociferous warfare with rival groups, in the fight for resources. Their solidarity was based on mutual acquaintance, recognition, familiarity and collaboration

This is elaborated in the notion of ‘parochial altruism’ (de Dreu et al. 2014). That is the phenomenon that people are inclined to altruism within the group they feel to be a member of, while mistrusting outsiders. That yields an evolutionary puzzle. It is conducive tot trust and solidarity within the group, but genes are owned by the individual, not the group. The danger in a trusting society is that it will be invaded by opportunist outsiders who ultimately gain ascendance, due to better individual survival. It is true, as demonstrated in the game of hawk

and dove, that after a while, when the number of collaborators (doves) dwindles, the opportunists (hawks) begin to lose victims, and a balance between collaborators and opportunists may arise, and not all collaborators die out. But identification of malevolent outsiders, and punishment by a sufficient number, at a cost to themselves, is a remedy to maintain a wider society of cooperators. Here lies the source of discrimination and exclusion of certain immigrants.

This hampers the positive value of diversity, as a source of a variety of scarce resources, in exchange, but there is more to it. If the human being is indeed a social being, constituted in interaction with others, it thrives on opposition from the other, in order to be more free of prejudice and ignorance. All thinking is limited because it requires the enabling constraint of thinking 'in one direction, not another', in a similar way that one cannot look in all directions at the same time. In other words, thought is always biased, and the best opportunity one has of escaping that bias is opposition from someone else with a different view of things. That is why diversity is good for innovation. The solution to prejudice of outsiders is to broaden the boundary of the group one considers oneself to be a member of.

In contrast with the utilitarian ethics of Bentham and followers, another system is the deontological or duty ethics of Immanuel Kant. While utilitarianism looks only at outcomes, in terms of utility, Kantian ethics disregards outcomes, in principle, and look at intentions. Best known is the 'categorical imperative': Follow only the maxim (guidance of behavior) that you would like to be a universal rule, applying always to everyone, as a new version of the ancient 'Golden Rule'. Here we again have the puzzle why people would always practice such a rule, when it may have disadvantages to themselves. An example is lying to escape a predicament. The rule is not an innate principle but a matter of rationality. If the consequence is useful or pleasurable, that is a bonus, but not the reason for doing it. I find that difficult to accept, because in my view what you should do or not depends on the situation. I might lie to save a life or not insult someone. Nevertheless it is impressive in that reason conquers the impulse of desire, and in that sense it is a manifestation of freedom.

Another ethics is the virtue ethics, going back to Aristotle, but also going beyond him.

Virtues

Virtues are character traits, dispositions to action, which may be conscious or not. Like other evaluations, ethical judgement is partly habitual, even subconscious, in a compromise between efficiency and the quality of judgement (Woo, 1992, p. 6.). The four classical virtues, going back to Plato and Aristotle are: reason, courage, moderation and justice. Reason, or reasonableness, is needed for everything. Courage is needed to accept the risk and uncertainties of activity and relationships, and to have trust. It is needed to sustain your role as someone on whom reliance can be placed, as part of friendship, accepting the risk of harm in care and concern (MacIntyre, 2007, p.123). I have argued (Nooteboom 2019) that, in contrast with economists who claimed that trust is not viable under the competition in markets and is to be reserved for personal relations of family and friends (Williamson 1993), trust is necessary in markets, as a leap of faith (Moellering 2009) to engage in relations, which are most uncertain when they aim to connect complementary competencies, for the sake of quality or innovation. Moderation is required to give some room in income and wealth to others than the rich, in view of the diminishing returns for the rich and benevolence and a sense of justice.

Other virtues are more or less related to the four main ones. Telling the truth, for example, is related to reason; self-control and patience are related to moderation; friendliness to justice and moderation; resilience and perseverance to courage; hospitality, generosity and magnanimity perhaps to justice. Aristotle even mentioned humour as a virtue (Aristotle 1999, p. 68).

For Aristotle virtues are needed for the good life, as a purpose and as an activity with intrinsic value, value in conducting oneself according to virtues. MacIntyre (2007) distinguished between 'external and internal' goods. External goods lie in the utility of a certain conduct, in its outcome, such as money, fame, power, position, or respectability. Internal goods lie in the intrinsic value of an activity.

For Aristotle ethics is a practical affair, with 'phronesis', a judgement that takes into account variable conditions, allowing for no Platonic universals. All ethical actions have the goal of happiness, some have a proximate goal of utility, in producing happiness, some have intrinsic value of happiness, a value in themselves, such as playing music. Aristotle added the intrinsic, internal good to the external, the merely utilitarian.

Virtues and their enactment should refer to life as a whole, called *eudaimonia*, in a process of development, in which one is constituted, in being the person one wants to be, not an accumulation of happy moments of pleasure. As a result, virtues fit in a story, a narrative, of one's life (MacIntyre, p. 210).

Moral judgement has to take into account the exigencies of any particular situation. That is the notion of practical wisdom, *phronesis*. That is counter to Hume's notion that virtuous behaviour, as any action, is primarily a matter of feelings, not reason. The practice of phronesis requires reason, in considering conditions that may explain, and perhaps justify, a seemingly unethical action. Reason is also needed to limit excessive impulse.

There has been an effort, in the history of ideas, to find an absolute, universal and fixed Platonic ethics and virtues, applying everywhere, under all circumstances and for everybody. The fear of relativisation, the lack of such universals, is that it may derail in arbitrariness, excuses, self-interest and special interests.

In the evolution of humanity, cooperation, corresponding interdependence, and its attendant morality, is a universal, to the point that next to variety generation, selection and transmission, cooperation now seems to become a fourth principle of evolution, in the emerging field of sociobiology, or biosociology, or evolutionary sociology. The innate disposition towards trust, fairness, and forbearance, inherited from evolution, discussed before, is universal, except for sociopaths and psychopaths. That does however entail a general disposition that assumes different forms in different circumstances of culture, location, and climate.

Universal also seems to be the 'Golden rule' that arose in the 'axial age' of between 900 and 200 years B.C., in Hinduism, Buddhism, Jewish monotheism, Daoism, and Confucianism, proclaiming that 'One should (not) do to others that one (does not) want(s) done to oneself' (Armstrong 1993). The cardinal virtues of reason, courage, moderation and justice are fairly general if not universal.

However, more widely, the absolute, the universal is an illusion. The specifics of ethics depend on culture, on circumstances and on the individual and his profession, and those change in time, as shown in anthropological literature (Lisberg et al. 2015). As said before,

moral sense is largely pre-wired, yielding specific forms as a function of circumstance. One may have several, conflicting obligations, necessitating a choice. A doctor has different virtues from an architect, climate change requires a shift of virtues. There are empirical and theoretical arguments for this claim. There are great differences between philosophers, in different times and at the same time, with different views concerning the role of virtues, the list of virtues and their rank order, even in the West, not including Eastern or native American views (MacIntyre). A theoretical argument is that virtues serve the good life, and different societies have different views on that. In Homeric times virtues concerned good conduct according to one's social position, such as father of a family, soldier, athlete, ruler. There still is some of that, in the ethics peculiar to professions. With Aristotle, virtues concerned good conduct as a member of the Athenian polis. There are virtues of a good Christian. There are differences between an individualistic and a communitarian culture. One imbues the virtues considered salient in upbringing, education, practice of a profession, etc.

Nevertheless, there are also similarities in tendencies of the ability and drive to develop virtues. And some of the virtues, such as the four cardinal virtues, are quite general and widespread. Everyone favours the use of reason, in prudence and being reasonable, and justice, although the issue always is, in the opposition of political right and left, whether this is justice in the form of deserts, with low taxes, or of needs, with higher taxes and the distribution of income. Associated with this, views vary on the desirability of moderation and courage, with some people and cultures valuing security more. The variation also appears in the professions and careers that people choose.

My view is largely Aristotelian (Aristotle 1999), but not completely. Aristotle, following Plato, held that there can be no conflict between virtues. I think that there can be, between the virtues of courage and justice, for example, when a courageous entrepreneur creates a failing innovation, causing damage.

For another example, consider the scientist who feels compelled to go for the reputational good of highly cited, often fashionable publications, in order to obtain time for research and a career, more than to go for the internal goods of contributing to insight and enjoying the pleasure of that and of the skills needed for it, and the challenge involved.

Secondly, I think that some relevant virtues are missing in Aristotle, such as the Christian virtues of forgiveness and charity, faith and love. Love here is love of people in general, 'agape', rather than desire (eros) or philia (loving friendship).

One may have conflicting loyalties, as between job and family, and exigencies of circumstances. I think that is part of Aristotelian *phronesis*. Suppose you are walking along a canal, with your little daughter by hand. You see someone drowning and feel you should dive to the rescue, but you are wary to leave your daughter alone on the slippery slope. And suppose that as an entrepreneur you have to choose between firing people and letting your firm go broke?

Also, one should keep in mind Mandeville's warning that virtues might suppress initiative and thymos too much, which can harm society. Thymos is the urge to manifest oneself. It is also called 'conatus', and considered by some to be the main driver of conduct. Plato gave the metaphor of reason as a charioteer holding in check two wild horses of eros and thymos. I think they are not necessarily bad, and should not be brought to a standstill. Thymos is found among entrepreneurs, and scholars or scientists, who wish to engage in the challenge of realizing their ideas, often to the benefit of society. In a recent book on identity, Fukuyama

(1018) claimed that the urge to fame is due to thymos. I think that undervalues the entrepreneur or scientist who is driven to engage in a challenge of creation or discovery, regardless of fame.

One should, in my view, also consider Nietzsche's (2013) claim that virtues, such as pity and charity, are a ploy from the will to power of the weak and suppressed to control and to take vengeance on the strong and dominant. The problem with that is, however, that it leads to a fully self-centred, solipsist ethics. That, I argued (Nooteboom 2002), is not viable because the individual is social, constituted in relations with others. All knowledge is partial. You cannot look in a certain direction and in all other directions at the same time. Hence one needs the views of others to complement and correct one's own view.

In sum, while the disposition towards morality and some ethical principles are universal, specific virtues are multiple and varied, and depend on culture, personal perspective of the good life, profession, and circumstance. They can serve as a support or as a complement to institutional rules. Their advantage is that unlike the duty of rules they can be voluntary, appealing to conviction. They are not to be imposed but argued, with options to be taught in education and training

Causality

If institutions and virtues guide behaviour, let us see how they play a role in a causality of behaviour, and how different these roles are. Aristotle held a view of a multiple causality of behaviour, with the efficient cause being the agent (the carpenter, say), the final cause the goal or aim (being an independent agent, free from coercion, earning a living, achieving power or wealth), material cause as the matter operated on or with (the carpenter's wood, say), the formal cause (the carpenter's skill and technology), the conditional cause (external conditions on which activity depends) and the exemplary cause (design or model to be followed).

Aristotle made the mistake of assigning a final cause to nature, which was dealt a death blow by Francis Bacon and the development of physics. Since then causality developed into a mechanical process, such as colliding billiard balls, and then a purely formal consistent succession of cause and effect. An irony of the history of ideas is that economists strive for mechanical causality in equilibria of supply and demand, while Aristotelian multiple causality, including the final cause, is eminently fit to deal with human action in the economy, with markets and institutions as conditional causes. In the 18th century David Hume showed that regular succession does not prove a law, since there is no logical necessity of the uniformity of nature, with ongoing succession. To accept a regularity as lawlike, one needs to adduce a causal process that is plausible in the sense of aligning with what is accepted in the results of science (Nooteboom, 1993).

Institutions as rules of the game are clearly part of the conditional cause. So is the exemplary cause, giving an example to be followed. The final cause is clearly not a rule, though it may be a habit, but more a spontaneous drive, akin to a virtue. The material and formal causes may be self-made or adopted from the environment. The formal cause may be like a rule or habit, imposed by training or a profession or may be spontaneous, developed by the actor, like a virtue. The multiple causality may be used to distinguish virtues from institutions or to distinguish between different institutions.

An objection that has been raised against Aristotelian multiple causality is that it is not ‘fundamental’ enough, in the view of reductionists who think only the deepest, most fundamental causality counts. In cognitive science, for example, explanations should be in terms of the functioning of neurons. But why stop there, and not go on to molecules, atoms, quarks, and so on, down to a level we no longer understand, in relativity theory and quantum mechanics? Explanation can be ‘vertical’, in reduction, or ‘horizontal’, in adding complementary perspectives. For example, suppose we want to explain the functioning of a scientific group. Vertically, one can investigate cognitive processes that underlie mutual (mis)understanding. Horizontally, one can add a perspective of the effects of the network structure of relations between the scientists, or effects of rivalry and reputation.

Reliance and trust

Table 1. sources of intentional reliability

	OUTSIDE	INSIDE	
CONTROL (institutions)	<i>narrowing the space of conduct</i> <i>affecting choice</i> contract, reputation	authority, directives, incentives, hostages	US
TRUST (ethics)	general trust, morality	private trust: family, clan, friendship	

Japan

The analysis helps to understand the difference between reliance and trust. When considering trust one should distinguish between competence trust, in the technical ability to satisfy expectations connected with tacit or explicit agreements, and intentional trust to do so to the best of one’s ability. Reliability can be based on control or on trustworthiness, beyond control.

For the sources of reliability, see Table 1, derived from Nooteboom (2002). This concerns intentional, not competence trust. Table 1. shows the sources of intentional reliability, outside and inside the relationship.

In the left half of the table one finds factors outside the relationship, on the right factors within the relationship. In the top half of the table one finds control, by means of institutions. This has two forms: affecting the scope, the room, for action, by contract (outside) or authority (inside), and affecting the choice of action within that space, by reputation, outside the relation (on the golf course for example), or incentives, inside the relation. In the top left one finds contracts, on the basis of the institution of the law. The drawbacks of contracts is that they take time and can be costly and can signal distrust which calls forth reciprocal distrust, which once settled is difficult to remove. That is not necessarily the case, since contract may be devised for technical reasons, not to prevent oppotunism, to document who is to do what (Klein Woolthuis et al. 2005). In the top left one also finds reputation. Reputation is a matter of self-interest: one behaves well not to ruin the chance of a fruitful relation in the future, in the present relationship or another. It requires a reputation mechanism, implemented by some intermediary such as the bookkeeper, or an industry association, or the golf course,

that is considered to be trustworthy in its competence to judge, to separate gossip from true reports on unreliability, and in its intention to do so fairly.

In the top right one finds the institution of organization, with a hierarchy, issuing directives and giving incentives, and the instrument of hostages, defined as something of value to the hostage giver but not the hostage taker, so that the latter will not hesitate to destroy the hostage when its giver does not honour obligations. It is an ancient instrument, with kings giving nobles from the court or family members as hostages. Now it can take the form of competition-sensitive information that can be divulged, or members of the labour force that are held hostage.

Beyond control by institutions there is trust, beyond self interest, based on ethics, outside the relation, in general trust, as a matter of culture, or inside the relation, as a private bonding on the basis of (extended) family, or clan or friendship.

The table can be used for the diagnosis of a relation, seeing what sources of trust are absent and present, and for therapy, seeking to add new sources.

There is also the possibility of go-betweens (Nooteboom 2002). They can serve to break through emotional deadlocks, and put deliberation on a more sober, rational track than the emotional suspicions that often accompany relations. Relations are often governed by unjustified suspicions, especially in case of the the 'Calimero Syndrome' of a small, vulnerable partner, who is overly suspicious because of it, residing in a 'loss frame', expecting and seeing opportunism everywhere. The go-between can relieve unjustified suspicions. He can advise on how to proceed in deliberation. He can serve as a guarantor or monitor, instead of a contract. This may have the advantage of the go-between safekeeping sensitive information, rather than divulging it in a contract, with the risk of it 'spilling over'.

The scheme can also be used to understand differences between countries. It has been used, for example, for a comparison of trust between the US and Japan (Nooteboom 2019b). In the US trust is based on contract and reputation. A disadvantage of that is that it is expensive, yielding high transaction costs, and slow. As Fukuyama (1995) claimed, the US has low generalized trust. But while he also claimed that Japan is a 'high trust society', the Japanese researchers Yamagishi en Yamagishi (1994) showed that generalised trust in Japan is low. There, relationships in business are based on hierarchy and bonding in family and clans. The disadvantage of that is that relationships are locked into such clans, excluding variety from outside, which can be bad for innovation. In the Netherlands I think that all sources are in play, with hierarchy being relatively weak. In Both Japan and the Netherlands, American governance is being adopted more than in the past, in a juridification of relations, in contracts and litigation.

How to start and end a relationship? Suppose the partner is unknown, so that reputation does not work. One may be tempted to start with a contract, but that runs the risk of setting the relation off on the foot of distrust, which is difficult to turn around. If one has the time, one may start with small investments and up the ante as trust grows. An alternative is to call in the help of an experienced go-between.

The problem is especially acute if the relation requires 'specific investments', which are dedicated to the partner and lose value when the relationship breaks. Such investments arise to enhance quality and enable cooperation in the endeavour of Schumpeterian 'novel

combinations' of innovation. This creates dependence that the partner may utilize to gain leverage in negotiation, with the threat of exiting from the relation, leaving the partner with a useless investment. A solution is to share the property, and with it the risk of the investment. Also, one needs to be confident that the relation will last sufficiently long to recoup the investment. This goes against the rhetoric of maximum flexibility, and instead goes for optimal flexibility. Relations should last sufficiently long to elicit specific investments, but not so long as to create rigidity.

Another question, at least as important but seldom asked, is how to end a relationship. One way is to prepare one's departure in secret, on the sly, no longer making specific investments, and taking the time to seek a new partner. The motive for doing this is not to give the partner time and opportunity to try and keep him from leaving. It is a well known phenomenon in behavioral economics that people act more extremely when they stand to lose something of value, in a 'loss frame', than when they set out to gain something. It is known from social psychology and behavioral economics that people in such a frame of mind are prone to more extreme behaviour than when standing to gain in a relationship. People are known to try and tie down their partner in front of a judge while they do not stand a chance. The alternative is to timely announce one's departure, to let the partner make no more specific investments and allow for more preparation, and promise to help find a new partner. The risk is that thereby one allows time for the partner to resist. But if the relation was one of give and take and trust, the approach of secret preparations of selfish exit would be unexpected, would not be seen as in good faith, and might evoke a vociferous response, damaging one's reputation.

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