



Adam Smith and Confucius

A Tour d'Horizon Towards a Transcultural Foundation of Institutions

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Abstract

Recently, economists have re-discovered the fact of the cultural embeddedness of institutions. This raises the question whether there are transcultural universals of institutions and institutional design. The paper proposes that such universals cannot possibly be empirical givens, but have to be continuously created through transcultural discourse. I take a first step by putting family resemblances in the moral and social philosophy of Adam Smith and the Confucians into the context of the evolution of Western culture and economics. The tour d'horizon starts with the thesis that the biased perception of Smith (neglecting the moral philosopher) in economics mirrors its cultural embeddedness into what sociologist Norbert Elias has called the "homo clausus" construct in Western societies. I continue with a survey of most recent research in behavioral, institutional, and evolutionary economics which clearly prove the fallacies of the "homo clausus" assumptions of individual autonomy. This explains the recent revival of interest in the "Theory of Moral Sentiments" on part of economists. Indeed, many Smithian insights can be supported by the recent advances in economic research. One fascinating implication is that opening up a transcultural discourse between Western and Eastern moral philosophy might show the way towards a transcultural foundation of institutions. A number of "family resemblances" between Smith and Confucius are presented. I conclude by highlighting some contentious issues between China and the West in the global economy, where the transition to a moral economy with Smithian and Confucian foundations might help to find workable solutions.

Keywords: Adam Smith, Theory of Moral Sentiments, behavioral and experimental economics, institutional convergence in the global economy, cultural embeddedness of economics, Confucianism.

JEL classification: A13, B00, B31, Z10

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1. Constructing a transcultural foundation of institutions through transcultural dialogue

Today, economic globalization and culture seem to drift apart. Whereas the economic forces apparently cause a strong trend of institutional convergence towards the liberal conception of a free market economy, cultural forces are frequently perceived to trigger inter-societal conflict and divergence. The prevailing opinion in the western world is that this is by no means a necessary conflict, because if only a basic level of secularization and adherence to human rights is attained in every society, cultural divergence and economic convergence might not only coexist, but even might reinforce each other, once cultural diversity is conceived as cultural capital and, hence, as a factor in competitive advantage. However, the paradox remains if this very “basic level” already presupposes a convergence towards particular values and cultural standards. The answer to this question hinges upon some fundamental beliefs about the nature of institutions, namely whether they are mere socio-technological devices to achieve certain levels of economic efficiency, or whether they are deeply enmeshed with ethical notions about justice, legitimacy and sancticity. The conceptual troubles begin with realizing that precisely those beliefs are in turn dependent on the cultural framework.

Thus, an important task is to define certain transcultural universals which might provide the basis for institutional convergence in the global economy. In this paper, I wish to tackle this question in the form of an essay, and less a fully-fledged academic paper. The reason is that the identification of transcultural universals is a formidable task and methodologically daunting, because it requires a culture-free standard of comparisons across cultures.¹ At the same time, however, the question is whether this would be an appropriate approach at all.

Consider the following: If all people agreed on a certain transcultural universal, it would become one. That is to say, transcultural universals may not be a given “by nature”, such that research might unearth these stable and fixed determinants of human existence, but may be created via a continuous process of transcultural discourse. Thus, even from the viewpoint of economics as an academic discipline there are two different ways to approach the problem of transcultural universals: One is to identify such universals via theoretically grounded empirical research (such as in experimental economics, see Henrichs, 2000), and the other is to start a transcultural discourse in economics and about economics in order to create such universals.

¹ For example, Hofstede’s very influential system of measuring culture in a state space of universal properties had to be adapted to include another dimension which was extracted from the Chinese case, see Hofstede (1991: 195ff.). This raises the question whether standards of measurement are themselves culturally specific. Indeed, the leading Taiwanese psychologist Yang (1996) argued that the very system of locating psychological and behavioral traits of people need to be adapted to the culture in question. In economics, this problem is mostly papered over by using very crude classifications of cultures, sometimes just conflating their diversity into the polar categories of “individualism” and “collectivism” (e.g. Greif, 1994), which, of course, neatly fits into certain apologetics of the free enterprise system.

I opt for the second approach, because I am firmly convinced that culture by definition rests upon differences (Baecker, 2000), such that any empirical proof of transcultural universals can only result into identifying biological universals of humans (such as the ones treated by Konner, 2002), whereas cultural differences are always in flux and being constantly created and recreated by the cultural activity of humans. From that perspective, transcultural universals are an oxymoron, unless being understood as a dynamic category of transcultural communication. Correspondingly, transcultural universals cannot be immutable determinants of human behavior, but are cultural creations in a particular time and at a particular place. They may emerge as universals, but remain context-dependent. In economics, this emphasis on cultural creativity can only be found in some recent contributions to the American tradition of institutionalism (Jennings and Waller, 1994), in spite of being the standard in modern anthropological conceptions of culture, especially when dealing with the interaction between culture and globalization (Hannerz, 1992).

Against this background, I would argue that a quest for transcultural universals through empirical research is only a second-best approach, in particular if any conclusions for institutional design and economic policy are also aimed at. Instead, the main task is to start a transcultural discourse in order to construct such universals by agreement.²

In the following I will take two little events as a point of departure in order to contribute to such kind of a discourse between China and the West. In October 2006, a conference was held at the beautiful West Lake of Hangzhou City in China, which explored the conceptual and ideological “family resemblances” between Adam Smith and a particular school of Confucianism in Late Imperial China, the Zhedong School, which is notorious for its concentration on practical matters and its support of commerce, thus being viewed as one of the spiritual roots of the thriving private business in Zhejiang province (Wang and Zhu, 1996: 9ff.). As it happened, previously a monograph about Smith’s “Theory of Moral Sentiments” had been published in China (Luo, 2005). Why this interest in Adam Smith?

In Chinese intellectual circles there is a lot of concern about the effects of rapid economic growth on the moral and cultural foundations of society (Wang, 2002). There is the widespread belief that a moral reconstruction is needed to build a workable social and economic order (e.g. Zhang and Lin, 2001: 380ff.). In that context, Adam Smith is mostly regarded to be the father of the idea that social order might just result from the “invisible hand” coordinating the actions of self-interested people. Thus, moral behaviour and the market do not seem to be related at all. For many Chinese intellectuals, this is not an acceptable position, and seems to fly in the face of the brute facts of increasing social instability and corruption in Chinese society. For most Chinese, the even more far reaching assumption is utterly reproachable, that it is the market itself that generates sufficient incentives for moral behavior.³ Against this back-

² In the theory of intercultural communication, this has been dubbed the „Third Culture“ approach, see Casmir (1997; 1999).

³ Interestingly, a couple of years ago this author attended another conference on market and morals in China, which was devoted to the discussion of the book by Baurmann (1996) that was made accessible in Chinese translation. Baurmann builds a systematic argument in favour of endogenous morality in markets, and he identifies Adam Smith as one of the earliest pessimists about self-interest, thus proposing a radicalization of the “invisible hand” paradigm that transcends Smith. No wonder that this was difficult to accept for many Chinese participants. One of the leading liberal economists in China, Mao

ground, the recent revival of Confucianism in China is easy to understand, with the Chinese government even recognizing Confucius as an embodiment of certain fundamentals of Chinese culture by founding a great number of “Confucius Institutes” all around the globe.

The author of these lines contributed to the Hangzhou conference as the single Westerner. My original aim was to introduce to the Chinese debate “the other Adam Smith” of the “Theory of Moral Sentiments”, only to learn that the previously mentioned book was available to the public. In the West, the “other Adam Smith” is currently emerging from the narrow circles of historians of economic thought to the center of attention, when the foundations of economic science are reflected upon (Ashraf, Camerer and Loewenstein, 2005). In particular, the very issue of the behavioral foundations and the moral framework of economic action is now back to the cutting edge of research. Thus, the question arises whether at this historical juncture some transcultural universals may be defined which would allow to become pillars of a convergent design of economic institutions in globalization. This relates both to the fundamental principles how to evaluate institutions and to the more specific questions of institutional design.

My argument proceeds in three stages. I begin with the demonstration that the “amoral” Adam Smith as the founder of the economic research program is a mythical figure which mirrors certain cultural patterns in Western societies that emerged after the Middle Ages. This implies that economic science as it emerged after Smith is a culturally embedded phenomenon, too, reflecting what the sociologist Norbert Elias has dubbed the “homo clausus”. This is also very clear from the fact that alternative views of human behavior were driven into the so-called “non-mainstream”, such as, in particular, the Veblenian tradition in institutionalism, which in fact bears close resemblance to the “other Adam Smith”. I continue to argue that recent advances in behavioral economics, psychology and anthropology have clearly brought a much more complex view of human behavior back to the fore in economics, which implies that the “moral” Adam Smith has to be given proper credit in the reconstruction of economic science. This, however, opens up very interesting ways to reconcile western and eastern conceptions of society. I demonstrate this point by means of a discussion how close the moral Adam Smith is to crucial assumptions and normative ideas of Confucianism. I conclude with some thoughts on the possible implications for institutional design in economic and public policy, with special reference to some contentious issues between China and the West.

2. The cultural bias in interpreting Adam Smith

The editors of the magnificent Glasgow edition of Adam Smith’s works clearly exposed the fallacy of confronting the two pictures of Smith’s thought that emerge from the “Wealth of Nations” and the “Theory of Moral Sentiments” (Raphael and Macfie in Smith, 1759/1976: 20ff.). This had been dubbed the “Adam Smith problem” by Nineteenth century German economists. In a nutshell, the problem emerges from the observation that the WN seems to exclusively rely on the core concepts of invisible hand, self-interest and rule of law, and is

Yushi (1999), who founded the famous Unirule Institute of Economics, vigorously emphasizes the moral foundation of the market.

optimistic about the results of complex social coordination among self-interested rational agents, whereas the TMS proposes a much more complex theory of behavior, emphasizes moral constraints in achieving social harmony, and ends with pessimistic observations about the social effects of the pursuit of wealth. In contrast, Raphael and Macfie have shown that one has to distinguish neatly between the Smithian theory of motivation and his theory of moral judgement. Furthermore, many commentators have pointed out that this apparent contradiction evaporates at all, if we pay sufficient attention to the Smithian concern for evolutionary forces in driving social progress, which means that moral behavior and institutional framework are closely enmeshed with each other (Evensky, 2005). The Smith of WN is a theorist about civil society, and the Smith of the TMS elaborates on the moral and behavioral foundations of the civil society. From this perspective, Smith appears to be much less an economist than a social theorist.

Today, this view of Smith is almost universally accepted. However, if we look at the way how economics reconstructs its own intellectual history, the Smith of the TMS has been almost totally neglected. How did this happen? There are internal reasons and external ones. The internal reasons certainly may be identified with the concentration of the research issues in economics on a particular aspect of the seminal contributions of Smith. This has been made crystal-clear in Arrow and Hahn's (1971: vi) introduction to their "General Competitive Analysis", where they state:

"There is by now a long and fairly imposing line of economists from Adam Smith to the present who have sought to show that a decentralized economy motivated by self-interest and guided by price-signals would be compatible with a coherent disposition of economic resources that could be regarded, in a well-defined sense, as superior to a large class of possible alternative dispositions."

Indeed, since Ricardo the latest, economics did define itself precisely as the discipline which strives to explain social order and complexity based on a minimum set of behavioral assumptions, pairing conceptual parsimony with highly advanced formal methods. This research program clearly worked as a filter on the reception of Adam Smith, turning a blind eye to the TMS for a long time.

In this paper, I wish to attract more attention to the possible external factors that might have also determined this particular bias. Intellectual discourse in the 19th and the 20th century was dominated by the confrontation of under-socialized and over-socialized conceptions of human beings, driven by the development of the related theories especially in economics and sociology, as well as heightened by the translation of these theories into political ideologies. The methodology of economics consciously adopted the under-socialized view, which met with important currents in Western European political thought emphasizing individual autonomy as the source of all legitimate order.

As has been scrutinized in the far-ranging work of the sociologist Norbert Elias (1967), this under-socialized view of human being is rooted in a peculiarly western trend in cultural evolution. For this, Elias coined the word "homo clausus", encompassing both "homo sociologicus" and "homo economicus" (actually viewing both as "undersocialized" in the sense that homo, not homines, are taken as the starting point, *ibid.*: XLVIff.). This trend can be ob-

served on different levels, in everyday life as well as in philosophy and ideology. Summarizing the main aspects, we note that:

- Over centuries, western civilization fostered a process of individualization, for example, in eating habits or the social regulation of love and marriage, which is based on the increasing control of affects in wider social interactions. Individualization weakened the role of kinship and the extended family in social organization, and was further enhanced by the structural changes of Western societies during industrialization, which uprooted traditional ways of life in peasant societies. As a result, in modern Western societies the state and the individual directly confront each other in most areas of life, with a secular decline of intermediary social structures such as the family (von Ferber, 1984).
- This epitomizes the increasing juxtaposition of the individual and society, with the latter only emerging as a concept very late (Tenbruck, 1989: 187ff.). In both economics and sociology, this was condensed into a systems approach to social interaction, either in the sense of the coordinating system of the market or as the “Gesellschaft” as opposed to “Gemeinschaft”. “Gesellschaft” or “Great Society” was envisaged by towering thinkers such as Parsons or Hayek as the transition from affect-controlled states to affect-neutral states. Thus, the process of individualization was seen as being intrinsically related with the process of rationalization, which had been put into the center of Max Weber’s theory of Western cultural evolution, too (Bogner, 1989).
- As a result, the two realms of rationality and emotions became separated, in everyday life as well as in the scientific reflection about the human condition. Even though both have been affected by the individualization process, there was a convergence with the growth of scientific rationalism, culminating in Max Weber’s statement that irrational phenomena cannot be explained scientifically, as science is a rational endeavour, if it strives to generalizations (“types”, in Weber’s words). An entire social science, economics, was built on the assumption that all human behavior can be understood as rational choice under constraints. As a consequence, a belief transpired throughout society that institutions can be designed and implemented rationally, in order to achieve societal progress. Interestingly, this “rational-constructivistic” thinking runs across political ideologies, as is epitomized in the recent transition from the constructivistic planned economy to the constructivistic transformation according to the “Washington consensus”.
- Viewed against this macrosociological background, economics seems to be deeply rooted in some general characteristics of Western European culture, and developed into its apotheosis in Victorian economic thought. Interestingly, cultural diversity within Europe continued to manifest itself, especially in some continental efforts at maintaining a historic and holistic economic science, which had some intellectual similarities with the Scottish enlightenment. Yet, these “subcultural trends” never achieved to dominate the development of the social sciences, resulting into a “hundred years struggle” among mainstream economics and heterodox approaches.

No wonder, Adam Smith could not be read by economists in another fashion as being the founder of the rationalistic equilibrium approach in economics. This, however, led many commentators to leave him on the bookshelves of the history of economic thought, with a foremost critic such as Joseph Schumpeter (1965: 240ff.) who argued that Smith did not contribute much to the emergence of the research tradition of economics. Indeed, from the perspective of the neoclassical synthesis prevailing in the mid of the 20th century, Smith may have been one of the founders of economics, but his contribution precisely to this tradition is relatively minor and, of course, obsolete in the sense that his work contains many errors of early economic reasoning. Thus, in the economic reception of Smith commentators just carved out one piece of his work, as if he had already defined himself as a part of a tradition which only had emerged after him.

Thus, we see that internal and external factors contributed to the misperception of Adam Smith until most recent times, as far as economics is concerned. For economics, the consequences were clear: Economists concentrated on a particular kind of coordination mechanism, i.e. coordination via price signals among individual actors. The major dynamics of economic science resulted from the transfer of this methodology onto new fields, such as the economic theory of politics. Given the cultural frame, economics seems to have been favoured in the methodological competition among the social sciences, because at the same time it meets the scientific standards of ideals of quantification and formalization, and matches some fundamental cultural assumptions about the prevalence of the isolated individual in social order.

3. The evolutionary turn in economics and the Adam Smith revival

The new interest in Adam Smith, and in particular in the TMS, is closely related to the recent trend of “de-rationalizing” economics. This is a vast field and certainly familiar to the reader at least in parts, but I think it is useful to briefly summarize the main junctures of these changes. These can be summarized as the transitions

- from rational choice to rule-governed behavior,
- from the axiomatic approach to the empirical approach towards behavior,
- from the price-quantity framework to the embeddedness paradigm, and
- from the rationalist institutional choice paradigm to the coevolution of cognitive models and institutions.

These four transitions also open the eyes for the Adam Smith of the TMS.

For the first transition the evolutionary turn in game theory seems to be representative. After game theory had emerged as the major enlargement of the core equilibrium paradigm in economics, its difficulties in finally demonstrating the possibility of successful coordination among isolated rational actors became dangerous for the foundation of economics in general (Sugden 2001). The most straightforward solution to this problem was the introduction of evolutionary principles into game theory, which simply did away with the rational actor properly spoken, substituting it by replicating strategies (for a neat summary, see Gintis 2000: 188ff.). In evolutionary game theory, analysis concentrates on the evolution of populations of

decision rules, and not primarily of rationally chosen strategies of actors. Although this research program frequently describes itself as an alternative solution to the classical problems of equilibrium selection and coordination, one should be straight about the fundamental changes in the description of the human agent. Rules are population phenomena, and not properties of single agents. This implies that the system/individual interface is viewed in the opposite direction as in traditional economics: The rules govern individual behavior, and not the individuals the rules. However, as it is emphasized in Sugden's (2001) account, and is evident, for example, in Young's (1998) influential work, the main objective of the evolutionary approach remains to be the demonstration that in the long run, evolutionary processes converge against the equilibria of rational strategic interaction. This is because Nash equilibria still serve to identify the optima, the achievement of which is then modelled by an a-rational process (Mailath, 1998).

The second strand emerged out of the now-classical empirical research about the many fallacies and anomalies in rational choice. From this, entirely new economic disciplines have emerged, with experimental economics and behavioral economics at the cutting edge, and winning full recognition by the Nobel committee (Kahnemann, 2003). This implied a rehabilitation of empirical approaches to individual behavior, which do not only aim at reinstating the classical model of rationality, as in the revealed-preference approach. New concepts of rationality have emerged, dubbed "ecological rationality" by Smith (2003). Two main ideas in this research are the context-dependence of decisions and, similar to game theory, the enrichment of models of behavior by certain assumptions about behavioral rules, such as standards of fairness. This research is currently supporting an even more radical turn in economics, which moves it even closer to the natural sciences, while leaving the crude physicalism of neoclassical analysis behind. This is the emerging field of neuroeconomics (Camerer et al., 2005). All these efforts are still driven by the hope that eventually a unified model of behavior can be formulated, perhaps as an extension of rational choice. However, there are disturbing insights that human behavior itself is deeply fragmented, such that conceptual unification might be the wrong beacon under any circumstance. Furthermore, the concept of framing implies that human decision making is inherently interrelated with its social setting, because, for example, standards of fairness may reflect prevailing societal notions, condensed into culturally transmitted value systems (Bolton and Ockenfels, 2000; Henrich, 2000).

The third strand is driven on both the level of micro- and macroeconomic analysis. Here, economics treaded on new fields when asking how successful market coordination is possible at all. The gaps left by equilibrium thinking are increasingly filled by the concept of trust on the micro- and the concept of social capital on the macro-level. Trust is a behavioral tendency which cannot be explained by rational choice, if only because of the fundamental paradox that any kind of trust given, if explainable on rational terms, will become shaky ground for the receiver (Hollis, 1998; Nooteboom, 2002). Only unconditional trust is trusted. Both trust and social capital highlight the fact of the embeddedness of market action into fields of social interaction, such as social networks, moral norms and institutional patterns (Platteau, 1994). This imposes constraints on the rational design of institutions, because even if formal institutions such as laws can be changed by rational actors, this may prove to be almost impossible with regard to social norms and other societal practices deeply rooted in everyday life. Suc-

cess and failure in development may depend on rational design as well as on peculiar features of the embeddedness of the market system, so that the long-run divergence of institutions and performance is a necessary result. Even if one were to adhere to the paradigm of rational choice, social structure becomes an irreducible determinant of social outcomes at a particular point of time (Greif, 1994). Economic change is therefore fundamentally determined by long-run evolutionary trends which cannot be reasonably reduced to rational individual design.

Thus, it has become clear that real-world institutional choice is not fully reducible to actions of the rational benevolent dictator or the equilibria achievable by bargains among rationally self-interested pressure groups. As a fourth strand of thought, economists have begun to recognize the simple fact that interests need to be defined within the setting of ideas, and that “ideational choice” is a non-starter. This recognition has resulted into the emerging cognitive paradigm of (in that case, mostly “new”) institutional economics, which assigns a pivotal role in institutional change to the ideas, ideologies and belief systems people adhere to (Mantzavinos, 2001; North, 2005). In the end, this opens cross-linkages to the micro-analysis of behavior via the “framing” concept and even the neuroeconomic research, because cognitive models may operate according to some general principles of cognition that go far beyond the rational choice paradigm (Schlicht, 1998). The bridging concept is culture, so that the old fissures between mainstream approaches in institutional analysis and institutional economics become obsolete.

To summarize, economics is becoming much more pluralist in terms of its paradigmatic approach, and increasingly the borderlines between “mainstream” and “heterodox economics” become blurred (Davis, 2006). Today, the “mainstream” is mainly defined by certain methodological predilections (quantification, mathematical modelling), and less by a set of axiomatic presuppositions fixing the “economic approach”. One important trend should be noted in our context: The “homo clausus” seems to be in retreat in favour of an emerging paradigm that takes the pre-choice interdependence and correlations among individuals into consideration, a tendency which is reflected both in abstract formalism (such as mechanisms of strategy correlation, see Skyrms, 2004) and in the increasing mutual penetration of economics and sociology (such as in the concept of the social determination of economic agents’ roles as identities, see Akerlof and Kranton, 2005).

How does all this relate to Adam Smith? To begin with, all these trends entail the conclusion that some kind of moral behavior is intrinsic to humans, and that this is also a determinant for successful coordination on markets. In other words, empirical research into human behavior converges with theoretical results about the necessary and sufficient conditions of workable market systems. This is precisely the solution to the Adam Smith problem.⁴ On the one hand, the WN explores into the nature of an economic system which might be especially conducive to the accumulation of wealth and the creation of a peaceful society. This is a top-down approach, which matches the bottom up approach focusing on individual behavior in the TMS (Sugden, 2002). The meeting point between both is the fit between the natural equipment of human beings with some moral inclinations on the one hand, and the necessary conditions of

⁴ Smith has an explicit reasoning on that when he discusses the possible contradiction between the design of a law-maker and the “principle of motion” on part of the members of society, see TMS VI.ii.2.18.

an ideal-typical economic system on the other. This is clearly different from another assumption, namely that the economic system will produce its moral foundations endogenously, just taking rationally self-interested agents as a given (Baurmann, 1996). Adam Smith's point is that these moral foundations come about with human nature.

From that perspective, the four strands identified above converge with Adam Smith's naturalistic approach to economics, which is the counter-program to the axiomatic approach that dominated since Ricardian times. This naturalistic approach is very close to evolutionary side-streams in economics which grew stronger in the recent two decades.⁵ In this sense, Adam Smith seems to stand in the middle of important forces of convergence between mainstream and non-mainstream approaches in economics. A careful note on the meaning of "naturalistic" seems to be appropriate here. Naturalistic does not necessarily restrict the analysis of human behavior to approaches close to the natural sciences, with the most extreme position being biological reductionism. Together with Smith, the focus on human nature means that research concentrates on empirically observable facts, which at the same time can be given a meaningful interpretation by human thought. The latter, of course, includes the cultural and societal setting of human action, so that a naturalistic approach includes the cultural sciences, insofar as they adopt an empirical stance.⁶

To move on to a level of more detail, the following elements of the TMS concur with some most important insights of the newest vintage of a naturalistic economics.

Smith's theory of the individual is cutting edge in a threefold sense:

- Smith analyzes human behavior in terms of the dynamics of equilibration between different behavioral drives, the "passions", and cognitive processes, the spectator. He anticipates "post-Cartesian" approaches to the human mind that locate the crucial function of cognitive evaluation in the emotional realm (Damasio, 1995). This converges with the recent rehabilitation of emotions in economic theorizing (Frank, 1988; Elster, 1998).
- Smith perceives cognitive processes to link up with social context via the specific construction of the "spectator", who is by definition "the other" in the sense of a third party.⁷ The cognitive process appears to be an ongoing refinement of this interaction

⁵ In modern evolutionary economics, naturalism seems to be closely related to the concept of „Universal Darwinism“, see Hodgson (2002). Of course, Adam Smith is a pre-Darwinian thinker who takes "Nature" as equivalent to the Creator. Hodgson (1999) repeatedly emphasizes that Veblen is the first economist who adopted a Darwinian approach to economics. Thus, it is important to note that Veblen might serve as a link between Adam Smith's naturalism and modern conceptions of Darwinism, because there are many similarities between Veblen's conceptual framework and Smith's, such as, for example, the "instincts" and the "passions", or the treatment of status.

⁶ Following Richerson and Boyd (2005), that would mean to treat the capacity for culture as a human universal with adaptive advantages in the biological sense. However, this approach does not imply that culture is reducible to biological processes in the sense of sociobiology, because human cultural creativity drives a wedge between biological adaptation and the cultural phenotype. I extend this naturalistic approach to include cultural hermeneutics in the sense of Jennings and Waller (1994) in the sense that meanings are part and parcel of human life, and therefore are a legitimate object of any empirical approach to human behavior. Hence, naturalism is not identical with applying natural science methods exclusively, because understanding meanings requires the application of methods of the cultural sciences proper.

⁷ It is important to note that the "third party" as observer, though being prominent in economic views about the law, does not exist in foundational approaches to social interaction as envisaged by econom-

between the positions of the observer and the observed via deliberation. The object of deliberation are some innate conceptions of the other, which means that he proposes a non-reductionist naturalistic approach, which assigns culture as a repertoire of cognitive tools a crucial role. Thus, mental processes are inextricably enmeshed with external symbolic communication.

- He assumes that deliberation is linked up with institutional development, such that institutions stabilize the results of the aforementioned deliberative process. Thus, institutions and culture assume the function of scaffolding individual decisions (Ross, 2005; North, 2005). There is a two-way road between institutions and individuals, implying a co-evolution (Bowles, 1998).

All this presages that the age of the “homo clausus” has come to an end, spanning the time short after Smith until nowadays. Thus, it is appropriate for current research to go back to the roots, whilst working at the cutting edge.

An important fundamental result of the recent research in evolutionary psychology and the brain sciences is the acceptance of the modularization of the brain (Cohen, 2005), which confirms Smith’s ideas. The brain is not any longer conceived as a cognitive apparatus governed by some central coordinative agency, but as a system of systems which interact with each other.⁸ This leads towards the requirement to develop economic approaches that dissolve the rational individual into several modules of decision-making which follow different rules and which need to balance out in achieving consistent behavior, with many opportunities for internal conflict and, hence, inconsistent behavior through time; so that the challenge is to explain the individual, not to regard it as a given (Ross, 2005). This pluralistic approach to human choice is very close to Smith’s view of the different passions which struggle to control human action.

Smith even developed an early conception of the interaction between emotions and cognition, if we are ready to conceive his “spectator” as the realm of cognitive reflection, operating closely enmeshed with the “passions”. Indeed, the brain sciences have also lent support to this most crucial insight of Smith, namely that humans have a special mental capability to put themselves into the other’s shoes, which is at the same time the precondition to recognize oneself. Brain scientists even claim that there is a special area in the brain where this kind of reflective processes takes place, the so-called “theory of mind” module (Camerer et al., 2005: 33ff.).⁹ This is related to evolutionary explanations of the human mind as being especially adapted to solving problems of complex social interaction (Goody, 1995). This means, pas-

ics. Economics takes dyads as fundamental units, following the supply and demand archetype. This important lacuna was recently highlighted by Nooteboom’s (2006) edition of the German sociologist’s Georg Simmel’s 1908 paper on the triad. For Smith, the triad of two agents and one observer is fundamental to understand human behavior.

⁸ Edelman (1988) developed this „re-entrant signalling“ approach to mental activity based on the application of Darwinian principles on the neuronal system of the brain. The brain is conceived as a complex hierarchical system of competing neuronal groups which are constantly interacting. For a summary and evaluation, see Edelman and Tononi (1995) and Sacks (1995). Interestingly, this approach is very close to Hayek’s ideas about the “sensory order”, thus establishing a linkage to one of the 20th century most prominent economists; see Herrmann-Pillath (1992) and Steele (2002).

⁹ In Edelman’s approach (see footnote 8) meaningful brain activity is ultimately related to interaction between brains, i.e. the social framework.

sions and reflection always interact in a complex way to produce the final behavior of an individual, and via the “spectator” the behavioral foundations for morals are laid down. The identity of an human individual cannot be separated from the human capability to evaluate emotional states in a manifold of possible perspectives. This capability is fundamentally social in nature, so that the individual emerges as a social entity.¹⁰

Remarkably, this capability is itself a complex construct out of emotions and cognitions, because Smith identifies a sentiment that supports the bridge to the other, namely sympathy, although we will see that it is much more complicated than the recent views distilled from behavioral research, which straightforwardly equate it with “altruism” (Ashraf et al., 2005). Suffice to note now that sympathy certainly is a basis for altruistic action, which, however, Smith himself would denote as “benevolence” or “beneficence” (e.g. TMS VI.ii.3.1). Many debates about altruism suffer from a clear definition of the terms. In our context, it is especially important to understand that primordial trust is irreducible to rational choice in the strict sense, and hence has to be counted as an act of altruism (Field, 2001). This is because every trust-giving without previous interaction and without a binding commitment to infinite future interaction is bound to be impossible by rational actors, who would leave the right to deviate to the other, thereby offering the other an opportunity to take opportunistic advantage without any possibility to retaliate. In Smith’s approach, this is possible because of sympathy, especially in conjunction with the spectator (who do not yet need to be the impartial one). If we look at the trust-giving relation from the viewpoint of the receiver, she would understand the resentment of the trust-giving person by means of sympathy, and she would feel some pleasure about this very fact of mutual understanding. Furthermore, she would balance the two perspectives from the viewpoint of a third spectator, ending up with a strong feeling of disapproval of hurting the trust given by others. This mental process is also accessible to the sympathy of the trust-giving person, so that eventually both sides converge on a pattern of coordination based on primordial trust as altruistic action. Hence, modern conceptions of trust can be clearly related to Smithian thinking. However, Smith’s ideas are certainly much more complex than simply assuming “altruism”, because he relies on even more fundamental universals of human sociality, namely the satisfaction rendered by experiencing togetherness, i.e. the joy about sympathy (Sugden, 2002).

Altruism may also be involved in the strong tendency of humans to incur the costs of punishing others for deviant behavior, even if they are not directly affected by the deviant action (Bowles, 2004: 436ff.). This kind of moral outrage seems to be an important condition for the stabilization of social norms in general. Adam Smith can explain this as a result of natural involvement of the spectators in the resentment of others through sympathy. For example, the observer of a deviant action damaging other parties may feel sympathy with the resentment of the damaged, so that a behavioral drive emerges to participate in retaliation. This kind of

¹⁰ A fully-fledged exposition of this idea is Davis (2003). Davis argues that within the framework of the conventional methodological individualism in economics it is impossible to solve the two basic problems of individuation and re-identification, i.e. distinguishing among different individuals and preserving identity through time. This is only possible via self-referent behavior in the context of collective intentionality. Following Tuomela (1995), this does not imply to postulate collective entities, but the cognitive self-ascription of individuals towards a “we”. This fits the Smithian approach very well, because Smith does not simply assume the collectivity as the spectator, but describes how the spectator is emerging out of social interaction among individuals.

moral concern is governed by notions of “propriety”, which is a core concept in the TMS (I.i.3.1ff.). Propriety results into sets of behavioral standards which balance interests and affections among groups of people who are mutually related via feelings of sympathy and via the common construction of the position of the spectator via the mutual recognition of perspectives. Propriety finally prepares the ground for the emergence of universalistic moral concerns.

Generally speaking, the clear experimental proof that humans have a strong notion of fairness directly fits the Smithian idea of sympathy (for a survey, see Camerer, 2003: Chapter 2). How can we explain that in the famous ultimatum and dictator games most individuals are ready to share much more than a rational self-interested individual would do? For Smith, just pointing to altruism would be much too easy indeed. Sympathy entails the ability of the givers to put themselves into the shoes of the other, hence becoming able to share the feeling of resentment that might arise from harsh offers. The “warm glow” is not just the satisfaction from behaving altruistically, but comes up from the fact that the mere ability to understand the other is a source of positive feelings. As a result, people would not just strike the rationally-self-interested deals, but converge on some notions of fairness.¹¹ Interestingly, the Smithian approach seems to meet with recent reconstructions of the simple sharing problem in evolutionary game theory (Skyrms, 1996). In the context of strategic rationality, voluntary sharing of the first mover is simply stupid. However, in a population with competing sharing strategies, clearly only the 50 percent sharing rule is evolutionary stable. But this still allows for so-called polymorphic equilibria with mixed strategies in the population: Optimal solutions can emerge if the strategies become correlated via workable mechanism of mutual recognition of cooperators. This kind of correlation is precisely the result of the cognitive dynamics of the Smithian spectator.

Through the transition from the spectator to the “impartial spectator”, the virtue of “justice” emerges (TMS II.i.5.11ff.). As has been emphasized by several commentators, Smith’s notion of justice does not argue from the viewpoint of its effects on society, but is also based on sympathy, namely sympathy with resentment (Schliesser, 2006). The virtue of justice arises from a purification of sympathy through being processed by the impartial spectator. The foundation of justice lies in the sympathy with the resentment of an aggrieved individual. However, whether this feeling is appropriate itself, can only be assessed by weighing the merits of the respective actions, which, of course, also involves a balancing with the sympathy for the actor and the aggrieved person. This is achieved by looking at the situation from the perspective of the impartial observer. Thus, the virtue of justice does not arise from some axiomatic deduction, but is an emergent property of the process of moral development, ending up in universalistic standards of approval and disapproval (Tugendhat, 2005). During the evolution of human societies, this is increasingly supported by an institutional framework that fixes values of justice. Indeed, Smith argues that social order at large cannot be sustained by benevolence, but only within a more neutral system of justice (TMS II.ii.3.2ff.). This is a crucial

¹¹ Camerer’s (2003: 101ff.) summary of the theoretical explanations which have been offered for the ultimatum game anomalies clearly shows how complex the cognitive and emotional interactions result to be. He favours reciprocity approaches in which the mutual perception of relative pay-offs matters, and in particular, where “kind” and “mean” behavior is assessed according to the relevant actors own standard, leading to reciprocating “kind” and “mean” behavior. This is very close to a possible Smithian explanation because this presupposes the capability to empathize with the other’s situation and feelings.

connection between the TMS and the WN (Evensky, 2005). From the viewpoint of modern theory, this seems to be closely related to the conclusion of theoretical research on the possibility of rational consent about social order, that social order can only arise from an evolutionary process which entails a co-evolution of individual preferences and the institutional framework (Sen 1995). The unsolvable dilemmas of rational agreement require the switch to an historical approach, which at the same time renders values context-dependent.

Finally, Smith has a theory of human motivation which is very different from the simple concept of self-interest (TMS I.iii.2.11ff.). He claims that humans are mainly concerned to enjoy the esteem by others, again based on the sympathetic web connecting their mutual recognition. That is, Smith has a theory of status preferences which is similar to Veblen's and which has been revived in economic approaches of recent vintage (Frank, 1985). Remarkably, Smith reduces the human pursuit of wealth on the craving for recognition by the others, which is also triggered by sympathy, i.e. by finding some enjoyment in understanding the feelings of recipients of high esteem. Somewhat similar to modern ideas about status preferences, Smith also emphasizes the dysfunctional features which result from the fact that between the observers and the status owners symbolic representations of status intervene. This opens up the possibility for deceit, in the sense that individuals might be able to accumulate the symbols of status without truly deserving it on moral terms of merit. As a result, the pursuit of wealth contributes to moral decay of society.¹²

Many other observations are possible, but I wish to stop here. The recent developments in economics clearly lead us back to Smith's original framework which unites moral behavior, self-interest, and workable economic institutions. This is the framework of a naturalistic economics both in terms of methodology and results. The crucial insight is to put an end to the "homo clausus" as a cultural construct that emerged in Western societies and which stood in the center of economic methodology for almost two centuries. Today, the individual has to be perceived as being embedded into the complex interactions of her social existence, which even constitutes her very existence as an individual. Moral behavior as rule-governed action is the natural outcome of this *conditio humana*.

4. Transcultural foundations of social order and the bridges between Smith and Confucius

Our previous analysis is very important for the reconstruction of the transcultural foundations of institutions in both the dimensions that we identified in the first section. One thing is that the naturalistic turn supports the view that economic behavior is culturally embedded, or even

¹² Many readers of TMS have pinpointed the apparent contradiction between the optimistic views in TMS (IV.1.3ff.) and TMS (I.iii.2.11ff.), the latter of which had only be added in the final edition. In the former, Smith has one of the famous mentionings of the "invisible hand" which ensures beneficial results for human society, while the individuals strive for reputation and fame beyond mere utility. Interestingly, this seems to foreshadow Veblen's ideas about the conflict between the two fundamental human drives of "sportsmanship" and "workmanship", i.e. the conflict between status competition and competition for technological efficiency and efficacy.

stronger, that economic behavior is a kind of cultural action; the other is that our reconstruction opens the way of a transcultural synthesis between the Smithian and the Confucian perspective.

Regarding the former, it seems to be important to point out that Smith transcends the current naturalistic approaches in economics because he clearly relates individual action to the social setting, in particular in the sense of the coevolution of moral behavior and institutions. As long as the modern behavioral economics approaches continue on their way towards the brain sciences, they are still reluctant to integrate the cultural dimension. For Smith, the inclusion of culture is evident in his emphasis on the spectator and central notions such as propriety. The spectator links the individual up with her social and cultural context and it translates the experience of passions and action into categories which can be communicated among human beings. Even more, the very conception of individual behavior is rooted in the social existence of humans. Thus, the clear difference between Smith's and modern naturalism is that Smith concentrates at least on humans as twosomes, whereas the very notion of the "brain" seems to support the tradition economic concept of "one-some" of humans.

This openness towards the cultural framework implies that the Smithian approach allows to integrate cross-cultural perspectives, even though Smith himself does not consider this, as he always has "Christianity" in mind when talking about human beings. Of course, when comparing notions of social order and moral behavior across cultures, we need to be very careful to distinguish between certain fundamental principles and historical contingencies. After all, two millenia separate Smith and Confucius, and there are important and significant differences between the European and the Chinese notions of social order, which are reflected in the thoughts of the great thinkers. In our context, this primarily refers to the central position of filial piety and the hierarchy in the family, which cannot be found in Smith's work. Indeed, the British Isles had already undergone a secular decline of the extended family (actually, Smith discusses the Scottish Highlands as a remnant of the past), which had been triggered by the Church's active suppression of traditional family norms already beginning a millenium before Smith writing (Goody, 1983). Since the Confucian thinkers assigned a pivotal role to the family for the stabilization of the social order, this results into significant differences in the entire intellectual edifice. However, as we shall see soon, there are points of contact between both even in this regard.

The other great difference is the role of magical thinking. After all, the Confucian tradition goes back on the tradition of magical advisorship in China, and even though Confucius himself certainly emphasized the secular context, later the fusion between Confucianism and, for example, Daoist ideas strengthened the magical foundations of Confucian thought again, leading to a cosmological vision of morality that was finally systematicized in Neo-Confucianism. Thus, religion makes a clear difference between Smithian and Confucian thought. Again, this negative assessment needs to be qualified to a certain extent in the course of the argument.

A dialogue among Smith and Confucius is possible, if we concentrate on some more fundamental philosophical concepts which are not immediately affected by the embedding social structure. There are two crucial observations. The first refers to naturalism, the second to the central Confucian term of "ren" 仁.

In Smith's thinking, naturalism has always two facets. One is to found observations about moral behavior on the analysis of human nature, and to refrain from using any dogmatic deduction from some eternal principles. This leads Smith to the clear recognition of the role of history in the emergence of moral behavior. The other use of the concept of "nature" is related to the belief that there is a natural order of things, which is grounded in God's design of the world. Again, we have this kind of meeting point between two levels of analysis, one is the empirical notion of behavior, the other the ideal-typical conception of a social system. This distinction is very close to classical Chinese thought, which was deeply concerned with the human nature and its harmony with the cosmological laws.

Confucian moralism started out from certain conceptions about human nature, which distinguished it from other schools of thought in Ancient China. Interestingly, we find two conflicting views which come very close to the two poles of the Adam Smith problem (compare Wu, 1967). Whereas the so-called "legalists" assumed that human nature is not intrinsically moral, the Confucians always believed that moral behavior is part and parcel of human existence; Menzius, in particular, emphasized the inherent goodness of human nature. The first position went hand in hand with the conviction that egoistic amoral people need to be guided by a system of sanctions and rewards to arrive at a proper behavior. The Confucians posited that moral development of the individual never takes place in isolation, so that the educational process in natural social units instills the individual with the proper norms. If we strip these ideas of their contingent cultural context (in Smith's case, Christianity, in the Chinese case, ancestor worship), we realize a strong affinity between Smith and Confucius, because both agree on the notion of natural roots of morality, as well as on the need to develop its sprouts through socialization.

The core notion is "ren". According to Chinese philologists (Ge 2001: 95ff.), the Chinese character of *ren* is a simplification of a combination of the two characters for "heart" and "body", with an erroneous transitory character which was then reduced to the combination of the character radical for "man" 人 and the character "two" 二. Western commentators frequently noted one of the definitions given by Confucius himself, which is "*ren* is love", however, they tended to overemphasize the Western interpretation of love.¹³ In fact, the meaning is to "understand the body through the heart", i.e. to access the others feelings through one's heart to arrive at harmony among people. Thus, we immediately realize that the Smithian concept of sympathy seems to be very akin to the fundamental Chinese conception of *ren*, so that it might almost serve as an ideal translation. The Chinese character makes the point very clear that human sociality always rests on the two-ness as a minimum unit.¹⁴ The same point is made by Adam Smith, when he argues that human existence is not possible at all in isolation (TMS III.1.3.).

According to Confucian thought, *ren* is central because it is the nurturing ground for moral development. As we have noted above, moral development starts in the inner circles of related

¹³ Interestingly, Chinese commentators such as Chan (1967: 33) tend to prefer more neutral translations, as "humanity" in his case.

¹⁴ A concise description of the consequences for Chinese social behavior until modern times is given by Gabrenya and Hwang (1995), who call this „relational personalism“. Metzger (1977) stresses "interdependence" as being the fundamental perspective of the Confucian view of human existence.

social groups, in particular the family. Although *ren* is a universal aspect of humanity, social relations are regarded to be naturally structured according to different degrees of closeness. It is the closer relations which work as a kind of moral incubator where human beings grow to become morally responsible subjects. The fundament is the natural inclination to adopt appropriate behavior towards the other because of the understanding of the different roles. That means, *ren* finds its first expression in treating fathers as fathers, brothers as brothers etc. Of course, this is the point of entry for the impact of the specific Chinese social structure on Confucian thought, which very much emphasized the hierarchical nature of these core relations. However, the favourable reception of the concept of *ren* by Western commentators goes back to the fact that in the end the Confucian scholars treated *ren* as a universal and equitable relation among human beings, even with adopting a critical distance to the family (Roetz, 1992: 92ff.). From this perspective, even though Smith does not pay much attention to the family, he has a very similar notion of moral development because he argues that sympathy is especially strong between related persons, and that the social functions of sympathy develop primarily in these contexts, to be transferred and enlarged during the moral development of the child (TMS VI.ii.I.I.). For that reason, Smith was not in favour of sending children to public schools, because of the ensuing loss of this educating role of the family.

On a more detailed level, the moral mechanisms springing from *ren* seem to be very similar to Smithian categories. There is a very neat difference between the moral prescriptions emerging from *ren* and Christian universal love, because Confucian morality is governed by the principle of reciprocity and the resulting difference between the time horizons framing the decisions of related people as compared with foreigners to each other. Indeed, reciprocal exchange may be regarded as a cultural foundation for Chinese society until most recently, as has been elaborated on in Lien's (1957) classic contribution.

In comparison, Smith's notion of morality does by no means presuppose unconditional Christian love. He offers a very sophisticated system of reciprocity underlying moral relations, which is most evident in one of his famous statements: "As to love our neighbors as we love ourselves is the great law of Christianity, so it is the great precept of nature to love ourselves only as we love our neighbor, or what comes to the same thing, as our neighbor is capable of loving us." (TMS I.i.5.5) Although he does not explicitly talk about the *quid pro quo*, reciprocity is the result of the process of weighing merits and demerits through the eyes of the spectator. In this process, it is the individual herself who draws the balance even when being affected as an involved party. For instance, mutual resentment is weighed to reach an evaluation of what can be regarded as appropriate action. Thus, Smith's version of the "Golden Rule" is not deduced from some rationalist principles, but grows out of the analysis of the moral development triggered by the working of sentiments. The Golden Rule is a pivotal concept in Confucian thinking, too, so that both sides agree on reciprocity as a basis for morality.

This convergence ends up in close resemblances of the concept of "justice". As we have noted above, justice in Smith's thinking is emerging out of a deliberation over merits and demerits of an action that weighs the sentiments of the different parties involved through the eyes of the impartial spectator. The Confucian concept of justice is closely related to the concept of ritual *li* 禮, that we further analyze below (on the following, see Roetz 1992: 181ff.). This means, that justice is intimately related to the hierarchical order, so that equal treatment by the

law was explicitly excluded in the judicial practice of Imperial China. However, at the same time influential Confucian thinkers such as Xunzi argued that inequality is only just if it serves a purpose in the sense of benefitting all parties involved. Justice becomes a virtue that is intimately related to the public interest, and therefore directly confronted to individual interest by Confucius himself. Thus, just behavior is especially expected from persons of high social rank and political office. In the end justice is seen as being able to act impartially, which is termed *gong* 公 in ancient Chinese. This conceptual relation has been reflected until today in different modern Chinese expressions for justice, such as *gongzheng*, *zhengyi* and *gongping*, all implying impartial and balanced treatment of persons and circumstances. Thus, we find a similar phenomenon of moral development in Smith and Confucius. Both start with biased conceptions of propriety in particularistic social context, and end up with a neutral conception of justice.

If we ask for the behavioral consequences of moral development, this is self-control, which is evident from Smith's predilection of the Stoic philosophers. This concurs with Confucian thought, and Chinese ideas about proper behavior in general. Self-control is a necessary condition for the working of the social fabric, and it is especially important for the conduct of elites. Both the Chinese tradition and Smith see self-control as a necessary concomitant to the view that the individual is otherwise out of balance driven by a number of desires and passions, without a clear focus (on the Confucian view, see Kubin 1990). Thus, both Smith and Confucius deplore the moral decay which results from the pursuit of wealth, and which obstructs the role of social elites to serve as moral examples. Interestingly, many commentators point out the Confucian hostility towards commerce and private profit to explain the detrimental role of the Chinese Imperial state for economic development. This puts the wrong emphasis on what the Confucians regarded to be the moral standard for the elites, but not the ordinary people. Indeed, as has been mentioned in the beginning of this paper, there are Confucian schools which have shown strong support for commerce, so that the distance between the Smithian and the Confucian attitudes is not as large as it seems.

In the context of self-control, one peculiar aspect of Confucian thinking relates to the aforementioned role of *li*, mostly translated as "ritual". This is commonly regarded as being another fundamental difference to Western conceptions of morals. Indeed, the emergence of self-control is partly externalized in the Confucian approach, whereas Smith emphasizes the endogenous emergence. However, the question is how far the Smithian idea of propriety is related to a similar thing. In Confucian thought, *li* is regarded to be the outward expression of social order, because it is in rituals how social order actually impacts on behavior. At the same time, following ritual forms the moral development of the individual who would otherwise simply lose orientation. In Confucius thought, this was closely related to the concept of the "rectification of names". "Names" is the regular translation of *ming* 名, however, in the context of the time "symbols" would be a better choice. This means that ritual is also condensed into symbols, and that social order should be reflected in the proper use of symbols. In particular, the user of a symbol should match the expectations, which implies "rectification" in the case of misuse.

Although it is difficult to find a related thought in Smith, one should note an important affinity on a fundamental level, namely that Smith's "spectator" of course needs to rely on a se-

semantic system which assigns meanings to actions, hence implicating values. In case of the “impartial spectator”, this would imply a certain universalized system of symbolic representations and actions. In that sense, there is a convergence with Confucian thinking which emphasizes the truthfulness and sincerity of the use of meanings in society. This interpretation finds some support when being related to Smith’s ideas about status. Here we also find Smith’s discontent about the deceit and illusions that arise from the process of social recognition and formation of hierarchies (TMS I.iii.3.2). His complaints about the mismatch between status and moral integrity ring familiar to readers of Confucius. Confucius was a backward-oriented thinker in the sense that he complained about the effects of economic liberalization and growth on traditional social structure. The decline of tradition is also perceived as a decline of morality. This concurs with Smith’s pessimism about the moral effects of the pursuit of wealth. In this sense, Smith comes closer to the Confucian conception of *li*, in particular if, on the other hand, the very strong emphasis of Confucians on autonomous moral perfection is paid sufficient attention to.

In sum, Smith and Confucius agree on the primacy of the social for the development of the individual. This is a clear break with the post-Smithian emphasis of individual autonomy in the Western tradition. This fundamental difference to the Western European tradition has been emphasized through many decades in the transcultural dialogue over Confucianism. Whereas Western intellectuals mainly believe that individual autonomy is the source of social order via agreement and/or some natural rights of the individual, there is no conception of rights beyond the social unit in Chinese thought. Up to nowadays, this is a main point of disagreement in the human rights discourse (for a survey, see Schubert, 1999). Smith is also very clear here, because he cannot think of any moral value outside the realm of social interaction, which he claims to be an expression of human nature. Individuals construct moral values through social interaction. This also reaffirms the affinity between Smith and Confucius in emphasizing moral development.

A final comment is apposite on the cosmological dimension. In Chinese traditional thought, this is most obvious less in Confucian, but in Daoist thought, which later made up almost inseparable parts of the Chinese cultural heritage. Indeed, it is the Daoist historian Si Maqian who is claimed by most accounts of Chinese intellectual history to come close to Smithian liberalism. Generally speaking, Chinese thinkers emphasized the synchronization of natural and social order, which strongly supported the idea of non-intervention into the latter. Thus, we arrive at the concurrence of moral development and the natural social order. This was enlarged into a conceptual edifice by Neo-Confucian thinkers. Zhu Xi conceived of man being the link between Heaven and Earth, thus obtaining a pivotal role for stabilizing the cosmos. This transcendent meaning given to the individual imposes a very strong feeling of moral responsibility and predicament on Confucians, which lies at the root of the moral autonomy of the individual (Metzger 1977: 117ff.). Though we cannot find a similar approach in Western thought, because Christianity sees transcendence beyond frail human existence, Smith, as we have already mentioned, does see a religious meaning of the social order. This is because his version of naturalism is directly related to the idea of the Creator, such that Nature written large becomes a teleological concept, and remains not simply a causal force (Long,

2006). In this sense, social order is almost assigned a cosmological position as in Confucian thought.

In sum, if we concentrate on certain fundamental principles, Adam Smith and Confucius seem to agree in some important respects which at the same time distinguish both from the post-Smithian Western views. Important topics include the primacy of human sociality for meaningful human existence, the developmental approach to morality, the interaction between institutions and moral development, and the concern about the moral consequences of economic behavior, leading towards the belief that natural principles of human societies must be based on individual moral responsibility. Let us now turn to the possible consequences for a transcultural foundation of institutions.

5. Some thoughts about the consequences for a transcultural foundation of institutions

We have now managed a tour d'horizon through strange lands worlds apart, as we have dared to discuss "family resemblances" among Smith, cutting-edge economics, and Confucius. My claim is that for two centuries economics has been imbued by cultural prejudices about human behavior which have been emerging in the cultural evolution of Western societies. These prejudices have led to a biased reception of Adam Smith in the unfolding of economics as a science. Only very recently, economic research is guiding economists back to insights that have already been contained in Smith's philosophical works. In the end, this might lead towards a fundamental reworking of economics as a science. This cannot be without consequences for our approach towards institutions and institutional design. If economics starts to acknowledge the cultural embeddedness of economic behavior, and if eventually this will also include the acceptance of economics being culturally embedded, too, then the floor is open for a transcultural discourse about economics and institutions. I have tried to show one way by discussing some common viewpoints between Smith and Confucius, which might entail a consideration about a possible fusion of Western and Eastern basic conceptions of morals and a good society in economic policy and institutional design.

Let us venture to speculate about some potential areas of practical application. Interestingly, recently there is a direct clash between Chinese and Western conceptions about institutions, which is highlighted in the "Beijing consensus" which some observers confront with the "Washington consensus" (Ramos, 2004). In Chinese intellectual circles, this is sometimes directly connected with a revival of Confucian traditions. For example, the influential Hong Kong scholar Gan Yang argues that nowadays a transition from the "nation state" to the "civilisational state" is taking place, which implies a "revival of the past" in a modern remake (21 shiji jingji dabao 2004: 5). Since this paper is concentrating on the relation between Smith and Confucius, I cannot go into much detail as far as the specifics of the policy debate are concerned, but I wish to select some observations which are of actual relevance. These are conspicuous consumption and climate policy, intellectual property rights and the inequality of the income distribution with reference to international trade. In these three fields, social outcomes

are heavily determined by the institutional setting, and in some areas there is a direct disagreement between China and the West about the appropriate institutions, as is evident, for example, by the Chinese refusal to implement limits to carbon dioxide emissions.

To begin with and generally speaking, institutional design cannot be simply built on notions of efficiency, but needs to make the value basis explicit. Economic policy cannot be separated from the public discourse about fundamental notions of equity and morality. Today, these are often conflicting positions, but they need to be put into one integrated framework of thinking about institutions. For example, one cannot discuss the question of managerial boni and salaries with an exclusive reference to mechanism design, incentives and efficiency, but has to incorporate social values about the “propriety” of certain actions into the analytical frame that guides policies. This is particularly true for the use of income, i.e. conspicuous consumption.

Social order rests on the legitimacy of positions of individuals in a particular system of stratification and hierarchy. Stripping hierarchies of its value content means to lose contact with an important part of social order. An interesting modern application is the question of the moral dimension of consumption. Both Smith and Confucius seem to agree that the drive towards conspicuous consumption leads to moral decay. The Confucians would emphasize that consumption should mirror moral values in the sense, that consumption, rank and moral status should match. Smith is ambivalent here, with some tensions among earlier and later parts of the TMS. However, as we have seen above, he understands that conspicuous consumption has a strong dose of moral deceit (Gerschlager, 2005). A most recent example for the modern relevance of this thought may be the recent concern about prestige cars, which are notorious for high carbon dioxide output. Many prestige cars certainly transcend mere functionality and directly express relative status. Entire societies revolve around differences in notions about what a “good car” might look like, with the United States, but also Germany being notorious for regarding horse-power as an indicator of status. The question arises whether the current concerns about the global climate might cause moral concerns about the use of prestige cars. Thus, all of a sudden society starts to debate about the “propriety” of the use of prestige cars by politicians, of whom one would expect a high moral quality. This is but only one example for the general possibility of taxing status goods to avoid the pernicious consequences of status competition in human societies, emphasized for long by Frank (1985; 1997). The moral self-control of societal elites seems to be an alternative that does not rely on government interventionism. Societal elites provide the role models which others strive to attain, so that, in Frank’s words, they produce a public good. This may require moral regulation.

This is also pertinent for the relation between China and the world, as China strongly emphasizes the development of its automotive industries. China explicitly rejects to cap carbon dioxide output, mainly giving a moral reason for it, i.e. that the developed nations should be first movers, and that environmental policy should not contain the catch-up process in the less-developed nations. Regarding cars, this moral discourse could be picked up by the lead nations in automotive industry, for example, in consciously changing the values system underlying its quality ladder. Chinese and Western car manufacturers might cooperate in developing and assembling a new breed of cars, and this might be supported by institutional convergence in climate policy. The Western countries need to accept the fact that China perceives catching-up as a moral issue, related to Western forceful domination in global society until

very recently, and to perceived equal rights in choosing developmental trajectories. These are fairness considerations which challenge the West to adopt an explicit approach to moral commitments in the field of ecology.

This issue of moral status might be extended to the general global distribution of wealth. An exalted standard of living might generally be associated with an especially strong expectation to moral behavior. That implies, that the global behavior of industrialized countries should be assessed with particularly stringent moral standards. This would exert some impact on notions of global governance. For example, in the debates about intellectual property rights there is often a strong emphasis on the moral abjection of intellectual theft, which is supported by efficiency considerations. However, at the same time many observers question the inequality in the distribution of rights to knowledge which strongly amplifies the global inequality of wealth (e.g. Finger and Nogués, 2002). At the same time, moral standards about intellectual property differ widely across societies, with the Chinese traditionally praising the capability to copy excellent works of others, which is regarded to be a king's way to learning and improvement. Thus, adding a moral dimension to the debate over IPR might lead to some caveats about the current tough stance of Western nations against IPR violations in China. Letting others share knowledge might be regarded as a moral duty. Or, the implication might be that "levelling the playing field" does not mean to equalize the institutional framework according to the Western standards, but to shift the burden to competitive strategies of protecting intellectual capital. There is a need to reconsider fairness criteria in the light of moral reciprocity. Even tough supporters of a liberal world economy such as Jagdish Bhagwati have pointed out that there is a need to distinguish between the convergence of institutions and a balanced distribution of the economic burdens of convergence across countries. "Fairness" as equalization of institutional conditions might impose much higher costs of convergence on less-developed countries than on the rich ones, which are almost close to the institutional best-practice. Moral considerations may impact our views of the constitution of the world economy (Herrmann-Pillath, 2006).

Moral discourse is always pertinent when the distribution of income is concerned. This is clearly a very sharp point of contention when the question is raised whether Western wages are made in the Chinese countryside. Smith's focus on resentment seems to direct our attention to the need to balance the worries and the suffering of Western displaced workers and jobless rural toilers in China. Justice does not primarily relate to abstract notions of free trade, but to the fundamentally political task to strike a balance between aggrieved interests cross-border. There is a need for a moral economy of free trade, which treats justice as the pivotal point to achieve an harmony of its "natural system" and individual interests.

This will only be possible if politics is conceived as a process of moral development through transcultural interaction. In that regard, it is a serious misunderstanding if the political economy of international trade is just analyzed as the equilibrium of self-interested pressure groups in the domestic and the international political exchange of benefits. Instead, we need to understand trade policy as a process of deliberation which leads towards a convergence of views about a just distribution of the costs and benefits of freer trade. Politics is not just the tool to finally implement the optimal institutions designed at the economist's blackboard, but an open space for moral development of political actors. To perceive institutions not only as a

tool for attaining efficiency, but as a moral project of society, is the first step towards their transcultural foundation. This is the point of convergence between Smith and Confucius.

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