

Exit, Voice, and Loyalty: A Framework for the Intimate and Extended Orders

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Abstract: Even notable free market scholars in the 20th Century lamented the inescapable decline in intimate social relations that would emerge from the wide-scale adoption of an extended market order. This paper challenges this view that markets erode social relations by challenging the concept that the usage of money or barter are the logical distinction between the intimate and extended order, and then by offering the framework of exit, voice, and loyalty as an improved distinction between the intimate and extended order. With this new framework, it is possible to see that the extended market order can not only preserve the intimate order, by reducing material strain on the intimate order, but also extend the intimate order, by creating the shared social space for the formation of harmonious relations between diverse people. Rather than undermining intimate social relations, market exchange preserves and extends the intimate order.

Introduction

While Adam Smith recognized the natural proclivity of humankind to “...truck, barter, and exchange...,” there has been a philosophical tendency to attempt to separate and isolate these natural commercial exchange proclivities from other human relations (1776[1976]: 25). Exchange relations, while being recognized as mutually beneficial—and perhaps even civilizing (Hirschman 1997)—have been winnowed out as an entirely separate realm of human behavior. Separating out commercial exchange relations from the rich cultural, biological, and social aspects of humankind, has allowed social scientists to render diagnoses of reform, ostracism, or even removal of this commonly regarded ‘untouchable’ aspect of human behavior.

Early moral philosophers almost uniformly recognized some degree of distinction between two separate realms of human interaction, one intimate, moral, and good, and the other extended, acquisitive, and base. Plato, for instance, saw the specialization and the exchange of goods in the marketplace as venal, acquisitive behavior that was necessary for a prosperous society, but to be controlled by the upper echelons of society who would remain above the fray of commercial exchange (Ekelund and Hèbert 1997: Ch. 2; de Jouvenel 1957[1997]: Ch. 8). Aristotle, however, argued that exchange shouldn’t be limited to just the lower echelons of society, but that the proper delineation between moral and base exchange was determined by the use of the gains from exchange (Ekelund and Hèbert 1997: Ch. 2). Exchange that was for the needs of the family was proper, while exchange for the accumulation of wealth was improper. While recognizing the importance of money as a form of delayed reciprocity, Aristotle believed that money encouraged the accumulation of excess wealth, and that the state should take an active role in limiting exchange for the purposes of accumulation.

While Adam Smith made his defenses of a commercial society based upon the efficiencies from the division of labor *and* the civilizing role of commerce among people with heterogeneous religious and moral views—firmly embedded in an overall project of robust political economy—the economics profession, in the pursuit of technical clarity, increasingly focused on just the efficiency gains from commerce (Boettke, Fink, and Smith 2011; Boettke, Leeson, and Smith 2008; Pennington 2011).² Early critics of capitalism, such as Karl Marx and Jean-Jacques Rousseau heralded back to the early arguments of Plato, that commercial exchanges would undermine civil society (Marx 1978; Rousseau 1762[1978]; Silver 1990: 1477). Modern practitioners in the field of political economy similarly have charged commercial relations of being in conflict with—and often overpowering—intimate relations (Bell 1976; Dworkin

2002; Hirsch 1976; Gray 1998; Rawls 1971; Sandel 2012; Skidelsky & Skidelsky 2012; Taylor 1985; Young 2002).

Even more modern notable free market scholars have expressed concerns that the more meaningful intimate order would become subverted to market exchange relations as the realm of market exchanges grew and tainted these intimate relations (Bruni 2012: 112; Hirschman 1986: 110; Hirschman 1982: 1466). Joseph Schumpeter (2008: 61), Frank Knight (1935: 321), and Bertrand de Jouvenel (1957[1997]: Ch. 8; 1945[1993]: Ch. XIX) all expressed concerns about the decline of civil society and the need for some degree and variation of government protection for it.

Economists' struggle with this division is perhaps best exemplified by "Das Adam Smith problem." This "problem" emerges from his two major published works, *Theory of Moral Sentiments* (1759[1979]), which is seen as an exposition on the intimate order, and the *Wealth of Nations* (1776[1979]), which is seen as an exposition on the extended order. Many attempts have been made to reconcile these two works—or rather to see how they fit together into a consistent framework (Göçmen 2007; Hayek 1988; Horwitz 2005; Forman-Barzilai 2011; Paganelli 2008; Smith 1998). The general consensus from these works is that Adam Smith maintained that there is both an intimate and an extended order. While the exact delineation of what defines an intimate order versus an extended order, as well as the terms used to define these separate orders, remains elusive, these terms generally are used to refer to the difference between market exchanges (extended order) and personal relations (intimate order).³

Much of the modern criticism directed towards the economic profession—and capitalism—has focused on the economic professions' almost exclusive focus on expanding, preserving, and improving the efficiency of the extended order, and thus their perceived ignorance, or even disregard of, the intimate order. The economics profession is largely at fault for this perception. Extended order relations have explicit laws, uniform patterns, and records, and thus are conducive to measurement. Intimate order relations, on the other hand, are often implicit, have patterns that vary across different groups, and are unrecorded, making this realm much harder to measure or analyze with the favored tools of economists.

This paper attempts to provide a more explicit definition of the distinction between the intimate and extended order. In addition, it also seeks to provide a better understanding of the relationship between the intimate and extended realms. It argues that not only does the extended order play a role in *preserving* the intimate order; it also plays a role in *extending* the intimate order. Rather than conquering and subduing the intimate order, the exchanges occurring in the extended order should be seen as a gateway that creates the

social spaces necessary for the formation of intimate order relations among people with diverse world views.

Section 2 discusses some of the problems that emerge from the prevailing, though often unarticulated, distinctions between intimate and extended order relations. Section 3 posits a more concrete distinction between the intimate and extended order by applying Albert Hirschman's (1970) framework of *Exit, Voice, and Loyalty* to human relation orderings.⁴ Section 4 argues that the extended order not only preserves the intimate order, but also aids in extending the intimate order. Section 5 concludes.

Defining the Intimate and the Extended Orders

While many political economists have noted the distinction between an intimate order and an extended order, there is no agreed upon, articulated definition of what differentiates an intimate order relation from an extended order relation.

One clear cut way to draw the distinction is the use of money: if money is employed, it is an extended order relation; if money isn't employed, it is an intimate order relation. While initially this distinction appears rather straightforward, it proves rather problematic for two primary reasons. The first is that monetary exchange simply emerges out of attempts to make barter exchange more fluid by trading towards goods with a higher degree of marketability—in order to overcome the double incidence of wants problem—and goods that are more conducive to storage, divisibility and fusibility, transportation, and recognition (Menger 1871[1994]: Ch. VIII; White 1999: Ch. 1). Rather than being a transaction that is categorically distinct from barter exchanges, the convergence on a medium of exchange is separated only in slight degree from barter exchanges (Bruni 2012: 4). Bartering is widely prevalent in every society, and even protrudes down into activity that clearly falls within the realm of the intimate order—such as the exchange of household chores, or taking care of the children, in the hopes of receiving physical intimacy in return (Axelrod 2006; Cronk and Leech 2013; Ridley 1996; Seabright 2005; Zelizer 1994). It seems rather dubious to declare exchanges made to trade towards goods with a higher degree of marketability—which better equips people to provide value to those they wish to engage in exchange with for their own items—as an extended order transaction that tarnishes social relations. When A trades with B in order to facilitate a trade with C (who has what A really wants), it seems to push the limits of credulity to classify any attempt for A to get what they want from C, through B, even if it makes B better off, as socially destructive. The additional transaction makes everyone better off and forges new social relations. Essentially, under this distinction,

intimate order relations would be defined as those that don't solve the double incidence of wants problem. This also implies that people who have a talent or passion for creating perishable goods, goods that aren't easily transportable, goods that aren't easily recognizable or verifiable, or goods that only serve a small segment of the population should be discouraged from doing so, simply because the production of these goods necessitates engaging in multiple layers of barter towards goods of higher degrees of marketability, and thus convergence on a medium of exchange, to overcome the double incidence of wants problem.⁵ Even if money is taken out of the equation, and the line between the moral intimate order and the socially divisive extended order is drawn between just direct and indirect exchange in a barter economy, the same problem emerges.

The second major problem with relying on the use of money as a distinction is that what is, and what is not, an acceptable use of money in social relations and customs doesn't appear to empirically align with this distinction (Bruni 2012: Ch. 10; Cowan and Rizzo 1995; Cowen 1998, 2000, & 2002; Pallotta 2008; Postrel 2003 & 2013; Sirico 2012; Silver 1990; Taylor 2005; Zelizer 1994 & 2005). Intimate relations, culture, and customs have thrived even with the direct and indirect employment of monetary exchanges. Monetary considerations are often used within the bounds of intimate order relations to make regular decisions, such as to buy a house, have a child, and what activities you undertake with intimate order. Intimate order relations can, and often do, emerge out of commercial extended order relations (Storr 2008).

Nor does profit-seeking activity seem to be able to operate as the proper distinction between intimate and extended order relations. Profit-seeking is simply the attempt to maximize benefits over costs, which is universal in all of human behavior whether psychic or monetary (Cowan and Rizzo 1995; Mises 2007[1949]: 289).

Richard Dawkins (2009: 188) suggests that money operates as a "token of delayed reciprocal altruism." The ability to engage in delayed reciprocal exchanges, in Dawkins framework, operates to promote social cooperation. Yet, Dawkins recognizes that it can only emerge in species that are equipped with the memory and attentional circuitry to be able to recognize others (183). Perhaps this is the distinction drawn by those who hold that commercial relations perversely infiltrate the intimate order. Perhaps the line should be drawn at exchanges with people within our memory and recognition as being intimate, and those without as being extended. But this faces problems as well. First, memory varies widely among people. Second, this is necessarily an exclusionary ethic. Malcolm Gladwell posits that the optimal group size, in light of the limits of human memory and recognition, is around 150 people based upon anthropological evidence (2000: Ch. 5). This framework would put a

sharp and geo-centric limit on intimate relations, which runs against prevailing empirical evidence and moral philosophy that the intimate order can, has been, *and should be*, expandable, especially beyond geographic constraints (Forman-Barzilai 2010: Ch. 5 & 6; Pennington 2011: Ch. 3 & 4). Exclusionary ethics can place more material stress on intimate order relations, and imbue suspicion and intergroup conflict outside of the severely delimited and homogenous intimate order. The exclusionary argument must distill down to an argument that for pure intimate relations, humans shouldn't be dependent upon others for their material needs (Bruni 2012: 32 & 48). But then why draw the line at material dependency? It seems to follow that if material dependency is corrupting, then dependency on others for love, friendship, self-esteem, and self-actualization, within the intimate order, would be just as—or even more—corrupting.

Where does this leave us? In dire need of a new distinction between intimate and extended order relations.

Distinction Defined: Exit, Voice, and Loyalty

This section employs Albert Hirschman's (1970) framework on exit, voice, and loyalty to posit a new framework for defining intimate and extended social relations in the attempt to overcome the above articulated problems.

The Intimate Order: Voice & Loyalty. We can redefine the intimate order, primarily, by its curtailment of exit, and thus, its reliance on the use of both voice and loyalty.

Fleeing family, community, or even close friendships is costly to varying, but often inhibiting, degrees. In some cases the ability of exit within the intimate order is close to non-existent, except for in the most extreme cases. Furthermore, once the option for exit is executed, the costs of reentry are inhibiting. Thus, intimate order relations depend to a far greater extent on the exercise of voice and loyalty. This means that despite betrayal, shirking, or the breaking of promises, there is a strong tradition and expectation of apology, forgiveness, and reconciliation within the intimate order. Concomitantly, there is also an expectation of care within the intimate order for those who become sick, unemployed, or otherwise distressed (Forman-Barzilai 2011: 180).

The intimate order thus requires the agreement on a thicker value system, as it operates primarily in the realm of voice and loyalty. An intimate order must necessarily be either an exclusionary or a conquering ethic (Forman-Barzilai 2011: Ch. 5; de Jouvenel 1957[1997]: Ch. 8; Pennington 2011: Ch. 3 & 4; Silver 1990: 1484). This is the reason for the strong fostered obligations of altruism and sacrifice within intimate orders, often reinforced with shared group identity, visions, and/or religious beliefs (Iannaccone 1992; Silver 1990: 1476). The cost of monitoring in intimate order relations is relatively low, the

chances of being detected for shirking are high, and the feedback mechanisms on contributions of altruism and sacrifice are strong.

Attempting to apply the rules of the intimate order, voice and loyalty, and the absence of exit, to the extended order can result in harrowing inefficiencies and the breakdown of social relations in both the intimate and extended order if attempted at a systematic level (Hayek 1944[2007] & 1988; Pennington 2011: Ch. 3 & 4). Individuals must make an assessment of the decision to enter into a curtailed exit relationship based upon their own assessment of the benefits of curtailment as well as the strength of voice and loyalty options. Attempts are often made within extended order exchanges to increase the reliance on voice and loyalty by voluntarily curtailing the right of exit through the use of loyalty programs (Banerjee and Summers 1987), *ex ante* signaling (Leeson 2008), contracts (Williamson and Winter 1993), and relational finance (Cooter and Schäfer 2012).

One important note on the intimate order of voice and loyalty: This section does not intend to paint a perfectly idyllic picture of intimate order relations. There is a disconcerting history of the intimate order—the realm of love, sacrifice, and altruism—being corrupted by value systems that exacerbate gender inequality, define troubling sexual roles, imbue parental authority issues, and allow other deplorable abusive regimes (Bruni 2012: 177). This is an often overlooked aspect of attempting to eliminate the right of exit in order to foster the creation of more relationships built on voice and loyalty; that the absence of exit does expose a person to potential abuse if the cost of exit is high and the exercise of voice and loyalty are either curtailed or undeveloped.

The Extended Order: The Right of Exit. The extended order can be typified by its strong right to exit and its lower reliance on voice and loyalty.

Relationships with a low cost of exit, and concomitantly a low cost of reentry, fit within this extended order relational framework. With the right of free exit and entry, thinner moral frameworks can bring together people with differing religious or moral views that won't be able to agree on the thicker moral framework necessary, at least initially, for reliance on voice and loyalty (Pennington 2011: Ch. 3 & 4). This is because the thinner moral systems of markets allow people with widely divergent conceptions of voice and loyalty to find mutually acceptable terms to cooperate on, while reserving the right of exit. It is far more difficult to operationalize voice and loyalty across divergent cultures, religions, and moral philosophies without the threat of exit, as both knowledge and incentive problems become exacerbated when attempting to rely on altruism and sacrifice in the extended order (Greif 2006). Thus, the need to rely on the thin moral framework of the system of property and prices, which are structured to allow the formation of mutually beneficial exchanges. This type of framework is necessary to allow communication and interaction

among the diverse market participants, both geographically and personally dispersed, that could not otherwise occur (Hayek 1945).

This is not to say that the extended order has no place for voice or loyalty. In fact, there tends to be a lot of voice and loyalty exercised within the extended order (more on this later).

To summarize, because recourse to voice and loyalty weaken, as, for example, social distance increases, increased reliance on mechanisms that fluidly allow exit is necessary in order to foster cooperative action. As the ability or right of exit decreases, there is more need for reliance on voice and loyalty, and thus the need for intimate, but exclusionary, order relations.

Exploring the Relationship between the Intimate and Extended Orders

Equipped with this new distinction between intimate and extended order relations, we can better evaluate the relationship between these two realms.

While the extended order is traditionally thought to undermine the intimate order by replacing intimate order relations with commodification and money, in the light of this new framework, it is possible to see that the extended order actually plays an important role in preserving, not destroying, the intimate order. It does this primarily by two features: its wealth generating properties and by overthrowing power-dependency relationships.

The wealth that has been generated by the adoption of the rules of the market in order to foster extended order relations is unparalleled. Economic freedom has a strong relationship with higher per capita GDP, as well as other measures of the good life (Deaton 2008; Gwartney, Lawson, and Hall 2013; Subrick and Boettke 2002).

The reliance on extended order relations allows for the formation and maintenance of purer intimate order relations (Silver 1990). Rather than tainting personal relationships with material concerns, people can freely enter into intimate order relations with less concern for economic constraints and criteria. Intimate order decisions—such as how many children to have, who to marry, when to marry—have historically been made based upon economic criteria. With the growth in material well-being, marrying to form strategic alliances or to increase the wealth or lands of the family are no longer primary considerations. As Allan Silver writes,

...precommercial societies do not offer the possibility of disinterested relations, ungoverned by the clash and calculation of interests; only the development of the market does so, in those domains falling outside the

market itself and therefore newly distinguishable from the interplay of interest. Before commercial society, the purpose of friendship, as the Scots see it, was to help friends by defeating enemies—indeed, to help friends and hurt enemies were typically identical acts. (1990: 1484)

...the Scots perceive commercial society, far from ‘contaminating’ personal relations with instrumentalism, as ‘purifying’ them by clearly distinguishing friendship from interest and founding friendship on sympathy and affection. (1990: 1487)

Essentially, commerce in the extended order has decommodified the family, close friendships, and other intimate order relations. For example, anyone who has used a brother-in-law for assistance with house construction can easily see how disagreements about compensation, method, material, etc. can sometimes threaten intimate order relations. Much better to rely on the extended order provision of goods and services, where the threat of exit allows for these decisions to be made, not with the threat of undermining a social relation, but with the possibility of establishing a new one.

Additionally, specialization and exchange in the extended order allows for the production and consumption of even the most arcane human and social interests (Anderson 2008). The long tail of the market allows people with unique talents and passions to more fully utilize and express their uniqueness through wider occupational choice. It also allows people with unique interests to more fully adjust their consumptive habits to their own unique interests. Extended market relations provide the consumer base that allows for the manufacture of rare items. The manufacture of many of these goods in the long tail of the market, as well as the occupations opened up by their demand and the social spaces provided by them, would not be feasible in purely intimate order relations.

However, the competitive processes of the market often inspires new technologies that are greeted with suspicion and blamed for social dissolution. For example, even the Greeks viewed the development of writing as a new technology that would undermine the critical thinking created by the oral tradition (Chayko 2002). With the assistance of a modern technology like the Internet, entire societies emerge around the preservation of unique cultural traditions (Cowen 2002). Intimate relations can be forged across cultures and geography when people with a rare shared interest—perhaps even rare diseases—can connect. Rather than undermining social relations, modern technologies in an exchange society have freed these relationships from constraints, especially physical handicaps and geography. For instance, the adoption of the telephone in America played an important role in fostering social relationships (Fischer

1992). The Internet similarly has done the same (Fischer 2011; Bargh and McKenna 2004; Chayko 2002: 138). So have airplanes (Smith 2004: xiii) and even the modern city (Franck 1980; Fischer 1982).

Economic freedom has also been correlated with longer lifespans, shorter work weeks, and more vacation time (Meltzer 1972). These surely contribute to the preservation of the intimate order. It is difficult to put a value on the 17.9 years of extra life that the average person in the most economically free countries can expect to have over those countries with the lowest economic freedom, not to mention the implications economic freedom has for the transmission of relations and culture among friends and between generations (Gwartney, Lawson, and Hall 2013). The increasing amount of free time enabled by economic freedom allows individuals to spend more time with family, friends, and fraternal or shared-interest groups. The agricultural worker toiling out in the fields six days a week, 12 hours a day had little time to allocate to these pursuits. In Maslow's hierarchical framework, the wealth generated by commerce in the extended order relations allows for consumers to achieve higher needs.

Overthrowing Power-Dependency Relationships. A second way in which a reliance on the extended order of the market can preserve intimate order relations is through the formation of localized responses to social maladies, which help overcome the Samaritan's dilemma associated with large-scale bureaucratically administered programs. Furthermore, these localized programs help break the cycle of power-dependency relationships.

Once the framework for intimate and extended order is viewed as a distinction on the right to exit, it becomes clear that the more localized responses to social maladies are, more experimentation and adoption of best practices occur and solutions based upon voice and loyalty are more likely to be successfully employed. Localized communities in the intimate order are far better equipped to address the underlying causes of poverty or need, such as the social, mental, and spiritual, rather than just temporarily aiding it with physical relief (Forman-Barzilai 2011: 155). Top-down, bureaucratically administered programs often fail even when their sole goal is to address physical relief (Beito 2000; Boettke and Smith 2010; Coyne 2013; Smith and Sutter 2013). With exit voluntarily curtailed, family, friends, and neighbors are more likely to have information of whether someone is unemployed due to misfortunate, or due to laziness, drug abuse, or gambling problems, and to find the appropriate solutions to address those needs. Coerced charity atrophies both the intent and sympathy of the giver, as well as the dignity of the recipient (Bruni 2012: 107-10; Grosby 2009 & 2010; Olasky 1992).

Extended Order: Extending, not shrinking the Intimate Order. While the market may be able to preserve the intimate order, there may still be

some skepticism. The rules of a market order may generate mutually beneficial and cooperative relations, but in an ideal society, more intimate relations would be encouraged across geographical or even ethnic, religious, and moral barriers.

Markets create the social space, and the incentives, for the observation and exchange of culture (Cowen 2002; Silver 1990: 1481; Smith 2013; Storr 2008 & 2009). As Bruni (2012: 62) recognizes, “[t]he Merchant, moreover, connects the city with the countryside; he generates the encounter of people and goods that without the common denominator of market price might have never met.” Diverse people, who hold completely different world views, moral philosophies, religions, can come together with an agreement on a mutually acceptable thin moral framework, contract and consent (Pennington 2011: Ch. 4). The long tail of the market frees production and consumption patterns, as well as the formation of intimate relations, from the geographic and cultural constraints of exclusionary ethics.

The extended order also allows the pooling and sharing of risk to rise above pure local intimate order relations, allowing for more diversification of risk and the mitigation of disputes that could potentially emerge among neighbors (Barnett 2010: 143). For instance, in the intimate order sharing of risk, such as barn-raising in the event of a fire, disputes that emerge regarding whether the neighbor took proper cautions and risk-mitigating measures can lead to civil strife among neighbors.

Conclusion

Traditional dichotomies between the intimate and extended order have failed to sufficiently grasp the core differences between these two relational realms, resulting in the false, and potentially socially destructive, indictment of market exchange and the institutions that support market exchange. Framing the distinction between the intimate and the extended order as a continuum among the usage of voice, loyalty, and exit, provides for an improved distinction and understanding.

With this improved framework, it can be seen that it is not Smith’s *Theory of Moral Sentiments* that has the ability to “reach beyond” ones’ cultural, religious, and moral framework and biases, but Smith’s *Wealth of Nations* (Forman-Barzilai 2010: 212-17). It is the thin moral framework of commerce that creates the mutually beneficial social spaces for the establishment of relations beyond the exclusionary intimate order. Furthermore, the reliance on the extended order puts less material strain on intimate order relations, and enables the wealth-generating gains from wide specialization. Market exchange promotes, rather than undermines, deeper intimate relations, while forging harmonious extended order relations.

Notes

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² Economics became a science focused almost exclusively on studying choice rather than exchange; it examined the efficiency of autarkic Robinson Crusoe and neglected the social rules and orderings of his cooperation with Friday (Buchanan 1979: Ch. 1 & 2).

³ Robert Putnam (2000: 22-24) uses a fairly comparable delineation when discussing bridging versus bonding social capital. Bonding social capital represents the rewards from intimate relations, while bridging social capital represents the gains from extended relations that operate under a different set of rules. Mark Granovetter (1973) also uses a similar framework, employing the terminology of weak ties for extended order relations and strong ties for intimate order relations. Silver (1990), drawing on previous work, draws a distinction between personal and impersonal relations.

⁴ Pennington (2011: Ch. 3 & 4) originally uses the exit and voice framework to compare market to communitarian institutions. This paper restates, borrows from, and builds upon that initial framework.

⁵ It is interesting to note that Marx drew the line between the base extended order and the moral intimate order at the production for exchange. Marx believed that production for direct use, rather than exchange, would protect against exploitation, because the exploiter would be limited to use value exploitation and not be able to acquire exchange value surplus and accumulate it into capital or money—as was the case, he argues, in feudalism (Roberts 1990: Ch. 1). Forced prison labor was able to circumvent this problem (Gregory and Lazarev 2003; Applebaum 2003).

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