Wells, Thomas (2009) 'A Review of *Moral Markets: the Critical Role of Values in the Economy*', *The Journal of Philosophical Economics,* III:1, 115-120

A Review of *Moral Markets: the Critical Role of Values in the Economy*, Edited by Paul J. Zak, Princeton/ Oxford, Princeton University Press, 2008, 386 pp.

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It is well known that economics does not understand values. It turns out, however, that a main reason for this is that it has not understood markets either. This collection of literature reviews, essays, and original research from the fields of primatology, philosophy, law, and economics grapples with the vexed relationship of values and markets but doesn't quite succeed in addressing it. While there is plenty of wisdom scattered across the different contributions, as a book it fails in its inter-disciplinary task of integrating these nuggets, and it fails also to include all the disciplines which would seem to be relevant sources of insight.

This was not a problem for Adam Smith, who was both a giant of moral philosophy and the founder of economics. Smith is widely cited (by about half the contributors), but rarely present in this collection. The exception is the late Robert Solomon's excellent and nuanced exegesis of Smith's concept of sympathy in chapter 2. He notes that Smith's concept of sympathy breaks down the traditional understanding of ethics as a zero-sum game (as an economy was once seen) between self-interest and altruism (24). Solomon also deserves his place among the philosophical contributors for providing the clearest conceptual account of virtue ethics in the book. Virtue ethics focuses on the *character* of individuals rather than rules or consequences and is most strongly associated with Aristotle. An individual's character is assessed in terms of how well they meet the demands of various intrinsically valuable virtues or excellences - such as prudence, justice, and love in Adam Smith's schema. Virtue ethics rejects the common distinction between 'rationality' and emotions and emphasises the individual's capability for contextual judgement. It is perhaps the most natural ethical perspective from which to consider the moral character of capitalist society and its members, and nearly all the other contributors accede to it (at least nominally).[1]

Nevertheless even Solomon misses the significance of Adam Smith's invention of 'economics' at the end of the 18th century. What Smith saw and described was the appearance of a *commercial society* characterised by an enormously increased division of labour, dependence on strangers, formal property rights, and individual mobility.[2] As Smith put it:

> When the division of labour has been once thoroughly established, it is but a very small part of a man's wants which the produce of his own labour can supply. He supplies the far greater part of them by exchanging that surplus part of the produce of his own labour, which is over and above his own consumption, for such parts of the produce of other men's labour as he has occasion for. Every man thus lives by exchanging, or becomes in some measure a merchant, and the society itself grows to be what is properly a commercial society. (Wealth of Nations, I.iv.i.37)

Unfortunately this commercial society – capitalism in practise not in theory – rarely makes an appearance in the book. And this is surely related to the general tendency to analyse values without humanity and markets without society. One wishes that insights from the disciplines specialising in our contingent social arrangements and self-understandings – such as history, sociology, cultural anthropology, and literature – could have been included. That would have been in the spirit of Adam Smith's legacy.

Also in the philosophy section and compatible with virtue ethics in a broad sense, the economist Robert Frank (chapter 3) lays out his evolutionary account of moral emotions as commitment mechanisms which others can identify. There is an evolutionary advantage to being emotionally committed to e.g. honesty for its own sake in that if others believe it they will be more likely to extend their trust and co-operation, with resulting gains for all. Although still interesting, it should be noted that Frank first developed this account in the 1980s and hasn't written much new on it since then.

The anthropology section only considers other primates, rather than other cultures and is much weakened as a result. It is interesting to learn that chimpanzees have a 'market for services' and so forth, and Frans de Waal (chapter 4) relates such findings in a fascinating way. It is also very plausible that the human mental capacities which make capitalism possible share features with such species, but such 'markets' in reciprocity are not the same as capitalism. One can get carried away by what the apes really have to contribute, as when Sarah Brosnan (chapter 5) notes evidence from chimpanzee studies showing that they deal differently with in-group and out-group members "with profound implications for free enterprise" (92). Did we really need to study apes to discover xenophobia?

Although the contributors have made a considerable effort to read and understand each other's contributions the ball is sometimes dropped. For example, although by no means an expert on human evolution this reviewer was disappointed that the very basic distinction between proximate and ultimate causation so relevant for evolutionary explanation was so often forgotten despite being eloquently delineated by Frans de Waal. For example Peter Richerson and Robert Boyd (chapter 6), present a provocative but interesting account of gene-culture co-evolution but appear to forget that fitness may explain success but not motivation when they say for example that "Cultural evolutionary models are based on a model of a human decision maker that exercises effort to select cultural variants in an attempt to increase his or her genetic fitness (112)." Their account is also flawed by an almost Whiggish understanding of evolution as leading to increased complexity (code for our modern commercial society): "what are the factors that retard the rate of cultural evolution and thus explain the fifty-thousand-year gap between the last major genetic changes in our lineage and our current extraordinarily successful societies (111)?" Such clumsiness with respect to conceptual clarity and coherence is the natural bugbear of the analytic philosopher of course, and it is perhaps unfair to expect it from other disciplines where more casual language and conceptual development is normal.

Oliver Goodenough (chapter 11) provides perhaps the most successful inter-disciplinary contribution in presenting and eloquently defending the thesis that "Free enterprise, when successful, is values in action". Orthodox economics, he argues, focuses on *output maximisation* –i.e. how to efficiently allocate resources to effective demand - but this is really a secondary issue. The primary issue is the origins and stability of the *social mechanisms* – e.g. of ownership and exchange – which the efficient allocation problem takes for granted. Concentrating on fairness, Goodenough argues persuasively that fairness not only has a procedural aspect (transactions should not be coerced) but also a distributive aspect (transactions must be perceived to be sufficiently beneficial to all the parties to be worth their while). When we consider the issue of the wider social stability on which transactions depend we can see that uncoerced individuals have alternatives to playing a game with low pay-offs - they can join other games or turn into predators if the benefits would be higher. In this larger perspective players who drive the hardest bargain may not win after all, especially in the long term.

Goodenough's somewhat counter-intuitive conclusion is that the long-term success of capitalist societies may depend on redistributing sufficient resources from economic winners back to the economic losers whose participation is required for economic games to continue.

Another excellent contribution directly concerned with the institutions of commercial society comes from Erin O'Hara (chapter 9) in the Law section. O'Hara argues that contract law is an essential institutional innovation to deal and co-operate with strangers. In a modern commercial society individuals are no longer able to assess each other's moral character and decide if they *trust in* them. US contract law addresses this by providing a minimal (not complete) safety net of compensation; a great deal of flexibility about which particular vulnerabilities to protect contractually; and neutral arbitration which focuses on the reasonable interpretation of the mutual obligations of trustworthiness. As a result, contract makers can have more *trust that* counterparties will meet their promises, reducing the scale of their vulnerability to untrustworthy behaviour. This allows transactions between strangers to go ahead, at least tentatively, and as they have the opportunity to demonstrate their trustworthiness over multiple transactions this in turn allows *trust in* each other to develop.

The three big-hitters in the economics section – Paul Zak, Herbert Gintis, and Vernon Smith – provide the casual reader with an interesting window into the increasingly fragmented frontier of mainstream economics. Each is associated with a different programme for incorporating more realistically human actors into economics, and that is to be applauded. But they do little to advance the inter-disciplinary aim of the book – it is noteworthy that the non-economist contributors made far more effort to relate their work to economics than was reciprocated.

Smith, Kimbrough, and Wilson (chapter 13) relate an interesting experiment in market formation, but with little in the way of generalisable conclusions or conceptual analysis of markets or values.

Gintis and Khurana (chapter 14) discuss the problem of unethical MBA graduates and identify the problem as the teaching of a short-sighted and selfish neo-classical *Homo economicus* paradigm, a paradigm that is not only wrong (as behavioural economics has shown) but also extremely destructive to companies' long term health and success. In reality this essay is a part of the ongoing power struggle within mainstream economics over the replacement of the increasingly beleaguered orthodox neoclassical paradigm. Behavioural economics is one of the strongest contenders since it keeps much of the old theoretical structure of rational choice theory but insists on more realistic psychological assumptions. The result is a disappointingly banal though not completely implausible solution: business schools should (somehow) insert an ethics argument into their students' utility functions "to be traded off against other valuable objects of desire and personal goals (318)."

Paul Zak (introduction and chapter 15) is a neuro-economist best known for his experiments on the relationship between the neurotransmitter oxytocin and trust between strangers, work which he has published in Nature (a rare feat for an economist). Nevertheless his attempt here to write at a more general level is embarrassingly clumsy and ad hoc. For example he spends several pages presenting various overlapping and contradictory definitions of 'values', but then ignores them all to conflate fairness with equality (a typical assumption within an economic experiment) resulting in such absurd statements as "Markets, and the institutions that underpin exchange, appear to support a value of near-equal sharing (275)." One seems to have here the archetype of the 'scientific' economist who is unable to make the transition from the tiny closed worlds of experiment or model to the real world. His ad hoc style comes out in his discussion of the communist system - he heard a story once about Lithuanians stealing toothbrushes, so that can't work (270) - and his brusque note that the 2% of subjects who don't respond to oxytocin as expected are presumably sociopaths (268).

Moral Markets is dominated by economists' concern that they are missing something important – they have a 'values gap' in their models. The sources and nature of the contributions largely reflects mainstream economists' preference for incremental change to their models that they can be comfortable with, rather than a real openness to inter-disciplinary perspectives. (Nor is the book geographically very diverse – only American scholars are included.) The book's timing is also somewhat unfortunate. Several contributors refer to the ethical failures of the Enron era circa 2001, but of course the present economic crisis has exposed much deeper flaws in economists' understanding of markets and given rise to much more systematic critiques of the ethical character of the modern commercial society about which Moral Markets has little to say.

Endnotes

[1] For an excellent and extensive virtue ethics based defence of capitalism see Deirdre McCloskey's *Bourgeois Virtues*, 2006

[2] Here I echo the excellent analysis of Dennis Rasmussen in his recent book *The Problems and Promise of Commercial Society* (2008)

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