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Moral Markets: The Critical Role of Values in the Economy by Paul J. Zak (Book Review)

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Book Review

Moral Markets: The Critical Role of Values in the Economy

By Paul J. Zak, ed.

Princeton, NJ: Princeton University Press, 2008. *Pp. xli, 344. $26.95.*

This volume contains the fruits of a two-year seminar on ethics and economics funded by the John Templeton Foundation and administered through the Gruter Institute for Law and Behavioral Research. Participants came from the social sciences, natural sciences, and humanities, and included Nobel Laureate Vernon Smith and other figures such as Frans de Waal, Herbert Gintis, Robert Frank, and Robert Solomon (for whom the book is dedicated in memoriam). The book's editor, Paul Zak, is a pioneer in the emerging field of neuroeconomics, which uses medical technology to discover the physiological manifestations of cooperative and altruistic behavior. A theme of the book is that human behaviors are moderated by biological realities that have important implications for the operation of society and markets. In particular, recent laboratory findings have uncovered the psychological interconnections between people that create organic interactions that do not fit neatly within the rational choice model.

The five sections in this collection address: (i) the philosophical foundations of values, (ii) the non-human origins of values, (iii) the evolution of values and society, (iv) values and the law, and (v) values and the economy. The 15 articles vary in length from 10 to 35 pages. Some authors entered the seminar with notable prior research on ethics and economics (such as Smith, Gintis, and Frank). Others dabbled for the first time, so there is an uneven quality to the essays. This review focuses on a subset of articles.

It would have been helpful had the book begun with a definition of values. Instead one has to wait until Chapter 11 to find a clear articulation. Oliver Goodenough defines values to mean "non-situational commitments to particular principles of character and action, which may require sacrifice and self-denial" (p. 238). Values are an institutional structure that promotes cooperative behavior as the dominant solution to economic games. Zak later elaborates that "Values can be thought of as the constituents of a person's character traits" (pp. 261–2). "Moral" values are those character traits that relate to interpersonal behaviors, and may evolve with experience. "Morality" is the "broad acceptance or prohibition of a behavior within or even across societies" and can change only slowly (p. 262). According to Zak, moral values constrain choices by producing positive *physiological* responses when the rules of sociability are followed. For example, expressions of trust (such as may be exhibited in economic exchanges) release the hormone oxytocin, which is associated with social recognition and bonding, and may also be triggered by hugging and orgasms.

One instinctual value economists emphasize is *self*-regarding behavior, and many essays in this book explore a parallel instinct that is *other*-regarding. Adam Smith's *The Theory of Moral Sentiments* (1982 [1759]) is at the heart of much of this modern analysis of the ethical foundations of conduct. Zak quotes one of Smith's contemporaneous admirers, Thomas Jefferson, on the role of the social instincts in awakening the moral imagination: "…nature implanted in our breasts a love of others, a sense of duty to them, a moral instinct, in short, which prompts us irresistibly to feel and to succor their distress" (xxii).

Zak observes that Jefferson's hostility against every form of "tyranny over the mind of man" would by extension include the tyranny of behaviorally thin and morally vacuous economic models that constrain understanding by insisting only on self-regarding behaviors. This book, in short, provides a vehicle for scholars to reflect on the range of ways in which humans express their other-regarding ethical natures as consumers, workers, and entrepreneurs through market exchanges.

While Adam Smith did not have a laboratory to confirm his theories, astute observation led him to build a model of ethics growing out of shared reactive sentiments. This is the bare building block of, or the proximate mechanism for, the structure of a moral conscience. Other elements include reflection and reason, imagination, self-control, and general subservience to the moral laws of a particular time and place. The late Robert Solomon, whose career focused on business ethics from an Aristotelian perspective, provides a summary and nuanced analysis of Smith's moral sentiments theory. In "Free Enterprise, Sympathy, and Virtue," Solomon explores the distinction between sympathy and empathy, and concludes with a warning to social scientists of the "danger of over-individualizing human nature" (p. 34). In Solomon's view, "[Humans] are both social and emotional creatures, for whom mutual understanding—that is, the mutual understanding of one another's emotions—is essential" (Ibid.). A market system is justified not because of profit or efficiency, but because it allows a "sympathetic community" to flourish, in which competition ensures that individuals develop and adhere to "other-regarding" instincts.

Robert Frank's essay analyzes the status of consequentialist moral reasoning in light of the evolutionary evidence for moral feelings. In small tribal groups, moral sentiments are important assurance devices that generate trust and provide for instinctual justice that limits personal aggression. Involuntary feelings produce involuntary signaling devices (for example, blushing) that undergird commitments. Despite this biological foundation, Frank notes that, "Moral intuitions are contingent reactions shaped by the details of our evolutionary history. Often they will not be relevant for the moral choices we confront today" (p. 45). Because of this, Frank says moral intuitions can at times lead to morally wrong conclusions. He thus defends consequentialism, and in particular cost/benefit analysis, arguing that it has a secure place—but not an exclusive place—in ethical theorizing.

It is not clear if Frank's approach squares with Adam Smith's model, however, because a number of different concepts are lumped together. For example, Frank uses the terms "moral sentiments" and "moral intuitions" interchangeably, but it would be best to keep these concepts distinct: one can have an intuition without necessarily experiencing "fellow-feeling," and an intuitionist may not accept the moral sentiments mechanism. Adam Smith would agree with Frank that, most of the time, moral sentiments alone should not be the basis of action because of the natural tendency people have to deceive themselves in their own favor. Smith solves this problem by relying on group norms and rules that arise not only from one's own sentiments but also the wisdom of the group. Smith is thus a consequentialist in saying that good rules are needed to produce good outcomes, but the mechanism for producing good rules lies beyond logic or facts alone and relies upon human sentiments. Frank's essay is important because it justifies a pluralistic view of moral reasoning, in which consequentialism and its alternatives can co-exist. Such a stereoscopic view is desirable if economists are to engage in public policy debates with those who argue from duty- and virtue-based ethical perspectives.

In a fascinating but rambling essay, Richerson and Boyd in "The Evolution of Free Enterprise Values" explore the long evolutionary history of human values and the parallel evolution of culture. To these authors, "values are the individual-level motor of social institutions," but a macro view is also needed (p. 109). In particular, "the social instincts we inherit from our tribal past were shaped by gene-culture coevolution in which group selection on cultural variation played the leading role" (p. 110). The authors argue that increases in environmental variability over the past 250,000 years played a critical role in cultural evolution. In stable climates we would expect to find species with highly specialized *innate* abilities. In variable climatic conditions, adaptation favors flexibility that is better achieved by teaching than by instincts. While the social transmission of information in human societies is costly, it "out-competes the familiar pattern of genetic inheritance and individual learning in highly variable environments" (p. 113). This is what explains the success of *homo sapiens* spreading to every corner of the globe into dramatically different ecological niches.

In "Values and Value: Moral Economics," Zak provides a useful introduction to recent neuroeconomic findings. Tests on human physiology bear out Smith's theory of "fellow-feeling." First, "mirror neurons" in a subject's brain automatically fire when visualizing the motion undertaken by others (stimulus-response). Second, mental activity in the medial prefrontal cortex of the brain projects the beliefs and intentions of others by transference, much the way Smith theorized that we imagine ourselves in other people's shoes. And third, there is a corresponding response in the limbic region of the brain associated with emotions and behavior. The early conclusion of this research is that the emotional states of others are registered physiologically within a subject's brain and that these stimuli produce affective reactions that may influence the subject's subsequent behavior, owing to the release of chemical messengers that enable emotional attachments. Oxytocin, for example, is released in proportion to the degree of trust shown and in roughly 98% of cases produces a proportional behavioral response.

While the physiological response to trust is autonomous, it is affected by environmental factors. Extreme stress, for example, suppresses other-regarding instincts. Zak attempts to connect these findings to examples of moral failures such as the holocaust and the Enron scandal. The explanation of how moral dysfunction arises in people with otherwise normal physiological responses seem *ad-hoc*, and clearly one must go beyond physiology (at least in its present form) to explain moral successes and failures. The author correctly notes that "affective responses to social stimuli vary across individuals and quite likely within an individual as circumstances change" (p. 268). Zak concludes that while initial choices may have a genetic basis, subsequent choices are partly environmentally based. Values can be learned through proper socialization and habits.

An essay by Kimbrough, Smith, and Wilson on "Building a Market: From Personal to Impersonal Exchange" examines a fascinating question: How do markets evolve from face-to-face, localized exchanges among family members or neighbors to anonymous distance relationships that more fully capture the gains from specialization and trade? Key problems for participants are first understanding the economic and social rewards, and second, learning how to coordinate activity based on trust and other mechanisms. Using 12 laboratory "villagers" within three artificial "virtual villages," the authors track earnings as well as conversational chatter between participants over 34 production/trading "days." Curiously, producers in the game used their "days off" to communicate with fellow villagers using terms of imbedded community such as "we" and "us." By contrast, merchants did not communicate on days off, and always spoke individualistically in terms of "I" needs. Not surprisingly, the earnings among villages and among villagers were highly skewed. The conclusions are that gains to specialization and trade lie as potential earnings chips on the table, and some societies may do better precisely because some individuals understand and act on this, while others continue to rely on custom or autarchy to allocate resources.

Several essays address topics of interest for business education. Gintis and Khurana argue in "Corporate Honesty and Business Education: A Behavioral Model" that the principal/agent theory based on *homo economicus* contributed to a climate in which the notion of "managers as professionals" with ethical duties to uphold was supplanted by that of managers as selfish individualists. Relying on a wealth of evidence, the authors argue that creating a business community with social rewards (rather than simply monetary rewards) can result in higher payoffs for stockholders. Doing so requires re-professionalizing management through the cultivation of character and proper socialization. Such an approach is needed if managers are to understand and achieve their main objective, which is fostering long-term cooperative relationships.

One of the least satisfying chapters is the concluding one, by Charles Handy, "What's a Business For?" Handy develops the philosophical argument that businesses should exist for a social purpose that goes beyond profit. Unfortunately, he does not address criticisms of this view, particularly those delivered by Friedman (1970) and Heyne (1995), both of whom revere morals as much as Handy but perhaps have a deeper understanding of the theoretical issues. Handy tends to conflate the positive and normative aspects of this question. Business owners who genuinely pursue social goals such as finding a cure for AIDS may motivate employees and customers better (and thus make more profits) than those who do not. Such a moral sentiments approach to business is theoretically appealing and has been the subject of empirical investigation (e.g., Frank 2004). But there is no logical requirement that every business act from such motives, nor is there an ethical reason for insisting on it. Indeed, the motive of making profits to feed one's family is a private purpose that seems eminently ethical according to Adam Smith, who was the most vocal proponent of the moral sentiments framework.

Overall, this book is highly recommended as an excellent introduction to new scholarship on the biological origins of ethical behavior and its implications for economics. It is accessible and valuable for non-specialists and will have something of interest to offer even those already schooled in the topic. Readers of this book might also enjoy the collection by Gintis et al. (2005).

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