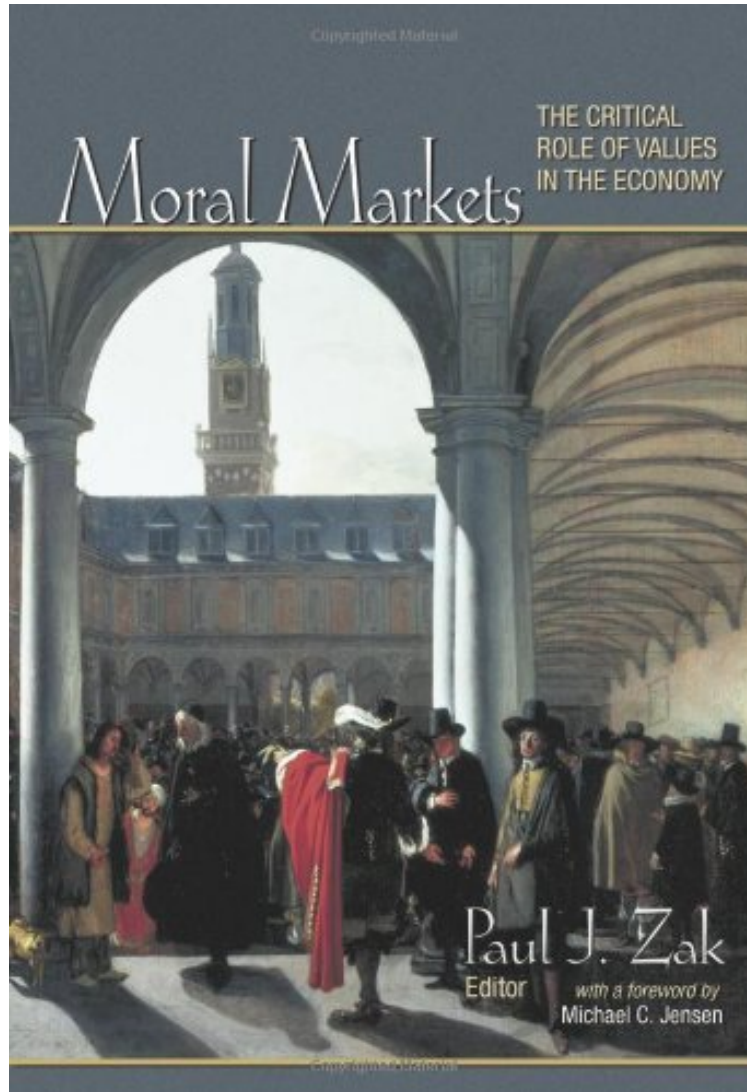


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Moral Markets: The Critical Role of Values in the Economy

Paul J. Zak

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Paul J. Zak : Moral Markets: The Critical Role of Values in the Economy before purchasing it in order to gauge whether or not it would be worth my time, and all praised Moral Markets: The Critical Role of Values in the Economy:

11 of 12 people found the following review helpful. Good Topic - Falls Short of Aim By Doug Norton Economists gravitate toward explanation by incentives; but, values also constitute motivations for action. The premise of this book was to investigate the values-based explanations and demonstrate the "Critical Role of Values in the Economy". Sadly, if that was the aim of this book it was a disappointment. While the diversity of disciplines provides alternative perspective on values (their transmission, acceptance, evolutionary basis) the feel of the whole book is disjointed.

There were, however, a few bright spots amidst several misguided articles. The particulars of the basis for my critique are below, but, overall I would still recommend the book as a first cut at a discussion about morality and markets. Paul Zak's introduction and chapter "Values and Value" as well as Schwab and Ostrom's article "The Vital Role of Norms and Rules in Maintaining Open Public and Private Economies" come the closest to integrating values. Particularly, Schwab and Ostrom explain the need for values when they discuss the infinite regress problem, "Thus, at some point, we must cease to rely upon institutional corrections and place our faith in a citizenry well educated in virtue. Ultimately we must guard the guardians. It is our hope that, by keeping our rules for institutional design in mind, we can guard them well." That is, good institutions help; however, when there is always an incentive to defect for personal gain (from each guardian), at least one guardian must say, "I will not defect because of that's not part of my value system." That there is a necessary critical mass of pre-existing values is important. Now, how those values come about is another story. Zak's discussion of the importance of empathy is a phenomenal starting point to consider where those other values (fairness, trustworthiness, honesty, etc) emerge. As Solomon tells us in the book empathy is the basis of Adam Smith's Theory of Moral Sentiments (since empathy was not yet invented as a word Smith used "sympathy"). Our ability to feel for another person is central to personal exchange and speaks towards the kinds of policies we desire to impose on impersonal exchange. Other excellent articles included Casebeer's "The Stories Markets Tell", Kimbrough et al "Building a Market", and Erin O'Hara's "Trustworthiness and Contract". In particular Casebeer offers an interesting take on how markets fail to win people's hearts and how fallacies about the market persist. The middle of the book contained a variety of stories about monkeys (which did not really tell us very much that we didn't already know from experimental economics) and macro-cultural evolution which attempts to tackle a very large problem rather than focusing on devices that coordinate large-scale identity. There are two short critiques followed by two longer critiques: 1. This book on "the critical role of values" pursues only evolutionary explanations of values and disregards the role of religion in values formation. Sometimes this disregard is not merely from absence but is rather flippant. For example, Goodenough writes, "Where does the capacity for such internal commitments come from? Some look to religion, and indeed a divine, designing power would have good reason as a matter of mechanism design to put such a capacity into humans, a gift as essential to their eventual well-being as sight and locomotion. But such a divine gift is not the province of science; we rely on that wonderful mechanism for bootstrapping adaptive design: evolution." Not a peep about religion and the formation of values. What makes this more interesting is that this project was funded by the Templeton Foundation! 2. There should have been a concluding chapter. With all of the disjointedness of content there should have been a chapter that sought to tie the disparate units together for the reader. 3. There is a sense that some of the authors begrudgingly admit that markets are overall a "good thing". This is captured well in Charles Handy's final chapter ". . . the urgent question now is how best to retain the energy produced by the old model without its flaws." The authors are willing to admit that capitalism provides a dynamic environment in which innovation is allowed with greater incentive, but, they seem reluctant to embrace the outcomes of capitalism. One might think that the authors would say, "Yes, indeed we are reluctant to embrace capitalism --- look at all the cowboys out there screwing everything up!" (this book was being written in the midst of all the financial scandals). But, what is the alternative? More regulation? The reliance of government would present plenty of public choice problems. Then, we must point to the importance of values in the political process! The critique is meant to elucidate the fact that human beings are flawed people and since humans comprise government, business, and other organizational structures those same problems will persist in all contexts unless values are strong. 4. Many of the other articles are based either on straw men, or, they are a commentary about how non-cooperative game theory has overtaken the economics profession. Let me explain. A number of the articles begin by discussing Homo Economicus - "the cartoon character" - and proceed to bash the model of rational calculation and self-interested agents as though it were a pintilde;ata. Their mistake however is that the Homo Economicus they portray is not part of the neoclassical vernacular, but, rather an invention of non-cooperative game theorists. While it is true that the "economic man" (a term given to JS Mill's theoretical abstraction) was part of neoclassical economic history "economic man" was always embedded in an environment of property rights and other social institutions. This can even be clearly seen at the dawn of game theory with Morgenstern and von Neuman, "Theory of Games and Economic Behavior" where they assume norm adherence as important for a cooperative solution. Why is this important? This questions the ability of many of the authors to use this model as a platform for stating the obvious, "humans care about things other than monetary payment." But, ever since the marginalists, neoclassical theory has used utility space which can include a variety of arguments outside of financial payment (see Blaug). I know the authors know this because they cite people like Bolton and Ockenfels and Fehr and Schmidt. But, their insistence leads me to believe that they are just raging against the perception that economists only care about self-interest. In the end, this book has a dual identity. I believe the book was supposed to be about the "critical role of values in the economy", but, some of the authors merely saw it as an opportunity to bludgeon a wrongly labeled neoclassical model of self-interest. For example, authors in this volume, Boyd and Richerson state, "Challenging the emphasis of selfish rationality in conventional economic theory is the main theme of this book." 38 of 39 people found the following review helpful. What are the Moral Values Associated with Market Economies? By Herbert Gintis The role of values in the modern market economy is important for two

reasons. First, economic development in poor countries involves importing some subset of institutions and cultural values from the currently advanced economies, while rejecting others in order to maintain traditional values and institutions, where possible. We have a pretty good idea as to which institutions are required for a healthy market economy, but only a few obvious organizing points when it comes to cultural values (e.g., corruption and nepotism are bad, primary, secondary, and higher education, and the rule of law are good). Second, business leaders in the United States and other advanced market economies have been involved in huge numbers of scandals in recent years, and there is a general sense that business culture tolerates a much higher level of unethical and illegal behavior than such other professions as medicine, science, education, and law. What can be done, if anything, to rectify this situation? This problem is interdisciplinary by its very nature, drawing upon the knowledge of psychologists, economists, legal scholars, sociologists, and biologists within the behavioral sciences, as well as neuroscientists, philosophers, journalists, and even business executives themselves. Twenty years ago, the need for interdisciplinary research would have assured that nothing interesting from the scientific point of view could possibly be said. This is because until recently, interdisciplinary research meant compromising down to a common denominator that could be accepted by all representatives of diverse fields with largely contradictory organizing principles and incompatible views of social organization and dynamics. This distressing situation is no longer the case, as this excellent volume clearly indicates. This is not a highly technical volume for the professional experts, but rather a report for the intelligent layman on what experts from a variety of fields have come to accept in common as a framework for dealing with the question of the role of values in a market economy. While the chapters of this book were written independently by various authors, most of whom had limited or no exposure to one another prior to the formation in 2006 of a "free enterprise research group," funded by the Gruter Institute and the Templeton Foundation, there are no major disagreements among them. This is doubtless in part because researchers with incompatible ideas were not invited to join the group, but it is also because there is a solid basis in scientific research for the views put forth in the volume. I was a member of this research group, and even though the topic is a specialty of mine, I learned an immense amount from the other participants, and this book includes in detail many of the important things I have learned. My only proviso is that I hated from the first calling the entity we were studying the "free enterprise" economy, because the latter term usually implies some right-wing ideology about minimal state intervention, whereas in fact the modern market economy requires extensive intervention to work properly and produce fair and environmentally sound outcomes. However, we addressed no issues concerning government intervention, and we accepted the stupid term "free enterprise" only because the funding agencies required us to do so. The book's editor, Paul Zak, lays out the major issues very clearly in an introductory essay. First, morality is not simply "learned," like physics, chemistry, or language, but is deeply ingrained in our nature as members of the species *Homo sapiens*. Thus, the study of morality is not the contemplative quest for the Nature of the Good and the Just, but rather the study of how people acquire, transform, and deploy moral principles in living their lives. Second, the market economy accustoms people to cooperating and sharing with strangers of different race, creed, and ethnicity, thus promoting a sense of fairness and tolerance that is generally absent from pre-market societies, in which charity and considerateness are extended only to family and close friends. While the market economy is based on competition, there are ethical values that, under the proper conditions, govern competitive interactions, including honesty, trustworthiness, and social responsibility. "The very freedom to exchange in markets celebrates individual dignity and choice," says Zak, "but also allows for transgressions." (p. vxii). Zak's point is that social interactions in a market economy are determined by legally enforceable contract alone, but rather by mutual trust and honesty, without which the rule of law is but a hollow shell. "Leges sine moribus vanae," said Horace (Third Ode)---Laws without morality are useless. The commonly expressed idea that the capitalist economy is run purely on greedy self-interest is thus so stunningly false that it is difficult to believe intelligent individuals could ever have believed it. The first part of this book deals with some philosophical issues that must be addressed before dealing with social issues. Philosophers William Casebeer and Robert Solomon defend what is known as "virtue ethics," associated with Aristotle among others, as opposed to intuitionist, deontological, and utilitarian ethical theories. I think this is an excellent choice, because the character virtues of honest, trustworthiness, fairness, tolerance, and loyalty are precisely what is needed to underpin social relations in a market society where agreements cannot be enforced by law alone. Economist Robert Frank develops his idea that the moral emotions are precisely what motivates us to honor our commitments when naked material gain might induce us to behave otherwise. The second part of the book treats human morality as an extension of moral behavior in primate species that live in social groups where prosocial behavior is a prerequisite to a high average fitness of group members. The third part includes a summary by Robert Boyd and Peter Richerson of their highly original and quite cogent theory of human sociality, called gene-culture coevolution. They argue that humans are the first species to have a cumulative culture, and that this culture became the basis for genetic development of prosociality in our species. This explains why most humans derive pleasure and satisfaction from doing good to others and living up to the standards of virtuous living---behaving this way is in both our genes and our culture. Of course, this deep commitment to the social group is also the basis for the most vicious and horrific forms of human behavior, in which we maim and kill outsiders in real or imagined defense of one's own group of "insiders." The final two parts of the book include several chapters that apply the foregoing

principles to law, social policy, and business education. I may be biased by being a member of the research group that produced this volume, and by having written a chapter in the book, but in complete honesty I believe this book to be absolutely seminal in jump-starting a serious scientific dialogue concerning the ethical basis of market societies. I think political democracy, civil liberties, and gender equality are intimately bound up with private property and market exchange, because powerful movements for political emancipation have been most salient in societies with modern market economies. Future research should explain why these political and economic institutions have so deep an elective affinity, and how the blessing of liberty and personal dignity can be extended the world over. 14 of 15 people found the following review helpful. *Moral Markets: Intriguing Insights, a Rewarding Read* By Charles Taylor This collection of essays provides an accessible and often delightful guided tour of the frontier of current research in sociology, economics, biology and philosophy. The first of five parts is philosophical and argues that core moral values are real and universal, and not something illusory or relativistic. The second discusses new scientific evidence that certain species of apes behave morally: the roots of morality run deep apparently. The third lays out a couple of ways in which markets and morals co-evolve. The fourth examines the not-always-obvious interdependence of morality and law. And the final section looks at ways in which markets and morality can in fact be highly supportive of one another. There are great insights to be gleaned from this book: several of the shortcomings of traditional economic thinking are neatly exposed; morality is revealed to be a field of empirical research as well as a subject of philosophical enquiry; markets are shown to be almost psychic on occasion in the speed with which they can capture and evaluate information. Economists have for a long time appreciated that law is important to the smooth functioning of an economy. This book shows us how virtues matter as much. Here is one example of a nice insight. In chapter eight, Lynn Stout, writes about "Taking Conscience Seriously" and starts off by describing Homo Economicus, the stereotypical rational profit maximizer featured in the pages of most economics textbooks. "Not to put too fine a point on it," she says, "Homo Economicus is a sociopath. The hallmark of sociopathy is extreme selfishness as shown by a willingness "to lie, cheat, take advantage, [and] exploit.'" She uses the American Psychiatric Association's definition of a sociopath to make her point. She goes on to point out how Homo Economicus has not only impoverished economic analysis over the years but has also corrupted generations of economics students. She reports evidence that they are less cooperative than their peers from other disciplines and consistently do less well in games like the Prisoner's Dilemma that depend on trust. Another interesting insight: according to Sarah Brosnan who wrote on "Fairness in Non-Human Primates" in Chapter five, it is not just human beings who care about fairness but also capuchin monkeys. They will cooperate productively if the outcome is reasonably fair, but stop if things become sufficiently inequitable, even if that means foregoing any benefits: just like children who will throw the pie on the floor rather than be short changed by a sibling. Caring about fairness has deep evolutionary roots. One final example of a surprising and satisfying nugget: in Chapter six, Peter Richardson and Robert Boyd discuss evolution and free enterprise values. This chapter takes a panoramic view of human history. Starting 250,000 years ago, they consider the evidence that the rapid growth in human brain size was driven by extraordinary variation in weather throughout the Pleistocene era: it made cooperative hunter-gatherer tribes adaptable enough to survive climate changes. Then, as the weather stabilized at the beginning of the Holocene 50,000 years ago, settled agriculture became feasible and our ancestors' brains were large enough by then to support the development of complex social organizations and wider circles of cooperation so that the first great river civilizations could appear about 5,000 years ago. Their thesis is that in both the Pleistocene and Holocene, it was a combination of selflessness and selfishness in individual behavior that produced population success. Altruism and other regarding behavior is deeply imbedded in our nature. Thus free enterprise, which gives rein to both these traits, suits us very well. This is a really well edited volume in which the essays are complementary, clear, engaging and concise. Only an omnivorous polymath will fail to get a lot out of it. If you care about the evolution of selflessness, morality and open forms of economic organization and want to know what recent research has to say on the subject, buy it and enjoy.

Like nature itself, modern economic life is driven by relentless competition and unbridled selfishness. Or is it? Drawing on converging evidence from neuroscience, social science, biology, law, and philosophy, *Moral Markets* makes the case that modern market exchange works only because most people, most of the time, act virtuously. Competition and greed are certainly part of economics, but *Moral Markets* shows how the rules of market exchange have evolved to promote moral behavior and how exchange itself may make us more virtuous. Examining the biological basis of economic morality, tracing the connections between morality and markets, and exploring the profound implications of both, *Moral Markets* provides a surprising and fundamentally new view of economics--one that also reconnects the field to Adam Smith's position that morality has a biological basis. *Moral Markets*, the result of an extensive collaboration between leading social and natural scientists, includes contributions by neuroeconomist Paul Zak; economists Robert H. Frank, Herbert Gintis, Vernon Smith (winner of the 2002 Nobel Prize in economics), and Bart Wilson; law professors Oliver Goodenough, Erin O'Hara, and Lynn Stout; philosophers William Casebeer and Robert Solomon; primatologists Sarah Brosnan and Frans de Waal; biologists Carl Bergstrom, Ben Kerr, and Peter Richerson; anthropologists Robert Boyd and Michael Lachmann; political scientists Elinor Ostrom and David Schwab;

management professor Rakesh Khurana; computational science and informatics doctoral candidate Erik Kimbrough; and business writer Charles Handy.

"Moral Markets challenges the 'homo economicus' rational choice framework of mainstream economics with 15 chapters contributed by a team researching the nature of values in economic thinking. Zak has compiled what may become a starting point for further work on this topic, given the volume's scope and creative insights. After philosophical reflections from Aristotle to Adam Smith on the origin and nature of values, the readings focus on evolutionary processes that form values like fairness and reciprocity. . . . [T]his collection is important in helping to reconsider the value-free claims of economics."--J. Halteman, Wheaton College, for CHOICE "The book's span is huge, taking in cooperation among chimpanzees, the status of moral emotions, and the role of contract law in encouraging trustworthy behaviour, as well as areas more familiar to economists such as the effect of incentive schemes on employee effort. . . . Moral Markets is an interesting and valuable book, addressing important and under-researched questions."--Joe Perkins, World Economics "Moral Markets is a fascinating indicator in its own right of trends in thinking about markets. . . . This . . . should be part of strategic thinking for any senior manager, in library work and beyond. This is also an attractive addition to the economics and business ethics shelves of any academic library."--Stuart Hannabuss, Library "Moral Markets is challenging not only because it brings to bear a wide variety of scientific fields of inquiry but also because it is willing to buck widely held assumptions about markets and what human nature really is. By drawing the best available science, it manages to offer a sense both of objectivity and of hope that perhaps we are not as nasty and brutish as we sometimes seem."--Ray Bert, Civil Engineering "This is an interesting and important collection of essays, indicating some important shifts of thinking and some of the positive benefits of work in 'neuro-economics'."--Geoffrey M Hodgson, Journal of Economic Issues "Moral Markets provides the serious student of business, government, and society with the necessary intellectual tools to reengineer their knowledge and practice of virtue, and perhaps enlighten them on why and how 'goodness' ultimately serves society."--Sean D. Jasso, PhD, Graziado Business Report "Everyone who is vaguely interested in how motivated choice interacts with morals should own this collection. The bibliographies span a dozen research areas and offer precise guidance to enter ongoing discussions."--David M. Levy, Journal of Bioeconomics "Moral Markets provides a surprising and fundamentally new view of economic one that also reconnects the field to Adam Smith's position that morality has a biological basis."--World Book Industry From the Back Cover "Most people are fundamentally honest, trustworthy, and fair. Why? Because they have a capacity for empathy and trust that is just as innate as their capacity for selfishness. It evolved in order to enable people to capture social benefits through exchange. Markets not only need that instinct; they also nurture it. This simple and beautiful idea has been disinterred by the authors of this book from beneath the cynical sophistries of the twentieth century."--Matt Ridley, author of The Origins of Virtue "Before he became famous as the father of free-market capitalism through The Wealth of Nations, Adam Smith wrote The Theory of Moral Sentiments, a long-forgotten and still little-known treatise about the role of values and virtues in economic and social life. At last, science has caught up with Smith, and now Paul Zak has gathered leading scholars and scientists in a definitive volume on why markets are moral. This paradigm-shifting book is required reading not only for economists, but for all behavioral scientists."--Michael Shermer, publisher of Skeptic, columnist for Scientific American, and author of The Mind of the Market "Understanding how values are reflected in markets, and how markets either reduce or increase their positive or negative effects on human welfare, is obviously important. The work of the scholars represented in this volume contributes significantly to these issues and adds substantially to the foundations of analysis that will eventually lead to a richer and more complete understanding of these issues. I look forward to seeing the creation of an entirely new field of inquiry in economics, and in its sister social sciences, focused deeply on the positive analysis of the role of values in elevating the possible outcomes of human interaction. . . . The role of values is a purely positive question for economics and the other social sciences, and this volume begins that journey toward creating such a science."--from the foreword by Michael C. Jensen, professor emeritus, Harvard Business School About the Author Paul J. Zak is founding director of the Center for Neuroeconomics Studies and professor of economics at Claremont Graduate University. Zak also serves as professor of neurology at Loma Linda University Medical Center and senior researcher at UCLA.