

Review for the *Journal of Economic Issues*

Zak, Paul J. (ed.) (2008) *Moral Markets: The Critical Role of Values in the Economy* (Princeton: Princeton University Press). ISBN 978-0-691-13522-9 (hardcover). ISBN 978-0-691-13523-6 (paper). Pp. xli + 344.

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”. The title of the volume has a double meaning: (1) that (some or all) markets are intrinsically and morally good, or (2) that despite the role of self-interest, market transactions are unavoidably infused with moral considerations. The comments on the back cover point to the latter meaning, redolent of Adam Smith in the *Moral Sentiments*. So I was disappointed to find that the editor and some of the contributors also entertain a crude version of the first.

At first I saw the writing of this review as an opportunity to appraise the importance of important developments in neuroscience and evolutionary ethics – a focus on the second meaning. But the ideological crudities are too prominent to avoid notice. I hope that this defect will not deter readers of this journal from appraising some of the more sophisticated insights therein.

The volume consists of 15 essays by leading authors such as Robert Boyd, Robert Frank, Herbert Gintis, Charles Handy, Elinor Ostrom, Peter Richerson, Vernon Smith, and Frans B. M. de Waal. This interdisciplinary list includes anthropologists and political scientists, as well as economists and others. The editor adds a chapter and an introduction.

Regrettably, the editor’s introduction seems to narrow the potential audience for the book rather than to enlarge it. While it engagingly points to some of the important insights within the volume, the editor did not resist the temptation to peddle his simplistic pro-market philosophy. Zak argues that markets are superior to planning, not on the grounds of the more sophisticated epistemic critique of Friedrich Hayek and others, but because “we are not bees” (p. viii). Genetic variation means that people are diverse and markets are necessary.

Presumably, therefore, Zak would recommend that all inter-gender relations should be conducted on a market, including the sale of sexual services? Furthermore, his argument would suggest that the modern corporation is dysfunctional, because it unites a genetically diverse set of individuals in a non-market organization, planned by its directors and managers. Yet I found no attack in the book on corporate planning. Even in a market economy markets are far from universal. Zak neither recognizes nor explains this.

Zak claims on the basis of a miniscule citation of a large and controversial literature that “flexible” institutions based on common law generally “outperform” inflexible institutions “based on the Napoleonic civil codes” (p. xv). Outperform? I am writing this in “inflexible” France where output per worker-hour exceeds that in the USA, the standard of living is comparable, income inequality is lower, carbon emissions per capita are much lower, public transport is superb, health services are rated superior to by reputable comparative studies, and life expectancy is greater. It is sad that Zak spoils a good book with misguided market mantras.

Personally I believe that markets and commodity exchange are unavoidable in modern complex economies. To its cost, the political Left has often overlooked this. But

unsophisticated pro-market arguments are just as unhelpful as naïve defenses of comprehensive planning.

Zak is not alone in his crude market sentiment. The first chapter, by Lt. Col. William D. Casebeer launches on its first page into an attack on Nobel Laureate Joseph Stiglitz for his “exchange-is-bad-all-round” arguments (p. 3). Needless to say, this is gross distortion of Stiglitz’s views, unsupported by any textual evidence. It is a pity that a book that urges us to take moral issues seriously, launches occasionally into unqualified pro-market rhetoric.

Similarly, an interesting essay on the evolution of dispositions for fairness among humans and primates cannot refrain from a similar ideological mantra. Sarah Brosnan opines that many “responses to free enterprise are probably not rational” but are an evolved “gut response” (p. 93) to the perceived inequities of the system.

This may be true, but why not also opine that the widespread affection for “free enterprise,” manifest in sentiments of possession and greed, are also evolved emotions, and not necessarily a result of rational and adequate analysis? An additional hypothesis that “probably not rational” emotional dispositions of possessiveness and greed have also evolved is highly plausible. Given that far more economists these days are in favor of capitalism than against, the latter corrective would be even more appropriate than the former emphasis on the irrationality of envy.

Brosnan hints, however, that the additional corrective is unnecessary because she believes that “free enterprise” is “an economic system designed to benefit us all” (p. 99). Evolution is suddenly thrown out of the window: capitalism now has an unnamed (intelligent?) designer, and we ignore the highly differential benefits within and between its different species.

Fortunately, not all the contributors toe the editor’s political line. For example, the essay by Robert Boyd and Peter Richerson contains a much more carefully nuanced treatment of the relationship between capitalism and our cultural and evolutionary past. Their essay also stands as an excellent overview of their important work on the relationship between genetic and cultural evolution and focuses towards its end on the evolution of modern human institutions.

Boyd and Richerson note that “the democratic, free enterprise society” has out-competed rivals and spread across the globe, but importantly it is usually accompanied “with a more or less generous welfare safety net” (p. 108). They note (p. 134) that chimpanzees “have very little of the cooperative economic enterprise that characterize humans. ... Humans evolved to be the sort of species we are by adding cooperative wealth acquisition and mutual aid to our repertoire.” They note that both Smith and Darwin “both rested their theories of ethics on ... the moral hidden hand.” They also add (p. 135) a note of caution: “While we are quite happy to celebrate the accomplishments of free enterprise, we are not complacent. Not only are many societies still unfree, but even the freest have imperfections.” Among their concerns are the “great risks of environmental deterioration” and transparent difficulties in meeting human needs.

Among the better essays in the book that focus on the second meaning of the book’s title are the excellent discussions of the role of conscience in human interactions by Lynn A. Stout, and of the vital role of rules and norms by David Schwab and Elinor Ostrom. Another important essay by Herbert Gintis and Rakesh Khurana argues that neoclassical theory is highly limited in its treatment of human agents and cooperative behavior.

Zak’s own chapter deserves special attention. On the basis of neuropsychological research, some carried out in the laboratory he directs, he argues that “most people, most of the time,

behave ethically, and a set of shared values is essential to the functioning of modern economies” (p. 261). This also brings us squarely to the important second meaning. Zak’s important conclusion is that institutions should be designed to take into account the moral feelings of actors, as well as pecuniary costs and rewards. These observations are extremely important, especially as they are backed by powerful neurological evidence.

Zak appropriately cites the important study of Joseph Henrich et al. (2004) that shows that the more frequently cultures engage in commodity exchange the higher levels of cooperation and trust. But he also notes (p. 272) data showing that Norway and Sweden are among the countries with the highest levels of trust. He fails to draw the obvious conclusion that some market economies perform better in stimulation such virtues than others, and the leading performers are countries with a market economy with a strong welfare system and a lower degree of inequality. In citing this evidence on Norway and Sweden, Zak implicitly undermines his simplistic pro-market position.

An important argument raised by Zak is that markets preserve moral values more effectively than planned economies. To a traditional leftist this may be surprising. But the evidence of cynicism and corruption in the former Soviet Bloc militates in its favor. There is also the evidence of Henrich et al. (2004) on cooperation in different cultural and institutional settings. One of their results was that exchange relations can help to promote cooperation. Regrettably, however, these more important arguments in favor of some commodity exchange are relatively underdeveloped. There is no mention of the *doux commerce* arguments found in the superior and sophisticated work of Albert Hirschman (1986) – who is one of the several important authors uncited in the volume.

Whatever their virtues, markets do not automatically bring about moral rectitude. Consider fast-growing contemporary China. At several levels it challenges Zak’s slogans, first because its market economy is heavily guided by a central bureaucracy, and second because it is rife with business crime and corruption. It is hardly a beacon of business morality. There is no evidence that enlarging free trade will fix that problem, at least without strong complementary measures.

There is a great deal of interest and important in this volume. Space prevents me from commenting on all the essays, so I have been unable to note several other contributions of merit. One of the defects of the volume is the promotion by the editor and some of the other contributors of an unrefined pro-market ideology.

The introduction of moral values into economics, which are irreducible to the calculus of cost and gain, implies a critique of the utilitarian ethos that has permeated economics for more than a century. The volume under review would have been improved if this fact was given greater emphasis, and some more moral philosophers were included among the contributors.

Despite my criticisms, this is an important book that should be of interest to readers of this journal. Long ago Thorstein Veblen taught us that agents are not simply rational calculators of costs and benefits, but we are also impelled by dispositions and emotional capacities, some of which we gain in a specific culture, and others that we inherit as “instincts” from our evolutionary past.

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