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Book reviews

Moral Markets: The Critical Role of Values in the Economy, Paul Zak (Ed.). Princeton University Press, Princeton and Oxford (2008). 386 pp. $29.95/£20.95, ISBN: 978-0-691-13523-6

When asked to think about a connection between participating in a market and acting ethically, most people sense a conflict. After all, the market is a place to pursue one's self-interest, while ethics is thought to entail acting in an other-regarding manner. To succeed in the marketplace one must therefore subordinate ethical considerations to self-interest, right? Wrong, say the contributors of this excellent and thought-provoking volume. The marketplace, they argue, is actually teeming with ethical beings.

In 15 chapters contributed by anthropologists, biologists, business professors, economists, neuroscientists, a philosopher, and political scientists, who met six times over 2 years, the overarching argument is made with two propositions. First, they claim it is in our nature as humans to be moral. We should therefore quickly abandon the notion of the amoral *homo economicus* being a reliable guide to human behavior. Second, it is our morality that makes markets even possible. If people did not have internal restraints on lying and stealing, then, given the impracticality of pervasive monitoring and enforcement, the marketplace would unravel rather quickly.

Several contributors express the view that morality springs from feelings of empathy rooted in our biology. Zak declares in the introduction, "An intertwining of biology and behavior is the leitmotif of this book. . . [it] restricts analyses that connect morals and markets to be consistent with evolution and behaviors in closely related species such as apes" (p. xi). So the biologist Frans de Waal discusses his experiments which reveal that even primates behave in ethical ways, such as reciprocating favors and co-operating with other primates. The anthropologist Sarah Brosnan discusses her observations that capuchin monkeys exhibit an aversion to unfairness and inequality. Zak, an accomplished and pioneering neuroeconomist, reports that a hormone called oxytocin is responsible for our feelings of sympathy and trust and compels us to act in an other-regarding manner.

Why are we endowed with these moral sentiments? The economist Robert Frank argues that it enhances our fitness for survival. A person who exhibits a tendency to experience guilt about cheating is attractive to potential trade partners and therefore is successful in securing his long term material advantage. With a mathematical model, the biologists Bergstrom, Kerr and Lachman show that by "wasting time" on other-oriented behavior one can build trust necessary to engage in a profitable exchange. Richerson and Boyd maintain that values such as "co-operative wealth acquisition and mutual aid" that underpin the free market system have evolved as a result of cultural adaptation. "We depend on cultural evolution," they say, "to generate values and social institutions over many generations that are. . . group-functional" (p. 115).

And the market needs these values, they persuasively argue. There are numerous possibilities in the marketplace for the participants can act opportunistically, and if they did the market would quickly empty out. Perfect enforcement would be terribly inefficient, the law professor O'Hara argues, because it would encourage people to be rather careless in selecting their trading enforcements. In their extensive analysis of external enforcement mechanisms to prevent opportunism, political scientists Schwab and Ostrom keep coming up against the intractable question—Who will guard the guardians? "At some point," Schwab and Ostrom conclude, "we must cease to rely upon institutional corrections and place our faith in a citizenry educated in virtue" (p. 223).

Fortunately virtue is all around us, as the business professor Lynn Stout points out in her delightful chapter. "Newspapers are left in the driveways when no one is about; brawny, young men wait peacefully in line behind frail senior citizens; people use ATM machines without hiring armed guards; stores stock their shelves with valuable goods watched over by only a few sales clerks. (p. 157)" The marketplace is therefore teeming with ethical actors. Zak makes an even stronger claim: markets *promote* ethical behavior. In a study that he cites, people were found to be more generous to strangers in countries where market exchange was more entrenched. The line of research is intriguing and provides a fruitful avenue for future research.

One may ask—if markets are so moral, why do we have the Enrons and the Bernie Madoffs? It is a questions that the contributors often bring up but never quite answer satisfactorily. One possible culprit they suggest is faulty theorizing in academia. "The widespread reliance on the *homo economicus* model," write Gintis and Khurana, "cannot be said to have definitely caused the problems of observed managerial malfeasance, but it may well have, and in any case, it surely does not act as a healthy influence on managerial morality" (p. 324). Zak says that circumstances might be to blame: "During periods of extreme stress, other regarding behavior is suppressSed. . .. This might be an explanation for the lack of moral behavior by those at Enron—the enduring stress of 'making the numbers' caused them, at some point, to make up the numbers."

But such explanations are problematic. If moral behavior can be so easily shaped by cognitive and situational factors, then why does the book insist so much on seeing it as a product of biology and evolution? The insistence makes it an target of criticism and allows the reader to be distracted from the book's message. For example, Zak writes, "The evolutionary basis for exchange is ancient, as are, apparently, the value of fair division from exchange" (p. 269). This is hard to swallow. Just 200 years ago the most upright members of the society saw nothing wrong in employing slave labor or dispossessing aboriginals of their land. As the evolutionary biologist Allen Orr has noted elsewhere, "Darwinism may well have endowed us with a crude morality, but this can't explain why kings but not women once had rights, but now women but not kings do."[1]

[1] Allen Orr (2003).

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The contributors sense it too, and so despite the book's official declaration of sticking to biological impulses they keep reaching for explanations based on socialization or reason to generate the required morality. Though Zak writes in the introduction that "a consistent finding from neuroethics is that the Kantian notion of morality as being learned by rational deduction is generally incorrect" (p. xii), his fellow contributors spend much time making arguments in favor of acting morally. "Business school faculties and deans have an institutional *responsibility*," write Khurana and Ginnis, "to *socialize* students to a model of behavior that inspires them to respect other institutions in society. . . and to *inspire* students to accept the responsibilities and *obligations that come with occupying* society's most powerful positions. (p. 324, emphasis supplied)" It is a quite a remarkable piece of Kantian argument. Schwab and Ostrom, similarly, place their faith in a citizenry "*educated* in virtue," not a citizenry evolved to secrete sufficiently high levels of oxytocin.

The book would have done well to admit the vast role of ethical reflection and education, rather than slip it through the back door. As Deirdre McCloskey has argued elsewhere, ethical behavior needed for a market society cannot result from a mixture merely of self-interest and sympathy. A CEO or banker who passes up the opportunity to cheat his shareholders or customers can hardly be said to be acting out of sympathy for the multitudes he has never met. More likely he is acting in accordance with his transcendent ideal of justice, learnt at his mother's knee and shaped in the business school. "The ethical wholeness matters," as McCloskey puts it.[2] The main argument of *Moral Markets* would have not been any less persuasive for the up-front admission, but would have taken away ammunition from those who might use the charge of biological reductionism to dismiss the book's powerful message.

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Intangible Capital: Its Contribution to Economic Growth, Well-being and Rationality, John F. Tomer. Edward Elgar, Cheltenham, UK/Northampton, MA, USA (2008). 296 pp., bibliographical references and index, Hardback, £70.00, ISBN: 978-1-84720-088-4

Like all other academic disciplines, economics has developed over time. The birth of equilibrium theory in the second half of the 19th century was an enormous scientific breakthrough. In the 1930s, Keynes' "general theory" and the following decades of Keynesianism provided the theoretical base for a new and developed governmental economic policy. Human capital theory, launched 1960, showed the insufficiency of "labor" as a single production factor and has among other things formed the base for an understanding of the knowledge economy. Endogenous growth theory has provided explanations to why reality does not behave as former theories say, as well as new opportunities for governmental growth policies. These examples show that economics has been able to develop its theories as society has developed and become increasingly complex.

One concept that was a subject of several internal controversies during the former century was that of capital, both in its traditional, tangible forms, and the "new" human capital that was launched in the 1960s. The breakthrough of social capital in the 1990s took place outside the discipline of economics and several distinguished economists raised sharp criticism against the concept.

This book is partly placing itself in this pioneering tradition as it goes even further than discussing the nowadays accepted concept of social capital and its role in economics. The book launches the term *Intangible Capital (IC)* as a summarizing concept for a number of non-traditional capital concepts: standard human capital, intellectual capital, personal capital, emotional intelligence, non-cognitive human capital, moral capital, patience capital, cultural capital, social capital and organizational capital – and it relates these various forms to each other. The main argument for the book is that economic development not only is a material process, ". . .it is partly a human process, and intangible capital formation is an important part of that process" (p. 217). As expressed by the author, the book ". . .seeks to understand IC as long lasting human capacity that is at once consistent with the core concept of economics, but at variance with the narrow interpretation of capital generally taken by mainstream economists" (p. 4). Other purposes of the book are ". . .to bring the human factor related to productivity more fully into economic analysis than has heretofore been the case" and ". . .add to our appreciation of what determines human well-being and what contributes to truly rational human behavior" (p. 5).

The book is divided in five parts of which the first deals with the concept of Intangible Capital as such and the second discusses its connections to economic growth and change respectively. Part three treats well-being, rationality and preferences and these concepts connections to IC and part four discusses implications for government policy and the discipline of economics. Part five sums up the book.

In part one, the definition of IC is made solely from the perspective of its connection to economic growth. IC thereby is defined as *human capital in the broadest sense* (reviewer's italics) with the addition of some intellectual capital possessed by individuals. Intangible capital ". . .is embodied both in individuals and in relationships and has varying degrees of intangibility. It is all of what makes human effort more productive than merely totally unskilled labor" (p. 25).

Part two which deals with IC and economic growth contains summaries of earlier studies connected to the theme and some case studies and thematic studies of such shifting topics as organizational capital in multinational firms (this chapter is written by Bart Eikelenboom), high performance work systems, personal capital and emotional intelligence, and intangible factors in the Eastern European transition. In this part, Tomer shows that IC and its various component parts is playing an important role on different spatial levels, from the individual firm and the cluster it might belong to, to countries and groups of countries.

In part three, Tomer criticizes some of the fundamental dogmas of the moral-philosophy on which economics is based: the utilitarian interpretation of well-being, i.e. what Tomer with reference to Amartya Sen calls "welfarism"; the assumption of stable actual preferences and the concept of instrumental rationality. As an alternative to these mainstream economics views, Tomer develops models that aims at explaining why addictive behavior is not rational, and how an individual's preferences for consumer goods

[2] McCloskey (2006).