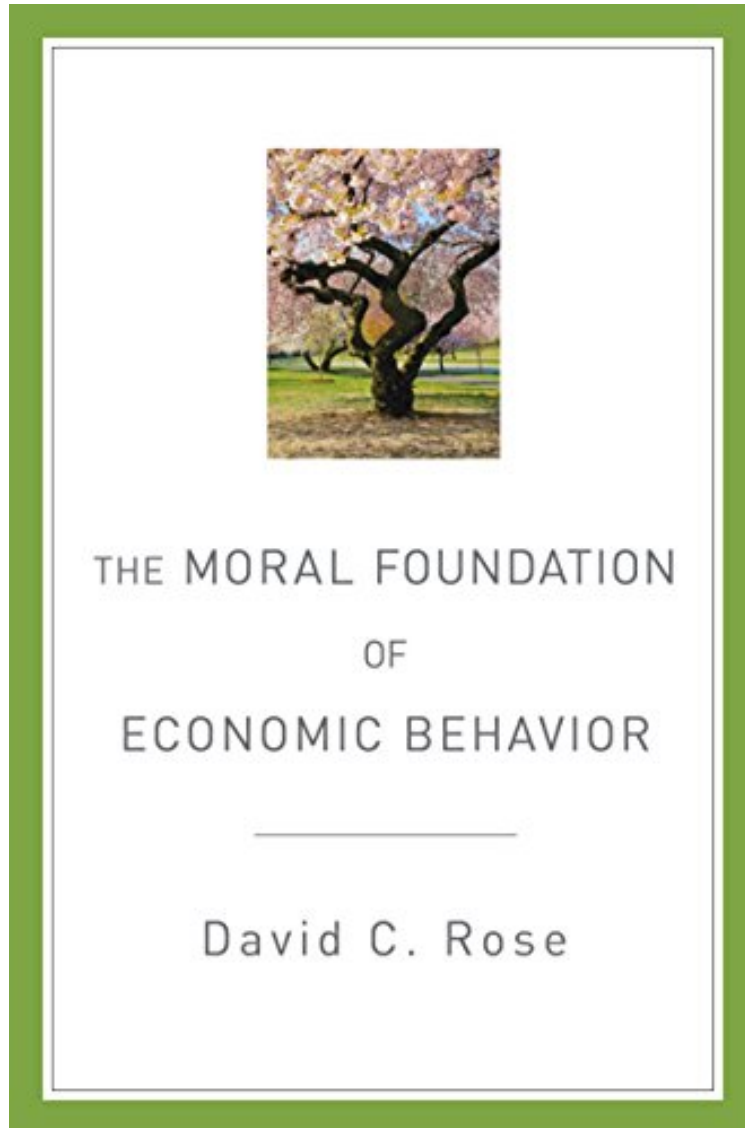


(Download ebook) The Moral Foundation of Economic Behavior

# The Moral Foundation of Economic Behavior

*David C. Rose*

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**David C. Rose : The Moral Foundation of Economic Behavior** before purchasing it in order to gage whether or not it would be worth my time, and all praised The Moral Foundation of Economic Behavior:

18 of 18 people found the following review helpful. A Solid and Insightful Contribution to the Theory of Economic MoralityBy Herbert GintisThe standard model in economic theory assumes that arbitrarily complex contracts can be written at zero cost, and contractual arrangements can be enforced by a third party (the judiciary) at zero cost to the contracting parties. When these conditions hold, it is impossible for agents to cheat successfully, and no moral issues are involved in executing their side of the contract. When there are aspects of performance for one of the partners to a contract that cannot be third-party enforce, principal-agent models suggest that the principal can costlessly set

complete incentives for the agent that induces optimal performance, so the principal is indifferent to the moral character of the agent. The assumptions that imply the irrelevance of moral character in market exchange are, however, widely violated, and often gravely violated. For instance, an employer may prefer an honest and trustworthy worker to a self-interested worker, because the cost of monitoring will be lower and the level of effort and care delivered by the worker will be higher if the worker behaves morally. Similarly, when two firms contract for services, the honesty and trustworthiness of each may be a prime concern of the other because it is infeasible to write complete contracts. The proof of the importance of morality is that economies in which the moral element is absent will generally operate at a low level of efficiency. Corruption and malfeasance do not merely transfer benefits from the moral to the immoral agents, they are contagious: integrity unravels when moral individuals see that they are being scammed, and respond by in turn abandoning their moral high ground. This is known as the unraveling of cooperation. David Rose's fine analysis of the morality of economic behavior is inspired by the economist Friedrich Hayek, who stressed that information in the economy is radically decentralized and distributed across economic agents (see his *American Economic Review* paper of 1945), as well as the philosopher Immanuel Kant, who stressed that moral behavior is based on adhering to moral rules, not acting benevolently on behalf of others. For Kant and Rose, and I think this is the correct view, is that one is not honest because one cares about one's exchange partner, but because being honest is the right thing to do. Rose's support for the Kantian position is not philosophical, but psychological. In very small societies, one can care about all of one's trading partners, he argues, but in modern society, in which one has many trading partners and one does not really know more than a few personally, contract enforcement cannot be expected to depend on mutual positive feelings, he argues. One of the attractive features of this closely argued book is that Rose argues that trust is not a moral virtue, but that trustworthiness is. He correctly notes that in a society in which individuals generally trustworthiness, then even amoral agents will be trusting, and there is nothing moral about trusting others in a generally untrustworthy environment. My only quibble with Rose's argument is that it is just too Kantian. Rose argues that honesty and trustworthiness must be unconditional, whereas I believe that no moral value is truly unconditional. This is because moral behavior is in fact governed by the rational actor model: individuals behave morally because this maximizes their utility. Individuals in general will trade off some moral values against others, and will even trade off moral behavior against selfish interests. When the cost of behaving morally is very high, individuals will abandon their morality. In fact, we do not expect unconditional compliance from exchange partners, but rather only generally dependable integrity.

12 of 12 people found the following review helpful. Trust is key

By merjet

The author asks: If a society's sole objective is to maximize general prosperity and it can choose its own moral beliefs, what kinds of moral beliefs would it choose?

Specialization, or the division of labor, is the key to prosperity. On the other hand, with more specialization comes less knowledge of the activities of others and more chances for them to exploit us. The author calls this opportunism, which he defines as acting to promote one's welfare by taking advantage of a trust extended by an individual, group, or society as a whole. (I assume such opportunism does not include entrepreneurship, since there is no breach of trust.) Opportunism drives up transaction costs and thus reduces prosperity.

Three degrees of opportunism:

1. Reneging on contracts.
2. Taking advantage of the incompleteness of contracts that cannot anticipate every possible eventuality.
3. Taking advantage of discretion that exists in a relational contract that lack specificity because the circumstances of the transactions involved are so unpredictable that flexibility is of paramount importance.

The term "golden opportunity" is used fairly often. It isn't well-defined, except for the additional condition that there is no chance of being detected. The more knowledge is localized, the more golden opportunities arise. There are hardly any examples of opportunism given. He contrasts moral prohibitions and moral exhortations. Moral prohibitions sharply prescribe specific negative moral actions. They prescribe inactions -- don't do X -- and use no resources. Moral exhortations -- do X -- urge positive moral action, use resources, but leave some flexibility for choosing exactly what to do. He contrasts a duty-based, nonconsequentialist ethic and a consequentialist (antithetical to duty) ethic.

"The moral foundation of economic behavior is a norm [of?] unconditional trustworthiness made possible by a preponderance of people possessing an ethic of duty-based moral restraint while not regarding moral advocacy as a moral duty. The foundation applies a nonconsequentialist theory of moral propriety to negative moral actions while applying a consequentialist theory of moral propriety to positive moral actions."

1 of 1 people found the following review helpful. Important Work in an Important Field

By EPCIII

It might be helpful to place David C. Roser's; *The Moral Foundation of Economic Behavior* in context. In the *Moral Ecology of Markets: Assessing Claims about Markets and Justice*, Daniel K. Finn distinguishes between social justice and personal justice. Simply put, social justice examines what governments should do while personal justice examines what individuals do. Adam Smith's; *The Theory of Moral Sentiments* addresses personal justice while his jurisprudence lecture notes deal with social justice. Rose is concerned with personal justice. His work is not without shortcomings but it is ambitious and very thought provoking. Though an economist, he counters the prevailing belief among economists and other social scientists that all so-called ethical actions are motivated by self-interest. In contrast, Rose argues that individuals are capable of feeling guilty when they ignore their duty to be trustworthy. For those who are unconditionally trustworthy, the utility of behaving properly (appearing on the left side of the cost-benefit equation) always offsets any net benefits (the equation's right side) that would be enjoyed if an act

harmful to others was undertaken. According to Rose, unconditional trustworthiness is acquired through a process of acculturation in an environment where unconditionally trustworthy individuals and institutions supportive of trust prevail. These individuals predominate in societies operating at the highest levels of economic efficiency. The use of the concepts of duty and guilt indicate that Rose's views are consistent with those of Adam Smith who promoted virtue ethics. Cultures promoting value ethics rely heavily on stories or myths about moral exemplars. Many exemplars have appeared throughout American history. Benjamin Franklin promoted thrift and courtesy in *Poor Richard's Almanack* through the persona of Richard Saunders. Washington told the truth about chopping down the cherry tree. Lincoln walked miles to give a penny to a customer who had been accidentally shortchanged. In scores of books by Horatio Alger, boys from impoverished backgrounds became highly successful through diligence and virtuous behavior. David Brooks's *The Road to Character* published in 2015 contains many modern exemplars. The reviewer hopes that Professor Rose and others will continue this theoretically rich and socially significant work. While there appears to be widespread recognition of moral decay in America, there is little agreement about what should be done about it.

This book explains why moral beliefs can and likely do play an important role in the development and operation of market economies. It provides new arguments for why it is important that people genuinely trust others—even those whom they know don't particularly care about them—because in key circumstances institutions are incapable of combating opportunism. It then identifies specific characteristics that moral beliefs must have for the people who possess them to be regarded as trustworthy. When such moral beliefs are held with sufficient conviction by a sufficiently high proportion of the population, a high trust society emerges that supports maximum cooperation and creativity while permitting honest competition at the same time. Such moral beliefs are not tied to any particular religion and have nothing to do with moral earnestness or the set of moral values—what matters is how they affect the way people think about morality. Such moral beliefs are based on abstract ideas that must be learned so they are matters of culture, not genes, and are therefore able to explain differences in economic performance across societies.

"Rose appears to regard himself as addressing only economists and other social scientists...But the structure of his argument, along with much of his rhetoric and many of his emphases, reveal that he is pursuing a genealogical approach to morality, and it is under that description that philosophers can most easily appreciate the argument's value."--*Journal of Moral Philosophy* "This is a very interesting and timely argument....the message is important and sobering."--*The Enlightened Economist* blog "Following in the tradition of Adam Smith, David Rose provides a modern economic perspective on how 'the wealth of nations' depends on 'a theory of moral sentiments.' This book provides such a theory and explains why all societies attempt to inculcate moral restraints on homo economicus. After reading it you have new insights into how and why morality is so important to economic prosperity."--Terry L. Anderson, Senior Fellow, Hoover Institution, Stanford University and Executive Director, Property and Environment Research Center "As members of the American body politic, we are failing to transmit intergenerational elements of our cultural heritage without which a free and prosperous society cannot exist. This book brings attention to the moral bases for the civic order that we too often take for granted. Only if we first understand what is happening can the erosion of our moral capital be turned around."--James M. Buchanan, Nobel Laureate in Economics, 1986 "How did we move from the hunter-gatherer societies of our forbearers to the complex globally-interconnected world of today? How does one maintain prosperity when localized knowledge and large numbers of market participants make 'golden opportunities' for undetected opportunistic behavior ever more possible? What sets of moral beliefs are most conducive to maximizing general prosperity, and how are they inculcated? Drawing on, but also going beyond, the ideas of such thinkers as the Smiths (both Adam and Vernon), Douglass North, F. A. Hayek, and others, as well as his own fertile mind, David Rose provides the answers to these and other questions in a book that explores the interstices of economics, cultural studies, and applied moral theory. It is a compelling account."--Bruce Caldwell, Duke University "Modern economics is returning to its moral philosophy roots; David Rose's *The Moral Foundation of Economic Behavior* moves that process along by reconsidering the role of trust and culture in the economy. His approach is unique, insightful, and definitely worth reading."--David Colander, Christian A. Johnson Distinguished Professor of Economics, Middlebury College Selected one of CHOICE's "Outstanding Academic Title of 2012" "Economists and scholars in other fields working on culture, trust, and economic development should consider this book. Experimental economists working on trust and trustworthiness who want more insight into these behaviors should, too. Each chapter builds on the previous ones, taking the reader through organized and pointed discussions in building a case for the primacy of duty-based moral restraint to trust to economic prosperity." --*The Journal of Economic Literature* "The book is an extended thought experiment launched by this question: 'If a society's sole objective is to maximize general prosperity and it can choose its own moral beliefs, what kinds of moral beliefs would it choose?' (p. 4, emphasis in original). The author proposes a sophisticated, novel, and compelling answer to this question. It therefore deserves to be read by anyone with an interest in how to promote human prosperity." --James R. Otteson, Yeshiva University, *The Independent* "[*The Moral Foundation of Economic Behavior*] is so provocative, so

carefully constructed, and so potentially pathbreaking, especially for a first book, that it seems to have sprung fully formed like Athena from Zeus's head. Rose's book is full of intriguing insights and provocative discussions. The Moral Foundation of Economic Behavior is an impressive achievement. It deserves a wide audience. If it gets one, it will inaugurate new and better investigation into the deep connections between morality and prosperity."--EH.Net About the Author David C. Rose is Professor of Economics at the University of Missouri-St. Louis. He received his Ph.D. in Economics in 1987 from the University of Virginia. He has published scholarly articles on a wide range of topics in micro and macroeconomics. He frequently contributes to policy debates through radio and television interviews and Op-Eds.