

Ethics and the Commercial Society, Chapter 1: Ethics and Economics Development, An Overview

The opportunities for knavery are certainly more numerous than they were; but there is no reason for thinking that people avail themselves of a larger proportion of such opportunities than they used to do. **On the contrary, modern methods of trade imply habits of trustfulness on the one side and a power of resisting temptation to dishonesty on the other**, which do not exist among a backward people. Instances of simple truth and personal fidelity are met with under all social conditions: **but those who have tried to establish a business of modern type in a backward country find that they can scarcely ever depend on the native population for filling posts of trust.** (Alfred Marshall [1890/2012-01-01]. *Principles of Economics* [Kindle Locations 336-340]. Digireads.com; Kindle Edition.)

This has not only been the normal attitude of all ethical teachings, but, what is more important, also that expressed in the practical action of the average man of pre-capitalistic times, pre-capitalistic in the sense that the rational utilization of capital in a permanent enterprise and the rational capitalistic organization of labor had not yet become dominant forces in the determination of economic activity.

Now **just this attitude was one of the strongest inner obstacles** which the adaptation of men to the conditions of an ordered bourgeois-capitalistic economy has encountered everywhere. The most important opponent with which the **spirit of capitalism, in the sense of a definite standard of life claiming ethical sanction, has had to struggle, was that type of attitude and reaction to new situations which we may designate as traditionalism.** (Max Weber [1905/2012-10-21]. *The Protestant Ethic and the Spirit of Capitalism* [Kindle Locations 273-279]. Vook, Inc.; Kindle Edition.)

This exchange society and the guidance of the coordination of a far-ranging division of labor by variable market prices was made possible by the spreading of certain gradually evolved moral beliefs which, after they had spread, most men in the Western world learned to accept. These rules were inevitably learned by all the members of a population consisting chiefly of independent farmers, artisans and merchants and their servants and apprentices who shared the daily experiences of their masters.

They held **an ethos that esteemed the prudent man**, the good husbandman and provider who looked after the future of his family and his business by building up capital, guided less by the desire to be able to consume much than by the wish to be regarded as successful by his fellows who pursued similar aims. (F. A. Hayek [1979/2011-03-21]. *Law, Legislation and Liberty, Volume 3: The Political Order of a Free People* [pp. 164–165]). University of Chicago Press; Kindle Edition.]

Virtually every commercial transaction has within itself an element of trust, certainly any transaction conducted over a period of time. It can be plausibly argued that much of the economic backwardness in the world can be explained by the lack of mutual confidence. (K. A. Arrow [1972] “Gifts and Exchanges,” *Philosophy and Public Affairs* I:372.)

I. Introduction: Ethics and the Commercial Society

In the commercial society, markets and market activities are one of the main centers of life. Most of us trade the best hours of our day for money, which we use to purchase the necessities and luxuries of life. Life is organized around the “work day” and “work week,” the periods in which we hire oneself out for wages. “Vacations” are special times when we do not “have to” work, and so are free to vacate the premises. Food, clothing, and shelter are purchased from merchants of one kind or another, rather than home grown, home spun, and homemade. We keep our money in the bank or at brokerage firms, not under the mattress or buried in the backyard. When on vacation, we may not work, but we still take our cash and credit cards to pay for rest and relaxation and still purchase the contemporary necessities of life—the roof over our head, meals, transport, and perhaps a few more frills than usual. This pattern of life and exchange—the commercial society—has greatly increased the material comfort and length of the lives lived by most persons participating in the chains of voluntary transactions that make up the world’s great trading networks.

Although commerce is not new, the commercial society is relatively new. The centrality of markets for so much of life is a relatively recent development in human history (and still not universal).

The first markets were informal, local ones, with just a few services traded: barter among family members, friends, and fellow tribe members. Broader regional markets emerged as people traded homemade goods for others made nearby, often along a common body of water. A subset of these markets gradually became linked with others through networks of shipping and exchange, and through this process interregional and international trading networks gradually emerged. A subset of persons, although not all, have consumed products from all over the world for several thou-

sand years. Goods from China are, for example, found in the tombs of ancient Egyptian kings. Global commerce in this limited sense is also an ancient phenomenon.

Yet, during most former times and in most places, commerce was a relatively minor part of life. The routines of life were more affected by the weather and season than wage rates and holidays. Most persons worked in agriculture. The goods traded were produced on farms and by relatively small local businesses located nearby: potters, woodworkers, spinners, metalsmiths, and the like. Local tradesmen were often, although not always, participants in the commercial society in that they used money receipts to purchase the necessities of life, rather than trading services for room and board, or directly producing their own food and shelter. However, the vast majority of persons during most of recorded history were farmers, worked on farms, or hunter gatherers.

Farmer owners were largely self-sufficient, producing most of their necessities of life. Farmworkers were largely paid in kind, with sleeping quarters and food provided in exchange for labor, rather than money wages. Some of the crops raised were, of course, sold in local markets and the money received used to purchase goods and services available in their villages. Both trade and money are ancient inventions. Although agriculture was organized in many ways, few farmers or farm hands were truly participants in the commercial society, even if prosperous farmers occasionally consumed spices from the far East or Italian beverages. Commerce was a relatively small and unimportant part of life for most of human history.

The commercialization of life in the past two centuries reflects a number of factors. The productivity of individuals, economic organizations, and trading networks all increased enormously in the past two centuries. This occurred partly because of technological innovations in production and organization and partly because of shifts in the normative dispositions of persons in the societies in which commercialization occurred. Entirely new modes of production and organization were introduced in the period between 1750 and 1900. The steam engine was gradually invented and

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adopted to a variety of uses. Metallurgy improved, electricity was tamed, and chemistry better understood. Public policy also became more supportive of trade and industry. All these factors tend to increase the breadth and depth of market networks. Opinions concerning the role of commerce in a good society also evolved in a supportive direction. Careers in commerce became more acceptable, indeed increasingly preferred to careers in agriculture.

Clearly, some of these factors were and continue to be more important than others. Vast differences in the extent of marketization remains more than a century later, which suggests that neither technology nor public policies are the main drivers of commercialization. Both are portable and exportable. This book suggests that differences in ethical dispositions are fundamentally more important, because ethical dispositions are more difficult to transfer from one society to another than technology or public policies are.

Without supportive ethical dispositions, market transactions tend to be riskier and market networks tend to be smaller and less efficient. Without supportive ethical dispositions, favorable economic policies are less likely to be adopted. And, without supportive dispositions, technological advances are less likely to be developed or widely employed.

This book provides support for those claims. If true, the analysis implies that it was not entirely an accident that the commercial society first emerged in the West, because it was in the West that ethical dispositions had evolved to be most supportive of commerce and innovation.

II. The Economic Significance of Ethical Theories and Dispositions

The argument that ethics drives commerce may strike most readers, at first, as absurd. Business scandals often appear in newspapers. Puffery and worse is typical of many marketing campaigns. Economists, who often defend markets, normally model firms as pragmatic profit maximizers, simply out to accumulate as much wealth as possible. Consumers are represented as simple hedonists whose vision of the good life is simply more and more consump-

tion. News accounts of business men and women and economic explanations for market networks rarely, if ever, mention ethics or ethical dispositions, when discussing the commercial society.

Yet most economists and most consumers and producers believe that reputation matters. An individual or a firm with a good reputation will do better than one with a bad reputation. This is, of course, partly why business men and women attempt to avoid scandals. What does “good” and “bad” or indeed the term reputation mean if not an expectation that good employees and good firms can be trusted to deliver high quality services at fair prices and bad ones cannot. Reputable individuals and firms “deliver” the goods. They keep their promises. They are available when they claim to be and courteous to all who enter their places of business. Their work is of high quality. In other words, employees and firms with a good reputation have a reputation for conduct that can be regarded as virtuous with respect to their customers.

A. On the Ethical Foundations of Good Reputations

Such reputations are not accidents. When a firm hires an employee, what traits do they look for? They want a person who can “do” the job. “The job” can to some extent be described as doing “X” whenever “Y” occurs, where X and Y are long lists of events and associated duties. The more complex the job the longer the two lists. Indeed, in any cases, the lists are necessarily incomplete, because the “job” cannot be fully described by even a long list of “if-then” responsibilities. Surprises happen and creativity may be called for. An employee should do the right thing (Y) in setting (X), and make the best decision possible in cases not covered.

Normally, the specific duties include showing up at a particular time and place. Upon arrival, employees should work to advance their employer’s interests. They should provide services or produce goods of high quality, quickly, and reliably. They should help out other members of the firm and their customers. To do so, employees must be more or less honest, diligent, and fair to customers and their fellow employees. They must devote their time and attention to particular activities while at work, rather than to

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others that they might enjoy more. Indeed, many activities are prohibited while “at work.” No stealing from the cash register or stock room, no goofing off, and so on. A reputation for doing all the above tends to be rewarded with raises and promotions to higher positions in the organization.

This description clearly draws on ethics. Duty is an ethical notion, as are honesty and fairness. Diligence, honesty, and self-discipline are on most lists of virtues assembled by philosophers and theologians, and are also among the “skill sets” rewarded by employers. It is better to hire some who is trustworthy, diligent, and self-disciplined, than not, other things being equal. If none of one’s employees can be trusted to run a shop’s cash register or its bank accounts, economic organizations will necessarily be smaller and less specialized than they could otherwise have been.

Employers cannot afford to monitor each of their employees at every instant they are at work. They must be able to trust their employees to perform their duties even when not watched—at least most of the time, if not always. As a consequence, internalized ethical dispositions are among the skill sets that employers look for when hiring and promoting employees.

B. The Good Life, Ethical Principles, and the Demand for Goods and Services

Ethical beliefs also affect the demand for goods and services. The necessities of human life are, of course, biological, rather than cultural or commercial. Nonetheless, even in societies that live close to the margin of survival there are often rules of conduct that describe how food and water should be obtained and consumed. Many of these rules have survival value in that they reduce the risks of getting bad food and water, but many others are not.¹ After survival thresholds are met for individuals and families, rules for living in communities emerge including rules of conduct among members of a tribe or village, including rules of deference to elders

¹ For example, Diamond (2005) notes a variety of rules for harvesting and consumption of foods among Polynesian societies that have survival value.

and other persons of authority. Such rules describe appropriate ways of life. In this manner, the demand for life is supplemented by—indeed largely replaced by—the demand for a good life. As economic development occurs, such a life may include tasty and interesting food, stylish and comfortable clothing, grand housing, and a sense of accomplishment and esteem.

The recognition that some lives are better than others lead to deeper inquiries by thoughtful men and women regarding the nature of a good life. Are there principles that can describe the good life? If so, such principles might improve the choices in the sense that choices consistent with those principles will produce a better life. Although thoughtful (an unthoughtful) persons may disagree about the nature of a good life and principles that improve one’s life, both ideas have implications about how one should conduct one’s life, which in turn have implications for the tangible and intangible goods and services that one should attempt to acquire.

The extent to which commercial activities are consistent with or advance ethical ends will differ with the conclusions reached about the nature of and principles for living a good life. The meditative life of an ascetic religious man or woman requires little in the way of material goods or services, and so requires little from markets beyond holy books and teachers. The courageous life of an ascetic military man or woman requires little more than good military training, weapons, and an organizational structure that increases the production of might and increase its effectiveness. On the other hand, in conceptions of the good life that include a significant role for material comforts and entertainment, many of one’s demands for goods and services will reflect the guidance that one’s theory of the good life provides. Beliefs about appropriate material comforts will affect, if not fully determine, the goods and services purchased. In all three cases, ideas about the good life may be said to have played a significant role in determining their associated demands for goods and services.

C. Ethics and the Production Possibility Frontier

What is available in markets is also partly a consequence of

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internalized ethical dispositions. This is partly for reasons already described. Organizations staffed by persons with supportive ethical dispositions are more productive than those that lack such team members or employees. It is also partly because ethical dispositions and associated laws have effects on the extent to which human and nonhuman resources can be used in commerce and on the availability of production technologies, which provide the menu of methods through which resources can be usefully employed.²

How should the Earth's bounty be used? Should all share in what is produced or should it be divided in a way that reflects how much a person contributed to that production. What things can and should be owned by individuals? Should rights associated with ownership be transferable or not? If trade is possible, are there some things that should not be sold? Answers to such questions determine the "proper" uses of natural resources and thereby enhance or limit possibilities for producing goods and services.

For these and other reasons, ethical theories and internalized ethical dispositions have effects on both the demand and supply of goods and services and thereby on the extent of commerce that takes place.

D. Ethical Dispositions and the Law

Essentially all humans have the ability to learn and refine rules of conduct. Most persons also have the ability to internalize the duties associated with a variety of rules, in the sense that they feel better about themselves when they perform the duties associated with an internalized rule and less well when they do not. Were this not true, persons could not be trained or trusted. A person that has internalized rules of conduct does not, however, become an un-

² In economics, the term capital normally refers to machinery used in production and funds readily available for making loans or purchasing the factors of production. The term capital is sometimes said to include knowledge, rules, and organization, as for example in Marshall's (1890) classic treatment of production, although it is rarely used this way in contemporary economic research, where technology and social capital are distinguished from economic capital.

thinking robot. Most internalized rules can be broken at will, although there is a personal cost to doing so, a loss of self-esteem or fear of disapproval from fellow members of one's community.

Internalized rules of conduct are not written down and not enforced via formal procedures. Rather they are enforced internally and informally supported by the praise and shame provided by others in one's community. Rationality implies that an internalized rule will be followed whenever the net benefits realized by violating that rule in a particular setting are less than those associated with following the rule, including both financial advantages and the guilt or loss of esteem associated with such violations.

As a consequence, a subset of rules of conduct are written down and enforced through governmental organizations. Formal legal systems are socially productive in large part because they reinforce the prevailing ethos of a community.³ In such cases, the law's punishments reinforce the feelings of guilt that persons violating such rules would normally feel and so further reduce the temptation to violate such rules by increasing the cost of doing so. In this manner, morally grounded law causes a subset of rules of conduct to be more uniformly and extensively adhered to than they would otherwise have been, as with rules against murder and theft.

Formal law and internalized ethical dispositions can thus be substitutes for one another, but they can also be complements for

³ "Prevailing ethos," refers to the most common internalized ethical dispositions in the community of interest. Laws may also simply reflect the ethos of the rulers, which is to say those internalized by the persons who control the enforcement organization. Not all laws have ethical foundations, but large parts of the criminal and civil law codes from the time of the Codex of Hammurabi forward clearly have ethical foundations. Formally writing down laws and legal principles does not occur until a sufficiently fine-grained written language emerges, which evidently requires some degree of stable civil society to exist. Unwritten codes of conduct are thus far older than written law, although some co-evolution seems likely. Other areas of law may have little in the way of ethical foundations. Tax and some aspects of authoritarian constitutional law often lack such foundations.

one another. The enforcement of formal laws is neither costless nor automatic. Formal laws are adopted and enforced by men and women. The internalized ethical dispositions of the law makers and enforcers thus affect the rules adopted, their interpretation of the legal code (or precedent), and the appropriate manner of enforcement. Moreover, legal systems are instances of team production. Internalized dispositions thus affect the effectiveness of parliaments, courts, and the police. A team of legislators, judges, or police officers may work more or less diligently to develop and enforce the law, may be more or less harsh in punishing law-breakers, or may be open to taking bribes or not.

The reinforcement of community norms provided by a legal code is thus itself partly a consequence of the internalized ethical dispositions of the persons with the authority to adopt, interpret, and enforce the law. To the extent that legal systems affect the extent of commerce, and both the public economics and law and economics literatures imply that they do, ethical dispositions also have an indirect effect on commerce through effects on legal systems.

III. Other Explanations of the Extent of Commerce

Differences in the distribution of ethical dispositions are thus one of the factors that account for differences in the extent of market activities through time and among regions. As market supporting ethical dispositions become more common place, markets will expand. As they become less common or anti-commerce norms become more commonplace, markets will contract. This does not imply that the distribution of ethical dispositions within a community is the only determinant of the extent of its commercialization, all the overview provided above does imply that ethical dispositions affect the breadth and depth of commercialization through a variety of causal channels.

There are several other factors that economic research implies affect the size and scope of markets. However most of these, as true of legal institutions, are influenced by ethical considerations. Moreover, the other factors rarely account for differences in the size and scope of markets in different parts of the world that exist at a moment in time and through

time. Some markets work better than others.

A. Technology and the Extent of Commerce

Technology is clearly part of the explanation for variations in the extent of markets and for the emergence of the commercial society. The invention of boats made it far less expensive to transport goods over water than over land. As boats became larger and more robust, it became easier and safer to ship more and larger items from one place to another. As a consequence, ancient trading networks tend to be more extensive near navigable bodies of water than away from them. Larger ships implied that small bodies of water were unnavigable, which led to the formation of port cities where rivers entered a large lake, sea, or ocean. At port cities, goods would be offloaded from large ships and placed on smaller ones that could pass along rivers and lakes to other (usually smaller) inland port cities and towns.

The trade that took place within port cities supported commerce-oriented patterns of life that would become the norm rather than the exception many centuries later. Innovations in wheels, graded and surfaced roads, and railroads reduced the cost of reaching destinations away from navigable waterways, which tended to increase the reach of the trading networks and created new inland trading centers at major road and railroad junctions.⁴ In this manner, successive reductions in the cost of long-distance transport tend to increase trade, specialization, and the use of money in exchange. Towns and cities emerged as nodes in a great network of exchange and production.

Scientific advances also allowed new materials, new techniques, and new products to be brought to market as baked clay,

⁴ Minor variations in this ship-driven pattern of trading networks occur in places where a major city is upriver from a lesser port city in response to weather or military risks at the coast. In such cases, major trading nodes exist inland from port cities, although nearly always along a navigable river with a port city at the end of it. This pattern was only slightly undermined by the rail networks of the nineteenth century. Insofar as railroads emerged in part to connect pre-existing major cities with new places, railroad networks tended to increase trade in and through the old port cities.

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bronze, iron, and steel allowed better containers, household utensils, fasteners, plumbing, heating, armaments, buildings, and fortresses to be produced and sold. New rules and monitoring methods were developed within organizations, as with sales receipts, quantitative inventories, workdays, piece rates, accounting systems, assembly lines, and digital data bases. Such organizational innovations helped increase the size and nature of the teams that could effectively produce, transport, and distribute goods and services. It did so partly by improving intra-organizational rules, partly by increasing the cost of violating those rules, and partly by recruiting rule-following persons.⁵

Such innovations created new gains from trade through new products and reduced production costs. As these potential gains to trade were realized, the scope and scale of commerce increased. The realization of new potential gains is, however, not automatic. If it were, the only determinant of regional differences in the extent of commerce would be date and location. Date would determine the available technology and location would determine transportation costs and local resource base. Technologies are portable and thus potentially available everywhere that persons, books, and websites can travel.

There is, however, far more variation in the size and scope of markets among regions and through time than can be accounted for by date and economic aspects of location alone. Other, non-economic factors evidently determine the extent to which technologies are employed.

B. Constitutional Law and the Extent of Commerce

Another possible explanation is differences in local political institutions. These may generate differences in laws and law enforcement that

⁵ See Taylor (1911) for a discussion of what he termed scientific management methods, which included more care in the recruiting of persons as well as changes in compensation methods. See also Hart (1995) and Holmstrom and Milgrom (1991) for discussions of how contract designs can reduce the need for ethical men and women (although that terminology is not used).

affect the magnitude of potential gains from trade even if everyone had the same interest in material comforts and placed the same value on careers in commerce. In such cases, differences in how political institutions account for individual interests will affect the policies adopted and the policies adopted will affect the extent of commerce. If interests differ, for example, because of differences in mainstream beliefs about the good life, then political institutions and ethical dispositions would jointly affect the course of public policy.

The authority to adopt new laws and public policies is normally held by a subset of government officials who rise to office in ways that differ according to the constitutions in place. By specifying the process through which persons rise to positions of authority, constitutions create incentives for persons in government to act in particular ways. In democracies, elected officials are likely to advance the aims of voters because they want to be reelected. In monarchies or dictatorships, officials are likely to advance the interests of the king or dictator, who can fire or promote them (or the persons they report to). Differences in the interests of typical voters and typical monarchs imply that policies will differ between these regime types, because of these and other institutionally induced interests.

Of course, the interests of office holders are only partly determined by a government type and its standing procedures for replacing and promoting officials. Government officials, as individuals, have their own interests, including ethical dispositions acquired before taking their current positions. Some of these may reflect government's own effort to promote particular principles and duties. To succeed, some of their preexisting habits of thought and behavior will be revised. Others were learned as children and adults well before taking positions in government.

The policies adopted reflect both institutionally induced and preexisting interests of the individuals in office. Indeed, it can be argued that the political institutions in place are often affected by such preexisting ethical dispositions.

If particular formal institutions are demonstrated to be associated with greater prosperity than others, less effective forms of government can—at least conceptually—be replaced with better ones if there is generalized support for material comfort. Governments can be re-organized and constitutions amended. Best practices for governance and constitu-

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tional law may be translated, boxed up, and shipped anywhere in the world. The constitutional systems that produce more prosperous societies could in principle be adopted anywhere. Formal constitutions are simply technologies, albeit influential ones.

That they are not often radically reformed also reflects the interests of those with the authority to adopt reforms. These again are partly institutional and partly personal. Among those interests are pragmatic interests in continuing in office and ethical (or ideological) interests in good governance. When the latter dominates, the economic, legal, and political systems of a society all may be said to have ethical foundations. If not, they may still influence the course of reform at the margins.

Insofar as ethical dispositions are less portable than technology, constitutional design, or legal systems, differences in such dispositions will at least partly account for differences in constitutional design, legal setting, and the extent of commerce among regions and through time. Pragmatic interests, in contrast, are essentially universal features of human nature and institutional setting.

IV. The Development of Ethical Dispositions

For the purposes of this book, the ethical theories attempt to identify principles that can be used to characterize the good life and good society and the types of activities that tend to support such lives and societies. Ethical principles allow some actions to be judged better than others, some lives to be judged better than others, and some societies to be regarded as better than others.

Ethical principles normally have general, rather than specific, implications about what should be done in particular circumstances. That is to say, the implementation of ethical principles requires judgement and imagination on the part of individuals. Morally relevant decisions are choices influenced, although not fully determined, by one's ethical principles. What might be regarded as pragmatic or amoral choices are ones undertaken without reference to ethical principles, maxims, or goals. Such amoral choices include ones induced by external incentives that induce a person to undertake actions that are nonetheless consistent with moral principles. Both the former and latter are relevant for the purposes of this book.

Ethical dispositions are modes of thought and action that arise as ethical principles are internalized and become part of one's persona. Ethical dispositions can be stronger or weaker, which is to say that ethical principles may play a more central or peripheral role in a person's decision making. Even ambiguous rules of conduct or moral maxims affect behavior when internalized, because they focus attention on ethically relevant features of the choice setting, actions, or institutions and thereby make some choices more likely than others.

There is enormous variety in theories of the good life and good societies and their associated rules of conduct that might be internalized, but only two or three processes through which such rules come to be internalized. Rules of conduct may be genetically transmitted, taught to children by their elders, or developed by the persons themselves. All three mechanisms are important, but this book mainly focuses on the last two.

Genetically transmitted rules of conduct are part of human nature. Most of us are more active when the sun is up than when it is down. Most of us instinctively take shelter from the rain and snow, if we can. When we are thirsty we seek drink. When we are hungry we seek food. When we are lonely, we seek companionship. When we are in danger we seek safety. Such ruleful, predictable, behaviors are unlikely to change with a century or two of experience, although like other rules of conduct, individuals can violate most such rules given sufficient reason. People can work night shifts, diet or fast, live solitary lives, undertake dangerous professions and hobbies, and commit suicide.

Other rules of conduct are culturally transmitted in the sense that we learn them from others. Many of these extend or refine genetically transmitted rules. There may be right and wrong ways to satisfy one's hunger or thirst, appropriate ways of finding food or avoiding rain and snow, and more or less praiseworthy ways of dealing with dangers. In most societies, it would be unethical (wrong) to eat a fellow member of the community to reduce one's hunger, to use someone else's clothing or house without permission in order to escape from the weather, to skin someone else's animal to make a warm coat for oneself. Most moral communities have rules about the appropriate time and manner to cooperate with others, to engage in sex, to harm another, to dress, and to eat. One should never harm another or engage in sex, unless certain condi-

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tions exist, and so on. Parental duties are also specified, but also vary among communities.

Other community specific normative and ethical principles address choice settings that have little or nothing to do with personal, community, or species survival. One should trust and be loyal to one's friends and family, respect one's elders, defer (or not) to mainstream opinion. One should never lie or break promises, one should be fair with one's fellow team members and customers and so on. One should use particular symbols (letters and numbers) to write down one's ideas and use periods, comma's and semicolons in particular ways. One should not use another's ideas without attribution. One should (or should not) always look another in the eye.⁶

The ability to internalize such rules is, of course, biologically transmitted and evidently has survival value. This is likely to reflect advantages associated with ruleful behavior and the fact that few rules of conduct work as well in every circumstance.⁷ Culturally transmitted rules can change more rapidly than genetically transmitted ones, which allows humans and human society to adapt to changing or new circumstances, which increases their prospects for survival.

⁶ This book often uses the terms norms and ethics interchangeably, although ethics are a proper subset of norms. There is a good deal of disagreement among philosophers about how to distinguish ethics from other norms, and most of these are a bit ambiguous. Kant, for example, stresses that moral choices are ones motivated by duty rather than self-interest. Aristotle stresses that virtuous actions are the ones that tend to improve one's character. For utilitarians, virtuous actions are ones that increase utility for one's community or for humanity in general. Ethics too may be subdivided into rules or maxims that tend to improve an individual's character (private) and ones that make life in society more pleasant (public or civil). This book remains agnostic on the dividing line, although the author has some sympathy for Aristotle's notion of ethics as rules for actions that tend to make one a better person. (The word "better" is of course ambiguous.)

⁷ See Heiner (1983) for an interesting theory of the advantages of rule-following behavior in settings where information is imperfect and skills at decision making are limited.

How rapidly culturally transmitted norms change evidently varies with the complexity of the circumstances in which conduct to be guided and with that of the best responses to those circumstances. If ethical dispositions could be replaced as easily as shifting from a landline to a cell phone, they could not serve as the anchor for a society's institutions and patterns of exchange. In such cases, ethical theories and dispositions are more likely to be an effect rather than a root cause of political and economic systems. However, if at least some economically and politically relevant normative dispositions change more slowly than economic and political systems do, those dispositions may serve as a relatively fixed—slowly evolving—foundation for economic and political systems.

A. The Subtlety and Stability of Ethical Dispositions

It bears keeping mind that there is a difference between ethical principles and their associated rules of conduct. The ethical principles developed by philosophers are far easier to write down and master than are their associated rules of conduct. For example, the essential features of Aristotle's theory of virtue can be understood in an hour or two, but to develop the dispositions (habits of thought and action) required to be virtuous takes a lifetime—at least according to Aristotle. Consistently choosing the best course of action, requires a subtle understanding of each choice setting and of the consequences of alternative actions. Many of the relevant factors and conclusions become "intuitive" or "obvious" as such dispositions emerge, but are difficult to express in words. Aristotle refers to this ability as practical wisdom.

Most of the ethical principles and rules of conduct that people internalize are not directly learned from philosophers or theologians, but from family and friends over a period of many years or decades. Many of the rules learned from older members of their communities have been used by them for many years, and many of the rules that they pass on had previously been used by their parents and grandparents. This gives culturally transmitted rules and duties a history of experience well beyond that of any single individual or small group. Ethicists attempt to discern principles that can account for such rules and, in turn, to distinguish among rules of conduct. Some rules are better than others, because they are more consistent with ethical principles than others. The most influential of such moral principles will affect what is taught by future generations of parents and teachers.

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Ethical dispositions are not “downloaded” in to the minds of children and student in the manner that an old computer’s memories can be transferred to a new one. Instead, individuals can be prodded to learn, but the result reflects individual syntheses, experience, and innovation—as well as the principles and rules their attention is being directed to. Individuals all have at least some degree of free will and creativity. Indeed, they do not simply accept the recommendations of their elders, because their elders do not completely agree with one another. Moreover, their recommendations about both principles and rules of conduct are often subject to various interpretations. It is the individual’s ability to innovate that allows a community’s ethos to slowly evolve through time, as refinements and new guiding principles or applications are added to its collection of codes of conduct.

Variations among individuals within and among communities reflect (i) differences in the menu of normative theories and rules they are confronted with, (ii) differences in conclusions reached about what is true or what works best, and (iii) their own creativity, which allows pre-existing rules to be refined and new ethical principles of ethics to be developed.⁸ Variations among communities are greater than within communities, because of the localness of the process of cultural transmission. Even today, after decades of mass communication, most of our norms are learned at home and persons nearby: parents, friends, and teachers. The mass media and public education generates a greater homogeniza-

⁸ Expressed in somewhat mechanical terms, culturally transmitted norms and personal innovations in those rules may be regarded as the soft-wired component of a collection of human dispositions. As with computer programming, soft-wired norms are not entirely independent of hard-wired ones, because many of the capacities of “the machine” are determined by the hard wiring, the human genetic code. One could not use a computer to write or read a book, visit or create a website, play or compose a piece of music or conduct scientific investigations without software; but software cannot run by itself. Just as software makes a computer much more than a steel or plastic box, so a person’s culturally transmitted norms make him or her more than any other animal species; soft-wired rules allow humans to adapt more rapidly to new circumstances than genetic mutation. It allows them to better organize responses to old circumstances as new rules are worked out.

tion of ethical dispositions than in former times, but as in language and religion, there remains significant variations among communities, regions, and nations. Ethical dispositions are developed one person at a time over many years and, for the most part, not as isolated students of ethics, but as individuals living in communities with pre-existing ideas about both appropriate and moral conduct.

B. Language as an Instance of Internalized Rules of Conduct

Language is an instance of internalized rules of conduct—although not ones rooted in ethics. It nonetheless provides a useful illustration of how rules of conduct vary and are internalized. A language is a series of rules for linking sounds and written symbols with ideas. One’s first rules of grammar and proper pronunciation are learned at home informally. These are extended and deepened at school and in life in society. Successfully mastering the rules of a language is rewarded with smiles and encouragement by family members, with high grades in school, and subsequently with relatively well-paying careers from employers. Although language itself is not genetically transmitted—people are not born speaking English, Chinese, Spanish or Farsi—the abilities that allow humans to learn and use language are genetically transmitted and perfected through practice.

Creative capacities allow individuals to express themselves in original and unique ways while dutifully following the rules of their home language. The individual’s ability to “break the rules” also implies that both “bad” grammar and “good” grammar are always possible. Even rule-following authors and speakers are not automatons.

No two people in a community speak or write their home language in exactly the same manner, even though all follow more or less the same rules. This is one reason why voice recognition software, although much improved, is still problematic. There remain significant differences in voices, accents, dialects, and expression among persons and regions.⁹ Some of these vary sufficiently that persons from the same society occa-

⁹ The locality in which a person native to the United States grew up can be identified by answering a dozen questions about word use. See <http://www.nytimes.com/interactive/2013/12/20/sunday-review/dialect-quiz-map.html>.

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sionally have trouble understanding one another. Indeed, persons with the ability to understand different accents can often serve as a useful bridge between persons speaking the same language but with different inflections, word choices, word orders, and grammatical errors.

C. Limits on the Portability of Ethical Dispositions

Language skills are somewhat portable in that one can learn a new language at any age with a few years of study. Yet, very few adults learn a “foreign” language—even after many years of study and practice—as well as a child of 12 has learned his or her native language from birth. “Foreign” accents remain, even as grammatical and spelling errors gradually disappear. As a consequence, a person’s accents and choice of words can be used to identify regional and cultural origins within and among countries. Language itself, the mapping from ideas to sounds and character strings changes slowly at many margins, as new words and concepts are added. It changes more slowly at its core. The meaning of the most common words and the rules of grammar are remarkably stable. Differences in English over three or four centuries are easy to see, but far less so within a decade or two.¹⁰

Ethical dispositions are like language and cuisine in that they are largely culturally transmitted and developed one person at a time over a lifetime. As true of grammar, many rules of conduct are subtle and context specific, and difficult for nonnatives to learn perfectly. Although textbook summaries of community norms can be developed, the summaries are always incomplete. How one applies ethical principles to the complex circumstances of day-to-day life is not always easy or possible to reduce to routines. Thus foreigners often remain “barbarians” or “philis-

¹⁰ As far as I know, there are no cases in which an entirely new language has been adopted by a pre-existing community, although there are many instances in which particular languages gradually disappear to be replaced by others. There are a few cases in which new alphabets have been adopted whole cloth as in Turkey under the rule of Kamal Attaturk, following World War I and in South Korea after World War II. Conquerors normally conduct the affairs of government in their own language, which encourages those conquered to learn a new language. However, the language of the conquered land is rarely outlawed, because of the very high costs (impossibility) of doing so.

ines” (persons unable to properly follow “the rules”) even after years of experience in a new culture.¹¹

Ethical rules of conduct, like language, change a bit at the margin every year, although the core concepts of virtue, duty, and a good life—the core grammar of ethical conduct—remain remarkably stable. Most of the virtues discussed by Aristotle in 350 BCE would remain on lists constructed 2,000 years later, only partly because Aristotle’s work was so influential. Yet, some ethical conclusions do change through time. For example, Aristotle’s critique of slavery would be regarded as outrageous by most Westerners today, because he accepted the legitimacy of slavery as an institution, although he argued that the number of persons enslaved was greater than it should have been.

V. The Organization and Purposes of This Book

If the above is true, internalized ethical dispositions have direct effects on the demand and supply of goods and services, the nature of the legal systems under which trade and production take place, and the political systems that choose the laws to be formalized. Through such effects, differences in the internalized ethical dispositions among communities directly and indirectly affect the magnitude and scope of market activities. When refinements provide additional support for productive behavior in organizations, promise keeping in exchange relationships, and material comfort, commerce tends to expand and a commercial society may emerge. In cases in which the reverse happens, the commerce tends to grow more slowly or shrink and a commercial society may disappear. Subtle, slow, shifts in ethical dispositions thus can play an important role in economic development by encouraging or discouraging commercial practices, occupations, and innovations.

Supporting these hypotheses requires evidence of the existence of ethical dispositions, demonstrations that a subset of ethical dispositions affects market-relevant activities, and that ethical theories and disposi-

¹¹ It is interesting to note that being a barbarian in a tolerant society often frees one to break more rules than locals would tolerate among themselves. My Japanese friends, for example, have always been very tolerant of this *gaijin*’s mistakes—failures to follow appropriate norms about bowing, blinking, etc..

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tions change through time. With this in mind, Part I provides a short overview of mainstream Western ethical theories. The focus is on Western philosophers that accord a nontrivial role to commerce in a good life or good society. Most use market transactions to illustrate moral principles and conclude that commerce can be conducted in an ethical manner. There is evidence of a gradual increase in support for commerce in the scholars surveyed. Part II introduces extended rational choice models that include effects of ethical dispositions and uses them to analyze behavior in exchange and production settings using elementary game theory and microeconomics. Part III explores implications of utilitarian and contractarian principles for public policies and the institutions that frame and incentivize commerce.

More detailed overviews of the three main parts of the book are developed below.

A. Part One: Ethical Theory and Commerce

Part I advances several purposes. First, for readers who are unfamiliar with the writing of major philosophers, it provides a useful introduction to ethical theory. It demonstrates that ethical principles can be rational, internally consistent, and may differ without radically changing conclusions about actions considered to be ethical or virtuous (or not). Second, it demonstrates that ethics and economics were not always separate fields. Many of the scholars surveyed made significant contributions to both ethics and economics. Others used economics to illustrate, analyze, or motivate moral actions. Third, the sequence of conclusions reached by these influential scholars provide evidence that normative assessments of commerce change through time and can become more supportive of commerce and commercial activities.¹² Paragraph-long quotes are used to illustrate the arguments developed by the scholars surveyed.

¹² The arguments of scholars are used as windows into the norms and ethical principles present in their moral communities. The prevailing moral maxims of each scholar's own moral community were the main data to be explained by their proposed ethical theories. Moreover, their economic illustrations and comments were intended to make particular ideas obvious to their readers and would do so only if the illustrations accorded well with their preexisting ethical dispositions

Part I begins with a relatively long chapter on Aristotle's ethics and economics. Aristotle is given relatively extensive coverage partly because he does such a fine job of identifying essential ideas and issues in ethics, and partly because essentially all subsequent Western scholars were familiar with his work and influenced by it. Without some knowledge of his work, one might be tempted to assume less continuity and more originality in Western ethical theory than actually the case. Aristotle is also noteworthy for his brief contributions to economic theory, his analysis of the ethics of commerce, as a window into the ethics of upper class Athens, which was one of the most prosperous commercial centers in the world during Aristotle's life.

Chapter three jumps to the sixteenth and seventeenth centuries. It reviews early enlightenment authors, including Erasmus, Grotius, and La Court from the Dutch republic, and More, Baxter, and Locke from the English monarchy. Chapter four reviews the main ideas of classical liberalism, focusing on the work of Montesquieu, Franklin, Smith, Kant, and Bastiat. Chapter 5 provides an overview of the rise of utilitarianism as developed and extended by Bentham, Mill, and Spencer. Twentieth century extensions of utilitarian, welfare economics, and contractarian approaches to social ethics are taken up in Chapter 9 of Part III.

The scholars focused on were chosen for several reasons. Most wrote books that were widely read when initially published. Most had a lasting influence on ethics or made significant contributions to economic theory. Most reach conclusions that are broadly supportive of markets, although usually with many reservations. All provide thoughtful discussions of connections between ethics and commerce.

Western philosophers are focused on because of space considerations and because commercial society arguably emerged first in the West. Asian and Islamic scholars have, of course, also commented on the role of commerce in a good life and good society. Asian cities had relatively broad commercial societies, and in many periods, arguably had the most developed commercial networks in the world. Nonetheless, a review of

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Asian and Islamic philosophy and its effects on commerce is left for future work.¹³

Until well into the nineteenth century, Western philosophy included both the social and physical sciences. As a consequence, most academics who made contributions to economics before 1900 held university positions in moral philosophy, as with Adam Smith and Alfred Marshall. Other philosophers who are not famous for their economic analysis nonetheless also analyzed the ethics of commerce. Aristotle, for example, doubted that finance could ever be a virtuous activity. Bentham noted that aggregate utility tends to increase through trade, because both sellers and buyers benefit from voluntary exchange. Kant suggested that market behavior may advance common interests without being moral. In contrast, post-World War II philosophers rarely mention economics, and post-World War II economists rarely mention philosophy or ethics. Fortunately, for the purposes of Part I, this somewhat arbitrary boundary between the two fields did not emerge until the beginning of the twentieth century.

If shifts in ethics play a role in economic development, one should observe shifts in ethics or ethical analysis—possibly subtle ones—that provide greater moral support for a life of commerce in the periods before long term accelerations in economic growth. Such a trend is evident from the readings. For example, Grotius made a strong case for international trade as a natural right. Baxter argued that a secular career could be a calling, a divine duty. Franklin argued that a subset of ethical behaviors tended to increase one's personal prosperity. Smith suggests that trade tends to increase national wealth. Bastiat argued that there is a harmony between commerce and morality. Mill argues that most impediments to exchange reduce aggregate utility and thus are immoral. Spencer developed an equal liberty defense of essentially unrestricted freedom of contract and exchange. Alfred Pigou, who is discussed in chapter 9 of Part III, suggests that the extent of commerce (the social dividend) can be used as an indicator for the quality of life in a particular society.

The main interest of Part I is the intersection of ethics and economics, rather than developments in ethical or economic theory per se. Adam Smith, for example, receives more attention than David Hume, because Smith was more widely read during his life and because of his contributions to both ethical theory (*The Moral Sentiments*) and economics (*The Wealth of Nations*).¹⁴ The scholars covered also differ from those which would normally be included in a history of economic thought text. For example, More, Grotius, Baxter, Montesquieu, and Kant are rarely covered in books on the history of economic ideas, although they developed ideas that are relevant for commerce and political economy. Most of the scholars reviewed in Part I tend to show up in one or the other of such reading lists, although not all of them, and focusing on their assessments of commerce, commercial careers, and commercial societies is unique to this book.

B. Part II: Ethics and the Scope of Commerce

Given that ethical theories and dispositions exist, the next step is to demonstrate that they affect economic activity. Part II uses tools from elementary game theory and microeconomics to show how internalized rules of conduct can affect potential gains to trade and the extent to which such gains are realized in practice. As true of Part I, this analysis is largely self-contained. The model demonstrates how ethical dispositions can be incorporated into economic analysis and explores their most important implications for primary economic activities. It demonstrates that ethical dispositions affect the size of trading networks, the effectiveness of teams that produce goods and services, and the hiring practices of organizations. As this book's introductory quotes suggest, Weber and Hayek believed that shifts in internalized codes of conduct were responsible for the emergence of extensive market systems. The models developed in Part II suggest that could well be the case. A subset of ethical dispositions can extend market networks and production.

¹³ A more complete analysis would also have explored the rise and fall of market-undermining ethical theories during the Middle Ages in Europe, but that too is left for future research.

¹⁴ Hume's general philosophical contributions are clearly more important than Smith's, but he was not widely read in the eighteenth century, except for his work on English history. Smith's impact on economics is, of course, second to none.

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The choice environments investigated are ones in which consumers and employees are less than perfectly informed and civil and commercial law are less than perfectly enforced. These are commonplace trade, production, and legal settings. Such knowledge and enforcement problems are largely ignored in (abstracted from) in textbook economic analysis, except for work in law and economics and recent work on contract theory. These problems are at least partly overcome via internalized ethical dispositions.

The extended rational choice models developed are consistent with Aristotle's, Smith's, and Mill's theories of ethical conduct, although it conflicts with some of Kant's ideas about ethics. It assumes behaving ethically can be in one's self-interest for a variety of subjective, social, and economic reasons. For example, following ethical rules enhance self-esteem, generate praise from fellow members of one's community, and may lead to higher salaries. Nonetheless, following internalized rules of conduct often involves tradeoffs among ethical and nonethical goals.

Rationality of the sort routinely used by economists implies that internalized norms are rarely absolute. The rewards of ethical conduct are one of many interests that self-interested persons attempt to advance. Insofar as persons differ in the norms internalized and the degree of internalization, behavior will vary among individuals that confront the same temptations; some will be more and some less faithful to their ethical principles. Ethical aims may also be more or less important relative to other interests in a given choice setting. Together, the effects of internalization and circumstance imply that whether ethical rules are followed or not varies among persons and choice settings in a more or less predictable manner.

Chapters 6 and 7 analyze market settings in which laws and contracts are less than perfectly enforced. In this setting, ethical dispositions affect both patterns of exchange and production. For example, in the absence of a perfectly enforced fraud law, there is always some risk that the items or services purchased will be of lower quality than they are claimed to be. The products may be defective or delivered at a far later date than promised. The more cheating there is on terms of trade, the more risky trading is, and the less trade tends to take place among risk-averse traders. The less trade takes place, the smaller markets are. The smaller markets are, the less it pays to specialize and the more costly the goods traded tend to be. Internalized rules that support honesty in repre-

sentation of goods of services and promise keeping with respect to delivery dates and payment reduce the risks associated with market exchange and thereby increase the expected gains to trade and the extent of market activities.

The production of goods and services is also affected by a subset of ethical dispositions. Much of what gets traded is produced by organized teams of individuals, who jointly can produce more and/or better products and services than they can acting alone or independently of one another. This is not because teams have a "group mind" but because organized teams can accomplish things that unorganized groups of individuals cannot. Ethical dispositions can make team production more effective and easier to organize. For example, a work ethic that supports high effort over shirking and encourages pride in the quality of the work undertaken tends to simultaneously increase output and product quality. That some team members consistently do their best also tends to increase the productivity of other team members, who often benefit from the efforts of those with a work ethic whether they themselves work harder or not. This reduces monitoring and contracting costs for firms, which tends to lower prices and risks for consumers.¹⁵

Because of the productivity-increasing effects of a subset of ethical dispositions, firms will attempt to recruit persons with those dispositions. When persons with productivity-increasing ethical dispositions can be identified, they will be paid a premium for their internalized dispositions to work hard and well, whether monitored or not. Market rewards for productivity enhancing ethical dispositions, in turn, tend to increase personal investments in those norms. It does so for several reasons, individuals may attempt to develop those dispositions to obtain higher incomes. Parents who want comfortable lives for their children will tend to encourage their children to develop such dispositions. Market rewards, however, do not fully determine which norms are encouraged, because ethical dispositions are also supported for nonmarket reasons.

¹⁵ There is a small economics literature on extrinsic versus intrinsic models of motivation, as in Frey (1997) and Kreps (1997). That literature does not use the terminology of ethical dispositions, but it is clear that ethical dispositions can provide intrinsic motivation and so may induce the behavior studied in their research.

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That ethical dispositions are only partly determined by patterns of trade and production, rather than fully determined by them, runs counter to the arguments of Hegelians, Marxists, and other economic determinists.¹⁶

C. Part III: Ethics and Political Economy: the Institutions of a Commercial Society

Part I provides an overview of the ethics of personal conduct. Part II demonstrates that some internalized rules of conduct have effects on the extent of commerce. Part III addresses the role that social ethical theories play in choices among economic and political systems. It begins with a review of twentieth century normative theories used in contemporary welfare economics. These and other ethical theories allow particular public policies, constitutions, and legal systems to be judged better or worse than others, much as personal and civil ethics allow one to assess the morality of personal actions. If theories of the good society directly or indirectly influence policy makers, those theories will affect public policies, the legal system, and institutions of governance. Many of these, in turn, will tend to support (or impede) commerce and economic development.

Chapter 9 provides an overview of normative theories widely used by economists and, to a lesser extent, by policy analysts and political theorists to rank policies and societies. Two theories provide the main foundations for what economists refer to as welfare economics. The utilitarian strand of welfare economics was developed by Pigou (1920) and is by far the dominant approach among economists. Contractarian analysis emerged after World War II. It provided an alternative mode of normative analysis for those who believed that “utility” could not be systematically measured or added up. Other scholars adopted the contractarian approach, because they did not regard aggregate utility to be an acceptable “ultimate end” for societies that includes non-utilitarians.

Ranking lives, communities, and societies are not necessarily separate tasks. One may use an ethical theory and invest in habits of mind that tend to make one’s life better and generalize those ideas to the behavior of others. A good community or society from that perspective might simply be one in which everyone has internalized the same ethical dispositions. Alternatively, one may assess the merits of personal actions from a theory of the good society. Good actions tend to improve society and bad ones to worsen it, as argued by utilitarians. It is also possible to use different normative theories for assessing personal actions and institutions. Contractarians would regard society A** to be better than society A* if everyone agreed that a shift from A** to A* was an improvement, without requiring uniform ethical theories on the part of the participants.

Given ethical theories that allow societies or states of the world to be ranked, one can evaluate the relative merits of both public policies and major institutions. Chapters 10 and 11 take up this task. Chapter 10 uses welfare economics to explore how government policies can potentially improve a commercial society. Chapter 11 conducts a similar, but more novel, evaluation of alternative political institutions. If government choices within some policy domains are more likely to improve society than others, men and women with ethical interests will press for extensions of authority in some policy areas and restrictions in others. If some forms of government more likely to improve society or markets than others, men and women with ethical interests will tend to support the adoption of such governments. Conclusions reached about the relative merits of commerce and politics thus generate political pressure for or against reform. The reforms adopted will often affect the extent and nature of commerce.

Chapter 12 concludes the book with an analysis of the ethics of innovation and economic development. Voluntary exchange nearly always make all parties to the exchange better off. This feature of exchange tends to make it a moral or morally neutral activity from a variety of ethical perspectives. In contrast to voluntary exchange and production on teams, innovation nearly always harms others already engaged in commerce. A successful new product always reduces demands for some older products made by other firms. A new production method may undermine the profits of rivals selling similar products made in the old manner. As producer profits fall, a firm’s or an industry’s ability to employ and pay employees declines and many persons will become at least temporarily

¹⁶ This is another respect in which internalized ethical dispositions are similar to language. See Reksulak, Shughart, and Tollison (2004) for empirical evidence that language is also partly driven by economic factors.

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ly unemployed. Loss of income, in turn, disrupts family life, making family members worse off in many ways.

To rule out all behavior that harms other persons, perhaps surprisingly, rules out innovation in markets and many other areas of life. Ethical support for innovation thus requires revisions of the norms that apply in more static less creative societies.

Conclusions about the morality of innovation have implications for private behavior and public policy. If innovation is regarded as disruptive and harmful, a moral person will avoid innovation. If innovation in some areas is considered virtuous or good and in others immoral, then an ethical person will tend to innovate in the virtuous areas rather than the immoral ones. Insofar as such conclusions affect voting and lobbying behavior, formal rules may be adopted to support the introduction of new products and production methods in some areas and to discourage it in others.

The resultant formal and informal support for innovation determines the rate and course of economic development. When the forbidden areas are relatively large, the result will be slower growth or no growth, and economies will be characterized by what classical economists have referred to as an evenly rotating economy. When the support for innovation is relatively broad, innovator will feel less inhibited or propelled by virtue and self-esteem to innovate, increasing the kinds of products brought to market and improving the methods through which they are developed. In a society where commercial innovation is broadly supported, what Schumpeter (1943, 1934) termed the process of creative destruction will be a constant gale, rather than a very gentle breeze.

VI. Purposes of the Book and Antecedents

There are several reasons for undertaking book length study of ethics and the commercial society. The most important of these is that there are a number of issues involved that can only be explored in a relatively long, integrated, treatment. A second reason is that an interdisciplinary project has to do more work in preparing the foundations of analysis than a narrower one, which requires a lengthier development. Parts I, II, and III span at least three separate literatures and developing the connections between them requires both more breadth and depth than possible

in a shorter work. The result—it is hoped—sheds useful light on several largely neglected economic, political, legal, and social interdependencies.

For example, academic literatures on trust and social capital have emerged in the past two decades, but both literatures remain overly abstract, aggregative, and vague. Is it trust or trustworthiness that matters? If the latter, what generates trustworthiness? The most likely answer is internalized ethical dispositions. Similar questions may be raised about the social capital literature. Is all social capital equally important or is a particular subset of it more consequential than others? Trust involves more than mindless optimism about the behavior of others or the predictability of other persons' responses. Sustainable trust requires trustworthiness of the sort associated with internalized ethical dispositions.

Another controversy involves the primary driver of economic development and the extent to which these can be manipulated to encourage faster economic growth. That ethical dispositions are not as transportable as books on ethics, legal codes, or constitutional designs provides a possible explanation for long-term variation in the size and scope of markets around the world at a given time. Ethical dispositions may impede or support commercial activities and the formal institutions that frame and incentivize them. That norms evolve slowly provides a possible explanation for gradual changes in the scope and effectiveness of commerce as a network of productive human relationships, one that is substantially but not entirely independent of other economic factors. This aspect of culture also provides an explanation for long term differences in national relative incomes, which are surprisingly persistent.

If true, economic development could be stimulated by encouraging market-supporting ethical dispositions. This would be a long-term project, one that would take at least as long as investment in other forms of education. That it would be resisted by persons living in underdeveloped countries as an unnecessary intrusion—indeed an immoral one—is also consistent with and predicted by the theory sketched out above. Such values are likely to conflict with their pre-existing norms, even if they could enhance prosperity. Without an understanding of the role of ethics in commerce, it would not be possible to advocate or accept such policies.

The role of ethics in economic development does not, of course, imply that societies that lack a commercial society are amoral, immoral,

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or uneducated. It simply implies that an insufficient subset of persons has internalized the norms that facilitate commercial activity. Differences in the growth rates among and within countries that have adopted relatively liberal trade reforms, doubtless reflect differences in the internalized dispositions of persons living in those countries and regions.

Last, but not least, an effort to understand better the relationship between ethics and market activities has some value for its own sake: as simply an effort to understand better an interesting and important part of the universe. For this reason, the book should also be of interest to many persons outside economics, including philosophers, political scientists, and other students of life on earth.

D. Origins of the Book and Acknowledgements

The ideas developed in this book have been worked on for three decades. My own published work on this ethics project includes papers on status seeking (1989), the economic role of a work ethic (1991b), the evolution of norms for participating in team production (with Viktor Vanberg in 1992 and 2001), a book chapter on the economic and cultural prerequisite for democracy (2003), the moral voter hypothesis (2007), and a book on the emergence of Western democracy, which stresses the role of ideology and liberal interest groups (2011). Most of that work was undertaken while a senior research associate at the Center for Study of Public Choice, where this project benefited from the stimulus provided by James Buchanan, Viktor Vanberg, David Levy, Yong Yoon, Pete Boettke, Ron Heiner, and many others. At West Virginia University, I have benefited from the opportunity to try out chapters of the book in class and in a few instances at weekly departmental book club meetings. I have also benefited from many discussions with Andrew Young. Chapters from the book have also been presented at the University of California at Irvine and George Mason University and at meetings of the Public Choice Society, European Public Choice Society, the Association for Private Enterprise Education, and BB&T conferences where many helpful comments and suggestions have been received.

The work-ethic paper was initially a joint project with Nobel prize winner James Buchanan, who must be credited with inducing my various ethics projects. He subsequently withdrew from our joint project to write a series of analytical essays on internalized ethical dispositions and economic development that were published under the title *Ethics and*

Economic Progress (1994). At roughly the same time Viktor Vanberg and I undertook an examination of rules for participating in team production using simulation tournaments similar to those of Axelrod's famous work on cooperation (1981, 1986). We found that market-like settings, where exit from prisoner's dilemma games is possible, tend to promote relatively ethical behavior. Team members who never used the uncooperative strategy of prisoner's dilemma games could do better (accumulate higher total scores) in repeated prisoner's dilemma games with exit than pragmatic strategies that routinely defected did. Thus, market-like institutions could promote morality. However, the rules of conduct that worked best were not ones that cooperated unconditionally, but those that responded to defections by other by leaving a dysfunctional team (exiting). Given those results, we argued that ethics could be rational in the sense that it is consistent with self-interest, a point long stressed in philosophical work—as in Aristotle, Smith, Franklin, and Bastiat among the authors reviewed in Part I of this book.

In the early 2000s, I served as the Adam Smith Professor of Economics and Philosophy at Bayreuth University in Germany, where I taught a variety of courses during its spring-summer semester to philosophy students, including game theory. There I developed course material on ethics and economics from a variety of sources and developed several simple games to illustrate the relevance of game theory for philosophy to several groups of excellent students. In 2011 I moved from George Mason University to West Virginia University, where my new responsibilities would eventually include teaching a course with the title the “Moral Foundations of Capitalism,” which stimulated further thinking on the ethical foundations of commerce and led to this book. Most students in my West Virginia University course on “the moral foundations of capitalism” have enjoyed preliminary drafts of this book, and the better students have contributed directly and indirectly to the development of several of the chapters.

It was my dissatisfaction with existing texts for courses similar to the one that I was tasked with teaching that generated the final impulse for this book. Most books on the ethics of markets either attempt to teach ethics to business students or attempt to persuade students that market outcomes can be moral. These are quite different tasks than attempting to demonstrate that well-functioning markets actually have

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moral foundations—that markets work far less well without supporting ethical dispositions.

This is not, of course, the first book to address this issue, although it is the first to provide the microeconomics and political analysis to support the claim that commerce and many of its supporting institutions are supported by a subset of moral dispositions. Hundreds of papers and several books on social capital and trust have been written in the past few decades.¹⁷ Many of the effects identified in that literature are similar to the ones predicted by this book, which suggests that internalized ethical dispositions may be responsible for trustworthiness and among the most important types of social capital. Experimental work has also repeatedly demonstrated that the pragmatic interests assumed in most economic models can account for only a subset of the behavior observed in laboratory contests. Internalized ethical dispositions evidently play role in both social capital and individual behavior.

The present book also has an obvious resonance with recent books by Deidre McCloskey (2007, 2016) and a book by David Rose (2011) entitled *The Moral Foundations of Economic Behavior*. It shares much with both books but also differs in significant ways. McCloskey's book focuses for the most part on the nineteenth century and is more of a literary than analytical exercise. Rose's book attempts to identify a particular morality—one that resembles McCloskey's *Bourgeoisie Virtues*—which can make markets work better. His book explicitly links particular ethical principles to behavior in markets and to the emergence of the commercial society. This book shares McCloskey's evolutionary thrust and entirely agrees with her analysis of the nineteenth century. It shares Rose's emphasis on the role of ethics in market conduct. It differs from McCloskey and Rose in its use of elementary rational choice models, its claim that other norms than the ones identified in their books can increase the effectiveness of markets, and its analysis of the role of ethics in supporting the legal and political institutions that provide support for the commercial society.

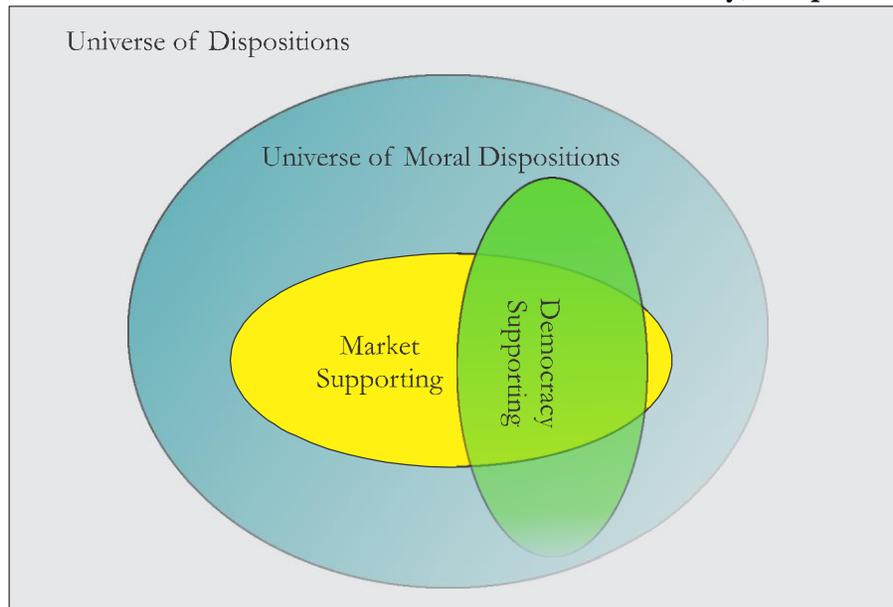
This book also provides an indirect critique of scholars of the materialist school, who insist that evolutionary pressures account for all of human behavior. Social evolution clearly plays a role in the narrative developed in this book. However, if only “efficient” ethical theories survived, then all ethical dispositions at a given point in time would be very similar, with minor variation introduced by differences in climatic and ecological circumstances. A rapid convergence would imply that the performance of markets, law, and political institutions in different parts of the world would be essentially identical at a given time and through most of human history according to the hypothesis advanced in this book. This is clearly not the case.

If, however, innovation is possible and convergence is very gradual because dispositions change only slowly through time and are difficult to export among regions, then the extent of commercial development would tend to vary among regions, in spite of a very long term tendency for convergence. Regions where market-supporting norms became most commonplace would tend to be the ones with the most extensive networks of exchange and production. Of course, the latter would also be true if there is no very long-run trend towards convergence.

I have argued in a previous book that ideology played an important role in the emergence of Western democracy (Congleton 2011). This book suggests that a similar and complementary shift in values played an important role in the emergence of capitalism during roughly the same period and continues to play a role in the relative effectiveness of political-economy systems.

¹⁷ See, for example, the pioneering work of Knack and Keefer (1997), Hjerpe (1998), and Maskell (2000), all of whom found that trust and generalized social capital have significant effects on economic development.

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-  Market supporting ethical dispositions
-  Democracy supporting ethical dispositions
-  Universe of ethical dispositions
-  Universe of all dispositions including ethical and pragmatic ones

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