

Solving Social Dilemmas:
Ethics and
Commercial Societies

A Primer on Economics, Politics, and Philosophy

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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 [1979/201103-21]. *Law, Legislation and Liberty, Volume 3: The Political Order of a Free People* [pp. 164–165]). University of Chicago Press; Kindle Edition.]

Preface

Commerce is more central to the lives of most people around the world today than it has been at any previous time in human history. Adult lives today are centered on the “work day” and “work week,” the periods in which one hires oneself out for wages and accepts the duties associated with such an exchange. Most food and clothing are purchased from large economic, rather than home grown, home spun, or homemade. We keep our savings at a bank or at brokerage firms, rather than under the mattress or buried in

the backyard. “Vacations” are special times when we can leave our jobs and focus on activities other than ones we are paid to do.

When on holiday, we take our cash and credit cards to a destination of interest and purchase the necessities of life—the roofs over our head, meals, transport, and perhaps a few more frills than usual. Leisure has come to mean the absence of paid employment rather than a time of rest, recuperation, and reflection. Those who pursue active forms of leisure often engage in greater physical efforts while on holiday than when at work. They may, for example, take a break from their desks to climb a mountain, take long walks through city streets, undertake a bit of remodeling, or catch up on yard work at home.

This pattern of life and exchange—the commercial society—has greatly increased the material comfort and length of lives lived by most persons participating in the complex networks of voluntary transactions that make up the world’s great commercial networks.

The extensive use of markets for so much of life by so many people is a recent development in human history and is still not universal. The first markets were local ones, with just a few services traded, as with trading favors and barter among family members, friends, and tribe members. Broader regional markets emerged as people traded surpluses and homemade goods for others made nearby, often along a common body of water. As money goods

emerged, a subset of these markets gradually became linked with others through networks of shipping and money-based exchange, and through this process, interregional and international trading networks slowly emerged.

Commerce itself is not new. A small subset of humanity has traded and consumed products from all over the world for several thousand years. Goods from ancient China are found, for example, in the tombs of Egyptian kings. Trading families and centers of trade have existed for thousands of years, but relatively few people spent devoted most of their lives to producing goods for sale or transporting them to others with goods to trade or money to buy them. Markets existed, but for the most part they were elite phenomena in which only the relatively wealthy and powerful participated. Global commerce in this limited sense is an ancient phenomenon.

For most people in most places during most of human history commerce was local and a relatively minor part of life. The vast majority of persons during recorded history were hunter-gatherers, farmers, or farm workers. For such persons, the cycle of life was tied to the seasons rather than to a workweek determined by commercial organizations. Most farmworkers and servants were mostly paid in kind with room and board rather than money. And, most farms were largely self-sufficient, producing most of the necessities of life for their owners, employees, and renters.

Farmers were thus not truly part of commercial societies, even in cases in which they sold part of their produce and occasionally purchased spices from the Far East, Italian olive oil, or bought a few other luxury goods from distant producers. They were far more likely to make “it” themselves or purchase it from local craftsman. Most of the goods traded until the past century or so were produced by nearby small businesses: village potters, spinners, millers, carpenters, smithies, and farmers.

Local tradesmen were often participants in local commercial societies, in that they used their money receipts to purchase most their necessities of life, rather than producing it themselves; but the networks of exchange tended to be local for the most part, rather than national or global, and relatively few people were mainly engaged in such activities. Even in relatively commerce-oriented parts of the world, most people lived in the country side and most of their “productive hours” were devoted to agriculture rather than market-oriented activities.

That ancient seasonal farm-based pattern of life disappeared in the West during the past two centuries as more and more persons lived market oriented lives. Rather than the ancient 90:10 (or better) ratio of farmers to traders and employees of commercial enterprises, the ratio reversed to 10:90 (or better) as the vast super majority of persons in commercial societies began directing or working in commercial enterprises—those devoted to selling things

to others.

By historical standards, it was a relatively swift and radical change, and far faster than the original origin of agricultural societies ten thousand years ago. In just a couple of centuries, extended markets and specialization replaced self-reliance at the level of farms and farm villages as the main sources of food, clothing, and shelter—first in West, and then in much of the rest of the world.

That great extension of trading networks and specialization was generated by a series of increases in the net benefits that could be realized from market activities. Many of these were associated with technological innovations. Others, arguably, were generated by changes in organizational and institutional innovations. A third possible causal element involved changes in culture.

This book attempts to identify what might be regarded as a cultural source of the increased efficiency of market networks—namely changes in internalized norms that supported both trade and production in large organizations. This was not, of course, the only factor that induced shifts from farm-based lives to commerce, but it was arguably the most important—as suggested by this book. This book suggests that changes in ideas about character, life, and society played central roles in all the processes through which commercial societies emerged.

These had both direct and indirect effects on the extent of commerce. In the aftermath of the Enlightenment, being a “good

person” and living “good life” became somewhat more associated with prudence, honesty, hard work, and material comfort and somewhat less associated with religiosity, status, and power than it had been in previous centuries. The meaning of a “good society” also changed. It became associated with prosperity and progress, at least as much as faith, custom, and grandeur. “Proper laws” became ones that applied equally to everyone rather than providing privileges for a deserving elite. Its laws were chosen by representative selected by a majority of adults in a community, rather than by elite families. It was a society in which everyone was free to pursue economic and political careers, rather than one determined by family status and past glories. In Karl Popper’s (1945) term, the good society became an “open” rather than a “closed” society. In what came to be called “the West,” such changes in norms tended to increase the scope of commerce for reasons explored in this book.

There are, of course, other explanations, but this book suggests that they were of secondary importance—often consequences of changes in norms rather than drivers of such changes. Advances in agricultural, mechanical, metallurgical, chemical, electrical, and aeronautical engineering had obvious and tangible effects of the modes of production, transportation and lifestyles that allowed many new products to be profitably brought to market. The steam engine, telephone, electricity, automobile, airplane, radio, computer, and Internet all had significant effects on the extent of the

resources that could be focused on innovation, production, and exchange. However, it is clear that commerce did not expand solely because of technological advance. Most of the world failed to take advantage of “technological advances” produced in the nineteenth century, and failed to commercialize during the nineteenth and early twentieth centuries. This was true of even relatively advanced and sophisticated societies such as Turkey and China. Technology is, in principle, completely portable and can be applied anywhere, but it was not.

Nor is it to deny the importance of urbanization. Great cities are all at least partly dependent on trade for their existence. Urban residents lack sufficient space to grow enough food to sustain themselves. Food must be imported into cities for the people out of which they consist to survive. Such imports may be undertaken through control of surrounding lands by the rulers and economic elites of city-states. Food and other taxes may be collected on lands held by others. Or, food may be purchased from farmers in surrounding territories in other parts of the world—although only after trading networks emerge. In the past, city states relied on combinations of all three of these methods for providing the necessities of life for city dwellers. The food that was acquired through trade tended to promote both the development of trading networks and supporting institutions and encourage specialization.

However, trade was not always the main method through

which food stuffs were shifted to cities. Control over food supplies was often used as a method of controlling others and often produced by serfs and slaves with little control over their own lives. As cities shifted from command and control to trade as the primary method of meeting urban needs, commercial societies emerged within urban centers.

The early “centers of civilization” were often commercial centers even in cases in which the production of coercion rather than commerce was the main “business” of the residents of city states. Urbanization is thus an important event in the history of commerce. Many persons in such cities were full-time participants in commerce, although it should be acknowledged that ancient capital cities were also supported by tax revenues, tribute, and slavery. (The relative importance of trade versus taxation as sources of urban prosperity can be assessed by looking at a polity’s secondary port cities, which were normally far smaller than their capital cities.) A subset of ancient capital cities continue through to the present and remain significant commercial centers—as with Athens, Baghdad, Beijing, Byzantium, Cairo, Kyoto, Madurai, Multan, and Rome.

However, none of these ancient cities played central roles in the great expansion and acceleration of commerce that occurred during the nineteenth century. Urban centers and trading networks alone were clearly not sufficient to generate true commercial

societies.¹

This book provides another possible explanation for the rise of commercial societies, namely systematic changes in ethical and related normative dispositions.

All societies confront a long series of social dilemmas that have to be solved or ameliorated for progress to take place. Solutions require changes in behavior. Without such changes, the problematic equilibrium continues, and progress is either blocked, less likely to occur, or far slower than possible. Ostrom (1990) suggests that formal and informal rule-bound organizations (institutions) often emerge to address social dilemmas. This book explores solution that is arguably prior to formal institutions, namely the internalization of rules that directly affect behavior.

It demonstrates that internalized rules can directly and indirectly solve or ameliorate social dilemmas by altering the manner in which alternative actions are evaluated. Such rules change incentives and can ameliorate or solve social dilemmas. It may partly solve the most critical ones, as noted by Hobbes (1651) and Diamond (xxxx) and also troublesome but less crucial ones analyzed by

economists for the past century.

The central claim of the book is not that commercial networks result from ethical as opposed to unethical behavior, but that some ethical systems support the development of extended market networks more than others.

Part I of this book uses elementary game theory to demonstrate how ethical dispositions can overcome social dilemmas associated with life in communities, voluntary exchange, and team production. It demonstrates that some rules solve social dilemmas associated with markets better than others. Part II demonstrates that ethical dispositions affect the nature of a community's laws through effects on customary law, on the manner in which laws are enforced and also through effects on the institutions through which they are selected, revised, and enforced. Honest conscientious law enforcement may top up existing norms and thereby reinforce informal solutions to social dilemmas.

Part III uses intellectual history and other sources to provide evidence that mainstream morality in the West gradually became more supportive of markets, rule of law, and representative forms

¹ The association between governance, religion, and market cities suggests that tax and religious revenues provided the demand that supported relatively large cities, in effect subsidizing urbanization. These "capital" cities were larger than their commerce alone would have supported. Their exports (sales to others outside the cities) were smaller than their imports (purchases from surrounding farms and businesses). The other non-market revenues paid for the rest.

of government in period before the great acceleration of commerce that took place in the nineteenth and early twentieth centuries. The stigma associated with careers in markets declined, and gainful employment, innovation, and material comfort became indicators of the quality of one's life, rather than evidence of immoral or otherwise depraved behavior. The main argument of part III parallels that developed by McCloskey (2016), but uses philosophical works as the window into cultural developments rather than popular literature.

Among the many philosophical developments associated with commercialization, perhaps the most remarkable is that during the twentieth century, the extent of a society's commercialization (its gross national product or gross national product per capita) became the most widely used measure of the quality of life across continents, nation states, regions, cities, and individuals. The good society had become the commercial society—and the more commercial the better.

Chapter 1: Solving Social Dilemma by Internalizing Normative Rules

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 [1890/2012-0101]. *Principles of Economics* [Kindle Locations 336-340]. Digireads.com; Kindle Edition.)

I. Introduction

This book focuses on internalized rules that solve social dilemmas that tend to impede the emergence of flourishing commercial societies. Social dilemmas are choice settings in outcomes emerge from the independent choices of many individuals and in which those outcomes are in one sense or another “undesirable” or less attractive than they could be when individual make their choices based on “narrow” self-interests. Ethical dispositions “broaden” self-interest and thereby may alter a player’s assessment of the relative merits of the strategies that can be employed in the choice setting of interest.

Parts I and II use elementary game theory to show how

internalized norms can solve or ameliorate a long series of dilemmas. Many of these are critical ones that must be overcome for communities and markets to emerge and flourish.

In some cases, ethical dispositions induce different decisions in otherwise social settings. Such shifts in an individual’s conception of their self-interest or duties can be said to directly eliminate social dilemmas. In other cases, normative understanding of particular outcomes indirectly solves dilemmas by inducing legal and other institution modifications that solve or ameliorate the dilemmas. A problem comes to be recognized and steps are undertaken to externally change the incentives to select among the possible strategies. Such solve dilemmas that by increasing the efficiency of economic, legal and/or governing organizations.

Normative and ethical dispositions are under appreciated as determinants of civil society because so many social dilemmas are “invisible” solved by them and because such dispositions are often so widely held within a given community that they are regarded to be natural aspects of human nature, rather than human inventions. However, history suggest that solutions to social dilemmas are not automatic—which is to say that most dispositions that ameliorate them are innovations, rather than inherent in the human genotype. Although the capacity to learn rules is itself natural, most of the rules that overcome social dilemmas are manmade rather than genetic in origin.

Ethical dispositions are not timeless, as many philosophers suggest, but change through time. The evolution of norms is itself subject to social dilemmas. There are numerous dead-ends and natural barriers that slow this process and limit convergence among ethical systems. Moreover, not every change in ethical dispositions is an improvement for societies. Some may create rather than solve social dilemmas. A community's ethos may be said to improve through evolution insofar as refinements allow more or more important social dilemmas to be overcome. By solving or ameliorating such dilemmas, an ethical system increases the likelihood that a society survives and that its principles, heuristics, and maxims continue to be taught to successive generations of children and immigrants.

All societies have ethical systems, but not all ethical systems solve one social dilemmas as well as others. They may for example, solve one or two critical ones, but leave others unsolved or even worse than before. For example, what might be called Spartan norms solve public goods problems associated with community defense but generate social dilemmas of the Hobbesian sort among communities. Evidence of raiding parties and widespread intertribal warfare is discussed in Keeley (1997), Pinker (2011), and Winroth (2014). Such behavior is regarded as moral and praiseworthy, according to the ethos of the communities engaged in such raids, although they create unnecessary uncertainty and consume resources

and lives that could have been used for other purposes.

Community conflict, in turn, limits the scope for subsequent ethical and innovations. Innovations that improve the functioning of raiding and defensive groups would be adopted but other norms would be less likely to emerge or be copied. In other areas of life, the violence and insecurity associated with Spartan norms would impede community development. Scholarship unrelated to warfare would be discouraged as would the emergence of markets for products that contribute little or nothing to community defense or military capacity. The uncertainties associated with frequent battles or raids would reduce incentives to produce such goods in the first place. Why produce for exchange if it might simply be taken in raids by one's stronger or tougher neighbor, or by roving bandits rather than profitably sold on the next market day?

To escape the many dilemmas created by such norms, de-escalation is necessary. Such a de-escalation can be induced by relatively minor refinements in warrior norms that do not undermine community survival. A universal shift from Spartan to pacifist norms is not required, nor is such a shift likely to be advantageous for individuals or communities in Hobbesian circumstances. For example, it may come to be believed that bravery in defense of one's community is more praiseworthy or virtuous than bravery in raids or efforts to conquest one's neighbors. Both may be praiseworthy, but if defense is deemed more noble than attacking, more

effort would be devoted to defense than attacking and the release of time and effort to other purposes would tend to stimulate further community development. That is to say, a warrior ethos can evolve in ways that reduces propensities for escalation, without re-inventing the community's ethos whole cloth. A subset of principles or rules may change just a bit or their relative importance may be revised.

A central claim of this book is that life in groups is replete with social dilemmas large and small and that solutions often involve ethical innovations. A maxim or ethical principle that solves a particular dilemma or subset of dilemmas, is refined at various margins to solve or ameliorate other dilemmas. We need not all become hermits to escape from the troublesome social dilemmas of life in communities, although we may be tempted to retreat to the wilderness an intractable and unpleasant dilemma is confronted.

Commerce and commercial societies have their own unique dilemmas, and these have to be overcome for networks of exchange and the communities at the major nodes of such networks to flourish. As with other problems associated with life in communities, these social dilemmas are also solved through various combinations of ethical and institutional innovation. It is not ethical behavior per se that facilitates the emergence of commercial societies. Rather it is behavior in accord with the subset of principles and maxims that tend to support commerce that facilitates the

emergence of ever more extensive trading networks.

Without such internalized rules, trading networks tend to be much smaller and commerce tends to be far less central to a good life and good society—as has generally been the case for most of human history.

II. A Short Overview of the Book

The first part of this book review social dilemmas that have to be overcome for attractive communities and markets to emerge. Some of these dilemmas will be familiar to readers, but others will be new to them, partly because they were invented for the purposes of this book. The choice settings covered are only a small fraction of those that can be characterized as social dilemmas, but they are sufficient to demonstrate that life in groups is not inherently harmonious, that realizing gains from trade is not automatic, and that ethical solutions to social dilemmas are likely to emerge before other possible solutions, such as the Hobbesian suggestion of a governing body that adopts and enforces laws that reduce unproductive conflict. Part 1 can be thought of as a theory of anarchy or early government-less societies analogous to Nozick's (1974) widely read book on the peaceful emergence of governing institutions. However, the solutions of interest in this book involve changes in the way particular strategies are evaluated by individuals rather than the creation of new institutions.

The first part of this book review several general classes of social dilemmas that have to be overcome for attractive communities and markets to emerge. Some of these dilemmas will be familiar to readers, but others will be new to them, partly because they were invented for the purposes of this book. The choice settings covered are only a small fraction of those that can be characterized as social dilemmas, but they are sufficient to demonstrate that life in groups is not inherently harmonious, that realizing gains from trade is not automatic, and that ethical solutions to social dilemmas are likely to emerge before other possible solutions, such as the Hobbesian suggestion of a governing body that adopts and enforces laws that reduce unproductive conflict.

Part 1 can be thought of as a theory of anarchy or early governmentless societies analogous to Nozick's (1974) widely read book on the peaceful emergence of governing institutions. This is not to say that all problems are solved by the evolution of a community's ethical ideas and related norms—even if solutions are conceptually possible. It is to say that most other institutional solutions are ultimately dependent on internalized normative principles, heuristics, and maxims. Nor is it to say that the arrow of causality is uni-directional from ethical dispositions to institutions, ethical dispositions and institutions coevolve. However, it is to say the internalized rules are very likely to be more important than institutions in the long run.

Part II analyzes effects of ethical dispositions on law enforcing and governing organizations and their associated policies. The rational choice approach to law and politics imagines that governments can solve problems directly without ethical relying on ethical dispositions. However, even a moment's thought suggests that this is not entirely correct. For example, legal histories generally imply that formal legal systems emerge from customary practices, which in turn are rooted in the normative systems that support those practices. Principles of justice such as “an eye for an eye” or “equality before the law” evidently existed well before formal codes of law did. Moreover, enforcing laws is not automatic. If laws are enforced in a manner that is largely free from corruption, law enforcers have to be motivated at least in part by internalized normative systems. They have to resist bribes and threats from those violating the laws—even if it makes them a bit poorer and their lives a bit more risky.

The evolution of political institutions policies—as true of other choices—are also motivated at least in part by ethical considerations. Indeed, it is arguably the case that policies within democracies are generally more ethically motivated than are private

decisions.²

Parts I and II are organized as analytical histories in which a sequence of social dilemmas is confronted, each of which tends to impede social and economic development. Internalized rules that can solve each dilemma are noted and the advantages of self-enforcement over external enforcement are noted. The order in which the problems are confronted is not central to this analysis but an effort is made to prioritize them from most important to least important. This helps to motivate the prose and also to provide a rough sense of the manner in which various road blocks to economic and social development are confronted and overcome through innovations in normative principles, maxims and duties that allow such roadblocks to be overcome.

The chapters include many footnotes noting their consistency with works written by persons more familiar with ancient history than I am. These demonstrate that the problems confronted and their solutions are consistent with the observations and theories of paleo-historians and anthropologists. That the analytical histories are consistent with research on the emergence of civilization provides indirect empirical support for the analysis undertaken. The references are placed in footnotes rather than the text to make it

² There is a broad body of statistical evidence that shows this both for single countries and across countries. The most convincing is that associated with work using economic freedom indices. See, for example,

easier to follow the general argument and to avoid being entangled in controversies associated with paleo and ancient history. The references are offered as supporting evidence rather than proofs.

Part III undertakes the task of demonstrating the ethical dispositions in the West evolved in a manner consistent with the theory worked out in parts I and II. It uses the ethical theories and maxims of a subset of well-known Western intellectuals not as sources of subsequent ethical dispositions—which they often were—but as windows into the prevailing ethos of their anticipated readers. Used in this way, trends in the ethical theories and illustrations used by those intellectuals provide evidence of trends in the norms in their respective societies.

The writings surveyed suggest that careers in commerce became more acceptable for moral men and women in the period between 1600 and 1900. In the twentieth century, such commerce oriented trends in ideas about the good life and good society continued, and the extent of commerce itself was increasingly used as an indicator of the quality of life among communities.

III. On the Nature and Internalization of Rules

Most of the remainder of this chapter provides an overview

of a rule-bound decision making, which serves as the foundation for the rest of the book. It provides a natural way of bringing ethics and other internalized rules into abstract models of human decision making—one that is consistent with contemporary research on evolutionary and computational psychology. The rational choice models used in economics, public choice, and game theory are special cases of the framework sketched out. The overview of rule-bound choice is followed by more detailed chapter-by-chapter overviews of the book, acknowledgements, and a short history of this book project.³

Internalized rules play a central role in this book; so, the natural place to begin the discussion of rule-bound choice is with a definition of rules. A very general notion of “rules” is used throughout the book. Rules are defined as any and all “if then” relationships. Any relationship that can be characterized with an “if-then” statement is a rule. Rules provide the basis for most human knowledge. Rules are often recursive, which is to say both the “if” and “then”

part of a rule are often rely on other rules. For example, the traffic rule: “go if the light is red” requires recognizing “red,” which is characterized with other if-then relationships such as “if a color is in a particular visual range (reddish), then it is red” and a “light is on” if it is brighter than the others. The “then”—walk across the street—also includes rule-based characterizations of walk, street, and across. The things that we think of as “facts,” “fundamentals,” and “actions” are all characterized by or defined with if-then relationships. Some of these are “hard-wired” parts of our genetically determined sensory and interpretative systems—such is whether a light is “reddish” or not—others are learned or invented by each individual, one at a time.

“If-then” statements can be used to characterize relationships within nature, within society, within legal systems, ethical and normative ideas, and one’s conditional plans of action. If a stone is dropped from a tree, then it will fall to the earth unless it lands on a

³ The rule-based model of man developed in this chapter is a generalization and synthesis of ideas developed in Hayek (xxxx) and Buchanan (1965, 1979). Similar rule-based models can be found in philosophy (Nozick 1974) and psychology (Skinner 1938/1990, Pinker xxxx, Seligman et al. 2016). None of these scholars—nor this book—argues that a rule-based characterization of human thought and action is complete, only that it deepens our understanding of human nature. Similar approaches play central roles in the development of artificial intelligence, which as computer programs are completely rule bound, although not rule determined.

A more extensive overview of *homo constitutionalis* is provided in Congleton (xxxx).

branch. If a war takes place, then a lot of people are killed and useful property is destroyed. If you are in a community that has a strong law-following norm, then fewer people will cross the street when the light is red (and there is no traffic) than in communities that lack such a norm. Such rules may be regarded as positive rules. Other rules characterize how one should behave in various circumstances. The maxim “early to bed and early to rise makes a man wealthy, healthy and wise” implies that if you want to be wealthy, healthy and wise, you should go to sleep early and wake early. This is a suggested rule of conduct that affects only oneself—it is a private norm for organizing one’s life. The maxim “do unto others as you would have them do unto you” is a broader normative principle in that it provides guidance for all choices in a choice settings that affect others. Neither maxim describes or attempts to describe the world as it is, but rather provides rules about how one should behave in particular choice settings. Other “ought to” rules are imposed by governments and other organizations. If you cross a street when the light is red and that is against the law, then you may be punished for breaking the law. If you do so in front of a police officer, then you are more likely to be fined than if no officer is in sight. Both feelings of guilt and the likelihood of paying fines for jay-walking may cause your conditional plans to take account of the color of the walk-don’t walk light at a crosswalk. If you cross a street when the light is red and that is against the law in the

community in which one is standing, then you may be punished for breaking the law. If you do so in front of a police officer, then you are more likely to be fined than if no officer is in sight.

Both feelings of guilt (from one’s internalized norms) and the likelihood of paying fines for jay-walking imposed by the local government imply that an individual’s conditional plans for walking about town normally take account of the color of the “walk-don’t walk” light at every crosswalk. All sorts of rules affect behavior, without fully determining it. When in a hurry, an individual may jay walk in spite of his or her guilty feelings and risk of fine.

Categories of Rules

Because there are so many rules, it is useful to divide them into various categories using other rules. For example, rules that describe how the world operates may be regarded as natural or scientific laws. Rules that are enforced by formal organizations—governments—are often called laws or regulations. Rules of conduct that are internally or informally enforced through chiding and other sorts of disparagement are referred to as norms.

Each of these broad categories of rules, in turn, may be subdivided in to sub-categories. Rules that characterize relationships between non-living things may be classified as physical laws, those that characterize relationships between living things may be classified as biological or social laws or regularities. The rules enforced

by governments may also be termed laws, which in turn can be subdivided into civil law, criminal law, tax law, regulatory law, and so forth. Standing procedures for choosing among laws and amending those procedures may be classified as constitutional law. Norms may be subdivided into aesthetics, conventions, and ethical rules.

A subset of our rules are genetically transmitted. For example, our heart beats and our breathing adjusts to our needs for oxygen. If we need more, our hearts beat faster and we also breathe more frequently. We “instinctively” are “predisposed” to avoid pain and seek pleasure. (If it is painful, then don’t do it.) Other rules are learned from others or invented for ourselves. This process of internalizing rules causes them to become part of our routines for understanding both our present circumstances and how to change them. In “computerese,” our genetically transmitted rules can be said to be our “firmware” and our learned and invented rules can be said to be our “software.” The former is natural. The latter is man made.

In contrast to the research undertaken by neurologists and some psychologists, it is the “software” (learned and invented rules) that are the rules of greatest interest for the present study, rather than the “firmware” (genetically transmitted rules). It is the ability to invent, revise, teach and internalize rules that allows human “software” to evolve far faster than its “firmware” and supporting “hardware.”

The abilities to internalize and invent new rules doubtless account for most of the relative success of our species in spite of our many physical disadvantages. Humans cannot fly, do not run very fast, their night vision is not exceptional, nor their claws very strong or sharp, but they sure can invent, learn, and internalize rules. This they do far better than other species. We are rule makers, internalizers, and rule breakers. The latter allows us to revise the rules that we’ve already internalized and to overrule much of our firm ware. We can, for example, purposely engage in painful acts, hold our breath until we faint, starve ourselves to death, learn new languages,

maxims, physical laws, and ethical principles.⁴

IV. Ethics as a Subset of Norms

Normative systems of rules are composed of a huge variety of “ought to” and “ought not” if-then relationships and principles identifying such rules. Ethical rules and systems are a subset of the norms used to characterize or determine “proper” conduct. Examples of the latter include the golden rule mentioned earlier, Aristotle’s notions of moral excellence, and Kant’s categorical imperative—the latter being discussed in part III of the book.

The boundary between ethical rules and other norms is fuzzy—at least I’ve not been able to think of a rule that can perfectly characterize it. As a first approximation, ethical rules can be regarded as the subset of one’s normative system that characterize a “good” person, “good” behavior, and a “good” society, as well as other rules (definitions and principles) that characterize the meaning of the term “good” and the methods for approaching

“goodness.” For example, principles for characterizing “good” or “dutiful” may be characterized by divine texts and inspired interpretations of those texts, profound philosophers, or by one’s own conclusions about the nature of virtuous character or dutiful conduct within one’s community.

This characterization of ethical or moral rules is a bit ambiguous and elastic—which is necessary if it is to include the wide variety of ethical systems and moral codes observed among societies and through time. Unlike an ethicist, for whom the purpose of analysis is often the creation and defense of a unique universal internally consistent ethical theory, the focus here is on differences among alternative ethical systems. The boundary between ethics and other norms also has to be a bit ambiguous if it is subject to revision.

The term “ethics” is simply the name for one part of a continuum of proper or praiseworthy behavior, as “walk” and “run” are names for parts of the continuum of speeds for moving across land

⁴ Of course, our “software” for understanding nature, life, and virtue is not be wholly independent of our “hardware.” Persons who lack the ability to learn moral rules are deemed psychopaths, which is often linked to differences in the physical structure of the brain (Pinker, xxxx the blank slate page...) This may change in the future as tools for manipulating genetics improve, but the results will arguably be to produce a new human genotype, that may well be sufficiently different to be worthy of a new name. Perhaps, *homo facticius* rather than *homo sapien* (“man-made man” rather than “thinking man”).

with one's legs, and colors such as red and blue are names for subsets of the subset of the electro-magnetic spectrum that we can detect directly with our eyes.

There are many cases in which it is easy to distinguish whether a norm is an ethical rule or not, just as there are colors that are clearly red or not. Many ought-to and ought-not relationships have nothing to do with becoming a good person, understanding moral duties or improving society. Failure to spell correctly is normally regarded to be an intellectual rather than a moral failing. Failure to use the "right" fork or spoon at a formal dinner is normally regarded as a breach of etiquette, rather than unethical conduct. Dressing in the wrong way for a given occasion may be regarded as breach of etiquette or misunderstanding of the rules of fashion, but not a moral failing. Such mistakes violate norms outside the domain of ethics.

However, there are also norms that are "nearly ethical," such as rules regarding duties associated with membership in a community. A dutiful community member pays his or her taxes, although it is not widely regarded to be immoral if he or she pays the lowest amount allowed by law. Crossing an empty street on a rainy night when the walk light is red, may be illegal and according to local norms improper, but it is not usually regarded to be immoral, unless one is deemed to have a moral duty to follow all laws.

There are also a variety of conventions that people follow because they help make life in society easier or more attractive. Conventions have the property that many alternatives rules would yield similar results. For example, following a convention like "always driving on the right" does not yield better results than following the convention of "always driving on the left." There is no right or wrong among such rules, only alternatives that "work," in the sense that they facilitate a desired outcome or avoid an undesirable one. One is not a better person or contributing to society by driving on the right rather than the left. There is no "right" or "wrong" or "better" or "worse" side of the road.

However, once established, violating a convention may be regarded as wrong and in some cases immoral, partly because of the consequences associated with particular violations and partly because conventions work best when everyone follows the prevailing rule. If everyone drives on the right (or left), the number of accidents is reduced while the average speed of travel increases.

Following community conventions may be regarded as part of one's civic duty, and being "conventional" may be widely regarded to be a virtuous or praiseworthy disposition. Such "virtuous" norms are what is meant throughout this book by the phrase "and similar norms."

Reasonable people may disagree about whether a particular

principle, rule, or choice setting is part of the domain of ethics or not. That such disagreements exist affirms the claim that ethical ideas vary among individuals and societies. Such disagreements would not exist if there were a single universal ethical idea that was hardwired into human nature. Disagreements about the nature of ethical rules or conduct reflect differences in the rules and principles internalized and idiosyncratic personal conclusions about their relative importance.

It is differences among ethical dispositions, rather than the precise meaning of the term ethics that is most important for the project undertaken in this book. Relevant differences include disagreements about the ultimate source of ethical ideas—the divine texts or principles that serve as the foundation for “all” ethical rules and behavior; the domain of ethics—the ideas and behaviors considered moral, amoral, and immoral or virtuous and non-virtuous; the relative importance of rules within a particular ethical system; and whether a particular maxim should be used in particular circumstances.

The Necessity of Judgement in the Application of Ethical Rules

The ambiguities of ethical systems at their many margins implies that most ethical principles and norms require judgement to apply—what Aristotle refers to as practical wisdom. Some rules of

conduct sound mechanical: if situation R obtains then one should always undertake a particular type of action, G, or never undertake actions of type B. However, recognizing whether a particular real-world setting belongs to R and a particular action belongs to G is rarely completely obvious. Universal prohibitions appear to avoid this problem by simply saying that action B is never permissible, but few such unconditional rules pass moral or ecological muster. For example, a pacifist might claim that killing is never permissible. This would rule out self-defense, mercy killing, killing an animal or plant to eat it, community defense, and if fully implemented, the use of pesticides, antiseptics, and antibiotics. Such rules may exist and even be occasionally internalized, but completely generalized versions are rarely parts of widely held moral codes, because communities with such an ethos would have a difficult time surviving. They may not be able to feed themselves and/or may be likely to be subjugated or displaced by other communities with conditional norms that allow a bit of killing for purposes of conquest or for harvesting food from nature.

The conditionality—the “if”—of moral principles and maxims necessitate judgement. This both allows subtle refinements to be adopted and old maxims to be applied in new choice settings.

A single action or conditional course of action has to be chosen from those that are moral in the circumstances confronted. At a minimum, the relevant choice setting (R) has to be recognized and

moral responses (G) have to be understood. For example, “thou shall not kill,” for most people in most societies really means “kill only if one’s life is in danger” or “if one is at war.” If you are not in danger, nor at war, then you should not intentionally kill other persons and you should try to avoid unintentionally doing so. To apply this rule, one has to determine whether one’s life is in danger or not, and if so whether one’s life should be defended by killing the attacker or whether other more ethical strategies are available. One also has to understand how unintentional actions such as accidents might kill others. All these are partly matters of judgement about which ethical persons may disagree in some cases.

The necessity of judgement does not imply that there are no rules, only that ethical if-then relationships are not always completely obvious, precise, or easy to apply—as has been acknowledged by philosophers since the time of Aristotle. It is one of the reasons that persons who apply the same moral principles often disagree about the proper or moral course of action in particular circumstances.⁵

⁵ It bears noting that the necessity of judgement is not unique to ethics. When engineers design a machine, bridge, or system of some kind, they too make judgements about both the circumstances to be dealt with and the extent to which physical laws are most relevant and how they should be applied. No two engineers are likely to create exactly the same design for a bridge in a particular location.

V. The Evolution and Transmission of Rules

Many, perhaps most, of the rules that we follow are learned from our families, friends, and fellow members of our communities. Most of these rules were “imposed” on us in the sense that their internalization is encouraged with rewards and punishments when we were children. Formal education systems also reward the mastery of particular rules, ways of thinking, and rule following within highly structured (rule bound) class room settings. In both informal and formal educational settings, one is often praised for behaving in particular ways and disparaged when not doing so.

This is not to say that learning is an entirely passive process, as implied by many sociologists, but it is to say that the rules encouraged by one’s family, friends, teachers, and community have significant effects on an individual’s beliefs about the universe and how to best live in it. It is easier (less costly) to learn some rules than others in a given family and community. There are more Buddhists in Southeast Asia than in Northern Africa, fewer Farsi speakers among persons raised in Spain than in Iran, and relatively more college graduates from families headed by persons with a college

degree than without. Such “socially transmitted rules” include many of our grounding understandings of nature, society, and proper behavior.⁶

Socially transmitted rules both refine and advance human interests. Our biological or genetic interests are ultimately those associated with survival and reproduction. Rules that assure or at least do not reduce survival prospects in a wide range of social and ecological circumstances are more likely to be passed on than ones that only work in a narrow range of circumstances, because over the course of decades or centuries a wide variety of social and weather patterns are experienced. Although there may be no unique most robust systems of rules, the ones that are passed on tend to be robust and have contributed to both individual and community survival. They have “worked” in a variety of circumstances or at least not failed in obvious ways. They have promoted survival, longevity, safety, comfort, and esteem. Those that did not do not survive because they are no longer taught.

⁶ This is not to say that our unconnected with human nature or nature itself, but simply to remind readers that rules that we learn are learned mostly learned from others in our communities. These affect the rules that inform our understanding of nature and of moral conduct. Rules that are incompatible with an individual or community’s survival are occasionally taught, but tend to disappear relatively quickly. Rules that we are taught also have to “work,” which is to say must solve improve (on balance) an individual’s, family’s, and community’s likelihood of survival, rather than reduce it.

The rules passed on from generation to generation have “worked” in a wider variety of circumstances than any single individual or group is likely to experience or anticipate. The usefulness of such rules is one reason why it pays to be “conventional,” as stressed by Burke (1790) and Hayek (1973). The rules that are passed on from one generation to the next for decades or centuries tend to be better rules—more aligned with survival and prosperity—than many others that have not survived.

Nonetheless, the screen of survivorship is not perfect and not all of one’s community’s rules are equally useful. Thus, both children and adults normally modify the rules they learn from others at various margins. Some rules may be discarded, rather than revised, and new ones invented. Such individual innovations imply that members of the same moral community tend interpret and implement the rules learned in somewhat different ways. It also allows the systems of rules transmitted to improve through time insofar as those refinements may produce noticeable differences in outcomes

among individuals in similar circumstances. Even though relative few individual innovations will be passed on to future generation, those that are tend to improve each societies rule-based systems—those used for understanding nature and those used to characterize the good life and good society.

Most rule innovators are unsung and forgotten, as with the inventors of the wheel and wedge and the concept of duty. Only a few innovators remembered, as with those of Galileo and Newton regarding nature, a handful of major religious figures with respect to theology, and a few dozen philosophers with respect to ethics.

The most important or influential innovations may be taught to millions of others for dozens of generations and their names may be revered, because their innovations are considered to be major improvements in their community's understanding of nature, morality, or both. Indeed, many are so important that they are believed to have divine origin by their proponents—which is to say that they are beyond the capacity of the human mind to have invented.

Whether this is true or not, matters little for the purposes of this book. What matters is that such innovations occur—big and small—and that they are passed on to successive generations of individuals and families one individual and one family at a time. Both understandings of nature and of the good life change through time.

That the learning takes place one person at a time, implies that ethical ideas tend to be regionally distributed, rather than distributed worldwide. It also implies that the individuals living in a given community are not clones of one another. They may have been taught essentially the same lessons, but what was learned and the significance placed on what was learned varies among individuals and communities, as does the extent to which the lessons learned affect individual choices and behavior.

For the purposes of this book it is often useful to distinguish among two types of individuals. Idealists are persons that have relatively strongly internalized norms and ethical theories. Such persons follow ethical rules independently of whether punishments are expected or not. Their ethical rules and similar norms have become internalized and so are routinely used to understand the choice settings at hand and to evaluate the alternatives considered. Pragmatists are persons who may have learned ethical rules, but follow them only because it is known to be rewarding to do so. Doing so may avoid punishment or create opportunities. Pragmatists are the types of individuals that Becker's (1968) economic theory of crime characterizes. Indeed most economic analysis assumes that most

individuals are pragmatists.⁷

It bears noting that pragmatists may become idealists and vice versa. Many of the rules internalized by idealists were initially followed to avoid punishments of various kinds, but gradually become internalized. Such learning is, for example, evident in our mastery of our home language's grammar in many of our "rules of the road." Many of us automatically keep to the right (or left); start driving when the light turns green; "instinctively" stop if a relevant light turns red, and so on without much thought.

That such rules have been internalized becomes obvious when a person accustomed to driving on the right has to drive a car in a society where the rule is to drive on the left or ones in which traffic signals use different signs or colors. At first, one is more than a bit confused. Although many other rules of driving remain the same, one's "driving reflexes" (habits and dispositions) no longer automatically place the car on the correct side of the road or induce him or her to look the "right" way to observe traffic and signs or oncoming traffic. One has to consciously steer the car; relearn where to look for oncoming traffic and how to spot and decipher signs.

⁷ This is not to deny the evidence of numerous twin studies, but simply to insist that much of the similarity among twins reflects their common interpretation and internalization of rules learned during the course of a lifetime. A cave man and modern physicist have very different world views. A philosopher and which doctor have very different understanding of moral action, although there are likely to be points of agreement.

This requires consciously overriding many of one's driving habits—e.g. breaking a number of internalized rules.

This is also true of the many rules that most of us follow when playing games: not using one's hands in football (soccer), no intentional kicking of other players, goals only count if made by a player that is not offside, the winner is the team with the most points, rather than the team with the best strategy or most handsome players. A change in the rules "throws us off," as many more or less automatic clusters of habits have to be consciously adjusted to the new rules or new circumstances.

The right way to play many games is defined by external rules, but a regular player has internalized those rules and optimized his or her strategic reflexes and judgement for those rules—rules that are rarely thought about except when they are violated.

Once internalized, persons are disposed to follow the rules, whether they expect to be penalized by referees, others in their community, or not—unless the stakes are extraordinary. It is this which makes informal games played in school grounds and

backwards possible. It arguably also makes schooling possible, insofar as students sit in assigned places, listen courteously to their teachers, and turn in their papers and exam on time—all of which may take place even if the amount of effort put into studying partly depends on the grades aspired to. The rules that generate such behavior are internalized by most “good” students over the years.

Although our ability to learn rules as well as our moral sentiments—which is to say our emotional responses to “right” and “wrong” actions—have physiological foundations, the rules learned are largely those taught to us by others in our communities. We are not genetically hard wired with the rules of football or to sit calmly in class rooms on hard chairs listening to a teacher or professor try to teach something they think is important. But we do have the innate ability to learn and internalized new rules.

That the rules learned tend to increase an individual’s, family’s, and community’s likelihood of survival provides an evolutionary explanation for our abilities to learn and internalize rules. Contemporary choice settings tend to be in a sense less dangerous than those in the past, but this is substantially because we have internalized so many do’s and don’ts. The number of life-threatening opportunities is greater than it ever was. We can drink several sorts of poison stored around our house, we can walk in front of massive metal machines while walking about town, we can jump from the window of a ten story building, we can drive our cars into trees or

revines or other cars, and so on. Life is dangerous! But, our rules for living in the world have also evolved and so we live longer—rather than shorter lives as might be expected from all the new risks that we’ve invented in the past few centuries.

VI. Rule-Bound Choice and Rationality

The rule-based conception of human nature is the first of several abstractions used in this book to characterize thought and action. It is sufficiently encompassing that it includes much or all of our social and biological natures. It allows us to distinguish between various kinds of rules that can be internalized, their sources, and the manners in which they can affect behavior. It also allows us to discuss decision making without reference to the relevant parts of the brain, just as one can program a computer without knowledge of the underlying electronics of the machines on which a program will be run.

The behavior that emerges from internalized rules tends to be systematic, because of the nature of rules internalized and therefore predictable—at least within familiar circumstances. This is not always property of rule-based systems—which can be designed to produce chaotic results or may do so when programming errors occur—but of the evolution of both the systems of rules that we employ to understand the world, how it can be changed, and to rank

the possible changes that can be made. To the extent that the world is reasonably stable and exhibits or can be described with a series of if then relationships, then the rules that we develop to describe nature will also be stable. The same is true of normative rules that we develop when our various understanding of the nature of “the good” are reasonably similar and stable.

Given that stability, the rule systems that tend to produce advance or interests in survival and in the approval of our fellow community members also tend to be stable. That stability is reinforced by the complexity of the rule systems developed to describe the world, how our actions affect it, and the best ways to do so. Although we are free to innovate, the rules that we inherit tend to do a better job of advancing our interests than any person could develop entirely on their own from scratch.

A five-year old who grew up in a city that finds him or herself alone on a desert island is not likely to survive as long on that island as a man or woman of 30 that has lived on such islands since he or she was a child. The adult will have both learned, mastered, and internalized more of his or her culture’s rule systems and also be better at refining them at the margin to take account of his or her own special ability and desires. A subset of the rules internalize will normally include higher level rules that characterize “rational” or “reasonable” methods for determining and assessing one’s alternatives. These too require some practice to fully master.

The stability of central features of a community’s rule system reflects the environment in which it has evolved. Its stability allows useful somewhat simplified models their effects on behavior to be developed and used in various ways. This property has been used to develop “rational choice” models of human behavior that are widely (although not universally) used in economics and game theory. They are also used by a subset of political scientists, sociologists, and psychologists. Most rational choice models assume that individuals have a single over arching goal such as happiness or contentment and take reasonable steps to advance that goal. All actions are judged with respect to heir “utility” in promoting whatever that over-arching goal is, where utility in this sense is normally

assumed to be representable with a numerical index of some kind.⁸

If there is one overarching goal, such a characterization of decision-making will tend to be perfectly accurate, even if the actual decision process differs from the utility maximizing one. One would fail to fully advance such an interest only if it was not feasible to do so. One may not be able to determine how to do so because of information or computational problems. It may not be feasible to do so because natural laws (as they are presently understood) and/or the laws in one's community limit one's possibilities for doing so. Many of these constraints change gradually over time—as do one's overarching goals—and one's ability to pursue one's goals changes as those constraints change.

In the game theoretic portions of the chapters, we largely focus on how changes in one's goals affect behavior rather than how changes in constraints change one's behavior. Relatively simple

⁸ Rule-bound choices tend to generate systematic rank orderings of alternative actions in stable settings. These are sometimes referred to as preference orderings in economics. A subset of preference orderings—namely those that are transitive and complete—can be represented with utility functions. Such mappings of alternative actions into numbers provide a perfect model of decisions if all the assumptions hold. However, such models do a reasonably good job of characterizing the typical decisions of persons in stable settings when they do not perfectly hold. (This is demonstrated by the results of most small scale experiments undertaken by economists.) Even weaker assumptions are required for the numbers used in the game theoretic illustrations to be useful ways of thinking about choice settings in which the outcomes are consequences of the choices of more than one person.

choice settings are used to illustrate how changes in ethical dispositions can moderate or solve social dilemmas that emerge from the independent choices of groups of individuals.⁹

The main point of most of the illustrations is to demonstrate both that a wide variety of social dilemmas exist and that changes in internalized rules can solve or ameliorate a wide variety of those dilemmas.

VII. Morality, Markets, and Political Economy

Some readers might find much of the above to be “obvious,” yet still be a bit skeptical of my claims about the importance of ethical dispositions for markets. After all, Adam Smith (1776) once wrote that “It is not from the benevolence of the butcher, the brewer, or the baker, that we expect our dinner, but from their regard to their own interest.” Smith explicitly suggests that ethical

⁹ As a mathematical property, separable functions often have an additive form. Not all functions are, of course, separable. The separability function is made mostly to simplify the narrative without—it is believed—significantly influencing the conclusions reached. See, for example, Congleton (1991) for a somewhat richer incorporation of ideology into a utility maximizing model of the political activities by interest groups.

dispositions are irrelevant for understanding market transactions—a claim that must have surprised those who been favorably impressed by his previous book, *The Theory of Moral Sentiments* (1759). That book had argued that much of human life was motivated by moral sentiments and that both individual lives and societies were better because of them. Similar, Buchanan’s (1984) claim that public choice analysis takes the “romance” out of politics. If all politicians, firms, and consumers are amoral pragmatists, why pay any attention to ethics?

The simplest answer is that all politicians, firms, and consumers are not amoral pragmatists. Indeed psychologists regard such persons to be so rare that they have a term for such persons—psychopaths. Moreover, it is true that some market transactions may take place in a world populated by such people, but those markets tend to be far smaller and more limited than those we observe in the world today. This book demonstrates that ethical dispositions provide a more convincing explanation for today’s extensive markets than models based on the behavior of psychopaths. This is not because ethical dispositions affect the general properties of market price systems, but because it affects the details of those outcomes. Market transactions may be risky or safe, innovative or static, and therefore extensive or not. Market networks are not all equally efficient at advancing the aims of consumers.

VIII. The Organization of this Book

The rule-based model of decision making sketched out above provides a behavioral basis for thinking about ethical dispositions from the perspective of social science. Ethics are a subset of the rules that might be internalized and used for screening and evaluation. They are rules that are concerned with characterizing “good behavior,” “good character,” “a good life,” and “a good society;” they can be used to assess whether behavior, lives, and societies become better or not; where the meaning of the words “good” and conclusions about “better” vary somewhat across ethical theories. These and other rules affect behavior when they are internalized and when they are encouraged through external rewards and punishment. When internalized, they affect our understanding of choice settings, the possibilities focused on, and the process through which those possibilities are evaluated. They associate emotional responses with choice settings, choices, and consequences based partly on how good the results are.

The models used in parts I and II are the simplest that can shed light on the choice settings of interest. Those without elementary training in game theory will find basic game theory easy to master and should find accompanying discussions to be clear. (I have used such illustrations in undergraduate economics, political science, and philosophy classes for many years.) Experienced model builders will understand that most of the models can be easily

generalized. Some of these generalizations are discussed in footnotes, but most are left for other more technical books and articles. The ones used are sufficient to demonstrate that social dilemmas can be ameliorated by a variety of internalized rules of conduct and that some rules work better and/or are more general than others.

Parts I and II focus on problematic choice settings—social dilemmas—in which the outcomes directly or indirectly affect anticipated gains from trade or the effectiveness of team production. Ethical dispositions do so by changing assessments of the relative merits of the possibilities focused on. By changing the assessments of the relative merits of actions in social dilemmas, ethical dispositions can transform problematic choice settings into unproblematic ones. The latter provides evolutionary support for both ethics and ethical dispositions.

Parts I and II are organized as a rough analytical history. They examine social dilemmas confronted by communities, markets, legal systems, and political systems as societies emerge. This organization is not meant to provide a true history, but simply allow problems to be addressed one at a time in an order that focuses on what might be regarded as the most crucial problems first.

Although the organization is intended to shed some light on the emergence of ethical dispositions and norms at the dawn of history, that is not its main purpose. The same problems remain

critical in durable societies that have solved such problems in their distant past. Many of these problems have been so well solved by norms that we have internalized that we fail to recognize the behavior implied by the social dilemmas as “realistic.” Many students, for example, will conclude that is not how people behave. Of course, such a critique is supportive of the ethical analysis undertaken. The same problems have to be overcome in contemporary communities as well, and differences in their solutions can affect the extent of their markets. When the problems are solved through internalized ethical and normative dispositions, people will not behave in the manner required to generate the dilemmas.

Together Parts I and II demonstrate that ethical dispositions and other internalized norms can play important roles in the emergence of well-functioning communities, markets, legal systems, and governing organizations. An implication of the analyses undertaken is that all societies will have norms that at least partially address the most critical or existential of the social dilemmas. Without such

solutions, societies are unlikely to exist.¹⁰

Part III is the empirical part of the analysis. It provides evidence that ethics and ethical dispositions have long been recognized as determinants of human choices and that ideas about those dispositions shifted in a manner favorable to economic development in the period before and during commercialization took off in the West. It is more limited in scope than would be ideal, insofar as it focuses on developments in Western ethical theories by philosophers and a few other intellectuals. That other ethical theories exist in other parts of the world and at other times in the West is completely consistent with the theory developed, and there is much evidence of such theories and their ability to reduce losses from social dilemmas. However, Western theories, especially those associated with its enlightenment, are the ones that helped contribute to the emergence of commercial societies in the West.

The works reviewed reveal a long-standing interest in ethics and long series of observations about the importance of ethical dispositions. They also reveal subtle shifts in ethics and related norms

¹⁰ This is not to say that social dilemmas were entirely neglected before game theory was worked out, but without game theory, problematic choice settings were more difficult to analyze and understand. I have often noted in class that Plato's *Republic* and Hobbes' *Leviathan* could have been much shorter books if they had had a few principles from game theory at their disposal.

in Western Europe that gradually accord markets a more central role in a good life and a good society. That this shift occurred several decades before industrialization and relatively open markets emerged suggests a possible causal link between ethical and industrial developments. The theories reviewed also provide a useful overview of reasoned theories of ethics for readers who have not read classic works in this field and its focus on conclusions reached about markets may be useful for those who have read quite a bit, but not focused on the implications of their theories for commerce.

Part III cannot do full justice to the history of Western ethical theory, but it is able to provide overviews of widely read and cited ethical theories and their implications for commerce. It focuses exclusively on Western ethics mainly because of space considerations, but also because it is in the West that commercial societies—as opposed to commercial centers—first emerged.¹¹ It differs from most histories of philosophical thought in that it is, if anything, more interested on their examples and illustrations than their theories, because these shed light on the ethical ideas and maxims that the

¹¹ Commercial centers were often larger in East Asia and the Middle East than in Europe. The great urban centers of China, Japan, and Turkey were several times larger than the largest cities in Europe in the millennium before 1600. However, their associated societies were not commercial ones in the sense used in this book. Outside urban centers, the rhythm of life was determined by the seasons and the demands of an agricultural economy, rather than generalized market forces and routines.

various authors anticipate being in the minds of their readers. The theories are presented through paragraph long excerpts from the works reviewed.

It differs from conventional intellectual histories by its focus on market-relevant conclusions and illustrations. This provides a unique perspective on the history of ethics that may be of interest to persons beyond the rational choice circles in economics, political science, and sociology for whom the book is likely to be of greatest interest.

IX. Acknowledgements

Although this book was written over the course of four years, the ideas developed in it were worked out slowly over several decades. The ethics and economics project began while I was a senior research associate at the Center for Study of Public Choice, where I benefited from the stimulus provided by James Buchanan, Viktor Vanberg, David Levy, Richard Wagner, Yong Yoon, Pete Boettke, Ron Heiner, Hartmut Kleimpt, and many others. 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 and economic students, including one on game theory. There I developed course material to illustrate the relevance of game theory for ethics to several groups of excellent students. While in

Bayreuth, I benefited from conversations with Rainer Heckselmann, Martin Leschke, and visiting scholars such as Brian Skyrms.

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 “Moral Foundations of Capitalism,” which stimulated further thinking on the ethical foundations of commerce and led to this book. At West Virginia University, I have benefited from the opportunity to use drafts of the book in class and several chapters have been discussed at the department’s weekly book club meetings. I have also benefited from numerous discussions with Andrew Young and Josh Hall. While on sabbatical in 2017–18, I benefited from conversations with Martin Paldam, Christian Bjornskov, Gert Tinggaard Svenson, Stefan Voigt, Toke Aidt, Colin Jennings, Cheryl Shonhardt-Bailey, Louis DeSipio, Bernard Grofman, Ami Glazer, and Stergios Skaperdas, among many others—all of whom deserve thanks for their time, patience, and reactions to ideas that I tried out on them.

Additional helpful feedback was obtained when various chapters were presented in seminars at George Mason University, Aarhus University, University of Hamburg, Cambridge University, Kings College of London, and University of California at Irvine, and at meetings of the Public Choice Society, European Public Choice Society, Association for Private Enterprise Education, and BB&T conferences at Clemson University. Regarding the latter,

conversations with Andrew Cohen, Brandon Turner, and Richard Salsman were especially helpful. Although the words and ideas are mine, my prose and thoughts were sharpened by a variety of fine whetstones.

The general approach also reflects my published work in the area, including papers on contractarian normative theory (1983, with Robert Blewett), status seeking (1989), the economic role of a work ethic (1991a), the role of ideology in the rent-seeking society (1991b), the evolution of norms for participating in team production (1992, 2001, with Viktor Vanberg), a book chapter on the economic and cultural prerequisite for democracy (2003), a paper on the moral voter hypothesis (2007b), a book on the emergence of Western democracy (2011), which provides a central role for normative ideas associated with liberalism. It was also affected by recent papers on the evolution of organizational governance (2018a, 2018b, forthcoming) and overviews of the work of Elinor Ostrom (2007a), James Buchanan (2018c, 2014), and Mancur Olson (2015). The work-ethic paper was initially a joint project with Nobel prize winner James Buchanan, who must be credited with inducing me to think seriously about the role of ethics in economic development.

This is not the first book to address this issue, although it is arguably the first to provide the economic and political analysis to support the claim that a flourishing commercial society tends to have ethical foundations. This point has been made in passing by a number of well-known sociologists and economists, a few quotes from whom can be found in the appendix to this chapter.

The general approach and many of the research questions are related to recent literature on economic development, those stressing the roles of social capital and generalized trust on economic development.¹² Many of the effects identified in these literatures are similar to ones predicted by this book. This is likely to be because internalized ethical dispositions are a form social capital that tends to increase generalized trust.

The present book also has an obvious resonance with recent books by Deidre McCloskey (2007 and 2016), David Rose (2011), Ian Morris (2010), and Steven Pinker (2018). It also has similarities with Ostrom's (1990/2015) classic work on institutions for solving commons problems. Although it shares much with these books but also differs in significant ways. McCloskey's books focus for the most part on the nineteenth century and is more of a literary than

¹² See, for example, 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. See Aidt (2009) for an overview of corruption's effect on economic development.

analytical exercise. Rose's book attempts to identify a particular morality—one that resembles McCloskey's *Bourgeoisie Virtues*—that can make markets work better. His book explicitly links ethics 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 both its coverage of mainstream "proto-liberal" ideas about ethics and its use of elementary rational choice models to illustrate the effects of alternative ethical dispositions on the extent of trade, production, and innovation. It also includes consideration of the role of ethics in supportive legal and political institutions, subjects overlooked in their books. It differs from Morris' and Pinker's well written and far-reaching analyses of progress in human interests by its focus on ethical theories and dispositions, as opposed to advances in warfare or humanism, and by its stress on social dilemmas and the use of models to show both the dilemmas that exist and the manner in which internalized ethics can reduce their impact. Several of the empirical references used to validate the models were taken from Morris' and Pinker's extensive lists. Ostrom's influential book also tackles social dilemmas and mentions the role of norms as part of solutions to those dilemmas but focuses for the most part on commons problems. She does not ignore other dilemmas that exist but addresses them only to the

extent they are relevant to the solution of commons problems. This volume focuses more attention on the social dilemma resembling the one identified by Hobbes (1651) than the one pointed out by Hardin (1968), but addresses a variety of other social dilemmas as well in order to demonstrate that important roles that a subset of normative dispositions plays in the emergence of commercial systems.

The central claim of this book is that all societies have supportive ethical dispositions that mitigate a wide variety of social dilemmas, but that some provide solve a broader array of dilemmas than others and some solutions provide more support for commerce than others. I have argued elsewhere that shifts in ideology played an important role in the emergence of Western democracy (Congleton 2011). This book suggests that a complementary shift in ethical dispositions played an important role in the emergence of commercial societies throughout the West during roughly the same period. In both cases, ideas about the good life and good society played central roles in the emergence of the patterns of life and politics that characterize Western societies.

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Appendix to Chapter 1, Quotations in Support of the Main Hypothesis of this Book

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]. *Law, Legislation and Liberty, Volume 3: The Political Order of a Free People* [pp. 164–165]. University of Chicago Press; Kindle Edition.)

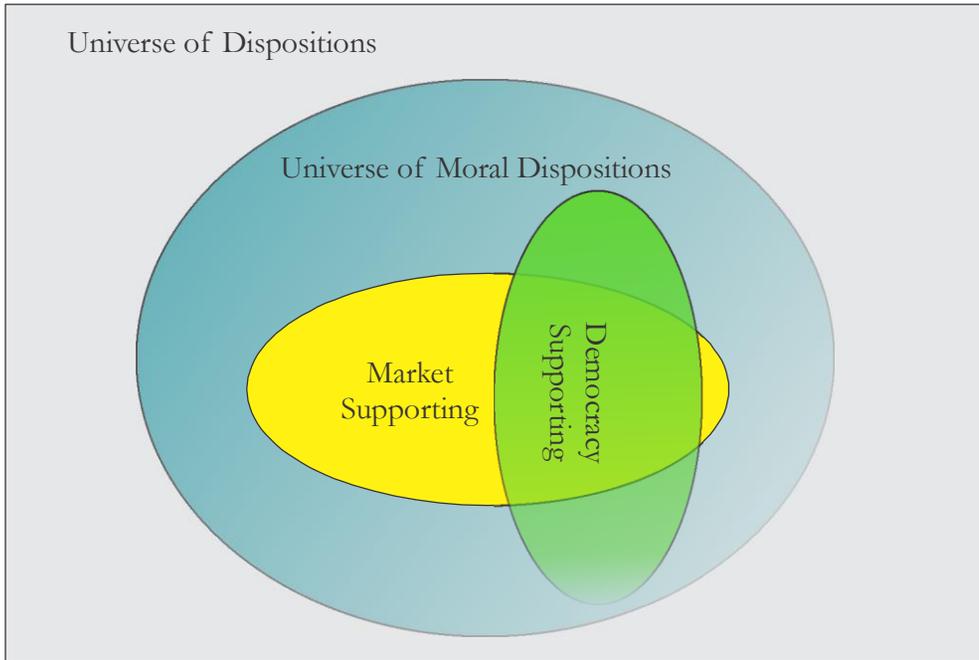
Virtually every commercial transaction has within itself an element of trust, certainly any transaction conducted over a period of time. It can be plausibly argued that much of the economic backwardness in the world can be explained by the lack of mutual confidence. (K. A. Arrow [1972] “Gifts and Exchanges,”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

There is a general failure to recognize that the very behavior that is observed in the exchange processes of the market, whether these be simple or complex, reflects the presence of predispositions on the part of participants, without which the whole structure would not function. **The person who enters into a voluntary exchange with another is predisposed to accept that the goods on offer are not fraudulent, that promises will be kept, that contracts will be honored.**

Implicitly, if not consciously, the entrant into the market models the person on the other side of the potential exchange as a moral equal, rather than as someone who is either to be exploited as an inferior or someone to be exploited by a superior. Again, implicitly, **there must be some underlying recognition of the mutuality of gains from the trading process – a recognition that, at least indirectly, implies a sort of moral equality.** (Buchanan, J.M (2005) *Why I Too am Not a Conservative*. [p. 105] Cheltenham, UK: Edward Elgar.)

So, for all the flaws in human nature, it contains the seeds of its own improvement, as long as it comes up with norms and institutions that channel parochial interests into universal benefits. Among those norms are free speech, nonviolence, cooperation, cosmopolitanism, human rights, and an acknowledgment of human fallibility, and among the institutions are science, education, media, democratic government, international organizations, and

markets. Not coincidentally, these were the major brain-children of the Enlightenment. (Pinker, S. (2018). *Enlightenment Now: The Case for Reason, Science, Humanism, and Progress* [(p. 28)]. Penguin Publishing Group.)



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