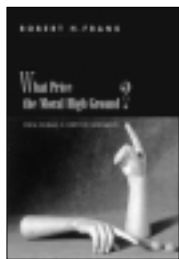


What Price the Moral High Ground?: Ethical Dilemmas in Competitive Environments.

By Robert H. Frank. 2004.
Princeton: NJ, Princeton
University Press, Pp. 203, \$27.95.



There has been a long-running debate among philosophers, theologians, and economists about the relationship between who we are (human nature) and how we

should behave (ethics). Years of observation and introspection have led many to the conclusion that people are self-interested creatures. Thus, Jeremy Bentham could write in his *Introduction to the Principles of Morals and Legislation* (first published in 1789), “Nature has placed mankind under the governance of two sovereign masters, pain and pleasure. It is for them alone to point out what we ought to do as well as what we shall do. . . . They govern us in all we do, in all we say, in all we think.”

But is the whole story? All of us are aware of self-sacrificing actions taken by others—or by ourselves—that can be explained as “self-interest” only by torturing the definition. Sometimes people set their self-interest aside and engage in selfless behavior—even making a rational case for their actions.

In the Platonic dialogue *Crito*, Socrates has been condemned to death by an Athenian jury and is awaiting his execution. One of his young students comes to encourage him to escape, appealing to Socrates’ self-interest and sense of justice. Socrates declines the entreaty and

explains that he must be guided by sound reason and not the consequences of his actions. He could have left Athens; but by choosing not to, he entered into an implied contract to abide by the city’s laws and institutions. Now that one of its institutions—the criminal justice system—has found him guilty and condemned him to death, he must accept the punishment.

In *What Price the Moral High Ground?: Ethical Dilemmas in Competitive Environments*, Cornell University economist Robert H. Frank reexamines the rational choice theory of neoclassical economics. Is man *homo economicus*, Frank asks, motivated solely by a quest to maximize his self-interest? And how can such a person fit into society? “Both economic theory and evolutionary theory, as historically taught, encourage the hard-nosed view that the only way to sustain pro-social behavior is through strict rules and sanctions.”

Frank disagrees. “The expectation is almost certainly incorrect. Indeed, recent theoretical and empirical insights in both economics and biology suggest a more nuanced view. On the empirical front, there is pervasive evidence that in many situations we simply do not behave in narrowly self-interested ways predicted by traditional theories.”

What the author strives to do is show that cooperation isn’t antithetical to a self-interested view of human nature; under certain circumstances it can even compliment the theory. But it seems clear that Frank sees himself as pushing the envelope in taking this position because he expends a fair amount of effort to explain that he hasn’t strayed from the neoclassical fold.

“Indeed, among the growing

number of economists working at the intersections of economics and other disciplines in recent years, I come closer than most to embracing the rational choice tradition of neoclassical economics,” Frank writes in the Epilogue. But he is also aware that his “adaptive rationality standard,” as he refers to it, may seem like a break with the past. “Does broadening the traditional neoclassical model’s portrayal of human motivation in these ways challenge any important core beliefs held by economists?”

The answer, he says, is yes and no. “Some elements of the broader motivational repertoire I propose render the invisible hand considerably less powerful than most economists would like to believe. Yet there are other elements that render the invisible hand far more effective than even the most ardent free-market proponent might have dared hope.”

So what is this new model? “Rationality—in both the self-interest and present-aim conceptions— involves the efficient means to achieve given ends. Adaptive rationality retains the requirement that people be efficient in their choice of means. But unlike the other conceptions, which take goals as a given, adaptive rationality regards goals themselves as objects of choice and, as such, subject to a similar efficiency requirement.”

What Frank wants to do is show that at times cooperation with others can be in the individual’s self-interest broadly defined. “The adaptive rationality framework provides theoretical underpinning for a remarkably commonsensical portrait of human nature. It tells us that people are driven by a combination of selfish and altruistic motives, just as experience seems to suggest.”

Frank's methodology to prove his thesis is to examine human behavior in a series of "one-shot prisoner's dilemmas" to see if and when people will cooperate and if that cooperation can work to the common good. "I now believe that it is far more prescriptive to say that most people have the capacity to develop bonds of sympathy for specific trading partners under the right set of circumstances." These bonds encourage cooperation, reducing the number of defectors.

Interestingly, Frank, an economist, wanted to see if economists responded differently than noneconomists to prisoner's dilemma scenarios. He concludes that economists are one self-interested bunch, and, up to a point, the more they study, the more self-interested they get. "We believe our prisoner's dilemma results constitute the clearest demonstration to date of a large difference in the extent to which economists and noneconomists behave self-interestedly. And our survey of charitable giving lends additional support to the hypothesis that economists are more likely than others to free-ride."

Hmmm. Is it possible that the reason Western thinkers have often held to what Frank calls the "naked self-interest" view of man is because self-interested economists have written so many books exposing their own internal workings?

What does Frank's more "nuanced" view of man—actually, a view common to many philosophers and theologians—mean for society at large? First, we need public policies that recognize the complexities behind motivation and encourage self-interested people to behave in a way that benefits both themselves and society. For those who don't play well with others, we need a leviathan to ensure that people are playing by the rules.

Frank devotes little space to

explaining how all of this comes together to promote civil society. If we give him a generous reading, however, his vision is one that allows people to strive to meet their chosen goals and promotes the common good in an ordered cosmos—which is exactly where many of us want to live.

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The Future of U.S. Capitalism

By Frederic L. Pryor. 2002. New York, NY: Cambridge University Press. Pp. 367, Appendices Pp.32, External Appendices Pp.126. \$38 hardcover.



This book is an extraordinarily balanced presentation of the possible future course of the economic system called capitalism. The author explores the key trends in the current U.S. economic system in the second half of the twentieth century, discussing whether these trends will continue or be replaced (and, if replaced, by what) and on what points we lack sufficient knowledge to make responsible predictions about the future. The discussion is broad ranging, covering political and social as well as economic factors. The author's points are unusually well documented, and alternative viewpoints are offered, so that the reader has ample evidence on which to base his/her own conclusions should they differ from the author's.

Frederick L. Pryor is particularly

well qualified to write a book of such magnitude and sweep. He is Emeritus Professor of Economics at Swarthmore College and is one of the world's leading specialists in the comparative study of economic systems. He has taught at a number of universities in the United States and Europe, has been a consultant and researcher for the World Bank as well as a number of government and private institutions, and has written extensively on the comparative study of different economic systems.

The first section of the book examines changes within the economy that will influence the evolution of U.S. capitalism. These influences include the aging of the population and its adverse impact on saving and economic growth, the widening dispersion of income, the effects of globalization, and the increasing fragility of the financial system. The second section reviews external factors influencing the evolution of U.S. capitalism. These include the costs of natural resources, certain types of environmental degradation, the break-up of the traditional family, the decline of social capital (defined as cooperative work that requires a set of shared norms and experiences), and political changes arising from growing distrust of government and the evolving world political situation. The third section considers institutions and organizations in the economy. In the private sector, particular attention is given the evolving nature of the corporation and the growing concentration of individual markets. In the public sector, emphasis is on the changing roles of government regulation and public expenditures.

In addition to ample footnotes and a 30-page bibliography, the author supports his analysis with 32 pages of appendices containing additional charts and tables as well as brief commentaries that expand on

ideas in the text. An extensive external set of appendices also is available on the author's website (www.swarthmore.edu/SocSci/Economics/fpryor1/) and provides an unusual bonus. These appendices offer further supporting data as well as brief essays on topics that are tangential to the main thrust of the work. One example of an interesting essay provides notes on the systemic collapse of economic systems in general and the Soviet system in particular. Another is a critical analysis of three popular views of systemic change.

The author's conclusions are essentially pessimistic. In the political sphere, he expects the overall level of government intervention to be about the same but with a different composition: public expenditures will be higher, regulation of industry will be lower, government intervention in the economy will be less effective, and repression of the population will be harsher. On the economic side, markets will be less competitive. On the social side, solidarity will probably be less, the quality of our lives will deteriorate in spite of increased affluence, and economic life will be more pitiless. However, the author outlines alternative views, and his final sentence is, "I hope I'm wrong."

Whether you agree with the author or not, the evidence is there for you to make your own evaluation. The author's analysis is far beyond the usual five-year projections of gross domestic product, its components, and interest rates. The book is thought-provoking, so that any business economist involved in long-range planning for his/her company or thinking about his/her own future will find a wealth of mind-stretching information and challenges therein. The book is very well written in non-technical language, even though simulation models are used at various stages—these are explained in more

detail in the appendices. The book cannot be read in one session, but the author provides frequent brief summaries, so that the reader can quickly pick up the train of thought after an interruption. In short, this book is an excellent and valuable tool for the business economist's kit when thinking of and forecasting not just next month or next year, but the longer-term future.

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The Quiet Revolution: Central Banking Goes Modern

By Alan S. Blinder. 2004. New Haven, CT: Yale University Press. Pp. 119. \$28.00 hard cover.



What procedures should a modern central bank follow in setting monetary policy? The answer to this question is important, because these procedures underlie monetary policy and are very much related to changes of substance. Relative to the literature on the substance of monetary policy, the literature on procedure is relatively sparse. This little book, which contains three lectures that were given as a part of the Arthur M. Okun Memorial Lecture Series, covers both procedures and substance.

Alan Blinder is currently the Gordon S. Rentschler Memorial Professor of Economics at Princeton University. He also served as a member of the Council of Economic Advisers 1993-94 and from 1994 to 1996 was Vice Chairman of the Board

of Governors of the Federal Reserve System. Professor Blinder thus offers practical experience, a solid academic background, and a clarity of writing that make these lectures unusually useful for anyone interested in the formulation of monetary policy.

Blinder's central theme is the quiet transformation that has been going on in the way that central banks worldwide conduct their activities. He groups these changes into three categories: transparency, decision making, and relationship to the financial markets.

Under transparency, Blinder believes central bank policy actions should be made clear, have substantive content, and be open to public scrutiny short of being unnecessarily intrusive. The political argument for transparency is that the central bank with its broad powers should be held accountable to the creating legislative body.

The economic argument for transparency is that it enhances the efficacy of monetary policy. This is especially important when the central bank has multiple objectives, like those of the Federal Reserve to maximize employment and maintain price stability. As to what the central bank should reveal, Blinder lists the following: the goals of monetary policy; the methods of analysis; the decision making models; and immediate disclosure of decisions and votes, accompanied by a "balance of risks" statement.

On the subject of decisions by committees, Blinder believes that committee decisions move central banks from doing the bidding of the prevailing government to acting independently. The advantages of committee decisions are bringing together people with different decision making methods, different models, different forecasts, and support of or opposition to a strong chairman. This

pooling of knowledge and information make policy less volatile and less extreme and is most useful when difficult decisions are required.

Blinder describes several types of committees: collegial (where the chairman forges a consensus), autocratic (where the chairman dominates), and democratic (where a majority vote rules). Blinder favors the collegial committee form, which benefits from diversity yet transmits a clear and transparent message.

On the subject of leading or following markets, Blinder believes that the central bank should be independent of the markets and not necessarily deliver the policy the markets expect or demand. He does not favor the older tradition that viewed the central bank as the stern schoolmarm that disciplined the markets when they got out of line, nor does he favor the central bank as an eager and respectful student studying at the market's knee. Blinder believes that markets have power and convey knowledge. However, the markets are poor predictors of either interest rates or exchange policy, because the market's time horizon is too short. The markets need to be led, not followed, in order to tame speculative market actions and counter herd behavior, fads, and fancies.

Throughout the book, Blinder presents interesting comparisons of the behavior of central banks worldwide, illustrating their move toward independence from political control and arguing that those who have made the most progress have conducted monetary policy with transparency and through committees.

How does the Federal Reserve System stack up in comparison with other central banks? Virtually all central banks now make immediate announcements of policy decisions, although the openness with which the decisions are made varies consider-

ably. On committees, they vary from the fully autocratic method in New Zealand to the purely democratic method in the United Kingdom, with the United States about in the middle. And modern central banks "increasingly take not only information, but sometimes also advice, from the financial markets."

How does Blinder view the procedures and policies of the Greenspan Fed? On page 6, he states "...Alan Greenspan, whom I would rate as the greatest central banker in history..." Nonetheless, Greenspan is taken to task for failing to meet Blinder's criteria. On the clarity test, Greenspan often failed. (But to this observer, Greenspan has moved openness and clarity further than any of his predecessors, and he can be forgiven if the markets choose to read into his statements more than he meant to convey.) On the committee level, again Greenspan is criticized as being "about as dominant a chairman as you are ever likely to see," to the point where committee members are reluctant to oppose his views. (This observer questions whether he has been more dominant than Burns or Volcker.) Blinder would much prefer a committee that is individualistic and diversified, "yet collegial and disciplined enough to transmit a clear and transparent message." He also is confident that the FOMC will become more democratic and less autocratic, once Greenspan retires.

This is a short, interesting and provocative book. Economists and others interested in Federal Reserve policymaking will learn much from reading it. One final comment: In Charles Dickens book *David Copperfield*, one of the characters uses an oft-quoted sentence, "Barkis is willin!" Likewise, if some future U.S. president is looking for a chairman of the Federal Reserve Board, he can be sure, "Blinder is willin!"

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EDITOR'S NOTES

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