David C. Rose

The Moral Foundation of Economic Behavior (Oxford: Oxford University Press, 2011), 269 pp. ISBN 9780199781744 (hbk). $49.95. ISBN 9780199360598 (pbk). $24.95.

In *The Moral Foundation of Economic Behavior*, David C. Rose takes what philosophers would call a genealogical approach to morality. Though he constructs a systematic and fairly detailed theory of morality, he does not defend the theory with intuition pumps or straightforward moral argument. His approach to morality begins instead with this question: what work might morality do in an economic system with low transaction costs? How, in other words, might morality – that is, a set of widely and commonly held moral beliefs – itself contribute to making economic institutions more efficient by driving down transaction costs? The approach is genealogical – in the sense explained by Bernard Williams in *Truth and Truthfulness* (Princeton University Press, 2002), it is a vindicating (or at least a non-debunking) genealogy – because it rests on two assumptions: that the nature and content of morality derives from how it developed, and that we can understand how morality developed by asking how, within a scientifically realistic account of human nature, economic agents might have come to hold and act from a particular set of moral beliefs in their efforts to minimize the transaction costs inherent in the pursuit of cooperative goods. Unlike many other authors who take this approach, Rose does not discuss cooperation in the abstract but in its economic guise. His question is how morality helps us maximize economic efficiency by minimizing the transaction costs of opportunism.

The book has eleven chapters. In the first three, Rose sketches his approach and sets up his argument. The core of the account lies in Chapters 4 through 8. Chapter 9 pursues a debate with alternative social-scientific accounts of trust. The final two chapters summarize and point ahead to how this approach to morality might be extended to the development of culture more broadly. I'll explain the most distinctive feature of Rose's set-up and the two core problems that drive his argument. Then I'll turn to the debate over trust. Let me note explicitly that while I'm writing for an audience of philosophers, Rose appears to regard himself as addressing only economists and other social scientists. He explicitly presents his argument as a morality-vindicating approach to economics. But the structure of his argument, along with much of his rhetoric and many of his emphases, reveal that he is pursuing a genealogical approach to morality, and it is under that description that philosophers can most easily appreciate the argument's value.

Rose's explanatory target is the species of economic efficiency manifested when cooperators manage to avoid the transaction cost imposed by the

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possibility of what Rose calls (following Robert Frank) 'golden opportunities.' In acting on a golden opportunity, one confidently believes that one's exploitation of another's cooperation will not be detected. The transaction costs imposed by such cases cannot be avoided by appeal to external incentives, such as concern for one's reputation, since a golden opportunity is defined as an opportunity for exploitation that will forever remain undetected. Rose especially targets a form of opportunism that exists in relational contracts wherein one party benefits by exploiting the discretion granted him by the exploited to act within the bounds of the contract. If A hires B to invest her money, for example, A may have no idea how to assess whether the investment strategies that B chooses for her are likely to maximize her profits. If the opportunity is 'golden,' B's exploitation of A is doubly intractable: B believes that A cannot assess his investment strategies, and B also believes that those who can assess his strategies will never learn that he has exploited the contract. Since external incentives will not work against such opportunism, Rose argues, we need incentives that function within the psychology of would-be exploiters. We need some reason to believe that a would-be exploiter will be motivated to avoid guilt produced by the exploitation just as such.

The two problems that drive Rose's argument arise through complexities in how such a mechanism of guilt-avoidance might work. The 'problem of empathy' (Chapter 6) forces us to look beyond small-group solutions. In a small-group setting, we may rely on guilt-avoidance grounded in sympathy, since (a) there will be significant harms undergone by the exploited and (b) the exploiter is in position to sympathize with the exploited insofar as the exploited is harmed. But in the large-group setting characteristic of a modern economy, we cannot expect that guilt-avoidance will be thus grounded in sympathy. Rose emphasizes that even if we could somehow pump up exploiters' capacity for sympathy (or for the empathy that lies at its core), the harm created by the exploitation may be distributed across so many individuals that the harm to each individual is insignificant. The problem of empathy thus leads, genealogically speaking, to principled moral restraint, which grounds guilt-avoidance in the motivational nature of moral belief itself. Here Rose embraces a species of judgment internalism that he does not articulate as such or more broadly defend. His argument for it lies in the claim that without it we cannot solve the problem of empathy.

The problem of empathy, once solved, gives way to a second problem, the 'greater good rationalization problem' (Chapter 7). The problem now is that even if we can expect an exploiter to be motivated by a belief in the wrongness of exploiting us, we cannot assume that this belief won't be overridden by another moral belief whose content in some way adverts to the greater good

done by the exploitation. As Rose observes (117), this problem – assuming it is one – goes to the heart of classical utilitarianism. Though Rose doesn't describe it in these terms, we might view it as an interpersonal variation on the well-known 'integrity objection' to consequentialism. Here the problem is not that consequentialism undermines an individual's integrity, by forcing her to serve the greater good even when doing so conflicts with her more personal commitments, but that it undermines the integrity of cooperative trust relations, by forcing the would-be truster to weigh the likelihood that the would-be trusted will defect in the service of some greater good. Unlike the intrapersonal integrity objection, this interpersonal integrity objection is genealogical: the problem with consequentialism is that it creates economic inefficiencies. Rose solves the problem by arguing that moral prohibitions are lexically prior to moral exhortations. If one's moral beliefs include an exhortation to serve the greater good, one is permitted to act on that exhortation only when it does not conflict with the prohibition on exploiting cooperative agreements. This permission, again, has a genealogical basis: by endorsing it we decrease transaction costs on cooperative agreements and thereby increase economic efficiency.

Rose emphasizes the distinction between exhortations and prohibitions throughout the book and criticizes "modern theories of morality" (without naming any) for failing to give the distinction its due (78). But there are many reasons to believe that the distinction is less important than Rose makes it. Even if we set aside the reasons that appear to motivate skepticism about Rose's methodology, we might wonder about the role of moral exhortation in promoting the ideal of well-integrated personal agency on which his entire approach depends. Why should we care to avoid our own future guilt? Why should we feel guilty when we sympathize with the harms we've caused? Why not let our sympathetic dispositions atrophy (perhaps by letting our empathetic capacities atrophy)? The answer in each case articulates an ideal of personal or moral agency. Even if we are naturally disposed to sympathize with others and naturally capable of feeling guilt when we sympathize with harms we've caused, moral exhortations – that is, beliefs with the positive moral content that one ought to act or be a certain way – appear to play a crucial role in developing an appropriately guilt-avoidant moral character. It is hard to see how moral prohibitions could get the right sort of grip on us if we were not thus subject to moral exhortations.

While Rose's approach to morality is genealogical, he makes one normative argument that does not appear to be genealogical. Throughout the book he conceptualizes cooperative relations in terms of trust, and in Chapter 9 he criticizes other social-scientific theories of trust for failing to frame these

relations in terms that let us appreciate the important problems that arise for large-scale economic cooperation. The theories under criticism treat trust as something importantly different from mere reliance, locating the difference in a respect in which trust is affective or interpersonal, perhaps involving the trusted's recognition of how the truster is relying on her, or the trusted's identification of her good with an aspect of the truster's good, or with the good of the relation itself. Such approaches to trust tend to treat the small-group context as paradigmatic of trust relations, and Rose's genealogical argument depends on our having left behind those small-group relations in our pursuit of economic prosperity. His critique of alternative theories of trust is not itself genealogical; it addresses the nature of trust, not how we must think of trust in order to pursue economic goods efficiently. And proponents of alternative theories may reply simply that Rose does not need to frame his issue in terms of trust. He could just as well describe his argument as revealing how the pursuit of prosperity does not depend on trust relations at all but instead on broader relations of economic reliance. That would prevent Rose from articulating a debate that he wants to pursue with economists who downplay the importance of trust, but it would clarify his contribution to social-scientific and philosophical debates about trust.

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