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

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