Michael Montias); "Social Norms and Culture" (Robert Frank, Susan Rose-Ackerman, and Viviana Zelizer); "The Organization of Work, Trust, and Incentives" (Ernst Fehr and Simon Gächter, Andrew Schotter, Jonathan Baron, and Russell Hardin); and "Markets, Values, and Welfare" (Bruno Frey and Robert Lane). The editors provide a useful guide to the volume in their Preface, and discuss in their own chapter (Chapter 1: "Values and Institutions in Economic Analysis") the background and the framework of their project and the way the findings presented here can be best interpreted and understood.

Three complementarities

While I shall refrain from trying to comment individually on the wide-ranging chapters – theoretical and applied – included in this collection of studies, I would like to take this opportunity to make a few general comments on three significant distinctions relevant to accommodating values and norms in economic analysis. The distinctions are, I believe, important to seize in order to interpret and understand the literature, and even to appreciate the tasks which the contributors to this volume have undertaken. The comments deal with general principles rather than specific applications.

In particular, I would argue that what may appear to be "either–or" dichotomies are not in fact so, and that it is especially important to examine the *complementarities* between apparently exclusive choices in each of the three divergences to be considered.

(1) *Complementarity between reflective selection and evolutionary selection*

Norms and values are subjected to reflection and rational selection, as Immanuel Kant and Adam Smith both emphasized.[2] Kantian principles of "categorical imperative" and Smithian discipline of "the impartial spectator" are among the prominent procedures that have been suggested with respect to the ways we can – and do – reason about what norms to accept and act on. The selection here is conscious, critical, and can be intensely volitional. In contrast, in modern "evolutionary" theory, social choice emerges through survival, and this process of natural selection works through ex post consequences in the world at large rather

[2] Immanuel Kant, *Critique of Practical Reason* (1788), trans. L. W. Beck (New York: Bobbs-Merrill, 1956); Adam Smith, *The Theory of Moral Sentiments* (1970), republished, eds. D. D. Raphael and A. L. Macfie (Oxford: Clarendon Press, 1975).

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Foreword

Amartya Sen

In Shakespeare's *King John*, the Bastard ridicules the narrowly self-interested behavior of his fellow royalty: "Since kings break faith upon commodity, / Gain, be my lord, for I will worship thee."[1] Shakespeare evidently thought that people *could* behave in other – nicer – ways, and many of his characters (indeed most of them) give evidence of having a variety of norms and values.

In contrast, many economic models tend to proceed as if the assumption of universal pursuit of self-interest is the only motivation that can be legitimately presumed in serious economic analysis. In this imagined world, the *homo economicus* has, it would appear, not only taken over from the Neanderthals, but has turned everyone, in the Bastard's words, into "smooth-faced gentlemen, tickling commodity."

Why the near-ubiquity of this assumption? Are economists not aware of other motivations, other concerns that human beings have? The editors of this illuminating and innovative collection of papers (Avner Ben-Ner and Louis Putterman) argue that we economists know more than we betray in our formal writings. In motivating the project, the editors mention that they had been struck by the fact that "norms, values, and the effects on these of historical processes are frequently mentioned" by academic economists in informal discussions (for example, "in casual conversations over meals"). But Ben-Ner and Putterman are also struck by the recognition that these issues tend to be "absent from the formal analyses" of economists. It is not that economists do not know about – or take an interest in – matters of values and norms. They do. But something holds us back, they argue, from paying attention to these "moral sentiments" in our formal economic work.

Ben-Ner and Putterman speculate that "economics disregards these

[1] William Shakespeare, *The Life and Death of King John*, act 2, scene 2, 598–99.

issues because they do not arise logically from the fundamental premise that underlies most economic research, that of *homo economicus*." The world is made to fit this momentous assumption, rather than the assumption being made to fit the world. The analytical discipline that confines itself to such constricted behavioral regularity is, by now, very extensively developed, with many technical achievements to its credit. This has tended to make the limiting assumption seem robust and natural. The analytical tools and the tradition of exacting and rigorous analysis associated with formal economics also militate against departures that may appear to be mushy and soft. The exclusion of moral sentiments is, thus, hard to alter in mainstream economics.

The program and the project

The editors, however, argue – this time more cheerfully – that the "time may have arrived" by now "when the questions of values and institutions can begin to be attacked using available and emerging analytical tools, without loss of rigor, but with much gain in relevance and generality." The basic task, thus, which the editors' program involves, is one of *adaptation*: how to make fuller use of contemporary economic analysis both (1) to take more note of the *influence* of norms and values, and (2) to have more investigation of the *formation* of values and norms. The book is the result of an initial project – and a conference – within this general program.

The editors have been particularly keen on extending modern economic analysis beyond standard limits – to address issues of moral, social, and indeed economic sophistication. They have been particularly keen on exploring "the possibilities for a research agenda that treats values as partly endogenous to the economic system, and economic systems and their performances as partly functions of people's values." The conference and the essays resulted from this attempt.

I shall not try to describe the main findings. The chapters are not only interesting and often innovative, they are also extremely accessible and easy to read. They are arranged in five substantial parts, followed by a characteristically insightful and stimulating essay, in the form of an Epilogue, by Douglass North (an economist who has consistently tried hard to broaden the reach of contemporary economics). The five parts deal respectively with "The Formation and Evolution of Social Norms and Values" (Robert Sugden, Ken Binmore, Chaim Fershtman and Yoram Weiss, and Jane Mansbridge); "The Generation and Transmission of Values in Families and Communities" (Nancy Folbre and Tom Weisskopf, Samuel Bowles and Herbert Gintis, Timur Kuran, and John than through ex ante reflections in the mind of each person. The organizational and institutional alternatives are simultaneously selected along with valuational regularities.

There is no question whatsoever that the recent work on evolutionary theory, including the study of evolutionary games, has thrown much light on the way behavioral norms and values may get socially selected and manage to survive and flourish.[3] The question that arises is not the need for taking note of evolutionary selection, which is clearly important. But, once evolutionary survival is taken into account, must the burden of selection fall *entirely* on that process (with conscious selection reduced to simple endorsement of natural selection)? Why can't the two means of selection be both actively at work? Since human beings are reflective creatures who take their values and critical powers seriously, the role of conscious and scrutinized selection will not be obliterated merely because evolutionary selection is also going on. Critical reflection does not give immunity from evolutionary selection, but nor does evolutionary selection convert reflective beings into thoughtless automatons.

Similarly, the process of transmission of values need not take the form of selection by nonreflective survival only. Norms and mores are propagated and dispersed through a variety of processes, in which the influence of education as well as public debates and private discussions (inside and outside the family) can play significant parts. Even the imitation of standard behavior can extend the reach of reflection through making choices of different people interdependent. As Adam Smith noted, "Many men behave very decently, and through the whole of their lives avoid any considerable degree of blame, who yet, perhaps, never felt the sentiment upon the propriety of which we found our approbation of their conduct, but acted merely from a regard to what they saw were the established rules of behaviour."[4] The "approbation of conduct" associated with reflection has a reach that is not confined to each person separately.

The high reliance on reflective selection in the tradition of moral philosophy often irritates the evolutionary theorist. For example, Ken Binmore's elegantly irate attempt (in his book *Playing Fair*) at "deKanting" not merely Kant himself but also such contemporary moral thinkers as John Rawls can be seen as a significant critique of moral

[3] This acknowledgment does not eliminate the reasonableness of Robert Sugden's pointer, in this volume, to the possibility that even the *sustained* expectations and behavior patterns may not be invariably "socially beneficial."

[4] Smith, *The Theory of Moral Sentiments* (1976 ed.), p. 162.

philosophy's tendency to neglect consequential reasoning and to ignore the discipline of evolutionary selection.[5] But that critique should really suggest the need not so much to "deKant" anything, as to complement reflective selection by evolutionary analysis. The rules that we live by cannot be untouched by our critical reasoning, just as they cannot be uninfluenced by evolutionary selection. Acknowledgment of one influence does not eliminate the other.[6]

(2) *Complementarity between direct and indirect valuation*

In acting according to norms and values, we may be interested in their indirect and non-immediate effects, in addition to their immediate results (including direct moral satisfaction, or their contiguous prudential merits such as the pleasure at being well thought of by others). For example, we may refrain from grabbing the most comfortable chair at a party either because we think that such restraint is the right way to behave (based on a direct moral argument), or because we do not like the way people would look at us if we were to run to the comfortable chair to grab it before others (an immediate prudential concern). But in addition to these direct arguments, we may have indirect reasons for the same abstinence, such as avoiding the long-run consequences of our *reputation* as self-indulgent and weird chair-grabbers (a prudential concern involving the future).[7] The relevance and reach of indirect consequences (reputation effects, benefit from having and enjoying trust, reciprocal gains from gifts, etc.) have been well brought out by recent work in this area (including some presented here).

However, these findings should not serve as the basis for ignoring the direct arguments – moral as well as prudential. Even if the answer to the question (to borrow from Chaim Fershtman's and Yoram Weiss's chapter in this volume) "why do we care what others think about us?" can be given in terms of the material gains we make from being favorably viewed by others, this would not dismiss the reasonableness of worrying directly about what others think of us (it is indeed comforting to be well thought of, and may even give us some moral confidence that we are not behaving badly). Indirect effects complement rather than supplant direct concerns.

[5] Ken Binmore, *Playing Fair* (Cambridge, Mass.: MIT Press, 1994).

[6] I have tried to illustrate the two-way relationship in "Maximization and the Act of Choice," *Econometrica* 65 (July 1997).

[7] The example and the rich variety of the consequences involved are discussed in my "Maximization and the Act of Choice."

(3) *Complementarity between ethics and prudence*

Many ethical rules can be extensively explained by their prudential role, for example, the fact that good moral reputation can be a great money maker. Recent work on the personal advantage from socially oriented norms and conduct has certainly thrown much light on non-moral ways of explaining moral behavior.[8]

The question that arises is whether this indicates that moral reasoning is redundant. This would be a complete non sequitur. Consider that we fully accept a demonstration that *even if* people were totally amoral (as far as deliberate thinking goes), moral rules of behavior would still emerge (through indirect effects, natural selection, etc.). This would be an important recognition, but this would not be the same as establishing that people *are in fact* amoral in their thinking and choice. A hypothetical exercise cannot establish an empirical regularity.

In fact, the two processes can each work separately and they can even work together. It is important to see how and why the prudential process can operate with or without moral reasoning, but this does not eliminate the actual role of moral reasoning itself.

Concluding remarks

I end with two final remarks. First, in acknowledging the possibility of prudential explanation of apparently moral conduct, we should not fall into the trap of presuming that the assumption of pure self-interest is, in any sense, more "elementary" than assuming other values. Moral or social concerns can be just as basic and elementary. If someone asks you the way to the railway station, the elementary reason for giving the right answer (if you know it) is that you have been asked for a help which you can readily provide at little cost and that helping a person is reason enough in itself. This basic recognition is not disestablished by a demonstration that such conduct may be evolutionarily stable and in the long run prudentially beneficial even to you.

The prudential and the moral, the evolutionary and the reflective, and the indirect and the direct routes all have legitimacy of their own. The point is to enrich the possibilities of explanation and then to examine

[8] Jane Mansbridge, in her essay in this volume, gives reasons to think that norms cannot be grounded *solely* in self-interest. I shall not pursue this issue here, but for the purpose at hand, it is important to note that even if that is the case, the fact that a good deal of moral behavior can have prudential explanation is not a negligible achievement of the recent work on the reach of prudential concerns (Mansbridge need not, of course, deny this).

which combination may work best. There is no particular reason for an *a priori* bias in favoring one direction or the other.

Second, the complementarities I have tried to discuss in this Foreword are, I believe, particularly central for the general program of which this book of essays is an impressive outcome. Studying endogeneity of values and use of ultimately amoral, economic reasoning to explain and assess norms and principled conduct enriches our understanding of valued behavior. But there is no need, in this program, to lose the insights and understandings we have received from Kant, Smith, Bentham, Mill, and others (and from contemporary moral and social analysts). The essays included here do, in fact, show a variety of inclinations in the balancing of (1) direct and indirect reasoning, (2) reflective and evolutionary analyses, and (3) moral and prudential concerns. This makes the overall outcome of the book less neat, but I believe ultimately more rich as a result. We have much reason to be grateful to the editors as well as the authors.

tive norm if they build on innate emotional proclivities, innate cognitive capacities, and the characteristic internal structure of existing master norms. Concern or love for others is innate; commitment to what one ought to do, or duty, is a primordial response to human interaction; and acquiescence to an embedded logic may function as an external constraint. None of these processes is adequately captured by "self-interest" as commonly understood.

Part II consists of four chapters on questions of values, families, and communities, which help to shift the analysis from the more general societal level marking Part I to social units intermediate between individual and society. The papers also highlight ways in which values, value-perpetuating institutions, or value changes may entail mixes of desirable and undesirable consequences. In "Did Father know best? Families, markets, and the supply of caring labor," Nancy Folbre and Tom Weisskopf discuss changes in the provision of care for children, the aged, and others. They argue that the growth of the market, including increased female labor force participation, has led to increased reliance on self-interested rather than other-interested motivations for the supply of care services, with contradictory effects. On the positive side there has been a reduction in the level of coercion imposed on women as caregivers, which is likely to have improved the quality of care services. On the negative side the increased role of self-interested motivations in the supply of care services has arguably reduced the quality of those services. Moreover, in a competitive market, altruistic caregivers are penalized in ways that discourage the formation of other-regarding norms and values. To address this problem, the authors call for social policies to enforce both male and female responsibilities for the provision of care services.

In "How communities govern: the structural basis of prosocial norms," Samuel Bowles and Herbert Gintis provide a model capturing the premise that certain kinds of cooperation may be sustainable only in groups small enough to be marked by repeated interaction among pairs of individuals, and by an ability to recognize who belongs to the group and shares in its cooperative norms. Such an arrangement is argued to have its negative side in the form of noncooperative or exploitative behaviors toward out-group members. They argue that community-like social structures have survived the growth of modern markets and states not because of social inertia or nostalgia, but because they meet real and present needs. Those who are concerned either to perpetuate or to eliminate the existence and characteristics of communities need first to understand them better, they suggest.

Timur Kuran proposes that moral values differ from other prefer-

Preface

A few years ago, we participated in a conference in which core issues in the economics of institutions and organizations were discussed by academic economists (see the June 1993 issue of the *Journal of Comparative Economics*). We were struck then by the fact that norms, values, and the effects on these of historical processes were frequently mentioned during the paper sessions, yet were largely absent from the formal analyses of the papers. We noticed too that in casual conversations over meals, we found ourselves talking about problems such as crime, drug abuse, our declining sense of community, family instability, and the moral culture confronting our children, problems that seemed to be of great importance to our lives but that had little intersection with our economic analyses, though these purported to deal with the most basic institutional structures of society. Surely, we thought, how society organizes its economic life must have far-reaching consequences for such problems through its influence both on people's economic opportunities and incentives, and also on their normative attitudes and preferences. For instance, how much we invest in personal relationships may depend in part upon whether they promise dimensions of economic and physical security that are unavailable from the market and the state. But such investment decisions may also depend on how much we value the relationships in their own right, and on whether we believe that we can identify others who likewise do so. Both economic changes and changes in valuations and trust could alter our calculations, and one type of change may well impact upon the other. To take another example, whether corporations treat their employees in a manner designed to engender loyalty and consummate performance or rather as disposable inputs to production that can be moved or terminated in response to small changes in market

We thank several contributors for their comments on earlier versions.

conditions may depend substantially on the intensity of product market competition and financial market discipline facing firms, but it may also depend on what norms of employment are current, on whether employees are inclined to reciprocate loyalty, and on other value-related factors that could in turn be influenced by those more narrowly economic ones.

Why had economists not been addressing such issues in their research? Part of the answer is given by the disciplinary division of labor, whereby social issues of the kinds just mentioned are not the ordinary preoccupation of most economists, who focus instead on prices, productivity, costs, and revenues, leaving the treatment of values and related issues to other disciplines. But more important, perhaps, is the possibility that economics disregards these issues because they do not arise logically from the fundamental premise that underlies most economic research, that of *homo economicus*. Being, by assumption, bereft of concern for friend and foe as well as for right and wrong, and caring only about his own well-being, *homo economicus* cannot, by construction, be at the center of a meaningful theory of how and when behavior is influenced by ethics, values, concern for others, and other preferences that depart from those of standard economic models. While such an oversight might simply be accepted as a regrettable cost of intellectual specialization, the problem may be more serious, for the "human nature" that lies at the heart of most economic analyses may fail to describe accurately and usefully either the actual persons who are the subject of economic analysis or the potential persons that may develop as a result of their interaction with institutions and organizations that are under the control of economic decision makers.

Attempts have been made in the past to investigate the issues that concern this volume from an economic perspective, but the mainstream of economic scholarship has not been significantly affected by them. The time may have arrived, however – that this is indeed the case is a point argued in our discussion in Chapter 1 – when the questions of values and institutions can begin to be attacked using available and emerging analytical tools, without loss of rigor, but with much gain in relevance and generality.

We broached the question of the usefulness and timeliness of starting a discussion of values and institutions with a number of well-known economists and were greatly encouraged by their replies that a conference on these issues would be desirable and worthy of their moral support. With that support, we were able to secure the necessary financial and institutional backing to permit us to invite leading scholars in economics and other disciplines to participate in a conference on economics, values, and organization. Its broad theme, and that of the present volume, was the two-way interaction between (on the one hand) the values that help to shape people's behaviors as social actors and (on the other) the arrangements by way of which economic and social life are organized. Its premises were that the institutional structure of an economy and society are influenced by our values, which cause alternative arrangements to be differentially successful; and that the values that influence people's behaviors are in turn affected by the nature of the institutional environments within which they are socialized and in which they operate throughout their lives. Our aim has been *to explore the possibilities for a research agenda that treats values as partly endogenous to the economic system, and economic systems and their performances as partly functions of people's values*. These very general themes are raised at a time when many proclaim the fabric of modern society to be under stress due to a crisis of values.

The Conference on Economics, Values, and Organization took place at Yale University on April 19–21, 1996. It was an intense and exciting weekend, with about sixty scholars from economics and other disciplines and a small number of graduate students and journalists in attendance. Most of the chapters that make up the present volume are revised versions of papers presented at the conference.

The body of the book begins with our introductory chapter, "Values and institutions in economic analysis," which attempts to meet two objectives. First, we try to provide a more complete exposition of this volume's themes as we view them – a task begun only cursorily in this Preface. We do this, inter alia, by suggesting motivations for studying these topics, and by situating the project in the context of both contemporary economic analysis and current social discourse. The chapter's second aim is to offer some views about how human preferences and values might be modeled, and on the relationship between values and institutions. We argue that an understanding of this two-way relationship requires a more comprehensive characterization of human motivation than that which lies at the core of standard economic models, and that such a characterization may be arrived at without inviting methodological chaos if we are guided by empirically corroborated theories of genetic and cultural evolution. The chapter concludes with illustrative applications of our conceptual framework to the institutions of the family, the workplace, and social insurance mechanisms.

Part I, which follows, consists of four chapters on the formation and evolution of social norms and values. They explore, in turn, the questions of how norms evolve, of what the evolutionary underpinnings of justice and empathy are, and of why people care about how they are regarded by others. In "Normative expectations: the simultaneous evolution of institutions and norms," Robert Sugden lays the groundwork for a theory of normative expectations in which people are motivated in part by a desire to avoid the disapproval that, as a result of normal human psychology, is aimed at those who act contrary to the expectations and interests of others. He suggests that these desires and expectations sometimes deter people from acting in their strict self-interest, and thus have the "motivating force" to affect behavioral outcomes. However, Sugden rejects the idea that the normative expectations that arise and are sustained are primarily those that are "socially functional." If the conventions that norms support "are unintended consequences of self-interested behavior," he argues, "we seem to have no general warrant for assuming them to be socially beneficial."

In "A utilitarian theory of political legitimacy," Ken Binmore attempts to provide a "naturalistic" defense of utilitarianism as a normative foundation for social policy. Binmore offers a new evolutionary explanation for the intuitive appeal of the "veil of ignorance" (Rawls 1974; Harsanyi 1977) as a device for assessing the fairness of resource allocations. He argues that evolution invented the veil of ignorance as an equilibrium selection device for the game of life, and that the device was rendered feasible by the endowment of human beings with capacities to imagine themselves not only in their fellows' shows, but also with their fellows' preferences. The chapter studies conditions under which the use of the coordinating mechanism made possible by such empathy leads to the implementation of a weighted utilitarian outcome.

Perhaps the most important check on narrowly selfish behavior is the concern that the typical person has for how he or she is regarded by others (or the avoidance of disapproval, in the formulation of Robert Sugden). In "Why do we care what others think about us?" Chaim Fershtman and Yoram Weiss ask how such a concern could be viable in a world in which only the fit survive. They show that even though fitness may be determined only by monetary rewards, players who care about the social status that is conferred by behaving cooperatively relative to the average in society may earn higher average payoffs than do those who, not caring about status, routinely choose the uncooperative behavior in a prisoner's dilemma type of game.

Against the contention that human values can be derived ultimately only from self-interest, Jane Mansbridge argues for including in that derivation innate emotions, innate cognitive capacities and limitations, and the internal logic of a norm. In her "Starting with nothing: on the impossibility of grounding norms solely in self-interest," Mansbridge suggests that societies will need to invest less effort in creating an effecences, including moral preferences, in that individuals treat them as absolute requirements rather than as objectives subject to trade-offs and bound by opportunities. In "Moral overload and its alleviation," he suggests that societies commonly inculcate in their members values that they cannot satisfy, leaving them in a state of "moral overload." The resulting "moral dissonance" then stimulates collective efforts to alleviate that overload through means ranging from redemption opportunities to moral compartmentalization and moral reconstruction. Kuran ends his essay by observing that the *policy* of promoting multiculturalism will generate moral overload insofar as it makes people adopt values impossible to satisfy within existing physical and financial constraints. He predicts, on this basis, that the current American ideal of multiculturalism is unsustainable.

John Michael Montias's "Moral diversity and specialized values: some observations" discusses instances in which ethnic minorities might be seen as having constituted "moral" subgroups within larger economic and social systems. He considers the specialized division of labor that can arise in such circumstances, with both its mutual benefits and its potential dangers. The chapter raises the question of whether this particular form of "communalism" and "moral diversity" is on balance advantageous or disadvantageous to aggregate economic progress.

Economists are used to thinking of markets either as self-regulating or as subject to the regulation of the state, but such a conception overlooks the ways in which norms and social sanctions may circumscribe exchange relationships with or without state intervention. The three chapters constituting Part III look at selected aspects of social and cultural norms governing competition and exchange. Their themes include the social regulation of undesirable competition and the social distinctions between approved and disapproved exchanges, and between commercial exchange and gift giving. In "Social norms as positional arms control agreements," Robert Frank argues that some norms exist to attenuate competitive excesses that might otherwise be generated by "winner-take-all" competitions. He demonstrates that such contests can induce socially inefficient effort levels, so that there may be a common interest in moderating their intensity. He argues that while adherence to the norms which achieve such moderation can be collectively beneficial, such norms will tend to break down when enforcement via small-scale social networks is undermined by geographic mobility and other social or technological factors.

In "Bribes and gifts," Susan Rose-Ackerman discusses the distinctions between ordinary exchange, gift giving, and bribery. She interprets bribes as payments by third parties to induce an agent to disregard the interests of his principal and suggests that society outlaws such payments so as to improve the functioning of agency relationships, notwithstanding the fact that the briber's willingness to pay appears to signal a valuable alternative use for the resources in question. When social changes such as those associated with the modernization of a feudalistic economy cause previously acceptable patron–client interactions to be reclassified as bribery, she points out, the delineation of boundaries between gifts and bribes in the legal code may be at variance with that in the popular culture or in the private moral codes of key actors, and growing pains will accordingly be experienced by the economy and the state.

Using the example of a monetary transfer from a man to a woman, Viviana Zelizer argues that it is impossible to draw legal and ethical distinctions of the sort discussed by Rose-Ackerman without considering details of the relationship between the parties. In her "How do we know whether a monetary transaction is a gift, an entitlement, or compensation?" Zelizer suggests that three major variants of monetary transfers – gifts, entitlements, and payments for service – can be distinguished with reference to the emotional content and the duration of the relationship to which they are attached. The fashion in which the monetary transfer is executed, and its timing, vary across cultures.

The themes of Part IV are trust, reciprocity, commitment, and incentives in organizations. Its chapters provide new experimental evidence on the roles of trust and reciprocity in work organizations, review relevant literature from a more general standpoint, and examine the roles of individual and institutional commitment in organizations. In "How effective are trust- and reciprocity-based incentives?" Ernst Fehr and Simon Gächter report the results of a series of laboratory market experiments in which "firms" and "workers" were offered opportunities to engage in "reciprocal altruism" and "punishment." These opportunities, easily shown to be irrelevant if all agents behaved neoclassically, are capable of engendering Pareto superior outcomes when agents evince reciprocity-based behavior and expect other agents to do the same. Fehr and Gächter's agents exhibit such behaviors, offering costly rewards and "efforts" without enforceable promises of compensation, engaging in costly punishments of breaches of trust despite the impossibility of reputational benefits because of the one-shot nature of the interactions, and seeming in many instances to anticipate that such breaches will be punished, despite the lack of benefit to the punisher.

Andrew Schotter's chapter, "Worker trust, system vulnerability, and the performance of work groups," is also based on experimental evidence about employment settings, but this time ones in which compensation is based on the effort levels of *groups* of workers. A first-stage experiment is conducted using two distinct games, one designed to facilitate cooperative outcomes, the other to make them more difficult to achieve. The focus of the chapter is on the second stage, in which each group plays the same game. The author–experimenter's interest is in whether a group's experience in the first stage influences its second-stage behavior. The result suggests that a background of expectations conducive to the formation of trust among economic agents – such as that generated by playing the first-stage game – can indeed increase the attainment of cooperative outcomes in a subsequent setting.

Jonathan Baron, in his "Trust: beliefs and morality," argues that trust is important in many settings, in addition to the workplace emphasized in both of the previous chapters. Baron reviews a large body of literature from psychology and experimental economics that finds that trust is, in part, a belief about others, and also a behavioral disposition that can be learned, taught, and experientially accumulated.

The traditional political question Who is the custodian of the custodians? is often answered, The more virtuous. In his "Institutional commitment: values or incentives?" Russell Hardin argues that political leaders and bureaucrats do not have to be morally motivated in order for them to be good public servants. The behavior of self-interested individuals may be directed to the pursuit of organizational goals, in Hardin's view, through the maintenance of organizational norms (institutional commitments) that deter harmful collective action.

Part V deals with relationships between market incentives, values, and well-being. Its chapters suggest that the types of incentives that form the backbone of the market economy can have negative effects on preferences, either by weakening socially valuable intrinsic motivations or by leading people to a mistaken appraisal of their true interests. In "Institutions and morale: the crowding-out effect," Bruno S. Frey argues that there are important situations in which economic incentives act in a perverse fashion as a result of the crowding out of "intrinsic motivation." He provides evidence, in particular, that offering residents financial compensation for the siting of an environmentally risky project in their community seems to lower, rather than raise, their willingness to accept that siting – a willingness that is conceivably based on some sort of civic virtue or on reasoning that "someone must bear this cost." His other principal example concerns tax avoidance, which he finds to be statistically unrelated to the expectation of penalties, but significantly negatively related to the extent to which institutions of direct democracy are developed.

In "The joyless market economy," Robert Lane revisits Tibor