Free Enterprise: Values in Action

Gruter Institute/John Templeton Foundation/UCLA-Sloan Research Program

2nd Working Conference

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This workshop, the second in a series of four working conferences under the Free-Enterprise: Values in Action program, was co-sponsored by the Georgetown University Law Center. The workshop's purpose was to move the project forward academically by encouraging communication and collaboration amongst the members. The Conference.. (did what?)

WORKING CONFERENCE FORMAT AND PARTICIPANTS:

The format of the workshop was a guided roundtable discussion. Each participant made a 15-minute presentation that was followed by general discussion. The participants were clustered loosely into groups relating to shared expertise. The goal was to keep discussions focused so that progress could be made in developing ideas and approaches. Each day ended with a review of the effectiveness of the workshop in achieving its goals and with a discussion of what could be added in the future to improve the rate of progress.

Overview

A series of multidisciplinary presentations were given in an effort to build a comprehensive basis for human values. Building from the bottom up evidence was presented that argued values are the result of physiological responses. Specifically, it was argued that Oxytocin releases correspond with actions often perceived as virtuous. Building on the physiological arguments and number of presentations demonstrated specific and predictable patterns of neural activation when subjects processed problems involving value judgments. These results suggests an innate biological basis and process for values.

Moving to a higher level of abstraction, presentations where made that demonstrated game theoretic explanations for the evolutionary existence of biological based values. The conversation then progressed to philosophical and empirical arguments in an effort to put into context the apparent agreement of the existence of innate values.

Outline of Presentations

Values and Business

Rakesh – Argues that management is not a profession. That ethics of MBA are at an all time low. But also goes not to say that managers don't manage? So, what gives? What's your point?
✓ Says that agency relationship resulting for shareholder maximization has led to a decline in ethics. So, is his point that maximizing shareholder value leads to ethical decline? Isn't this obvious? (because its only take into consideration one of many stakeholders)

Charles Handy – furthered the discussion by noting in some regions of the world young professionals ARE leaving the workforce to focus energies on more fulfilling projects. Claims this is because people are "self-actualizing" at a younger age (40).
✓ For example, social entrepreneurs are hard working, risk taking professionals who seek to achieve goals defined by values on dollars.
✓ Claims the same changes are coming to business. Social justice will become key. And, argues that it is possible to run a business enterprise and seek social justice concurrently. (for example Mother Theresa)

Discussion
✓ **Zak** argues that free exchange is win/win and that simple participation in the economy encourages cooperation and progresses towards social goals.
✓ **Gintis** argues that mandating a social-goal for business will drive businesses underground like in Germany where 40% of those employed work for an unincorporated company (because German companies must by law have a social goal)
✓ **Shreve** asks if this means shareholder maximization model is changing?
✓ Or, as Biship puts it, does this mean our understanding of "stakeholder" is changing?
✓ **McCabe** also raises the question of how to reconcile that risk is taken for profit. Erin responds by noting that business students are taught to be risk adverse whereas social entrepreneurs are not.
✓ Finally, the question is raised "is social goals oriented business a threat to our competitive advantage?

Paul Lawrence –
✓ Offers a general linkage system to bring together the discussion.
✓ Suggests that agency theory is incomplete.
✓ The essence of the problem lies in human behavior.
✓ Introduces the idea of his unified Neo-Darwinian theory of human behavior.
✓ Although he doesn't really say much about the theory
✓ Postulates that reason cannot stifle an impulse only an impulse can change an impulse.
✓ Argues there is a relation between basic human drives and emotions.
   o Drive to Bond → long term human relationships
   o Drive to Acquire →
   o Drive to Comprehend →
   o Drive to Defend →

- ✓ These drives are expressed as emotions.
- ✓ Combinations of these four drives can express all human emotions and skills.
- ✓ Impulses initiated by one drive is checked by other drives and only then checked by the pre-frontal cortex.
- ✓ Argues these four drives are balanced prior to conscious decision.
- ✓ Limbic region contains and balances the drives.
- ✓ Thoughts pass through the Limbic prior to cognitive processing in the pre-frontal cortex.
- ✓ Argues that human evolution cannot have happened without the drive to bond. (based on dynamics of mating)
- ✓ This implies there must be an innate moral sense because one cannot bond without having concern and compassion for another.
- ✓ Notes that psychopaths do not have a drive to bond.

Discussion
- ✓ **Gintis** – Most animals only have two drives fighting and fleeing. It is the two additional drives that give rise to human civilization.
- ✓ **Carl** – Given the framework as described, can you explain why we have a unique moral sense of duty (we as in people).
    - o Paul defends by saying we have a unique for of bonding that is based on increased human capacity of man.
- ✓ **Casebeer** –
    - o Demazio point actually underlies Jamesian theory that says that there is an impulse then another impulse and then cognition.
        - ▪ Lawrence says he has considered it but does not agree.
    - o McCabe's model describes 20 – 30 emotions whereas Paul Hickman says only 8 who's right?
        - ▪ Lawrence says there are more than 8 emotions and that Hickman was wrong.

Values Law and Economics

Vernon Smith – Human Career
- ✓ Sociality makes us who we are.
- ✓ 40,000 years ago we walked out of Africa
- ✓ Almost entire known world settled before the "square rigger" was developed.
- ✓ This could not have been achieved without specialization
- ✓ Research into hunter-gatherer societies show some sort of exchange and specialization
- ✓ Example, our symbiotic relationship with dogs could be the result of their ability to smell. They could smell very well therefore we don't have to. This could be why people don't smell as well as woman.
- ✓ Cites Dalton – economic exchange such as that of woman for marriage (kin) creates political environment that encouraged further exchange.
- ✓ Market exchange is same as personal exchange. 9but easier to monitor personal)
    - But, when using money there is a completion of the exchange when the money changes hands. Whereas, in personal exchange, the relationship continues beyond any single transaction.
    - This has resulted in a loss of connectedness
- ✓ Scottish Enlightenment
    - Incredible recognition that people where sounded by institutions that nobody knew where they came from.
    - Example. Hume talked about rules of morality not being of reason
    - Ferguson - talked about how institutions where result of human action but not of human design.
    - Adam Smith – ends that people achieve are not part of their intention
        - "Theory of moral sentiment" –
- ✓ For any constructive model to succeed it must also be ecological fit
- ✓ Picked up on theories of Jebbins and volra?
    - Lost inspiration of Smith as a result
- ✓ Low information situations
    - Experiments show that people can conduct exchange even when there is insufficient information to justify the exchange.
    - The only explanation is that people have incredible complex understanding social exchange that have not yet been modeled or understood.
    - One explanation is that the institutions that enable the trade are themselves capable of providing the missing pieces
        - This is based on some notion of bounded rationality or constraints.

    Discussion
    - ✓ **Rakesh** – Scottish enlightenment – Being skeptical says – institutions are meant to look like nobody built them, but, fact is somebody really did design it we just don't know who.
        - o Answer – No. something about the evolution of businesses and how innovation gives rise to large growth and then most die off. Only fit survive. We cannot predict which ones it will be.

Kevin McCabe
- o Dopamine is used as a reward in the brain to reinforce behavior.
- o Dopamine is a "goal directed reinforcement" augmented by biological responses.
- o There is an expectation parameter to rewards
  - ▪ If you don't get an expected reward there is an under firing.
- o Actor-Critic model – Basically - environment is producing stimuli. The actor has a policy function that determines actions based on the stimuli. Then the critic determines what kind of reward to give for the action.
  - ▪ You would think that rewards would be things like food, water, etc.
  - ▪ When anticipating a reward of money there is dopamine reward which means rewards are not intrinsically connected to the biological fitness value. (because $ have no intrinsic value)
- o Study using MRI shows an observable reward/emotional response to unfair play.
  - ▪ Furthermore, there is an observable difference between the response to unfair play by individuals and that of institutions.
- o Conflict –

    Discussion
  - ▪ **Zak** – values are pathways by which the brain builds preferences for conflict resolution.
    - • McCabe says the term "values" not yet understood but uses the term to describe the process of resolving conflict in the actor/critic decision model.
    - • Or, values can be seen as the reinforcement mechanism of desired behavior.
    - • Not yet sure which or if both models are correct.
  - ▪ **Casebeer** – do values shape perception or are values biases mechanisms.
  - ▪ Assume and Agent is based in an environment that has sensory input. At some level there has to be some filtering of information. And, once information has been accepted it must be interpreted. Which means there may be a multilayer biasing mechanism
    - • McCabe – must be experience with rewards to build preferences.

- ✓ **Don Elliott**
  - o Law is a shared human behavior
  - o James Madison said "if men where angles no government would be necessary"
  - o The conflict is that people are individual maximizes even though they are generally speaking other-regarding.
  - o Key point is there is a distribution of view points but that on average there is a trend of other-regarding.
  - o In law we use punishment and/or incentives to encourage cooperative behavior. (which is primarily targeted at the outliers who are not other-regarding)
  - o Argues that engaging in crime is a rational response to the incentive and punishment model.
  - o Raises the question between sanctions and prices (i.e. is the punishment simply the "price" of crime"?)

- Notes that the frequency of punishment increases its effectiveness suggesting a link between price and punishment.
  o But, if you rely on coercion you tend to lose the ability to know right from wrong.
    - Example, Enron – so long as it was legal it was OK.
  o Soft-Law
    - There is a competing view to threat based law called soft-law that is best characterizes in International Law.
    - There is evidence to show soft-law is effective but there is no model to understand why.
    - Is soft law like the Confucius Poem? " coerce and he complies but has no values. Teach a man and he behaves because he wants to…"

  o Discussion
    - **Biship** - Have we underutilized the mechanism of community? Has the institutional tool of community has been disregarded.
      - Yes. Detokevill argued that America does not have a community so bureaucracy must be used as a substitute.
      - But, EPA is an example where voluntary compliance derived from community norm has been observed.
    - **Gintis** – voluntary compliance works to a degree, but, you will always need punishment mechanisms to keep down free-riders.
      - True, there must be an optimal balance between soft and hard law.

Values, Law, Business and the Brain

Jorge Moll – Evolutionary Aspects of Moral Cognition
✓ Evolution of moral constructs paralleled by increase in brain volume.
✓ The layered brain model is most well known model to explain morals
   ▪ There are problem with this model
   ▪ The new model addresses the problem form a different perspective. Particularly, the new model
      1. Event knowledge sensual region (frontal cortex)
      2. Featural component (arterial part of temporal lobes)
      3. Central motor states (undirected motivations – not emotions, such as aggressiveness, arousal, etc.)
   ▪ Evidence suggests the entire brain is not involved in moral cognition, specific regions have been isolated.
   ▪ Evidence of this can bee seen in studies of behavioral impairment
      • These three main components are apparent in behavior impairments.
         1. Damage to frontal cortex leads to lack of planning, foresight, and antisocial behavior.
         2. Temporal lobe deficiencies impair social perception.
         3. Impairments in Limbic regions lead to unprovoked violent behavior, pedophilia, and eating disorders.

   ▪ Research showed that these regions where activated when solving problems involving moral cognition.
   ▪ Further research showed that subjects exposed to images/audio/context specific stimuli containing moral violations activated the same regions.
   ▪ Idea is that the interaction of outcome and event representations in the pre-frontal cortex along with temporal binding with the temporal and limbic regions give rise to moral cognition.
      • Ex. If you perceive a sad child it is not enough to feel sadness. You need to feel the helplessness. You also need to perceive the future events in the pore-frontal cortex. The complete process is moral cognition.
      • Key idea is outcome representation must be bound with emotional state to achieve moral cognition. Evidence suggests this process takes place by temporal binding of the pre-frontal cortex with the temporal and limbic region.

   Discussion
   ✓ Several questions where raised about the use of the word "unselfish" The general consensus was that *other-regarding* and *unselfish* are not equivocal.
   ✓ **Mikhail** – raises a question about the predictability of moral judgments.
   ✓ **Rakesh** – Furthers Mikhail's question by noting the apparent contextual nature of moral judgment. Understanding this, is it possible to predetermine morals?
   ✓ **Moll** Responds by noting that psychopaths can make moral judgments. Meaning. The ability and content of the judgment are independent and undeterminable. All

judgments containing moral content activate the same regions regardless of the outcome.

- ✓ **Lynn Stout** - Any altruistic action must be self-serving. Are we really talking about a utility function in which other peoples utility functions are taken into consideration?

Mathew Bishop - Philanthropy

- ✓ We are at the start of a new golden age of philanthropy.
- ✓ Argues that the turn of the century philanthropy in the US is largely responsible for the neo-socialist politics in the US (in comparison to Europe)
  - o Notes that today, the new philanthropy is a world wide phenomenon.
  - o Also, there is a new professionalism being brought to philanthropy. (essentially bringing market techniques to the philanthropy).
  - o Example, the Bono/Microsoft project that included McKinsey consulting, professional management techniques, business plans etc.
- ✓ Introduces the term "social entrepreneur"
- ✓ But, argues that business organizations are not really professional and that "social entrepreneur" techniques should be brought to the business world.
- ✓ **Issues**: philanthropy is a consumption activity not an investment activity. Thus, limited to those with resources.
- ✓ Suggests that much of the recent philanthropy may be related to tax incentives.
  - o If this is true what accountability is there (understanding that is it really tax-subsidized charitable giving).
  - o There a new plutocracy. Are these people trying to address the inequalities? (does the new social contract require it?)

    Discussion
    - ✓ **Clippinger** – Notes that the new philanthropist like Bill Gates have actually given a present-net-value amount of substantially less than Carnegie. And, claims that most high-tech givers have given relatively little.
    - ✓ **Lynn Stout** – relative wealth is increasing so as a percentage the amount being given is less.
    - ✓ ??? – raises the question of conspicuous consumption and if the new philanthropy is really just self fulfillment.
    - ✓ **Casebeer** – Kantian theory is that intent effects the moral cognition of the giving process. Question is, did anybody in the study reveal ulterior self-serving motives? (Answer is no.)
    - ✓ **Solomon** – Missing from this conversation is the concept of Virtue. From an Adam Smith perspective altruism/unselfishness is an inadequate argument. People do things for virtuous reasons regardless of affect.
    - ✓ **Gintis** – Argues that NGOs are more efficient than Government organizations and that for this reason they should be doing it.
    - ✓ **Rakesh** - Argues that Carnegie foundation was not successful until the separation of ownership and control (after the founders death). It was only successful because of the professional management.

John Mikhail – Universal Moral Grammar (A computational argument)
- ✓ A computational framework to analyze moral cognition
    - o Moral cognition is computational
    - o It is unconscious
    - o It is finite (or relies on finite recourses to compute)
- ✓ Approaches moral cognition as a medical science
- ✓ Central argument is that evolution has endowed man with innate understanding of natural law or natural right.
    - o Example, universal grammar is known by all children.
- ✓ 1860's was high water mark of theory of moral cognition.
    - o i.e. Alexander Bane, Darwin, Henry Sedgwick.
    - o Today, science has uprooted the enlightened view.
    - o Idea that morals are subjective is rooted in the modern scientific trend.
- ✓ Looking for the rules of justice and the rules of grammar.
    - o Like Chomsky - argues that language is innate.
    - o Moral cognition is a parsing process like grammar
    - o This raises the key question, can a moral grammar be used to anticipate or predict behavior
    - o Is universal grammar environmental or innate?
        - ▪ Evidence shows the environment is hopelessly inadequate to account for grammar as learned by children.
    - o Thought experiments used to show how people have a sharp understanding of moral judgment but don't posses an rational explanation for the judgment.
        - ▪ For example, would you throw a man if from of a train to save the live of five others? How about throw a switch to achieve the same result?
            - • Study shows people will throw the switch bit not the man even though they achieve the same result.
    - o Can show experimentally that people do not have a good understanding about why they do the things they do. The hypothesis is that there is a moral grammar that parses the situation and determines behavior.
    - o If norms are innate cognitive process then there may be along with naturals "rights" some universal "wrongs"

    Discussion
    - ✓ How would this make a difference in law? **Answer:** For example, on the prohibition against battery you could differentiate between battery used as a means to achieve an end as compared to a battery as a side effect.
    - ✓ **Moll** – How can you reconcile in your system the apparent shifting morality seen in the emergence of groups like the Nazis? Doesn't this suggest morals are not universal? **Answer**: German law didn't change the classifications of criminal law they just stopped treating a certain class of people as full people.
    - ✓ **McCabe** – At some point the metaphor of grammar fails. Answer: True, a moral grammar is not equivalent to a language grammar. It has a certain syntactic content as well as semantic.

- ✓ The key thing to understand is that if you subtract out the contribution of other cognitive systems like theory of mind or language the universal moral grammar is what you get.
- ✓ **Lynn Stout** – Its important to separate out motivation from cognition. Clearly, psychopaths have a moral grammar but it does not prevent immoral behavior.
- ✓ **Don Elliott** – Raises issue of common law. Says judges evaluate community standards and base decisions on these standards. The decisions are reasoned from community expectations not a moral cognition.
- ✓ **Solomon** – Is intuition just unconscious reason? Solomon does not think so. The decisions contain axioms that are not self evident.

Values and Biology

Sarah Brosnan – Other Regarding Behavior in Chips
- ✓ Humans are other regarding as can be seen in anonymous giving.
- ✓ Chips are similar to Humans in many respects:
    - o They cooperate
    - o They appear to have cognitive empathy
- ✓ Key question is "do they have other types of "other regarding" behavior?
    - o Experiments show chimps have NO pro-social behavior.
    - o Thus, any apparently cooperative behavior that is apparently other-regarding must have a basis in some selfish benefit to the actor.
- ✓ This means exchange and cooperation etc must be based on some other mechanism.

Carl Bergstrom – Argues that social organization cannot exist without unselfish behavior. From a structural perspective selfishness is the only stable structure.

   Discussion
   - ✓ **Lynn Stout** – Responding to Carl's point – True, but only if the social organization is not capable of responding to parasitic behavior.

 Bill Casebeer – Market Mechanisms and Cartoon Narratives
- ✓ First, Our explanation of the free market needs to include traditional normative explanations
    - o From a normative philosophical perspective three things define morality
        - ▪ Virtue Theory -
        - ▪ Utilitarianism – outcomes that create happiness
        - ▪ Deontology – nature of action (i.e. rights and duties)

    - o From these three elements we can construct a fratag triangle to address challenges to capitalism based on cartoon theory.
        - ▪ Agent/act/outcome boundaries of the Fraytag triangle
        - ▪ For example you could ask "Do market mechanism promote virtue and prevent vise?"

- ✓ The Fraytag Triangle is defined by beginning, a rise or a climax followed by a resolution.
    - o Most human action can be demonstrated and explained using a Fraytag triangle.
    - o The narrative approach is useful to understand human cognition because the development of a thought follows a similar process.

- ✓ We need a robustly normative explanation of capitalism.
    - o We need to be able to deconstruct cartoon theory critiques of capitalism

Oliver Goodenough – Changing the Game
- ✓ Social organizations are not dominated by selfishness

- ✓ Recombination changes the nature of the game
  - ○ When an agent changes a game to its advantage we call the intentional structure values.
  - ○ The basic game may be a prisoners dilemma but intelligent agents will seek out solution to make the game a win/win game of cooperation.
  - ○ The ability to shift ourselves is a human characteristic. To be ale to shift games from competition games to cooperation based games.
  - ○ For example, the double key lock box.
    - ✓ Two keys to open the box.
    - ✓ The box is physical but could be instantiated in a virtual organization like a company.
    - ✓ You could also out it into an inter-personal relationship
    - ✓ The double key lock box instantiated as a personal relationship is what we call values.
  - ○ We also have games of games. (is this a scaling question?)
  - ○ Fairness may be a way of evaluating the structure of a game.
    - ✓ Example, wall mart is reliable on the micro transaction. However, on the macro level they can be seen as a free rider.

    Discussion
    - ✓ **McCabe** – makes a distinction between Inclusion vs. Exclusion. Meaning, there is a difference between transactions that create wealth and those that do not.
    - ✓ **Rakesh** – Agents have different and multiple roles within a game. For example you could be an employee/customer/shareholder. If "values" are the framework for evaluating games how to reconcile the multiple roles?
    - ✓ **Schwab** – Humans are uniquely capable of making inefficient game into efficient games.

Comment Panel

Richard Shreve
- ✓ The models are too simplistic
- ✓ fact is, some managers do believe they do good for humanity
- ✓ The key question is: "is it OK to be a good guy in business?" Can they be good because it's the right thing to do?
    - o **Oliver** – What do you mean by right? Shreve – Does it matter?
    - o **Lynn** – Altruism means both, doing good and refraining from doing harm
    - o **Gintis** – Virtue is more important than altruism
        - ▪ Also, negative altruism is more important that being good.
        - ▪ Most people don't even know what altruism is
    - o **Rakesh** – modern MBA students don't think they can express themselves through business

Charles Firestone – The Executive Compass
- ✓ Species maximizing behavior

Don Langevoort –
- ✓ Key question raised is if institutions favor some particular brain function will the institution create/evolve people who are adept at evading enforcement thereby reinforcing the strength of the norm of evasion?
- ✓ Second, do winner take all markets increase risky behavior
- ✓ Third, Is utilitarian behavior always moral? For example hunting.
    - o Is it ok to "kill" a competitor?
    - o Don Elliott – people who lie usually have to convince themselves they are not lying. But, what to do with people who believe the falsity?

Round Table

Issues raised:
1. Is maximizing shareholder value a faulty goal for social organizations
2. Is greed good?
3. what is utility
4. can money buy you love
5. economics is
6. goodness can't survive
7. economic exchange makes you greedy
8. is Hobbs or smith right?
9. the golden rule is bunk
10. is rationality a property of theory of mind?
11. markets are dependent on scientific rationalization
12. more competition the better.
13. business ethics is nonsense
14. sex and death are the things that give you hope
15. if morality fixed is it compatible with capitalism
16. cartoon of ethics
17. is moral relativism correct
18. should you teach virtue?
19. who guides us?
20. Is the invisible hand intelligently designed?
21. values have no place in the board room

Values Based Economics

Paul Zak –
- ✓ What are values?
    - o A Guide to behavior that are not immutable but tend to be stable
    - o They do respond to environment
    - o They generate internal rewards
    - o Operates as a constraint on behavior
    - o Can consider values a moral sentiment
    - o They are more or less automatic
- ✓ Underlying the theory
    - o Mirror neurons
    - o Theory of Mind
    - o Affective Representation
        - ▪ Research shows where people who visualize other in painful responses the themselves has similar neural responses
- ✓ These mechanisms are automatic and generally uncontrollable
- ✓ They bias behavior in a specific direction
- ✓ They must be exercises to be preserved

- ✓ Biological basis
    - o Oxytocin level is a signature of empathy
    - o OT is automatic
    - o OT serves as a reward
- ✓ Violations of OT
    - o 2% of people do not respond to OT.
    - o They have a release of OT but do not react as social expected based on the OT release.
        - ▪ For example, OT release in games usually indicates cooperative behavior, but, 2% will have OT hit but not cooperate
- ✓ Distrust in men increases testosterone (but not in woman)
    - o Bases on empirical studies Trust is related to GDP
    - o This maps trust to higher living standards
    - o Based on world value survey a 15 point increase in trust level increases GDP 1%
- ✓ Can institutions affect values?
    - o We know stress inhibits OT release thus stability is required
- ✓ Values are a low cost enforcement mechanism
    - o But, stability is required and some institutions are required to keep down free-riders. Although the institutions should not over regulate.

        Discussion
        - ▪ **Casebeer** – the real issue is how to deal with the small proportions of "bastards"
        - ▪ **Solomon** – What is a value? The existing explanation is inadequate. Furthermore, the definition of trust (used by Zak) is incorrect because it "causal" Likewise, empathy necessarily mean trust, care, etc. Zak argues that

physiologically they are the same. And argues that no one really knows in humans.

- **Rakesh** – It looks like there has been an interpretation made of an observed physiological state and the interpretation is biased. Zak relies that he disagrees – these things are physical responses that are testable.
    - o Example, aggressive response is testable
    - o Reciprocity is testable
    - o Shared values are constraints on behavior and is testable
- **Don Elliott** – Raises issue about people who follow order for example like fire squads where on shooter is given a "blank" so none of the shooters feel responsible. Thus, we use artificial constructs to avoid personal responsibility. Personal accountability is important.
- **Wilkison –** There is an issue with connecting values with nature. Aren't some of these things only relevant in a social context? Are values really something independent from society.
- **Casebeer** – Is the problem because we use the word "values" as a noun instead of a verb? Is the result of a value like the result of a math function? Meaning, the value of A+B is C. (a value). Thus implying that values are calculated.
    - o Does the research show any environmental factors in OT release? For example parenting?
- **Erin** – On the 2% of non responders to OT did they get comparable quantities of OT? Zak answers Yes. In fact some got bigger hits. But it appears they are missing OT receptors so there is not effect.
- **Lynn -** Makes note that the example of Enron is a little more complicated because Enron had a high trust level inside it was only outside there was a low trust.
- **Lawrence** – reinforces the idea that trust is asymmetric with authority – thus related to context.
- **Mikhail** – Do we really need to worry about the definition? It will come out of the research. Also, he asks is there a hierarchy of values? **Zak** replies that values are a step below norms – they are more fundamental that have a real representation in the brain they are not just something philosophers made up.

Herb Gintis -
✓ Argues that behavioral sciences are fragmented and must be unified
✓ There must be a unified theory

Discussion
✓ **Clippinger** – how much of the problem is just a language barrier?
✓ **Mikhail** – asks is it really necessary to unify now? For example, physics and chemistry only recently unified and only to a degree.
✓ **Vernon** – the problem is that science spends too much time poking around distribution tails.

Bart Wilson –

- ✓ Modeled a game to test cooperation and specialization and found that in small groups agents where able to specialize. However in larger groups (of 8) agents where unable to organize into a beneficial trade network.
  - o There where three steps to specialization
    - ▪ Discovery of trade
    - ▪ Find a partner (for trading)
    - ▪ Building a relationship by increasing trade and specialization
  - o The test showed the critical factor in the emergence of cooperative exchange is in "finding a partner".
    - ▪ When the test where constructed to facilitate relationship specialization exchange flourished.
  - o Another interesting observation was that when comparing the successful test to unsuccessful ones where specialization did not occur they found the language used was identical indicating that language or communications was not the root cause of the ability to organize
    - ▪ The results suggest the root cause lies in the structure of the test which is equivocal to institutions.

  - **Discussion**
    - ✓ **Vernon Smith** – Make note there is no enforcement mechanisms in the game yet cooperation emerged. There is importance of this when considering institutions.
    - ✓ **Lynn** – In reality you simply do not see institutions or exchange without enforcement mechanisms. There must have been enforcement mechanisms built into the spontaneous relationships. (reputation could be this mechanism)
    - ✓ **Rakesh** – Commodity market studies show the larger the Market the more chaotic which is contrary to most peoples expectations. This, in the smaller more stable markets there must be something in the relationships that stabilize the market.
    - ✓ **Gintis** – My agent based models show that stable pricing survives while outliers are evolutionarily eliminated from the simulation.

Bob Solomon – Adam Smith
- ✓ Notes difference between sympathy and empathy
  - o Sympathy means feel sorry for others
  - o Empathy means feeling others feelings – good and bad.
- ✓ Sympathy does not depend on mirror neurons, there is too much to be explained by this theory. So, what is it?
- ✓ Solomon argues that you need both sympathy and empathy to make Smith's theories work.
- ✓ We need to pin down what values are
  - o Goals are not values
  - o "personal values' are an oxymoron because by definition values are shared
  - o **Virtues are values in action**
  - o Virtues are distinctively Human. (but not exclusively)

Discussion

- ✓ **Goodenough** – Yes, these are human phenomenon, but, is it possible to look at them instrumentally? (**meaning what is the function of certain virtues**)
- ✓ **Mikhail** – isn't this a shift from reason back to passion?
- ✓ **Handy** – Does it make sense that organizations can be virtuous?
- ✓ **McCabe** – We use institutions to teach virtue does this mean virtue is external? Solomon – Yes and no. They are both internal and learned.
  - o Solomon – the capacity to act virtuously is innate. However, the content of the virtue may be learned.

Values Business and Economics

Lynn Stout -
- ✓ Why do people see selfish behavior in situations where there obvious other ways of seeing things where they would see trust/altruism/etc.
- ✓ It doesn't matter what people are thinking or their emotions so long as they have behavior you want.
- ✓ There may be a cooperation/altruism basis in evolution (good strategy)
  - o Despite best efforts nobody has been able to completely exclude cooperation as a good strategy.

    Discussion
    - ✓ Solomon – Raises concern that you cannot necessarily say that somebody "chooses" to not do something. – There may not have been any choice at all.
      - o Maybe there is some other basis for action not at all related
    - ✓ The big issue is – is altruism always unselfish? Can't it serve a selfish interest.

Erin O'Hara – Contract Law and Trust
- ✓

John Clippinger – Digital Institutions
- ✓ In the beginning the Internet was free and save. There was no need to manage information or identity because there was trust and safety reinforced by DoD management of the entire network
- ✓ Today, this is not the case. The Internet is pervasively untrustworthy and there is therefore a need for a unique personal identifier to protect yourself and your information.
- ✓ The answer is a unique digital identity and reputation management system with multiple layers of anonymity.

    Discussion
    - ✓ **Lynn** – the enforcement mechanisms in use now are 1) reputation anf 2) digital courting rituals
    - ✓ **McCabe** – How does lowering cost effect the possibility that things may become even more fragmented. Won't the easy of creating multiple identities exasperate identity politics.
    - ✓ **Rakesh** – Is this a recreation of life or an improvement of it?
    - ✓ **Erin** – reiterates the concern that choice will narrow available solutions thus causing further fragmentation.

David Schwab – **Adam Smith**
- ✓ Argues that institutions are rule based systems
- ✓ Argues that exchange only exists in trust reinforcement institutions

- ✓ Norms can stabilize games on Nash equilibriums not possible otherwise.
  - o But, norms are expressive, they evolve into rules.
    - ▪ Rules can be defined as norms with punishment.
- ✓ Rules operate together – sometimes a single change can have an unexpected cascading effect.
- ✓ Dave demonstrates a game where a rule change changes the stable outcomes without a need to alter behavior.
- ✓ Key idea is that rules can be used to change the game. Behavior is utterly irrelevant.

   Discussion
- ✓ **Zak** – Have you actually run the game in a simulation? (No).
  - o So, how can you make any claims?
- ✓ Key argument is that norms are expensive – how does this reconcile with Epstein's work on the low cost of norms? From an individual perspective cognitive requirements are inversely proportional to the strength of a norm.

Darren Schriber – Neural Imagery
- ✓ Neural imagery shows some people process political questions as social problems while others don not.
  - o This has been determined by observing the portions of the brain active during problems solving tasks.
  - o Furthermore, the results show that those adept at processing political question did so much faster than those who were not.

   Discussion
   - ✓

Round Table – Day Two

Three key questions where identified as a basis for further discussion
1. What values would you identify in yourself
2. How do they help you
3. Some question still exist about society

Break Out

As an experiment the participants where broken into four groups and asked to define what characteristics are important for free enterprise to thrive. While there where many varied responses, several where repeated by most participants. They are:
- ✓ Trust
- ✓ Fairness
- ✓ Respect
- ✓ Loyalty
- ✓ Justice

Conclusions

Key Questions
- ✓ Short term actions produce long term reputation
- ✓ Values are necessary for cooperation
  - o Key question: is the objective function for business the same as for people?
- ✓ Can a good business an be a good person?
- ✓ Diversity of ideas is necessary but a diversity of values can be harmful to some.

Discussion
McCabe – do values need to be taught and enforced? The implication is that learned values cannot also be innate.
???? – the diversity of roles created by the division of labor creates a diversity of best values for a given role.
??? – aren't all of the traits of virtue something you would expect from somebody who is self actualized?
- ✓ The problem is that most people are not actualized.
- ✓ If most people are not actualized then how is it that we cooperate?
  - o Is it because there is some other characteristic at work that's more animalistic?
  - o Or, is the small percentage of people who actualized enough to stabilize the norm?

Closing Remarks – Oliver
There still is not consensus on the key question of morals being innate or not.

Next Steps

- ✓ Paul Zak will have a draft of the book by march
- ✓ The next meeting will be organized around the book chapters rather than individuals work.

Things that still need resolution
- ✓ We keep talking about organizations at different levels. We talk about individuals, firms, markets.
- ✓ What we need is a unified theory that ties all of them together
- ✓ We need more business people on board or the book won't have credibility in the business forum.

A single thing that everybody agreed upon
1. The virtue theoretic notion of values