

TEMPLETON REPORT

NEWS FROM THE JOHN TEMPLETON FOUNDATION

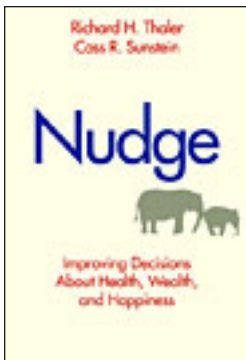
May 13, 2008

The Morals of Markets

Adam Smith's *The Wealth of Nations* (1776) is widely considered the foundational text of free-market capitalism. Less well known, but equally important in appreciating Smith's achievement, is the book that preceded his economic classic. In *The Theory of Moral Sentiments* (1759), the great Scotsman argued that morality comes naturally to us. There are "evidently some principles in [man's] nature," he wrote, "which interest him in the fortune of others, and render their happiness necessary to him, though he derives nothing from it except the pleasure of seeing it."

Kimon H. Sargeant, Templeton's Vice President for Human Sciences, likes to emphasize both aspects of Smith's philosophy. For the Foundation, he said, "free-market capitalism is not just an engine of wealth; it can be a way to promote moral and social development. The sort of research we fund in these areas—on economic freedom, enterprise solutions to poverty, character development—often ties together the themes of Smith's two great works." Four newly published books supported by the Foundation illustrate different approaches to joining economics and moral philosophy.

***Nudge: Improving Decisions About Health, Wealth, and Happiness* by Richard H. Thaler and Cass R. Sunstein (Yale University Press).**

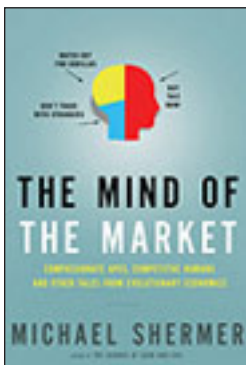


From coast to coast, in states red and in blue, Americans are getting fatter, saving less, selecting inefficient health insurance, and otherwise serving as their own worst enemies. Why do so many of us make such bad choices? Is it possible to guide us toward better ones without jeopardizing our freedom?

In *Nudge*, the behavioral economist Richard Thaler and the legal scholar Cass Sunstein argue persuasively that it is. Drawing on a range of recent research findings, they describe the various cognitive biases and blunders that lead us to bad choices—and they suggest a remedy. They describe their approach as "libertarian paternalism," and they believe it can go far toward promoting greater health, wealth, and happiness.

The key, they argue, is to establish sound "default options"—in other words, to determine what happens when people do nothing. Automatic enrollment in 401k programs, for instance, has been shown to result in much higher savings rates. Employees can still opt out, but they are "nudged" toward better choices.

***The Mind of the Market: Compassionate Apes, Competitive Humans, and Other Tales from Evolutionary Economics* by Michael Shermer (Times Books).**



Charles Darwin, like Adam Smith, expanded our understanding of the creative power of competition. In *The Mind of the Market*, Michael Shermer (a columnist for *Scientific American* and the publisher of *Skeptic* magazine) considers how we evolved from tribal hunter-gatherers to modern consumer-traders.

Synthesizing recent research in psychology, primatology, neuroscience, and behavioral economics, he covers subjects like bargaining, snap purchases, and why people hang on to losing investments. Both evolution and economics, he shows, illustrate the phenomenon of "emergence," whereby the individual elements of a complex system, working interactively, create a whole that appears to have been designed from the top down.

Against the conventional view that individuals in free markets act only to maximize their own utility, Shermer sees the reign of “virtue economics.” In modern economies, he suggests, the naturalness of human virtue constantly finds expression. For every act of violence or gross selfishness that makes the evening news, there are 10,000 acts of kindness or generosity that go unrecorded every day.

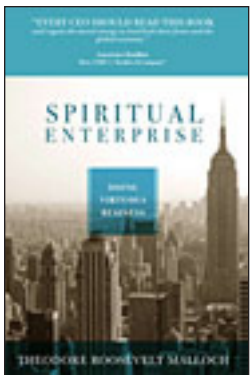
***Moral Markets: The Critical Role of Values in the Economy*, edited by Paul J. Zak (Princeton University Press).**



Is selfishness the motor that drives free markets? Greed certainly plays a role, but mounting evidence from the social and natural sciences suggests that modern markets work because most people act virtuously most of the time. Research in various fields increasingly confirms that our capacity for empathy and trust provides a biological basis for economic morality.

In *Moral Markets*, Paul J. Zak has collected the work of leading scholars in economics, law, philosophy, primatology, biology, anthropology, political science, management, computational science, informatics, and business. Key chapters include “How Selfish an Animal? The Case of Primate Cooperation” by Frans B. M. de Waal of Emory University; “The Evolution of Free Enterprise Values” by Peter J. Richerson of the University of California at Davis and Robert Boyd of UCLA; and “Values and Value: Moral Economics” by Zak himself. Zak is the founding director of the Center for Neuroeconomics Studies at Claremont Graduate University.

***Spiritual Enterprise: Doing Virtuous Business* by Theodore Roosevelt Malloch (Encounter Books).**



Critics of capitalism tend to see big businesses as greedy, malicious, and unscrupulous—above all, as unconcerned with the public good. In *Spiritual Enterprise*, Theodore Roosevelt Malloch answers these charges by suggesting that free-market economies thrive in part because of their “profound connection to a fundamentally religious frame of mind.” Malloch develops the notion of “spiritual capital” to describe the distinctive virtues that sustain capitalist relationships.

From Wal Mart to IBM and across a range of religious traditions, Malloch demonstrates how companies that operate according to a spiritually-based ethic have outperformed their competitors. He cites, for instance, Chick-fil-A’s long-standing policy of closing its restaurants on Sunday—thus allowing employees to spend time in worship and with their families—as a factor in its astonishing growth. Despite sacrificing part of the selling week, the company has become one of the largest restaurant chains in the country, with well over 900 locations.

The chairman and CEO of the Roosevelt Group and the founder of the Spiritual Enterprise Institute, Malloch seeks to reverse the conventional wisdom about the best of America’s big businesses and to show how they can be a force for social progress.

NOTEBOOK

UChicago Alumni Magazine Features “Discovering the Power of Free Enterprise”

Can entrepreneurship help developing countries overcome poverty? A group of distinguished economists from MIT’s Poverty Action Lab, Yale’s Economic Growth Center, and the University of Chicago certainly think so. Their project, “Discovering the Power of Free Enterprise,” is supported by the Foundation and was featured in a recent issue of the *University of Chicago Magazine*.

The project’s researchers, led by the University of Chicago’s Robert M. Townsend and including four of his Nobel Prize-winning colleagues, share an interest in applying general-equilibrium models to the relatively new field of enterprise economics. They plan to study poor and middle-income countries such as Cambodia, Ghana, and Mexico, as well as more advanced countries like Spain, which experienced dramatic economic development upon entering the European Union.

S.E.VEN Fund Announces Grant Winners

The Social Equity Venture Fund is a virtual, non-profit entity run by the entrepreneurs Michael Fairbanks and Andreas Widmer. By investing in books, films, and websites and by supporting role models in developing nations, S.E.VEN helps to develop and disseminate new ideas about enterprise-based solutions to poverty. Three times a year, the S.E.VEN Fund runs a mini-grants competition, supported by JTF, to award what Widmer calls “audacious and integrative projects.”

The most recent winners were announced on March 17. Selected by competitive review, the five projects are:



- Maternova, a new web portal that will organize, highlight, and share innovations that reduce neonatal and maternal mortality in low-income countries;
- an educational program called Empowerment of Students through the Entrepreneurial Approach, which uses structured curricula and applied projects to empower small-town students to become future entrepreneurs;
- the Top30Under30 Innovative Entrepreneurs Exhibition (InEx), which will enable young African entrepreneurs to meet with leading finance and investment institutions;
- “The Role of Universities in Building a Culture of Civic Responsibility, Interdependence, and Prosperity,” a roundtable event in Kigali, Rwanda that will help citizens sustain a strong civic culture and develop entrepreneurial skills through higher education; and
- an as-yet-unnamed documentary film profiling entrepreneurs.

The S.E.VEN Fund is currently sponsoring three other contests: a student essay competition, with an undergraduate prize of \$10,000 and a graduate prize of \$20,000; Cinéma Prospérité, a \$35,000 film competition; and the WHY Prize, a first-of-its-kind challenge, with a \$50,000 prize for the best collaboration between a macroeconomist and an anthropologist in the field of enterprise solutions to poverty.

Conference Launches "Initiative for A New Thrift"

Over-indebtedness has become an American way of life. The national debt has ballooned, and the savings rate stands below zero. Many families are carrying high balances on a fistful of credit cards, raiding equity in their homes to pay for short-term wants and needs, and trusting the lottery to free them from debt.

This week, at a conference in Washington, D.C., the Institute for American Values is launching a national campaign to confront the linked problems of high personal and societal debt, low savings, and growing inequality. The campaign is called the "Initiative for a New Thrift," and the conference has been supported by a grant from the John Templeton Foundation. More information can be found at www.newthrift.org.

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JOHN TEMPLETON FOUNDATION

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