How do you mean, "fair"?

Economists are not merely dismal, it appears, but selfish and unco-operative, as well

ECONOMICS FOCUS

SOMEBODY, presumably Groucho Marx, once offered the following advice: "The secret of success is honesty and fair dealing. If you can fake those, you've got it made."

If you aren't smiling, you may be cut out for economics. Students of the subject are trained to regard self-interest as the force that decides economic choices. It is easy to imagine cases where cheating is advantageous. The economist's view is: others will see that the logic of the situation calls for cheating, so you had better cheat, too. This idea pervades the literature. But here's a disturbing thing: it may be having some effect. Nothing personal, but economists are an unpleasant lot.

The evidence is in a new paper by a team of one economist and two psychologists from Cornell University*. It reviews several behavioural studies. In one, first-year graduate students were asked to take part in an experiment. They were given some money, and told to divide it into two accounts, one "private", one "public". Money in the private account was given to the student at the end of the experiment. Money in the public account was pooled, multiplied by a factor of more than one (the exact figure varied), and then divided equally among all the students.

For society as a whole, as it were, the best thing is for the students to put all their money into the public account. That creates the biggest pie, which is then shared equally. But for each individual student, the best thing is to put everything into the private account. That way, you get back all your own stake, plus a full share of the pool provided by the suckers. The study found that economics students contributed, on average, 20% of their stakes to the public account. Students of other subjects contributed 50%.

The researchers then asked the students to explain their actions: had they worried about whether their decision had been fair? Nearly all the non-economists said yes, they had worried. The response of the economists was different.

> More than one-third of the economists either refused to answer the question regarding what is fair, or gave very complex, uncodable responses. It seems that the meaning of "fairness" in this context was somewhat alien for this group. Those who did respond were much more likely to say that little or no contribution was fair.

Another study involved a game played by an "allocator" and a "receiver". The allocator was given $10 and asked to divide the cash between himself and the receiver. The receiver could either accept the division (in which case, both parties kept the sums proposed by the allocator) or refuse it (in which case, both got nothing).

Fairness calls for an equal split. But what does self-interest tell the allocator to do? Only a non-economist could ask. The answer is: keep $9.99, and give the receiver one cent. The receiver will not refuse because one cent is better than nothing (and self-interest does not understand spite). Note also that the game was played just once for each pair, so there was no reason for the receiver to refuse in the hope of prompting a better offer next time. As before, the study found that economics students "performed significantly more in accord with the self-interest model" than non-economists.

Other studies have found the same. A survey asked 1,245 randomly selected college professors how much they gave to charity each year. About 9% of the economics professors gave nothing; the proportion of professors in other disciplines giving nothing ranged between 1.1% and 4.2% (despite generally lower incomes than the economists). The median gift of economists to big charities such as the United Way and viewer-supported public television was substantially smaller than the median gift of non-economists.

The prisoner's dilemma—a game where two players have to decide whether to co-operate with each other or cheat—has long been of great interest to economists. The key feature is that for each player, "defecting" secures the best outcome regardless of what the other does. But if both players accept this logic and defect, they end up worse off than if they had co-operated. The Cornell team conducted an experiment involving 267 prisoner's dilemma games. Economics students defected 60% of the time; non-economists defected 39% of the time.

Does training in economics make you mean—or is it just that mean people are somehow attracted to economics? To find out, the Cornell team did a further experiment, to see whether students became more or less "honest" in a hypothetical situation, after doing some economics. They compared three sets of students: the first took a course in mainstream microeconomics, taught by an instructor with an interest in industrial organisation and game theory; the second took a similar course, but taught by a specialist on development in Maoist China; the third took a placebo (astronomy).

Across a range of questions, the pattern was consistent: the first set contained the largest proportion of students who became less honest; next came the second set; honourably in the rear were the astronomers, with the smallest proportion of students who became less honest.

Perhaps, then, there is a public interest in curbing the study of economics. Or alternatively—a conclusion that this column would prefer to endorse—economics needs to take psychology more seriously. The fact is that people do co-operate more than the self-interest model (useful though it is) seems to predict. As the Cornell team points out, recent research sheds light on one reason for this.

Imagine a world in which people move from one prisoner's dilemma to the next (ie, the real world). If people can choose their "partners" freely, and if honest types can spot each other in advance, co-operators will be able to interact selectively with each other—and will therefore do better than cheats. Experiments have shown that people are surprisingly good at telling co-operators and cheats apart, even on the basis of what seems to be limited information.

So there you have it: narrowly self-interested behaviour is ultimately self-defeating. Economics practised with that in mind could become the uplifting science. If economists can only incorporate a bit of psychology, they've got it made.

* "Does Studying Economics Inhibit Co-operation?" By Robert Frank, Thomas Gilovich and Dennis Regan, Journal of Economic Perspectives, Spring 1993.