

# THE MORAL TRIAL

ON THE ETHICS OF ECONOMICS

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THE MORAL TRIAL  
On the Ethics of Economics

HET MORELE TRIBUNAAL  
Over de ethiek van economie

Thesis

to obtain the degree of Doctor from the  
Erasmus University Rotterdam  
by command of the  
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Prof.dr. S. W. J. Lamberts

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by

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Besides guiding my professional development, they have all shown me what is known only to the insider: that academia is a lively and dynamic human milieu, well deserving of the caustic remark of Prof. Paul Armstrong (played by Sean Connery) in the movie *Just Cause* (Warner Studios 1995): “why every [f-word] thing is the real world, but teaching?”

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legitimate suspicion that there was any point in doing so. The speaker's response ("I think it's a *very bad* idea"), however, alerted me to a major challenge I was to come across: besides producing a meaningful piece of work I would have to stand up for my research and campaign for it, in order to show why it mattered and why it was a sensible enterprise (though very often in the process I surrendered to discouragement and came to believe that the speaker had been absolutely right). One would thus be justified in saying that only in such a pluralistic and open-minded institution as *EIPE* could I have found the support and inspiration to pursue this dissertation. My thanks to Uskali Mäki and to all the wonderful *EIPE* people are well overdue. A complete list would be redundant, but it is only fair to single out Caterina Marchionni, whom defining a fantastic friend and a brilliant colleague would be an understatement, and Roberta Muramatsu, who helped me greatly during my first tentative steps.

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Hard though I have tried, I am truly sorry I may have left some marvellous people out of this list. Please acknowledge this as limit in my skills, not in my gratitude.

\*\*\*

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## INTRODUCTION

*I always go to the funerals of my friends;  
otherwise they won't come to mine.  
– Anonymous*

Some time ago I received an email with the following test:

*A woman went to the funeral of her mother. There she saw a man with whom she immediately fell in love. She believed the stranger to be the love of her life. Unfortunately she didn't have a chance to talk to him and ask his name or telephone number. She thus had no hope of ever seeing him again. A few days later, this woman killed her sister. Why did she kill her?*

Hard though I have tried (well, not so hard), I could not make sense of it. And most people are unable to even suggest a haphazard answer. But later I learnt that this question is used to test whether a person has a murderous personality and it seems that many serial killers respond promptly. In case you are not a serial killer, you may want to know that the answer is not very difficult: she hoped to see the man again at her sister's funeral. Smart, huh?

When I informally tried this quiz with my acquaintances it became evident how, just like me, an astounding majority of the respondents struggled to even make a guess. And just like me they failed to guess correctly. The two persons who gave the right answer – both women, if this means anything – came up with the answer very fast, almost instinctively. If they had known the quiz already, I'd expect them to at least pretend reflecting on the matter before uttering the response. Both, however, swore they never heard the question before. (And having to deal with potential killers, it felt unsafe to question their sincerity.)

Most people are incapable of answering correctly, or at all, because we cannot conceive of such reason as the explanation of a murder, even less so the murder of one's relative. Economists can, however, describe this act as coldly rational. How sorry is she for having forever lost the man of her life? Say -100. Now calculate the joy of seeing her beloved to be worth 100 and the chances that he turns up for the funeral to be 70%. The suffering from her sister's death could be -40, the displeasure of being imprisoned -20, and the risk of being caught might be 50%. (These are random values.) Then it's easy to see that the action itself has an expected utility for the killer of 20.

$$0,7 \times 100 - 40 - 0,5 \times 20$$

$$70 - 40 - 10 = 20$$

Compared to the alternative, the assassination seems to be the best choice, because  $20 > -100$ . Of course one can add all sorts of further concerns, like the chance that her nephew develops an insane attraction to the smell of incense, so that he will later kill her to enjoy another funeral. One can also consider many more alternatives to murdering, for instance buying a self-help manual or checking into a SPA for the weekend. But insofar as the expected utility from the sight of her beloved is higher, killing her sister remains the most rational choice to make. And everybody else, in her shoes, can be expected to sacrifice the poor sister as well. One week into Econ 101, every student can defend this point (although hopefully no economist would actually praise or advise such act – unless they, too, have a murderous personality). The risk to end up in jail is nothing but the *price to pay* for the chance of seeing the charming stranger again.

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And one must pay the price for everything one does. All actions have costs and they have benefits. An example: for just a modest amount of cash and with a little spare time, one can learn economics. With titles such as *Naked Economics* (Wheelan 2002), *Sex, Drug, and Economics* (Cole 2004), *Freakonomics* (Levitt and Dubner 2005), and *More Sex is Safer Sex: The Unconventional Wisdom of Economics* (Landsburg 2007) struggling to capture the customers' attention, the experience might even be *fun*. (Note that you don't utter that f-word word in Econ classes, unless you are Paul Samuelson.) Bookstores witness an ever-expanding supply of popular scientific accounts of economics, corresponding to an ever-expanding (curious in its own right) curiosity about the counterintuitive solutions some brilliant minds can conjure to worldly problems no less imperative than: what name would be best for your daughter (Levitt and Dubner 2005, ch. 6), why baseball managers, but not basketball ones, wear uniforms (Frank 2007: 177-9), why popcorn is so expensive at movie theatres (Landsburg 1993: 197ff.), how to enjoy the best possible food (Cowen 2007: 139ff.), and how to show up as a smart person for not having a clue about the politics of your country (Friedman 1997: 290-1).

All these books are both entertaining and accessible accounts of “how economists think” (Landsburg 1997: viii) and whose goal is to help the reader “see the world like an economist” (Harford 2006: 3). After perusing them, therefore, the reader will be left with much more than the solution to a handful of riddles: she will have discovered her “inner economist” (Cowen 2007) and become an “economic naturalist” (Frank 2007) by means of having learnt a veritable “method for thinking about any subject” (Cole 2004: xii). Brainwash, anyone?

This method will amount to looking for and recognizing the costs and benefits hidden behind every decision. Its strength comes from another pillar

in economists' outlook: scarcity. There never is enough of anything to satiate all who want it, so that people ought to make choices. If we assume people to be intelligent and sensible, as economists respectfully do, we may go quite some way towards understanding and predicting their behaviour. Because they always strive to make the best choice available and they react to incentives, economic agents can be easily dealt with. (By incentives, we essentially refer to the size of the numbers assigned to utility, or the weights attached to costs and benefits.)

Should one want to prevent the lady in love from killing her sister, for instance, one could campaign for more and more severe police. This way, the chances that the killer gets caught would jump to 75%. This would perhaps still not be enough for our lady to exert self-restraint, but spice it up with longer sentences and harsher jail conditions (now setting the displeasure of being caught at -40) and she should now reason that there are more sober ways to cope with an aching heart, like keeping a journal or giving in to daytime TV.

But, if every choice comes with a price tag for the gain it affords, besides the occasional open-mouthed stupor and the systematic perplexity at the cynicism of the authors, what is the benefit of learning economics? Not much, one would think.

It has already become quite obvious that Economics equips us with technical expertise that bears only a scant connection with solving actual problems and unfortunately, "the stuff we taught in [the course on the economics of developing countries] didn't do the countries it was supposed to help much good, and graduates discovered that business wasn't interested in the industrial economics they had learned at university" (Kay 2004: 170-171).

On the other hand, what is the price to pay for having learnt to think like an economist? What kind of person does that? How well liked is he? Would you wish your son were one of us?

It is not common to ask such questions. Even the sub-discipline oddly called 'economics of economics' has rarely undergone this path. It is, therefore, difficult to find answers. (I mean it is difficult to find answers in the academic literature; in the lay discourse they are both well known and straightforward, I should say.) It is a fitting way to look at this dissertation to say that one of its goals is to unearth some of these costs. This will require quite substantial detours into the subject matter of economics and, specifically, into discussions about markets.

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Of course, markets.... It is common to ponder how partners are found in the marriage market, graduates compete in the job market, researchers contribute to the market of ideas, and internet sites advertise through the linking market; just the same way authors catch publishers' attention in the writers' market,

politicians struggle for election in the voters' market.... Virtually every transaction (economic or else) is said to obtain in its own market, and every decision (be it again economic or not) characterised as 'a price to pay.' The market is indeed a widespread and useful social arrangement that coordinates multifaceted relationships in a complex ecosystem.

Despite the obvious temptation to proclaim that nowadays everything is a market, and that everything can be bought and sold, it is very easy to show how this is not so. There are many cases of irritation, discontent, and even anger against the so-called 'marketization' of the world, which take forms as varied as outspoken letters to newspapers, heated remarks on weblogs, organized boycotts, and violent riots. On the other hand, not everyone who opposes markets – or rather, more often, some of their specific instantiations – is necessarily against markets per se, and indeed everyone routinely uses them without thinking about it.

One eminent example of the reach of markets in our society is witnessed by the proliferation of auctioning Internet sites. Such sites coordinate the sale of all sorts of items among hundreds of millions users scattered all over the world. The largest such site, *eBay*, flourishes with examples that commercial fantasy is unlimited. Imagine you have grown angry with your grandfather and happen to have been named after him. Why don't you replace the loathed name with another one chosen by the highest bidder? This decision might earn you close to € 8,000 (it might even get you a € 1,500 offer from your brother who wants to keep the name in the family). Or if your kid gets scared by the ghost of your late father, there is a chance somebody is willing to buy the spectre from you for about € 75. You can even start your career as a singer, by selling shares of your future royalties, thus raising enough money to release your first record. These are not the likeliest or most intuitive transactions one might expect and, as such, they attract curiosity. To be sure, the bulk of the trades that take place every day are much less noteworthy, being mostly collectibles or items that could be bought and sold elsewhere. But it is precisely the capacity of the medium to arouse attention that explains attempts at selling uncommon goods and services, like offering oneself as a friend or as a date to raise donations to charity.

Other examples, however, question our acceptance of markets as the one and only global form of exchange for just anything. How do students provide for their academic fees?

Andrew Fisher, a student from Nebraska, offered to rent advertising space on his forehead. A smart move indeed! He clarified, however, that he "wouldn't go around with a swastika or anything racial [...] with 666, the mark of the beast [...] anything socially unacceptable such as adult websites or stores." The Dubliner Vincent Flood underwent a different way: upon the proclamation of the new Pope, he set up a email account called *popebenedictxvi@hotmail.it*, which he has since tried to sell for circa € 120. Different were also the ways of Mathew Phillips from Bonvilson who was



imprisoned after he sold around € 3,000 worth of counterfeit software. And yet different was the approach to securing tuition money of Rosie Reid, a student from London. In January 2004 she offered her virginity to the highest bidder. Although her offer was removed from *eBay*, she kept the auction running on her personal page. Eventually she was paid the equivalent of roughly € 20,000. If we were all that easy with markets, why was the auction received with embarrassment and contempt, and eventually banned?

Dubious offers on *eBay* date back at least to 1999, when a seller from Florida offered a “fully functional kidney” for circa € 25,000. She or he also specified: “you can choose either kidney. Buyer pays all transplant and medical costs. Of course only one for sale, as I need the other one to live. Serious bids only.” Some very serious bidder offered close to € 6 million before the sale was halted. For infertile Chinese couples interested in purchasing a child, *eBay* could once again be the answer, should they be willing to part with € 3,000 for a boy or € 1,500 for a girl. Children of both sexes are guaranteed fresh, that is less than 100 days old. Once again the transaction was suspended before completion. Not really *everything* should be marketable.

On occasions there appears to be something ultimately humiliating in being up for sale. So if you are disappointed in the state of politics of your country, you may sell your vote. You can even advertise the sale of your school, university, or soccer team (or just the goalkeeper) to signify your irritation with their performance.<sup>1</sup> Although you won't probably be able to cash any check for those, your message will go through. And if the philosopher Immanuel Kant was right in saying that everything has either a dignity or a price, your message will sound something like: “make no mistake: this one has a price.”

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If some markets are criticized and blamed, there ought to exist (preferable) alternatives to them. The market is thus not the only arrangement available, nor is it the only widespread and useful one. More and more often, nonetheless, we hear politicians argue that health-care and public utilities should become markets, so that their production and consumption can be made more efficient or that the labour market should be liberalised, so that its frictions decrease. Such growth in their popularity and diffusion goes together with the escalating influence of the discipline that studies and advocates markets: economics. We also live in an age in which economists are increasingly influential, and hold positions of power across political institutions and private enterprises, so that chances are those markets will be set-up. Finally, we still live in an age in which the line connecting economists-economics-markets is regarded as some sort of descent into Hell.

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<sup>1</sup> News coverage by *BBC News'* homepage <http://news.bbc.co.uk/> (accessed: January 2007).

Having been trained in (and having grown somewhat dissatisfied with) economics, I decided to undergo a critical investigation of my discipline and of its practitioners. There are several promising ways to approach this matter and I resolved to take an ethical stance, but in order to exploit the theme I also attended to other philosophical and methodological matters.

For instance, a problem with suggestions that people think and decide like the killer-lady is that each choice is assumed independent from any concern besides one's utility. The lady resolved to murder her sister because her sister does not matter beyond how sorry she (the lady, not the sister) is for her being dead. That is the approach to thinking and deciding of a so-called economic man. Though economic men make several seemingly immoral choices in a variety of situations, no real people – we like to believe – are quite as nasty. Hold there. *No real people?*

Well... admittedly, there are *some* people who in practice behave like economic men: economists. Rest assured this observation has fuelled less than flattering moral remarks. Tainted with selfishness, are we? Nasty anti-social beings? Wandering menaces to the orderly functioning of human society?

I do not aspire to be the judge on a matter such as this, nor an attorney on behalf of either the defence or the accuse. As a young economics teacher, I am involved first-hand in the matter and I am quite probably biased. I shall then content myself with playing the devil's advocate: this is what this dissertation is about. I disassemble what I call a 'Moral Trial' against professional economists (Section I) and examine the psychological and logical soundness of both evidence and charges (Section II) and find them lacking in several respects. I then suggest (Section III) additional charges, additional evidence, and additional implications that should be seriously assessed before a verdict is uttered.

Because this dissertation explores the ways in which and the reasons why economists behave differently from non-economists in several experiments, and because it does so through investigation of the three themes hinted at above – economists, economics, and markets – its methods ought to be as variegated as required by the themes and goals. It thus sits at the meeting point of economics, ethics, and psychology. Though it may be said that the interfaces between ethics and economics or between psychology and economics are flourishing fields, they are fields that rather often engage 'moral economists' and 'economic philosophers,' or 'behavioural economists' and 'economic psychologists,' but hardly ever philosophers, psychologists, or economists *tout court*. I'm not hoping to single-handedly bridge these gaps with my dissertation, but merely to show that the gaps can be bridged.

For my economist readers, I thus propose this book as an exercise in behavioural economics. That it talks about us and about our discipline might make up for the inconvenience of taking seriously the new methodological approach. For the psychologist readers, I report an extended empirical investigation, emphasising how decisions are shaped both by agents ('identity')

and context ('framing'). For the philosopher readers, I propose this dissertation as a case study in institutional ethics, enriched with several inputs from moral psychology. For the remaining readers, I can add that the issues covered in this book are of compelling actuality and dramatic relevance well beyond the internal squabbles of the Ivory Tower.

We do live in a market society. Western society is in fact so deeply identified with markets that the largest attack it received in the last half century reached the World Trade Center in the world's financial capital. Market-like relationships, to be sure, are not the only choice available and may not always be the best ones. Abandoning the market, however, can lead to alternative ways of allocating goods and services whose moral failures are even larger. When goods are commonly shared, misuse and inefficiency grow; when university degrees are handed out according to egalitarian principles instead of merit, they are emptied of their meaning; when jobs are attributed in observance of authoritarian relationships instead of market negotiations, people are systematically abused.

Before wishing for the death of the economist, after all, it would be wise to spend a minute considering who will show up at his funeral.



## SECTION I



## SECTION I

### ECONOMICS, MARKETS, AND ECONOMISTS

\* A woman is informed that she only has six months to live. So the doctor instructs her to marry an economist and to move to South Dakota. “Will this heal my illness, doctor?” she asks full of hope. “Absolutely not. But the six months will seem awfully long.”

\* An economist dies in poverty, and many local businessmen agree to donate \$1 each to a fund for his funeral. The President of the Board of Trade is approached for his contribution. “Is that it?” the President shouts “Only a buck to bury an economist? Here’s a check; go bury a thousand of them!”

\* Late at night a policeman sees an economist crawling around, obviously looking for something by a light pole. The agent asks him whether he has lost something there. “I lost my keys over there, in the dark alley” the economist explains. So the policeman asks him why is he looking by the light pole. The economist replies: “See, officer, it’s a lot easier to look over here.”

\* A party of economists is climbing in the mountains. After several hours, it becomes obvious that they are hopelessly lost. Immediately one of them produces a map and starts studying it, he then looks at distant landmarks with a binocular, he eventually consults his compass and starts nodding. One last check with the position of the sun and he declares: “See that big mountain to the east?” “Yes,” answer the others with some relief. “According to the map, we are standing right on top of it.”

Despite the countless jokes (some more lame quotes conveniently celebrate the opening of each Chapter) that betray how little liked its practitioners are or that directly discredit its contributions, economics is not only joking matter. It does matter, that is, and it matters far more than its critics admit, or perhaps realise. And for this reason, it is dangerous for good or evil, as John Maynard Keynes had observed. It is proof of the high esteem economists command that Marco Biagi (1950-2002), professor at the University of Modena, was appointed adviser to the Ministry of Labour. In his duty, he had drafted the extended reform of the labour legislation that goes by the name of *Legge Biagi*. On his way back from teaching, on the evening of 19<sup>th</sup> March 2002, he was shot

dead by two members of the *Partito Comunista Combattente*, most probably because his reform was inspired by some market-like principles.

And markets stimulate heated reactions. A *World Trade Organization* meeting was scheduled in Seattle on the 30<sup>th</sup> November 1999 to expand tariff cuts to agriculture and services, set the agenda for other areas of trade liberalisation, discuss labour rights, and define standards for fair trading. The meeting never occurred. A ‘call at arms’ against it invoked broad participation to “\*really\* shut down the city” and prevent the meeting from taking place. A wave of violent disorders between the police and those who say ‘NO 2 WTO’ followed. In the lights of vehement reactions such as these, it seems natural to ask what kind of social arrangements markets are and how do they work (Chapter 2).

Our discipline, which may be quite accurately portrayed as revolving around markets, is thus treated less than mildly. Some people, for instance, believe it ‘autistic.’ In June 2000 the students of the *École Normale Supérieure* in Paris circulated with success a declaration of the dramatic separation of economics from the real world, suggesting that the “malaise is general and of longstanding.”<sup>2</sup> This Section, therefore, tries and understand what kind of discipline economics is and what type of relationship it has with reality (Chapter 1).

Through our mastering of a controversial discipline, economists are becoming increasingly targeted by blame. I shall finally introduce the leading theme of this work: what may be called a Moral Trial that has befallen the discipline and its practitioners (Chapter 3). If economists are so influential, one may indeed wonder: what kind of people are we? Are we different from other social scientists? What is our moral standing?

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<sup>2</sup> News coverage by *BBC News*’ homepage <http://news.bbc.co.uk> (accessed: January 2007) and *The Economist* (<http://www.paecon.net/PAEarticles/EconomistJano4.htm>, accessed: January 2007).



## CHAPTER 1

# THE OUTLOOK OF ECONOMICS

*Economics is the study of money and why  
it is good.*

– Woody Allen

There is said to exist a creature, you might have heard about, with a slight anthropoid resemblance. It does not exhibit gender or racial traits, it has consistent preferences, it enjoys perfect information, and it benefits from an astounding reasoning power. It is often portrayed as a lavishly selfish individualist being. You probably never had the chance to meet it in person because it lives in ‘logical time’ and only entertains atomistic interactions with alike beings. Thorstein Veblen (1898: 73) colourfully described it as “a lightning calculator of pleasures and pains.” Though, much like Big Foot, no one has ever actually seen it and many suspect it doesn’t even exist. It dwells in economics textbooks and it is referred to with the somewhat mythical name of *homo economicus* (or economic man) – the best-known exemplar of this species being Mr. *Max U*.

Probably the most successful attempt at making sense of human behaviour in the history of social sciences is precisely this infamous economic man. Although it is already time for this legendary figure to depart in favour of more realistic and yet tractable accounts of human agency, it would not be fair to dismiss it as just a mistaken caricature of real people. On the one hand, certain traits of *homo economicus*, if often too ‘isolated’ from social and institutional constraints of various kinds, are not for this reason utterly false. On the other hand, even to the extent that human rationality is not flawless and selfishness not absolute, it is not the case that a generous idiot would offer a better alternative. If the right balance is to be struck between the two, moreover, it is probably much closer to the roundabouts of *homo economicus*.

Many and diverse behaviours can be made sense of through *homo economicus*, eminently market exchange, but also a whole different range from crime and punishment to family (Becker 1992) from political behaviour (Buchanan 1986) to the achievement of status (Akerlof 1984). How many and how much of these and other phenomena could be explained by an idiotic altruist? Hardly any. It is thus surprising how lightly certain critics attack the selfishness of *homo economicus* when it seems impossible to rationalize a

diffuse behaviour, like voting in elections or donating to charity, with his perspective. Insofar as such events happen with sufficient regularity, they indeed put a challenge to the explanatory potential of the economic man. ‘Frequency’ alone, however, does not make a compelling reason for economics or any other social science to take non-selfish motivation into account (and yet less to abandon self-interest), ‘size’ or ‘impact’ is necessary too. When you have a theory explaining the largest part of the phenomena you are concerned with, there seems to be no reason to abandon it before finding an alternative capable of outperforming the old one.

It is the aim of this Chapter is to elaborate on this theme, so to settle some important methodological questions. In so doing I attempt at portraying a comprehensive image of economics which serves as a starting point for the rest of the book. I also highlight some critical locations in the landscape of economics, which have been historically targeted by detractors, and which may have promoted the unflattering image of our discipline and its practitioners.

### **1. – A CARICATURE SKETCH OF ECONOMICS**

A crucial basic assumption of economic theory is that individuals are just like homo economicus: it is the hard-core of the discipline (e.g. Hirshleifer 1985, Buckley and Casson 1993).<sup>3</sup>

Academic economics is the institutional setting where academic economists operate and our professional lives, variously aiming at uncovering some truth or at earning worldwide prestige, at achieving publication or at delving in personal enjoyment, take place within the boundaries of the institution of economics. Belonging in such institution limits what economists are allowed to do or to say. At the same time it provides a context wherein our contribution is meaningful. The assumption of self-interested rationality can be interpreted as a constraint the economics institution imposes on its practitioners: it marks the boundaries of the conversation of neoclassical microeconomics.<sup>4</sup> To be true, there is no reason one should not be allowed to abandon or replace those assumptions; but when one disposes of self-interest, whatever one is doing is not considered economics proper anymore (Hausman 1992: 95).

Becoming an economist might affect more of one’s life than the kind of assumptions one makes in writing a paper. It is not difficult to imagine that the desire to own a pair of soccer boots might emerge in connection with joining a team, or that the preference for attending a conference about Friedman’s 1953 essay on positive economics is associated with becoming a graduate student in the methodology of economics. But it is not only

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<sup>3</sup> In what follows I refer to economics as Samuelsonian neoclassical micro-economics, although the mainstream is nowadays moving towards a new orthodoxy: game-theoretical strategic economics.

<sup>4</sup> For the idea of economics as a bunch of ongoing conversations, see Klamer (2007). In Lanteri and Yalcintas (2006), we discuss how the use of metaphors and their cognitive underpinning might play a role in the institution of economics.

preferences that change. Joining an institution affects individual perceptions of meaning and appropriateness (Danzau and North 1994, Hodgson 2003). In an important sense, therefore, institutions are ‘social interpretations’ which draw a line between what individuals can or cannot, may or may not, must or must not, either do or not do (Commons 1931). Some economists contemplate a model of man, whose values and attitudes result from an ongoing investment in human and social capital (Becker 1996). College education, therefore, may be presumed to have major consequences on individual values, and different paths of education should form different sets of values, so that Econ students grow into different citizens from non-Econ ones.

Throughout this book, I shall investigate some ways in which being an economist makes someone dissimilar from his neighbours involved in different walks of life. This calls for some common ground about what is economics.

### *1.1. – IF YOU WANNA BE A PART OF IT*

Doing economics requires that one characterises human agents as homines economici. What exactly is expected of a homo economicus, however, is hard to tell because there exist several versions of it and I will hereby only be able to present a sketchy summary.

Roughly speaking, for economists to be able to assemble a meaningful account of economic phenomena, we ought to go look for a (causal) explanation of the individual actions accomplished by the agents who bring about the phenomena. Why does someone do something? The motivational profile of a particular agent coupled with her beliefs about the world explains this agent’s actions. The action furthers one of the elements in the agent’s motivational profile (e.g. a desire, a disposition, a project or goal, etc.) in a way consistent with her perception of the situation at hand. The agent thus ought to be self-interested in the minimal sense that she does something that she believes will result in what she prefers among a number of alternatives. (This minimal level of self-interest amounts to non-stupidity.) Furthermore she ought to be rational in that her actions are causally connected with her preferences. If an agent prefers the outcome A, she will do what it takes to achieve A – let’s say she performs action A’. The focus is not on *how* a decision is arrived at, but on *which* choice is made. Rationality in this sense is ‘substantive’ as opposed to ‘procedural’.

Given a choice, conversely, we derive the necessary conditions for it to be rational. It can only be rational for an agent to do A’ if her preferences have certain properties:

*TRANSITIVITY:* If an agent prefers A to B and B to C, then she must prefer A to C.

*COMPLETENESS:* The agent must either prefer A to B or prefer B to A, B to C or C to B, C to D or D to C, etc. She cannot not have an opinion about E. In general, she must have a ranking of every option.

*STABILITY*: If an agent prefers A to B and consistently does A', she cannot later regret her choice and wish she had done B' instead.

Without the three conditions an agent would not be able to rationally deliberate or – which is the same – her choice could not be rationally made. We can now restate the requirements of rational decision-making as follows: *an agent will rationally perform A-directed action A' if and only if she stably prefers outcome A to every alternative.*

The next step is to acknowledge that doing A' is the choice that *maximises* her satisfaction because, had she chosen to do non-A', she would not be happier than she is. It follows closely that the rational and minimally self-interested agent in our example will choose A'.

Economists wholeheartedly embrace this line of reasoning and bring it to the ultimate consequence that an agent will *always* make *the best* choice available. Rational agents, like homo economicus, are indeed associated with the idea of optimisation of a preference function. Sometimes, however, the future outcome of the present decisions is affected by unknown elements. Crop A will prosper if it rains a lot, but wither if there is a lot of sun. Should one plant it? It depends on the likelihood (or probability) of each weather condition. More generally, when facing a risky or uncertain choice, if an agent knew every existing alternative, including its long-term consequences under different realisable conditions and the probability with which each such condition obtains, then this agent would unmistakably choose the one alternative that she expects will best serve her goals (Machina 1987, Savage 1954, Von Neumann and Morgenstern 1944). This way she maximises what is commonly called 'subjective expected utility.'

### 1.2. – WELCOME THE ECONOMIC MAN

From the brief sketch above it is already apparent that homo economicus has some very attractive traits that make it an excellent theoretical tool, capable of powerfully explaining virtually all kinds of behaviours. It is easy to show, for instance, that under certain external conditions (e.g. the relative cost of eggs and bacon) if an agent obtains a well-known degree of satisfaction from the consumption of different amounts of eggs and of bacon, she will choose the combination of eggs and bacon that together bring about the greatest result at the minimum price. This structure of decision-making is "applicable to all human behaviour" (Becker 1976: 8) because "all human behaviour can be viewed as involving participants who maximise their utility from a stable set of preferences and accumulate an optimal amount of information and other inputs in a variety of markets."

Theoretical unification, or the development of a theory capable of accounting for a large set of phenomena, has been often regarded as a desirable achievement in the history of scientific knowledge. The aim seems to be, so to speak, explanatory efficiency: to explain a maximum of facts and regularities by recurring to a minimum of theoretical concepts and

assumptions. This goal follows from the beliefs that various phenomena may be the manifestation of common underlying structures (Sappinen 2003: 71) and that exposing such basic principles would empower us with a better explanation, which might lead us ‘closer to true knowledge’ (Friedman 1974, Kitcher 1981, but for critical discussion see Mäki 2001a). Thanks to its successes in rigorously explaining numerous instances of individual behaviour, economic analysis has quickly took over phenomena traditionally ascribed to the domains of other disciplines giving place to a phenomenon dubbed ‘economics imperialism.’ The farther he went beyond the borders of markets, on the other hand, the more homo economicus aroused suspicion and dissatisfaction on the grounds that it constitutes an unrealistic (and immoral) account of human agency.

Instead of speculating about these issues, it would be preferable to verify whether homo economicus is a plausible description of human behaviour, and then modify the model in any way that might be eventually needed. Throughout the history of the discipline, the direct empirical verification of a correspondence between theory and reality has rarely been of concern to economists. To be sure things change, but the disagreements over economics’ conception of human agency are yet to be fully resolved... and not because we lack attempts at getting rid of homo economicus. Anthropologists, psychologists, and sociologists have been chasing the economic man for decades and devoted great effort finding out whether this highly revered figure is anywhere to be found in the real world. But the hunt for homo economicus is not an exclusive of non-economists: many economists have proved its non-existence (Caporael et al. 1989, Fehr et al. 2002, Henrich et al. 2005, Roth 1995) or exposed its folly (Sen 1977). For one instance, a large research conducted by the *Santa Fè Institute* among fifteen small-scale societies investigated the observed inconsistencies with the ‘selfishness axiom’ – as they label the hypothesis that individuals always act in order to maximise their material gains and expect others to do the same. The conclusion is that “[t]he selfishness axiom was violated in some way in every society” (Henrich et al. 2005: 13). This and many other experiments show that individuals care also for fairness and reciprocity and not only about their material payoff.<sup>5</sup> So much for self-interest, but rationality has been seriously challenged too. Another stream of experiments indeed shows how individuals fail to comply with the tenets of rational choice theory under conditions of uncertainty (Allais 1953), ambiguity (Ellsberg 1961), and even certainty (May 1954).

These and similar investigations are often deemed the province of a rather new and fast growing branch of economics: behavioural economics, which endeavours with explaining practical economic decisions, particularly when they conflict with what conventional economic theory predicts rational self-interested agents would or should do. Largely borrowing from psychology,

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<sup>5</sup> However there exists consistent evidence that some people behave as economic theory predicts (Camerer and Fehr 2006: 47).

behavioural economists have introduced concepts like cognitive dissonance and framing effects to side with an account of imperfect rationality, and these now form the foundations of ‘prospect theory,’ which currently stands at the heart of the field and which in 2002 earned a Nobel Memorial Prize in Economics to the psychologist Daniel Kahneman who developed it. Part of this growing stream of research meshes with another branch, cognitive economics, which follows the lead of Friedrich von Hayek and Herbert Simon (Nobel Laureates in 1974 and 1978 respectively) and accounts for human behaviour in terms of procedural rationality and idiosyncratic representations of complex phenomena (Rizzello 1999, Spada and Rizzello 2007).<sup>6</sup> Both behavioural and cognitive economics are close kin with experimental economics.<sup>7</sup>

This latter field is witness of a change in attitude within the discipline, which translated into a larger interest for experimental and empirical findings, and which often fuelled critical opinions about mainstream economics. Since the times of the father of homo economicus, John Stuart Mill, it has been widely believed “seldom in our power to make experiments in [moral sciences]” (Mill 1844: 146) and to arrive at truth via observation of facts a “vain hope.” The method of economics had to be *a priori* abstract speculation with *a posteriori* verification of one’s predictions. The alleged impossibility to achieve ‘control’ over controlled experiments – identified with *ceteris paribus* clauses – then triggered the development of econometric and statistical methods. While certainly econometrics has been progressing and it is still alive and well, that time is long gone.

This path also has illustrious ancestors, ever since 1931, when Louis Leon Thurstone, borrowing some experimental techniques from the toolbox of psychologists, investigated – and confirmed – the appropriateness of the indifference curve to describe individual preferences between alternative combinations of shoes, hats, and jackets. This stream of research was later expanded to cover tailor-made bundles of eggs and bacon for breakfast (Rousseau and Hart 1951), but it was largely neglected by the discipline. Whether it was too early to invite experiments in the economics discourse, or the methodological weaknesses of that approach made it of little appeal to the existing paradigm, or both, economics mainstream found no use for empirical findings as they were not quite as neatly tractable as wannabe-physicists economists would fancy (Mirowski 1999).

It was the publication in 1944 of *Theory of Games and Economic Behaviour* by John von Neumann and Oskar Morgenstern that stimulated a first wave of interest in experimentation, by offering a theory, expected utility theory, that made more pointed predictions, which could be meaningfully tested. After some supportive early experiment (e.g. Mosteller and Mogege 1951), it became apparent that human decision-making *systematically* departs

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<sup>6</sup> See Egidi and Rizzello (2005).

<sup>7</sup> For an historical recollection of experimental economics see Roth (1995).

from the predictions of expected utility theory not only under uncertainty (Allais 1953) and ambiguity (Ellsberg 1961), but also in conditions of certainty (May 1954).

By that time, the infamous ‘marginalist controversy’ of the late 1940’s had already ravaged confidence in marginal analysis (Machlup 1967), the single most powerful element of economics after its establishment in the 1870’s gave birth to neoclassical economics. The controversy stemmed from an empirical disconfirmation of the dominant paradigm of microeconomics, based on a survey administered to businessmen asking whether they were truly concerned with marginal revenues. To the disappointment of many in the profession, the answer was negative. And to the disappointment of early empirically oriented economists, surveys were not welcome in economics any more (see McCloskey 1983).

Economics had, in several ways, become disconnected from the conversation of human knowledge at large, and turning somewhat ‘autistic.’

### 1.3. – *DOWN ON THE ECONOMIC MAN*

Economics became the target of charges of weak psychological foundations and unconstrained imperialism over every domain of social scientific inquiry. Marshallian reasonable businessmen, whose dealings in the conduct of everyday life pursuing the means to wellbeing were the core of economics, had been replaced by rational machines (Mirowski 2001), whose decision-making followed very strict axioms not derived from its psychology, but from the requirements of formalised theorising. The economic man was no longer a starting point, but the conclusion of a sort of ‘transcendental economic analysis.’

Economics has been the target of critics of very different sorts throughout its history (Coleman 2004). As early as in 1923 the psychologist William McDougall was eager to dismiss economics as nothing more than a bunch of false conclusions derived from false psychological assumptions, and from within the profession Thorstein Veblen (1898) had previously labelled economics a teleological, non-evolutionary science.

These charges, however, are somewhat ungenerous and do little justice to economics: human motivation is indeed not the *explanandum* or ‘what it is to be explained,’ but ‘the means by which economic behaviour is explained,’ or the *explanans*. The judgement over the merits and demerits of economics, therefore, should at least in part revolve around the adequacy of homo economicus as an explanatory device for economic phenomena. Many mainstream economists think our discipline is the physics of social sciences and therefore employ those assumptions as the human equivalent of perfect gases: they might not exist in nature, but they certainly do a great job in theoretical settings. They are ‘useful approximations.’ (To give you an idea, the stereotypical physicist would answer the question whether neutrinos really exist: who cares?)

Lionel Robbins (1935: 95), for instance, was quite unconcerned with the realisticness of his assumptions: “[s]o far as we are concerned, our economic subjects can be pure egoists, pure altruists, pure ascetics, pure sensualists or – what is much more likely – bundles of all those impulses.” The experimental economist Alvin Roth (1996: 200, emphasis mine) makes the point sharply clear: we know all too well man is made of biological and chemical processes that influence his behaviour.

*One can then pose the neurobiologist's question: what accounts for the [psychologist's] "reluctance to abandon the [psychological] model, despite considerable contrary evidence"? The psychologist's answer (as imagined by this economist) might go something like this: "No one really supposes that an individual's mental processes are fixed and never change. But this is a useful approximation. [...] it helps us explain a lot of the phenomena which concern us, without requiring blood tests of our subjects. And, while we are fully persuaded that real people have blood chemistry and brain processes, the compelling evidence that the neurobiologists have assembled on this point does not address the question of how often decisions are affected by normal variations in blood chemistry, and therefore does not address the usefulness of our approximation that people call on fixed sets of mental processes in ways that can be predicted without reference to blood chemistry. (We note that even analysis at the level of blood chemistry is only an approximation to the underlying quantum mechanical processes of the brain.) Finally, the blood chemistry model doesn't seem to bring a lot of explanatory or predictive power to bear on the questions we try to study, like why people exhibit preference reversal.*

The unrealisticness charge can also be dismissed otherwise than by declaring its irrelevance as Roth does. It is indeed part and parcel of the enterprise of science to ‘isolate’ certain causal factors from disturbing effects and it cannot be expected, at the current state of scientific advancement, that a theory perfectly describes and matches all the nuances of real world phenomena. Francis Ysidro Edgeworth (1881: 16) stated clearly that “the first principle of Economics is that every agent is actuated only by self-interest,” but immediately acknowledged that people down the streets were at most ‘impure egoists,’ often animated by sympathy. The reason such an admittedly false claim on the nature of man could be advanced is that Edgeworth’s selfish agents were confined to the activities where ‘economical calculus’ applied: war and contract. Indeed, even if there were “in the higher parts of human nature” a propensity towards non-selfish behaviour, “could we seriously suppose that these moral considerations were relevant to war and trade?” (Edgeworth 1881: 52-3).<sup>8</sup>

From a methodological point of view, homo economicus emerged as neatly tractable with mathematical formalism and as a unifying account of human agency. It seemed capable of easily accounting for a range of originally distinct phenomena; it proved so convenient that it could be quickly exported to what

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<sup>8</sup> Notably, a large part of contemporary economic theory is the result of research on applications to warfare and strategic studies, which received large attention – and generous funding – for a great part of the last century (Mirowski 2001).



was not becoming a unified social science, but rather a huge, boundless, ‘economics of everything.’ The problems with the invasion of economic men might not have been that they were too simplistic – indeed market-like incentives do play a role in diverse domains of life most theorists outside economics never paid sufficient attention to – but that they were *too powerful*, that an excessive emphasis on economic motives denies the role of social and institutional constraints even in those fields where they are prevalent.

## **2. – ECONOMICS AND THE HUNT FOR REALITY**

As mentioned, there is a longstanding tradition of critique against the foundations of neoclassical economics. Although every sensible economist admits that individuals are neither perfectly rational nor entirely selfish, what exactly is the problem? Why would someone want to abandon and replace rational choice theory?

Criticisms against the neoclassical approach to modelling human agents have taken rather elaborate forms, but they generally boil down to an objection against the individual ability to maximise expected utility. For instance, individuals may not enjoy the cognitive skills required to compute optima, they may lack reliable probability information about various states of the world in a complex ecosystem, or they may not possess well-defined sets of alternatives and their consequences in a rapidly evolving environment. In other words optimisation is humanly unachievable. A related argument against neoclassical optimisation is aimed at developing more ‘realistic’ accounts of human agency. Here optimisation is seen as an instrumental theory which may be upheld on empirical grounds, but which does not succeed at illuminating the micro-foundations of individual decision-making. A more precise description of human agency would, instead, need precisely those foundations and it would almost certainly result in a rebuttal of optimisation. Optimisation is thus unrealistic.

When an agent performs an action, economic theory treats her ‘as if’ she optimised: she is presumed to have maximised a preference function of some sort. Since real agents often fail or do not even attempt to maximise, the maximisation assumption is paired with an externalist view of rationality (e.g. Satz & Ferejohn 1994) and a selection argument (for a thorough discussion see Vromen 1995). The reasoning goes that, even without the required rationality, agents will still maximise. The ‘evolutionary’ argument (Alchian 1950) maintains that competition sets in motion a mechanism akin to natural selection, so that only those who generate profits (by whatever means) stay in the market.<sup>9</sup> One can throw a coin to deliberate over one’s actions, but if one’s choice is not good enough, one is selected against by competitive pressure, while the lucky competitor who got it right will instead prosper. Under sufficient levels of competitive pressure the result is the equivalent of

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<sup>9</sup> This argument seems sounder with reference to firms than to individuals.

maximisation (Enke 1951, Penrose 1952).<sup>10</sup> Men thus act ‘as if’ they were maximising or, which we saw above is the same, as if they were economic men (Friedman 1953). Because decision-making occurs differently from what economists suggest, rational choice theory is typically regarded as a normative statement of how agents *should* act in order to be rational (e.g. Hardin 2001), whence psychologists like to conclude that “normative and descriptive analyses of choice should be viewed as separate enterprises” (Tversky & Kahneman 1987: 91).

Indeed, these objections gather weight depending on whether one’s study of decision-making (and consequently one’s behavioural assumptions) is *descriptive*, i.e. it aims at plausibly depicting what actually happens; *normative*, i.e. it ponders about what should ideally happen; or *prescriptive*, i.e. it suggests what ought to be done (usually for the first to turn into the second). The three perspectives are related in several ways, but only the specific goal of a theorist on a specific occasion may give the standards required for judging one approach superior to another. The choice of one approach, furthermore, makes it possible to advance more pointed critiques and suggestions for improvement. For instance, if one considers subjective expected utility as descriptive, any behaviour that does not fit with it signals a shortcoming of the theory; while to treat expected utility as a normative theory means that documented deviations should be regarded as individual failures or irrationalities.

It seems rather sterile, therefore, to endlessly criticise economics’ mainstream on the grounds that its behavioural assumptions are unrealistic if realisticness at the individual behavioural level is not one of its recognized goals. It would be like lamenting that physics is not very good at explaining the molecular composition of gases... once again: ‘who cares?’

### 2.1. – WHAT IS UNREALISTIC?

It is therefore important to shed at least some light on what is meant by realisticness and why one should indeed ‘care’ and bother.<sup>11</sup> A trivial and immediate counterargument against the unrealisticness critique would indeed be that perfect realisticness is for a theory both surely impossible and probably undesirable. So that the complaint that economics is in some measure lacking in realisticness, if indeed true, may also be quite pointless.

Furthermore what is to be explained by economic theory is not individual behaviour. If it were, economics would obviously have to entertain itself with

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<sup>10</sup> Alchian (1953) accepts this line of reasoning, but claims the superiority of the evolutionary approach because it is more realistic. Sidney Winter (1964), however, shows that the result of evolutionary forces needs not coincide with maximisation.

<sup>11</sup> For a discussion of ‘realisticness’ and a clarification of the differences between ‘realisticness’ and ‘realism’ see Mäki (1989). The issue also concerns several ways in which it is possible to interpret the relationship between a theory and the world – i.e. isomorphism (Van Fraassen 1980), similarity (Giere 1988), analogy (Hesse 1966), idealisation (Cartwright 1983), caricature (Gibbard and Varian 1978), reference (Davis 2004a), metaphor (McCloskey 1990), etc.

an account of human agency that is more realistic in a number of ways. But our discipline aims at providing explanations of various economic phenomena (e.g. changes in prices and quantities) and the behaviours of individual economic agents are just intermediate elements in those explanations. The traditional goal of economic theory is not to accurately reproduce decision-making as it occurs inside the human brain, but to plausibly describe the observable outcome of decision-making, namely actions. If economists' behavioural assumptions do not hinder the development of a clear causal explanation of a target phenomenon, there seems to be no ground for complaints.

A theorist may easily explain the formation of global oil prices in consequence of such and such shock by means of concepts such as 'market rigidities,' while positing that all oil buyers and sellers behave as a rationally self-interested representative agent. That none of the actual buyers and sellers actually does might not trouble us too much, in so far as we get the changes in prices right.

Several properties of competitive markets suggested by economic theory often emerge even though agents are lacking in rationality and selfishness (Becker 1962). Many recent experimental studies go precisely in this direction, and show that "while *individual* irrationalities are observed in experimental markets, *market* irrationalities may not be observed" because "even in markets populated entirely by irrational actors, several fundamental features of markets, such as price and quantity realizations, meet neoclassical predictions after a few rounds of market experience" (List & Millimet 2004: 4). The evolutionary argument can thus be pushed even further: given sufficiently strict institutional rules, there is not even a need for natural selection to play a role. Institutional design might, as it were, 'invisible-handedly' create the conditions for the realisation of a certain outcome, which, incidentally, almost coincides with that predicted by economic theory (e.g. Gode & Sunder 1992, 1993).

Scott Gordon (1991: 47), in his monumental work on the history and philosophy of social science, recognizes this as a methodologically delicate issue called 'emergent properties,' according to which, at every level of inquiry new properties emerge that cannot be entirely explained in terms of the lower level elements. One traditional example is that of hydrogen (H) and oxygen (O), whose combination in certain proportions results in H<sub>2</sub>O, or water. The properties of water somehow transcend those of H and O, whose separate characteristics are inadequate to explain those of their joint offspring. If we were to further combine H<sub>2</sub>O with carbon and nitrogen, amino acids would appear, whose combination results in a protein; joint proteins make cells; joint cells make tissues; tissues make organs; organs make organisms; and organisms sometimes happen to make societies. Each level shows new properties that are different from those of the constituent parts and that cannot be fully explained in terms of those parts. Admittedly "[t]here is a bit

of mystery, perhaps even mysticism, about the idea of emergent properties” (ibid.: 48). But scientists often have to be pragmatic and content themselves with focusing on certain levels of explanation, without providing a steady foundation to their claims. “[T]here would be little effective biological research done if every biologist felt compelled to explain the physical chemistry of the phenomena he studies” (ibid.). As a consequence, there are different laws at different levels and – he continues (ibid.: 49) – there must be. So that the method of inquiry follows from the level of study, which in turn follows from the questions asked. Actual economic agents seem to be led by an invisible hand to bring about a collective result whose characteristics are the same as those it would have if each of the agents were a homo economicus. These aggregate phenomena, moreover, may be easier to explain (and can certainly be described in a more elegant fashion) through economic men than through more sophisticated agents. When studying market phenomena, one may thus disregard the realisticness of one’s agents and simply use homo economicus because, for instance, the predictions afforded by such theoretical tool are good enough (and by some accounts even the best available).

Realisticness, however, may also serve some explanatory functions in their own right (Langlois & Csontos 1993: 115). In one strong sense, the assumptions of economic theory should meet a requirement of mapping onto the real world to the minimal extent of being understandable to other human beings. Realisticness in this sense evokes again Max Weber’s notion of *Verstehen*, which refers to “understanding from within by means of intuition and empathy, as opposed to knowledge from without by means of observation and calculation” (Blaug 1980: 43, Machlup 1955). This would result in the requirement for economic theory to be realistic qua understandable through introspection. Entirely abstract *as ifs* may help accomplishing certain tasks, but they may not be all a theory needs. “Only when behavioural postulates make the world more intelligible to us do they go beyond their role as purely instrumental elements in the explanatory process; only then do they ‘explain’ in a sense richer than that in which simple empirical generalisations explain” (Langlois & Csontos 1993: 116).

## 2.2. – WHAT IS REALISTIC?

Economics, as all the sciences facing the difficulties of emergent properties, developed a method that disregards many aspects of the complexity of the phenomena it studies. It isolates certain causal forces (Mäki 1992) and overemphasises them. It is inaccurate, but not necessarily false, since the forces we talk about are believed to be actual and their effects real. “In an *isolation*, something, a set of X of entities, is ‘sealed off’ from the involvement or influence of everything else, a set of Y of entities” (Mäki 1992: 231).

This simplification is not mere fabrication because we believe that “together X and Y comprise the universe” (ibid.). We operate horizontal and vertical isolation: at a given level of inquiry we focus on a limited set of items

(e.g. thirst of wealth is isolated from all other motives) and we consider universals independently from their particularities (e.g. a woman is isolated from her individual characteristics). Furthermore, we disregard certain items altogether (e.g. individual preferences are isolated from location, gender, time of the day, weather forecast and daily horoscope) or we assume them to be zero or infinite (e.g. agents have complete information, perfect rationality, zero opportunity cost for time, or transaction costs are assumed to be absent), performing omissions and idealizations.

Advancing isolations along the Millian tradition, economics developed four critical traits (Hausman 1992: 90-91):

- [1.] Economics is defined in terms of the causal factors with which it is concerned, not in terms of a domain.
- [2.] Economics has a distinct domain, in which its causal factors predominate.
- [3.] The 'laws' of the predominating causal factors are already reasonably well known.
- [4.] Economic theory, which employs these laws, provides a unified, complete, but inexact account of its domain.

The already known, by means of introspection (witness *Verstehen*), fundamental law is that agents are animated by the pursuit of "the objects which conduce to man's convenience and enjoyment" (Mill 1844: 129) and attempts to replace this motive fall outside of the disciplinary boundaries of economics (Hausman 1992: 95).

Economic laws are thus peculiar: since they are (almost) metaphysical truths, they are unaffected by empirical refutation. Secondly, they are only 'tendency laws,' subject to disturbing forces that makes them inexact. Moreover rejecting them would mean quit doing economics, since they define the separate science. Finally, every test only amounts to assessing whether the laws are appropriate for a particular application (Hands 2001: 307). Indeed, there exists no experimental evidence or empirical observation that could possibly falsify economic theory (Boland 1981). Under these premises the little role reserved to experiments should not come as a surprise. Disliking of experimental and empirical research also goes together with the emergence of social constructivist philosophies of science, which hold some widely agreed upon tenets in the modern science studies – namely that science is a social process, that theories are underdetermined by data, and that data are theory-laden (e.g. Quine 1951).

And if this is the case, how possibly can we gather anything close to real knowledge of existing entities and their true properties?

### 2.3. – *SOMETIMES REALITY DOES MATTER*

Even though there is no 'experimentum crucis' in economics, there are certain features that qualify for 'symptoms of good science' (e.g. Kincaid 1996: 48) and

not only for methodologists and philosophers, but notably for economists themselves. These are criteria, so to speak, for choosing a theory rather than another. Uskali Mäki (2001b) proposes that the two classes of criteria that have been considered in economic methodology are the *empirical* and the *social*. The first class relies on “the general idea that scientific theories are, or are to be, checked against empirical evidence according to some rules, and that this determines the choice of theory” (ibid.: 369). After the crisis of Popperian logical positivism, however, the under-determination problem identified with the Duhem-Quine thesis has been recognized as particularly difficult in economics and there have been convincing studies showing that “empirical criteria played only a limited role in theory development and in discriminating between rival fundamental theories” (ibid.: 370). Mark Blaug brilliantly labelled this acknowledgement with his famous remark that ‘economists play with the net down,’ suggesting the attempts at falsifying their theories were too soft to be of any consequence.

Some of the critics of logical positivism hold that descriptive statements of human society “essentially presuppose some idea of what it ought to be like” (Kincaid 1996: 8). Feminist and neo-Marxist philosophers of science, for instance, condemn the ‘Baconian idols’ distracting the scientist from her quest for truth, due to misplaced socio-political priors. But their attack is directed towards the implementation of a different vision of the world, because “in order to practice science as a feminist, as a radical, or as a Marxist, one must deliberately adopt a framework expressive of that commitment” (Longino 1990: 197).<sup>12</sup> The incapacity of providing sound proofs of scientific truth stimulated the development of a social criterion – suggesting that “scientific theories are taken to have social attributes (functions, consequences) that play or should play a major role in theory choice” (Mäki 2001b: 379).

Mäki goes on to propose a third category of criteria, often implicitly endorsed by many social scientists: the *ontological* one. The central idea is that a constraint on theory choice is “consistency with conceptions of the structures and functioning of the world,” such as “the basic constituents of social reality, their causal capacities, relations of causal and other kinds of dependence between them, and mechanisms of change between them” (ibid.: 370). He calls the criterion the *www-constraint* (the way the world works). The rationale for such approval is epistemic in nature. As the philosopher of science Wesley Salmon (1984: 133) suggests, “[t]o understand the world and what goes on in it, we must expose its inner workings. To the extent that causal mechanisms operate, they explain how the world works.” Therefore causal questions (why?) are dependent on descriptive questions (how?). In Salmon’s words (ibid.: 132) “[c]ausal processes, causal interactions, and causal laws provide the mechanisms by which the world works: to understand *why*

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<sup>12</sup> Feminist literature is divided among those who believe their “emancipatory values” can lead science “closer to truth” and those who attack the very notion of “closer to truth” (McMullin 2000: 558-9).

certain things happen, we need to see *how* they are produced by these mechanisms.” Therefore, Mäki (2001b: 372) concludes, “[t]here is a sense in which adequate explanations *are* adequate descriptions of the goings-on in the world.”

Consistently with this feel for the real thing, Vernon Smith identifies seven rationales for experiments in economics: to test a theory or to differentiate among theories; to figure out the causes of a theory’s failure; to fix empirical regularities as a basis for new theories; to compare different environments by applying the same rule; to compare different rules in the same environment; to assess different political proposals; to use laboratories for simulating institutional plans and assessing their effectiveness. Although the proposed scope of experiments is rather broad, and although it might seem straightforward to see experiments as falling within the ‘empirical’ criterion, specific implementations of experimental techniques become obvious instantiations of Mäki’s *www-constraint* criterion for theory choice. Since we are aware of the methodological difficulties of every empirical investigation, experimentalists developed different standards to ‘test’ theories (roughly the empirical criterion) and to ‘exhibit’ new regularities (roughly the ontological criterion), in order to cope with the acknowledgement that these regularities are produced by several causal mechanisms (Sugden 2005). Only in the last two decades economics was to soften its traditional abstraction in favour of a more empirically informed approach to explaining human behaviour and could experimentalists approach the conversation of the mainstream.

### **3. – BEYOND THE MAINSTREAM (AND NOT JUST AGAINST IT)**

The most fertile field in providing both criticism to economics and alternatives to utility maximisation has for quite some time been psychology, and psychologists have summoned large bodies of evidence against the rational model sketched above.<sup>13</sup> For what concerns the approach to such critique, psychological theory has now long departed from its behaviouristic era, when the mental processes of human beings were believed impossible (or irrelevant) to uncover.<sup>14</sup>

Those were the times of Ivan Pavlov (b. 1849, d. 1936), who allegedly paved the way for the development of behaviourism with his studies on conditioned reflexes, in which dogs reportedly began salivating in response to the sight of the technician who habitually fed them, regardless of whether he was bringing food. (This amounts to using the presence of the technician as a heuristic for the presence of food.) Burrhus Frederic Skinner (b. 1904, d. 1990), the most eminent advocate of behaviourism, elaborated on that hunch explaining that every form of behaviour could be described as a response to an

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<sup>13</sup> For a discussion of the relationship between economics and psychology see Simon (1959), Hogarth and Reder (1987), Rabin (1998, 2002), Rizzello (1999: Ch. 8), Smith (2000), Frey and Genk (2004).

<sup>14</sup> For a brief historical account of the movement from behaviourism to cognitivism in psychology see Sternberg (1996: Ch.1), Rizzello (1999: Ch. 8), Miller (2003).

external stimulus.<sup>15</sup> But Pavlov's theory – like the theories of many other behaviourists – was much deeper than stimulus-response and reached for a tentative description of how behaviour relates to goals and motives, making him and the others rather forerunners of cognitivism than exponents of behaviourism.

Since we infer that a person has a motive from seeing that person perform an action corresponding to the motive, and then explain that action as stimulated by that motive, however, Skinner (e.g. 1953, 1974) considered 'motive' a circular concept, that produced an illusion of an explanation, while not really explaining anything. Economics is paradigmatic in this sense: we observe an action and conclude it is the action that best serves its agent's interest, then we explain whatever the agent does as motivated by her self-interest. Our take on behaviourism amounts not so much at disposing of motivation, but at circumventing it, through the claim that nothing discloses the authentic preferences of an agent better than her actual behaviour. We don't even need to look into ourselves (as Mill did) to find the source of motivation, but just look at 'revealed preferences' and the trick is done (Varian 1982). Although Skinner was probably right on the point of circularity, his methodological implication was to focus on acts alone.<sup>16</sup> Whence he wrote a full book to explain how language acquisition can be explained entirely in terms of environmental contingencies (Skinner 1957). The book received a scornful attack by another early cognitivist, Noam Chomsky (1959), who defeated the idea that we learn a language by external reinforcement. Instead he stressed the biological basis and creative potentials of language by showing that we have a capacity to produce novel sentences, which stem from the structure of human brain and not from some external systems of punishments and rewards. In the meanwhile, in a 1952 symposium, a group of scientists from different disciplines witnessed the dismissal of behaviourism and the birth of a 'new brain science,' now called *cognitive science(s)*, which rests on the belief that much of human behaviour can be understood if we first understand how people think and how human brain works.

This debate took place (intellectually) far away from economics, but economists were aware of behaviourism, which we employed to replace the 'unscientific' practice of *Verstehen*. The behaviouristic enterprise has done quite some harm to economics' ability to provide meaningful explanations of individual behaviour, leaving us with a scanty description of what often turns out to be a 'straw man.'

Aside from many rather unfruitful attacks, economists finally became aware of the limits of human rationality thanks to the contributions of Herbert

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<sup>15</sup> Skinner, incidentally, was also the device through which his theory was proven correct. During one of his classes, the students agreed to look down and appear bored whenever he walked to the left end of the podium and look up and show interest when he walked to the right end. According to the legend, they made him fall off the right edge.

<sup>16</sup> In the case of revealed preferences, circularity is avoided by means of requesting the transitivity, completeness, and stability of preferences (Camerer et al. 2005: 10n).



Simon (b. 1916, d. 2001), who, with great disdain from the profession, was rewarded with a Nobel Memorial Prize in 1978. From his studies on business organizations and extensive research in the field of artificial intelligence, he elaborated a new and more realistic account of human rationality, decision-making processes and problem solving.

### 3.1. – BOUNDED RATIONALITY AND PROCEDURAL RATIONALITY

The complexity of the information age challenges people into processing an incredible amount of data, and quickly reacting to a host of variables, events, and situations. Unfortunately, human computational faculty is only capable of appreciating more or less three bits of distinct perceptual stimuli at a time (Miller 1956) and decision-making is “*intendedly* rational, but only *limitedly* so” (Simon 1961: xxiv). Time constraints, moreover, won’t allow careful assessments of alternatives: human decision-making is therefore mostly intuitive and behaviour somehow automatic (Bargh and Chartrand 1999). These and other phenomena have been studied in connection with decision-making processes and explicitly in contrast with rational choice theory, to which they dealt what appears to be a lethal blow.

Contrary to the assumptions of economic theory, real people don’t carry around a list with clearly specified amounts of gratification following from each choice we face. When we deliberate over an action, we strive to find an adequate balance between several, often conflicting, goals – so that even if we had it, we would not be happy by simply picking the first item on that list. As a matter of fact, we don’t even know *ex-ante* all the available alternatives and every possible consequence connected with the realisation of each. It is indeed part and parcel of every attempt at making a decision or at solving a problem to *conceive* or *generate* the paths of behaviour among which to choose the one we favour (Cyert and March 1963). When this happens, we typically evaluate only a few and not infinite possible plans, and we certainly have no ambition of achieving the grandest result humanly conceivable, but more modestly aspire to a *satisfying* result.

When someone sets to the task of making a decision, she does so in order to tackle some goal, which can be fulfilled in different degrees. When hungry, one can get relief from an old chunk of dry bread or from a full plate of fresh tuna sashimi. The process of generating alternatives goes on until the agent fulfils her needs. If the fulfilment occurs above the desired threshold, she will record satisfaction, otherwise dissatisfaction. But aspiration levels are not fixed. The interactive relationship between an agent and her environment continuously fine-tunes the threshold. If she is dining in a fancy restaurant she probably won’t be satisfied with a little piece of bread and butter, but will want a whole three course gourmet meal. While, if she is lost in a forest, she might find a bunch of bitter roots delightful. Looking at the issue from another perspective, if the fulfilment of her needs appears impossible, she will reduce

her aspiration level or, conversely, if the satisfaction is very easy she will aim higher (Simon 1956, 1969, 1972).

One cannot disregard, moreover, the compelling evidence that ‘maximising’ (as opposed to ‘satisficing’) is a *suboptimal* strategy and that, as available options increase, their heterogeneity makes it impossible to ‘maximise’ and results in frustration and dissatisfaction (Schwartz et al. 2002). Also, since generating novel ways to face a situation is effortful and many features of each situation elude us, we tend to rely on rules of thumb on most occasions.

Human cognitive skills are bounded by the amount of information we possess and by our capacity to process it. The implications of such limitations have been extensively explored by the psychologists Daniel Kahneman and Amos Tversky who ‘mapped the boundaries of rationality’ (Kahneman 2003b: 1449) under three rubrics: heuristics and biases, choice under risk (known as ‘prospect theory’), and framing effects. One of the mechanisms we use to face complexity is to substitute a ‘target attribute’ with a more tractable ‘heuristic’ one (e.g. Kahneman and Frederick 2002). While working properly most of the times, such heuristics may also lead to systematic and predictable errors, i.e. biases (Gilovich et al. 2002). We also prefer uncertainty in the case of a potential loss, while we are risk-averse when facing a gain (Kahneman and Tversky 1979, Tversky and Kahneman 1992). Finally, we tend to accept passively the characteristics of a given situation, without deliberately constructing a canonical representation of each state of affairs (Tversky and Kahneman 1981, 1986).

But economists are fast to meet the challenge. Smith (2000: 8), for one instance, contends that the major mismatch between (experimental) economics and psychology is not due to the alleged “growing body of evidence – mainly of experimental nature – that has documented systematic departures from the dictates of rational economic behaviour” (Hogarth and Reder 1987: vii). It rather concerns a more radical and basic disagreement. Psychologists (and mainstream economists, although they are sceptical of the psychologists’ implementation) believe that (Smith 2000: 8):

*(1) rationality in the economy derives and emanates from the rationality of individual decision makers in the economy, and (2) individual rationality is a cognitively intensive, calculative process of maximisation in the self-interest. [...] (3) [A]n acceptable and fundamental way to test economic theory is to test directly the economic rationality of individuals.*

Smith comments that thirty years of experimental research have shown the three premises false. In most experiments (e.g. Smith 1962, Plott 1987), information about subjective values is private (subjects don’t have complete information, nor common knowledge) and trading takes place through the rules of double auctions, where subjects are both price takers (who accept outstanding offers to sell or bids to buy) and price makers (who announce their own bids and offers). Nonetheless “prices and allocations converge quickly to

the neighbourhood of the predicted rational expectations competitive equilibrium” (Smith 2000: 10). Furthermore, “[the] results generalize to a wide variety of posted-price, sealed-bid, and other institutions of exchange.” What is yet more noteworthy is that agents were not aware that they were achieving individual and collective optima and indeed described the market situation as confused and disorderly.

Economists therefore not only complain that psychologists put too much emphasis on the failures and shortcomings of human rationality, we also lament that psychologists contradict our theories by asking subjects to express their preferences among verbally described experimental treatments. We know by their research that individual verbal behaviour deviates from the prediction of rational choice theory, but we also know by large bodies of research on experimental markets that incentive-compatible behaviour significantly deviates from verbal behaviour and is much closer to the predictions of economists than to the criticisms of psychologists, or, in other words, that whatever subjects say doesn’t matter that much in a market (e.g. Smith 2000: 11ff).

The profound methodological difference between psychology and economics surfaces again, a reflection of a similarly profound difference in focus: psychologists have traditionally been concerned with the study of *how* human action takes place. For economists the question is *what* action takes (or should take) place. Since the result of human action is maximisation of expected utility, with a swift Ockham’s razor cut, economists need not concern themselves with anything but the simplest account of human agency necessary to explain *why* that action takes place. And here homo economicus egregiously does the job.

### 3.2. – WHERE DO WE STAND?

Is it true that the result to be accounted for is maximisation?

Sometimes it is, sometimes it is not.<sup>17</sup> But for economic theory to be successful it does not matter that individual choices are not as we describe them (Kahneman 2003a,b), that they cannot be that way (Simon 1969), or that they should not be that way (Schwartz et al. 2002).

Nowadays everybody knows that the sun is at the centre of our star system – what we call heliocentric theory – and that planet earth revolves around it. Heliocentrism is the backbone of astronomy and it lets us draw maps of stars that are fundamental to navigation. Navigation, however, is an ancient business. Men have relied on the position of stars to sail the seas well before the discovery of heliocentrism and while still believing in geocentrism (i.e. the idea that the earth is at the centre of the universe and the sun, other planets, and the stars revolve around it). I hardly need to mention that they did not get lost, and that they could successfully cruise to their desired destinations and

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<sup>17</sup> For discussion see Simon (1983: ch. 2).

back home.<sup>18</sup> So it is not necessary that a theory be true for it to accomplish its purpose. Conversely, it is not enough for a theory to work in practice for claiming it true.<sup>19</sup>

Homo economicus is largely at odds with common understanding of human action and with a large body of empirical findings. Furthermore, as mentioned above, there is a sense in which a good explanation is in fact an accurate description. Again, it is not necessarily enough for homo economicus to be reasonably good at making sense of the behaviour of actual people involved in market exchanges to make it a satisfactory explanatory tool for all purposes. Or perhaps it would be, if there were no better ways of making sense of it. More realistic limitedly rational agents, however, explain the functioning of markets just as well and they also explain a range of different phenomena which homo economicus has a hard time addressing. The question that needs to be asked, therefore, is whether homo economicus is the appropriate tool for the task of a theorist – whose answer depends on the specific goal of such theorist. If one tries to explain the formation of oil prices in the global market, one does not need to be concerned with individual behaviour above a claim that ‘individuals do what they want to do.’ If they buy oil, it is enough to say that this is what they wanted; if they sell oil, this is what they wanted. A highly sophisticated account of economic agency would only make the problem more complex without contributing much additional explanatory power. Yet, to treat individuals as if they were homines economici is not a promising approach for addressing some other questions.

#### **4. – A MAMMOTH’S BREAKFAST**

Rational choice theory can be regarded as one of the highest intellectual achievements of the twentieth century (e.g. Simon 1983: 12). The pros and cons of such account reviewed in this chapter, however, point to the necessity of finding alternative accounts when dealing with certain descriptive questions of behaviour at the individual level. One can surely defend that an openly selfless act, like giving up one’s life in a storming river in the desperate attempt of rescuing a drowning stranger, is rationally and egoistically motivated by the desire to avoid social blame or by the intrinsic pleasure of an unforeseen swimming session, although it might be hard to arrive at any meaningful explanation out of this tautology. Also, the claim that people always exclusively do whatever best satisfies their needs clashes with the general

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<sup>18</sup> With the notable exception of Christopher Columbus, who did not get to his intended destination (although his journey took place in the lights of heliocentrism). His travel, however, was not meant to test heliocentrism, but the hypothesis that Earth has spherical shape, by means of reaching east while sailing west. Although he did not succeed in touching the shores of India, the theory was not disconfirmed. The failure was blamed on the wrongness of an auxiliary hypothesis (namely that there was nothing but water all the way down to India). This is an example of the Duhem-Quine thesis.

<sup>19</sup> Sometimes philosophers of science speculate that if a theory works in practice there is a high probability that the theory is true – see for instance Smart (1968), Putnam (1975), Brown (1994), and see Rorty (1979) for the best known critique of such outlook.

conception of the goings-on in the world. The tools afforded by cognitive and behavioural economics seem a promising way ahead to address some questions for which homo economicus is ill suited.

My goal on the present occasion is to uncover some of the phenomena that account for the behaviour of individuals participating in the institution of academic economics – i.e. my colleagues and I – and to address some moral implications of these phenomena. For the sake of this work I need to resort to theoretical tools that are informed to empirical findings. Homo economicus, because of economists' (and, admittedly, my own) fascination with it, will be in the background at all times and often it will be criticised and pressured by alternative accounts of human agency. By means of such comparisons I only intend to defend my own choice of theoretical tools, and not to dismiss rational choice as an altogether worse theory than any other. Also, my wishful thinking suggests that this project could turn into some constructive inspiration for, rather than yet another unnecessary criticism against the fascinating discipline of economics (and the fascinating people who populate it).

Although the task lies beyond the boundaries of the present work, it would be interesting to investigate how self-interest was established as a paradigm in the first place.<sup>20</sup> One can imagine evolutionary accounts that stress the drive to survive as the basic motivation for individual action, which took the shape of protecting and furthering one's personal advantage, making egoists fitter individuals in terms of natural selection. This story doesn't necessarily rule out altruism or other non-selfish motives, as the large evolutionary game theoretical literature on group selection proposes (e.g. Sober and Wilson 1998), but it does dramatically downplay motivation since the 'decision' is made from the outside. The selection mechanism is such that you can toss a coin to deliberate over your actions, but if you don't do whatever is best for yourself, you eventually die. It is not the fittest that survives: it is the survivor who is then declared the fittest – the fitter, to be more precise. When the all-powerful selection mechanism is in action, there is no need to account for either cognition or behaviour any longer, as the externalist version of rationality empowers environmental conditions, leaving a small causal role to individual motivation and action. In the extreme one might expect the environment to dictate individual behaviour. This may or may not be the case, but it certainly is also a matter of domains and degrees. Rest assured you will not quite often find yourself in such a competitive environment that you gamble for survival over the maximisation of breakfast preference between eggs and bacon, except perhaps if you are a mammoth on the eve of Ice Age.

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<sup>20</sup> Two accounts of this establishment from the perspective of history of ideas can be found in Hirschman (1977) and McCloskey (2006).



## CHAPTER 2

# ECONOMY, MARKETS, AND THE MARKET

*Economists do not know much about the economy; other people know even less.*  
– Herbert Stein

Although economics contributed very insightful understanding of human (and mammoths') behaviour in a wide range of circumstances, the major focus of our discipline is unanimously recognized to be the market.

Yet, what is the market?

Every single day in virtually every place of the world millions of people (and economists among them) make use of markets. They not only use them, though: they also endlessly invent new ones. The most recent trend in the global business world is expansion to China and India, where goods commonly available in Western economies are sold and bought for the first time. To be sure also new products and services are continuously invented that generate new markets. But this is not all there is to it. Literally 'new' markets are also invented, that is ways to organize transactions that are original and different from existing ones (McMillan 2002: 109).

In 1998 a U.S. federal court ruled that business methods, qua useful arrangements and regardless of their intangible, immaterial nature, could be patented. Such ruling opened the doors to the patenting of market designs. The U.S. Patent Office has ever since registered over two hundred distinct market forms.<sup>21</sup>

Does it make any sense, then, to talk about *the* market?

As to most philosophical questions, the answer is both yes and no. On the one hand, there is a common defining element that all markets share and that therefore can be seen as a unifying principle of *the* market. On the other hand, a market is not like any other market except for such common principle (and occasionally some additional contingent features). This Chapter investigates what kind of social arrangement is a market, how it relates to existing

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<sup>21</sup> In order to replicate a patented market one has to pay a royalty or a fee to its inventor. Since there exist different patented markets, and they may have different 'prices' and different 'optimal' uses, perhaps we need not wait very long before we hear talking about a 'market for markets.' There is little novelty, instead, in a 'market for economists', which is even recognized as a subject of economics research under the JEL Classification System (i.e. item A11).

alternatives, and how do individuals act in a market. In the process I shall highlight criticism of economic theory in addition to that in Chapter 1.

### 1. – THERE IS SOMETHING (MISSING) ABOUT THE MARKET

The centrality of the market in economics has been spelled out by the methodologist and historian of economic thought Mark Blaug (1985: 6) when he wrote that “[t]he history of economic thought [...] is nothing but the history of our efforts to understand the workings of an economy based on market transactions.” What market transactions and markets are, however, remain surprisingly disregarded questions among economists. The problem was already apparent to John Elliott Cairnes (1888: 100, quoted in Lie 1997: 342) who criticized Adam Smith because “it is not quite clear [...] in what sense he uses the word ‘market’.” And the economist John McMillan (2002: 8) reports the preoccupation of three Nobel Laureates:

*George Stigler found it “a source of embarrassment that so little attention has been paid to the theory of markets.” Douglass North noted the “peculiar fact” that economics “contains so little discussion of the central institution that underlies neoclassical economics – the market.” Ronald Coase complained that the market has a “shadowy role” in economic theory, and “discussion of the market itself has entirely disappeared.”*

Though his book goes a great length showing how these perplexities are successfully being addressed by recent advances in economic theory, McMillan is obviously aware of the limited attention the topic has received in the common practice of economics. It is remarkable, as the economic sociologist John Lie (1997: 342) notes, that a book like *Theory of Markets* (Allingham 1989) offers neither a definition of what constitutes a market nor an explanation of how it operates. And three other books on market and history – Anderson and Latham’s *The Market in History* (1986), Galenson’s *Markets in History* (1989), and Haskell and Teichgraeber’s *The Culture of the Market* (1993) – devote as much as one sentence each to the market itself.

Its centrality notwithstanding, the market – and especially individual behaviour in markets – might be another black box of contemporary economics.

What do economists think a market is like?

#### 1.1. – THE COMPETITIVE MARKET

Most economists seem to endorse a conception of market *à la* Cournot (1897), according to which the uniformity of price within a particular sector of the economy points to the existence of a market. A simple example might clarify this.

Let us wear the shoes of a consumer valuing an apple as high as € 9. If apples sell for € 10, she does not buy any, because an apple would cost more than the benefits she derives from having it. But as soon as the price hits € 9, she buys one. This consumer will then think that an apple is worth 9€, but



after she had one, the second apple will not be worth paying as much, it might be worth € 8. So, as soon as the prices go down, she will start buying two apples instead of one. This process repeats itself with a third apple worth € 7, etc.

From the point of view of producers, instead, imagine a farmer who sells apples for € 10 each. This is a high price; therefore only 10 customers are willing to pay for it. The farmer thus produces 10 apples and the market clears. There would be 20 more customers willing to buy apples for € 9, and maybe 50 more customers for 8€, and so on. Spotting this possibility to make a profit, a second entrepreneurial farmer starts selling apples for € 9. 20 new customers can now be satisfied, but also the existing ones immediately switch to the new supplier. The original farmer now sells zero apples and the new farmer sells 30. We can thus expect the old farmer to lower his price to € 8 and reach for 80 customers. The second farmer will then lower his own price and so on and so forth, until both sell for a price that is just high enough not to turn in a loss.

What economists have in mind is a collective arrangement, wherein the total supply sells for a price that is exactly that necessary to attract enough buyers to purchase it all: such is an equilibrium state. The competition among existing (and potential new) suppliers and consumers ensures that every participant in the market is a ‘price-taker,’ meaning that she does not have the possibility to set and enforce a price above (or below) minimum, because that would drive consumers away towards cheaper sellers (or producers towards more remunerative investments).

This description of a market can be extended to make the prices of every market mutually consistent. If the price of apples is very low, some people might stop buying oranges and divert their money towards apples. Orange growers will then lower their prices, bringing their customers back, but at the same time attracting banana buyers. At the end of the story, all the markets converge to prices as high as consumers will to pay and as low as production costs allow, as the economists Lèon Walras (1874) describes under the label of ‘General Equilibrium Theory’. This way “One Big Market” (Polanyi 1944: 75) emerges, where “order in the production and the distribution of goods is ensured by prices alone” (ibid.: 72).

Although behind all this it is easy to recognize the pattern of a dynamic phenomenon of continuous change that eventually results in an equilibrium state, economics has largely focused its attention on equilibria. Through *tâtonnement* – a sort of successive approximations in a fashion similar to trial and error – buyers and sellers get closer and closer to equilibrium prices. Walras thus envisioned General Equilibrium as a system in which all the transactions in the economy take place only after the establishment of these prices (under the hypothetical supervision of an auctioneer who ensures that

they take place at equilibrium levels). The dynamics are taken for granted and sealed away in a, as it were, pre-exchange time capsule.<sup>22</sup>

Most of our knowledge of markets rests on elaborations and relaxations of assumptions of this kind and aims at goals of the kind just mentioned. It is easy to see why Blaug (1998) believes that “[m]arkets and how they actually function; that is, how they adjust to match demand and supply” is one of the major issues on which economics made no progress. “We in economics know [...] a lot about equilibrium, but we really don't know how markets actually get to equilibrium.”<sup>23</sup> Economists’ market economy ultimately boils down to a system of mutually consistent equilibrium prices, and each market within the economy boils down to that price.

### 1.2. – INCENTIVES AND CHOICE

People do not act randomly, but react in a systematic and predictable fashion to incentives. Incentives represent the larger or smaller advantage or disadvantage of possible choices, as reflected in their prices. If something costs relatively more, people will buy relatively less of it; if one has to pay a fine for double parking, the higher the fine the less often one will do so. Conversely, when price of some good goes down, people fill their shopping bags to the limit.

It was in the nineteenth century that, for the first time, social scientists became aware of the possibility to manipulate individual behaviour, not through coercion, but through a change in incentives (Hirschman 1982). So, says Dr. Econ, change the economic incentive and you will get your favourite behaviour smoothly delivered at your doorstep (e.g. Schelling 1984: 25). Economic agents behave in consequences of a decision by the direct comparison of the advantages and disadvantages of several alternatives in the set of possible choices.

Incentives, however, are not coextensive with faith in the free-market or with greed. If you saw a \$ 500 bill on the ground, you would bend down and pick it up, because the benefit from the action overcomes its costs by far. Independently of whether or not you ‘believe in the market’ (McCloskey 1991: 112). There is an undeservedly obscure restaurant in Milan, which prides itself on serving abundant portions of good food for very affordable prices to everyone who wants to *eat it*. Why the emphasis? Well, the food is so cheaply priced that many people would find it most convenient to pick whatever dish they find even slightly appealing on the menu and then help themselves as they

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<sup>22</sup> Because in practice even partial equilibrium in single markets is very hard to come by, the presumption that General Equilibrium could be descriptively accurate has been abandoned. It can thus be argued that General Equilibrium is a not theory, but a framework (Blaug 1992: 162ff). In this sense, most advances in economics (e.g. Arrow and Hahn 1971) seem to be concerned with investigating under what conditions such equilibrium may exist, be unique, and be stable. Such equilibrium, however, cannot be grounded in the properties of individual agents alone (Janssen 1993).

<sup>23</sup> Austrian economists are more concerned and better informed about the dynamics of market prices than Neoclassical ones.

see fit from a large selection. No wonder most food would go to waste. (In Italy it is not customary to request a doggy bag with the leftovers.) To reduce the amount of wasted food, the owners could find no better way than to charge extra for the any food that is left in the plates at the end of the meal. If one enjoys one's food responsibly, it is cheap, but if one wastes it, it suddenly becomes expensive... it is the customer's choice.

The only reason someone should care, on the other hand, is that his 'disposable income' – i.e. the sum of current wealth and assets plus potential credit – is limited, or scarce. And so are her time and both physical and mental energies. She must use them wisely. If someone were totally exhausted and barely capable of taking another step, and she had but a handful of seconds to reach for the emergency exit before the flaming roof collapses, she would find the incentives from picking up the \$500 bill insufficient to make her bend down. If one had infinite energies, time, and resources, one would not need to make a reasoned choice because one could simply choose to have, consume, and enjoy everything. But the combination of scarce resources and the relative prices of different goods and services produces the incentives individuals respond to. Rationality, self-interest, incentives, and scarcity together explain all human actions.

Individuals only do something if its net incentives are positive and advantageous to them. But individuals also do whatever has the most favourable incentives or whose cost-benefits are the most advantageous to them... in other words, they maximise.

When sellers lower the price of apples, therefore, buyers purchase more apples, but less other fruit. When sellers raise the price, conversely, consumers buy fewer apples and divert their hard earned cash towards grapes and melons. On the other hand, the producer is willing to grow or manufacture an additional unit of his good insofar as its selling price is higher than its cost; otherwise he keeps his capital or even invests in a different industry. There is an endless tension between alternative choices, each affording some kind of utility, for the scarce resources individuals must allocate. And it is competition that results in an equilibrium.

If one could buy for €1 in the countryside an apple which sell for €10 in the city, he would not only buy one, but one thousand. He could then drive into the city and sell them at €9, attracting all the urban customers and making a colossal profit. As other people observe this chance, they too will go buy in the countryside (therefore raising the prices, because the demand for apples in the countryside will be higher) and sell in the city (therefore lowering the prices because the supply of apples in the city will now be higher). Whenever there is an unbalance between prices in the markets for a good, there is the chance to make a risk-less profit (i.e. a 'free lunch' or 'money on the counter') by buying low here and selling high there. It is taken for granted that every rational and self-interested agent will always take advantage of such condition, engaging in 'arbitrage.'

But this system of individual incentives may prevent some goods from being desirably produced and exchanged in a market. For instance, if there existed only one apple farmer (i.e. a monopolist) he would need not meet the requirement of competitive bidding, and will his fruit sell at a very high price. Nobody would pay for a weather forecast service that produces public information easily accessible to everybody, regardless of who pays for it (a public good). There would be an overproduction (underproduction) of goods with negative (positive) externalities, such as polluting factories (or beehives near the apple orchards) because a portion of the costs imposed (benefits created) by the production of these goods are not incurred (compensated).

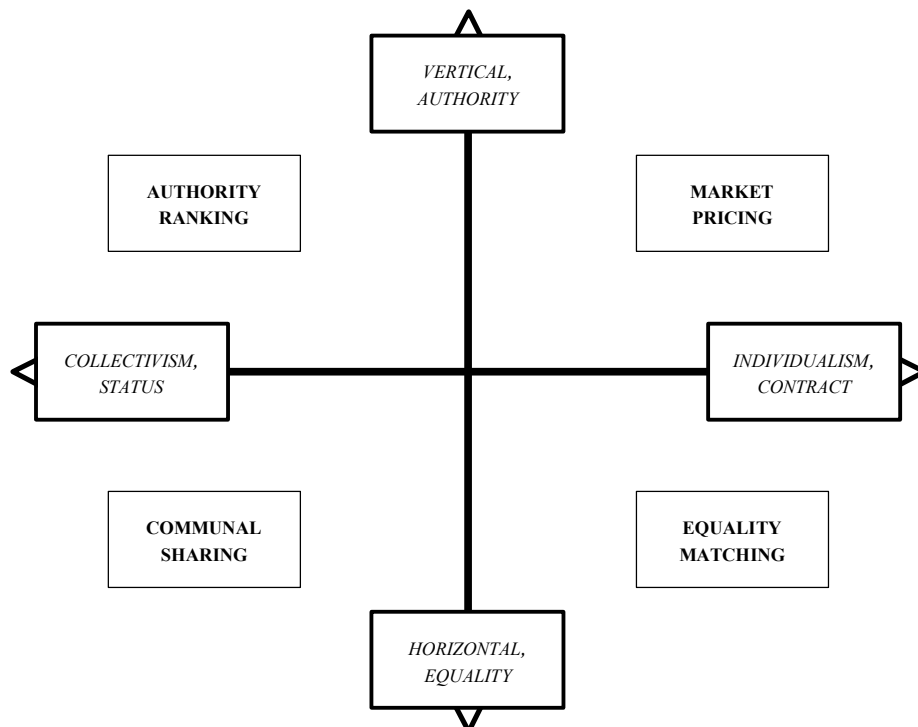
To overcome ‘market failures’ economists usually call for the intervention of the public sector. There appears to be a presumption that a given allocation may either be managed by the government, or spontaneously generated by a market, or then – what is sometimes tolerated as the third alternative – that it stems from confusion. But such picture is exceedingly narrow. There exist reasonable alternatives to both markets and governments – and they are widespread, too.

A question seems thus worth asking: we have many things to say about the market, but we talk about the market as opposed to *what*?

## 2. – MARKET AND ALTERNATIVES

In a complex social ecosystem, the number of interactions among individuals is so large that it seems unreasonable to even attempt at providing a precise taxonomy of all their relationships. Such taxonomy, however, has been produced under the label of ‘relational models theory’ (Fiske 1991, 1992, 2004), and in the last fifteen years it has gathered growing consensus and empirical confirmation (Fiske and Haslam 1996, Haslam 2004). There are distinct alternative ways to manage social relationships (and transactions of goods and services among them), which depend on *the criterion according to which people relate to each other*. Such criterion, in turn, depends on social and cultural characteristics.

One dimension according to which the distinctions can be operated is the vertical distance between individuals: how separated they are in a linear ordering between superior and inferior. In the extreme one can imagine the most separation to occur between a king and a slave, or the Rector and a freshman. At the other end of the spectrum the separation is minimal or non-existent – e.g. among peers, friends, family members. Another dimension is the collective-individual distinction, depending on the perceived importance of the social role of an individual as opposed to his autonomous standing. A king is such only within nobility, while a brother is such only within a family; conversely, a friend or a business partner are such regardless of their position, they are such as individuals.

FIGURE 1. **Relational Models**

From these categories (FIGURE 1) it is possible to identify four distinct 'relational models' (Haslam and Fiske 1999: 242, McGraw & Tetlock 2005: 3):

*AUTHORITY RANKING (AR): Relationships are organized in asymmetrical terms. Group members are classified hierarchically. The relative position in the ranking determines individual status and the consequent rights and duties. Higher-ranking individuals are authorized to command, protect, and dominate, while lower-ranked individuals are expected to defer, obey, and show loyalty and respect. Within AR, participants to the relationship take and give according to status.*

*COMMUNAL SHARING (CS): Relationships are organized in terms of collective belonging. Group members are equivalent without individual distinctions: they are treated as one. Everybody shares certain rights and duties. Within CS, members take as they need and give as they can.*

*EQUALITY MATCHING (EM): Relationships are organized with reference to their degree of balance and imbalance. Group members are treated as equal. This relationship defines discrete intervals that can be added or subtracted to keep balance in social interaction. Within EM, participants take and give in order to preserve balance.*

*MARKET PRICING (MP): Relationships are organized with reference to a common scale of ratio values. Group members are treated as bearers of some good or value that can be exchanged. This relationship operates*

*through proportions, ratios, or prices. Within MP, participants take and give according to the relative amount of some valuable in exchange for some other valuable, or through a cost-benefit calculus.*

These are open-ended relational modalities, or ‘mods,’ everyone uses “to plan and to generate their own action; to understand, remember, and anticipate others; to coordinate the joint production of collective action and institutions; and to evaluate their own and other’s action” (Fiske 2004: 1).

What mechanism rules an exchange of meat with a butcher? Market Pricing: so much of meat in exchange for so much money. But what mechanism rules the exchange of meat from a parent to a child? Communal Sharing: being all member of the same family, each gets as much meat as they want. Authority Ranking could also rule the distribution of meat, when the government (or the eldest in the family) decides how much meat should each citizen (younger members) get. In a similar fashion also Equality Matching could be employed when, regardless of individual differences, each gets the same amount of meat.

So much for the mods, but actual implementation calls for working rules: how much money is traded for how much meat? How is money measured and how is meat? How is family membership (or citizenship) granted? How is hierarchy established? How much meat is equally granted to everyone? The four mods need socially transmitted prototypes (‘preos’) in order to become operative and to establish cultural coordination devices. Preos define *how* to relate to each other according to different mods and *which* mod is appropriate for a certain relation. Whereas mods are somehow innate or at least constant across human cultures; different cultures, at different moments in time, use the four mechanisms in different ways, different contexts, and differing degrees.

Indeed, in specific social contexts and with certain rules of behaviour, even transactions of what we commonly consider commodities like meat, beer, and bread needs not be unavoidably accomplished according to the MP mod.

### 2.1. – *THE SOCIAL EMBEDDEDNESS OF MARKETS*

Among much criticism from different sources and standpoints, one of the most profound objections to the economist’s idea that all economic activity is (and should be) conducted through markets comes from the historian Karl Polanyi (1944, 1968, 1977; Polanyi et al. 1957). Economists collapse economy and market, Polanyi regrets, into the same concept and this is an ‘economic fallacy.’ Market transactions and the circulation of goods are thus made co-extensive.

The creation of a market system of the kind envisioned by General Equilibrium Theory requires the backing of a market society. In order to achieve equilibrium in all markets, indeed, every economic input – not only the goods and services produced to be traded, but also and especially land, labour, and capital – must be exchanged in markets. These markets were

barred for the greatest part of human history, Polanyi believes, and their opening can be tracked to eighteenth-century England (Polanyi 1944: ch. 7; see Hejeebu and McCloskey 2000 for criticism). Polanyi discusses (ibid.: ch. 4, 5, and 6) how, before that moment, European economy and (even after that moment) primitive and traditional economies were organized around three main principles: *reciprocity*, *redistribution*, and *householding*.

Reciprocity was eminently present in the traditional Kula trade in the ring-shaped archipelago of Trobriand Islands (Malinowski 1921, 1922). Natives participated in large expeditions to deliver one kind of valuable object – either white-shell armbands or red-shell necklaces – to the inhabitants of other islands, who later reciprocated with the other item. “These objects are hardly ever put to any real use, but they are highly valued in themselves” (Malinowski 1921: 9), yet they are not traded with speculative intentions. This intricate system of external trade is mirrored in internal economic affairs, which are managed in such a way that “the whole community [is enmeshed] into a network of reciprocal obligations and dues, one constant flow of gift and counter-gift” (ibid.: 8), with every exchange regulated not by profit, but by etiquette and magic. An economic system based on reciprocity is akin to the mod of Equality Matching, in that resources are given and then returned in roughly equal amounts or value.

Redistribution was dominant in hunter tribes, where each prey was divided among every member by a leader, and it took place at a massive scale in the kingdom of Hammurabi in Babylonia and in the New Kingdom of Egypt during the construction of Pyramids, through complex bureaucratic arrangements. Also the Trobriands had redistributive practices. “[A]bout 30 per cent of the whole food production of his district finds its way into the large, finely-decorated yam houses of the chief” (ibid.: 8). These goods are then used to pay for services by villagers or distributed in certain celebrations and public events. This system is represented by the Authority Ranking mod, because resources are transferred according to status and hierarchy.

Householding is production for one’s or one’s group’s use, which were dominant in the Roman *familiae*, in medieval *curtes*, and in South Slav *zadruga*. But again also among the Trobriands “a man is obliged to distribute almost all his [...] produce among his sisters; in fact, to maintain his sisters and their families” (ibid.: 8). The partaking of resources among members of a clearly specified group occurs according to the mod of Communal Sharing.

What Polanyi presumes is that the lack of profit motive made all exchanges non-pricing ones, but aside from reciprocal gift exchange, redistributive practices of chiefs, and communal sharing among family groups, there was also commercial trading of scarce resources: carved wooden dishes were exchanged with coconuts and baskets of breadfruit, typically through prices determined by customary rules (MP preo). Polanyi (ibid.: 48) sees human action as motivated not by economic interest (i.e. profit or monetary gain), but by the “maintenance of social ties.” Which is, however, in line with

individual interest in avoiding being cut off from the community and in the reciprocal nature of such ties, which in the long run ensure “the individual give-and-take interests” (ibid.).

The absence of free negotiation over prices, it’s worth noting, does not exclude the freedom of the individual to undergo the exchange according to his willingness to pay the traditional price, to undergo MP that is, which sometimes resolves in “real barter [...] where one article is traded against another, with direct assessment of equivalence and even haggling” (Malinowski 1921: 13). It is thus wrong and unfair to remark that among the Trobriand Islanders “the supposed propensity to barter, truck, and exchange does not appear” (Polanyi 1944: 52).<sup>24</sup>

The picture that emerges is one in which even in primitive societies all the four mods were employed in managing economic relationships, although obviously in different degrees from nowadays. But Polanyi himself falls into the trap of an ‘economic fallacy’ of sorts, in suggesting that the prevalence of one system does not go together with others and in concluding that the emergence of a capitalistic society organized around markets wiped away every other institution from the economy. The rule that “man’s economy [...] is submerged by his social relationships” (ibid.: 48) seems to vanish with the commercialization of land, labour, and capital.

Not only, however, different systems for the management of economic transactions coexist, but the social background against which they take place is common and necessary to each of them. It is roughly along these lines that a new conception of ‘embeddedness’ emerged, giving birth to what is now called ‘new economic sociology’ (e.g. Granovetter 1985, 1990; Swedberg 1994). The fundamental assumptions of this school of thought are that human action is always socially embedded and cannot be described uniquely according to individual motivation, and that social institutions do not emerge automatically in some inevitable form, but are socially constructed (Granovetter 1990). It is

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<sup>24</sup> I appreciate that Polanyi’s goal – rather different from mine on this occasion – was to establish that prices were not generated by the law of supply and demand before the 18<sup>th</sup> Century, because the individual drive to profit making was absent. This, too, is both wrong and unfair. Santhi Hejeebu and McCloskey (2000: 300) remind the reader of

*Thomas Tusser’s Five Hundred Points of Good Husbandry, published about three centuries before Polanyi reckons that gain first dominated [...] you read, “Time trieth the troth, in everie thing, / ... Of works, which best may profit bring.” And so for 200 pages of [...] remarks on gain, as in Chapter 51, “Ill husbandrie selleth/ his corne on the ground;/ Good husbandrie smelleth/ no gain that way found. ... Ill husbandry lieth/ in prison for debt:/ Good husbandry spieth/ where profit to get.”*

The prevailing anti-market and anti-profit ideology of the times notwithstanding, also the letters between Cicero and his friends witness profit-driven market transactions (ibid.):

*“I have written fully to Lollius, telling what I want done about my provincial accounts,” his gain and profit there [...]. “I have now bought that very house for three thousand five hundred sestertia.... The consequence is that I am heavily in debt,” an odd situation for someone in an economy which markets did not control, and gain and profit played no important part. This in a member of the senatorial class forbidden officially to deal in profit and loss.*



for these reasons that “social relations are fundamental to ‘market processes’” (Granovetter 1985: 500).

If economics is the discipline studying the allocation of scarce resources in the pursuit of alternative goals or the production, distribution, and consumption of goods and services, it has to be noted that it does not do so in the institution-neutral fashion it sometimes declares. Property rights, commercial and civil law, advanced monetary economy, a certain degree of trust... are all prerequisites of contemporary economic theory. So kind we are, so gentle a view we have of humanity, that for decades we entirely ruled out of the discipline many rewarding means of achieving one’s goals (e.g. Hirshleifer 2001): aggression, theft, conspiracy, war, revolution, organized crime, you name it!<sup>25</sup> Economics does establish specific and rather narrow constraints upon the set of admissible actions, which originates in the ethics of western society at large. In other words, economic theory does, if unaware, acknowledge the embeddedness of economic activity.

### **3. – ON THE MARKET ITSELF**

According to economic theorists, “[f]or explanatory purposes, diverse relations and institutions of economic exchange can be analysed as the singular market. Rather than analysing markets, the market is used to explain different instances of market exchange” (Lie 1997: 343) and of behaviour at large. Such methodology rests on the belief that markets can be reduced to their ultimate essence in total isolation from the specificities of each real world market. Sociologists criticize this position, insultingly called ‘essentialism.’ The problem, however, is not so much due to the limitations of essentialism in general (although they may be severe) but of the kind of market essentialism embraced by economic theorists.

The economist’s ‘essential’ market is entangled with a (somewhat implausible) concept of human agency and with other features that are all but ‘essential.’ For one eminent instance, Arrow (1987: 201) stresses that “rationality is not a property of the individual alone [...]. It gathers not only its force, but its very meaning from the social context where it is embedded.”<sup>26</sup> The point he makes is epistemological: the power of economic theory derives from the conjunction of individual rationality with the concepts of “equilibrium, competition, and completeness of markets” (ibid.: 203). But this means taking too many steps at once.

The existence of a price and the ways in which it is generated and acted upon by agents under different institutional arrangements (e.g. double bid auctions, posted prices, etc.) is the rather neutral setting of the exchange. In game theoretical terms it refers to the structure of the game. Since rationality

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<sup>25</sup> Violence and coercion can be considered a modality of transaction only when they are recognized as appropriate and respected by the relevant agents involved, otherwise it would be a ‘null modality.’

<sup>26</sup> Rationality, moreover, requires complete information and common knowledge, which make it a social phenomenon and not a property of the individual (e.g. Smith 2000: 8n).

alone, however embedded in a market structure, is not capable of explaining any individual decision, the results of the interaction of rational agents cannot be predicted. In order to do so, we lack substance in the form of agents' disposition, preferences, values, goals.... We need to add, again in game theoretical terms, the features that refer to the solution concept. (But to require that, we must posit a desire to describe an economy as a stable closed system in a fashion akin to thermodynamics, e.g. Mirowski 1989.)

The 'economic fallacy' might just be broader-ranging than Polanyi realised. Economists conflate several independent concepts (individualism, self-interest, maximisation, competition, equilibrium, ... ) into one, loose notion of market (Fiske 1991: 18, 398). But these concepts are not a prerogative of markets either way: other mods and social arrangements might feature one or more of those and market pricing needs them not. For one indicative instance, consider the organization of water management in the Balinese rice fields. The overall control over the water that irrigates each hill is given to the one farmer (AR) who owns the field at the bottom of the hill (AR – preo). Since he wants to bring water down to his land – *by pursuing his own interest* – he will wet also the fields above his, thereby furthering the interest of other farmers as well.

On the other hand, to achieve an equilibrium and exploit the available surplus in a market exchange there is no need to posit self-interest beyond a minimal level of avoiding a loss, and certainly without requiring maximisation or arbitrage. Dhananjay Gode and Shyam Sunder (1993) compare the behaviour of profit maximising business students with that of zero-intelligence computer software subject to a budget constraint (in order to prevent offers above value and sales below cost), which generates random bids and offers. In a double auction the realisation of almost all the total surplus available in the experimental trade emerges as a consequence of the rules of such market, independently from actual trading strategies. Even sealed-bid markets can be highly efficient in extracting surplus from transactions with budget-constrained zero-intelligence traders (Gode and Sunder 1992).

### 3.1. – WHAT IS 'THE MARKET'?

When cleansed from the unnecessary and the artificial gizmos economists embellish their markets with, the following definition remains:

THE MARKET is a mechanism that organizes the exchange relationship among a plurality of willing parties according to a price.<sup>27</sup>

In this characterization *the* market is not an instantiation of such exchange: that would be *a* market. The market is an abstract concept.<sup>28</sup> There are many rather obvious market exchanges, like the trading of beer for money or labour

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<sup>27</sup> The choice of the very word 'mechanism' is not accidental. There are good reasons from the philosophical literature on collective intentionality that suggest the terminology. See also Prize Committee of the Royal Swedish Academy of Sciences (2007).

<sup>28</sup> By 'abstract' I mean 'essential,' that is independent from its practical manifestations.

for a wage and in principle the exchange of any goods or services can obtain through a market. These goods and services, moreover, need not be different in nature. It is easy to imagine the exchange of € 1,000 today for € 1,005 next year, which is the basic transaction in financial markets.

One can also imagine the exchange of gold bars for barrels of crude oil or peanuts for compact disks. That there are not many, or any, actual instances of those exchanges does not mean that – were they to take place – they would not be market ones or, in my definition, that the exchange among them would revolve around the relative amounts of each: that is their price.

*The* market is therefore defined in terms of the existence of a price. It's easy to see how this conception 'generates' endless markets: there may be a market of money for hours worked as PhD student, one of moon travels for tulip bulbs, one of ginseng roots for chicken wings, there might even be a market of 18<sup>th</sup> century Irish stamps for spaghetti. In concrete none of these markets have ever been established. PhD students are not paid for their work by the hour (most are paid on a monthly or yearly basis, some are unpaid, and many are paid but do not do any actual work), moon travels are not for sale yet (except to sponsoring companies, which most often than not pay by different means), ginseng does not trade for chicken wings and old stamps are not exchanged with pasta in any shape. In principle, however, they *could*. This may be easier to imagine in a barter economy than in a monetary one, but the presence of a global means of exchange, like money, does not rule out the possibility to trade, for instance, babysitting hours for ironing hours – as is done at time banks – or the card of one legendary baseball player for five cards of less prominent ones. (Note, moreover, that money is not only a means of exchange, but also a unit of account and a system for the storage of value, and that there exist different currencies, which incidentally are also exchanged with each other according to their relative price.) All of the exchanges I mentioned (and the countless more that do or do not actually take place) share the properties summarised in the above definition.

It is often said that the market is “a meeting place for the purpose of barter or buying and selling” (Polanyi 1944: 59) or, in more contemporary terms, “a specific physical place or cyberspace where goods are bought and sold” (McMillan 2002: 6).<sup>29</sup> But an emphasis on 'location' and 'purchase' does not render much justice to markets, because as just seen the market does not require the taking place of any transaction and because commerce conducted in a marketplace often carries with it several features that depart from pricing. A market indeed emerges when a plurality of subjects attempts to coordinate a

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<sup>29</sup> McMillan (2002: 6) acknowledges the existence of “*the market*, an abstraction as in ‘the market economy’ or ‘the free market’ or ‘the market system’.” But he fails to clarify what it is beyond the remark: “the abstract market arises from the interaction of many actual markets.”

transaction through the determination of a price, and can also be seen as the (virtual) location where such attempt occurs.<sup>30</sup>

Market and price, however closely related, are not coextensive.<sup>31</sup> The use of pricing does not guarantee the existence of a market. Not all proportional thinking, that is thinking about ratios or prices, takes place in a market. <One spoon of salt for each litre of water when making pasta> is a convenient pricing-rule that does not occur in a market. Price, too, is an abstract concept: one can devise one's decisions according to the trade-off between hours of leisure and hours of toil, or between present and future income. So one person can undergo pricing decisions in alternative states of the world (the decision to cooperate in a prisoner dilemma) or in different moments (the choice between finding a job and pursuing further education). But, as noted, a plurality of subjects is necessary to make subjective prices into the collective arrangement of a market. Multi-sided coordination through price, moreover, might occur outside the market. When the general orders 3 air raids because they will cause 300 victims, he is deciding what is a 'fair price' for a given 'good,' but he is not interacting with the enemy in a market; or when a tribal chief orders public works to be executed, he might decide whether the works are worth the wage he has to correspond to his subordinates, but they have no comparable privilege of deciding whether to work or not depending on the wage. In this sense, a minimal degree of autonomy and independence must be granted to each party for a transaction to happen in a market. Compulsion, deference, obedience are principles of behaviour that belong to Authoritarian Ranking. Pure market transactions must be deliberated upon with reference to price only.

### 3.2. – *PRICES AND BEHAVIOUR*

Economics' fascination with the pricing system is such that even the socialist school of market economics of Oskar Lange and Abba Lerner in the '30s advocated the emergence of perfectly competitive prices, whose unfair outcomes would later be corrected by income transfers, organized by a central authority.

A more libertarian approach is to be found in Paul Samuelson (1948: 12-13), who regarded the market mechanism as the instrument through which (American) society could solve the three problems faced by every economy: *what, how, and for whom* to produce. And the tool he wished for as a social arrangement rested on a firm belief about individuals: "if one can know but one fact about a man, knowledge of his income will prove to be the most revealing" because that explains "his political opinion, his tastes and education, his age, and even his life expectancy" (ibid.: 61). This awkward

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<sup>30</sup> This means, I note, that there 'appears' a market as soon as a plurality of subjects approaches the relevant exchange, say between candies and school books, even if they fail to reach an agreement over the actual ratio and the transaction does not ultimately take place.

<sup>31</sup> Nonetheless, for simplicity, in what follows I treat them as synonyms, unless differently specified. You will note a more careful use would not alter my argument.

opinion makes sense because price is everything: price is the measure of individual incentives and individual choices are incentive-driven.

But the success of incentives in affecting individual behaviour does not hinge only on the rational self-interested response to incentives in conditions of scarcity. It also presumes that individual decision-making occurs in accordance with MP (Fiske 1991: 184ff). Larger individual gains motivate people and can be justified only by a change in the gap in linear ordering within an AR relationship, one cannot claim a larger stake unless she climbs up the ranks. In EM, a larger gain must be accompanied by a comparable increase for the counterpart in order to preserve balance. One may also expand his benefits in a CS relationship, but these have to be made available to other group members and produced by some selfless group member. When rank, compensation, or sharing do not accompany an increase in individual return, either the incentive does not play out its effects (i.e. it is turned down or disregarded) or the nature of the relationship is changed. Accordingly, one will not be offered a larger stake to be persuaded to perform (or refrain from performing) some action, if this action falls within the sphere of AR, EM, or CS relationships – that would be considered anything between inappropriate and insulting.

It is only in a deliberation based on relative prices that a decision is affected by a change in the relative amounts of the goods and services involved, and indeed economists describe human behaviour as if it were always modelled around the MP mod. But people choose and behave according to each of the four mods.<sup>32</sup>

The usual assumptions that people are selfish, isolated, and atomistic agents, therefore, are insufficient to capture all human behaviour. Economic theory, it is sometimes suggested, simply shows that there is no need to posit anything else beyond self-interest in order to achieve a situation in which it is not possible to increase someone's satisfaction without lowering that of someone else (i.e. Pareto optimality) as a result of free-willed market transactions. But in order to make markets workable, the further assumption of perfect information is made. In the example above, competition can drive prices down only insofar as consumers know that there exist different apple farmers and the prices at which each sells the fruit. And this assumption, too, makes the economists' view of markets somewhat difficult to subscribe to.

#### **4. – SOMETHING TO LEARN**

Even an unimportant object as the book you are reading could not be created without the involvement of countless people, most of which will remain forever unknown and will never suspect – to their credit – having taken part in this deed. To mention but one example, the writing of this book has been made

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<sup>32</sup> When we try to expand the boundaries of our discipline to account for allegedly altruistic behaviour (see Chapter 4), therefore, we employ tit-for-tat reciprocity (i.e. EM) or kin selection (i.e. CS).

possible by thousands of farmers in coffee plantations scattered around the most disparate places of South America. I doubt they would have spontaneously given me a single grain if I tried to persuade them that it would have been a contribution to the development of my ideas (CS), and it would have seemed patently ludicrous to offer them a few classes in ethics and economics as a means of reciprocation (EM). These might have worked with my mother, who has always been eager to get me out of bed at unearthly hours (CS), and even with the colleagues for whom I made coffee last week (EM). But the Brazilians say: Sorry, *señor*, no coffee for you.

“In civilized society [man] stands at all times in need of the co-operation and assistance of great multitudes, while his whole life is scarce sufficient to gain the friendship of a few persons” (A. Smith 1776: 23). In small communities there is no doubt that love or equality can be powerful motivators for the arrangement of social coordination based on householding and reciprocity, but the elaborate division of labour required for modern life calls for an additional effort.

Such additional effort has historically taken either of two forms: an increased or a reduced control (AR) exercised by the leaders over the citizens. The Italian dictator Benito Mussolini made the case for the necessity that citizens give up much of their freedom, as the organization of economic affairs in a nation becomes more and more complex, so “the more complicated the forms of civilization, the more restricted the freedom of the individuals must become” (quoted in Hayek 1944: 45). But it is remarkable that a book called *Fundamentals of Political Science* of Marxist-Leninist theory (Yakovlev et al. 1975: 222-3) explains that

*the more intricate the economy, the more affluent the society and the wider the range of commodities available to the consumer, the more important it becomes to grant an industrial enterprise the opportunity to display greater initiative in production matters. It is no longer possible to hand down production and sales plans listing millions of different commodities – their sort, size, fashion – to all enterprises in the country. [...] It is important that each industrial enterprise should produce articles really needed by the consumer – whether an individual buyer or a factory – in adequate quantities and of the highest quality. Therefore at present it is essential that all enterprises should establish direct contacts with their suppliers and consumers.*

If the case for the reduction of redistributive practices from above seems compelling, another system has to step in to fill the gap: market (MP). In a recent survey, 71% of the Americans said that free-market economy is the best system for the world’s future; 74% Chinese agreed (Numbers – *Time*, vol. 167, no. 5, 30/01/06). Although this may sound as proclaiming the victory of economics, the complexity of our economy simply suggests that we need the market, but it doesn’t follow that we need that only.

#### 4.1. – KNOWLEDGE AND MARKETS

It is often argued that markets fulfil the purpose of increasing the overall efficiency of an economic system by coordinating the division of labour among a large number of strangers. It is Adam Smith (1776, ch. 1) who suggested that the separation of complex tasks into smaller procedures, each allotted to a distinct worker, facilitates the improvement of the skills of each worker, stimulates the invention of new ways to perform each task, and saves the time wasted into switching among tasks. Through specialisation, therefore, the aggregate output of the workforce is significantly larger than what would have been possible if each worker performed the entire set of procedures alone. The identification of a wage with a price for labour should ensure that the question <who does what?> receives the answer that <everybody does what she does best>.

This is yet not enough to make a case in favour of markets because division of labour can take several forms. The attribution of tasks within a firm, to name but the most obvious example, is managed by the human resources department, so instructed and empowered by the top management, which is in turn appointed by the shareholders. In other words, it takes place through Authority Ranking. One way the organization of a division meeting in International Organizations is organized is through turns. Each member of the division takes responsibilities for setting up one monthly meeting, according to Equality Matching. In the provision of consulting services, each associate contributes his competences towards the completion of a common report, which is then produced in Communal Sharing. The typical argument of the economist, thus takes a step back towards some sort of aggregate claim. There may be various individual failures to maximise, or numerous specific reasons beyond the maximisation of preferences for doing something rather than something else, but at the collective level these effects are negligible.

The reason market exchanges emerge is to tackle concrete individual economic problems. But it is not only the division of labour that calls for markets, because families, tribes, and even states can successfully arrange the division of labour by authoritarian rule or egalitarian division or cooperative sharing.<sup>33</sup> It is the complexity of modern economies that calls for a decentralised system for processing information and decisions, which induces the consideration that “there is a problem of the *Division of Knowledge* which is quite analogous to, and at least as important as, the problem of the division of labour” (Hayek 1937: 49).

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<sup>33</sup> The novelist Giovanni Verga, depicting the traditional values of Sicilian fishermen in his *The House by the Medlar Tree*, writes “Master N’Toni [the head of the family] was used to saying, showing a closed fist – a fist that seemed made of walnut wood – that in order to row the five finger have to help each other. And he also said: men are made like the fingers of the hand, the big finger has to do as a big finger and the small finger as a small finger.” And though the fishermen live by customary rules they do have a drive to profit, and venture into a daring speculation on grains (which eventually fails).

In a world of perfect information where “every agent has a complete model of the economy, the hand running the economy is very visible indeed” (Arrow 1987: 208). Besides being unrealistic, the assumption of perfect information defeats the market: with perfect information, indeed, also central planning would lead to Pareto optimality. It also defeats economics, because it turns it into a tautological definition wherein, in order to achieve an optimal equilibrium, every market must be perfectly competitive, which in turn requires complete information; if we *assume* complete information, we are merely rearranging the order of an equation, which is never proved (see also Nelson 2001: 58-65). The assumption of perfect information, furthermore, is of truly little aid in solving the economic problems faced by a society.

These problems arise precisely from the lack of such knowledge and amount to deciding how to bring together the incomplete and contradictory bits of knowledge dispersed among a large number of agents (Hayek 1937: 48-53, 1945: 519-521). It is a problem of “how to secure the best use of resources known to any of the members of society, for ends whose relative importance only these individuals know” (Hayek 1945: 520). It is the price system which serves as a mechanism for communicating that information over the economy.

It would be immensely too difficult for anyone of us to investigate which reasons induced the coffee farmer to produce relatively more or less of it, before deciding whether we can take a sip of that third cup late into the night. Maybe productivity went down because not enough pesticides were available as the unusually heavy rains made local roads less easily travelled; or production costs shrunk in consequence of extensive deforestation which made more farming land available, thus abating rents. Luckily we do not have to bother: the typing of this book can proceed (some may regret) without taking into account the weather forecast in South America. Since virtually everything that happens in the world might have some direct or indirect effect over individual economic decisions, it is rather fortunate that we do not need to be informed about it. All we need is to know what price the local shopkeeper is willing to accept for us to enjoy our steamy cup and he needs not to know whether we prefer cappuccino or espresso, whether we drink it to keep awake in the wee hours or to wake up before sunrise, whether we consume it alone or share it with our friends.... It is indeed astonishing “how little the individual participants [to a market] need to know in order to be able to take the right action” (ibid.: 527).<sup>34</sup>

This is evident when students transact in classroom markets, where they bring about equilibria akin to those predicted by economic theory despite lacking the necessary information. Experimental economists (Smith 2000: 10) investigated how subjects proceed, only to find that

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<sup>34</sup> The division of labour is not a prerequisite for the division of knowledge; rather, it is the division of knowledge that empowered man to achieve a division of labour among total strangers of the extent and complexity that we now commonly observe (Seabright 2005).



(1) subjects are not aware that they are achieving maximum profits collectively and individually, in equilibrium, and, in fact, deny this when asked; (2) before seeing the results, subjects describe the market situation as confused and disorderly [...]. When asked what strategies they used, they are unable to convey insight to the experimenter: “I tried to buy low (sell high)” or “I waited until near the end to squeeze the other side.”

Smith (ibid.: 10-11) even remarks that this phenomenon plays out better in ‘non transparent’ (low information) than in ‘transparent’ (high information) environments.

#### 4.2. – MIND A TRADE?

Despite our sometimes vague understanding of what they are or how they function, economists seem to be particularly talented at spotting markets, and at likening all transactions to markets. One could even say that “[n]othing distinguishes economists from other people as much as a belief in the market system” (Schelling 1984: 24).

Economic activity takes many different forms, and these forms change through time. Aside from cultural differences, or rather: as illustrated by culturally specific practices, it is in principle possible to arrange any transaction according to each of the four mods. To an economist, such mod is and should be almost inescapably the same: Market Pricing. Yet, thinking for oneself in terms of ratios and basing one’s decision on the balance of the relative amounts of effort and gain is quite something else than expecting all social interactions to be likened to such economic calculus. Portraying a situation as a market, moreover, does not necessarily imply that participants are about to create a relationship akin to that described in economic models or that they are willing to undergo a market exchange at all.

Compelling experimental evidence has been conjured to propose the existence of an ‘endowment effect’ (Knetsch 1989, Kahneman et al. 1990, but see Lanteri and Carabelli 2007 for a critical review), according to which, once they own a certain good people tend to regard it as something that can be lost rather than as something that can be exchanged for something else, even when the alternative is *more* viable. Endowed with either of two similarly priced and comparably desirable goods (ex. a chocolate bar and a coffee mug), individuals prefer to keep what they are assigned instead of trading it with the other. About the same number of individuals have a preference for either good and it is implausible that exactly those preferring the mug and those preferring the chocolate had been given what they favour. Yet, 89% of those endowed with the mug and 90% of those endowed with the chocolate bar decided to keep what they had instead of trading it (these data are from the Knetsch study).

John List (2003, 2004) conducts the same experiment studying the willingness to change the endowed good of experienced traders (sport cards dealers). Subjects with high trading experience (measured by the number of trades they conduct in a typical month and the number of years they have been

active on the market) are more willing to exchange the endowed good with the preferred one (when it does not match, of course). Roughly speaking, List's study shows that experienced traders behave according to the predictions of neoclassical theory, while non-experienced ones behave according to prospect theory.

What is noteworthy, therefore, is that the familiarity with market exchange goes together with a readiness to undergo such exchange, so that its 'usability' must be learned, too. For instance, children seem to first understand and begin employing the Market Pricing mod around the age of 9 (Fiske 1991: 49). As presented in the previous discussion, a price is a ratio: it is the amount of one thing in proportion to the amount of another thing. The understanding of this basic ratio-nal structure is fundamental for participating in a market relationship. The skills to perform the kind of mental processes and calculations required in market transactions are commonly possessed (however in differing degrees) by virtually every human being, but these skills can both be acquired and improved. There are indeed very important social influences in the actual performance of these mental processes. For one instance, Brazilian children whose poverty forced them to become street vendors could easily perform complex calculations when selling things, but were at great trouble performing analogous computations in a classroom (Carragher et al. 1985). For another instance, Brazilian maids tested for their capacity of proportional reasoning could easily accomplish hypothetical purchases of food, but showed great difficulty with the same task when hypothetically purchasing medicinal herbs (Schliemann and Magalhães 1990).

Unlike Brazilian street vendors and maids, economists do not lack the skill of abstraction. We are capable of applying MP to very many very different spheres of existence. As hinted in the introduction to this book, just any transaction could be described as occurring in a market. And this we do very often: every action explained by economic theory is described as a MP-like deliberation steered by incentives. Can this peculiar depiction of people and decisions we always have in mind be without consequences? Hardly so. For one thing, it is unlikely to earn us too many friends.

**ECONOMISTS AND THE MORAL TRIAL**

*A personality is nothing but an enduring  
mistake.*

– Max Jacob

The discipline of economics is very young. If we accept the prevalent account by which it was born sometimes in the 18<sup>th</sup> Century – tentatively with the moral philosopher Adam Smith and the thinkers who inspired him – it is less than 300 years old, an age which by the standards of the development of human knowledge might confidently suggest that it is still in its infancy. (Yet very fast has it grown up.) A unique phenomenon, compared with other disciplines, is that economics is not an only child. It was born almost simultaneously with its nemesis: anti-economics.

Anti-economics, as defined by its historian William Coleman (2004: 7), is “one of the western world’s more prominent demonologies of the intellect.” Indeed “an anti-economist is whoever sees economics as a bane. To the anti-economist the offence of economics is that it is harmful, it is pernicious. The world would be much better without it” (ibid.). Therefore the agenda “is not to criticise economics endlessly, *but to dispense with it altogether*” (Kanth 1997, quoted in Coleman 2004: 8n). Economic theory has been variously attacked as false, useless, or harmful; the practice of economics has been dubbed methodologically inadequate, conceited, biased, or bidden; and the subject of economics considered overstretched in scope or overemphasised in value. Despite some isolated reactions, economists largely ignored anti-economics. “It is an ocean whose wild swell has been shrugged off, and whose depths have been left unexplored,” Coleman forcefully comments (ibid.: 5).

Though the program of anti-economics, in all its varied forms, was perhaps set to a failure (ibid.: ch. 14), more sober and pointed criticism has often succeeded in improving economics – a result, as just seen, that anti-economists do not wish for. One recent chapter in the hopefully constructive criticism of economics dates around the early '90s, when we started investigating whether economists are more selfish than non-economists. The prevailing belief is that we are. And that we are right from the beginning of our career because selfish people self-select themselves into Econ 101, though

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<sup>35</sup> This Chapter is based on Lanteri (2006a).

it is sometimes conceded that training in economics might contribute to making people yet more selfish over time. We thus have one charge: economists are more selfish than non-economists; and two indicted: economists and economics.<sup>36</sup> We also often hear calls for correction: we must change the teaching of economics. On the whole, this discussion resembles a trial.

And a trial it is, but of a special kind. The guilt to be ascertained is not the violation of some law, for which punishment or compensation may be sanctioned, by applying the prescriptions of some code. Instead, because it is possible to expose a difference in behaviour between economists and others, it has been argued that our individual profile deviates from that of non-economists. We are under accusations that pertain to our very being: we are said to be *different* from other people – and nastier at that. It is a moral tribunal we are facing. If we are to stand judgement, we demand that the indicted be clearly identified, that the charges be extensively spelled out, and that the evidence be critically explored. If a trial it has to be, may it be fair.

### 1. – A TRIAL IN ECONOMICS

Between 1979 and 1981, the psychologists Gerald Marwell, Ruth Ames and Geraldine Alfano published the results of their extensive experimental testing of the, back then fashionable, economic hypothesis of free riding. The idea (Olson 1965, Hardin 1968) is that, when faced with the choice to invest in a good or service whose benefits are available to everyone regardless of who actually contributes to it (i.e. a public good), people will not voluntarily open their wallet. The public good is thus not provided (strong free riding) or provided in suboptimal quantities (weak free riding). The economic rationale for this outcome is that self-interested agents find it more advantageous to let someone else pay the bill for a good they consume anyway. Marwell and Ames (1981: 1) believed such claim to rest “on the strength of theoretical argument [...] rather than rigorous empirical test.”

Nobody was impressed by their experimental findings that there exists no strong free riding, but only some form of weak free riding. The criticism that our discipline is in conflict with empirical observations does not worry economists very much. In the 80’s economists (believed we) knew how to respond to criticism of this kind. Since the times of the father of homo economicus, John Stuart Mill, it has been widely believed “seldom in our power to make experiments in [moral sciences]” (Mill 1844: 146) and to arrive at truth via observation of facts ‘vain hope.’ The method of economics had to be *a priori* abstract speculation with *a posteriori* verification of one’s predictions. Invoking Milton Friedman’s (1953: 31) super-influential methodological essay, we also believed that all criticism against rationally self-

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<sup>36</sup> I only quickly touch upon the connection between the two, because it mirrors the relationship between individual and collective (moral) responsibility, and the issue is problematic in a variety of ways.

interested agency (i.e. *homo economicus*), which underpins the predictions of free-riding, “is based on supposedly directly perceived discrepancies between the ‘assumptions’ and the ‘real world’.”<sup>37</sup> Such criticism “is largely beside the point unless supplemented by evidence that a hypothesis differing in one or another [respect ...] yields better predictions.” But Marwell and Ames (1981: 308) admit they “do not have a clear basis on which to suggest some alternative theoretical approach that might account for these results.”

The first and most apparent problem, namely that economics is at odds with empirical results, remains disregarded in the literature covered here.

### 1.1. – *THE TRIAL TURNS MORAL*

It is another problem that made it to the headlines. An altogether different reaction was indeed reserved to the observation that not every free rider is equally weak. Among a large sample of students, those who behaved closest to the predictions of economic theory were graduate students of economics.

Thus, John Carter and Michael Irons (1991) set to investigate the robustness and the origins of the behavioural difference between economists and non-economists. They conclude that some students behave more selfishly than others, because they are particularly concerned with economic incentives to begin with, so they choose to study economics (i.e. the phenomenon is explained by self-selection). Robert Frank, Thomas Gilovich and Dennis Regan (1993) elaborated this point inquiring whether such difference is explained only by *a priori* self-selection of selfish people into economics or the exposure to economic ideas also plays some causal role, and found that studying economics has some influence (i.e. the phenomenon is explained by training).

These and other similar findings show that, when economists play game-theoretical experiments, we do not play like everyone else: our conduct is distinctively ‘economic,’ while the conduct of others is ‘non-economic.’

Are these findings part of our subject matter? Is this economics? Do such investigations clarify any aspect of the production, distribution, and consumption of goods and services? Or do they explore the ways in which rational individuals make decisions on the allocation of scarce resources that have alternative uses? They don’t. So, why bother?

Admittedly this can be regarded as a topic to be addressed under the rubric of Teaching of Economics or the A2 category in the JEL classification system.<sup>38</sup> Unfortunately most contributions to the debate do not report their classification and do not provide useful evidence. Bruno Frey and Stephen Meier (2000) do in fact mention A2, but they also refer to A13, namely the

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<sup>37</sup> For a criticism of resorting to Friedman (1953) to justify just about any methodological choice in economics, see Mäki (2003).

<sup>38</sup> Some early papers on this theme (Scott and Roman 1975, Soper and Walstad 1983, Frey et al. 1993) were published in the *Journal of Economic Education*.

Relation of Economics to Social Values, which obviously calls to mind ethical concerns. And rightly so.

The issue at hand concerns the relationship between individual behaviour and collective consequences, a topic through which economics spun-off from moral philosophy three centuries ago. In the original formulations, selfish individual conduct resulted in social prosperity. One may find not many ethical troubles with such result. Game theoretical investigations of the kind employed in the experiments with economists, on the other hand, cover those situations in which individually sensible behaviour brings about collective failures. If economics cannot find the proper balance of incentives to overcome such failures, the theme legitimately falls back within the scope of ethics.

It is apparent that the ‘moral trial’ interpretation of these experiments is the most promising. And one does not even have to dig very deep to come across evidence supportive of such interpretation, but simply judge, so to speak, the paper by its title. Economists are known for exceptionally sober prose, betraying a determinate attempt at establishing ourselves as rigorous (capital-s) Scientists while distancing ourselves from the unscientific practices of the humanities. This attitude, or *ethos*, translates in the use of a stylistic device known as ‘*style indirect libre*’ (McCloskey 1983b: 9, 1994). This way, economists signal that we merely uncovered a hidden truth in the natural world and humbly report it for the noble sake of contributing to humankind’s knowledge. No personal matters or opinions are involved. Among the most downloaded articles from the LogEc internet side, therefore, we find Sigitz and Weiss’ (1981) “Credit Rationing in Markets with Imperfect Information;” Ichniowsky, Shaw, and Prensushi’s (1997) “The Effects of Human Resource Management Practices on Productivity: A Study of Steel Finishing Lines;” and many more unexciting titles. Economists do not talk about public schools or gender discrimination, but more soberly about “The Economics of Schooling: Production and Efficiency in Public Schools” (Hanushek 1986) and “Male-Female Wage Differentials in Urban Labor Market” (Oaxaca 1973).<sup>39</sup>

The titles of the papers involved in the debate about economists echo a quite different attitude. Marwell and Ames (1981) got it started with their paper “Economists free ride, does anyone else?” and Carter and Irons (1991) continued with “Are economists different, and if so, why?”. R. Frank, Gilovich, and Regan (1993) then discretely asked “Does studying economics inhibit cooperation?,” but after Yezer, Goldfarb and Poppen (1996) intervened with “Does studying economics discourage cooperation? Watch what we do, not what we say or how we play”, they reacted with “Do economists make bad citizens?” (R. Frank et al. 1996). Reinhard Selten and Axel Ockenfels thus published a rather neutral “An experimental solidarity game” (1998), whereas Björn Frank and Günther Schulze wrote a working paper called: “How

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<sup>39</sup> Source: <http://logec.repec.org/scripts/itemstat.pl?type=redif-article;sortby=3d> (accessed: May 2006).

tempting is corruption? More bad news about economists” (1998), which was softened to “Does economics make citizens corrupt?” (2000) for publication. Another contribution is by Frey and Meier, first circulated as a working paper called “Political economists are neither selfish nor indoctrinated” (2000), and later published as “Are political economists selfish and indoctrinated? Evidence from a natural experiment” (2003), “Do business students make bad citizens?” (2004), and “Selfish and indoctrinated economists?” (2005). Another recent contribution is “A sceptic’s comment on studying economics” by Ariel Rubinstein (2006).

The titles (and most texts) of the papers involved in the controversy, quite obviously, have a moral colour that is all but neutral. The authors are no longer Scientists soberly reporting natural truths, but men who have got something that troubles them. Moreover, while answering the question whether the claims of economic theory are empirically observable might seem like a relevant task for an economist, I remain sceptical that the same can be said about questions such as “are my colleagues and I selfish?” Economists disregarded empirical and experimental evidence for the largest part of the history of the discipline, chanting aloud repeatedly Mill’s and Friedman’s gospel. Why should we care, all of a sudden? And if we decide to react to provocations of this kind, while we are at it, why don’t we point out that the assumptions of economic theory are (almost) respected in practice in a clearly defined sample of subjects (namely: us)? If there were a general enthusiasm in favour of economics, we would all sit down together with economists teaching everyone else how to be like us! But economics and economists are not nearly as beloved as we might hope.

The very choice of a null hypotheses like  $\langle H_0: \text{economists are corrupt} \rangle$  betrays the presumption that we deserve moral assessment, and that it is fine to treat us as guinea pigs in order to investigate how evil we are, really. That the problem rests with economists – and not more generally with professions or trainings – is indirectly evidenced by the absence of a similar treatment for other categories (except, perhaps unsurprisingly, business students). Though nobody seems to enjoy going to her dentist in anticipation of the pain dental treatments may cause, I couldn’t find any suggestion that cruel people self-select themselves into Dentistry, or that Catholics make poor students of Biology because they are warned not to buy into the Darwinian evolutionist account, nor that students of Law are ignorant of basic Maths since attorneys sometimes bill their clients for many more hours they may possibly be alive.

As for our subject, someone proclaims that immorality finds its “intellectual and theoretical justification in the name of economics” (Lux 1990: 129) and demand that this despicable discipline “simply be swept away” (Henderson 1981, quoted in Coleman 2004: 8n). These are sensitive issues, and thus Rubinstein (2006: C1n) thanks the many economists who reacted to his piece, confirming that his work ‘hit a nerve.’ It is sometimes suggested that we are in the presence of a moral opinion when the reactions of the people

involved pass a certain threshold on a so-called ‘emotional staircase.’ If we disagree about whether red wine goes well with fish, the extent of our passion in defending our opinion against the opposing view is most likely milder than the passion involved in a disagreement on the wrongness of paedophilia. The latter is then a moral issue vs. the former (Blackburn 1998: 9ff.).

There is something else at stake beyond intellectual curiosity.

### 1.2. – A DISPLAY OF CHARGES

What had started as a (disregarded) epistemological investigation later turned into a trial on the economics profession, and eventually resulted in a moral assessment of economists.<sup>40</sup> A whole debate emerged around the selfishness of economics students in which it proposed that – under numerous conditions, but not all – (1.) economics students display behaviour that is closer to the predictions of economic theory than other students; therefore (2.) all economists are more selfish people than non-economists. What makes (2.) into ‘bad news’ must be a belief that selfishness constitutes a violation of some social or moral norm. Therefore the charges are that (3.) economics students are immoral and (4.) we, their teachers, are selfish and immoral like them.<sup>41</sup>

The implications we may draw from the charges and the room for correction depend on the specific interpretation of the experimental findings. The self-selection explanation puts the burden of proof on the connection between selfishness and the predilection for Econ courses, which still needs to be advanced in a satisfactory manner. Should this connection be exposed, the discipline that proves so attractive to selfish people would then be under some serious suspicion; though suspicion of *what* remains less obvious until the exact nature of such connection is understood. For the sake of speculation: if students chose their major by tossing a coin, and if by chance it happened that selfish people turn out head more often than tail, then it could be true that selfish people choose economics. But do they choose economics *because* they are selfish? And is this a bad thing?

The training explanation, on the other hand, locates the responsibility directly on us. It is us who teach our students, or give them reasons, to behave as they do. To uphold the impact of training, one needs not to posit (2.) and may simply make an inference from (1.) to (3.). At any rate, looking at the texts, the accusations of immorality are difficult to find in a straightforward sentence, and hardly ever it is possible to read clear allegations of selfishness or implications thereof. The most outspoken accusation sounds like this: ‘exposure to the self-interest model commonly used in economics alters the extent to which people behave in self-interested ways’ (R. Frank et al. 1993: 159). So, where is the problem? Why the trial?

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<sup>40</sup> Carter and Irons had interpreted their findings in terms of the correspondence of economic theory with empirical observations in an earlier unpublished manuscript, but later dropped the issue.

<sup>41</sup> On the present occasion I do not question the equivalence between selfishness and immorality, but the equivalence can be denied in several ways.



The way in which this literature was received and commented upon by the academic community seems well captured by Frey and Meier's (2000: 2) observation that the statement "economists are more selfish than other persons" is believed to be "a fact beyond doubt" by professional economists and probably most other scholars.

How did everybody come to this belief?

## 2. – EXPERIMENTAL EVIDENCE

Many feel there is more to people than just greed and don't think of themselves as lightning calculators of pleasures and pains (*à la* Veblen, 1898: 73). Most of them are not economists, for one (or several) of the following reasons: they are uneasy with extreme selfishness, do not expect self-interest to be of great importance in human motives, or they are not sharp-minded enough to understand the logical structure of economic decision-making. Be that as it may, those who already believe men are selfish *aesthetes* pursuing the greatest satisfaction at all times or display a certain logical aptitude might be more likely to find their way in departments of economics (instead of, say, sociology or psychology) to begin with. On the other hand, there is a possibility that attending too many Econ classes will eventually result in increased selfishness.

Marwell and Ames report a total of twelve experiments aimed at assessing whether free riding hypotheses are a good description of the way the world works. The research is roughly the following: subjects are provided with an amount of tokens, which they decide to assign to either of two possible investments. There is an individual investment, which is a private good: each investor receives a fixed amount of money as interest for each token so allocated. Alternatively there is a collective investment, which is a public good: now the interest is higher, but every subject receives an equal share of it, regardless of who actually invested and once a minimal amount of contributions is achieved. All the experiments are variants of the situation just described. While the collectively optimal result obtains when everybody contributes everything to the group exchange; each player is better off if everyone else does, except herself. Indeed, as mentioned, *homines economici* contribute zero. The authors come to reject the strong version of free riding (since people contribute non-negligible amounts of their initial amount of money to public goods), but suggest the soft version is respected (people contribute less than optimal amounts). Their results are that non-economics students contribute an average of 49% of their starting funds, economics ones only 24%.

Another milestone is Carter and Irons (1991: 171), where the authors find that "a behavioural difference [between economists and non-economists] does exist." They randomly recruited a sample of freshmen and senior students, both majoring in economics and non-economics (and not enrolled in or ever taken any graduate economics course) and analysed their conduct in a ultimatum bargaining game. Here a proposer must divide a sum with a

responder. After the proposer makes one part for himself and one for the other player, the responder either agrees to the split, and it occurs as proposed; or she refuses, and the sum is not assigned to anyone. Therefore, at the beginning of the game the experimenters asked the subjects what division of a sum of money each considered (un)acceptable if it were offered to them by the proposer, whence they determined each subject's minimum amount acceptable as responder. Similarly they asked the subjects to propose a division, whence they determined each subject's desired amount kept. Economic theory would expect proposers to offer the smallest positive amount to their co-players (e.g. 0.001%), so to keep the largest possible amount for themselves (e.g. 99.999%). On the other hand, responders would accept even that small share because it is still more than nothing. The actual findings are as follows: non-economists consider acceptable 24.4% of the original amount, and propose to keep 54.4%; economists' figures are 17% and 61.5%.<sup>42</sup> We see neither amounts to the exact predictions of economic theory, but economists get closer. The reason appears to be that it is the most selfish students who choose to undergo training in economics, while less selfish ones find their way elsewhere, because freshmen majoring in economics are already more selfish than non-economists. "Economists are born, not made" (*ibid.*: 174).

Elaborating on this point, R. Frank et al. (1993, R. Frank 2004) assembled groups of three students from different backgrounds and have them play two simultaneous one-shot prisoner dilemmas, with real money as payoff and confidentiality about their game conduct (enforced through the addition or subtraction of a random amount to/from actual payoffs). In such situation individuals face a decision where a choice always yields a higher payoff (i.e. it's a dominant strategy), but which – when made by all players – results in a poorer outcome for each participant than she would have achieved if everybody chose otherwise. Although cooperation is advantageous for both parties, economic theory has it clear that every rational agent will defect in a one-shot prisoner's dilemma. Defection rates are 60.4% for economists and 38.8% for non-economists. Once again it is the economics student who gets closest to the behaviour predicted by economic theorists.

The game, however, is about self only to some extent, because the payoff is also determined by the behaviour of others. It is likely that the choice to defect or cooperate depends on one's expectations of the behaviour of one's partner and, to be sure, the only way to confront a defector is to defect. The more one advances in economics training, the more one expects others to be dishonest and therefore, probably, to defect.<sup>43</sup> The progress of non-economics education

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<sup>42</sup> In this experiment the initial amount is 10\$ and "any division is permissible as long as the two amounts are in multiples of 0.50\$ and sum to 10\$" (Carter and Irons 1991: 172), so that the minimum positive amount offered is 5% of the total.

<sup>43</sup> This is tested by asking whether the owner of a small firm would report a mistakenly smaller bill for the goods he bought, whether a person finding addressed-envelope containing cash would return it, and what would the subjects do in the same situations (Frank et al. 1993: 168ff.).

reveals a marked reduction in defection responses, by contrast “the trend towards lower defection rates is virtually absent from economics majors” (ibid.: 168) suggesting that “the training in economics plays some causal role in the lower observed cooperation rates of economists.”

Altogether it appears that Steven Rhoads (1985: 162-163) was correct in commenting, much earlier than these experiments were conducted, that “[p]eople who think [...] narrow self-interest makes sense are more likely to become economists. Through their training economists learn that they and their discipline can be more powerful if [...] self-interest matter even more than they first thought.” But it could be expected that not everybody would react easily to the accusation of being a selfish person. Indeed some economists began to argue that the alleged selfishness of economics students was not granted, and conjured experimental evidence that contradicts earlier results. To be sure, economics students’ behaviour deviates from that of the others, but in ways that are not always consistent or easily predictable.

### *2.1. – THE ECONOMIST AS EVERYONE ELSE*

However nasty and indoctrinated economists might be supposed to be, there must be some principles in their nature, which interest them in the fortune of others. By surveying university professors in a range of disciplines R. Frank, Gilovich, and Regan (1993) investigated their donations to charity, their participation in presidential elections, and their contributions to voluntary work (i.e. public goods).<sup>44</sup> R. Frank (2004: 164-5) then made income estimates for professors in different disciplines and at different seniority levels, and calculated an average level of generosity for the sample. Professors of Economics contribute about 91% of the expected amount for their income, while Professors of Art, Architecture, and Music give 73%, and Professors of Natural Sciences give 119%. Economists even rank slightly above average in the number of hours spent in voluntary activities. In a vast investigation about the actual payment of Professional Associations membership fees, Laband and Beil (1999) notice how economists free ride less than sociologists or political scientists.<sup>45</sup> Frey and Meier (2000) also demonstrate that students of (political and business) economics are about as selfish as students of law, but much less so than medical and veterinary students; the most selfish are students of business administration. Interestingly, they do so not with an experiment, but by evaluating actual spontaneous contributions to two social funds: the one granting cheap loans to needy students, the other supporting foreigners willing to study at the University of Zurich, where the data were gathered.

What seems to be the strongest defence of economists comes from a lost-letter experiment (Yezer et al. 1996). Cash-filled envelopes with an incomplete

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<sup>44</sup> The data reported here are from Frank (2004, ch.9) but they refer to the same source presented earlier, i.e. Frank et al. (1993).

<sup>45</sup> Though they then interpret these results in a way that affords the conclusion that there is no real difference between economists, sociologists, and political scientists. See the discussion in Laband and Beil (1999: 98ff)

address were disseminated in classrooms right before courses took place. Half of these were Econ, half non-Econ courses. Therefore 64 randomly recruited and unaware subjects took part in the experiment. Surprisingly, almost 44% of the subjects managed to forward the envelopes to unknown recipients, and this often required substantial effort: in order to send the letter, the subjects had to look up for the complete address to which money had to be forwarded (corresponding, of course, to an associate of the authors). Of the successfully returned letters, 56% came from Econ classrooms, and only 31% from non-Econ ones.

Once again, the evidence is not interpreted as an indication that economic theory – which predicts a rational agent would not return the letter – is mistaken. The main result of the public goods and lost letter-experiments is that economics students are as selfish as others, or even *less* selfish than others. When put together with the findings discussed above, there appears to be enough evidence to deem economists selfish people and – incidentally – also enough to deem them not so. There is an apparent problem with this ambiguity.

What do these experiments show?

### **3. – EXPERIMENTAL LACK OF EVIDENCE**

It surely remains to be proved that the kind of evidence referred to in the literature represents the best (or even an appropriate) tool for investigating questions of human morality and decision making at large. Experimental design and response measurement vary, so that some are possibly better than others. On the whole, however, the main reason for arranging experiments is to stabilize certain variables in a replicable and context-independent manner (i.e. approximating *ceteris paribus* conditions) so that one or more other variables can be studied in isolation. In this way internal validity is established, or the guarantee that the choice context is essentially equal and constant for all subjects.

The kind of control one may exercise on the observations, moreover, varies greatly depending on the procedure employed. Lab results, for instance, originate in “a highly controlled, very abstract, experimental situation” (Marwell and Ames 1981: 296). Precisely for this reason, Yezer et al. (1996) are very critical of certain experiments, while R. Frank et al. (1996: 189) praise them for the “opportunity to control incentives to a degree that cannot be matched in natural experiments” and because these incentives “closely mimic [those] found in naturally occurring social dilemmas.” If the main advantage of natural experiments is that subjects face the actual, and sometimes substantial, consequences of their choices, the main disadvantage is indeed that the experimenter does not select the type, degree, and extent of any treatment and she does not decide when and where the treatment should occur (Harrison 2004). On the other hand, field experiments (Harrison and List 2003) complicate lab experiments with some elements from the settings in

which economic decisions are naturally made (e.g. naturally occurring commodities instead of tokens or subjects from the field instead of students), but they also import additional noise from the outside. So it is not always straightforward in what ways different procedures affect the quality of experimental output, both in terms of its internal and its external validity.

In defence of their results, some experimenters underline that participants in lab experiments take their involvement “*very* seriously” (R. Frank et al. 1996: 189), whereas another traditional critique of experimental methods concerns surveys (Boulier and Goldfarb 1998, McCloskey 1983a) and it suggests that people are sometimes unaware of their beliefs or do simply have no incentive to disclose them, so that they cannot or will not respond correctly. A seeming solution would be to introduce a relevant and salient reward, and of which experimental subjects wish to obtain as much as possible – typically money – in order to empower the experimenter to ‘induce value’ into experimental choices (V. Smith 1976). Because “subject’s behaviours are direct results of the instructions and reward systems,” induced valuations perhaps play out in such a way that “experiments were revealing a lot about [the experimenter’s] own beliefs and very little about [his] subjects’ properties other than obedience” (Starbuck 1993: 76).

Other methodological concerns of experimental research at large also play a role in this context. Every experimental enterprise is subject to the problem of theory-ladenness of data, i.e. one’s theoretical priors affect the type of elicited observations (Kuhn 1962). By emphasising the common behaviour of economics students, for instance, these researches implicitly rule out the possibility that each individual is autonomous in his decision-making and that the higher or lower proportion of cooperators in a population might be entirely accidental. In a similar way, groups of economists are contrasted with rather heterogeneous and indistinct groups of non-economists, as if there were some pretence that these two types of groups compose the whole of society and that non-economists were all the same (R. Frank et al. 1996 complain against Yezer et al. 1996 that students of Biology are trained with principles of natural selection founded on self-regarding behaviour that do not distinguish them sufficiently from Economics students to serve as control group).<sup>46</sup>

On the other hand, there is a related problem of under-determination of theories by data, i.e. data alone cannot prove a theory (Quine 1951). To mention one example, the results from R. Frank et al. (1993), because 60% of the economists defect, are enough to push the authors to answer the question whether economists make bad citizens. Depending on how one frames the issue – e.g. by saying that 40% of the economists cooperate – the results can also be taken as evidence that human beings are not very selfish. Laszlo

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<sup>46</sup> Furthermore economics programs can be very different in content, teaching methods, and career prospects (more on this below), and many other Social Sciences programs may include classes in economics.

Zsolnai (2004: 40-41) indicates this experiment as one of five ‘famous studies [... suggesting] that people are *moral beings* in their economic actions.’

Another general problem with experiments is that different studies may have specific shortcomings (e.g. number and composition of subjects, control groups, statistical tests, assessment of relevance...).<sup>47</sup> It is also noteworthy that individual experimenters do affect the output of their studies. For instance, Marwell and Ames (1981: 304) interpret a datum closer to their hypothesis as “probably more accurate, as it reflects the responses of subjects interviewed by more experienced interviewers.” Whether this consideration casts a shadow on the reliability of the whole enterprise remains an open question.

At any rate, results from different disciplines (economics, psychology, sociology) stem from fundamentally diverse ways to conceive, conduct, and interpret experiments. Because in each experimental design the conditions that are kept constant differ (often significantly), and each set-up elicits the observation of different variables, therefore, findings across experiments are not directly comparable and because experiments can be used in a variety of ways in the pursuit of a variety of goals, the interpretation of experimental results remains likely to stimulate debate and to be open to contrasting views. It seems therefore legitimate to put these experiments side by side because they all amount to advancing a portrait of economists. These portraits, however, are not uncontroversial, which brings us to the issue of external validity.

Nobody would go through the troubles of setting up an experiment, incur the effort and costs of analysing data from multiple pre-tests, and paying numerous subjects, if all he can claim at the end of the day is that twenty-three out of thirty of his subjects defect under such and such manipulation. Experimenters believe that their subjects are representative of some population and behave in a way roughly similar to everybody else, so that their results are externally valid and can be generalised to the whole of the target population.

Is this the case of the moral trial as well?

In order to answer, one must first find out who or what is an economist.

### 3.1. – *WHO ARE THE INDICTED?*

This much we know: economists are professionals, as witnessed for instance by a plurality of economic professional associations worldwide. Because the profession is not regulated like that of lawyers and engineers, for which there exist educational requirements and official licensing, it is much more difficult to establish when one officially joins its ranks. As professionals, economists possess specialised knowledge, and this knowledge could serve as the basis on which to separate us from other professionals and from the lay public. Though

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<sup>47</sup> For instance, Marwell and Ames compare the conduct of graduate students of economics with that of high school students. The two groups differ in many respects and it is plausible that many causes are accountable for differences in their behaviour.

a coherent and comprehensive definition of the subject matter of our discipline may be very hard to come by, there are two acceptable approximations. The traditional one calls economics the science which studies the production, distribution, and consumption of goods and services, in other words what we roughly identify as the ‘economy.’ A more recent account is as “the science which studies human behaviour as a relationship between scarce means which have alternative uses” (Robbins 1932: 15), in other words decision-making. Since it may be very difficult to tinker about a professional description that revolves around the analysis of choice under scarcity, I will restrict myself to the first definition for the time being (but see Chapter 7). But also to distinguish economists from non-economists based on our knowledge of the economy or of human choices is anywhere between a thankless task and a mockery. It is thankless because other social scientists also investigate what markets and the economy are, as all the people involved in the business world do, journalists as well have very well formed and often persuasive opinions, and lay people in general have a solid grasp of what Deirdre McCloskey (1991) calls ‘ersatz economics’ and Paul Rubin (2003) calls ‘folk economics’. And they all seem to disagree with economists, all the time.

The obvious reason why this is the case is that we know better than they, and one might try and tell economists apart based on our strongly held belief, indeed certitude, that we possess better knowledge of the economy than others... until one clashes with the boasts of entrepreneurs, consultants, and stockbrokers, whose skill to ‘read’ the economy makes their sixth senses tickle right before a certain bubble is about to pop or a certain stock go through the roof, whereas economists had no clue about that. They obviously ought to believe *they* know better. Therefore, alas, this criterion fails as well.

What about *real* knowledge? Perhaps economists stand out thanks to the kind of stuff that big name professors write in the papers that pave their ways to the Nobel Committee. This criterion would work quite well if economists agreed on many fundamental facts and truths. But we don’t. That by Arjo Klammer (2007) is an accurate description of the discipline as a bunch of ongoing, parallel and separate, conversations. For instance, several Keynesian, Post-Keynesian, and Monetarists made it to the top of the profession, and from those heights they kept disagreeing and denigrating each other (e.g. Klammer 1983). In truth one can be an influential and respected economist from a top-notch university and share nothing with another influential and respected economist from a top-notch university except the name of the Department they are affiliated with. It has even been suggested, and this has become a sadly well known joke, that economics is the only science in which two people can earn the Nobel Prize for saying opposite things or even share a Nobel Prize for saying opposite things – e.g. Gunnar Myrdal and Friedrich von Hayek in 1974, and very recently Daniel Kahneman and Vernon Smith. Not even profound knowledge is the right place in which to look.

Perhaps, more simply, it is the training we have undergone. Klammer calculates that American colleges count no less than a million undergraduates who take courses in economics every year and that 30,000 of them select it as their major. Moreover, there are 17,500 Economics Ph.D.'s around. Where should one set the threshold? A single introductory course, most of the times compulsory, seems hardly enough to make someone into an economist, especially if this person ends up majoring in a completely different subject. In some sectors of the American government it is enough to have taken four or more courses in economics to be considered an economist, but one can obtain the qualification through training in statistics, applied mathematics, or finance, so that the exact type of training one has received needs not be especially consistent or homogeneous. Majoring in economics, on the other hand, may make a relevant standard. An Econ major must undergo introductory and intermediate theory courses and several electives in applied or specialised fields, and this could just do the change from layperson into economist. Equipped with the right training and the right degree, these young men (and some women) walk out of college in their full capacity as economists. But this capacity does not seem to last very long.

After the growth in the ranks during the '70s, the numbers have been going steadily down, somewhere around 30% for majors and 18% for doctorates, and the Ph.D.'s rapidly leave the country after graduation, signalling that many of them are foreigners (Siegfried 1998). Fewer than half majors continue their education beyond the Bachelor, and only about 3% pursue an advanced degree in the same field, while many move on to Law or Business School, therefore becoming lawyers or business analysts. Very few graduates call themselves "economists" when they enter a job (Siegfried et al. 1991: 198). Quite soon, therefore, the majority of candidates for the label 'economist' do not qualify anymore.

Furthermore the Econ-major criterion may seem inadequate because it would leave out many professionals employed as economists. The 2002 Survey of Earned Doctorates conducted by the National Opinion Research Center at the University of Chicago suggests that historically only just above 55% recipients of Ph.D.'s in Economics and Econometrics come from bachelors in the same field (it peaked at 62.2% in the early 80's). But even a doctorate does not necessarily make a crucial distinction since many economists, including several prominent ones, did not use to and to this day they often do not receive any formal training in economics.

Perhaps, therefore, one could look into occupations. The U.S. Bureau of Labour (2007) estimates 13,000 practitioners of economics are active in the U.S. alone. (The figure is not impressive for a country in which every year over 30,000 students major in the field.) Also, what exactly is the job of an economist? We variously work in the public administration, in politics, in international organizations, in public and private research institutes, in different types of teaching engagements, in consulting firms, in the media, ...



(Coats 1981, 1986, 1989, Frey 2000, Mandel 1999). Most of the economists, however, still consider the academia as our privileged career (TABLE 1). After the graduation, some Economics doctors look at the government and not-for-profit, and more and more of us seek employment in the private sector, but the majority still seeks a research and teaching position in a college or university. Although it is obviously a limited sample, one could argue that academic economists are representative of the profession.

TABLE 1. **Postdoctoral Plans**

	1960/64	1970/74	1980/84	1995/99	2000
<i>College/University</i>	59.4%	65.0%	56.5%	43.1%	42.5%
<i>Industry/Business</i>	6.0%	5.8%	10.8%	16.9%	18.6%
<i>Government</i>	9.0%	11.5%	13.6%	11.5%	12.8%
<i>Nonprofit</i>	4.0%	3.9%	3.3%	3.0%	4.2%
<i>Postdoctoral study</i>	-	3.8%	4.4%	7.0%	6.6%

*Source: Scott and Siegfried (2002, selected entries)*

### 3.1.1. – ALL ECONOMISTS ARE NOT CREATED EQUAL

Now that some ground has been cleared towards an acceptable definition of the economists' target population, it is possible to proceed in the assessment of the Moral Trial, and more specifically of its indicted with respect to the incriminating evidence.

The whole idea of a Moral Trial must rest on the presumption that different people choose different professions because of individual differences of some kind. There is some evidence supporting this intuition: different personalities indeed help predict different study choices and different degrees of rationality in the choice process. This very evidence, however, poses an additional challenge to the trial against economists. Christopher Boone, Woody van Olffen, and Nadine Roijackers (2004: 67) found that different personalities are associated with four different educational choices: Economics, Business Administration, Business Education, and International Economics and Business Studies.<sup>48</sup> These four could be presumed quite similar types of students, and one could easily group them together as economists-in-training, depending on which definition of the profession one embraces. One would not be surprised to see them labelled economists and contrasted with non-economists in experiments such as those reviewed above, although they are evidently heterogeneous. There are possibly yet larger differences between these groups and groups of students in disciplines such as

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<sup>48</sup> As often is the case with studies of this kind, Boone et al. (2004) do not study whether people with a given personality choose business rather than economics. It tests whether people who have chosen it have a given personality. Different responses in personality tests may be at least in part a consequence of the major one has chosen, and not entirely pre-existing (see Chapter 8).

Chemistry, Literature, Psychology, and Fine Arts, but such evidence is still missing.

The subject samples in the experiments mentioned above reflect the difficulties of satisfactorily define who is an economist. They included, for instance: first year graduate students of Economics (Marwell and Ames 1981); “freshmen economists, who had declared economics as their major and were enrolled in the first-semester macroeconomics course” (Carter and Irons 1991: 171) but were never taught microeconomics (ibid.: 176); professors chosen at random from professional directories, economics majors and nonmajors, and students enrolled in an upper division public finance course at Cornell (Frank et al. 1993); “upper-level economics classes (that is, courses beyond the two-semester principle of economics sequence)” (Yezer et al. 1996: 180); “students of economics, and economic pedagogy or agricultural economics” (B. Frank and Schultze 2000: 105). Another paper, by Kahneman, Knetsch, and Thaler (1986) reports findings from a Ultimatum Game that commerce students (i.e. business students in the Canadian university system) were more likely than psychology students to make one-sided offers.

The choice of subjects sample is problematic also in terms of its heterogeneity: high school students self-select themselves into Econ majors, are thus trained in economics, then they self-select themselves into graduate students and are again trained, then some of these self-select themselves into teaching economics. The type of self-selection and the type of training should be different at each stage. It is not clear whether the contribution to social funds by graduate economics students can be immediately compared with the split proposed by freshmen in a Ultimatum Game and with self-reported participation in presidential elections by professors. Furthermore, R. Frank’s (2004) and Laband and Beil’s (1999) observations that actual professors of economics are no more selfish than professors of other subjects make it hard to purport that the experiments address economists’ morality at large. Regardless of the attempts to establish this conclusion, it is not economists and economics teachers who are selfish, it is our students. The implication that these students eventually become economics professors does not seem to be probable nor compelling enough to accuse us of selfishness, unless we also posit some sort of *ceteris paribus* clause. In other words we must imply that that people never change, so that there is no significant difference between twenty years old students and fifty years old professors. I doubt such assumption can be safely made, in the face of contrary evidence.

To be sure, it is questionable whether first year undergraduate students of economics behave in a way comparable to that of fifty years old economists. But it is also questionable whether older economists would make a better choice: being wealthier, they would not react to the promise of winning a few dollar bills and the arrangement of meaningful incentives for the sample would make the experiment much more expensive; or they might even refuse to waste their time taking part in an experiment. These are very much pragmatic

concerns, whose importance must not be underestimated (especially in the light of the tight constraints of research grants and because economics journals reject *ipso facto* experimental papers without an adequate induced value). But they should not be overemphasised either. A more severe problem would be that, being experienced, grown-up economists often assume a more nuanced stance towards the experiment and behave in a more sophisticated way, so that the results would be less obvious.<sup>49</sup>

Econ students, on the other hand, seem to be reasonably good subjects because they are informed to the economic way of thinking in a clear-cut fashion and still react to the incentives to behave accordingly. They are also less likely to be distracted by the attempt to understand the underlying goal of the experiment, but to simply focus on the task that is required of them and to thus respond in a way that is more sincere or at least less concerned with the implications that could be drawn from their responses. All these remarks seem to boil down to one: economics students make better subjects to show economists selfish because actual economists would not behave selfishly enough for being accused of selfishness.

How bad would such failure be?

Absolutely indifferent, if one wants to explore an empirical phenomenon, but very bad, if one wants to advance a moral charge against economists.

### 3.2. – *H<sub>0</sub>*: <THE CHARGE IS UNCLEAR>

Blaming us because ‘economists are more selfish than non-economists’ is quite problematic. What does being *more* selfish than others mean?

First of all, in order to draw meaningful insights from experimental evidence, we must accept the conjecture that a selfishly motivated person will free-ride in the provision of a public good, make and accept stingy offers in ultimatum games, defect in prisoner’s dilemmas, be dishonest when he finds a cash-filled letter and avoid contributing to charity; conversely, we must accept that someone who behaves like this is motivated by self-interest.<sup>50</sup> Though all these conducts are arguably *compatible* with self-interest, it does not follow that they are *motivated* (only) by self-interest. And useful though it is in certain theoretical settings to assume self-interest as the sole motivation of human behaviour, the assumption is inadequate to address empirical questions about individual behaviour across a range of only marginally similar circumstances. Under such assumption, the only question that could be meaningfully addressed is how many people, and to what extent, depart from rationality. The authors involved in the moral trial, therefore, do not subscribe to the assumption, if only because it would deny the grounds for their very experiments, and for the whole debate.

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<sup>49</sup> For example, practicing economists predicted the contributions in the Marwell and Ames experiment to be in the range of 30%.

<sup>50</sup> I focus on the problema of these implications in Chapter 5.

Unqualified claims, also, make the concept of self-interest hard to pinpoint. From the ultimatum game experiment one can derive the following behavioural implications of self-interested motivation:

*HIGH REQUEST*: an economist pursues large individual gains (e.g. makes smaller offers);

*LOW ACCEPTANCE*: an economist pursues small individual gains (e.g. accepts smaller offers).<sup>51</sup>

Taken as general claims about self-interest, within a behaviourist framework where self-interest is the only motivation, the two are contradictory. If we observe someone who accepts a small offer, we must conclude that he wants little money; conversely, if we observe the same person making a small offer, we must posit that he wants a lot of money: these are their revealed preferences. I do not see any good reason to embrace such theoretical perspective on this occasion, because that would put a serious challenge on the attempt to suggest that economists are *more* selfish than others when they accept *less* money than others.

To be sure one can think about revealed preferences in connection with opportunity costs, so that accepting a small offer basically means wanting as much money as possible, because the only alternative available – rejection – equals zero payoff. And the two observed manifestations of self-interest can be made sense of simply noting that there is no contradiction in wanting a lot, but being willing to accept very little. One could argue that *HIGH REQUEST* comes first, but *LOW ACCEPTANCE* is better than nothing. But, if we are willing to walk away with very little, in a situation of sufficient uncertainty, we should also be prepared to offer a huge share of the initial amount, possibly up to 99% of it in order to keep at least 1%. I frankly doubt that this would in fact ever happen (or, for that matter, that on the present occasion it makes sense to employ a theoretical approach which admits such behaviour). It seems, therefore, that the ultimate challenge of the experimental findings presented above is to explain why an economics student behaves as a *homo economicus*, under the assumption that he is not one. It is thus puzzling how most commentators agree that best explanation is that he is a *homo economicus*, after all (self-selection).

The extent of self-interest is not the only aspect worth mentioning: its frequency is also a matter of investigation in the literature. Self-interested behaviour in ultimatum games and public goods investments can be of differing degrees. But in a prisoner dilemma a player cannot defect more than another, she can only defect more or less often. One way to cash out the ‘more selfish’ charge could thus be through a claim of

*FREQUENCY*: an economics student behaves selfishly more often than a non-economics one.

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<sup>51</sup> *HIGH REQUEST* and *LOW ACCEPTANCE* portray economists’ conduct in the prisoner’s dilemma and the public good games as well.

The *FREQUENCY* charge, however, is not addressed by the experiments and seems to be altogether un-testable. It is possible to design numerous experiments in which economists behave more selfishly than non-economists, but it is also possible to design numerous experiments wherein the vice versa is true. A frequency claim would be very difficult to ground in empirical observations. It is not enough to observe that, in the majority of a handful of experiments conducted to-date, economists and economics students of various kinds behave more selfishly than non-economics ones. Comparatively, to be sure, one may say that Sarah is more selfish than Michael, if Sarah behaves selfishly in certain situations in which Michael does not. The question is not strictly speaking one about the number of occasions in which one behaves selfishly, but about types of situations. There are situations in which it is morally acceptable to behave in a self-interested manner (e.g. market exchange). What matters is thus the subjective perception of a situation by the agent. To prove economics students more selfish, one must make the case that economics and non-economics students perceive a certain situation as *identical* and that yet they behave differently. This is a very strong hypothesis, even for money-rewarded experiments within tightly defined institutional settings.

At any rate, one should not rush to conclude that any specific individual can be confidently expected to act in a way comparable to the aggregate behaviour of experimental subjects. A subject could answer A rather than B because he misunderstood the question, made a mistake, copied from his neighbour, was contacted by a more experienced interviewer.... Only at the aggregate level, the results of experiments appear to meaningfully uncover new phenomena inaccessible to theoretical analysis alone. Sentences like ‘economists *are* more selfish’ or ‘economists *are* less cooperative,’ which abound in the literature, are catchphrases to convey the gist of the trial: they are somewhat correct, but quite inaccurate. We need a qualification:

*LIKELIHOOD*: economics students are more *likely* to behave selfishly than non-economics ones.

It can be proposed that a sentence like ‘economists are *more* selfish than non economists’ boils down to a statement about the likelihood that someone does something. Claims of this kind are very common in the literature. For instance, several commentators (B. Frank and Schulze 2000: 110; R. Frank 2004: 160 and p. 164; Yezer et al. 1996: 184-5, italics added) suggests that economics students are ‘*more likely*’ to make one-sided offers. But such claim does not go deep enough explaining *why* they make such offers to ensure predictive accuracy, nor to advance a serious moral charge.

The *LIKELIHOOD* qualification, however, is not a statistical statement proper: it does not mean that in one hundred repetitions of the same prisoner dilemma, an economics student defects 60% of the times. It makes a claim about individuals (and not about a population) by evoking concepts like dispositions, inclinations, tendencies.... Indeed, R. Frank (2004: 160, italics

added) seems to produce a synonym to ‘more likely’ when he suggests that economics students ‘*tend* to behave less cooperatively.’ Because the evidence we are discussing refers to groups, it prevents us from drawing conclusions about single subjects and it also undermines the possibility to address the morality of individual economists. On the grounds of the evidence, we are not entitled to translating the charge on the population into a charge on individual economics students, e.g. by saying that economists share a tendency to behave selfishly. The little-advertised observations that 40% of the economics students cooperate in the prisoner dilemma (R. Frank et al. 1996) and that 40% propose the 50-50 split in the Ultimatum Game (Carter and Irons 1991: 177) do not per se deny this inclination. One may have a disposition to conduct selfishly, but some other tendency may prevail and prevent one from pursuing a selfish act. For example, one may have the inclination to cooperate in social dilemmas except when one expects defection. If this person always expects defection, she will never cooperate, despite a tendency to do so. There is no specific evidence suggesting economics students do have any peculiar tendency in the first place.

To advance a claim about individual tendencies from the existing evidence we need to test several additional hypotheses: for instance that individuals who make the same decision in a game are similarly motivated, and that similar motivation in a given context (assuming again it is perceived to be identical by economics and non-economics students) is associated with the same personality – a selfish one, in this case. We then want to undergo at least a rough inquiry into what makes a selfish personality, maybe a character trait (i.e. selfishness) or some other psychological dimension (e.g. locus of control).

All these reflections may suggest a different interpretation of the charge:

*PREDOMINANCE*: there is a higher number of selfish individuals among economics students than among non-economics ones.

The *PREDOMINANCE* connotation solves the problem of targeting a group instead of individuals and it captures the charges typically moved against economics – as the discipline towards which selfish people converge. But the *PREDOMINANCE* proposition does not immediately follow from *LIKELIHOOD*.<sup>52</sup>

#### 4. – CHOOSE ECONOMICS

To make a substantial case for self-selection in connection with the alleged selfishness of economists, one must assume that economics students have some disposition to be selfish and that they stick to such disposition across all situations. Alternatively, and more plausibly, one has to make the case that the conditions encountered in the experiments – e.g. ultimatum games – are to a large extent comparable to everyday situations, so that subjects’ behaviour in the experiments can be generalised to a broad range of human actions. A

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<sup>52</sup> It requires, for instance, that people can be meaningfully called selfish. This is an issue to which I will return repeatedly and address from various perspectives in the next three Chapters.

yet narrower, but still sufficient, basis could be to show that the game theoretical settings reproduce the central features of the decision between economics and other majors.<sup>53</sup>

This latter suggestion, however, calls for a spelling out of what self-selection amounts to. Why does a selfish person choose economics? Perhaps he expects to make a good investment on himself and eventually become wealthy. But such is hardly the case: doctors in economics are on average 32 years old and can expect to earn anywhere between U\$ 63,000 and U\$ 81,000, as (tenure or tenure-track) assistant professors. Moreover, the U.S. Department of Labour in its 2006/07 *Occupational Outlook Handbook* signals as the most noteworthy features of the profession the “slower than average job growth.” The real incomes, moreover, have declined by almost 5% between 1987 and 1995 (Siegfried and Stock 1999: 132). They have declined even more in comparison with the wages commanded by Law and Business school graduates. Upon graduating from one of the top-15 MBA programs in America, which happens on average at 27, one may expect to earn a yearly salary in excess of U\$ 140,000. The average graduate walks out of one of the top-15 Law schools to earn U\$ 73,300 per year.<sup>54</sup> According to Ronal Ehrenberg (1999: 137ff.), the relative income of economists has also declined in comparison with professionals in fields such as entertainment and sports. To put it bluntly, if we are in Econ for the money, we certainly possess a large degree of idiocy to top up our greed.

Perhaps, there are alternative perks that make the choice of an academic career more appealing than better paying alternatives. One can think of intellectual stimulation (in economics?) or individual freedom to pursue one’s interests (at some distant stage down the career path), but these are present (possibly in greater supply) in other fields as well. Maybe a selfish person would feel more at ease in a discipline that does not condemn selfishness (but there exist other fields in which selfish people are not necessarily disparaged.) Maybe such a person would find it easier to learn economics.

Is it for some other reason? For more than one reason? In spite of the broad empirical support for the self-selection explanation, any deepening or in fact any description of whatever self-selection amounts to or of however it plays out is lacking. Moreover, what would be the moral implications (both about the person and about the discipline at large) of each reason?

At any rate, even the identification of a more punctual self-selection effect would not entirely solve the issue. Would we still be entitled to believing economics students more selfish than others, if non-economics students selfishly chose law or biology because they expect to make a better career out of these majors, or because they believe these majors requires less effort of

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<sup>53</sup> I come back to the issue of interpreting game theory and experiments in Chapter 6.

<sup>54</sup> MBA data are from the *Financial Times*: <http://rankings.ft.com/global-mba-rankings> (accessed: july 2007). Law School data were calculated from the averages retrieved through: <http://www.ilrg.com/rankings/law/median.php/1/desc/MSPrivate08> (accessed: july 2007). Economics data are from Scott and Siegfried (2007).

them? Indeed, a strong case is still missing in support of what I identified above as problem (2.), namely that economists are more selfish people than non-economists.

In fact a strong case might be missing, too, in support of problem (1.), or that economics students display behaviour that is closer to the predictions of economic theory than other students. After showing that economics students behave more selfishly than non-economics ones in a given experimental setting, the 'accuse' suggests that this difference is constant and that economists are by nature more selfish. But some experiments cast reasonable doubts on such conclusion. In certain settings, economists behave like others or even less selfishly. The 'defence' thus calls economists innocent. What they could further claim, however, is that much of the trial is (as of yet) ungrounded. If the charge that both (3.) economics students and (4.) their teachers are immoral hinge on (1.) and (2.) their impact is somewhat diminished.

What seems the main problem, however, may not entirely boil down to a generic challenge to find different or better evidence. It is not the quality of the lab and field experiments reviewed above that I question, but their interpretation. At the same time, I tentatively advance a warning that the very possibility to meaningfully put economists on stage, instead, may be wishful thinking. It is not necessarily true that, by designing smart set-ups, conducting intelligent experiments, and uncovering robust results, we shall unmistakably find our answers. Our attempts at extracting meaning from empirics are quite often biased, as I shall show in the next Section.



## SECTION II



## SECTION II

### **SELF-INTEREST, ETHICS, AND PSYCHOLOGY**

The annual conference of your professional association is over. You have traded juicy gossip with a number of long time friends and colleagues, lamented the little time allotted to sessions as important as your favourite ones, criticised the food, jotted down acute thoughts and sharp reflections on some scrap of paper doomed to be buried in your desk and forever lost upon return to your office, made a list of papers you have every intention to request from their authors and which – given the right circumstances – you might even take a cursory look at, perhaps you also delivered a speech of your own. Now it is time to go back. You check out the hotel, ask for a cab at the front door, eventually arrive at the airport, and... surprise! It turns out that, for a faithful once, you are on the wrong side of the academic quarter, which gives you just enough time to grab a bite before you line up at the gate. Sounds familiar?

Besides fulfilling your role in the invisible college, you have surely also contributed your share in a huge, if not always front-page, economic phenomenon: tipping. The loose change left on the nightstand, the banknote discretely slipped into the hand of the valet, the generous ‘keep the change’ to the taxi driver, or the customary mark-up on the check at the airport canteen are, from a standard economic point of view, essentially unexplainable (for some attempts, see Azar 2004). Yet, in the U.S., tipping is worth \$ 26 billion per year in restaurants alone.

Human behaviour is most certainly complex and fascinating. And how do you think of those people who tip? Deeply generous, basically irrational, merely respectful of the social norms? What about those who do not tip? Nasty or just smart?

Section II focuses on these issues and builds some ground on how we make sense of individual motivation, behaviour, and its consequences. We are still in the middle of a Moral Trial, wherein any guilt of economists (or, better, economics students) is connected with our (their) being selfish, in a fashion reminiscent of economic men.

Chapter 4 therefore wonders about questions such as: is selfishness legitimately ascribed to an action, and what are the relationships between observed behaviour and underlying motivation?

For it to even be a charge, economic man-style selfishness needs be traced down to some form of moral violation. Chapter 5, therefore, tries and find out

what selfishness is and whether it is by necessity coextensive with immorality. Many people typically despise it... but why? And, at any rate, is this loathing enough to sanction the moral culpability of self-interest? Or that of homo economicus?

For a trial to mean anything, obviously, the charges ought to be meaningful, as well. Are they?

## CHAPTER 4

# MOTIVATION, ACTION, AND CONSEQUENCES

*A man who does not think for himself does  
not think at all.  
– Oscar Wilde*

Why would anybody tip a waiter in a restaurant far from home if she were confident she would never eat there again? No matter how hard one tries, it is just too difficult to find a persuasive economic rationale for such behaviour. Even the most sensible among us betray a disturbing degree of puzzlement, because it takes more than inventiveness to trace such behaviour down to a rational cost-benefit analysis built on selfish motivation. Indeed the reasons conjured by economists sometimes sound like the scratching of our heads, and typically include an elaborate description of how such conduct amounts to a failure in doing what's rational. And we may very well be right. Nonetheless, people on the road tip as often and as much as they do at their local eateries. The economist Robert Frank (1988, 2004) believes that the sort of moral sentiments humans have developed made this pattern of behaviour, if costly in the immediate circumstances, viable in the long run.

When moral emotions take charge of decision-making, therefore, aware calculative motivation may not play a major role. People may simply happen to react 'automatically' or 'instinctively' to certain environmental conditions, without conscious deliberation. If economising mental effort is or should be of concern, one sensible source of saving presents itself at the time of <paying the bill>. One can skip a thorough evaluation of <whether to tip> and <how much to tip> in order to reserve most of the attention to the <deliberation of the purchase>, <appraisal of the characteristics of the good or service to be bought>, <comparison with alternative goods of similar or dissimilar quality>, <evaluation of price level and appropriateness thereof>, <assessment of function(s)>, and so on... all procedures likely to rank much higher in importance in a transaction.

It is probably true that, so long as we rely on selfish homo economicus as our main theoretical device, we will fail to understand this phenomenon. (But what exactly makes the failure to explain tipping a decisive criterion to proclaim the inadequacy of a theory is far from obvious.) With a questionable *non sequitur* most people also equate failures such as this with the implication

that, if the motivation at stake is not self-interest, it must be its opposite. In a climax of (suspiciously ingenuous) fallacious implications, this is taken to amount to altruism. But if tipping is altruistic, what is it that makes it anti-selfish?

True, a selfish agent would not tip unless he expects something in return (e.g. avoid some penalty or receive better service on future occasions). An anti-selfish agent, on the other hand, shouldn't merely leave a couple of coins on the counter; he should also drop the keys to his car and home, and his mobile phone. Such uncontrolled largesse would not conflict with rationality, but only with self-interest, and it would unquestionably be a manifestation of altruism. But we did not get any problem solved this way.

An anti-homo economicus, like an 'altruistic idiot' (Khalil 2004), would largely give up the good properties of economic analysis without making up for the shortcomings and, at any rate, it would be way too hasty a conclusion to suggest that it constitutes the very opposite of homo economicus. Such prevalent opinions are yet more surprising at a time when cognitive sciences are well established. By now, it should be quite agreed upon that the major confirmed mismatch between real people and homo economicus is to be found under the rubric of rationality rather than self-interest.

People are not all alike: some are very selfish, some are less so, and some are more rational than others. Economists are well aware that people are varied and everyone behaves differently, but for the sake of theorising one has often to give up most of this variety and content oneself to identify few common features that make humans tractable theoretical objects. Two such features define economics' people: they are rational and have certain personal tastes, which they pursue efficiently. Obviously these are not real people, but simplified versions thereof, in the form of representative agents, which just so happen to strive to obtain the maximum expected satisfaction from each choice. Laymen as well as economists seem to entertain such controversial model of human. The tendency to interpret reality with the eyes of a homo economicus is well documented: Alfie Kohn (1990) presents a survey in support of the view that laypersons are guided by self-interest in both their behaviour and the interpretation of the behaviour of others; more systematic studies (Miller and Ratner 1996, 1998) also suggest that people are self-interest theorists; Jonathan Baron (1997) even demonstrates that people make up self-interested explanations for actions that actually go *against* it. Long time has passed since Thomas Hobbes's *Leviathan*, but the core motive of egoism lives on in nowadays social theories (Schwartz 1986), despite numerous attempts at exposing it as inaccurate, dangerous, or both.

One could confidently say that people are all quite similar in that they generally think what they believe true and what they do appropriate, both in a moral and in a rational sense. In actual fact, however, not everyone is alike: we all see situations differently, think of ourselves differently, and think of others differently; thus we conduct ourselves and judge others differently as well. In

this Chapter we shall look into the foundations of these differences, and then proceed to create a classification of motivations and results of human action that we shall later employ in assessing the charges of the Moral Trial.

### 1. – IT'S ALL IN YOUR HEAD

Understanding human behaviour from its origin in decision making to its consequences both at the individual and at the collective levels, are presumably the main goals of every social scientific enterprise. The task, together with several other daunting obstacles, seems doomed to clash against the apparent oxymoron that everybody is different (in some sense), yet everybody is equal (in some sense). One way in which this problem has been traditionally tackled is by means of resorting to 'representative agents' of some kind that allows for substantial generalisations and yet for some degree of flexibility. Therefore, most of economists' attempts at understanding individual behaviour tend to be, as it were, inferences at the individual level of some phenomenon observed at a collective level.

The problem that long kept economists and social scientist struggling with many accounts of individual behaviour and social phenomena is the ultimate black box: human mind and brain.<sup>55</sup> And it is a severe limitation of social thought that whatever is going on in our heads is regarded as an obscure mystery. An important contribution towards solving this obstacle comes from the overlooked work of an economist: Friederich von Hayek's *The Sensory Order* (1952). The book, which he regarded as one of his most important contributions (Hayek 1994: 138), was sunk in a larger ideological debate over his affiliation with Thatcherism and Reaganomics and only after the author's death in 1992 it began to receive the attention which lead to an extensive reappraisal (Steele 2002: 125-126).

#### 1.1. – WHAT I ONLY KNOW

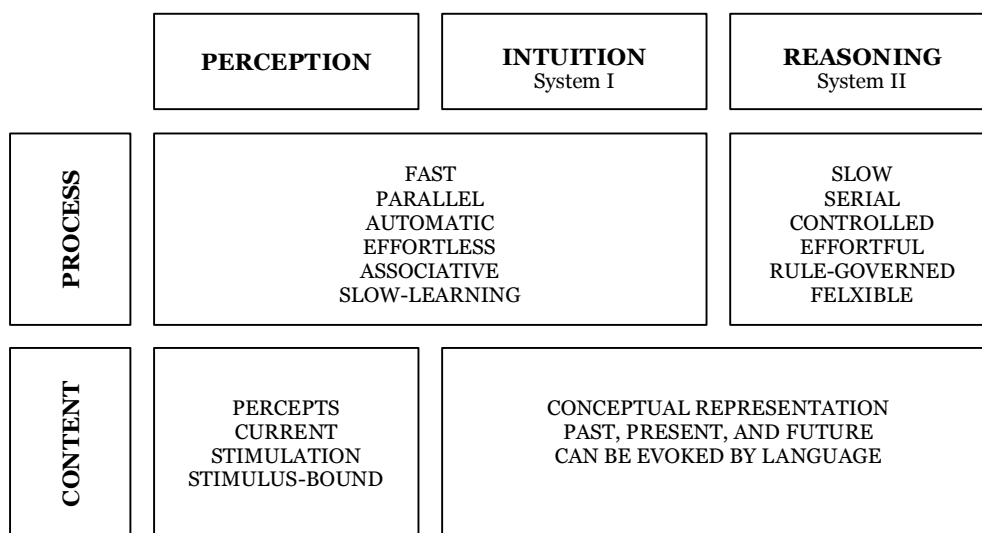
The amount of information we possess, and our capacity to process it, are limited. Individuals put some effort into gathering additional information for certain tasks, but will never achieve a state of complete knowledge. Moreover, each person can be expected to base her decisions on a set of information that differ from the set available to other persons in the same choice situation. According to Hayek (1952: 39) three structures are relevant to an individual's subjective knowledge: the 'physical order' of the material world; the 'neural order' of human nervous system, which is part of the material world; and the 'mental or sensory order' of the mind, that is the personal interpretation of reality, which is created by the neural order. Consistently with his methodological focus on the individual, Hayek describes the cause of

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<sup>55</sup> The distinction between mind and brain refers to the two sides of the same coin: tentatively, the physical organ (brain) and its functioning (mind). Hayek (1952: 190) notes that mental phenomena are ultimately physical processes, but admits that we are far from producing a satisfactory set of 'rules of correspondence' (Margenau 1950: 60, 69, 450) between the two.

subjective differences in terms of both neural and sensory orders. Each individual also has unique cognitive capabilities, cytoarchitecture, and cerebral structures, all of which depend on genetic characteristics but which also change as a consequence of individual experiences in time (Rizzello, 1999, 2004). These elements are accountable for subjective differences in perception and in the behaviour that originates from perceptions. A crucial distinction must therefore be operated between information and knowledge: whereas information is the exogenous representation of objective data present in the environment, knowledge is the idiosyncratic product of human thought (Hayek, 1937, 1945). The human mind can thus be regarded as a framework for the construction of idiosyncratic representations that transform external data (i.e. information) into subjectively relevant *knowledge*.<sup>56</sup>

FIGURE 1. **The Two-System View**



SOURCE: *Kahneman (2003)*

External stimuli processing, decision-making, and behaviour generation call into play two families of cognitive operations commonly labelled System 1 and System 2 (Kahneman 2003b: 1450ff.), reproduced in FIGURE 1. System 1 is responsible for intuitive, fast, automatic and effortless reactions to perceptual stimuli without conscious deliberation.

Most thoughts, actions, and judgements spring from System 1 (Gilbert 1999). But not every impulse is immediately acted upon because System 2, which is reflective, slower, self-aware, calculative and effortful, monitors the activities of System 1 and lets reason override guts. Since the active control of System 2 is costly and effortful, “the monitoring is normally lax” (Kahneman

<sup>56</sup> Such a courageous and far-reaching intellectual enterprise earned Hayek growing recognition (Steele 2002), especially as the late achievements in psychology, neurobiology, and cognitive sciences confirm much of his intuitions (Mischel 1973, 1984; Mischel and Shoda 1995; Damasio 1995).



2003b: 1450). A large number of the actions prompted by System 1, what are sometimes called ‘fast and frugal’ heuristics, moreover, are often both appropriate and successful under most circumstances, so that there is typically little need for double-checking their response. Gerd Gigerenzer, Peter Todd and their colleagues at the ABG group (1999) even suggest that these heuristics make us smarter than reason would allow since they enable intelligent choices by requiring only minimal information, and exploiting instead the way in which information is structured in particular environments.

In a crucial way, therefore, in order to make sense of any observed individual behaviour or social phenomenon we need to look closely both at highly idiosyncratic individual characteristics and at the properties of the choice context and of the environment.

## **2. – LIFE IS ALL AROUND**

The ideas that individuals live in ‘social vacuum’ or that they are entirely ‘shaped by their surroundings’ alternatively put forward by different social scientists are rather difficult to make sense of. Not only we do lead our lives in the certainty that we are the main characters and not mere spectators, but we lead them while almost constantly relying on other people. *Life is no monologue*, either way: I’m not told what to think or do, nor do I think or act in the outer space, away from every influence. When I’m hungry I can make a choice between burning an egg myself, ordering a pizza or dining out at the fancy French restaurant downtown – I unfortunately don’t have in my phonebook the number of any big brother to dictate the ‘right’ answer right away. But there is much more to it: I know for sure (or at least expect with very high confidence) that there is a farmer raising chickens who, through all sorts of intermediaries, had eggs delivered to the supermarket where a cashier is ready to bill me for those eggs. I know that there is a phone operator ready to answer my call, send my order to a cook, who then hands my *margherita* to someone else for delivery.... And so on. One can call this coordination an invisible hand, but this is not the point I want to make. It is not the organization of those people that matters here, but the continuous awareness of (and reliance on) their existence. Not only we don’t live in a shell, nor do we adjust to whatever social pressure, nor do we expect it to be either way.

Conversely our presence has constant repercussions on a great number of other people. Think of an example. Buying a book is a self-regarding act: I want to learn Dutch, I buy a teach-yourself manual, and I pay for it.

But the story ought to go on: there are plenty of other people I affect with my self-regarding shopping. The owner of the shop is going to make a profit out of my purchase, so is the editor, and the authors of course. Not to mention the gratitude I deserve from my neighbour, or actually from every elderly, and from every European farmer for that matters. Where do national governments and the European Union take the money for pensions and agricultural subsidies? From the publisher’s income taxes and from the value added taxes

on my book. You will hopefully not deem me a naughty selfish because I did not even think of your grandmother when I handed out my credit card. I also had no concern for the exploitation of tropical forests, nor for the failure of the authors of the alternative books I could have chosen, nor for all the other people I have damaged with my choice. That was a self-dimension action, despite its propagation through the system.

But there are numerous actions that are intended other-regarding: we read the working papers written by our colleagues, attend their seminars, and give them suggestions on how to improve their work; we keep the elevator waiting for that guy running desperately to make it to his meeting; we answer the phone and take messages on behalf of other people... we do things for others. Some of these things we do to their advantage, others to their disadvantage, just like we do things for our own good or bad.

There is no contradiction in being animated by the will to do something for others, for oneself, or both. The ‘me’ dimension is not necessarily in conflict (in principle) with the ‘them’ dimension, as the founding father of economics, Adam Smith, knew very well. His concept of fellow-feeling is a sort of ‘relational anthropological property’ of people, which describes how people *are*, before they *do* anything (Bruni 2003: 126 – also Fiske 1991, Fontaine 1997, Sugden 2002). And people are such that they care about each other. It seems evident that one of the most peculiar traits of *homo sapiens* is our sociality, our capacity to empathize and sympathize, to relate to each other and to identify with each other (whence of course stems great part of the polemics about that homo economicus who does not share these feelings). Most people have a strong disposition to form groups, and then they “cooperate with other members of their own group [...] and defect when interacting with members of other groups” (Dawes and Messick 2000: 113). This happens even when the constitution of the group is fickle or fortuitous – that is, based on a distressing minimal rationale like being underestimators or overestimators of the number of dots projected on a wall, or alternatively on aesthetic preferences for either of two paintings. In fact, this happens even when the group is formed with explicitly random procedures (Brewer and Miller 1996, Dawes and Messick 2000, Insko et al. 1990).

This unique trait could hardly imply that we see ourselves and ours as the *opposite* of the others and theirs. There are no such things as the opposite of ‘me’ and the opposite of ‘them’.<sup>57</sup> The opposite of selfishness is masochism, the opposite of otherness is sadism. Certain instantiations of self-interested

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<sup>57</sup> One may think of one specific other (or a fixed number of others) and propose that the opposite is everyone else but the target (then including oneself). Changing perspective and wearing the shoes of that specific other, which then becomes the self, it may be suggested that everyone but the self is the opposite of the self. This inference is in fact double, as it includes not-self (or not-other) and everyone else. It is like suggesting that the opposite of nobody is both: somebody and everybody, which is not possible. I apologize for being incapable of making a better defence for my argument. To think of an actual example, can we grant that the opposite of Republican voters are Democrat voters?

behaviour (e.g. those in favour of one's group, team, political party, etc.) even *require* the identification with others (Pettit 2001:79n) and can only come about insofar as the others are beneficiaries of our self-interest as well.

### 2.1. – *THE SOCIAL DIMENSION*

On most occasions self- and other-regards play some causal role in the motivation of behaviour. But, at the same time, we cannot take into account all the possible consequences our actions have on others and not even on ourselves: most of the outcomes escape our perception and knowledge, but it would be impossible to carefully consider all those of which we are aware, lest we remain stuck computing all sorts of pro/cons lists of decisional criteria. Even if we wanted to do so, we would be incapable of forecasting with reasonable accuracy the reach and the degree of such consequences. We may know that purchasing a book has a number of consequences on the economic system as a whole and on each individual or organization therein, but even if we were capable of actually tracking them all, how large would be the impact of our action on each remains a task far beyond our capacities. All in all, even if we found a way to overcome this computational obstacle, we would not be able to make use of such information or simply would not want to. (In such cases, we would perhaps be better off if we really threw a dice to choose what to do.) Economists call 'unintended consequences' the side-effects (good or bad) of our actions. Among them are the consequences of which we are aware, but choose not to let into our cost-benefit accounting, which I will call 'disregarded consequences.' They nonetheless involve and affect other people.

That we cannot take into account all the aspects of a situation, does not mean we take into account none. And it is precisely the aware embeddedness of our lives that creates a context for morally meaningful behaviour. One has not to fantasize too much about the impact of Robinson Crusoe's decision to place his hut on the southern or the northern strand of his little island. After all, who cares? Only Friday, perhaps, has some discontent to voice out. By and large everything that has no other influence but on its agent tends to escape moral evaluation.<sup>58</sup>

Of course, it may be objected that God, flora and fauna, the environment, planet earth, future generations ... are worthy of consideration. Many of these morally relevant others (those agents, so to speak, we deem worthy of consideration when our acts affect them) are not moral agents. Animals, the environment, the world... are immune from moral accounting. We don't consider the universe responsible for being governed by the physical laws that make the scission of hydrogen such a catastrophic event, nor we think that birds are wicked when they release their droppings over our new coat (well...), nor we blame the environment for provoking floods that take hundreds of

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<sup>58</sup> This statement is not entirely accurate, because many private and harmless actions provoke indignation that goes beyond mere customary differences, but rather finds its roots in moral disagreement (Haidt et al. 1993). See Chapter 5.

lives. By and large, we regard these agents either as passive or as lacking control. It is a matter of mere (evolutionary) chance that the lifestyle of elephants results in the destruction of plantations, which starves entire villages. Natural, allegedly uncontrollable, phenomena are often believed morally neutral.

If a tree falls in the midst of Amazon Forest, I do not know whether it makes any noise. I do know, however, that nobody is going to be hurt (though maybe one deems the fall of that tree a horrendous event in itself). Ethics is a social phenomenon, eminently meant to regulate the relationships between people, and the conflicts between individual and collective goals. There are three senses in which this is so: there would be no society without ethics (Blackburn 2001); were everyone the most ethical person possible, society would be so perfect there would be no need for a government (Smith 1759) or other institutions (including moral philosophy);<sup>59</sup> and there would be no ethics without people. In his entry on moral responsibility in the *Stanford Encyclopaedia of Philosophy*, Andrew Eschelman (2001) proposes that “to be morally responsible for something [...] is to be worthy of a specific kind of reaction – praise, blame, or something akin to these – for having performed it.” Hereby I refer to ethics as a social (individual and collective) phenomenon. And it is easy to see how virtually all moral philosophy since the 18th Century, that is after the Rise of Reason and the death of God, covers the subject of individual behaviour in connection with other individuals and groups.<sup>60</sup> How ought ‘I’ to live in such a way that I do not step on ‘your’ or ‘their’ feet? (By which observation I mean to emphasize that it did not offer much reflection about group behaviour and individual spirituality: how ought ‘we’ to live? Or how ought ‘I’ to live in such a way that I do not offend ‘Her’ or that I glorify ‘Her’?<sup>61</sup>) The focus on *living*, however common in the Ethics 101 textbook rhetoric, is misplaced. The actual focus of dominant ethical theories (i.e. consequentialism and Kantian ethics) is much more fragmented. The question they answer seems rather to be: how ought I to perform *this action*?<sup>62</sup>

Well, now: how? And why so?

### 3. – MOTIVATION, ACTION, AND CONSEQUENCES

Let us leave the normative theme aside, and let us try instead to make first some descriptive observations, if they are possible at all. The starting point needs not be terribly sophisticated: the ‘me’ consequences of an act are not the

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<sup>59</sup> “If we were altruist by nature, would we have to develop legal, social, moral, and religious prescriptions to insure that people help one another?” (Krebs 1982: 447)

<sup>60</sup> It was the German philosopher Friedrich Nietzsche (1882: sections 108, 125, 343) to proclaim the long due acknowledgement that “*Got ist tot.*” But the cynical wisdom of some students, often portrayed in graffiti, reminds us that: “Nietzsche: <God is dead> / God: <Nietzsche is dead>.”

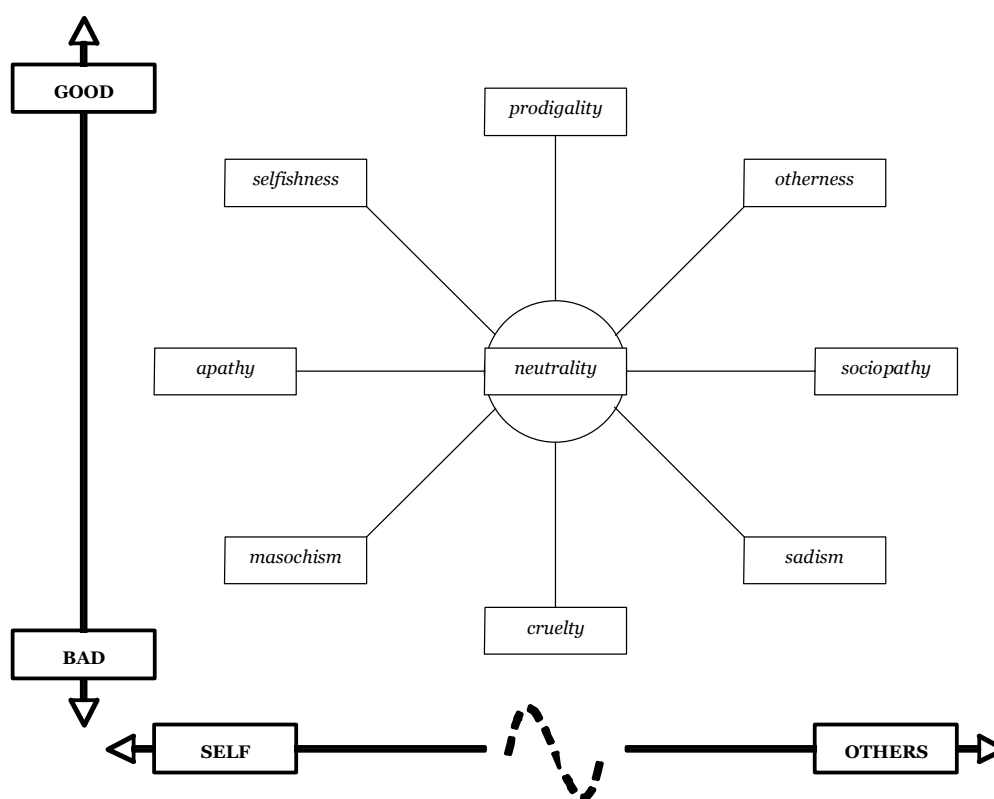
<sup>61</sup> Feel free to replace Her with any other entity that transcends earthly matters: e.g. God, Science, The Nation, Race, etc.

<sup>62</sup> The most relevant exception is virtue ethics of Aristotelian tradition revived circa 1958 by Elizabeth Anscombe.

exclusive concern of an agent. For instance, a mother does not give up her life for her daughter out of masochism: the motivation of such sacrifice is certainly to be found elsewhere than in her own peace of mind, but this does not entail her action came out of a hunt for pain. The goal of her noble sacrifice is to save her daughter's life: to procure an advantage to someone else. The corollary, all too obvious, is that 'individual advantage' is not the exclusive concern of an agent either.

Notably, a great majority of our daily actions are *independent* from concerns for direct advantage and damage, being instead routines, rule-following, standardised behaviour and what not, all of which are largely disregarded in this chapter as they do not involve active deliberation.

FIGURE 2. **Motivation and Consequences Diagram (MCD)**



The conscious desire to intentionally bring about a result is the motivation that triggers a pattern of behaviour. At different times, different sources of motivation play their influence, but most often such influences overlap, pointing towards a specific action, abstention from an action, or modification of an action. Although my principal attention is devoted to advantageous motivations, for the sake of completeness and clarity I classify the possible intended results along two dimensions: the self/other and the good/bad dimensions. Matching the two dimensions results more or less in FIGURE 2., which I employ as a reference to judge actions according to both: motivation

and consequences. I thus label the scheme ‘motivation and consequences diagram’ (MCD).

### 3.1. – A TOOL FOR THE ANALYSIS OF MOTIVATION AND CONSEQUENCES OF ACTIONS

The starting point is the central circle, in which there is no special desire to produce neither benefits nor detriments to anyone. The great majority of human action falls within this residual category. This is the case of automatic and non-deliberated behaviour. Conscious processes are acts which we are aware of, we intend, we put effort into, and we can control (Bargh 1994). But conscious deliberation is a costly process: a phenomenon called ‘ego depletion’ accounts for the reduced ability of a person to exercise self-control in subsequent contexts, even in unrelated domains. If one ‘consumes’ some self-control in order to resist the temptation to eat chocolate cookies or to suppress emotional reactions to a movie (both of which are unintentional, non-effortful, and uncontrolled), one will find it harder to persist in attempting to solve verbal puzzles afterwards. As the mathematician and philosopher of logic Alfred Whitehead (1911) commented: “operations of thought are like cavalry charges in a battle – they are strictly limited in number, they require fresh horses, and must only be made at decisive moments.” These cavalry charges psychological research has shown to occur as little as 5% of the time (Baumeister et al. 1998, Muraven et al. 2000). To be sure, lack of sentient, intentional, effortful, and controllable deliberation does not make behaviour purposeless. Psychological literature also proposes that environmental conditions may trigger the pursuit of a repeated or routine goal, giving place to so-called ‘unintended motivation’ (Bargh and Barndollar 1996).

I also consider (both deliberate and automatic) rule-following behaviour to fall within this category. Motivation aims – in a Wittgensteinian fashion – at following the rule, rather than at achieving the ultimate goal (selfish or altruistic) the rule was originally meant for. Even when a functionalist explanation is invoked for the emergence and/or persistence of a certain norm, indeed, the motivation to behave according to its prescriptions is by definition independent from (and possibly unaware of) the ultimate advantage such behaviour brings about. On analogous grounds, I will also disregard those actions that we perform because they are ‘the right thing to do.’ They are motivated by what Max Weber (1923) terms rationality with respect to value: ‘axiological’ rationality (Boudon 1998a,b). Whereas substantial and procedural rationalities are instrumental to the achievement of a given goal, axiological rationality is self-fulfilling. It is the sort of motivation that induces someone to act in the pursuit of a superior cause, the fulfilment of an ideology, or the embodiment of a value that individuals accept *independently from its material consequences*.

When we venture in the realm of goal-directed deliberation, however, our motives have to become more explicit.

Before going on with the illustration of the MCD, there are a few issues worth noting. For one, there is no opposition between the left and the right sides. Concern for others and concern for self are not in a relationship of antagonism. Logically, the internal negation of ‘I want to do good to myself’ [*selfishness*] is ‘I want to do *not* good to myself’ [*masochism*], whereas the external negation is ‘I do *not* want to do good to myself’ [*apathy*]. Mirror arguments can be easily conjured for the other ‘labels.’ The self and the others, therefore, are coexisting: this is consistent with the view that [*selfishness*] and [*otherness*] are both natural motivations for human beings. If this argument is sound there are two interesting considerations to bring forth. The main is that it is possible to reduce human behaviour to self-directed motivations, other-directed ones, or both, as if a certain action was motivated by water, and ‘me-ness’ and ‘them-ness’ were the molecule of hydrogen and oxygen that compose such motivation. The corollary is that one cannot reduce otherness to self-ness or vice versa: one cannot explain one in the terms of the other because they are entities of the same level. In other words, there is no meaningful way to describe a desire to do bad to ‘me’ or a lacking of the desire to do good to ‘me’ that immediately translates in a will to do good to ‘them.’ That would be a rather peculiar case of ‘I want to do good *not* to myself,’ in which motivation falls outside the scope of the left-hand side of the MCD so that no contradiction can emerge in the first place.

The non-antagonism between self and others is problematic, as there is no continuum between the two edges. The horizontal line is in fact two-fold and one may imagine the central point of such line to refer to neither self nor others ([*nobody*]) or both self and others ([*everybody*]). This difference may appear trivial, but it becomes critical for the sake of moral judgement. I will not give due emphasis to such distinction, as I will focus almost exclusively on the self and the other dimensions. The vertical line between [*cruelty*] and [*prodigality*] takes the [*everybody*] reference, on the grounds that the desire to do good/bad to nobody can be conflated in the [*neutrality*] circle.<sup>63</sup> The same problem doesn’t occur in the bad/good axis, as it is thereby possible to draw an entire spectrum of intermediate degrees between opposite edges.<sup>64</sup>

No room is left for the origin of motivation, although the question is of great importance and leads to major differences in the conduct of subsequent actions. It has been shown how intrinsic motivation differs from extrinsic, in terms of commitment, creativity and so on... At the present stage of elaboration, the scheme does not accommodate such refinement, despite its

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<sup>63</sup> With a possibly questionable leap, I equate ‘I want to do good to nobody’ with ‘I don’t want to do good to myself’ and ‘I don’t want to do good to others.’ This is in practice an empty desire. While one can desire not to do good to everybody, one cannot explicitly will to do good to nobody and therefore such will falls under the huge shelter of [*neutrality*]. Although, as we shall see later, different points in the diagram cannot be averaged or otherwise computed together, I take licence to do so in this case, for the reasons just given.

<sup>64</sup> One may imagine also the self-other line to be a continuum of this sort: nobody -> self -> everybody -> others. I am not sure there is an advantage in doing so. Certainly it wouldn’t help my line of reasoning.

obvious relevance in terms of moral judgement. This distinction is mostly discussed in psychological literature (Deci & Ryan 1985), but it already made it to the economic field as well (Frey 1997). The desire to contribute to charity for the sake of self-gratification (intrinsic) is not the same as doing so for the sake of external rewards like social recognition (extrinsic). Here I unfortunately conflate them in the self-regarding side of the MCD. What about the desire to contribute to charity for the sake of the advantage of receivers (the other-regarding side)? I think it cannot be reduced to any of the ‘me’ motivations, be they intrinsic or extrinsic. (A specific occasion of charitable giving, it’s hardly worth mentioning, can be traced to any combination of the three sources.)

A final, obvious, remark concerns the labels. Not only they are not the only possible ones, they also mark the utmost degree of a specific motive. As one moves from the centre outwards, the intensity of a desire grows, therefore reaching in turn, say, self-interest and selfishness, or self-sacrifice and masochism, or indolence and apathy. The same, of course, holds for the other directions.

#### **4. – EXPLOITING THE MCD**

Besides a conceptual classification of motivation and action, the MCD has been left rather empty thus far. It is time to elaborate on the content of the scheme. What does it mean to be self-motivated? And other-motivated? And what kind of consequences do these motivations entail?

##### *4.1. – SELF-DIRECTED AND OTHER-DIRECTED MOTIVATIONS*

Economic orthodoxy takes for granted that we, as *homines economici*, find our motivation up-left all the way all the times, that we strive to maximise our personal utility, preference function, income... to which credo dissenting voices are counted by the thousand. Though critiques of such image of human motivation are often understandable in terms of degree, they are not as clear when it comes to the direction. Indeed, it seems rather simplistic to assume people to be moved by self-interest *only* and *fully, all the time*. Being directed otherwise than towards self-interest, however, does not necessarily imply being *not* directed towards self-interest at all, and it surely does not imply being directed *against* it. More moderate approaches thus admit that our goal might simply be to achieve an acceptable level of personal advantage, therefore satisfying, rather than maximising. It is also worth noting that even hardcore economists do not maintain that maximisation is a deliberate and wilful act, but rather an incidental and truistic feature of human action: we do not act, strictly speaking, for the sake of maximisation, but for the sake of our preferences. That in the process we maximise is simply true by the definition of maximisation.

All in all, standard microeconomics accounts for human action that is ‘private’ (Sen 1985): characterized, that is, by a strict concern with tending to



one's preferences (self-centred welfare), disinterest with regard to the welfare of others (self-welfare goal), and a sharp focus on one's preferred option, disregarding whatever allocation others may value (self-goal choice). While 'privateness' does not rule others out altogether, it often leaves them with an instrumental role, what is called 'non-tuism'.<sup>65</sup> Even when one prefers that others behave in a certain way or that something befalls them, such preference is independent from what *they* want and it only holds insofar as those behaviour and happenings serve one's satisfaction. The philosopher Philip Pettit (2001: 78, see also Sen 1982), however, suggests that non-tuism "seems to be a feature of particular models and not an assumption that is essentially built into the economic way of thinking." Indeed the three formulations of privateness leave room to significantly different roles for the others (Davis 2004: 3):

*Self-centred welfare concerns only an individual's own satisfaction (or desire fulfilment), but self-welfare goal allows other individual's satisfaction to enter into an individual's satisfaction through sympathy (or antipathy), and self-goal choice allows for non-welfarist goals that are altogether removed from an individual's satisfaction (such as pursuit of social justice).*

What is a constituent part of homo economicus' conceptualization instead is that "self-regarding desires are generally stronger than [...] other-regarding ones" (Pettit 2001: 78). But also this sort of predilection for one's interest is in contrast with non-tuism, as it explicitly acknowledges the non-instrumental existence of others, their preferences and their welfare.

The dread of the contested homo economicus stimulated a flourishing literature on altruism, with contributions from all social sciences. Faced with empirical findings pointing to the regular occurrence of non self-serving behaviour, also economists have recently begun to allow for the possibility of other-regarding actions enter the preference function. They do so in their usual way that does not involve other-regarding motivation – by proposing that an altruistic act is moved by the personal reward such conduct guarantees (e.g. Becker 1991). The major problem those theories have to confront with is the loss of fitness that follows from altruistic behaviour. It is rather hard to defend that an individual can be altruist (i.e. not try his best to thrive) can survive a Darwinian world while incurring costs (i.e. become less fit) that bestow advantages to potential competitors (i.e. make the environment more competitive), unless there is a (larger?) return to be expected. An anticipated return may indeed be the reason why self-interested players cooperate in iterated prisoner dilemmas (e.g. Axelrod 1984) or it may be that, as long as the benefits for the receiver are greater than the costs for the altruist, the group wherein altruists belong prove to be fitter than competing more individualistic

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<sup>65</sup> See also Section 3.3. in Chapter 5. For the distinction between weak and strong non-tuism, see Gauthier (1986: 87, 311) and (Pettit 2001: 77-8).

groups (e.g. Wilson and Sober 1994, Sober and Wilson 1998). The first example, however, is not an instantiation of altruism, but of cooperation, and the second is not very solid because the unit of selection is almost unanimously considered to be the individual and not the group, because free riding undermines the functioning of such collective mechanism (e.g. Olson 1965, Williams 1966), and because its argument rests on the rather implausible hypothesis that a mysterious ‘altruistic gene’ is passed over to future generations.

Frank (1988, 2004) advances an account based on a similar mechanism, without falling in the same traps. He suggests certain patterns of behaviour merely have to undergo *artificial selection* – cultural or social, that is. Frank shields his flank from the objection that groups are in fact not the appropriate unit of selection, by making the increased fitness of pro-social populations independent from genetic inheritance. Individuals prefer to interact with honest partners and they isolate non-trustworthy ones, letting them transact among alike people. This argument is especially strong when the playground is a prisoner dilemma, because – by playing repeatedly with same-strategy partners – cooperation earns greater payoffs than defection. This theory, however, makes it plausible that cooperation (or even honesty) may prosper in a cutthroat world, but again not altruism proper (Khalil 2004: 104).

Another way to make sense of the survival of allegedly suboptimal other-regarding strategies is to suggest that the fitter self-interested agents do not in fact take advantage of the altruists to the point of driving them out of the game. A selfish rotten kid might as well expect to be able to enjoy greater future satisfaction from the benevolence of his altruist father if he doesn’t exploit him right away (e.g. Becker 1976). Another popular way to model altruism as a self-rewarding action is by letting a feeling of pride or ‘warm glow’ gratify the agent (e.g. Andreoni 1989, 1995, Batson 1991). But, since ‘warm glow’ is a by-product of ‘doing the right thing,’ Elias Khalil (1996, 2004) rejects its motivational power. It is not possible, he suggests, to be motivated to act by the pride some behaviour entails, unless that behaviour is already believed to in fact trigger pride. This can be the case only if that is ‘the right thing to do,’ but it is far from clear what makes altruism pride-worthy to begin with. In a framework in which self-interest is the only recognized motivation it may be imagined that those who benefit from it approve of altruism. But why would anyone take pleasure in being approved of by his competitors in the race to survive?

I remain suspicious that there may exist a sound argument for explaining right-side consequences in terms of left-side motivation only. Moreover, Khalil (2004: 107) comments that not every instance of altruism justifies ‘warm glow’ – as it can be alternatively explained by “stupidity, lack of self-assertiveness (shyness), or miscalculation.” Besides, self-improvement may trigger ‘warm glow,’ despite being a non-altruistic achievement.

All these theories fall within the scope of the left side of the scheme. Virtually every account of altruistic behaviour *de facto* proposes explanations that refer to the benefits the agent will ultimately experience (Novarese 2003: 86).<sup>66</sup> Although *non sequitur* that such ultimate advantage is deliberately pursued, only those theories belong in the right-hand side of the MCD that explain altruism for the sake of the other strictly speaking.<sup>67</sup> Even the ‘warm glow’ story is put as a description of ‘impure’ altruistic motivation, since it is not triggered by an exclusive concern for the beneficiary’s wellness.

The right-hand side of the scheme, *ça va sans dire*, accommodates other-regarding concerns, those motives whose aim, and actions whose effect is aimed at others *per se*. The paramount account of altruism in the right-side sense is provided by Khalil (2004): altruism as charity, motivated (uniquely) by the concern for the welfare of the recipient.<sup>68</sup> In this sense altruism is compatible with rationality and it differs from parental caring (and philanthropy in general) and from honesty. For instance, parental caring amounts to enhancing “the recipient’s productive ability,” while philanthropy is about expanding the “consumption bundle” (ibid.: 114). Honesty, on the other hand, rests on some sort of moral duty rather than human affection and, with respect to the MCD, it remains in the central circle as one instantiation of ‘axiological’ behaviour (whose upshot may be to preserve self-integrity, but which is triggered ‘independently from its consequences’). The MCD, however, comes short of emphasising any details in the content of other-regarding motivations and consequences.

Finally, the central horizontal line is quite peculiar. It refers to the conscious desire not to bring about any consequence to oneself or others. It may seem tricky to identify these motivations, but so long as one admits their existence, it is plausible that they often produce inaction or change in the course of an action, rather than the initiation of an action proper. This is the case when I refrain from eating chocolate cookies to avoid getting fat or when I decide to delay vacuum cleaning my bedroom from six in the morning to six in the afternoon not to wake up my flatmates. (The last example is entirely speculative, because I admittedly I never found myself in this problematic condition.)

#### 4.2. – MOTIVATION, CONSTRAINTS, CONSEQUENCES, AND DEGREES

It would be a much easier world if we were able to bring about exactly (i.e. all and only) the effects we intend, and we could end up in the final state that

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<sup>66</sup> I hereby mentioned only a few. For a broader review, see also Khalil (2004), Novarese (2003), and Vromen (2002).

<sup>67</sup> This remark does not amount to saying that the theories above are false, in fact it has nothing to say about their correspondence with the actual world, but simply to find their proper location within the MCD.

<sup>68</sup> Khalil’s charity, however, does not yet provide a thorough theory of altruism, by the author’s own admission. See also the comments (Lunt 2004, Walker 2004, Wilkinson 2004) and the author’s reply.

matches our motivation in the MCD or, in other words, if 'M' lead inescapably to 'C.' Under such conditions it would also be irrelevant whether we judged morality based on motivations or consequences. Unfortunately this is hardly ever the case, especially when it comes to [*neutrality*] actions, as they do more often than not produce actual consequences to both self and others. Since we have no way to detect actual motivation, we imply motivation from behavioural hints, but such implication is flawed and often meaningless in the case of altruism. As attempts of this kind at developing an exact scientific account of action have failed, the whole behaviouristic revolution (in psychology, as well as in other disciplines) resulted in a cognitive counter-revolution. Krebs (1982) also suggests that the priority accorded to motivation is justified because it offers a sounder inference to behaviour than behaviour to motivation. Unfortunately both inferences are fallacious, but evidence on this point has to be delayed until next chapter.

The story of the two friends who are up for a snack and manage to put together two apples may be instructive at this stage. The one apple is big and juicy, the other rather dry and small. As one grabs the nice apple and offers the small one to his fellow, the latter objects: 'how selfish of you to keep the good apple for yourself!' To which the first replies: 'what would have you chosen if you were in my shoes?' 'The small one, of course.' 'Now, aren't you happy that's what I just gave you?' Not quite, one can tell. Moral judgement often emphasises the motivation behind a given course of action above its actual results. If the intention of the first friend was to let the other have her preferred apple, why didn't he offer her the choice? Similarly, if you donate a € 5 bill to a needy person, your action checks in a 'good' judgement. But if you are a needy person and steal a € 5 bill from a wealthy, your action is deemed 'bad,' despite the obvious consideration that the final outcome of both events is exactly alike. Or again, if you accidentally drop a € 5 bill and a needy person happens to find it, none will be judged good or bad.

Motivation is not the only criterion we employ for assessing actions because in the end the outcome is less than incidental. Would you blame a friend who burnt your pan (i.e. brought about a damage to you), because she wanted to cook you a surprise dinner (i.e. intended to bring about an advantage to you)? Would you blame her if she burned down the whole house instead (i.e. brought about a greater damage to you)? Would you consume yourself in guilt for failing to show up at an informal drink with a friend (i.e. bring about a damage to him) to drive your grandmother to the hospital (i.e. bring about an advantage to someone else)? And if you failed in order to watch your favourite TV show (i.e. bring about an advantage to yourself)? And what if you didn't join your friend in order to seize the job opportunity of a lifetime (i.e. bring about a greater advantage to yourself)? Would you change your answers if your friend were in distress and badly needed your support (i.e. the damage you cause to your friend is greater)? The balance of what is acceptable in terms of advantage/damage relations between different people is usually

weighted against the extent to which this relation realises: it is a matter of degrees.<sup>69</sup>

Even that little purchase of a book for personal use has repercussions on others that reach terribly far away from our awareness. The consequences of an action may be damaging, beneficial and/or neutral to a variety of people, yet – more often than not – we simply do not worry about most of them. But other-regarding actions are at times required, for which the promotion of someone else’s advantage is paramount and the eventually resulting damage to the actor is disregarded. It is therefore possible to define an altruistically action, one that is motivated by otherness whose consequences on self (and on remaining others) are disregarded. The literature generally considers altruistic those acts that confer benefits upon the recipient *at a cost* for the agent (e.g. Fehr and Fischbacher 2003, Khalil 2004). I don’t feel the need to specify that the actor must pay a cost to qualify his action as altruistic. I believe, in fact, that the ‘cost condition’ is typically imposed to substantiate altruism as the opposite of selfishness, which I reject. Conversely, an egoistically motivated action is one whose aim is selfish and whose effect on others are disregarded. In a rather simplified manner, thus, an altruistic motivation is [*otherness*] + [*apathy*], whereas egoistic motivation is [*selfishness*] + [*sociopathy*].

The disregarded consequences of these actions (alas or hopefully, as the case may be) will not be exclusively beneficial to the main intended beneficiary. We may therefore act egoistically and yet benefit someone else, effectively acting altruistically, consequences-wise. An altruistically motivated act, on the other hand, may bring about self-beneficial consequences, which had been disregarded, but nonetheless play out. That she disregards some consequences, moreover, does not imply that the actor ignores them.

The awareness of (some of) the effects our actions have on ourselves and on others imposes constraints on decision-making. Concerns of equity, fairness, prudence and so on mesh into a complex network of poorly defined concepts. Although I began by saying that nobody acts in order to obtain a personal damage, there is room for allowing a certain disregarded damage, so as to promote an altruistic act. In such cases, however, not just any resulting damage is acceptable. Self-interest is, as it were, lingering in the background, virtually present to watch out for risky situations. It draws a sort of threshold not to be trespassed without aware consent. Pettit (2001) suggests that there is a ‘virtual homo economicus’ keeping careful scrutiny over what’s going on (this scrutiny should be located in System 2). As long as nothing really bad befalls the agent, he can let go; but, as soon as a threat to self-regard manifests itself, an ‘alarm bell’ rings to “tip agents into a self-regarding sort of deliberation” (ibid.: 88). Occasions such as these are the stage for self-regard to modify the conduct of an action or to initiate a reaction. According to the specific features of the situation, it may also be that motivation is not to

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<sup>69</sup> I acknowledge that the difference in the above examples is not only in degree, but also in nature.

guarantee a beneficial outcome, so much as to avoid a harmful one ([*apathy*] instead of [*selfishness*]). In a similar fashion, even caring for one's wellness, does not put one in a position to let the worst disgrace befall others. They (the damaged) would invoke fairness against such behaviour and, knowing this would be so, fellow-feeling and at times even self-interest warn one against it as well.<sup>70</sup> Prudence and fairness can thus be seen as 'not going too far' in the lower half of the MCD, in the left and right sides respectively. Equity, instead, can be proposed to be something akin to achieving a mirror-like end state.

#### 4.3. – MORAL RELEVANCE

Not sufficient emphasis has been so far reserved to a crucial question: is self-regarding and other-disregarding behaviour social at all? There are actions that – whilst presupposing sociality – obtain as strictly individual actions. Some of them are the kind of natural actions we perform qua human beings (e.g. sleeping, drinking, eating...) and some are those actions whose consequences on others – individually, collectively or both – are negligible, unknown or altogether unknowable (e.g. buying a teach-yourself manual, taking a walk alone, etc.). In given circumstances, even other-affecting actions may obtain as individual actions either because there is no other (e.g. Robinson Crusoe), or due to a failure to bring about the intended results, so that unintended and disregarded consequences do not realise either. I proposed earlier that these individual actions often dodge moral evaluation, although it is never easy to draw a clear-cut line. For the purpose of my argument, therefore, only (broadly defined) social actions are morally relevant.

I suggested above that whether an action is morally good is also a matter of degrees of its effect on others. When the material consequences of an action (promoted by a responsible actor) fall both in the right and the left sides of the scheme, the question emerges whether the deed was morally good. To what extent can we compute together different directions and different final points? Even if one takes the utmost graphical interpretation of the MCD, thus accounting for motivation as vectors with various norms and directions, because of the self/other non-opposition, they cannot be quite immediately summed-up. It is easy to see how nonsensical it would be to conclude that if you disregard altogether your advantage ([*apathy*]) but attempt to promote that of others ([*otherness*]), you are instead motivated by [*selfishness*]. Conversely, there may be not one average final point, but rather a bunch of them.

Which action should one perform, then? Which, among several concerns, should prevail?

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<sup>70</sup> E.g. in situations akin to ultimatum games or repeated prisoner dilemmas, avoiding damage to one's partner may be consistent with self-interest.

## 5. – WHAT ETHICS?

It may be argued that the function of the mind is to deal with environmental complexity (Godfrey-Smith 1998). One may easily find an economic argument for this: namely that the way our mind operates allows considerable savings in mental effort. After we go through numerous delicate ethical deliberations, we reflect upon them, we engage in debates on whether one thing was good or bad, and we even venture in suggestions about *why* this was the case. From the answer we derive some kind of principle that can be successfully applied to a much larger range of circumstances. Instead of making troublesome decisions each time, we simply take the principle from the shelf and put it to work on every occasion. This way a moral theory is born.

The two dominant such theories are Deontological ethics and consequentialism.<sup>71</sup> Deontological ethics – a.k.a. Kantian ethics from its founder Immanuel Kant (1758) – is the theory based on the three formulations of the Categorical Imperative: (1.) “act only according to that maxim by which you can at the same time will that it would become a universal law;” more specifically (2.) “act in such a way that you always treat humanity, whether in your own person or in the person of any other, never simply as a means, but always at the same time as an end;” (3.) “so act as though you were through your maxims a law-making member of a kingdom of ends.” Kantian ethics synthesises the value of equality of all individuals, the autonomous standing of these individuals, their capacity to appeal to reason to derive universal maxims, and to obey the duty to follow reason’s maxims. Kantian ethics focuses on *motivation* to express a moral judgement.<sup>72</sup>

Consequentialism, conversely, is the theory (or rather: theories) that recognizes the *consequences* of actions as the proper basis of moral judgement. Consequentialists, too, often embrace an agent-neutral stance in that one’s personal consequences do not count more than anyone else’s. This moral theory is based on human affection rather than reason (e.g. David Hume) and suggests that you should ‘act in such a way that your action ensures the greatest benefit to the largest number.’ Consequentialism comes very close to economic theorising, and especially so in its original Utilitarian formulation (e.g. John Stuart Mill and Jeremy Bentham).

Most ethical philosophy, in its often subtle variations, is inspired by two fundamental principles: impartiality and reasons (e.g. Rachels 2003: 11). Everybody should be treated equally, and one should have a reason for doing something or for judging something morally good or bad. Both Kantian ethics and consequentialism sound very sensible and, though they argue differently for them, they support identical actions on several occasions. But sometimes whether you embrace the one or the other makes a difference for the action

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<sup>71</sup> I apologize in advance for the gross oversimplifications I will have to make in presenting these very much sophisticated and nuanced theories.

<sup>72</sup> But see for instance Arthur Schopenhauer’ (1841) critique showing, among many other things, that actions performed exclusively out of duty are not moral.

that you ought to perform. Generally speaking each of them provides a *criterion* (i.e. a reason) to tell good and bad apart.

Much needed though such criterion certainly is, it sometimes happens to be controversial. And it seems to me a matter of empirical observation that both motivations *and* consequences matter a great deal in moral judgement. Therefore the MCD is not an apparatus that accurately establishes good and bad. Unlike other ethical theories, it is just a conceptual reference. But is there a need for *that*?

### 5.1. – WHY THE MCD?

The strange rhetoric of ethical debates, rationalistic though its tone sounds, ultimately revolves around intuitions. The moral philosophy of Prof. Deon is mistaken, Prof. Conseq argues, because it explains how you ought to tell a mad axeman where his intended victim is hiding. Do not stand in the way of a cruel murder, if that requires that you lie. Lying is bad because it amounts to ‘treating the axeman as a means and not as a moral end in himself,’ and you do not want this to become a ‘universal rule for everybody to follow at all times,’ do you? Now, Prof. Conseq concedes that lying is bad of course, but is it worse than helping an axeman slaughter an innocent?

Just the same way Prof. Deon shows that Prof. Conseq’s ideas are ill-founded because they make it advisable to, say, keep an undernourished child in a dark basement all his life (as in Ursula Leguin’s tale “The ones who walk away from Omelas”), if that were required to ensure ‘the greatest benefit to the greatest number.’ Each principle seems both superior and inferior to the other, depending on the circumstances. But the superiority and inferiority are not argued for through moral reasoning alone: they rely on some intuitive agreement that one thing is bad, that it therefore should not be allowed, and that therefore the theory praising it is to be discarded.

Both criteria derive from intuition, and are ultimately defended on the grounds of intuition.<sup>73</sup> Then, to the extent that our intuitions suggest to alternatively employing various criteria, why would we want to embrace a moral theory that endorses one only, to the exclusion of all the others? Why is *this* aspect of our intuitions disregarded?

It doesn’t follow from my criticism that intuitions suffice, nor that ‘there exists no correct ethics’ – a position known as ‘moral relativism’. And some caution is also in order because, although many of its advocates read relativism as a rationale for tolerance, they deprive themselves of the ground to argue for the moral superiority of tolerance over intolerance. Additional reasons for the inadequacy of intuitions alone is that they often originate quickly from one selective aspect, among the many that characterise a complex situation, that

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<sup>73</sup> After all, ‘why ought I to be moral?’ Easy: either because following moral law is a duty or because it is the best thing to do. These answers can also be translated into common English, and they roughly mean: ‘because you ought to’ and ‘because you want to’ respectively. In both cases I do not spot much of a ‘moral-reasoning’ argument.



such aspect is not always relevant, the most relevant, or at any rate not the only relevant one. And this can be less than we 'intuitively' want when it comes to moral judgement.

To conclude, I am not willing to suggest that the MCD is a true statement about the way people conceive of their actions, nor a normative statement about the way they should deliberate. The diagram is constructed as a theoretical tool for the sake of definition and clarification. This means that it has some useful applications. For one, and this is the main reason why it has been developed, it can help us appreciate the charges in the Moral Trial.

Is self-interest is good or bad? Is homo economicus immoral?

If you had troubles answering, you may want to inspect the discussion in the next Chapter for inspiration. If you quickly and easily found your answer, perhaps you should read the next Chapter to check if I am right, as well.



## CHAPTER 5

### SELF-INTEREST AND MORAL JUDGEMENT

*A great many people think they are  
thinking when they are merely  
rearranging their prejudices.  
– William James*

A great majority of people share a common understanding of ethical tenets that regulate our individual, social, and spiritual existence: it is good to donate to charity, it is wrong to steal, it is good to save other people's lives, it is bad to hurt someone else without reason.... But, asks among many colleagues the moral philosopher Christine Swanton (2003: 56), "what is the question to which these are answers?" Moral philosophers underpin their credo with different (and much debated) principles, whose aim is to guide human actions towards some standards of moral goodness. On the contrary, lay people – though unsophisticated moral theorists – seem to *intuitively* know what is good or bad under most circumstances. Generally speaking, people faced with ethical dilemmas, know what it is that they ought to do, but at times they don't know exactly why. Even when this incapacity to explain the rationale of a moral judgement is exposed, people are unwilling to change their mind, experiencing what Jonathan Haidt (2001) dubs 'moral dumbfounding.' On these occasions, it is plausible to argue that System 1 is operative and System 2 is either unable to cope or it is not triggered to operate its scrutiny.

The fact we do not consciously and rationally deliberate but a slight number of our actions does not entail that we could not try to if we wanted. Indeed, nothing prevents us from sitting at our desk and compute all sorts of pros and cons for each and every activity for the next day. The results to be achieved through such a deliberation, however, might be inferior to those attained by a homo economicus.<sup>74</sup> It is indeed a peculiarity of homo economicus is that his decisions are always conscious and selfishly motivated. It is noteworthy that nobody – not even an economist (with few exceptions) – attempts to do the same. Such effort does not constitute a concrete cognitive option for bounded rational human beings. Therefore economics is often at loss when faced with empirical findings contradicting the assumptions that

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<sup>74</sup> And to those attained by means of automatic behaviour.

make its theoretical apparatus – crucially *homo economicus* – capable of outperforming that of virtually every other social science.

But are the criticisms against economics (I am engaging only the moral criticism here) always correct? As human beings are defective in the rationality (and to some extent the selfishness) of their theoretical counterpart, might this also mean that their (that is our) moral judgements are not always inescapably successful either?

### **1. – HOW WE JUDGE SELF-INTEREST**

The last decade witnessed the development of a new stream of research investigating the role of ‘mental short-cuts’ (and failures thereof) in moral judgements (e.g. Baron 1994, 1995, 1997, 1998, Greene and Haidt 2002, Haidt and Joseph 2004, Messick and Schell 1992, Schelling 1984, Sunstein 2004). Moral judgement does not escape the automatic process: we face situations and promptly deliver a good/bad intuitive evaluation of alternatives as part of our perceptions; justification comes only afterwards (Haidt 2001). Intuitive moral judgements work quite well most of the time, but every now and then they too may suggest suboptimal responses or inconsistent ones. And though all agree that there are some serious problems with that – serious enough for many scholars to devote effort pointing them out – the reader is often left wondering “what, exactly, are they?”

When the issue at stake is human rationality, we have a well-developed and convenient theoretical benchmark (i.e. rational choice theory) against which to measure the deviations of actual human behaviour. And we can easily show that real people do not comply with the predictions of rational behaviour in specific ways and under clearly defined circumstances. Not as easy is the identification of decision and judgement biases in the moral field.

There is moral trial in economics. Based on the evidence, can we claim that economics students are selfish? And does this make them immoral?

#### *1.1. – IS SELF-INTEREST MORALLY WRONG?*

If economics is considered the hallmark of immorality the reason seems to rest on its conception of human agency. For the purpose of the present argument it is enough to remind that *homo economicus* is constantly striving to achieve the utmost satisfaction of his preferences. This means that he is self-interested, even selfish. But self-regarding motivation and conduct are neither necessary nor sufficient conditions to establish immorality.

A general definition of self-interest may encompass, for instance, buying a teach-yourself handbook to satisfy the desire to learn a new language, donating to charity for the sake of ‘warm glow’ or for social recognition, and stealing. These actions serve the actor’s goals (regardless of other individuals involved in or affected by the process). The sort of moral judgements we want to offer for each of those, however, couldn’t be more diverse. And the moral ranking of these acts, I suspect, is not open to much disagreement: charity is morally

superior to theft and the intrinsically motivated charity is superior to the extrinsically motivated. Buying a manual rests somewhere in the middle, but is of little moral significance. How do we make sense of this ordering?

One possibility is that my idea of self-interest is wrong. It may be taken as a point, however, that those actions are all in principle reducible to self-regarding motivation alone. Since this is a thought experiment, imagine every agent of the abovementioned acts is indeed motivated by the utmost selfish reasons only. The most relevant feature is the effect each of these actions has on others.<sup>75</sup> In the case of charity, yet egoistically motivated, the effect is still to favour someone else; in the case of theft, on the other hand, damage to someone else results.<sup>76</sup>

As noted above, we do not live in a shell and our actions have consequences that reach very far from our original intentions. Moreover, there is a sense in which ethics pertains to the motivations and consequences of actions that affect others. Accordingly, there are deeds that tend to dodge moral assessment: private actions, actions whose consequences on others are negligible, and social actions that realise as private ones. But it may be argued that trading one's organs, mutilating oneself, suicide... are acts of dubious morality which most people would rather define immoral than amoral. It has been shown, through a series of surveys administered to people in North and South America, that 'cleaning the bathroom with the national flag,' 'entertaining incestuous relationships,' 'having sexual intercourses with dead chickens before eating them' and similar acts, *though private and harmless*, provoke indignation of moral nature (Haidt, Koller, and Dias 1993).

Experimental findings of this kind substantiate the conclusion that ethics is in fact more than just a relatively contingent social phenomenon. Richard Shweder (1990; also Shweder, Much, Mahapatra, and Park 1997, Shweder and Haidt 1993, Haidt and Joseph 2004, Haidt and Algoe 2004) describes how people across cultures live by the three common domains of ethics, though differing in the degrees of elaboration and diffusion, and scope of application. These ethical domains are separated according to whether the self is conceptualised as an autonomous individual, as the holder of a position in a larger collective enterprise, or as a spiritual entity aiming at purity and sanctity.

There is a domain according to which people are conceived as individual preference structures. The focus of such domain are *autonomy* and concepts like "freedom, rights, justice, individualism and the importance of choice and liberty" (this and the following quotes from Haidt and Algoe 2004). In this

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<sup>75</sup> That not every self-interested action necessarily damages others is a triviality I do elaborate on.

<sup>76</sup> If the theft was otherwise motivated, for instance by the desire to feed one's child as opposed to buy drugs for oneself, the judgement changes. Stealing is wrong, but nurturing one's child is a duty, damaging the one is bad, but feeding the other is good. Some balance has to be made between the conflicting benefits of others. This latter, however, is no longer a case of self-interest.

sense an action is wrong because it “directly hurts another person or infringes upon his/her rights or freedoms as an individual.”

There is a social domain, within which people are seen as parts of a collective enterprise or as constituents of a social whole. The focus of this domain are *community* and concepts like “duty, role-obligation, respect for authority, loyalty, group honour, interdependence, and the preservation of community.” An action is thus wrong insofar as “a person fails to carry out his or her duties within a community, or to the social scale within the community.”

Finally, there is a domain wherein people are considered as composed of a soul and a body, the one likening them to animals, the other to superior entities. The focus is on purity and *spirituality* and concepts like “sin, the natural order of things, sanctity, and the protection of the soul or the world from degradation and spiritual defilement.” An action is wrong when it “causes impurity or degradation to himself/herself, or to others.”

Under this classification, it becomes apparent that pursuing one’s interest is a positive instantiation of the domain of autonomy, and most people (and surely economists) would say that it is even wrong to prevent someone from pursuing her self-interest. Indeed the first code closely matches the legal systems and the moral philosophies of Western secular societies, with a focus on harm, rights, and justice. The second code – requiring duty, respect, obedience to authority, and actions consistent with one’s role (e.g. gender, age, caste, etc.) – is prevalent in many Asian societies. And the third code is instead eminently concerned with bodily practices, like food and sexual taboos. It prevails in cultures such as the Hindus. But, perhaps in a marginal role, the codes of community and spirituality are also present in our society. We are disgusted by the idea of ‘eating one’s dead dog,’ even if it is difficult for westerners to *explain why* because this does not harm anyone.

### 1.2. – FROM SELF-INTEREST TO HARM, NON-TUISM, AND GREED...

Homo economicus dwells in a market-like world wherein the conditions of perfect competition ensure that, if everyone strictly adheres to self-interested conduct, the socially optimal outcome obtains. This traditional field of inquiry concentrates on decision theory. In such non-social world, homo economicus is not required to take any interest in others and theirs. Although not evaluating *every* possible consequence of a given action needs not be an evil deed in itself, not thinking about *any* is often considered to be so: there is a precise sense in which altogether disregarding the effects an action has on others is criticisable. Since we are part of a social world, we have precise and loose, formal and informal duties, we owe respect to our fellows, and we must behave according to our role and status. Failure to do so would be a violation of the ethical code that regulates the domain of community.

But economics has long began to analyse other situations, wherein a latent conflict between different agents prevent the realisation of social optimum and where each agent has to consider others, their preferences and their welfare in

order to make a choice. These strategic interactions are typically analysed with the framework of the theory of games. In the so-called social dilemmas individuals face a decision where a choice always yields a higher payoff, but which – when made by all players – results in a poorer outcome for each participant than they would have received if nobody did make such choice (Dawes 1980, Messick and Brewer 1983, Dawes and Messick 2000). As a consequence, by making the most sensible and rewarding decision, players fail to maximise their payoff. The complex and counterintuitive incentive structure of social dilemmas makes them a challenging task for social theorists. Self-interested agents being the core of economics, it is hardly surprising to find books-worth of explanations of how and why they free-ride in the provision of public goods, adjust a fat share for themselves in ultimatum bargaining games, and defect in prisoner dilemmas. But in these interdependent contexts self-interested conduct not only earns bigger profits to the agent, but also tends to have harming repercussions on co-players. And it is a recognized constraint of human action that we should not harm others, that we should respect their rights, that we should be tuned to the tenets of justice, that we should be informed to the code of the ethics of autonomy. Finally, the furthering of one's interest is a positive instantiation of the code of autonomy, but extreme selfish motivations violate the code of spirituality, by degrading our spirit and polluting our soul with bodily urges and material cravings. In this sense selfishness, in the form of greed, is bad indeed.

So self-interest is not wrong per se, but certain configurations of motives and consequences, which can be traced to self-interest, do violate our ethical concerns with respect to all three clusters. In what follows I shall term these violations: 'harm' the violation of the domain of autonomy; 'non-tuism' the violation of the domain of community; and 'greed' the violation of the domain of spirituality.

### *1.3. – ... AND FROM HARM, NON-TUISM, AND GREED TO SELF-INTEREST*

A correct moral assessment is not only one that attaches the right judgement to the right property; it is also one that attaches such judgement to every relevant property. If all we have to say is that excessive concerns for one's gain corrupt one's soul, we are missing a huge part of the story. It is also worth noting that in Western secular societies, legal systems and moral and political philosophies attach a prominent role to the ethics of autonomy and many people would probably ignore a spiritual violation, or reject it for being morally irrelevant. Even admitting that greed is not excused, the degree of self-interest required to pass the threshold of purity cannot be objectively measured or defined and, at any rate, must be differentiated according to the context. On these grounds, I will hereafter reserve the most attention to the autonomy and the community sides of the matter.

In strategic game theoretical contexts, self-interested people do not make good partners. We don't want to have close interactions with them and try to

tell and keep them apart (e.g. Frank 1988), because in serving their interest they might harm us and disregard such harm. If subjective, it is not arbitrary to despise selfish people. But how does this suggestion relate to despising self-interest?

It is correct to blame extreme selfish motivations, entirely disregarding others, and hurting them: these are bad things. It is not correct to blame self-interest because there is nothing intrinsically wicked with that. But how can we make sure that a course of action will not harm us? And yet more that a person does in fact take us into due consideration?

Given the complexity of our environment and the impossibility to investigate other people's motives, we must find convenient hints to such potential threats. We look for, as it were, an easy 'heuristic' that we can employ instead of the elusive attributes of harmfulness, non-tuism, and greed. The easiest such heuristic is self-interest because, as just seen, it is typically associated with all of them. Disregarding others is very likely to go together with higher degrees of self-interest; conversely self-interest may have a clear causal correlation with hurting others. Also, self-interest is itself emotionally loaded: beyond certain limits it violates purity, it is a sin, and violations of the spiritual domain provoke disgust (Haidt and Algoe 2004). Causal propensity and affective valence (Kahneman 2003b: 1453; Tversky and Kahneman 1983; Kahneman and Frederick 2002) are indeed two properties commonly associated with heuristic attributes, because they make these attributes more 'accessible', that is more easily identified and more ready to come to mind.<sup>77</sup>

Self-interest may be not incorrectly assumed to hint at the possibility that such motivation exceeds an appropriate degree, that a course of action will have damaging consequences on others, that such consequences will be disregarded, or more than one of these. Whence does not follow that *every* instance of self-interested motivation will actually do so, nor – consequently – that such motivation is inescapably bad. I refer to this ungrounded judgement as a 'target fallacy', because we blame something (i.e. self-interest), which only contingently relates to the real objects of our contempt (i.e. non-tuism, harm, greed). An indiscriminate application of this (perhaps) correct intuition, therefore may lead us to mistaken conclusions, or failures in moral judgement.

Let us from now on take for granted, nonetheless, that the self-interest heuristic is indeed appropriate on most occasions. We still want to watch out for the many different ways in which self-interest itself proves not 'accessible.' If we are to blame someone as selfish in the light of the already frail connections between self-interest and moral violations, we should at the very minimum make sure that we are targeting self-interest and not some other motivation or consequence.

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<sup>77</sup> I believe that the case could be made for the evolutionary soundness of a moral heuristic roughly along the lines of "selfish therefore evil," but on the present occasion it would lead my argument astray.



## 2. – SOME FALLACIES OF INTUITION

Most of the present work employs instruments appropriated from the toolbox of experimental sciences. Indeed experiments have earned growing approval and wider usage of late, both because they serve to test theoretical predictions and because they uncover new facts, ideally constituting a sort of link between deductive and inductive approaches. The findings of experimentalists are relevant not only to economics, but to other disciplines as well, like psychology, which has a longstanding tradition, and moral philosophy, which is instead still approaching them. There is room to believe that experiments constitute the best tool for surpassing some absurd assumptions of neoclassical economics and open pathways leading to a better understanding of human behaviour and cognition at the individual level.

### 2.1. – DISENTANGLING SELF-INTEREST

As it happens, when it comes to testing the predictions of economic theory, interesting and unexpected results emerge. In ultimatum games, for example, real respondents are very likely to refuse any offer below 25% and indeed proposers make offers that average 40% of the initial sum (Oosterbeek et al. 2004).

An interesting variant is thus introduced in Fehr and Fischbacher (2004), where there is a third player who can use her allotment to ‘punish’ the proposer after the transfer is made. By giving up her money, the third party can reduce the payoff for the proposer – though there can be no economic rationale whatsoever to do so. In this variant, nonetheless, the third party will punish transfers below 50% in the 55% of cases, and the lower the proposed transfer the higher the punishment. The justification produced for such responses is usually phrased in terms of fairness of the proposed allocation (or unfairness thereof).

If experiments yield a significant interest for the study of human behaviour, this is also the case for moral evaluation. For instance, most people would say that the proposer who offers a very small share of the initial endowment to the responder is acting selfishly, motivated by greed, unconstrained by the sense of fairness.<sup>78</sup> He is a nasty person to deal with. Why?

He furthers his personal gain ([*selfishness*]) at the expenses of his poor co-player’s ([*sadism*]). On the other hand, the responder embracing a high moral standard is praiseworthy for rejecting the unfair offer; everyone would like to play a game with her. What is of interest here is not only the rejection of an offer perceived as unfair in a ultimatum game, but the ease with which it is interpreted as a manifestation of altruism.

*Rejections in the ultimatum games can be viewed as altruistic acts because most people view the equal split as the fair outcome. Thus, a rejection of a*

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<sup>78</sup> I admittedly imply this alleged agreement from the discussions in the literature and *not* from empirical evidence. But this can be easily tested by means of a survey.

*low offer is costly for the responder and it punishes the proposer for the violation of a social norm. As a consequence, the proposer is likely to obey the norm in the future by making less greedy offers* (Fehr and Fischbacher 2003: 786).

Ernst Fehr and Urs Fischbacher (ibid.: 785) propose a (behavioural) “definition of altruism as being costly acts that confer economic benefits on other individuals.” Rejections in ultimatum games are indeed costly ([*masochism*]), but they impose a *loss* on co-players ([*sadism*] again) and do not benefit them at all ([*otherness*]). Furthermore, by creating an incentive to less ‘greedy’ offers in the future, they not only contribute to reduce the payoff for the proposer (yet more [*sadism*]), but also and consequently increase their return as responders in repeated games ([*selfishness*]).

Rejection is thus altruistic only if the future interactions of a punished proposer take place with different responders, who will ultimately benefit from the original refusal, and only if the future proposals are higher. It remains nonetheless doubtful to what extent, and why, a trade-off between the present gains of a proposer and the possible future gains of another responder should be resolved in favour of the latter.

Well, you do something selfish that is bad to me, and I pay back. I am not saying that this ‘retribution’ is mistaken or immoral. As Adam Smith (1776: I.2.I.4) wrote in his usual penetrating rhetoric “resentment seems to have been given to us by nature for a defense, and for a defense only! It is the safeguard of justice and the security of innocence.”

It is also worth noting that even highly skewed divisions never implicate a direct loss for responders. The players of ultimatum games never end up with less money than they started with, but either more (if a division is successfully delivered) or the same (in case the division is refused). A responder, therefore, is not concretely damaged but benefited even by a tiny offer, although he could have been benefited more. Conversely, a proposer whose offer is turned down, walks away with no change in his assets, though he could have been wealthier. Third parties, instead, are given a sum of money at the beginning of the game and, by means of ‘altruistic’ punishment reduce their own and the proposer’s wealth. How can this be good?

It is then a matter of fairness, enforced through ‘strong reciprocity,’ which eventually insures that other-regarding acts survive even in a Darwinian ecosystem. But is this altruism proper? Once again it is difficult to tinker a definition of altruism based on practical outcomes, from which to draw morally sound conclusions. My feeling is that altruistic claims should be qualified in a narrower sense. For the sake of this argument one can propose that freeing somebody from existential anguish at the cost of living on with the burden of guilt is an altruist action – therefore murder could be reinterpreted under this light. I am not interested in advancing this point beyond exposing its foolishness. I am just playing devil’s advocate in order to show that everything can be reduced to altruistic motivations, just like everything can be

reduced to self-interested motivation. If you shoot wide, while trying to kill me, I would be a fool to thank you because you spared my life.

Admittedly, altruistic punishment may be the means by which other-regarding behaviour survives in spite of its being subjectively suboptimal. In this sense, therefore, it may increase the overall level of actual altruism in a society, though it may not be altruistic from a motivational perspective. It may be likened to a society in which everybody produces a gun and shoots at everybody else on sight, but everybody is such a poor shooter that they always miss the target. We can therefore expect its citizens to enjoy long lives. Should we praise the fact that the citizens live long? Yes. Should we credit this achievement on their poor shooting skills? Yes. But do the citizens deserve any moral praise? Perhaps not. We should always keep separated the *proximate* and the *ultimate* causes that explain some behaviour or some collective phenomenon (de Waal 1996, Vromen 2002). The same way we should always keep motivation and consequences separated.

The design of ultimatum game experiments sometimes proceeds by asking subjects what is the minimal offered amount they are willing to accept (this is not the case of Fehr and Fischbacher). Such design implies that any offer above such threshold will be successfully delivered... even those skewed in favour of the responder. There is a *presumption* of self-interest, if in a minimal sense. For a common parlance understanding of fair division, these experiments are thus unfit to test the 'fairness' hypothesis, unless they allow for a rejection of a favourable division *and* such rejection in fact happens in a significant number of observations.<sup>79</sup> And, by the way, splits skewed in favour of respondents *are not rejected*. Until then, I believe, fairness and altruism are not proved, but simply a radical version of self-interest is disproved. On the other hand, it can be suggested that higher than minimum offers in ultimatum games can be traced to the combination of a taste for fairness and to the anticipation that responders will in fact turn down tiny offers (Thaler 1988).

### 2.1.1. – WHAT IS FAIRNESS?

While there is quite diffuse support to the judgement that self-interest is wicked, there is no such agreement over what self-interest amounts to, although the debate over its defining characteristics dates back to Plato. Is it correct to condemn a proposer doing something beneficial to himself at a (virtual) cost for the responder? What about the responder actually damaging both players? And is that third party praiseworthy, instead, who incurs in a personal loss in order to impose a punishment on a proposer? Yes: responders and third parties promote fairness; and fairness, we all know, is good. Not even fairness, however, is a univocal concept.<sup>80</sup>

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<sup>79</sup> I take a 'common parlance definition of fairness' to be something like: the difference between the payoff for each player is comprised within a reduced gap.

<sup>80</sup> E.g. the large body of literature on distributive justice (e.g. Rawls 1972, Nozick 1974, Walzer 1983).

A psychological experiment reported by Jonathan Baron (1998) shows how “people are not simply selfish; they want to do what is right.” Participants, expecting to be paid without knowing how much, were told to fill out either 3 or 6 questionnaires until told to stop, which happened either after 45 or 90 minutes. When he finished, each participant was given 7\$ and was told that another subject (an associate of Baron) had to leave before being paid. The subject was then asked to send *some* money to that other subject. But at the point each participant was also told that the other subject had worked either more, the same, or less time; and that she completed more, the same, or fewer questionnaires.

What is the most important criterion according to which one should get paid: the number of questionnaires or the time spent completing them?

Subjects who worked the same time *and* filled the same number of questionnaires as the ‘other,’ sent on average 3.50\$ (a stamped, addressed envelope was provided). But subjects who *either* worked longer *or* completed more questionnaires, gave the ‘other’ less than 3.50\$. “It just cannot be true that, if they had been asked before the experiment, the subjects who worked longer would have thought that time was more important and subjects who did more would have thought number of questionnaires was more important. Subjects apparently seized on any excuse to see themselves as deserving more.”

As the economist Edward Zajac (1996: 117) suggests, it is very difficult to point out what is fair. But each of us knows very well when she has been treated unfairly. So that one might speculate fairness is always evaluated in one’s favour; and even go as far as to conclude that fairness is invoked as the ultimate defence for self-interest (which may or may not be also the rationale for rejections in ultimatum games.)

### 2.1.2. – *WHAT IS SELF-INTEREST?*

I do not think that one should be blamed for doing something when it is not even clear what does it amount to. Can we say that the subjects in the experiments are selfish? What is self-interest?

One may easily identify the concept of self-interest with ‘doing what one benefits from’, ‘doing what one wants’, or ‘doing whatever one is doing’. This third version sounds like the usual economic rationalisation of human action: whatever you do, that must be what serves your private interest best. It is a tautological and boundless definition, which consequently proves of limited use in the moral field as it substantiates that Gandhi and Mother Teresa showed nothing but self-interested behaviour throughout their lives. The second definition, already a bit narrower, still accommodates Gandhi and Mother Teresa as self-interested, although in a slightly more meaningful way: they did what they did because that’s what they *wanted* to do. On these grounds, however, their intentions are easily paired with those of virtually everybody or, at the very minimum, with those of everybody else who did what

they wanted, say Adolf Hitler, which I again find inadequate to make sense of the issue at stake. Another problem with the conceptualisation of self-interest as desire-fulfilment is that the object of moral assessment then becomes ‘what one wants’, and not all wants are always matched by behaviour. One may desire to rule the universe or to kill every rich person on the planet, but not act accordingly. (Also, as I repeated quite often already, it is very difficult to meaningfully uncover someone else’s desires.) Moreover, Western societies tend to be very liberal with regard to what one may legitimately want.

To stick to the MCD, and consistently with the structure of experimental games, I subscribe to the first definition, a yet very broad one, according to which self-interest comprises only those actions which, and those motivations that attempt to, bring an advantage to the actor. What such advantage may be remains vague and it is in principle open to the usual challenges of being a hollow notion. Though I will not hereby attempt an escape from this problem, it should be conceded that, however imperfect, this version is both consistent with everyday usage (wherein the intuitive blame of selfishness is employed), and theoretically useful to tell Mother Teresa apart from Adolf Hitler.<sup>81</sup> Given this starting point, self-interested motivation requires that the actor have personal gain in mind and self-interested consequences require that a concrete advantage to the actor obtain. Calling self-interest something lacking this condition would be a ‘terminological fallacy’. After this suggestion, any hasty condemnation of self-interest – even on the grounds and to the extent that it may be responsible for harm, non-tuism, or greed – should be beheld a little further.

## 2.2. – *HOW DOES SELF-INTEREST WORK?*

There are other games with a more straightforward payoff structure, wherein selfishness appears easier to address. Prisoner dilemmas cover all those situations in which being cooperative with someone who reciprocates brings about the best advantage to both players. One traditional formulation presents two thieves arrested by the police and kept in separate rooms. Each is offered the option to accuse his fellow (defect) or to shut up (cooperate). If one blows the whistle and the other shuts up, the one who speaks is left free, while the one who stays silent will be imprisoned for the crime (e.g. five years). If both shut up, both are imprisoned on minor charges (one year). If both speak up, however, they are both imprisoned for three years. Lacking certainty about the co-player’s behaviour each has a clear selfish incentive to denounce the other because, regardless of what the other does, the outcome will be superior. Indeed, whether the other confesses or shuts up, each prisoner would do better off by speaking; though both would be much happier if both didn’t say a word.

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<sup>81</sup> The claim is sound unless one objects that, in truth, Mother Teresa’s own benefit was earning eternal salvation or simply social recognition. But the burden of proof rests on whoever so claims and ‘because otherwise she wouldn’t have done so’ does not count as proof since it in fact amounts to switching back to the alternative accounts of self-interest I rejected above.

Another similar example can be found in the provision of public goods. Public goods are automatically provided to everyone once they are offered because nobody can be excluded by consumption and extra consumers come at no extra cost (e.g. national security, a lighthouse, public roads, a television channel, etc.). If enough people pay their share, the good is provided and everybody benefits from it. No single individual, however, has an incentive to pay since he will consume it anyways... so everyone free-rides or under-contributes to it, and there is no public good to benefit from in the first place. Experiments show that people involved in such games do in fact cooperate in prisoner dilemmas and contribute to public goods. This is hardly enough, however, to call defectors and free riders selfish and cooperators and contributors altruist.

Certain prisoner dilemmas and public good games present controversial circumstances when short/long-term and individual/group conflicts emerge in those situations called 'social traps'. Baron (1998) reports questionnaire studies on water shortage and overfishing. Given a fixed total amount of a good, individuals can consume it lavishly or restrain themselves and preserve it for the long run. Subjects were aware they could exploit the scarce resource without being caught, therefore without consequences on their reputation and without the possibility to set an example (good or bad) for others. Most people agreed that it was not in their short-term interest to restrain themselves, but about half of the respondents suggested it was in their long-term interest to do so, although it was obviously not.<sup>82</sup>

Cooperation in small groups with regular interaction may indeed trigger individual benefits as co-operators earn a good reputation, which makes them desirable partners, and they also influence the overall tendency to cooperation so that they benefit from the future cooperation of others. But when the context of the game involves a large number of strangers, these effects are unlikely to pay off at individual level. There is no guarantee that every player cooperates, whereas the subjects seem to think about their individual action without holding constant the actions of others: they speak, that is, as if they were acting in the name of everyone and they confuse their own interest with that of the group.

Such confusion has some advantages since it makes people more willing to cooperate, and also because a phenomenon called 'individual-group discontinuity' (Insko et al. 1990) emerges when people act as group members rather than as individuals. Individual-to-individual interactions are significantly more cooperative than group-to-group ones (Dawes and Messick 2000: 114); individuals also show a discontinuity in terms of in-group cooperation and defection towards the out-group in double dilemmas (ibid.). For instance, in a 'depleting resources' dilemma similar to the water shortage and the overfishing cases above, individual players reduce their consumption

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<sup>82</sup> In the overfishing scenario, the question was formulated in terms of income increases in the long-run.

when they perceive other members of their group are harvesting the scarce resource too fast, but when the members of another group abuse it, they soon increase their own rate of exploitation (Kramer and Brewer 1986). Many examples of group rivalry emerge also from the work of Gary Bornstein (e.g. 1992), where group members' contribution to an in-group public good and free riding versus the out-group results in individually inefficient solutions. They would have had a potentially larger personal gain by free riding also with fellow group members, or a collectively larger one by cooperating also with the out-group.

Once again it seems legitimate to react with suspicion to hasty judgements against self-interest when, as shown, its expected beneficial aims are missed: self-interest supposedly motivates an action, but the agent then lacks the 'inferential' skills to enact the consistent behaviour, that brings about the intended effect.<sup>83</sup> So one's advantage is not substantially attained. Conversely, when individuals try to promote their group's payoff at the expenses of a rival group – supposedly revealing self-restraint, which might intuitively seem praiseworthy – they bring about a loss for both.

Can one be held responsible for what one brings about, but doesn't want to? And is one accountable for what one wants, but fails to achieve? When one truly holds selfish motivations, one may nonetheless be incapable of substantially achieving the intended advantage, those who still blame selfishly-motivated actions which do not reach their goal may incur in an 'inferential fallacy'. Also, achieving such goal is not a necessary condition, and certainly not a sufficient one, for being so motivated. It is an 'explanatory fallacy' to judge selfish the motivation of an action, because its observed consequence is to practically advantage its actor. The problem with the two latter fallacies, of course, depends on whether motivation or consequences matter for moral assessment. I believe both do and thus both fallacies hold in principle.

It becomes now apparent that we have a problem of moral accountability (or responsibility: here I use the terms interchangeably).

### **3. – MORAL JUDGEMENT GONE AWRY**

We blame self-interest because it is generally, though not systematically, connected with moral violations of various kinds. But not everybody agrees on what constitutes self-interest. Furthermore, some actions that appear to be selfish might indeed spring from other motives, for instance a sense of fairness. Finally, even when animated by selfish motivations, human beings may lack the inferential capacities to carry the selfish actions they praise.

Perhaps our moral judgements are indeed not adamant.

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<sup>83</sup> An economist would object on this point that, after a sufficient number or repetitions, everyone would converge to selfish behaviour. Roberto Burlando and Francesco Guala (2005), however, show that people are heterogeneous, and that 'cooperators' keep contributing to public goods, 'reciprocators' do so insofar as others do, and 'free-riders' do not regardless of what others do. The convergence to free-riding should not be always taken for granted, and the speed at which it occurs is very much uneven.

### 3.1. – *JUDGEMENT FOR WHAT?*

“Prior to reflection it is intuitively plausible that people cannot be morally assessed for what is not their fault, or for what is due to factors beyond their control” (Nagel 1993: 58). As a matter of fact, this is not always true: two drunk drivers make their way home, both are willing to get safely to their destination and follow the same path. The first succeeds, the second happens to drive over a child playing in the street just after a blind curve. Although they are both guilty for driving while drunk, and although it’s ‘nobody’s fault’ that the child is playing on the street (or it is the child’s own fault, or then the child’s parents), the second driver is more blameworthy than the first and he without doubt receives harsher reprimands and more severe punishment. We do, perhaps unconsciously, reserve different judgements to two patterns of identically motivated, identical behaviour when they (even accidentally) lead to different outcomes. According to many commentators a problem occurs when both such judgements are correct. They call this a problem of ‘moral luck’ (e.g. Nagel 1993, Williams 1993). In a world of unfairness, we regard morality as the ultimate value, and believing bad luck does not make us intrinsically worse than luckier fellows is a ‘solace’. With moral luck this solace is dispelled.

We intuitively want to reserve moral judgement to motivation rather than to the fate-distorted results of a certain conduct. Immanuel Kant (1784: 394) made this point by decreeing that even when the ‘special disfavour of fortune’ or the ‘niggardly provision of a step motherly nature’ prevent the actualization of our intended achievements, our good will, “like a jewel, would still shine by itself, as something that has its full worth in itself.” This is why we judge differently two identical behaviours leading to identical outcomes, when they are otherwise motivated: stealing money to buy a beer is not the same as stealing to buy much needed medications for one’s ill child, nor donating money out of altruism is quite the same as donating out of a sense of superiority. The conclusion holds when good will is not mere wishing, but involves “the summoning of all means insofar as they are in our control” (ibid.). The consideration that both motivation and consequences in fact matter is one of the reasons behind the development of the MCD.<sup>84</sup>

### 3.2. – *JUDGEMENT FOR WHOM?*

At times, we might be struck by how problematic our assessments are if we rely on intuition in ethical matters. There are two sides to this story: ‘fallacies’ and ‘failures’. I termed ‘fallacies’ erroneous attributions of relevant moral properties (e.g. attribute selfishness to something that is not selfish).

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<sup>84</sup> I admit that, in principle, giving moral weight to consequences or to motivation may be a fallacy of a different kind (depending on whether one is a deontologist or a consequentialist to begin with). But, in principle, there is nothing to rule out the possibility that *both* are moral fallacies of some kind.



And a 'failure' is the achievement of results different from the desired ones (e.g. blame something that is not blameworthy, under the rather lax assumption that it is wished otherwise).

We maintain that motivation is king, but then also want to find responsibilities for those events that damage us. When we are treated unfairly, we want to be able to point a finger and show the blameworthy one, and maybe get satisfaction for the torts we suffered. To be sure, we consider the universe non-responsible for being governed by the laws that make the scission of hydrogen such a catastrophic event or elephants for a lifestyle resulting in the starvation of hundreds of people. But when it comes to other people like us, we are rarely so clement.

Not everybody is subject to the same intuitive moral assessment. We don't deem morally accountable those individuals who have seriously impaired capacities to act in a deliberate (either rationally or morally) purposive way. Children, mentally ill, people lacking consciousness, but also plants, animals, natural phenomena, etc. usually receive milder judgements. In order to be morally responsible, one has to be what Seumas Miller (2002: 3-5) terms a '(rational) moral agent.'

*Roughly speaking, a rational agent is possessed of a continuing, integrated structure of propositional attitudes, engages in practical and theoretical reasoning, and is disposed to make true judgments and valid inferences in so doing. Moreover, a rational agent is disposed to intentionally act on the judgments that result from their practical reasoning [...] [A] human moral agent is a rational agent who is disposed to make true judgments and valid inferences in relation to the moral worth of human actions, attitudes, motivations, emotions, agents, and so on. Here the actions, attitudes, and so on in question, include those of others, as well as one's own. For human moral agents, at least, operate in an interpersonal and social world [...] Since a moral agent is also a rational agent, a moral agent is disposed to intentionally act on the judgments that result from their practical reasoning [...] [A] non-rational agent is one who is not capable of making judgments or inferences; an irrational agent is one who is capable, but has some significant deficit in their rationality, and thus makes a significant number of false judgments and/or invalid inferences, or often fails to act on the results of their practical reasoning. Similarly, a non-moral agent lacks the capacity to make moral judgements and act on them; an immoral agent, by contrast, is merely (significantly) deficient in their moral judgment making or often fails to act on their correct moral judgments.*

In the light of such depiction of rational moral agency (although it is fair to remind that Miller intends and employs it in a different context and with different goals from my own), it becomes questionable whether and to what extent do bounded rational agents qualify for rigid moral accountability. And it is questionable whether those acts deemed selfish, but which fail to realise their payoff because of the agent's lack of inferential ability, are blameworthy.

As a general point, it can be observed that we tend to infer both behaviour from motivation and motivation from behaviour, under the assumption that people are in fact much better (or more rational) decision-maker than they actually are – or can possibly be. Do cognitive biases undermine rational agency and do moral failures undermine moral agency to the point that we are not justified in upholding our moral judgements anymore? Although I also agree with Neil Levy and Tim Bayne (2004) that many forms of non-conscious action do not automatically deserve excuse from moral assessment, I am convinced that this warning should weaken the faith in our capacity for rationally consistent moral judgement.

### 3.3. – *WHAT ABOUT THAT HOMO ECONOMICUS?*

The opening of this book welcomed the theoretical agent to which economists liken every human being: homo economicus. The history of that concept dates back to the origins of the discipline, and one of the original claims makes perfect sense: “we are not ready to suspect any person of being defective in selfishness” (Smith 1775, VII.ii.3.16). But critics denounce economists for reducing people to factors of production like capital and land, and refer to “the tendency towards avarice” as the chief contribution of economics to understanding human behaviour (Lux 1990). Self-interest, the harsh critic of economics Kenneth Lux believes, is bad – and economics made it look good “in an intellectually acceptable form” (1990: 135). But in the lights of the discussion above, can we still maintain that homo economicus is necessarily such a wicked creature?

The questions that need be asked are whether homo economicus necessarily disregards the point of view of others, whether his every action does inevitably harm others, and whether he is always moved by the utmost degree of self-interest. I already suggested in the previous chapter (following Pettit 2001 and Sen 1985) that non-tuism is not a necessary property of homo economicus. Economists are also eager to claim that altruistic inclinations easily fit the preference function. In game theoretical settings, moreover, the preferences of economic agents ought to take into account those of their co-players. For instance, a homo economicus in a prisoner dilemma certainly prefers that his partner cooperates, but has to acknowledge that she will instead defect – because that is better for her. (After considering his partner’s preferences, he will defect as well.) Unless there is room for communication and commitment, which is ruled out of the game in the standard form, this is the utmost degree of consideration of the other’s point of view one can reasonably allow for.

Harm, on the other hand, is more contested and I will not attempt to resolve the issue completely on the present occasion. I will not hereby enter the debate whether markets are the source of all evil, but remind that the background justification for self-interested behaviour is the hope (or, for that

matters, wishful thinking) that the market mechanism will eventually play out its effects in such a way that it will bring about the optimal social outcome.

Finally, while it is most certainly true that homo economicus is conceived in such a way that requires of him to *maximise* his preference function, there are a few qualifications worth discussing. For one, after maximisation has been proved to be non-existent (during the infamous marginalist controversy), economists backed to a softer position by saying that economic agents ought to maximise in order to survive because of the competitive pressure. Or, in a yet softer version, only those agents who maximise survive, whether they do so deliberately or not. Self-serving behaviour might thus be incidental. The theoretical agent, however, is by definition a conscious maximiser and he is open for the spirituality violation charge (i.e. greed). What economists, however, would still want to argue is that selfishness in the market is not just acceptable, but desirable, and altruism is fine in the family but suboptimal in the market (Becker 1981).

Another crucial aspect of economic theory is that homo economicus' rationality is substantial and not procedural. It's not important whether he *actually is* rationally selfish, but whether he *happens to be* so. In other words, maximisation amounts to the specifically maximising outcome and not to the process of achieving the maximal result. When this point is taken, one might question whether homo economicus is in fact maximising in prisoner dilemmas. The top payoff requires cooperation on both sides, but when this does not happen can we still say that maximisation is in place? And at any rate, self-interest in economics terms is "whatever one is doing" and there might still be room to suspect that charges of immorality on spirituality grounds might be terminologically fallacious.

(This section remains tentative, and I am not particularly easy about its conclusions. I felt it was appropriate to offer an assessment of homo economicus in the lights of the previous discussion, and this is what I managed to come up with. I'm totally willing to be engaged on the apparent defence I hereby drafted. Such defence, admittedly, may be problematic because it resorts to different ways to describe homo economicus in order to resist different charges. The agent who walks away with immunity, therefore, is a schizophrenic collection of different agents. But so is the target of social blame. One may thus rebuff this problem by suggesting that a moral evaluation of homo economicus is pointless in the first place, because there exist just too many versions of it – each of which, however, might very well be guilty of one or more charges. Conversely, it is certainly possible to configure a homo economicus in such a way that he is not guilty of any of these allegations.)

#### **4. – REPEAL THE TRIAL**

Realising that moral judgements, on which we constantly and confidently rely, prove sound to a significantly lower extent than desired may be disappointing.

A correct moral assessment, to be sure, is not only one which attaches the right property to the right action and the right judgement to the right property, but also one which attaches such judgement to every relevant property of every relevant action. In statistical jargon, we want to watch out for errors of the first and of the second type. The fallacies exposed in this Chapter, however, refer only to inclusion, or to the mistaken attribution of selfishness to motivations and actions which in fact lack such property. Most probably, there is a whole set of fallacies which undermine our judgement with respect to 'exclusion', or in that they fall short of ascribing the relevant property to motives and behaviours which possess it. But the theme of this book are the accusations of selfishness against economists and it did not seem essential to investigate how other people may be selfish though we fail to hold them to it. (I hint, however, at the possibility that when we praise actions allegedly motivated by fairness, we might come short of identifying selfishness in disguise.)

I proposed that moral relevance typically (but not exclusively) emerges in connection with social facts, and that being selfish is morally bad insofar as the consequences of such disposition adversely befall others, are entirely disregarded, or pass some critical threshold. These three violations qualify for substantial immorality charges. Since they are hard to uncover and since they have some correlation with a more accessible property, self-interest, we in fact address that heuristic property. This procedure would not be problematic if self-interest predictably and reliably lead to a violation. Unfortunately, this is not always the case, and we might be wrong in blaming self-interest. In a way, therefore, we employ self-interest as a heuristic attribute when assessing the moral worth of some behaviour. "The essence of attribute substitution is that respondents offer a reasonable answer to a question that they have not been asked" (Kahneman 2003a: 469). Is that person immoral? Yes, she is selfish... (but then again, is she?)

It may appear that my argument is roughly the following: everything (motivation and consequences) counts for moral responsibility, but everything is hard to be inclusively and correctly employed, therefore nothing really counts. Besides being an unreasonable point, as it happens, this is not the conclusion I am trying to advocate. I am simply suggesting that intuitions are deceptive, so that we are sometimes caught in the trap of disturbing failures. Not only we have an understandable desire to establish what is good and what is bad, but we also have a legitimate ambition to do so correctly. Indulging in our intuitions might prevent us from achieving this aim. Therefore the very minimal point I advocate here is that we should question intuition, even if it is not necessarily incorrect, nor in principle inferior to any other procedure.<sup>85</sup> So, although it may seem intuitively the most sensible judgement, the

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<sup>85</sup> The process of delivering a moral judgement is sometimes so quick and subtle that we don't even recognize the possibility (or necessity) of questioning it (Tversky and Kahneman 1981, Chelini et al. 2007a, b).

condemnation of economists for being selfish like *homines economici*, should be withheld. The Moral Trial may still be far from settled.

#### *4.1. – ACQUIT THE ECONOMIST*

In the moral sphere, biases and fallacies have a peculiarity. Even after being confronted with compelling evidence that their intuitions are off the mark (which might not be the result achieved by the present work), most people are not willing to concede they are wrong. They simply cannot explain why they hold a certain belief, yet would never renounce it. In moral matters more than elsewhere people desire to be consistent (Haidt 2001) and like to think that their beliefs are true (Blackburn 1994). It is like when one grasps the reasons of a certain moral implication, but then there is a sort of a homunculus in one's head jumping and protesting: "this can't be right!" (Gould 1991). I experience something close to this feeling when I conclude that, in the light of the previous discussion, even the alleged hallmark of immorality – *homo economicus* – might be innocent of most our charges.

Perhaps this shows once again that most of the times moral judgements really are intuitive and not carefully deliberated upon, and they are bounded by our limited rationality. It may also suggest that they ought to be, because accurate moral analyses may not unavoidably prove a strictly better way to proceed. But since intuitions are often contradictory, and they can hardly ever be presumed persuasive to other people, I still believe we should trust them, and double-check them.

On the other hand, if the charges are shaky, the evidence indecisive, and human judgement fallible, perhaps we should feel less adamant about the accusations we move and the corrections we advocate. Perhaps the verdict of the Moral Trial has been too hastily submitted to as conclusive. Economists should perhaps be unhooked, for our distinctive behaviour may signal just that: distinctiveness. And not guilt.



## SECTION III





### SECTION III

## FRAMING, IDENTITY, AND MORALITY

When adults in Western cultures are assigned a pool of words to sort out, the most 'intelligent' ones sort them hierarchically. They put different kinds of birds together, and then <bird> over that. They then put <fish> and <mammal> next to <bird>, and <animal> over them all. Less intelligent people, instead, sort functionally: they put <salmon> together with <eat> because they eat fish and <scarf>, <shoes>, and <sweater> together with <wear> because they wear clothes.

In an adventurous field investigation, the psychologist Michael Cole (1971) and his colleagues went out to tell the smart from the stupid in the African Kpelle tribe. To their chagrin, however, everyone there sorted functionally and in no ways had the Western scholars been able to trigger the intelligent hierarchical ordering... until one of the researchers, at the peak of frustration, asked the Kpelle to sort as an idiot would. Immediately <tuna> was placed under <fish> under <animal>. The Kpelle knew how to do that all along, but simply considered it stupid to do so. You may find the beliefs and behaviours of those quirky tribesmen quite odd. If you were a Kpelle, however, you would immediately laugh at those funny white men deeply convinced that <lion> and <gazelle> are similar because they are both mammals (let them go hunt down the lion as you sit by the fire and quietly chew on your roasted gazelle!). Who you are and whom you belong with critically shape your vision to the point that the same situation (and what ought to be done in that situation) will look completely different.

Put a tribesman and a westerner somewhere in the savannah. The one will think <hunting>, the other <photo safari>. Look over there: a gazelle. The one is getting ready to attack; his dinner is but a few metres away. <Sure, a gazelle>, yawns the other, who cannot be bothered to turn around to see yet another one. But now, wait, a lion is approaching. The one now thinks <danger> and seeks a hiding place, as the other leans towards the beast, already figuring the best wall on which to frame this <amazing picture>. Who is acting rationally? Who is doing the most sensible thing?

Both are, each in their own ways. And, more generally, each person probably does what makes the most sense in a situation, given who (she believes) she is and what kind of situation (she thinks) she is in. This sounds reasonable enough.

What about economists, then? How do we think about situations and about ourselves? We are different from non-economists, to be sure. Indeed, in spite of some legitimate scepticism with respect to the charges moved against economists in the Moral Trial, there remain substantial and challenging empirical findings that need be accounted for. A clamorous behavioural difference has been uncovered between Econ and non-Econ students. But I have thus far devoted my full attention to protesting that they are not crucial evidence that economists are selfish, immoral, or both. But if I am right and these results are not proofs of selfishness... what *are* they?

In Section III, I attend to the task of making sense of economists' peculiar conduct. First I shall discuss the importance of emotions in decision-making and the ways in which the perception of the choice context affects behaviour (Chapter 6). I therefore proceed to argue that economists, because of their training and their specialised knowledge, typically frame situations differently from non-economists, and more specifically that we frame most choice contexts as market-like. If this is the case, one could explain economists' behaviour in the evidence of the Moral Trial by looking more closely at the way in which the different sub-samples of subjects frame situations (Chapter 7). It is true, however, that economics students behave differently from non-econ ones starting from enrolment. I propose why this may happen in a way that does not contradict the previous claim that economists are trained to think differently, and therefore cannot help behaving differently as well (Chapter 8).

On the other hand, if indeed the teaching of economics does matter, as I argued thus far, it is only fair that we stand judgement for its effect on our students (Chapter 9). Are we ruining them? Should we be held guilty?

## CHAPTER 6

# FRAMING, EMOTIONS, AND THE MARKET

*An economist is someone who knows the  
price of everything and the value of  
nothing  
– Anonymous*

Product A proved to be 95% pure, while product B contains 5% impurities. One shop sells product A at €10 and product B at €9, but is practicing a 10% discount on A so that it effectively costs €9, too. Economics theory predicts that the two goods, which are identical in their characteristics and identically priced, will sell the same amounts. A classic paper by Tversky and Kahneman (1981: 123) instead suggests that these “elementary requirements of consistency and coherence” are often violated, because the way in which a choice is presented does matter for preferences and choice (Pruitt 1967, Selten and Berg 1970).

Even when reflection would suggest that two situations do not differ, decisions are made that are very different. A not very careful shopper, therefore, may judge B an inferior good because it has impurities, as also confirmed by the lower sticker price. She will then probably fill her trolley with A, because not only it is a better product, but it commands a discount, too. Quite a bargain.

In what follows, I therefore discuss the role of emotions in the making of decisions and the importance of situational factors in triggering certain emotions. These two themes help me introduce a discussion of the consequences on individual decisions of the economists’ knowledge and worldview, which is the main focus of the next Chapter.

### **1. – THE KIND OF PERSONS PEOPLE ARE NOT**

When we observe other people, we often explain and predict their actions based on certain alleged dispositions of theirs, rather than on the influences situational factors may have on their behaviour. For example, everybody agrees that an act as horrendous and inhuman as the murdering of Jewish, homosexual, and Gypsy detainees in concentration camps can be only brought about by an evil person. Some German soldiers, however, were all but cruel

and sometimes they were very nice family men when at home, which seems in contradiction with the previous judgement.<sup>86</sup>

Several findings from social psychological research demonstrated that character traits alone do not explain all behaviour; also situational factors affect individual conduct to a large extent (e.g. Allport 1966, Bowers 1973).<sup>87</sup> To have a character trait amounts to being disposed to act in a consistent and reliable manner in most (or even all) the circumstances that elicit the trait in question, “even if those circumstances vary widely in their particular situational details” (C. Miller 2003: 375). Character traits are therefore broad based, long-term, and stable dispositions to act in a distinctive way. They also have a causal/explanatory function in that we say that a selfish person behaves selfishly in a self-interest-eliciting situation precisely *because* she is selfish. But it has been suggested that the common tendency to attribute character traits to people is often misguided, and that such allegation would be a ‘Fundamental Attribution Error’ (Ross 1977).

For instance, John Darley and Daniel Batson (1973) designed an experiment to uncover the major moral characteristics underlying the behaviour of the Good Samaritan.<sup>88</sup> The subjects were students at Princeton Theological Seminary instructed to go to another building to give a talk. Half of the subjects were required to give a talk about professional clergy and religious vocation, the other half were to address the parable of the Good Samaritan. Some subjects were told to hurry because they were late, others

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<sup>86</sup> For circumstantial evidence, we can look at the way Daniel Kahneman (2003c) reports in his autobiography one of the reasons that made him choose the field of psychology:

*It must have been late 1941 or early 1942. Jews were required to wear the Star of David and to obey a 6 p.m. curfew. I had gone to play with a Christian friend and had stayed too late. I turned my brown sweater inside out to walk the few blocks home. As I was walking down an empty street, I saw a German soldier approaching. He was wearing the black uniform that I had been told to fear more than others - the one worn by specially recruited SS soldiers. As I came closer to him, trying to walk fast, I noticed that he was looking at me intently. Then he beckoned me over, picked me up, and hugged me. I was terrified that he would notice the star inside my sweater. He was speaking to me with great emotion, in German. When he put me down, he opened his wallet, showed me a picture of a boy, and gave me some money. I went home more certain than ever that my mother was right: people were endlessly complicated and interesting.*

<sup>87</sup> The debate between the two alternative accounts is returning to the forefront in the field of moral philosophy in connection with virtue ethics, which has received powerful attacks on the grounds that there are no such things as (global) character traits, therefore there are no such things as virtues, therefore there should be no such thing as virtue ethics (Blackburn 1998, Doris 1998, Harman 1999, 2000, but see C. Miller 2003 for a critical discussion).

<sup>88</sup> A man was going down from Jerusalem to Jericho, and he fell among robbers, who stripped him and beat him, and departed, leaving him half dead. Now by chance a priest was going down the road; and when he saw him he passed on the other side. So likewise a Levite, when he came to the place and he saw him he passed by on the other side. But a Samaritan, as he journeyed, came to where he was; and when he saw him, he had compassion and went on to him and bound his wounds, pouring on oil and wine; then he set him on his own beast and brought him to an inn, and took care of him. And the next day he took out two denarii and gave them to the innkeeper, saying, “Take care of him; and whatever more you spend, I will repay you when I come back.” (Luke 10: 29-37, Revised Standard Version).

that they were on time, and yet others that they were ahead of time. In precedence the subjects had also filled a questionnaire that revealed significant differences in their outlook on religion.

On their way to give the talk, subjects encountered a 'victim' slumped in a doorway, but not everybody stopped for help.

We praise the Samaritan and set him as an example of an admirable character. It would then make sense if the personal characteristics of the subjects, such as whether they entered the ministry in order to help others, accounted for their decision to stop, maybe additionally reinforced by the focusing of their attention on the relevant issue at stake from the topic of their speech. Among three variables (topic of the speech they were asked to give, how much in hurry they were, and their moral and religious opinions), only one predicted whether the subjects stopped to help the 'victim:' how late they were. 63% of the subjects who were in no hurry, 45% of those in a moderate hurry, and 10% of those who were in a great hurry stopped. (It did not matter whether they were prepared to talk about the very parable of the Good Samaritan, or which were their moral and religious orientations.)

The experiment failed to show a pattern of behaviour consistent with character dispositions, such as compassion or care, and even the present content of a person's thoughts, such as the importance of helping those in distress, does not seem bound to affect behaviour (on some occasions), the major explanatory variable being situational factors instead.

A similar conclusion is supported by the classic experiment by Stanley Milgram (1974a), wherein subjects were instructed to punish a person characterised as a 'learner' by administering him electric shocks whenever he failed to answer correctly. The intensity of shocks progressively ranged from 15 volts to 450, accompanied by the following labels: 'Slight Shock,' 'Moderate Shock,' 'Strong Shock,' 'Very Strong Shock,' 'Intense Shock,' 'Extremely Intense Shock,' 'Danger: Severe Shock,' and ultimately 'XXX'. Since the learners were associates of the experimenters, they deliberately failed to provide the requested answers, and mimicked an according reaction to the fake shocks received. The expectations of the experimenters and of many other colleagues of theirs was that the subjects would react to the sight of a tortured human being by refusing to go on with the test well before reaching the threshold of 300 volts (right before the label 'Extremely Intense Shock'). At that point the learner would pound loudly on the wall of the room without answering. This was repeated at 315 volts. After that threshold, the learner would stop responding altogether.

Whenever the subjects decided to stop, the experimenter had a list of four things to say (only if needed and strictly in a progressive order): "please continue" or "please go on;" "the experiment requires that you continue;" "it is absolutely essential that you continue;" and "you have no other choice, you *must* go on." If the subject resisted the pressure, he was allowed to interrupt the experiment. Among 40 subjects, five quit at 300 volts and four at 315; two

quit at 330 volts, when the learner openly stopped reacting. One interrupted the experiment at 345 and one at 360. The remaining 26 – 65% of the subjects, that is – went on to 450 volts, administering a powerful shock that appeared to be lethal. One subject thus commented: “So he’s dead. I did my job!” (Milgram 1974b: 88).<sup>89</sup>

What is especially remarkable is the large proportions of subjects who respond in the same ways. Unless we believe that the majority of the population have the traits of a murderer, we must find alternative explanations for the evidence.

### 1.1. – THE KIND OF SITUATIONS PEOPLE ARE IN

It has been suggested that social psychological experiments like those reported above constitute evidence that behaviour is substantially influenced by environmental factors. In other words, though individual personalities do matter, whether one person obeys and murders or not and whether one helps a victim or not depends on the perception of circumstances.

The evidence is also employed to support the claim that character traits do not exist. It is not the kind of person one is that explains one’s behaviour, but rather what kind of situation one believes one is in. For instance, the philosopher Gilbert Harman (1999: 316) concludes from the Good Samaritan and the Milgram experiments that “there is no empirical basis for the existence of character traits.”<sup>90</sup> Two implications have been often made to follow from the non-existence of character traits: they can still be instrumentally employed for explanatory or predictive purposes or they should be eliminated as a misguided illusion.

Neither implication, however, would be enough to sustain a moral charge of any seriousness. Thinking about the Moral Trial, it seems that any claim to

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<sup>89</sup> And for yet more, yet more worrisome evidence, see the Jewish political philosopher Hannah Arendt’s work on the banality of evil (1963), in which she collected her journalistic coverage of the trial against the SS Lieutenant-Colonel in charge of the *Final Solution* against German Jews, Adolf Eichmann. Eichmann “did his *duty*...; he not only obeyed *orders*, he also obeyed the *law*” (ibid.: 135) as required by Kant’s Categorical Imperative (ibid.: 135-137). Eichmann has also been quoted as saying (<http://www.brainyquote.com>, accessed: 24<sup>th</sup> May 2006):

*Now that I look back, I realize that a life predicated on being obedient and taking orders is a very comfortable life indeed. Living in such a way reduces to a minimum one’s need to think. [...] From my childhood, obedience was something I could not get out of my system. When I entered the armed service at the age of twenty-seven, I found being obedient not a bit more difficult than it had been during my life to that point. It was unthinkable that I would not follow orders. [...] To sum it all up, I must say that I regret nothing.*

He even predicts: “We shall meet again. I have believed in God. I obeyed the laws of war and was loyal to my flag.” Compare Eichmann’s philosophy with one obedient subject in an earlier study who “believed one should take and carry out an order whether one believed it was right or wrong, as long as the person giving it was in authority to give it” (Elms and Milgram 1966: 288).

<sup>90</sup> It is unfortunate that we are left wondering *which* character traits he is referring to: charity, compassion, empathy? The Milgram experiment may be interpreted as sufficient ground to argue for the widespread possession of traits such as docility, obedience, respect of authority...

the type of character traits economists allegedly are endowed with by nature is mistaken. On the other hand, it may be conceded (Miller 2003: 381-388) that there exist ‘local character traits,’ which are activated in connection with *narrowly* defined situations of a certain kind. This leaves an open question of whether a narrowly defined situation might encompass both playing a prisoner dilemma and choosing a major. More specifically, it hinges on the presumption that defecting in a prisoner dilemma should be somehow associated with studying economics. It is admittedly the case that two distinct, narrowly defined, situations might activate the same local character trait. But such case has not been convincingly advanced as of yet.<sup>91</sup>

The kind of situations a person believes she is in crucially affects the actions of this person. But the discrimination among types of situations is not a matter of reasoning and cognitively intense decision-making. Instead it comes from System I and it is therefore largely emotionally driven and intuitive.

## **2. – JUDGING A PICTURE BY THE FRAME**

We have seen in the last Chapter that the mayhem of intuitive feelings can be far reaching. If intuition is such a biased process, one may believe it would always be better to sit down and carefully deliberate. Besides the inefficiency of such proposal (because deliberation is very costly, both effort- and time-wise), careful reasoning may even be ineffective. Even thorough analyses often rely on intuitive hunches, and they may prove unable to reach a satisfactory solution.

For one instance, in the 70’s British and Japanese health authorities decided to suspend the provision of DPT vaccines on the basis that they could, as a side-effect, cause the death of a little number of patients, smaller – it should be noted – than the number of patients who would have died in the absence of such vaccine. Similarly, polio vaccine Sabin is more effective than Salk; yet, the first may cause polio in patients. Despite this risk the number of lives saved by Sabin remains significantly higher than Salk. Many specialists, nonetheless, have preferred the less effective treatment on the grounds of an intuitive judgement that procuring harm is worse than not avoiding harm. Omissions are treated with more indulgence than actions (an instantiation of the ‘indirect harm bias’, Royzman and Baron 2002). The consequence is that many lives were lost to this line of reasoning. This approach may seem to be in contradiction with the doctrine of double effect (in terms of proportionality), and indeed the delivery of DPT vaccine has been restored, just like Sabin is nowadays once again preferred to Salk. The loss of lives to side-effects (although known with fair statistical certainty) is considered admissible in the attempt of saving a greater number of lives. Cases like these may keep

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<sup>91</sup> Gandal and Roccas (2002) and Gandal et al. (2005) go in this direction by drawing a connection between individual and professional values. See Chapter 8.

someone struggling to find a solution, but not always there is room for correction.

Tversky and Kahneman (1981: 453) administered an experiment to two groups of subjects. The setting is a case of a disease expected to kill 600 people. The first group of subjects was faced with alternatives A and B, the second group with C and D.

*If program A is chosen, 200 people will be saved.*

*If program B is chosen, there is 1/3 probability of saving 600 and 2/3 probability of not saving anyone.*

*If program C is chosen, 400 people will die.*

*If program D is chosen, there is 1/3 probability that nobody dies and 2/3 that everybody dies.*

This is a case involving human lives and the attempt to save them. We certainly would not want it to be deliberated upon by gut feelings. Since it is evident that program A is identical to C and B to D, one can be confident that either A/C is better than B/D or vice versa. Why then 72% of the first group would choose A, while 78% of the second group would choose D? Are such intuitions sound? This is an instantiation of ‘framing.’ Subjects do not question the real effect of each policy, but take it at its face value. In this case, it is normal to see the granted safety of 200 people as a gain and the certain death of 400 as a loss. As Kahneman and Tversky (1979) also pointed, we are more risk averse with respect to gains than to losses. The words employed in setting the problem to the two groups determine different perceptions, so that in the first case subjects are unwilling to promote the same risky program they support in the second case. It is also noteworthy that none of the responses seems to be particularly problematic and there seems to be a significant confidence underlying the choice of plan A and plan D. Intuition operates very fast and it is often uncontroversial. Not always there is room for System II to intervene.

One needs not think whether one should get excited or frightened by a lion wandering in the savannah: the response is determined by the frame of a situation. A frame is the set of beliefs, values, attitudes, mental models, etc. that characterise a choice context. Looking at a situation through the frame affects the way in which one understands it, and attributes meaningfulness to and operates choices between alternative states of the world. The framing is a subjective and internal process determined by a combination of a situation’s contextual and individual factors (Kuhberger 1997), and each individual conceptual schema that portrays a choice context is unique (Elliott and Archibald 1989, Evensky 1997). Therefore the term refers “to the decision-maker’s conception of the acts, outcomes, and contingencies associated with a particular choice” (Tversky and Kahneman 1981: 453). This idiosyncratic depiction of a situation originates in what Hayek called the Sensory Order.



TABLE 1. **Goal 7**

<i>player1 / player2</i>	A	B
A	5 , 5	0 , 10
B	10 , 0	7 , 7

TABLE 2. **Goal 5**

<i>player1 / player2</i>	A	B
A	5 , 5	0 , 10
B	10 , 0	7 , 7

Some apparently simple games, so-called Stag-Hunt games, may help make the point even sharper (Harsanyi and Selten 1988, Aumann 1990).<sup>92</sup> TABLE 1 and TABLE 2 report identical payoff matrixes for two coordination games: one called <Goal 7>, one called <Goal 5>. What equilibrium shall prevail in the two seems quite straightforward. Regardless of the fact that both games have exactly the same choice structure and payoff, they have different identifications, and it is easy to imagine how players may want to play B in the first case, but then change to A in the second game. When someone is presented with the payoff matrix and is told the name of the game, what she ought to do becomes straightforward to the point that one might question whether a decision proper is being made.

James Andreoni (1995) also comments that subjects are more willing to cooperate when there is a positive externality, while they defect when there is a negative externality, in spite of the fact that the final outcome is the same. Simply, experimental games with a positive framing, through the warm-glow of doing something good, elicit cooperative behaviour whereas games with a negative framing stimulate a sort of cold-prickle for doing something bad. And several other experiments have shown that frames that alter the perceptions of the playing field also alter behaviour (Abbink and Henning-Schmidt 2006; Burnham, McCabe, and Smith 2000; Rege and Telle 2004; Ross and Ward 1996), despite the fact that the playing field is formally unchanged.

For instance, when someone believes to be in a market-like situation, his choices will be more individualistically-minded than in non-market situations. It is not that markets per se require selfishness, but they are often claimed to be able to tame it (Hirschman 1982) and, at any rate, capitalistic western

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<sup>92</sup> The stag-hunt game (after Jean-Jacques Rousseau) differs from a Prisoner Dilemma in that it has two Nash equilibria and in that the highest individual score occurs when both cooperate (or play B) and not when one defects as the other cooperates. The example is inspired by Dufwenberg et al. (2006: 3).

societies show a diffuse opinion that markets are places where individualism and self-interest are both appropriate and necessary.

### 2.1. – *MARKET POWER*

An experiment by Varda Liberman, Steven Samuels, and Lee Ross (2004) offers an insightful outlook on this issue. The authors conduct two variants of a prisoner dilemma experiment among Princeton students from the same dormitory. The experiment follows the tradition of studies on the ‘framing’ of experimental settings and in particular those in which the description of the game or test evoked alternative behavioural norms. The two variants differ only with respect to their name: while the structure of payoffs remains unchanged, one variant is called ‘Wall Street Game’, the other ‘Community Game’.

After describing the features and payoffs of each variant of the experiment to resident assistants familiar with the subjects, the authors asked them to predict how each student would respond. In a second phase they selected the students who had been assessed at least 85% likely to cooperate or defect and made them play a repeated prisoner dilemma.<sup>93</sup> The subjects were thus split into two groups, each to play one name-variant of the game. Expected cooperators were coupled with similar students; the same happened with defectors. The subjects involved in the ‘Community Game’ show a overall 66.1% rate of cooperation, the actual cooperators being 67% of the students most likely to cooperate and 75% of those most likely to defect. In the ‘Wall Street Game’ the figures change to 31.5% cooperators, or 33% of each predicted behaviour. (These figures are possible because the number of expected cooperators is larger than that of expected defectors.)

This experiment cannot and does not imply that individual differences have no influence on the results. It does show, however, that expectations of conduct based on personal characteristics had very little predictive power, even though they had been made by resident assistants familiar with the subjects and even if the subjects chosen were those for which the prediction was strongest. It also shows that the predictions significantly underplayed the name of the game – i.e. the role of the situation – possibly incurring in the Fundamental Attribution Error. The main suggestion of Liberman and colleagues (2004: 1183), instead, is that observed behaviour should also be interpreted in the light of the power of the specific situation before making “broad dispositional inferences.”

Perhaps a similar caveat should be directed to those who hastily conclude that economists are selfish people because their conduct in some game is self-interested. They may, for instance, defect precisely because of the game they

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<sup>93</sup> Subjects were unaware of the exact duration of the experiment. They were told that after each game a dice would be thrown and the game would stop when the dice rolled six. In fact, seven repetitions occurred. The behaviour in the first round does not differ in any significant respect from the overall behaviour and I here only report overall data.

are playing and, at least in principle, even in conflict with their disposition to cooperate. It is perhaps the way economists frame certain situations that helps understand their behaviour?

### 2.1.1. – MODELLING HAYEK

A good starting point to deconstruct the goings-on of the experiment just described is Salvatore Rizzello's (2004: 267-9) 'summarising model' of Hayek's theory. In this model a unit of information  $i$  can be interpreted in  $n$  different ways and from a given interpretation follows some action  $a$ .  $I$  is thus the set of possible interpretations of  $i$  and the set of possible resulting actions from those interpretations is  $A$ .

$$I = \{i_1, i_2, \dots, i_n\} \quad (1)$$

$$A = \{a_1, a_2, \dots, a_n\} \quad (2)$$

It is now possible to write the following functions:

$$f: I \rightarrow A \quad (3)$$

$$g: A \rightarrow (0,1) \quad (4)$$

where  $g$  represents the Boolean property of the elements contained in  $A$ , which can be either *satisficing* (1) or not *satisficing* (0) à la Herbert Simon (1978).

The first subjective interpretation of information ( $I_t$ ) depends on the individual genetic setup and neurobiological structures and it brings about the consequent action  $a$ . These can be written as follows:

$$I_t = i_j \quad (5)$$

$$j = 1, 2, \dots, n \quad (5)$$

$$f(i_j) = a_j \quad (6)$$

It is now possible to show how personal experiences and previous interpretations of the same information affect the reception of  $i$  on later occasions.

As stated in (4),  $a$  can be satisficing or not.

$$g(a_j) = 1 \quad \Rightarrow \quad I_{t+1} = i_j \quad (7)$$

$$g(a_j) = 0 \quad \Rightarrow \quad I_{t+1} = i_k \quad (8)$$

with

$$k = 1, 2, \dots, n \quad \text{and} \quad k \neq j \quad (9)$$

This amounts to saying that, if the first interpretation results in an action with a satisfying outcome as in (7), a self-reinforcement mechanism is initiated and similar information will in the future be interpreted in the same way and will bring about the same action. If the first interpretation brought about an action that resulted in a non-satisficing outcome as in (8), the same information will be interpreted differently, which is shown in (9).

Therefore the process can be extended:

$$f(i_k) = g(a_k) \quad (10)$$

$$g(a_k) = 1 \quad \Rightarrow \quad I_{t+1} = i_k \quad (11)$$

$$g(a_k) = 0 \quad \Rightarrow \quad I_{t+1} = i_l \tag{12}$$

with

$$l = 1, 2, \dots, n \quad \text{and} \quad l \neq k \neq j \tag{13}$$

Rizzello’s model gives due emphasis to idiosyncratic individual differences and it exposes the path-dependent nature of cognition, in that a satisficing action will be reproduced even when there are  $n-1$  (or then  $n-2, n-3$ , etc.) alternative actions which might be *more* satisficing than the first one chosen. Yet cognition is creative and evolutionary, because it includes unfavourable feedback and induces agents into a novel interpretation of information in a search for better outcomes.

2.1.2. – MODELLING WALL STREET AND COMMUNITY GAMES

Rizzello’s model can be fruitfully adjusted to analyse the labelling experiment by Lieberman and colleagues (2004). I begin by noting that the peculiar nature of (2’) requires a change in (3’). Prisoner dilemmas are characterised by a structure where an agent can only choose between two actions: defect ( $a_D$ ) or cooperate ( $a_C$ ). Whereas the set of possible information ( $I_{PD}$ ) remains infinite, the set of actions ( $A_{PD}$ ) is limited. Each action, however, can be chosen in connection with different interpretations of the situation ( $i_j$ ). In other words, one can chose  $a_D|i_j, a_D|i_k, a_C|i_l$ , or  $a_C|i_m$ .

$$I_{PD} = \{i_1, i_2, \dots, i_n\} \tag{1’}$$

$$A_{PD} = \{a_D, a_C\} \tag{2’}$$

$$f: I \rightarrow A \tag{3’}$$

$$g: A \rightarrow (0,1) \tag{4’}$$

Assume a standard payoff matrix [(5’)]:

<i>player1 / player2</i>	COOPERATE	DEFECT
COOPERATE	2 , 2	-2 , 4
DEFECT	4 , -2	0 , 0

(5’)

Let us further assume that players consider the payoff satisficing when it is  $\geq 0$ , therefore  $A = 1$  iff  $a_{p1C}|a_{p2C}$ ,  $a_{p1D}|a_{p2D}$ , or  $a_{p1D}|a_{p2C}$ . Where  $p1$  and  $p2$  denote the action of player one and player two respectively. Since the payoff of each player depends on the conduct of the co-player, one of the strongest predictors of a player’s action is that player’s expectation of the action of the other. Such expectation is part of the subjective interpretation of  $i$ . Moreover, while virtually everybody expecting defection would defect, expectations of cooperation might suggest either defection (more remunerative in the short term) or cooperation (more remunerative in the long run if reciprocated).

Let  $I_t$  be the initial interpretation of  $i$  and  $E(a_{p2j})$  denote the expectation of the co-player’s action. It is possible to write:

$$I_t = i_j$$

$$j = E(a_{p2C}), E(a_{p2D}) \quad (6')$$

$$f(i_j) = a_j \quad (7')$$

$$j = C, D$$

To conclude:

$$g(a_{p1C}|a_{p2C}) = 1 \quad \Rightarrow \quad I_{t+1} = i_C \quad (8')$$

$$g(a_{p1D}|a_{p2D}) = 1 \quad \Rightarrow \quad I_{t+1} = i_D \quad (9')$$

$$g(a_{p1D}|a_{p2C}) = 1 \quad \Rightarrow \quad I_{t+1} = i_D \quad (10')$$

$$g(a_{p1C}|a_{p2D}) = 0 \quad \Rightarrow \quad I_{t+1} = i_D \quad (11')$$

It follows that, under the assumption that each player always tries to achieve a satisficing outcome, we can expect either of two stable patterns to emerge in a repeated game: defect-defect or cooperate-cooperate. This is the first lesson learnt by players. While it is advantageous to defect if the other cooperates, defection determines 'retaliation' (e.g. Axelrod 1984). Each player will then choose:

$$a_C \quad \text{if} \quad E(a_{p2C})$$

$$a_D \quad \text{if} \quad E(a_{p2D})$$

It may thus be suggested that the cooperative and defective patterns will emerge alternatively in those situations where the interpretations of  $i$  is such that players expect the other to cooperate or defect. We can now characterise the original situation as follows:

$$I_{PD} = \{i_{WSG}, i_{CG}\} \quad (12')$$

$$A_{PD} = \{a_D, a_C\} \quad (13')$$

$$I_t = i_j$$

$$j = E(a_{p2C}), E(a_{p2D}) \quad (5')$$

$$f(i_j) = a_j \quad (6')$$

$$j = C, D$$

$$f: I_{WSG} \rightarrow E(a_{p2D}) \rightarrow a_D \quad (14')$$

and

$$f: I_{CG} \rightarrow E(a_{p2C}) \rightarrow a_C \quad (15')$$

Although the greatest part of the conclusions of the present model depends on the assumption that agents are satisfied when their payoff is at least zero and although (14') and (15') might not characterise a stable equilibrium, they certainly reproduce the relevant issue at stake.

### 3. – REASONING ABOUT EMOTIONS

It is true that defection might not be the only rational response in prisoner dilemmas, but is a mere name enough to account for the findings? Why do people react as differently as they do to the same payoff structure? What kind

of reasoning is lingering behind the puzzling findings by Lieberman and colleagues?

If indeed reason is what distinguishes us from lesser primates and other animal species, it is fair to stress that emotions, too, often play a central role in the conduct of human affairs. It is thus unfortunate, as Jon Elster (1989: 61-2) regrets, that “emotions are seen mainly as sources of irrationality and as obstacles to a well-ordered life, disregarding the fact that a life without emotions would be [...] pointless.”

Emotions also allow for faster decision-making, which does not require careful investigation of every feature of a choice situation. As seen above, human behaviour originates differently in different situations, and the mental processes from which actions stem may be controlled or automatic, and they may be of a cognitive or affective kind (Camerer, et al. 2005, Kahneman 2003). Economics is, nonetheless, concerned with calculative and rationally deliberate behaviour only. But it is apparent from experiments like the one presented above that the description of a situation does not boil down to material payoff alone, that reasoning cannot easily explain what people do, and that emotions often play a significant role.

The standard economic approach, in which emotions are treated as additional concerns to be included in the preference function (Akerlof and Kranton 2000, Benabou and Tirole 2002), would be inadequate to capture the cases in which an agent is incapable of exercising conscious control, when, for instance, she's driven by instincts like hunger, thirst, pain, sexual desire, sentiments, which stand in the way of rational deliberative processes (Loewenstein 1996). Instead emotions significantly alter the very capacity of an agent to deliberate. As the famous case of Phineas Gage made evident, a person capable of correct and sound rational analysis will still be unable to choose among trivial alternatives if he lacks emotional guidance (Damasio 1995: ch. 1). Emotions and feelings are fast and efficient responses to environmental stimuli and to personal states, which trigger automatic or instinctual reactions, bypassing reason. Instincts and drives, in turn, directly generate particular forms of behaviour (e.g. duck to avoid a large body hitting us) or induce physiological states that lead the performance of certain actions (e.g. low sugar levels in the blood make us feel hungry and lead us to feed). For many critical functions humans have developed highly automatic responses, like emotions, but of course we also engage in higher cognitive processes like reflections and thoughts, which are more flexible and sophisticated, but require substantial time and are, so to speak, only available in limited supply.

Antonio Damasio recognizes what he terms *primary emotions* as innate, preorganized reactions that bring about bodily changes. But beyond physical change, we also experience the *feeling* of the emotion, which amounts to the acknowledgement that there exists a connection between an object and a bodily reaction. Building on the experience of this systematic connection, we

develop *secondary emotions*, which are a “mental evaluative process, simple or complex, with dispositional responses to that process, mostly toward the body proper, resulting in an emotional body state, but also toward the brain itself, resulting in additional mental changes” (ibid.: 139, emphasis suppressed). These processes are phenomena of *learning*, that is more or less permanent changes in behaviour that follow from experience which need not be deliberately controlled nor cognitively aware, and which are, in fact, mostly tacit (Egidi and Narduzzo 1997).

Associations between external events and bodily states are instituted by experiencing rewards (pleasure) and punishment (pain). Pleasure and pain are labels we attach to certain body landscapes that deviate from our base status. The disposition to experience them is innate, but it is largely shaped by experience. Throughout our lives, events that trigger both primary and secondary emotional responses are numerous. As we learn to recognize the connection between them, the cytoarchitecture of our brain modifies in such a way that a future encounter (and in certain cases even its anticipation), with the object of an emotional response will bring about the emotional response.

Damasio thus proposes that there exist certain feelings, namely *somatic markers*, that perform the function of ruling out options for action or emphasising their desirability, without requiring a deliberate screening of all the alternatives open for choice that would be impossible for rationally bounded individuals. As he defines them (Damasio 1995: 174, emphasis suppressed),

*somatic markers are a special instance of feelings generated from secondary emotions. Those emotions and feelings have been connected, by learning, to predicted future outcomes of certain scenarios. When a somatic marker is juxtaposed to a particular future outcome the combination functions as an alarm bell. When a positive somatic marker is juxtaposed instead, it becomes a beacon of incentive.*

Emotions are crucial to every choice we make and it is plausible that they improve our ability to survive and thrive in our natural and social environments. By this ability, Damasio means the capacity of choosing “a response that will be ultimately advantageous to the organism in terms of survival, and of the quality of that survival, directly or indirectly” (ibid.: 169). Automatic emotional responses, therefore, are not absolute biological states: they are tuned to cultural prescriptions and they are designed to ensure survival in a particular society. The device is thus effective relative to specific social conventions and ethics (Damasio 1995: 200). If defectors are retaliated against, or if they are kept apart and isolated, cooperation seems to be a better move, even in a prisoner dilemma. But not always. There are situations wherein defection dominates and cooperators would be utterly exploited.

### 3.1. – COOPERATE OR DEFECT?

Quite obviously, the main difficulty subjects face is telling the two cases apart. This cannot be done through cognitive and deliberate processes for two distinct reasons that pertain to two distinct outlooks on game theoretical decision-making. When the only relevant information is believed to be the payoff, the dominant strategy will almost inescapably be defection. Conversely, when external information is deemed relevant, gathering such information is very costly. And if information is costly, homines economici will want to use it in the optimal amount: not too much, not too little. The assessment of the appropriate quantity of information, however, requires a maximisation problem that's already harder than the maximisation of one's preferences.

One of the biggest problems in doing experiments in this field is thus intertwined with a weakness of economic theory. The received microeconomic theory does not allow us to predict how a group of people will behave in a specific situation. Usually researchers assume that at equilibrium the agents have rational expectations: this indeed offers a shortcut past the necessity to build a more consistent model of expectations formation (Kagel and Roth 1995). But it is not only strategic considerations that are important, when one tries to form expectations about partners' behaviour. Individual behaviour matters and so does the interpretation of the behaviour of other players, and both are largely influenced by sociological and cultural aspects.

The appropriateness of cooperation or defection is thus largely afforded by contextual cues from outside the game. Thomas Schelling (1960) calls some of these cues 'focal points.' They do not emerge by necessity or because of their intrinsic superiority – and indeed focal points may change over time – but are often triggered by precedents in a self-reinforcing fashion. It is largely by chance that one out of several possible patterns of behaviour or equilibria becomes dominant as more and more players choose it, therefore making it a convention (Young 1996).

Schelling's (1958, 1959, 1960) experiments in the '50s show that individuals can often coordinate their behaviour by just focusing on a few selected aspects of the environment in which they operate. (These aspects, however, are often abstracted from and disregarded in traditional theoretical models.) Moreover, successive research has shown that the convergence of decision-makers' behaviour towards certain equilibria depends on many characteristics of the environment, which are neglected or explicitly ruled out in theoretical models. A critical difficulty in pursuing this stream of research is that it is often impossible to characterize *a priori* the focal point towards which individuals coordinate their choices, just by inferring what a perfectly rational player (or a group of them) would do. This class of coordination games with multiple equilibria require some kind of 'social rationality' (e.g. Arrow 1986). An equilibrium becomes a focal point not because of the conduct of a single individual, but because it is considered as such by all players. When an



equilibrium is focal, each player expects every other player to behave consistently with that solution, she will thus choose her own behaviour in the lights of this expectation.

For instance, a startling majority of people, if they had a meeting with a friend somewhere, but forgot the time and had no way to get in touch with her, would show up at 12:00. Although there can be little reasoning behind such decision, it works. And it does work only because others – also without reasoning – would do the same. If we imagine a scenario in which each of the friends would wait 15 minutes for the other to show up, and consider the range between 10am until 8pm as an appropriate time for a meeting, there would be 40 possible ‘meeting slots’ in a day. Even if we further reduce the number to 20, by assuming that a plausible meeting time might be either at the ‘o’ clock or the ‘half past’ hours, there would be only a 5% probability of finding the friend there waiting.<sup>94</sup>

By reasoning, indeed, the most sensible decision would be to stay home. But focal points do not require agents to be especially rational or well informed, and it is remarkable how easily people conform to them. When these focal points do not exist and the opportunity to rely on information external to the game is barred, players are at a loss and cannot form sensible expectations about the conduct of their partners (therefore they may employ backward induction or some other principle, until they observe the behaviour of others and learn how to behave). But in the Wall Street / Community game some information is present in the ‘title.’ And the title of a game can contain strategic information that modifies participants’ beliefs about others’ choices, beliefs about others’ beliefs, or both (Dufwenberg et al. 2006).

The two names indeed bring about radically different framings and evoke radically different emotions. The ‘Wall Street Game’ is meant to suggest “rugged individualism, concern with self-interest and contexts in which competitive or exploitative norms are likely to operate.” The ‘Community Game,’ conversely, calls to mind “interdependence, collective interest, and contexts wherein cooperative norms are likely to operate” (Lieberman et al. 2004: 1176).

In a repetition of the experiment with Israeli pilots and flight instructors under the culturally adjusted labels of ‘Bursa’ and ‘Kommuna’ Games (for Wall Street and Community, respectively), Lieberman Samuels, and Ross (ibid.: 1182) note that in the Bursa Game “participants expected defection to be the most likely response” from their co-players. Vice versa, in the Kommuna Game, expectations were largely for cooperation. Furthermore, while expected defection is overwhelmingly reciprocated with defection, expected cooperation is reciprocated in the Kommuna Game and exploited in the Bursa Game.

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<sup>94</sup> Note that also the appropriateness of meeting only between 10 a.m. and 8 p.m., at the o’ clock and half past hours, and to wait for about 15 minutes are socially coded.

#### 4. – THE NOMBRE VAN LE GIOCO

Frames, their meanings, and the emotions associated with these are socially coded. Whereas it seems plausible that market frames translate into self-regarding behaviours when presented to Westerners, we must not underplay the idiosyncrasies that accompany human behaviour. The frame adopted by a decision-maker “is controlled partly by the formulation of the problem and partly by the norms, habits, and personal characteristics of the decision-maker” (Tversky and Kahneman 1981: 453).

Wall Street and Community had to be changed to Bursa and Kommuna to meet the requirements of repeating the experiment in a different country and with a different language. But more than translation is at stake.

In many European languages, Stock Exchange is variously translated as e.g. *Beurs* (Dutch), *Bourse* (French), *Borsa* (Italian), *Bolsa* (Spanish). Aside from referring to financial markets, these words commonly mean <bag>, <pouch>, <purse>... what kind of emotion would a game called ‘Bourse’ arouse in a wealthy, fashion-conscious young lady who is happily innocent of financial markets? Excitement, perhaps, at the prospect of winning a brand new handbag. What about ‘community’? Something a dash less heart pounding, maybe something that has to do with a penalty for drinking and driving. To further elaborate on the drinking aspect of the matter, in Rotterdam, *De Beurs* also happens to be the name of a nightclub where student parties are regularly held (or they were, in the good old times when I attended them). Wouldn’t those students think of the ‘Beurs’ game as something less related to individualism and perhaps involving couples instead? But then, how would they appreciate the difference between this game and another one called ‘Gemeenschap’ (community, but also intercourse)?

A literal translation may result in yet less coherent effects. In a friend of mine’s neighbourhood, when it was still safe to play soccer in the street, children would do so in what was informally identified as the *strada del muro* (literally wall street), because there was a large wall running along it, which had often proved convenient in bouncing the ball back on the playground after an inspired shot. It is easy to imagine a different, more amused and nostalgic, reaction of the men who used to play there to the suggestion ‘Strada del Muro’ Game. A game called ‘Mauer Straße’ (again, wall street) taking place in Berlin might evoke yet different feelings, among which amusement and nostalgia might be two that do not rank especially high.

Personal characteristics and history therefore play a substantial role on the individual perception of a frame. The way in which one is accustomed to thinking, for instance, and the belief system with which one is brought up and socialised can be plausibly expected to matter very much. Although large majorities of the participants respond in a common way to framings, there are always sizeable portions of respondents whose answers, so to speak, go their

own way. Are these people defective in some profound sense? Are they mistaken?

Probably not. In order to understand their behaviour, however, one must take a step away from one's priors and habitual thoughts, and try and walk the world with these other people's shoes instead or look at the world through their frames. Hopefully, I may convince you that this is the case with a quick anecdote from the LSE. As you shall unmistakably have understood, in the context of the present discussion on the different emotions triggered by various ways to translate stock exchange in some European languages, LSE must refer to the London Stock Exchange. But I'm betting another way: you must have thought about the London School of Economics... and understandably so, let me add, since you probably are an academic. This is the anecdote.



## CHAPTER 7

### ECON-THINK AND PRICING

*The first lesson of economics is scarcity: there is never enough of anything to satisfy all those who want it. The first lesson of politics is to disregard the first lesson of economics.*

– Thomas Sowell

Just like a stockbroker would not stop to ponder about the acronym LSE: it is the stock market; an economics professor would immediately recognize it as the British university. In a very similar way, you would never expect a tribesman to produce a camera and start shooting the lion, nor would you expect a tourist to grab his wooden spear and assail the gazelle. As one looks at a wild animal, whether one sees a roasted-leg-to-be or a portrait in the making helps decide what it makes sense to do. Whether someone identifies food or photo material, financial markets or higher education, on the other hand, depends on how that person is used to framing situations.

The Moral Trial, too, could perhaps be better assessed if we allowed for the possibility that the conduct of economics students makes sense – from their perspective, at least. The whole issue might thus be addressed by investigating whether there is a specific way in which economists generally understand and interpret the choice situations in which they find themselves – what we may tentatively call a *framing* explanation for their behaviour.

This could be the major practical consequence of economics training, and in fact it might even be the single most important aims of our classes. In this Chapter, I shall begin by uncovering the roots of economists' worldview and subsequently investigate whether economists indeed have a peculiar way of thinking, which bears major consequences on how we understand choice contexts. Such framing, more specifically, should deviate from that of non-economists.<sup>95</sup> And do so in a meaningful way, that is in a direction that elaborates on or follows from the central tenets of economic theory.

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<sup>95</sup> I do not here elaborate on non-Economists way of thinking (on their presumed homogeneity, see Chapter 3).

**1. – PHILOSOPHY, METHODOLOGY, AND PARTY MEMBERSHIP?**

Following John Locke's political philosophy, economists see humanity as totally free and endowed with its natural rights in an original state of nature. Individuals then voluntarily create a political state in order to maintain their rights and property. No state or organization (or actually those individuals acting on behalf of states and organizations) should be allowed to modify the social outcome of freely interacting individuals, so long as it was reached without violating any individual rights. Should they do so, the people would have a right to revolt and overthrow the government. Among the natural rights of each human being is "a property in his own person" and in "the labour of his body, and the work of his hands." "Whatsoever then he removes out of the state that nature hath provided, and left in it, he hath mixed his labour with, and joined to it something that is his own, and thereby makes it his property" (Locke, 1960: 305-6). So individuals have 'property rights' nobody is entitled to operate upon but themselves.

Whenever the state intervenes to alter the status quo, it is accountable for whether individuals are made better or worse off after the new policy. In order to investigate such effects, economists need to be able to compute individual values of some sort, that are affected by the policy, change in consequence of it, and can be measured. Such value has been termed 'interest,' 'preference,' or 'utility.'

Since "the interest of the community [... is] the sum of the interests of the several members who compose it" (Bentham 1948: 3, iv), and since individual preferences cannot be measured in absolute but only in relative terms, the utilitarian goal of granting the greatest satisfaction for the greatest numbers amounts to devising policies and laws that increase the sum of individual utilities. Individual utilities, however, cannot be interpersonally compared. A policy that increases John's happiness by 5, but decreases Harry's by 5 cannot be resolved as being desirable or not, because there exist no ways to rank John's 5 points of utility against Harry's. There surfaces the need for a criterion to compare alternative policies that variously affect the happiness of many individuals.<sup>96</sup>

Economists tend to agree with the conservative sociologist Vilfredo Pareto who established a criterion to judge among alternative outcomes of social policies or multilateral exchanges, which took the name of Pareto-optimality. Among different states of the world, the one is preferable where everybody is either happier than, or at least as happy as in every alternative scenario. If a society can unanimously support a change, then that change is justified. The problem, therefore, is to identify those social changes that only affect individuals positively (or neutrally), but never damage them. And this only seems to happen in voluntary market-like exchanges among individuals who freely choose whether to accept, if the trade pleases them, or refuse, if it does

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<sup>96</sup> For a more thorough reconstruction of economics' political philosophy, see Schotter (1984) and Davis (2003).

not. It seems therefore that the starting point of individualism in economics already shows the way to the superiority of markets over alternative forms. What is not necessarily true, however, is that by embracing this position an economist ought to be *in favour of free markets* or *against government*. The preference for Market Pricing does not commit economists to a singular political outlook.

Because win-win situations admissible under the constraints of Pareto optimality, if they occur at all, are very rare in the case of state intervention, those economists who endorse governmental action support a variation of the Pareto criterion called ‘compensation principle’ (e.g. Kaldor 1939). The transaction between one state and another is commendable if, after the new state is achieved, those who benefit from it realize gains larger than the losses of those who suffer from it. So that the winners can (at least in principle) compensate the losers but still report a positive net outcome. Winners support the policy if its expected gains are superior to the bribe they have to offer to those who oppose it. Losers accept the policy if they expect a compensation that is superior to the damage determined by the policy. Once again the economist, even when pro-government, is pro-pricing, in that he structures his reasoning, devises his criteria, and establishes superiority all based on relative prices.

Is it possible that this sharp outlook does not make economists close to some political movement?

### 1.1. – A PARTY APART

To be sure, there are different ways to organize social relations, to transfer resources, and to make decisions, and they are never tightly separated from each other. Even some economists (yet very few) admit that there are hierarchical structures, like those found in firms and governments (Coase 1937, Williamson 1998), there is altruistic sharing, like that prevalent within families and between friends (Van Staveren 2001), there are forms of reciprocity (Titmuss 1970), and of course there are markets, regulated by the pricing system.<sup>97</sup>

Despite this acknowledgement, economists have a predilection for markets. In the follow-up study to *The Making of an Economist* (Colander and Klamer 1987, Klamer and Colander 1990), Colander (2003: 24) argues that, as they grow older, economists “have become less activist and more market oriented.” Although the causal relationship might be reversed so that the more market oriented *remained* economists, the general portrait of nowadays economists ought to feature this prominent characteristic.

Nor this should suggest that economists are generally in agreement with each other! On the contrary, we disagree about most of the issues that fall

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<sup>97</sup> Transaction cost economics, however, admits the emergence of hierarchies to replace markets on the grounds of MP, namely because organizations can coordinate economic agents more efficiently than markets under certain conditions.

within the scope of our inquiry (e.g. Klammer 2007: ch. 7). Most issues, but not all. A large survey conducted among economists employed in universities, governmental bodies, and business enterprises exposed profound disagreements concerning questions of macro and normative nature (Kearl et al. 1979: 34-36). The same questionnaire, however, revealed that questions of micro and positive nature elicit significant consensus, and in particular those “which involve interference with the price mechanism and exchange” (ibid.: 34). Frey and colleagues (1984: 990) do not find the same broad differences in consensus along the positive-normative and the micro-macro dimensions, but they also emphasise how the agreement is maximum when it comes to recognizing “the price system or market” as “an effective and desirable social choice system” (ibid.: 994, 987).

What influences do these beliefs bear on the political orientation of individual economists?

By comparing the answers obtained with a large survey administered to a sample of the national delegates of the Democratic and Republican conventions and to a sample of members of the American Economic Association, Dan Fuller and Doris Geide-Stevenson (2007) may answer the question. The respondents were required to say whether they agreed, agreed with provisos, or disagreed with a list of 44 propositions about economic issues.

In the matter of International Economics, for instance, the authors (ibid.: 89) show that “economists are more comfortable with the process of globalisation, the net benefits of free trade, and market based adjustment mechanisms than either political delegation.” When it comes to Macroeconomics, the consensus for every group has declined compared with the opinions expressed in a similar survey fifteen years earlier. In Microeconomics, quite remarkable is the observation that “both delegations disagree with the proposition that marketable pollution permits and taxes are more economically efficient than standards. Economists are alone in their agreement [that that is the case]” (ibid.: 91). It is understandable that economic issues with distributional implications still mark a clear border between the two parties, with some likely repercussions on beliefs about fiscal policy and regulatory efficiency, as well. But, more generally, “it is interesting to note that Republicans and Democrats agree much more frequently with each other than with economists” (Fuller and Geide-Stevenson 2007: 89).

Robert Blendon and colleagues (1997) had found similar divergences of opinions about the economy between economists and the general public. Quite obviously so! Economists may like to think of ourselves as intellectuals, but lay people have no such presumption: they have interests at stake when it comes to politics, and they quite obviously endorse the beliefs leading to the legislation that protects and furthers those interests. Elderly people vote for politicians who promise the most generous pension schemes, and young vote for those whom they expect to create the most new jobs. Or do they?



Bryan Caplan (2002) rejects the explanation that people vote with their wallets (*à la* Stigler 1986), as economists would put it. He also shows (Caplan 2001) that higher education, being male, having experienced or expecting an increase in real income over the next five years, and having a secure job are “what makes people think like economists.” Income and political conservatism do not have the same consequences. “What is clearly evident – Fuller and Geide-Stevenson (2007: 94) conclude – is that despite the continual encouragement of economists to ‘think like an economist’, there remains a considerable gap between the preacher and the choir.”

James Buchanan (2001: 5) may then be right to the point with his proposal of a ‘conceptual experiment’ for “classifying economists and distinguish them from the general public.” Ask everyone to comment upon the maxim ‘anything worth doing is worth doing well.’ Buchanan believes that there would emerge “a characteristic economist’s response to the adage which would not be shared by large numbers of other persons.” Particularly, an economist would argue that “there are, of course, many things worth doing that are not worth doing well since he is trained, professionally, to think in terms of a continuous scale of variation both in doing things and in criteria for judging them done well.” By our own mindset and knowledge, we are aware that some things cost more than others, that some afford greater benefits than others, and that not necessarily that large or small benefits are worth the large or small costs. This applies, as mentioned in the introduction, to every decision. After all, everything we do forces us to give up a large number of alternatives.

### 1.2. – *THE METHOD AND DOMAIN OF ECONOMICS*

The presence of a price to pay for a decision, however, is not enough to declare the presence of an MP relationship. (If this were the case, MP would lose meaning by referring to everything – a not unheard of criticism of economics.) One sense in which economics might still be considered a dismal science, as Kenneth Arrow noted, is that the job of the economist is to say “this or that, not both. You can’t do both” (quoted in Rhoads 1985: 11). If you want to pick up your son from the kindergarten on time, you can’t play that last tennis game; vice versa, if you want to bring home your sporting glory, you will keep your son wait a bit longer. ‘Opportunity costs’, as we call them, are those prices we must continuously pay with the rather peculiar currency of foregone chances. This insight, again a MP criterion, is one of the most important contributions of economics to individual decision making as well as to social policy.

Opportunity costs are everywhere. Even as you read these lines, you are not picking up the phone to call your mother, you are not checking your bank statement, and – unless it contains a condemnation of the point I am making – you are not advancing your paper for that conference. There always is a price to be paid. In this sense, obviously, every decision could be seen as a

deliberation of the Market Pricing kind. The real question, however, is whether you choose to read this book *because* of its price and the relative satisfaction it affords you, instead of the alternative things you might be doing.

Since each decision and each relationship can in principle be managed through four different mods, it is *perfectly legitimate* to study what would it be like if a particular transaction were managed through MP: this is the job of economists and the core of our discipline. If we look at the (small r) rhetoric of politicians and administrators unaware of the pervasiveness of costs, it is not difficult to find statements analogous to this: “administrators had been suggesting Department of Transportation objectives such as ‘maximising speed and comfort and minimizing the expense of travel’” (Rhoads 1985: 15). But only “[b]efore an economist became involved.” The objectives are obviously unattainable, and to conjure societal resources to even attempt such pursuit seems a foolish waste. It is a relief that an economist might step in and prevent the waste of time and money – which, as opportunity cost, won’t be spent on healthcare or education. Efficiency, indeed, is a concrete application of moral concern (Van Staveren 2007). And economics is a *desirable* discipline, or at least a legitimate one.

### 1.3. – *THERE IS A METHOD, IS THERE A DOMAIN, TOO?*

The very birth of economics is associated with the acknowledgment, in the 18<sup>th</sup> century, that “there exist such a thing as ‘the economy’ with regularities that can be investigated” (e.g. Hausman 2003: section 1.1). But the identification of economics with the study of the economy became controversial some seventy years ago. It then became easy to identify two major ways to interpret economics. The first (as in the work of Gary Becker and Lionel Robbins) considered economics as ‘the science of choice,’ which amounts to a set of tools, a method for explaining any instance of human behaviour. Conversely, the other interpretation (e.g. Adam Smith and Francis Edgeworth) believed economics should be regarded as ‘the science of exchange’ confined to a rather narrow domain of application, or a set of problems which pertain to its field of inquiry: the production, distribution, and consumption of goods and services (or something akin to these), that is the economy. The problem with this dichotomy, however, becomes apparent when we consider that the tool/method is the same for both camps.

Indeed our favourite technique of maximisation of expected utility under exogenous constraints is but a reflection of the underlying idea that a rational and selfish agent will deliberate according to MP criteria. And if this is so, the debate should not be discussed in terms of method vs. domain, but in terms of the scope of application of the common method. In this sense, the second group seems to suggest that the field of application of the economic method is the economy, while the former would reply that the field of application of the economic method is ‘all human action’ instead.

One can separate the domain of a discipline based either on a range of phenomena that it addresses or on a set of causal forces that it recognises as prevalent. Since the economy is affected by a large number of causal factors (e.g. the laws of thermodynamics, metallurgy, the functioning of human body and human psyche, etc.), it seems that economics is better defined in terms of the causal factors with which it is concerned (Hausman 1992). Such causal forces are ‘the pursuit of wealth’ in the classical definition by John Stuart Mill (1844), ‘the maximisation of happiness’ according to Jevons (1871), or in more contemporary terms ‘the maximisation of one’s preferences’ following the detachment of economic agency from its psychological foundations due to Pareto (1909) and Hicks and Allen (1934). Indeed most of contemporary economics is accurately captured by Robbins’ (1932: 15) definition as “the science which studies human behaviour as a relationship between scarce means which have alternative uses.” Among these uses, the production, distribution, and consumption of goods and services find a place, though by no means a prominent one. Economics is indeed about MP, wherever it may take place.

Economists seem to be aware that this is the case: 75% of the students involved in Arjo Klamer and David Colander’s (1990) survey of graduate education in economics believed that ‘learning neoclassical economics means learning a set of tools.’ 33% strongly agreed that this was the case, and 42% agreed somewhat. Fifteen years later in the follow-up study by Colander (2003: 9), they did not change their mind: 33% strongly agree and 52% agree somewhat, for a total of 85%. On the other hand, an economist finds little use of the understanding of the real world. Ask them how important is ‘having a thorough knowledge of the economy’ for professional success. 67% say it is unimportant, fifteen years ago it was 71% (Colander 2003: 13). Only 4% recognize it as very important (it was exactly 0% in the previous survey), and 20% admit it may be moderately important (it was 22%).

Therefore we close the circle: one can claim people behave ‘as if’ they were economic men, because that is a plausible description of behaviour in restricted domains such as markets and warfare. If the account of human agency is plausible, one can then transcend the limits of domain by simply positing different types of desires to be fulfilled (e.g. status, equality, salvation... instead of material wealth), and still treat them as goods to be obtained in a market-like fashion. There disappears the issue of scope:<sup>98</sup> there is no scope, just preferences. And these preferences operate the final decision among alternative choices and their relative prices.

If according to economists all human actions can be represented the same MP-like fashion, economists should be expected to frame situations in very similar ways to other economists and somewhat less similar to non-economists. We do possess and share a veritable econ-think

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<sup>98</sup> A trend in economics imperialism is precisely to deny the existence of a separate domain of inquiry for economics.

## 2. – ECON-THINK

Several textbooks of microeconomics (e.g. Frank's *Microeconomic and Behaviour*, 2005: back cover, emphasis mine) try to “help students develop *economic intuition*.” How do they accomplish that? By encouraging “the reader to develop the distinctive mindset known as *thinking like an economist*” (ibid.) Therefore, they routinely feature a Section or an entire Chapter devoted to *the economic way of thinking*. Recently, an economics textbook (Arnold 2004) even took the title of *How to Think like an Economist*.

In an extensive commentary on the economics major in American universities, John Siegfried and his colleagues (1991: 199) confirm that “broad consensus exists among economics faculty that enabling students to ‘think like an economist’ is the overarching goal of economics education.”<sup>99</sup>

But how does an economist think?

The European edition of Robert Frank and Ben Bernanke's introductory textbook, *Principles of Economics*, is more explicit. The book engages the students “to see *each* feature of their economic landscape as the reflection of an *implicit or explicit cost-benefit calculation*” (McDowell et al. 2006: back cover, emphasis mine).

Do we typically manage to achieve these goals? Do economists acquire the econ-think? It would be nice if we succeeded, at least to some minimal extent.

### 2.1. – THE LEGACY OF ECONOMIC THINKING

Herbert Simon showed that each of us has certain experience and cognitive skills to identify specific relevant patterns of meaningful information among the unlimited masses of data that surround us. Chess masters play routine moves until something happens in the chessboard that awakens their attention, they suddenly realise something major is going on between certain pieces, they *feel* victory is within reach and activate an adequate response. An expert driver will know how and when to pass a slow truck, even if a minute before he was listening to his favourite song on the radio. Well: economists know when there is a trade-off, and therefore a potential market.

It would not be possible, given human reduced memory, imperfect attention span and limited computational capabilities, to pay attention to each and every move on a chessboard, cautiously evaluating it within the broader scheme of the game and comparing it to one's expectation of the opponent's next moves and to one's strategy, under the constraints imposed by the rules of the game. Only freshmen attempt such enormous tasks... and fail; until they develop the necessary expertise to react only to *important* conditions, to *relevant patterns* that is. A driver cannot possibly estimate the speed of the car coming on the other side of the road, assess its distance, and immediately compute the time available, then confront these data with the current speed of the truck in front of him, evaluate his car's acceleration and decide whether it

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<sup>99</sup> “All other virtues follow,” they further remark.

is safe to pass a slow truck. He simply *knows*. If the driver did not know how to quickly understand road conditions and make a timely passing decision, the competitive highway environment would have already selected him out, through a car accident. If the chess player did not know how to identify the chance to checkmate his opponent when the opportunity arises, he would not win a game, he would not be(-come) a master.

“In any field of expertise, the possession of an elaborate discrimination net that permits recognition of any one of tens of thousands of different objects or situations is one of the basic tools of the expert and the principal source of his intuitions” (Simon 1983: 26). Having seen many chess games or road conditions, the expert’s senses are trained to react to certain important features of a situation without painstaking reflections, just the same way as everyone of us ‘instantaneously’ recognizes a friendly face down the street or a word (and its meaning) uttered in a language in which we are proficient.

Experience allows bypassing ‘orderly sequential analysis’ and favours the emergence of intuitive decision-making. Intuition, therefore, is the skill of the practitioner (of whatever task) to creatively act upon decisive pieces of information, which she recognizes among endless masses of data (Simon 1983: 24ff, 1979). To avoid overload, our senses filter out more than 99% of the sensorial stimuli produced by the environment. A chess master can play dozens of opponents at the same time and win virtually against all of them. Although he did actually see his opponents, he will nonetheless (almost certainly) not be able to answer simple questions like: what’s the colour of the sweater of the last opponent you defeated? How many players were wearing glasses? This is not surprising: his brain automatically processes important information only. Information important to him and in the situation at hand, that is. He can then consciously put an effort into counting the number of opponent wearing laced shoes, but he will probably be less successful at this task than at checkmating them.

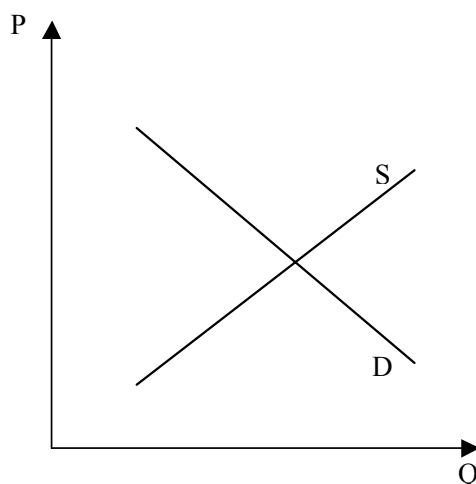
A trained mind recognises the relevant dispositions of the pieces on a chessboard among the potential  $10^{120}$  contingencies in a 40 moves game. The speed of the process of deciding what move to make for a chess master is so astonishing – namely 5 to 10 seconds – that it cannot be the product of careful analysis. Studies on eye movements revealed that chess masters looking for the first time at a contingency on a chessboard shift their eyes to the most relevant part of the board within 2 seconds. The same happens to experienced drivers and to everyone of us in our fields of expertise. The process at play is what Simon terms ‘subconscious pattern recognition,’ based on experiences stored in the long-term memory and retrieved upon an appropriate triggering by sensorial perceptions. What is also important to note is that perhaps 80 or 90 percent of the times the intuitive move that pops up in the master chess player’s mind is also the best move available.

After the imperialistic trend, in economics one needs to be able to spot tradeoffs, as being good at doing so is what makes a successful economist.

Gary Becker claimed his Nobel Prize in 1992 ‘for having extended the domain of microeconomic analysis to a wide range of human behaviour and interaction, *including nonmarket behaviour*’ (emphasis mine). This means that he was able to identify relations of the market pricing kind in fields – like discrimination, crime and punishment, and family – where nobody else saw them before. While Becker is a paradigmatic example, others before and after him have undergone similar routes. James Buchanan, Nobel Laureate in 1986, is famous for the emphasis put on the behavioural symmetry between economic and non-economic (e.g. political) actors, and for his vision of politics-as-exchange. Also the 2001 Nobel Prize winner, George Akerlof, broadened economic analysis to address numerous sociological questions. Whereas these ‘domains’ of human life are customarily regulated by rules that dictate they should be managed through a different relational model, this does not disallow the possibility to – at the very minimum – analyse them, or even suggest to operate them, through market pricing.

Indeed economists see prices and tradeoffs everywhere: inside other traditional institutions like language (but also gossip, information, communication, and deception) and family (but of course also polygyny, abortion, and adoption); in anonymity, pornography, prostitution, suicide, smoking, and science fiction; in natural phenomena like gender, aging, and getting fat; and even in daily life activities like brushing teeth!<sup>100</sup>

FIGURE 1. **A market, as well...**



<sup>100</sup> For a quick taste of the economics of discrimination, crime and punishment, and family, see Becker (1992), they are lately becoming mainstream. Blinder’s (1974) classic piece discusses the economics of teeth brushing. Tollison and Wagner (1992) and Sullum (1998) are a good starting point for the economics of smoking. Hamermesh and Soss (1974) and Marcotte (2002) investigate suicide. Acquisti et al. (2003) discuss the economics of privacy and anonymity. Robin Hanson has done research on the economics of science fiction. Farrell (2003) has something to say about a fattening America. A recent book (Bowmaker 2005), *Economics Uncut*, boasts the subtitle *A Complete Guide to Life, Death, and Misadventure*.

If you are a trained economist or an economist in training, your very training chiefly amounts to a systematic acquaintance with endless lists of markets. Siegfried and colleagues (1991: 202) liken the economics major to a tree, with a trunk made of the basic economic knowledge and the branches representing the many applications of this knowledge in a variety of subfields. Training in economics can thus be regarded as “a helix - plowing the same ground repeatedly at progressively greater depth” (Siegfried 1991: 202).

Imagine a wage-bargain taking place at a company’s headquarter, what do the spectators to the intense debate see? Dr. PolSci enjoys the complicate patterns of power struggle, Dr. Soc pays attention to the challenges of collective negotiation, Dr. Hist finds amusement in the evolution of workers’ rights, and Dr. Econ just sits there, casually contemplating yet another market unravelling. There is nothing magical about it: it is just the way human brain works. One last example might be convincing: look at FIGURE 1, what do you see? A huge ‘X?’ A collapsing square? Nonsensical lines and letters? Well, to an economist even *this* is a market (e.g. Klammer and Leonard 1994).

So economists *feel* markets. Given the automatic nature of perceptions, we sense trade-offs, identify relevant ratios and realize the existence of a market in a matter of instants.

Do we?

## 2.2. – THE EMPIRICS OF FAIR PRICING

It may be expected that, as economists frame situations as market-like, we also believe that distributive arrangements based on relative prices are appropriate to regulate the transactions occurring in those situations. We can be expected, therefore, to approve of the pricing system and to consider it fair and adequate ‘more’ than non-economists do.

A direct way to test differences in attitude towards the pricing system is to investigate the responses to simple surveys. For instance, Bruno Frey, Werner Pommerehne, and Beat Gygi (1993) asked a sample of students drawn from German and Swiss universities and of random citizens in Berlin and Zurich how do they feel about a price increase in face of a situation of excess demand. When there is not enough of a given good to satisfy everybody, economic theory suggests that the price will be driven upwards by competitive bidding. This way the scarce good goes to whoever cares for it the most – and is thus willing to pay the highest price for it – while the seller makes a hefty profit, so that both are smiling at the end of the day.

Who agrees with this view? To answer, Frey and his colleagues asked the following questions (Frey et al. 1993: 274-5):

*[water] At a sight-seeing point, reachable only on foot, a well has been tapped. The bottled water is sold to thirsty hikers. The price is one SFr (or one DM) per bottle. Daily production and therewith the stock are 100 bottles. On a particularly hot day 200 hikers want to buy a bottle. As a*

*consequence the supplier raises the price to Sfr/DM 2 per bottle. How do you evaluate the price raise?*

*[snow shovels] A hardware store has been selling snow shovels for SFr/DM 30. The morning after a heavy snow storm, the store raises the price to SFr/DM 40. How do you evaluate this price raise?*

The responses (TABLE 1, TABLE 2) confirm that a larger proportion of economists indeed consider pricing a fair solution to tackle scarcity than the general population does. What Frey and his colleagues also point, however, is that the different evaluation of market-like allocations is already present in newly enrolled students, and on these grounds they reject the ‘indoctrination’ hypothesis. They conclude that perhaps “economics students represent a special group of people who prefer the price system more than the general population does” (ibid.: 279).

TABLE 1. **Responses, water**

<i>Response</i>	<i>Adv. Econ.</i>	<i>Beg. Econ.</i>	<i>General</i>
<i>n</i>	148	304	472
<i>Completely Fair</i>	10	11	5
<i>Acceptable</i>	33	46	17
<i>Unfair</i>	45	34	44
<i>Completely Unfair</i>	12	9	34

*Source: Frey et al. (1993, selected entries)*

TABLE 2. **Responses, snow shovels**

<i>Response</i>	<i>Adv. Econ.</i>	<i>Beg. Econ.</i>	<i>General</i>
<i>n</i>	58	115	159
<i>Completely Fair</i>	10	10	2
<i>Acceptable</i>	52	49	16
<i>Unfair</i>	33	31	42
<i>Completely Unfair</i>	5	10	40

*Source: Frey et al. (1993, selected entries)*

The goal of economics education, therefore, could be ambiguous. If our students already think like economists on day one, why do we need to bother instructing them any further?

In a variation on the questions above, Justus Haucap and Tobias Just (2003: 3), asked economics and non-economics students to express their opinions about the fairness of five alternative systems for allocating the water bottles at a sight-seeing location:

*At a sight-seeing point, reachable only by foot, a well has been tapped. The bottled water is sold to thirsty hikers for €2 per bottle. The maximum daily production are 100 bottles. On a particularly hot day, 200 thirsty hikers are expected. Please judge the following measures for allocating the water among the thirsty hikers:*

*[a] The price is increased to €4 per bottle.*



[b] Selling the water for €2 per bottle to the first 100 hikers according to “first come, first served.”

[c] Selling the water for €2 per bottle to the hikers whose last name by chance happens to start with the letters A to K.

[d] The local community buys all bottles for €2 per bottle and distributes them as it sees fit.

[e] Selling half-sized bottles for €1 per bottle to all hikers (one bottle per hiker only).

Now the responses (TABLE 3) reveal some differences within the economics students’ sample as well as between economics and non-economics students.<sup>101</sup> More economics students consider the price increase fair than non-economics ones, and the discrepancy is especially large in the comparison with the students of other Social Sciences. Not only this is true for first year students, but the gap grows for advanced economics students.

TABLE 3. Fair & Acceptable Responses

Respondent / Response	N	Price Increase	1 <sup>st</sup> come, 1 <sup>st</sup> served	Random	Community	Rationing
1 <sup>st</sup> year Econ.	166	41.0%	77.7%	7.8%	43.4%	95.8%
Adv. Econ.	145	60.0%	69.0%	9.0%	34.5%	93.8%
Business	236	45.8%	73.7%	8.1%	41.5%	93.6%
Biz. Engin.	46	69.6%	71.7%	2.2%	41.3%	97.8%
<b>All Econ</b>	<b>311</b>	<b>49.8%</b>	<b>73.6%</b>	<b>9.7%</b>	<b>43.4%</b>	<b>94.5%</b>
Engineering	62	41.9%	83.9%	12.9%	61.3%	93.5%
Other Soc. Sci.	132	22%	68.9%	11.4%	44.7%	93.9%
<b>Non-Econ</b>	<b>194</b>	<b>28.4%</b>	<b>73.7%</b>	<b>11.9%</b>	<b>50.0%</b>	<b>93.8%</b>
<b>All Students</b>	<b>505</b>	<b>41.6%</b>	<b>73.7%</b>	<b>9.7%</b>	<b>43.4%</b>	<b>94.5%</b>

Source: Haucap & Just (2003, selected entries)

The ‘price increase’ measure is an instance of the Market Pricing mod, because the allocation of the bottles of water is regulated by discriminating among the willingness to pay a higher price. More economics students approve of this than non-economics ones. The ‘community’ allocation is in line with the Authority Ranking mod because someone is empowered to decide for everybody else. The ‘first come, first served’ and the ‘random’ alternatives seem to reproduce the Equality Matching mod, because everybody is given the same chance at getting the water. Finally, the ‘rationing’ option seems a case of Communal Sharing because the available goods are split evenly among the hikers.

To be sure, one could regard the ‘first come, first served’ measure as AR, in which someone has priority over others, based on their arrival order (AR-preo). In a similar fashion, one could regard the ‘rationing’ system as EM,

<sup>101</sup> Frey and his colleagues (1993: 276-7) also present a ranking of allocation mechanisms, but they offer a choice among 4 alternatives (i.e. a-d in the Haucap and Just survey). They do not find differences between the responses of first year and those of advanced economics students.

because everybody is treated equally. The different interpretations, however, are highly subjective and cannot easily be investigated. On the other hand, could it not be precisely the idiosyncratic understanding of the allocation system that accounts for different approval ratings?

On the whole, Haucap and Just (2003: 5) suggest that economics students “tend to naturally like the market,” and that “this preference is nurtured over the course of their study.” Yet, as is rather evident from their data, everybody ‘tends to naturally like’ equal sharing better than they like any alternative offered... also (or even) economists.

It is also probable that an experimental setting in which the participants are asked to practically allocate certain goods according to one of the four mods might elicit the observation of more specific differences in conduct, because only one system would be employed, whereas in the surveys above a student could in principle consider fair each of the proposed allocations.<sup>102</sup> The surveys above, furthermore, do not directly test the approval for certain mods only, but for mods in connection with specific preos: not MP, but MP in the form of a fixed price increase of a fixed amount, and not through free negotiation. An economist might thus be less enthusiastic about this MP arrangement than he would be for an MP arrangement associated with freely floating prices. And non-economists in the West may easily agree.

The results are nonetheless of interest because they reveal a different attitude towards the pricing system within a given preo, with more economists than non-economists believing it fair.

The experimental evidence presented together with the discussion conducted up to this point may therefore suggest that the problem at hand is not specifically to find out whether economists differ in their moral inclinations from non-economists. Fairness is a matter of doing something that is appropriate for a situation of a certain type. But when economists and non-economists face the same situation, they may be seeing it, as it were, from different frames. And it would be normal that this should translate in different observed behaviours.

This account would suggest we do not differ from others in terms of what kind of people we are or how we behave strictly speaking, but in terms of *how we frame situations*. When someone reasons in terms of cost-benefit, trade-offs, or relative prices it is socially accepted (and therefore likely) for her to

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<sup>102</sup> I was not yet able to conduct a thorough experimental investigation of these effects. Though I do not present them in full form in the present work, I run a few pre-tests with small groups of economics students and non-economics students and graduates. Participants were given random amounts of two goods, with a score-table (akin to a preference function), and were asked to rate (on a 0 to 7 scale) 8 different procedures to regulate the transfers of the goods among the participants. The procedures are inspired by the Relational Models (2 for each). And the criteria for rating include ‘appropriateness,’ ‘efficiency,’ ‘fairness,’ and ‘individual satisfaction.’ Economists consider MP procedures superior to others under every respect. Non-economists (though the composition of this group is very much varied) express less obvious judgments. Depending on the specific procedures proposed (i.e. free bargaining), they too approve of MP ones, though unlike economists they do not approve of those only.

enact self-serving behaviour.<sup>103</sup> Perhaps we do, as seems probable in the light of the dominant features in our discipline, rather often frame situations as market-like. Consequently, our behaviour can be expected to be properly attuned to such frame. (But if others were to think of the situation as being market-like as well, many of them may be expected to behave roughly as economists do.)

### **3. – THE (REAL) GREAT TRANSFORMATION**

When we buy a steak for dinner at the supermarket down the street or adjudicate a rare stamp for our collection at an auction, when we order home delivery pizza by phone, purchase from a mail catalogue, or reserve a plane ticket online, we are using the market, undergoing a pricing relation with someone else. In these occasions, we don't question the fairness of our contribution to the seller: did he not deem the price sufficient he would simply not entertain that transaction in the first place. On the other hand, we sometimes feel 'robbed' for overpaying a certain good or service: there again we have an option not to buy it. Prices ought to be high enough for the seller to profit from the transaction, but low enough to lure the buyer into it. Without a balance between the two interests, there would be no exchange. When a market transaction does not appeal to us, we react by 'exit', rather than 'voice' or 'loyalty' (Hirschman 1970). We do not feel a need to promote fair outcomes on both sides of the transaction: we are confident that our partner is not defective in selfishness and rest content with not being defective ourselves. Also, we must acknowledge our cognitive limits prevent us from carefully appraising each and every transaction we entertain, lest we accept to devote the entirety of our lives to performing orderly sequential analyses, in the form of constrained maximisations and ethical deliberations. Thus we tend to deal with environmental complexity and time pressure by means of emotion-driven behaviour.

As a matter of fact, in most market situations we relate not to other actual human beings, but to rather aseptic transacting partners. We do not share much more with them than a quick exchange over a price both deem satisfactory. Under these conditions, prisoners defect, competitors push the margins down, and salesman have a hard time selling their second hand cars to suspicious customers. Both good and bad outcomes realize, as economic theorists can show. But, as Deirdre McCloskey is fond of repeating, we do not treat a store clerk like a vending machine. Exchanges are psychologically, emotionally, and socially embedded. Many real-life transactions involve face-to-face contact, greetings, etiquette, bargaining, discussions, detours into casual chats about the weather, repeated encounters, etc... they establish a sort of more profound relationship between what would otherwise be just

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<sup>103</sup> But even if behaving selfishly in market-like situations is acceptable, it might not be acceptable to always think you are in such situation (see Chapter 9).

transacting strangers. All of this, *ça va sans dire*, has major economic consequences.

It could, for one instance, increase perceived proximity – in the form of spatial proximity, kinship relations, or psychological affinity (Sally 2002) – among subjects and facilitate the emergence of ‘sympathy,’ which solves commitment problems in asymmetric information trades or in non-cooperative game theoretical settings (e.g. Frank et al. 1993). Costless, non-binding, non-verifiable chitchat, or ‘cheap talk’ as it is called, is believed to have no economic value and “it is always compatible with rationality to treat cheap talk as meaningless” (Farrell and Rabin 1996: 108). But a preliminary cheap talk session has been shown to increase both the efficiency of a bargaining game and the individual satisfaction of its participants compared with a control group in which no chitchat was allowed (Ambrosino et al. 2006). With increased interaction, flesh and blood people emerge from economic men and preoccupation for each other, and for each other’s payoffs, suddenly appear.

As Adam Smith (1759) beautifully puts it in the opening sentence of *The Theory of Moral Sentiments*, “[h]ow selfish soever man may be supposed, there are evidently some principles in his nature, which interest him in the fortune of others.” People experience fellow-feeling. It appears that market incentives are being joined by other concerns, we are no longer in the narrow pursuit of wealth, we must not only preserve our interest, and we need not make sure we are not defective in selfishness. We begin to identify with the other and to share something with her.

### 3.1. – EXPERIMENTS FRAMED

The classical interpretation of game theory is that games capture the physical and institutional features of real world situations. But this does not happen in practice: instead, the theorist invents the rules of the game as he sees fit (Janssen 1998: 23, Aydinonat 2005: 1). Ariel Rubinstein (1991: 917-921) clearly observes that a game is *not* a full description of the elements of a situation, but rather “a comprehensive description of the *relevant factors* involved in a specific situation *as perceived by the players*” (ibid.: 917, emphasis mine).<sup>104</sup> In an experimental context, the payoff cannot capture all the relevant factors, especially because they are likely to be different for different players.

Economists believe nobody would return money to some strangers, and she would rather pocket the money – especially when she stands no chance of being detected. In practice, however, people do return money (and such behaviour is even more common among economists). Yezer and his colleagues (1996) interpret the datum as a manifestation of cooperative behaviour by economists. It should be noted, however, that subjects don’t know whose

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<sup>104</sup> Rubinstein (1991: 919) even suggests that “a game-theoretical model should include only those factors that are perceived *by the players* to be *relevant*”.

money they are handling; neither do they have any immediate legal claim on that money.<sup>105</sup> When economists return cash-filled envelopes, consequently, they are showing unselfish conduct, but they are not exactly *cooperating* with anybody. The experiment was arranged so “to give students finding the letters the impression that they had been written by other students” (ibid.: 180). Moreover an addressee is written on the envelope and arranging the delivery of money seems more a matter of respecting private property rights and prevailing civil laws than of cooperative inclinations. Laszlo Zsolnai (2003) suggests that the decision to return the envelope is a matter of moral duty, rather than human affection. The paper by Yezer and colleagues indeed provides totally unexpected results, but it seems to miss the point: lost and founds are not a MP situation. It is perhaps a setting where everyone is expected to be equal before the law (EM).

Some fifteen years earlier, Marwell and Ames (1981: 297) had conducted their experiments via telephone and mail, under the label of “an experiment concerning investment decisions.” This does not look like the frame that awakens strong sympathy. Indeed, it did not stimulate economists to contribute to the ‘group exchange,’ but it might have triggered others, especially when it was told them that the experiments involved other (high-school) students “*like themselves*” (ibid.: 299). It obviously does make a difference that economists are told they will play the game with other graduate economics students like themselves because, for one thing, economists are believed to be ‘different’ and ‘more selfish.’<sup>106</sup>

When we invest money, we think in terms of risk/return ratios, financial economists go a great distance talking about a market price for risk. The fair outcome is one in which we expect to obtain a sufficient remuneration for our risk of losing the investment. Sufficient remuneration for risk-neutral investors means that there should be no difference in expected value from alternative choices (i.e. the private and the collective investment). Yet prospect theory has made it clear that we are indeed more attracted by risk when facing a loss, while we tend to take the sure path when a gain is in sight. The experiments in Marwell and Ames (1981) clearly represent a ‘gain’ setting, and it should be noted that the level of risk depends entirely on the expected contribution of other investors: if they do not contribute to the public good, our contribution would be wasted and shared with people who do not deserve it. Economists have a more cynical outlook on human nature (Frank et al. 1993, Yezer et al. 1996) and, in this experiment, they play with other economists, so that their perceived risk is probably higher than that of those

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<sup>105</sup> In different countries there are different legal provisions concerning lost and founds, but to my knowledge one usually becomes the legal owner of a lost sum only after a certain time from the notification to public authorities of the retrieval of a sum whose owner is and remains unknown.

<sup>106</sup> Economists may have been believed to be both ‘different’ and ‘more selfish’ before the Marwell and Ames paper which triggered the Moral Trial. I dig into why and how much it matters in the next Chapter.

who entertain a more benign opinion of others. This seems a sound economic justification (compatible with both neoclassical economics and prospect theory, incidentally) for their decision to invest in the sure return from the private good, rather than the riskier public one. It is remarkable that economics students employ a reasoning of this kind even if only 6% of them “could specifically identify the theory on which the study was based” (Marwell and Ames 1981: 306). They are applying the economic method to uncharted decisions.

Investments in public goods can be individually rational in economic terms whenever an agent is in a position to alone support the provision of the good and when such good grants him a greater advantage than its cost (MP). Such situation, unsurprisingly, is not very common. And contributions to public goods in the real world are either compulsory (AR), as in the case of government-led ones, or stimulated through appeals to a sense of duty (EM) or through a vocation to altruism (CS). What takes place is a ‘re-framing’ of the choice context, in the attempt to divert the attention of the contributor away from individualistic calculative concerns and towards decision-making based on different principles (e.g. duty, generosity, etc.). To the extent that self-interest and rationality are independent concepts (e.g. Khalil 2004: 110), economists’ behaviour seems more calculative than acquisitive.

The reported explanation for the difference in investment decisions, however, is that “the meaning of ‘fairness’ in this context was somewhat alien” (Marwell and Ames 1981: 309).<sup>107</sup> Economists are half as likely as non-economists to say they were ‘concerned with fairness’ and believed a small contribution or no contribution were fair. But what is *fair*? Hardly any economist believes fairness in the market for risk amounts to guaranteeing that everyone gets her share. That high-school students do is hardly to their credit.

Another challenging result emerges in the complex and debated experimental setting commonly called the ultimatum bargaining game. (The name may be deceiving, though, as there is in fact no bargaining.) To better understand the cognitive structure underlying such game, it’s useful to compare it with two variants: the dictator game and sequential ultimatum games. The dictator game is an ultimatum game in which the responder is entirely passive: she must simply accept just any division proposed. In sequential games, a different game is played first – maybe a general culture quiz – and whoever wins it is entitled the role of proposer in the following ultimatum game. Both variants grant greater emphasis to the role of the proposer and its linear priority over the responder’s. The ultimatum game now begins to reveal a structure in line with a hierarchy (AR). These versions

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<sup>107</sup> “More than one-third of the economists either refused to answer the question regarding what is fair, or gave very complex, uncodable responses” (Marwell and Ames 1981: 309). This remark, however, reveals a framing problem. If we reverse the statement, by saying that more than 60% of the economists responded, the problem seems to be less urgent.

seem in fact to simply grant a stronger (dictator) or a better justified (sequential) authoritarian position to the proposer. Not surprisingly, therefore, both variants show offers to respondents that are significantly smaller than in those observed in the normal form. In the Dictator variant (Forsythe et al. 1994), 64% of the players keep the endowment all to themselves, and the mean allocation is a mere 20% of the total. When the proposer is a ‘contest winner’ (Frey and Bohnet 1995) or has otherwise ‘earned the right’ to the position (Hoffman and Spitzer 1985), she makes lower offers than in the standard ultimatum games. Indeed, not only a market does not necessarily require selfishness, neither it is the only mod wherein selfishness is considered an adequate response.

Small offers are also observed in anonymous treatments, for which the so-called ‘social distance’ between the participants is highest (Hoffman et al. 1996, Frey and Bohnet 1999). In a large meta-study on the ultimatum game (Oosterbeek et al. 2004), it was also shown that the variations in behaviour across different cultures can be explained by deference to authority (Inglehart 2000: 83, reported in Oosterbeek et al. 2004). In cultures with high respect for authorities, responders do not behave very differently from those in other cultures, but the proposers make smaller offers.

If one recognizes the AR framing of the ultimatum game, the implicit question becomes whether the separation between the proposer and the responder is justified (AR-preo). If it isn’t, and both players are thus believed to be equal (EM), the principle of choice will be different from self-interest, and probably something akin to egalitarian fairness (EM-preo). It appears that this is what we often observe in the game conduct of non-economists. But it is still possible to construct the relationship between proposer and responder as MP, i.e. in terms of the likelihood that a certain offer (is accepted and thus) results in a certain payoff. In these cases, if we have cynical expectations about the behaviour of our co-players, we should indeed offer them very small shares. And these cases are quickly created by manipulating the experiment’s framing (e.g. Bicchieri 2005: 94n). Hoffman and colleagues (1994), for instance, conducted a market-framed ultimatum game, in which the proposer is called ‘seller’ and the responder ‘buyer.’ The buyers behaved as in the standard game, but sellers made smaller offers.

Again, an important element in this game is the expectations we hold about the conduct of our partners, and these are pervaded with uncertainty. It is noteworthy that what I shall tentatively label ‘revealed uncertainty’ is the same both for economists and non-economists. We propose to keep 61.5% of the initial allotment and are willing to accept 17%, therefore leaving about 21.5% of the available surplus unassigned and open to match the contingencies of a specific bargain. Non-economists leave about 21.2% (since they want to keep 54.4% and accept 24.4%).

While they might alternatively support or contradict broad claims on the selfishness of economists, findings of this kind rather suggest that economists

are just humans. Economists are in fact not incapable of fellow feeling. Frank et al. (1993) shows that increasing the interaction between subjects before running the prisoner dilemma experiment, and permit them to agree about their conduct, results in greater cooperation. With but ten minutes of time to get to know other subjects, defection rates are highest for both economist and non-economist; with thirty minutes, defection rates decrease; and with the further possibility to make a (yet unenforceable) commitment to cooperation defection falls substantially and the behavioural differences between economic majors and non-majors “virtually disappear” (ibid.: 166). Cheap talk at its best.

But, of course, when we agree with fellow students on a strategy to earn money at the back of some professor holding the experiment, we are not dealing in a risky investment (MP): we are in a team (CS). Corroborating findings are sometimes observed in public goods among friends, who contribute more than non-friends (Haan et al. 2006, but see Andreoni 1988 for different findings). It is therefore consoling to investigate economists’ contributions to public goods: “the behaviour of economists was little different from the behaviour of members of other disciplines” (Frank et al. 1993: 162). Frey and Meier (2000) also demonstrate that students of economics are willing to contribute to social funds granting cheap loans to poor students and supporting visiting foreign students. Unfortunately their working variable is ‘contribution to at least one fund’, so that there is no control over whether the supposedly stronger sympathetic link with needy students of their own university commands a higher number of contributions. It should now be noted that charity is not a matter of MP – it is a matter of EM and CS: each has to contribute his share so that all enjoy a certain benefit. To be sure, we are capable of fellow feeling, we know our citizens’ duties: *we are human beings like everyone else*. But we are still more likely than others to construct our representation of a situation as regulated by economic incentives. In that case, obviously, we will do what seems smart and not write a check for a public good. Although the overall contribution is essentially the same as that of non-economists, the number economists who contribute zero – strong free-riders, that is – is more than double compared to that of any other group in the survey (Frank 2004: 161).

#### **4. – THE EXPERT ECONOMIST**

The experimental literature on the character of economists can be roughly divided into two streams: the ‘accusatory’ (the public good game in Marwell and Ames 1981, the ultimatum game in Carter and Irons 1993, the prisoner dilemma in Frank et al. 1993) and the ‘apologetic’ (the public good survey in Frank et al. 1993, the lost letter experiment in Yezer et al. 1996, the natural experiment on charity in Frey and Meier 2000). The one suggests that economists are selfish, the other contradicts the selfishness hypothesis and tries to disprove it; the one leaves room for a critical moral evaluation of



economists, the other tries to bounce it. In the light of the previous discussion, however, I claim the implied dichotomy between economists and non-economists is too radical, and as of yet ungrounded.

Carter and Irons (1991: 175) propose that a conduct consistent with economic reasoning might be the consequence not so much of moral sentiments, but rather of certain skills, namely “the sort of deductive logic required to recognize and determine opportunities for economic gain.” To explore this possibility, at the end of the experiment they presented subjects with two multiple-choice questions to test their understanding of the income-maximising strategy: 44% of economists and 29% of non-economists gave the correct answer. Through a questionnaire administered at the end of the game, Frank et al. (1993) also demonstrate that 31% of economics majors explained their behaviour in terms of the features of the game, versus 17% of non-economics majors, underlining their understanding of the dilemma in terms of trade-offs, rather than “feelings about their partners, aspects of human nature, and so on” (ibid.: 166).<sup>108</sup> It is unfortunate that this datum is aggregate and not detailed for the three variants of the experiment (i.e. with different pre-game interaction time and with the possibility to commit to cooperation). The results of Carter and Irons and of Frank, Gilovich, and Reagan are not very strong, but the framing of a situation needs not be aware and, to the extent that it is, it needs not be fully disclosed.

An experiment by Rubinstein (2006) also investigates this intuition. Six groups of subjects were involved: undergraduates in Law, Philosophy, Economics, and MBA students at Tel Aviv University, and Economics undergraduates at the Hebrew University in Jerusalem. They were informed that each of six participants would be randomly assigned a reward consisting in NIS 150 (circa \$ 33) worth of coupons for their local bookstore. The subjects are presented with a scenario wherein they are the vice president of ILJK, a family-owned business facing a recession, and they have to make up their mind concerning the number of workers who should be laid off in order to restore profitability, based on the following information (Rubinstein 2006: C2):

*Until recently, the company was very profitable. As a result of the continuing recession, however, there has been a significant drop in profits though the company is still in the black. You will soon be attending a meeting of the management at which a decision will be made as to how many workers to lay off. ILJK's Finance Department has prepared the following forecast of annual profits.*

The decision is thus based on the forecasts reproduced in TABLE 4.

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<sup>108</sup> Similar tests are absent in other experiments, but it is unlikely that the subjects rationalize their non-economic behaviour according to payoffs or incentive structure.

TABLE 4. **Employees / Profits**

<i>Number of workers who will continue to be employed</i>	<i>Expected annual profit in NIS millions</i>
0 (all the workers will be laid off)	Loss of 8
50 (146 workers will be laid off)	Profit of 1
65 (131 workers will be laid off)	Profit of 1.5
100 (96 workers will be laid off)	Profit of 2
144 (52 workers will be laid off)	Profit of 1.6
170 (26 workers will be laid off)	Profit of 1
196 (no layoffs)	Profit of 0.4

*Source: Rubinstein (2006, selected entries)*

As usual, economists differ sharply from non-economists in their answers (TABLE 5).

The students of Economics, Mathematics, and Business Administration were randomly assigned either the question above or the following (ibid.: C3): “The Finance Department has prepared a forecast of profits according to which the employment of  $x$  workers will result in annual profits (in NIS millions) of:  $2\sqrt{x} - 0.1x - 8$ .” The formula can be employed to calculate values identical to those in TABLE 4.

TABLE 5. **Responses, Q1-Table**

<i>Response</i>	<i>EconHU</i>	<i>EconTA</i>	<i>MBA</i>	<i>Law</i>	<i>Math</i>	<i>Phil</i>
<i>n</i>	94	130	172	216	64	88
<i>100<sup>I</sup></i>	49%	45%	33%	27%	16%	13%
<i>144</i>	33%	31%	29%	36%	36%	19%
<i>170</i>	7%	9%	23%	18%	25%	25%
<i>196<sup>II</sup></i>	6%	13%	12%	13%	11%	36%
<i>other<sup>III</sup></i>	4%	2%	3%	6%	13%	7%
<i>avg layoff</i>	69	63	54	52	45	31

*Source: Rubinstein (2006, selected entries)*

Notes: I) profit maximisation; II) no layoffs; III) answers below 100 (i.e. keep less workers than needed to maximise profits) are obviously mistaken, the large majority of these answers, however, appear to derive from a misunderstanding (i.e. ‘layoff’ instead of ‘continue to employ’), see Rubinstein (2006: C4).

TABLE 6. **Responses, Q1-Formula**

<i>Response<sup>I</sup></i>	<i>EconHU</i>	<i>EconTA</i>	<i>MBA</i>	<i>Math</i>
<i>n</i>	62	79	131	48
<i>100<sup>II</sup></i>	74%	77%	73%	75%
<i>101-195</i>	10%	9%	11%	15%
<i>196<sup>III</sup></i>	16%	14%	15%	10%
<i>avg layoffs</i>	76	78	76	79

*Source: Rubinstein (2006, selected entries)*

Notes: I) does not include answers below 100, see Rubinstein (2006: C4); II) profit maximisation; III) no layoffs.

Finally, each subject was also asked what did he think a real vice president would do in the same situation. Here the answers are very homogeneous across the whole pool of subjects. Circa 50% of the students expect the real manager to maximise, 25% expect him to fire 52 workers (keep 144), 15% expect him to fire 26 (keep 170), 5% expect him to recommend no layoffs, and 5% give ‘wrong’ answers. (This is just a very rough summary, see *ibid.*: C5 for the actual data.)

As the author comments the experiment, “[t]he question was intended to present the respondent with a dilemma which would force him to weigh his commitment to profit maximisation against concern for the fired workers” (*ibid.*: C2-3). Such concern appears to be lowest among economics students, perhaps because “the study of economics through mathematical exercises conceals the need to balance between conflicting interests” (*ibid.*: C8). This reflection is corroborated by the observation that subjects in the Formula version of the experiment maximised profits even though most of them were aware of the trade-off. Indeed, while *they* selected the maximising response, they expected a real manager to fire fewer workers than they would.

Why do economists behave almost as if they are deciding on the basis of a formula, even when we are apparently not?

#### *4.1. – IF YOU ARE AN ECONOMIST, THINK LIKE ONE*

This is the way we learn to think – and the way we *want* to learn to think, because it makes us progress in our career. When they were surveyed about a number of items that made an economist successful in the late ‘80s, 53% of the graduate students in economics at major universities in the USA said that ‘excellence in maths’ was very important, 40% said it was moderately important. Fifteen years later, 83% believe it is very important, and 15% still say it is moderately important (Colander 2003: 13). Because the core set of the economic approach is highly structured and quasi-mathematical even when described by means of stories and examples, we may expect an expert economist to think in that way.

Econ-think has four predominant features (Siegfried et al. 1991: 200). First, we think deductively, logically deriving meaningful conclusions from a set of premises. Second, we parsimoniously and selectively focus on some important economic forces and not all. Third, we believe the economic principles to be universal and true of the world in which we live. Fourth, we put special emphasis on the results of individual decisions as they may be derived from collectively observed phenomena and traced back to rational agents. We therefore examine tradeoffs, measure opportunity costs, maximise utility under constraint, and exploit limited resources as efficiently as possible (allegedly disregarding any normative issue).

How does one develop such mindset?

The core set of theoretical principles, analytical methods, and quantitative skills are first taught in introductory courses and later repeated, reinforced,

and refined in intermediate courses and then extended in elective courses. “This repetition and apparent redundancy is essential because ‘application’ of economic principles (in contrast to learning economic ‘technique’) is very difficult to master and requires practice over an extended period of time and across several courses” (ibid.: 202). It appears that introductory economics courses are successful in equipping the students with an increased understanding of economic processes (Siegfried and Fels 1979, Siegfried and Walstad 1990); and this understanding is a lasting effect (Saunders 1980).

More generally, the acquisition of expertise in a domain is associated with specific ‘knowledge structures’: both the content of expertise and its structure are characteristic of each particular domain (Moss et al. 2006: 65). Another important feature of expertise (ibid.: 66, emphasis mine)

*is that it affects not only what is stored in memory but also how things in the world are perceived and categorized. Experts have highly organized memory structures such as schemas, templates, and retrieval structures [...]. As information about a new problem is perceived, this information automatically activates relevant domain knowledge and processes. This allows experts to easily categorize information and recognize solution schemas in their domain.*

In the last two Chapters, I proposed that economists perceive trade-offs as the dominant elements of most situations and, since “[e]xperts tend to work forward from the givens in the problem rather than backwards from the desired solution” (ibid.), they choose for themselves and produce estimates of other people’s behaviour based on a MP structure. Also, the mental processes of experts “involve possessing a representation of domain material that is adapted to key concepts that affect performance in a domain” (ibid.). Both our discipline and more generally the social attitude prevalent in the Western society accept that self-regarding concerns play a dominant role when deciding which price to pay for something. An economist might conveniently employ self-interest as a behavioural heuristic for most situations, thereby making decisions and judgements faster. It is another general property of experts’ mental processes that they restructure a problem by reducing its complexity (e.g. Newell and Simon 1972). To frame a situation as market-like does indeed simplify its structure, effectively scaling down the outcome concerns to self-interest and the decisional criteria to price alone.

The account of economics as the discipline that constructs every situation as a rather abstract pricing-based relationship or choice and the account of economists as the practitioners of that discipline, who slowly but surely begin to see every situation as the proper stage for a rather abstract cost-benefit or seem a plausible description of what happens in the experiments. This framing account should be capable of explaining the different behaviour of economists from that of non-economists in the experiments of the Moral Trial.

The framing phenomenon is of course only proposed as a possibility inspired by a variety of experimental findings, but it should be tested in a more

pointed manner with experiments explicitly designed with this purpose in mind. For the time being, I shall content myself to suggest it as a plausible story to fill the gap left by my rejection of self-selection.

This story, however, comes short of providing a full explanation of the behaviour of freshmen economics students. First year (or even first week) economics students can hardly be called experts and they cannot yet have developed the specialised knowledge structures of a trained economist. The next Chapter makes up for this problem.



## CHAPTER 8

# BEING ECONOMISTS AND BEING LIKE ECONOMISTS

*To become an economist one needn't be  
stupid. But it helps.  
– Anonymous*

While belonging in a group, culture, or institution goes together with specific ways to interpret information and generate meanings, this is not enough to maintain that, under set conditions, every member of a group will do the same thing because, at an earlier conceptual level, the agent's unique understanding of the situation only singles out some features as relevant, and interprets those features as being of a certain kind. Nonetheless, through repeated interactions, members of a specified group develop a common set of rules, laws, opinions which are transmitted mainly via *vicarious learning* or imitation; on the other hand the internalisation of the common model is then reinterpreted by the new member and adapted to his own cognitive and affective structures (Bandura 1977, 1986).

The members of a population can therefore be expected to treat numerous sets of information or types of situations in a common fashion, and react to them roughly in the same way. At the same time, quite obviously, there will be other sets of information and types of situations responded to in a common way only by certain subcultures or subsets of the general population. Finally, there will be information and situations handled in a totally idiosyncratic manner.

In the last Chapter I argued that economists indeed share an econ-think, and suggested what it is and how it works. Unfortunately, however, that account clashes with the empirical findings that economics students differ markedly from non-economics ones from the very beginning of their schooling, thus lending credit to the self-selection explanation, through the assumption that these differences are pre-existing. That they are documented on day one, however, does not necessarily mean that these differences were also present on day zero.

I therefore now turn to exploring the possibility that claims to the pre-existence of the differences can be softened and that there exist other plausible accounts of the early emergence of this phenomenon. Perhaps some image of a stereotypical economist may, at least in part, account for the differences in

observed behaviour between economists and non-economists at the very beginning of their career. Evidence is not lacking that individuals can assume new social roles, that they may suddenly bond with team-mates and conflict with rivals who were total strangers a minute earlier, and that they adjust to certain stereotypes. All this at a staggering speed.<sup>109</sup> It takes the subjects but a few seconds to modify their dispositions towards someone, towards some choice, or towards the process of making a decision in reaction to the instructions of the experimenter; while usually they remain largely unaware that this happens. These manipulations in experimental conditions either modify the participants' perception of the situation in which they play or their self-perception within a choice context. Because I already discussed the theme of framing in Chapter 6, I now turn to the issue of individual identity.

### **1. – SOCIAL AND SELF-IDENTITY**

The importance of identity in several economic problems has been recently acknowledged and has stimulated research on topics as diverse as labour markets (Akerlof and Kranton 2005), welfare policies (Alesina et al. 2001), poverty and exclusion (Oxoby 2004), and the formation of human capital (Akerlof and Kranton 2002, Glaeser et al. 2002).

Whether its effect is aware and deliberate or unaware and unconscious, an individual's identity has a major weight in this person's decisions (March 1994). In psychological and sociological studies (e.g. Brewer and Kramer 1986, Brewer and Silver 2000, Dawes et al 1988, Kollock 1995, Kramer and Brewer 1984, Kramer and Goldman 1995, Simpson 2006) identity is typically defined with reference to a social group and is therefore explored in the relationship with other people from the same or from a different group. Two influential accounts of social groups, Social Identity Theory and Self-Categorization Theory (Tajfel 1982, Turner 1985, Tajfel and Turner 1986, Ashfort and Mael 1989), describe how individuals delineate the boundaries of particular groups and then self-categorize themselves as belonging or not to them. This literature is eminently concerned with identifying the conditions under which individuals display cooperative behaviour with group members and defect with non-members, and identity-as-group-belonging is thus employed to explain cooperative behaviour through a "shared and mutual perception by in-group members of their interests as interchangeable" (Turner et al. 1987: 65). A similar approach in economics has been suggested when co-members can impose sanctions on defectors (Landa 1994).

Although the very concept of identity can only be meaningful in a social environment, in what follows I do not directly refer to social entities or collective agency, and shall instead entertain with a more individualistic

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<sup>109</sup> There exists a tradition of studies on the framing of experimental settings, such as that by Lieberman and colleagues (2004) discussed in Chapter 7, in which the game description evokes behavioural norms and is the strongest predictor of individual conduct. Because the descriptions are not given in advance, they impact on players' conduct in a very short time.



account of identity, as is customary in economics. Douglas Bernheim (1994), for instance, describes agents who care about how other individuals in specific social groups feel about them, and George Akerlof and Rachel Kranton (2000, 2002, 2005) directly incorporate it in agents' utility function. In general, the economic literature suggests that agents form their identities by earning a reputation, by acquiring social status, or by developing some self-image (Akerlof and Kranton 2000, 2002, 2005; Benabou and Tirole 2002; Bernheim 1994). Identity "is thus explained as an extension of standard rational choice models" (Davis 2004: 11) and specifically as "an argument in the standard Arrow-Debreu utility function" (Beaudreau 2006: 208). This approach has been criticized because it translates into the loss of any meaningful concept of the individual (Davis 2003, 2004, 2007).

More sophisticated views have been advanced from within the ranks of economics. Amartya Sen (1985, 2002), for instance, comments that identity bears important consequences on individual welfare, goals, and norms of conduct, and he also proposes that individuals have a plurality of identities crucial to their view of themselves and to their decision-making. Nancy Folbre (1994) recognizes that individuals are endowed with multiple social identifications because they operate within a plurality of groups. Deirdre McCloskey (2006) observes that one way in which our lives are made richer in a market economy is by being entitled to a broader set of identities than possible with previous historically known political and economic systems.

This interpretation of identity seems closer to a so-called Personality Approach (Bosma 1995, Oosterwegel and Wicklund 1995, cited in Beaudreau 2006). Though both help defining oneself and creating meaning in one's life, personal and social identities are kept separate, and indeed a "distinction is typically drawn between identity as a cumulative concept of self, and identity as it is situated or conceived of in relation to other people in particular situations" (Beaudreau 2006: 209). In what follows I refer to the concept in its meaning of corroborating evidence that people are capable of scrolling through the social components (both authentic and experimentally-activated) of their identity.<sup>110</sup> I therefore expect that, as one joins an institution for the first time or fills a new role, one changes in harmony with one's perceptions of the new institution or role. In the case of economists, the image of the role may not be very flattering, as one easily figures after looking into the evidence mustered in the Moral Trial.

Those findings, however, raise the question of whether the difference is due to the choice of selfish individuals to study economics (self-selection) or to the effect of attending Econ classes (indoctrination). Though there are indications that training matters somewhat, most experiments indicate that

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<sup>110</sup> A rather large body of literature on entativity shows that there may exist substantial differences in the processing of information about groups and about individuals, and that groups may vary in their "groupiness," with critical consequences for social perception, memory, and judgment (e.g. Hamilton and Sherman 1996, McConnell et al 1997, Yzerbyt et al 1998).

the difference between economists and non-economists can be observed on subjects at the very beginning of their training. If the gap is already present among freshmen, quite obviously it cannot be brought about by Econ teachers. But does this unavoidably mean that “economists are born, not made” (Carter and Irons 1991: 174)?

If Econ training matters so little, one wonders what weight to give the Nobel Prize Friedrich von Hayek’s (1944: vii) autobiographical note in which he declares: “my opposition to [socialist] views is not due to their being different from those with which I have grown up, since they are the very views which I held as a young man and which have led me to make the study of economics my profession.” He then grew to become a herald of Thatcherism and Reaganomics. Another puzzle would be the master economic historian Angus Maddison, who had been inspired to study economics by his uncle’s spirited speeches advocating socialism (Maddison 1994), and who then dug out an astounding amount of data showing that economic growth and development are in good part the result of free trade.

These two are just anecdotes; though they are quite telling, they only provide circumstantial evidence. There exist, however, no systematic studies comparing the behaviour of economics students with that of high school students and economics graduates. Should such studies be conducted, if self-selection is sound, one would presume the behaviour of the three categories to be very similar on the grounds that they are all economists-at-heart.

In the absence of a direct comparison, it is possible to again find inspiration in the experiment by Rubinstein (2006): remind the participants are presented with a scenario in which they are the vice-president of a small business facing a recession.<sup>111</sup> Though the firm is still in the black, it is possible to improve profitability by firing some workers. A forecast informs the participants that the profits will be higher the more numerous the layoffs up to about half of the 196 employees, after this threshold profits go down again. On average, economics students lay off more workers (circa 65) than non-economics ones (c. 48). About 50% Econ students pursue profit maximisation (laying-off 96 workers), compared with about 30% Business and Law students, and about 15% Maths and Philosophy students. The same questionnaire was also administered to the readers of a major business newspaper. Among these, the participants with a background in Economics laid-off 56 workers on average, and 36% of them maximised, only 25% of those with neither Economics nor Business background maximised, and they laid-off 47 employees on average. A difference is noticeable, but not nearly as large as that among students.

Another study, that by Laband and Beil (1999), shows that fewer economists free ride on their professional association’s fees than sociologists and political scientists. The survey on the contributions to charity and a number of other public goods in Frank et al. (1993) shows that the behaviour

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<sup>111</sup> See the more extended discussion in Chapter 7.

of economists was “little different” from that of professors of other disciplines.<sup>112</sup> If one were born selfish or economist we would expect his nature to endure Economics classes. If such nature is at all affected by Econ training, moreover, it should be strengthened, not diminished. It is implausible that economists are born as such and only begin changing after they are handed a degree, or at least it is implausible that this happens to large numbers of them. The behavioural gap between adults trained in Economics and those trained otherwise, nonetheless, seems to be much smaller – when present at all – than that observed among students.

In what follows I therefore allow for the possibility that the differences among first year students originate elsewhere than in a ‘nature’ that manifests itself in self-selection.

## **2. – VALUES AND STEREOTYPES**

Newly enrolled economics students are not born on the first day of college. They have experienced a number of situations, gone through high school, made friends, constructed some sort of image of themselves, and developed a set of values that characterize them as young men and women. They must also have developed aspirations about their future, some idea of what economics and other trainings are like, and what kind of people economists and other professionals are. In this sense, economics students are just like everyone else, and understanding the individual paths that led to their decision is a thankless pursuit. Eventually, on that faithful day, they ticked the Econ 101 box. In this sense, no doubt, they are different from Mary, who chose Literature, and Brian, who chose Physics.

What is this difference?

### *2.1. – VALUES OF ECONOMISTS AND ECONOMICS*

One major element that characterises people can be found in the values they hold. Values are social representations of basic motivations in the pursuit of goals that globally guide a person’s life; and they can be usefully classified according to those goals (Gandal and Roccas 2002, Gandal et al. 2005, Schwartz 1992).<sup>113</sup> Neil Gandal and his colleagues, for instance, cluster some of them under the label of ‘self-enhancement’ values: achievement, hedonism, and power. These are self-directed aspirations. Achievement refers to the goal of personal accomplishments and it evokes concepts like success, capacity, ambition, influence; hedonism is concerned with aesthetic gratification in the form of pleasure or enjoyment; power amounts to striving for social status and control over people and resources, as in wealth, prestige, authority. Different values – universalism and benevolence – are other-directed and they are

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<sup>112</sup> According to this study, however, Economics professors are roughly twice as likely to be strong free riders than non-Economics ones.

<sup>113</sup> For a full taxonomy of values and cross-cultural empirical confirmation, see Schwartz (1992). Here I follow Schwartz’s formulation of values as reported by Gandal and colleagues (Gandal and Roccas 2002, Gandal et al. 2005).

classified as ‘self-transcendence’ values. Universalism aims at the understanding, appreciation, and protection of people and nature, it is associated with ideas like social justice, equality, unity with nature and peace; benevolence addresses the preservation and enhancement of the welfare of people with whom one is in frequent personal contact and it manifests itself through helpfulness, honesty, loyalty and responsibility.

Broadly speaking, values convey beliefs about desirability and despicability, goodness and badness, and therefore constitute criteria for individuals to select actions, evaluate people and events, and explain their actions and evaluations. Even a life guided by strong adherence to certain values, however, is not free of tough decisions. One may want to preserve the employment of several workers, but feel compelled to ensure the highest remuneration for the shareholders or one may want to obtain the largest return for the shareholders’ investment and yet be prevented by one’s sympathy for the workforce. Because one often holds several values at the same time, the pursuit of the goals represented by each of them may force one to negotiate between alternative choices. Which values ultimately prevail depends on their relative weights.

In a comparative study on the importance of various values, Gandal and colleagues find that economics students ranked achievement, hedonism, and power higher than other students.<sup>114</sup> Conversely, they put less importance on universalism. There was, however, no difference in the value attributed to benevolence. In a further study they also compare the responses of freshmen in their first week of studies and at the end of their first year, with the result that “[t]here were virtually no differences between the value priorities of the two samples, and none of the differences were statistically significant” (Gandal et al. 2005: 1236). It appears, once again, that economics students differ from others since day one. And they differ in terms of the values they deem important. But do these values explain why they choose Economics and not Anthropology or Chemistry?

First week economists were also asked to list five characteristics they believed to be the most important to economists in general. Ambitious, intelligent, and successful topped the ranking.<sup>115</sup> 72% of the students also reported at least one of the other self-enhancement values. Only 55% of the respondents included at least one of the self-transcendence values.<sup>116</sup> Ideally, one would like to also ask non-Economics students which ones would they rank as the top-5 Econ values, and as top-5 values of their disciplines. There does not seem to exist a specific reason to reject a priori the hypothesis that

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<sup>114</sup> Participants rated each value on a 9-point scale, ranging from <(-1) opposed to my principles> and <(0) not important> to <(7) of supreme importance>.

<sup>115</sup> Ambition, intelligence, and success are all concepts associated with the value of achievement, and not with power or hedonism.

<sup>116</sup> “This result is particularly striking because in nearly all studies on values, individuals attribute more importance to self-transcendence values than to self-enhancement values” (Gandal and Roccas 2002: 7).

students in Architecture or Medicine believe that architects or Medics are ambitious, intelligent, and successful.

At any rate, if freshmen are aware of the dominant values of their profession, their career choice may be interpreted as a (spelled out in more detail than usual) form of self-selection into a field that meets their tastes. But how, one wonders, did they discover how is economics like?

## *2.2. – STEREOTYPES, AND ACCURACY THEREOF*

One way to form an image of economists would be to gather several of them and thoroughly investigate their profile. Most people shirk from such burden and rely instead on some stereotypical image of ‘the economist’ derived from a combination of gossip, personal acquaintance, and pure myth: both the media and personal experience contribute to the creation and diffusion of stereotypes. Stereotypes are ideas and opinions about the members of some groups based on their belonging in those groups instead of their individual characteristics. (Remember from Chapter 3 that it is difficult to even what are the requirements that qualify someone as economist.)

These opinions are not always negative, as often believed. They may be positive (i.e. fire fighters are brave) and they have several beneficial functions for both individuals and societies. Direct acquaintance with someone before making a judgement or a decision may be too costly or time-consuming. Because humans have a limited capacity to acquire and process information, we may do best by selectively focus on some general traits that are enough to attach our target a rough ‘image,’ which quickly pops up in the right circumstances. We then supplement this approximate datum with information derived from past experience in a path-dependent way (Rizzello 1999, 2004), and in this way we fill in the gaps (Macrae and Bodenhausen 2000, Patalano 2005) in a cost-efficient fashion (Newell and Simon 1972, Britton and Tesser 1982). Arguably, the main function of categorical representations like stereotypes is to provide the decision maker with expectancies that help processing future information (Olson et al. 1996). In standard economic terms, they reduce transaction costs.

The capacity to make a timely assessment about individuals uniquely based on their group memberships can be of great help in navigating complex social ecosystems, and stereotypes are among the tools that empower such navigation (Lee et al. 1995, Pinker 2002). Testifying to the speed and unawareness (which may be taken as hints of cognitive inexpensiveness) of the process, several empirical investigations have shown that, although the exact reasons and detailed mechanics are not fully understood, when stereotypical representations of agency or behaviour are displayed, relevant behaviour becomes activated (Wheeler and Petty 2001). It has thus been revealed how stereotypes often prove self-fulfilling and self-propagating. For instance, when Asian women were made aware of their gender they performed much worse at a mathematical test than when they were made aware of their ethnicity,

because there exist stereotypes about Asians being skilled at math and about women being poor at it (Shih et al. 1999).<sup>117</sup> Stereotypes affect individual expectations in a way that critically alters subsequent behaviour. The stereotype of Black people being aggressive made White students exposed to the pictures of Black people more hostile to co-players in a game. And the co-players responded with hostility and aggressiveness (Chen and Bargh 1997).

Stereotypes can thus backfire, either because they cause the outcome they presumably serve to guard us from, or because – though they rest on a kernel of truth – their intrinsic imprecision leads to inaccurate predictions. We see stereotype-driven biases all the time, and the case has been convincingly made with reference to Linda (Kahneman 2003: 1462).

*Linda is 31 years old, single, outspoken and very bright. She majored in philosophy. As a student she was deeply concerned with issues of discrimination and social justice and also participated in antinuclear demonstrations.*

Two groups of subjects were asked about Linda's present employment. The first group was required to rank the probability that she corresponds to 8 alternatives. The second group was required to rank the same alternatives by the degree to which Linda resembles a typical representative of the job. Some alternatives seemed only marginally related to the description, but two items were crucial:

[#6] *Linda is a bank teller;*

[#8] *Linda is a bank teller and active in the feminist movement.*

Though there is no doubt that #8 is a subset of #6, and therefore the probability that <#6 is true> are necessarily larger than (or as large as) <#8 is true>, Linda resembles more a stereotypical feminist bank teller than a bank teller *tout court*. The proportion of respondents who ranked #8 above #6 is very large and it is about the same for both the probability (89%) and the representativeness (85%) treatments.

While there may be some hint that she could be a feminist, there is no element in Linda's portrait suggesting that she could not be a bank teller, a psychiatric social worker, or an elementary school teacher: she simply is not the stereotypical one. When asked about the probability that Linda is #6 or #8, therefore, subjects seem to offer a reasonable answer to a different question – namely, the representativeness question.<sup>118</sup> The reason for the mismatch between question and answer does not appear to be that respondents confuse concepts of similarity and probability – though it may be reasonable to do so in various circumstances. “A more plausible hypothesis is that an evaluation of the heuristic attribute [i.e. representativeness] comes

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<sup>117</sup> An analogous phenomenon has been identified with African American (Steele and Aronson 1995).

<sup>118</sup> This phenomenon has been dubbed ‘base-rate fallacy’ (Kahneman and Tversky 1973) or ‘conjunction fallacy’ (Tversky and Kahneman 1983).

immediately to mind, and that its associative relationship with the target attribute [i.e. probability] is sufficiently close to pass the monitoring” of our conscious reflections in System 2 (Kahneman 2002: 469).

A little reflection might have instead suggested that Linda cannot be more likely to be a feminist bank teller than just a bank teller and that one ought to keep this in mind in one’s rankings. A corrective thought of this kind, unquestionably within the intellectual reach of graduate students, is a ‘statistical heuristic’ (Nisbett et al. 2002). It occurred to very few respondents because the substitution of a target attribute with a heuristic one is a subtle and unaware process. The heuristic attribute “is pertinent to the task, and its value comes to mind with little or no effort and with high confidence” (Kahneman 2002: 472). Although statistical heuristics are usually not very accessible, they can be triggered by the context – e.g. they are more common in games of chance than in situations involving the psychology of individuals – or by wording – e.g. by the explicit mentioning of sampling procedures (Nisbett et al. 2002). Also who (you think) you are matters: statistical reasoning is activated more often when the respondents are required to ‘think as statisticians’ than when they ‘think as psychologists’ (Zukier and Pepitone 1984, reported in Sedikides and Skowronski 1991: 174), and it results in a significant reduction of the mistakes. Zukier and Pepitone also show that the people for whom the activation of statistical heuristics is habitual – therefore ‘chronically accessible’ – are immune from the fallacy and, if anything, they seem to ‘overutilize’ base-rate information. Thus, Constantine Sedikides and John Skowronski (1991: 174) comment that “both cognitive structures that are momentarily activated through experimental instructions or problem formulation and cognitive structures that are chronically active determine people’s susceptibility to the base-rate fallacy and, hence, their success in problem solving.”

“A cognitive structure is the mental representation of an object or idea” (ibid.: 169). It means, for instance, the representation of general semantic categories (e.g. selfishness), behavioural scripts (e.g. playing a prisoner’s dilemma), procedures (e.g. solving a problem), specific event memories (e.g. the day of one’s enrolment in Economics), and specific people or objects (e.g. one’s cousin who studied economics). Within a given cognitive structure, everything seems to have a proper place and a specific meaning, which are rarely questioned – in part because, although we have numerous cognitive structures that can be applied on each occasion, we tend to employ only one or two at a time (ibid.: 170). For instance, when some (presumably) healthy psychologists secretly enrolled into a psychiatric hospital to conduct a research, though they behaved as they would have behaved outside, the personnel treated them as patients. When he explained that as a little child he was more attached to his mother but later became more attached to his father, therefore, one researcher-patient was described as having “unstable relationships in childhood” (Rosenham 1975, quoted in Rachels 2003: 73).

Such was the judgement expressed by someone whose – so to speak – ‘psychiatric illness cognitive structure’ is active. Just the same way, when one researcher took notes on the goings-on of the clinic as his job required, the nurses worriedly drafted a report describing how “the patient engages in writing behaviour.”

Perhaps there also exists something akin to a ‘economics heuristic’ or a ‘economist’s cognitive structure.’ And, if so, perhaps it can be activated in non-economists as well. The two hypotheses are conditional on people having at least a rough image of economists or economics, lest they would be puzzled rather than inspired by the suggestion to ‘think like an economist.’ Do people, as it seems plausible, hold stereotypes about economists? And, if so, how are these stereotypes like?

I shall now present some experimental evidence inspired by these questions.

**3. – THE EXPERIMENTS**

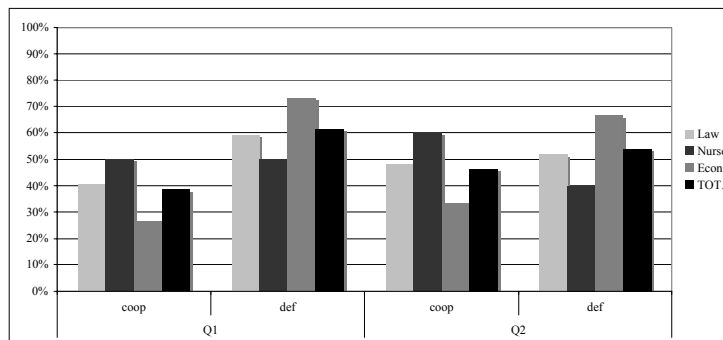
The experiments were conducted with a total of 95 students of Nursing (N=18), Law (N=62), and Economics (N=15) at the University of Pavia, at the Università Cattolica del Sacro Cuore, and at the University of Eastern Piedmont, in the months of May and June 2005, November 2006, and June 2007. Each experiment is based on a Prisoner Dilemma with a payoff matrix as that in TABLE 1. (See the appendix for full instructions.)

TABLE 1. **Payoff Matrix**

<i>player 1 / player 2</i>	COOPERATE	DEFECT
COOPERATE	3 , 3	0 , 5
DEFECT	5 , 0	1 , 1

In the standard version of the game, the subjects answered [*Question 1*] whether they would cooperate or defect and [*Question 2*] whether they expected the majority of other players to cooperate or defect. Because Econ students and a sub-sample of the students from Law (N=27) and Nursing (N=10) degrees played the basic version, it is possible to verify whether their responses differ.

FIGURE 1. **Standard Prisoner Dilemma**



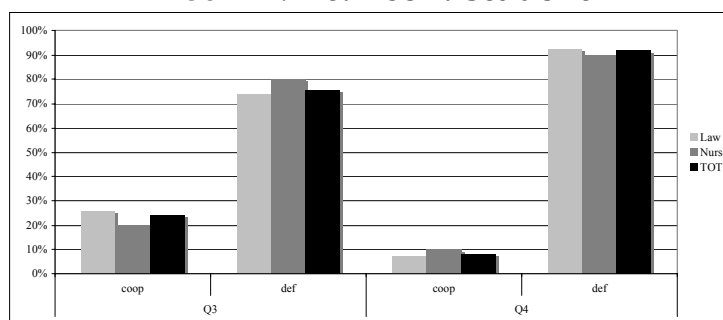


And they do.

Predictably, more Econ students defect than non-Econ students (FIGURE 1, TABLE 2 in the appendix). The difference is most marked between students of Economics and those of Nursing, as a lower percentage of these defects than of Law students. A similar difference can also be observed in terms of the expectations about the behaviour of others. The most cynical expectations are those of the Economics students, followed by Law and Nursing students.<sup>119</sup>

These responses may be determined by the sample. In Question 2, Economics, Law, and Nursing students are required to express their expectations about the majority of other Economics, Law, and Nursing students respectively. They may therefore believe they are to play with fellow students in Question 1 as well, though this is not mentioned in the instructions. Such belief certainly affects the responses. Even to the extent that this is the case, the expectations about fellow students reveal a marked difference: Economics students are those most likely to defect, according to their fellows.

FIGURE 2. vs. Econ. Student



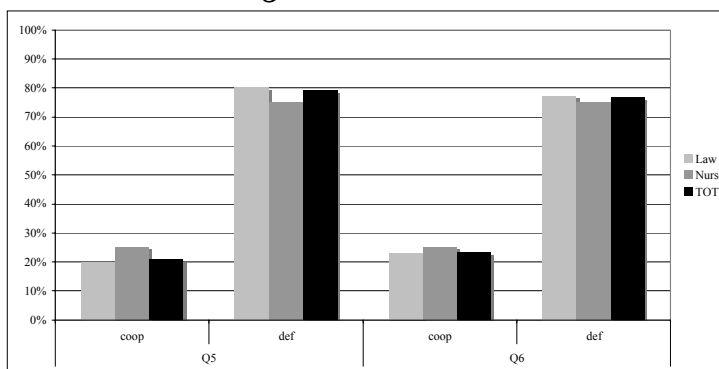
Non-Econ students share such expectations. The students of Law and Nursing were asked to imagine playing with a person, of whom they only know she or he is a student of Economics. They are now asked [*Question 3*] whether they would cooperate or defect and [*Question 4*] whether they expected the Economics student to cooperate or defect. Cooperation drops significantly, and expectations of cooperative behaviour from students of Economics are virtually non-existent (FIGURE 2, TABLE 3 in the appendix). Also, there seems to be no major difference between the two samples.

Some other Law (N=35) and Nursing (N=8) students were asked instead to wear the shoes of Economics students being administered a test – i.e. the Prisoner Dilemma with the standard payoffs.<sup>120</sup> These subjects were thus asked, as imaginary Economics students, [*Question 5*] whether they would cooperate or defect and [*Question 6*] whether they expected the majority of other players to cooperate or defect (FIGURE 3, TABLE 4 in the appendix).

<sup>119</sup> For the three groups, all of the subjects who cooperate expect cooperation from their co-player, but there are subjects (1 out of 15 in Economics, 2/27 in Law, 1/10 in Nursing) who defect while expecting cooperation.

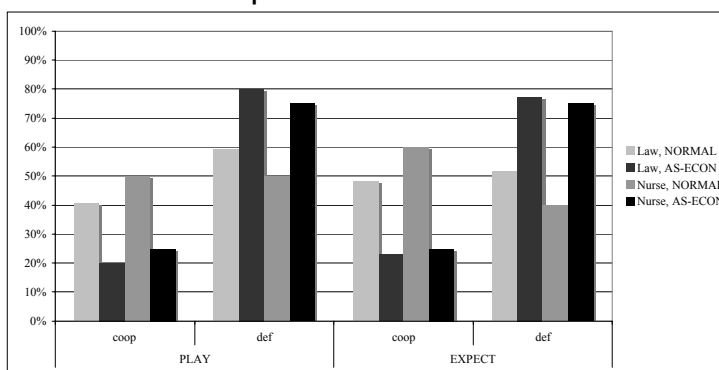
<sup>120</sup> These players had not played the standard version of the game.

FIGURE 3. **as-Econ. Student**



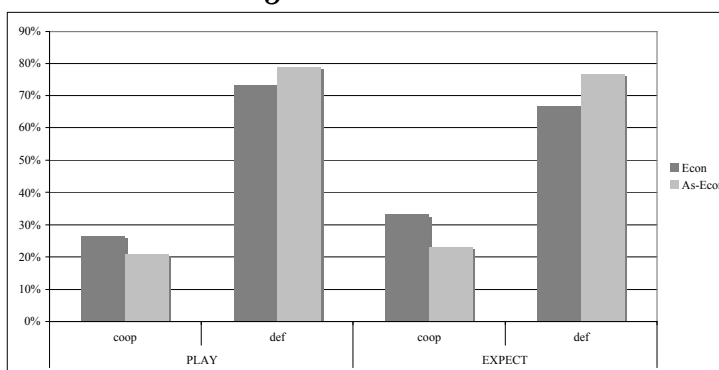
Again, we observe an evident difference between the way non-Econ students respond ‘normally’ and they way they respond ‘as-Econ,’ the latter being more defective (FIGURE 4, TABLE 5 in the appendix). This shows that non-Econ students can simulate and that, without being explicitly told to or how, they significantly alter what would have been their standard behaviour.

FIGURE 4. **Normal vs. as-Econ**



Moreover simulated behaviour quite accurately maps the authentic conduct of Economics students (FIGURE 5, TABLE 6 in the appendix). This result is new in that conduct of non-Econ students has never been observed before, which surpasses that of Econ students in the way of rational self-interest in a prisoner dilemma.

FIGURE 5. **Econ vs. as-Econ**



It is also remarkable that simulators exaggerate it. But this result can be understood by considering that the subjects do not play as if each of them were a student of Economics and they were supposed, as a group, to respond as a group of Economic students would. Instead they answer as if each, individually, was to give the most likely response from the Econ-group. Because the most likely response for the sample in question is defection, also the most likely response for each participant in this treatment is defection. Quite obviously, however, players of every category should be expected to defect – because all categories have a higher percentage of defectors than of cooperators. So why is there a gap between the responses to Question 2 and those to Question 4? It is not the percentage of defectors per se that matters here, but what it represents. Such percentage is an indication of how widespread is the belief that economics students are globally defective. With some caveats about the comparison of results across treatments, one could calculate the difference between expected defection when playing against Econ students and expected defection under normal conditions as the minimum amount of the non-Econ population holding defective expectations about Econ and not about others, which I interpret as a signal that a stereotype (of an unflattering kind) is probably present. The figure is a remarkable 43%.

In general, unless one has reasons to form the expectation that one's co-player will behave in a specific manner, one should play under the auspices of a standard theory of the co-player's behaviour – namely, the expectations should be in accordance with the base-rate, if it is known, or should roughly mirror the expectations about the rest of the population, although these expectations may in actual fact turn out to be inaccurate. And they are: predictions about the conduct of the student population at large (for which obviously I do not have complete observations and which includes economists) overestimate cooperation. With Econ students that mistake gets corrected, only to result in an unwarranted estimate of high defection.

I am aware of some methodological limitations of the dataset. Most importantly, because they were not remunerated based on their answers (but they all received credits for participating), the subjects lacked the incentive-directed motivation, which would have perhaps made their responses more robust. I thus rest content with advancing a moderate claim following from my evidence: namely that a higher percentage of defective players among Economics students than among non-Econ ones is not constant or irreversible. Since what one could regard as a students of Economics' unique response pattern can be replicated among non-Economics students, however, one would also be legitimated to questioning one common interpretation of self-selection. Perhaps (at least some) students of Economics display a conduct dictated by cognitions hard-wired or otherwise imprinted unto them by nature. They may be born economists, and consistently behave as economists throughout their lives. The question remains begging, however, why would a natural born

egoist choose to major in Economics and not in the Humanities or in Psychology.<sup>121</sup>

Self-selection is not a true explanation, but a label attached to a phenomenon we should want to understand better. Suffice it here to observe that it is possible to describe Economics students' conduct in the experiments without positing a specific ex-ante behavioural difference from non-Econ students, and without positing a corresponding self-selection.

#### 4. – IDENTITY AND COGNITIVE DISSONANCE

That they find joining the Economics ranks in line with their self-perceptions, one could speculate, still separates Econ students from non-Econ ones. Quite possibly so. But, in actual fact, Economics training is defined along a variety of attributes beyond the stereotypical character belonging in the field. Perhaps, given the central social-coordination role of stereotypes, they are the one most important attribute of a profession. On the other hand, such importance might be confined to problems of social coordination, whereas here the issue is an individual self-relevant decision about the future.

Do Econ students choose their major because of the stereotype? If it were validated, this hypothesis would deepen our understanding of self-selection. Or do Economics students enrol in the discipline, regardless of the stereotype? They could choose to do so because of and in spite of a number of features, beside the stereotype. Finally, Econ students may choose Economics despite the stereotype. They dislike it, as some of their fellows in other majors, but still pick Econ 101.<sup>122</sup>

Even then, students of Economics would have to cope with the stereotype. I admit the possibility that they hold a stereotype in some respect different from that held by non-Econ students, but in what follows I proceed by the assumption that there exist but one Econ stereotype.<sup>123</sup> One trick would be to redefine the stereotype by means of language euphemisms – e.g. 'ambitious, intelligent, and successful' instead of 'selfish and greedy.' Even if one dislikes Economics because of the stereotype, one may find it easier to behave in accordance with such stereotype after he already had chosen Economics, through what might be called the slippery slope of decision-making. These two, together with errors in perceptual causation and constraints induced by representations of the self are some recognized enablers of self-deception in

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<sup>121</sup> Erik Angner half-jokingly suggested that perhaps Econ students are greedy, but not smart enough to find their way in the higher paying finance.

<sup>122</sup> None of the three explanations necessarily rules out self-selection: all are compatible with it. To rule out self-selection is not, at any rate, my goal. I am convinced that each student picks Economics in a highly idiosyncratic way, and I believe that most likely some did self-select themselves, but not all. Contrary to the argument I am presently making, some students perhaps follow the stereotype to earn social acceptance, instead of trying to preserve their self-image. If this were the case, we should observe freshmen subjects behaving differently from senior subjects in natural experiments and in other settings in which they do not know there are some social expectations about their behaviour.

<sup>123</sup> My reflections below, however, would still hold if I dropped this assumption.

connection with morally dubious choices (Tenbrunsel and Messick 2004: 225-31). We cannot, indeed, take for granted that the same piece of information is treated in a predetermined way by everyone, because the production of novel knowledge depends – among other things – on previous beliefs. One may believe that defection in a Prisoner Dilemma is an indication of selfishness, but also that one’s profession is all right. One could then observe defection among one’s colleagues and comment that it is a legitimate self-defence against the threat of defection from the co-player or perhaps a sign of wits, and not a manifestation of greed. Some form of self-deception, either conscious or unconscious, seems therefore to be “the only way to explain [...] a person’s failure to acknowledge what is too obvious to miss” (Bok 1989: 60).

As a matter of fact, when two pieces of information contradict each other, we feel uncomfortable and try to contain this feeling by adjusting our interpretation of the incompatible elements. Although the motivation for such tuning of one’s perception is still much debated (Harmon-Jones and Mills 1999), it is generally agreed that the attempt to reduce discomfort and to preserve a ‘sense of the self’ is one of the strongest motivators of human action, both aware and unaware. This preservation often happens through the dismissal or the reinterpretation of available information so as to reduce ‘cognitive dissonance’ (Festinger 1957). On the one hand, therefore, people incur in ‘belief-disconfirmation’ dissonance, leading to the misperception and misinterpretation of information. On the other hand, people also face “induced-compliance” dissonance (Harmon-Jones and Mills, 1999: 8), which

*is aroused when a person does or says something that is contrary to a prior belief or attitude. From the cognition of the prior belief or attitude, it would follow that one would not engage in such behavior. On the other hand, inducements to engage in such behavior, promises of reward or threats of punishment, provide cognitions that are consonant with the behavior. Such cognitions provide justifications for the behavior. The greater the number and importance of the cognitions justifying the behavior, the less the dissonance aroused.*

It might thus be the case that some of the students in the experiments answered as they thought made sense from the point of view of someone enrolled in Economics. Once a teenager becomes (for whatever reason) an Economics student, it is plausible that she tries to speak and act the way she believes an Economics student speaks and acts: it most certainly is a way to preserve her sense of the self. Gandal and Sonia Roccas (2002: 7n) reject this explanation. Such pattern of responses, they correctly point out, would correspond to a high importance placed on the value of conformity.<sup>124</sup> Two regressions run on the results of economics students show that there is no correlation between higher self-enhancing values and higher (revealed)

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<sup>124</sup> The value of conformity aims at restraining actions that are likely to upset or harm others or violate social norms and expectations and it takes manifestations like obedience, politeness, self-discipline and respect.

conformity values. But, of course, the students who respond ‘as they think they should’ would not admit to being admirers of conformity! If, moreover, Econ freshmen sincerely take up the stereotypical role of economist, they won’t even be *aware* of being anything but ‘ambitious, intelligent, and successful.’ Who we *think* we are matters a great deal in decision-making.

Rubinstein’s experiment above does not show that relatively more students of Economics prioritise profit maximisation, plainly. It rather suggests that they do so when acting in their (artificially induced) capacity as vice president of a private company.<sup>125</sup> The subjects could, however, be instructed to act as Labour Union representatives or management consultants. How would they act then? There would still presumably emerge a behavioural difference between Econ and non-Econ, but also a – probably larger – difference between executives and worker unions’ delegates. Freshmen Econ students differ from non-Econ ones at least in that they study Economics and not something else. Graduate students in Economics, for example, hope to be hired by prestigious universities and refuse good job offers from private firms (Stigler 1959). Among those willing to teach at liberal arts colleges or to join governmental or international agencies, few admit to this (Klamer and Colander 1990). Nor do they spurn or abjure private enterprises or public service per se. More simply, Econ PhD’s (ought to) want to do research at high profile universities. Perhaps this is one instantiation of the way some institutions alter individual perceptions of meaning and appropriateness, and thus the personal tastes of their members (Danzau and North 1994; Hodgson 2003; Rizzello and Turvani 2000, 2002). And institutions also affect the perceptions and expectations others have about their members.

#### 4.1. – SOME CONSEQUENCES OF ECONOMICS STEREOTYPES

The agreement about Econ students’ expected behaviour and the way most people respond to that, at any rate, is not telling much about those students, but about the beliefs others hold about them. These stereotypes seem quite correct, if incomplete. Expectations based on such stereotypes, on the other hand, might be incorrect.

The life of an economist can indeed be rich in selfless generosity, both done unto others by him and onto himself by others, although such stories do not prevail in gossip. For instance, Steven Levitt (Levitt and Dubner 2005: 145-146)

*found that the support at the University of Chicago went beyond the scholarly. [...] Amidst the shock and grief [for having suddenly lost his two years old son Andrew], Levitt had an undergraduate class that needed teaching. It was Gary Becker – a Nobel laureate nearing his seventieth birthday – who sat in for him. Another colleague, D. Gale Johnson, sent a condolence card that so moved Levitt that he can still cite it from memory.*

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<sup>125</sup> Though many believe real managers would behave differently (Rubinstein 2006).

*[...] The Levitts have become close friends with the family of the little girl to whom they donated Andrew's liver [... And they] joined a support group for grieving parents.*

None of these sounds quite like the kind of people and manners we typically expect to find in the Economics Department. (Again, the problem needs not be in the people and manners, but perhaps in the expectations.) Though we do not expect them to, and though *they* believe nobody would do so, a larger proportion of Economics students return lost letters filled with cash to unknown owners than non-Econ students (Yezer et al. 1996). In the study by Gandal and colleagues, for another instance, the high subjective importance attributed to the value of benevolence by Economics students (equal to that of others) is not matched in the alleged values prevalent in the discipline at large. Those values correctly include power, hedonism, and achievement, but they undeservedly leave out 'benevolence.' One weakness of the values studies is thus that students who declare the importance of self-enhancing values might have chosen Economics regardless of those, and might not have held in very high regard those values before, nor would they if they had not chosen Economics.

The economist's stereotype, therefore, if quite understandable to some extent, does not produce an accurate description of the actual characteristics of real economics students. But it may *create* these students by means of self-fulfilling prophecies. In game theoretical experiments, expectations shape conduct to a large extent. If a player believes a co-player to anticipate defection from her, she most probably expects the co-player to defect. In response she will defect and thus make her co-player's anticipation correct. Many people (including other economists) treat economists as if we were non-cooperative in social dilemmas, thus possibly induce us to defect in response. As said, this happens to the extent that there exists some shared stereotypical belief about how economists are like.

When such belief exists, moreover, Econ students are probably informed about at least some of its defining features. It is thus likely that students of Economics adjust their behaviour in game theoretical experiments and responses to values surveys, in a way that is consistent with their image of the 'stereotypical economists,' because that is who they think they are and because the mental structures that are most accessible to them are probably those of an economist. But it is not granted that the mental processes behind those answers and actions are the same. Whether one is somehow pressed to activate a certain cognitive structure or one is so accustomed, one's conduct can be expected to approximate some benchmark behaviour that is connected to the cognitive structure in question.

It may not be very easy, however, to uncover precisely which type of activation – chronic or contingent, context- or identity-related – is at play on specific occasions for specific individuals. It is therefore also not very easy to tell whether two economics students, the one on his first day and the one on

the eve of graduation, provide similar responses and behave the same way in some tasks because they have been that way all along or because each follows their own, very different, lines of reasoning which happens to result in the same choice. (This may sound unlikely in those choice settings that present participants with several options, but it is less so in a game theoretical experiment for which there exist only two possible answers.) Perhaps different effects play out at different levels of seniority. Maybe, as they become more mature, Economics students stop behaving in certain ways because it is the stereotypical way to behave. But perhaps, in the meanwhile, they have been indoctrinated to behave exactly that way. It is thus possible that, when we observe defection among freshmen, we may not be observing exactly the same behaviour we observe when senior students defect.

### 5. – HOW STRANGE

The behaviour of both economists and others is heavily affected by the stereotype of the economist. One ought to wonder whence the stereotype comes from. The way we look at problems and describe situations is most likely one major factor. But it would not be a source of surprise to anyone, unless they held different perspectives on people and decisions. Indeed, the separation is not between knowing the economist's economics and knowing nothing at all; it is between the economist's and folk economics. Folk economics is the intuitive understanding of economic phenomena by untrained people: it is "concerned with distribution", but "does not allow for or understand incentives" because lay people untrained in economics "think of prices as allocating wealth, but not as influencing allocation or production of goods and services" (Rubin 2002: 1-2).

When the issue at stake in a faculty meeting was the shortage of parking spaces, for instance, Klamer (2007: 2) reminds an economist suggested to auction the lots, but "English teachers, historians, scientists, *et al.* [...] were appalled." He also reminds how, as the Chair of Economics of Art and Culture, he tried to study the economics of the artists' world, but some of the opinions his efforts received "are not printable." Similarly scornful and dispiriting results accompany policy advice offered by economists.

Perhaps the origin of the mocking of economists' stereotype is to rather to be found in the ignorance of non-economists than in the economists' specialised knowledge. In fact, Klamer devotes the entire first chapter of his latest book to describe the various shades of strangeness of economics and of the suspicion and derision economists are received with. But it takes him the remaining seven chapters to show that, in truth, it is not strange at all.

Indeed, in many ways economists are but human. An economist or not, I suspect you too, the reader of this chapter, are human. And I shall treat you as such. For instance, I have every reason to believe that in this very moment you need not be thinking about your bank account. You are a scholar engaged in the reading of a scholarly text; you should not have too many worries about the



practicalities of your financial status. You probably do not check it very often, anyway. Perhaps you do not even remember where you stored the last statement the bank sent you. Yes, right: it's in the folder with the other statements, or is it? Well, do not check now: it does not matter so much. I am confident that, in this very moment, you do not care whether your salary has already been transferred or whether they took out the money from your check to the landlord. And what would be your available funds if both transactions had already been registered does not seem to be of great importance.

At any rate, even if you justifiably do care, at least you are in no hurry to check them. So you must recognize I am being very reasonable if I kindly ask you *not* to try and remember the last time you checked your bank statement, and also please do *not* to check it right now. Just forget about bank statements.

## APPENDIX

### STANDARD

You and another person play a game. In this game you can choose either A or B. Similarly, your co-player can choose A or B. Your final score will depend both on your and your co-player's choices, as follows:

If you play A and your co-player plays A, you earn 3 point and your co-player earns 3 points;

If you play A and your co-player plays B, you earn 0 point and your co-player earns 5 points;

If you play B and your co-player plays A, you earn 5 point and your co-player earns 0 points;

If you play B and your co-player plays B, you earn 1 point and your co-player earns 1 point;

[Question 1] What do you choose?

[Question 2] What do you expect the majority of people to choose?

### VERSUS ECONOMICS STUDENT

Now imagine you play the game with a person, of whom you know that she or he is a student of Economics.

[Question 3] What do you choose?

[Question 4] What do you expect she or he to choose?

### AS AN ECONOMICS STUDENT

Imagine you are a student of Economics. You are about to take a test. The test score system works according to the following rules:

If you play A and your co-player plays A, you earn 3 point and your co-player earns 3 points;

If you play A and your co-player plays B, you earn 0 point and your co-player earns 5 points;

If you play B and your co-player plays A, you earn 5 point and your co-player earns 0 points;

If you play B and your co-player plays B, you earn 1 point and your co-player earns 1 point;

[Question 5] What do you choose?

[Question 6] What do you expect the majority of people to choose?

### CONSISTENCY TEST

[Question 7]

In the game you just played, which would be the combination of responses, both yours and your co-player's, which ensures the highest collective outcome?

You choose \_\_\_\_\_ and you co-player chooses \_\_\_\_\_

[Question 8]

Which would be the combination of responses, yours and your co-player's, which ensures the highest individual outcome to you?

You choose \_\_\_\_\_ and you co-player chooses \_\_\_\_\_

Note: in the text I directly refer to response A as cooperation and response B as defection.

**TABLE 2. Standard Prisoner Dilemma**

	Question 1		Question 2	
	<i>cooperate</i>	<i>defect</i>	<i>cooperate</i>	<i>defect</i>
LAW	40,74%	59,26%	48,15%	51,85%
NURSE	50,00%	50,00%	60,00%	40,00%
ECON	26,67%	73,33%	33,33%	66,67%
TOT.	38,46%	61,54%	46,15%	53,85%

**TABLE 3. vs. Econ**

	Question 3		Question 4	
	<i>cooperate</i>	<i>defect</i>	<i>cooperate</i>	<i>defect</i>
LAW	25,93%	74,07%	7,41%	92,59%
NURSE	20,00%	80,00%	10,00%	90,00%
TOT.	24,31%	75,68%	8,11%	91,89%

**TABLE 4. as-Econ**

	Question 5		Question 6	
	<i>cooperate</i>	<i>defect</i>	<i>cooperate</i>	<i>defect</i>
LAW	20,00%	80,00%	22,86%	77,14%
NURSE	25,00%	75,00%	25,00%	75,00%
TOT.	20,93%	79,07%	23,26%	76,74%

**TABLE 5. Normal vs. as-Econ**

	Play		Expect	
	<i>cooperate</i>	<i>defect</i>	<i>cooperate</i>	<i>defect</i>
LAW NORMAL	40,74%	59,26%	48,15%	51,85%
LAW AS-ECON	20,00%	80,00%	22,86%	77,14%
NURSE NORMAL	50,00%	50,00%	60,00%	40,00%
NURSE AS-ECON	25,00%	75,00%	25,00%	75,00%

**TABLE 6. Econ vs. as-Econ**

	Play		Expect	
	<i>cooperate</i>	<i>defect</i>	<i>cooperate</i>	<i>defect</i>
ECON	26,67%	73,33%	33,33%	66,67%
AS-ECON	20,93%	79,07%	23,26%	76,74%

## CHAPTER 9

### A SOCRATIC PROBLEM

*I dare say economists are human beings  
with ordinary emotions and aspirations.  
– Ariel Rubinstein*

Though you had no desire of doing so, and though I asked you not to, chances are that you started thinking about your bank statement at the end of last chapter, and it is likely that you will check it much sooner than you would if I had not asked you to refrain from it. Hopefully you will not stop reading to call your bank or log onto its Internet site. Even if you do not do it now, if you read again the words ‘bank’ or ‘statement’ later in the text, the compulsion to check your bank account will grow. The priming I operated on you – please accept my apologies for that – will soon vanish, and it won’t permanently affect your mental skills. But if you were regularly exposed to this kind of thought you would probably slowly change into someone who is slightly obsessed with bank statements. If that were the case, you would most likely think in terms of what will happen to your next bank statement if you purchase a certain good, or what would happen to it if you negotiate a wage raise. Everything would acquire most of its meaning from the way in which it affects your bank statement.

The repeated and systematic exposure to some concepts, frames, or more generally to some cognitive structure, over time, transforms one’s sensory order. This way, the repeated and systematic exposure to scarcity, incentives, cost-benefit, and self-interest transforms a ‘normal person’ into a ‘normal person who is an economist.’ Even if she stops dealing with Econ, to carve back a ‘normal person’ out of an economist still takes quite some time. It has been suggested that after their education, economists must be ‘cleansed’ or ‘reprogrammed’ (Cassidy 1996 and Nelson 1987 respectively, reported in Frey 2000) for three or four years after graduation.

Why would one want to wipe everything away? Is the way in which economists think wrong? Maybe.

This Chapter covers one important moral problem with Econ-think. Furthermore one should consider that, to the extent that Econ-think is at least in part economics teachers’ responsibility, perhaps there is one sense in which we are guilty: we ruin our students by making them selfish.

## 1. ETHICS IN THE MARKET

One may say that someone is more selfish than someone else, if the first behaves selfishly in certain situations in which the second does not. But if both behave selfishly in the same situations, the conclusion would not hold. A person cannot be globally said to be self-interested, because that would mean the person possesses the trait of selfishness, which we have seen in Chapter 6 seems improbable. A specific action or motivation, however, can be legitimately called selfish, namely when it benefits or tries to benefit the agent performing (or attempting to perform) the action.

Under what circumstances somebody is selfishly motivated or behaves selfishly, moreover, matters a great deal in assessing her morality. If, as is generally agreed, economists are all about markets, the difference in behaviour with non-economists could be due to a difference in the capacity to see markets – economists being much more skilled at that. Should such difference in perception not obtain, it could be expected that economists act just like anyone else – i.e. less selfishly – or that everybody else behave just like economists – i.e. more selfishly.

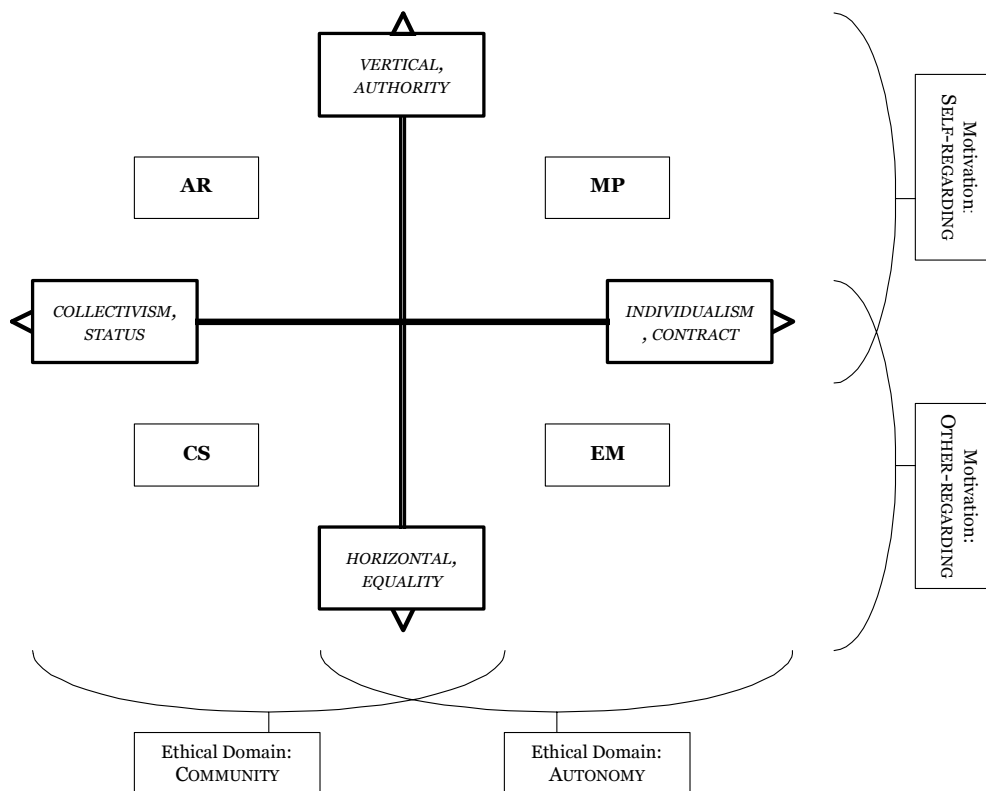
When we reason in terms of cost-benefit, trade-offs, or relative prices it is both more likely and more socially accepted to enact self-serving behaviour. This would not make us different from others in terms of *how* we behave strictly speaking, but in terms of *how do we think of a situation*. When one thinks of a situation as market-like, one presumably also believes, in that situation, pricing to be an adequate and fair allocation system as suggested in Chapter 7. Our behaviour is then properly attuned to such perception.

### 1.1. – INDIVIDUAL AND SITUATION (OR ECONOMIST AND MARKET)

In his theory of human behaviour known as the ‘logic of appropriateness’, James March (1994, March and Olsen 2004, also Messick 1999) suggests three elements matter in the making of a decision: the perception of appropriateness, the identity of the decision-maker, and the role of rules. Once you know who you are and what situation you are in, March suggests, what you ought to do is essentially given by (normative) social rules of conduct.

So, what about MP? To be sure it does not follow from the features of MP relationships that they should be always characterized by selfish motivation, nor by selfish motivations alone. On the one hand, experimental evidence has been collected to show that fairness concerns impose constraints also on our market behaviour (Kahneman et al. 1986). On the other hand, self-interested individualism is in fact a socially coded way to relate to others (Fiske 1991b). And it is the way that prevails in MP relationships.

Elaborating on the conceptual classifications employed in the previous chapters, it may be proposed that the general rules of (moral) appropriateness in our society are roughly those sketched in FIGURE 1.

FIGURE 1. **Logic of appropriateness and social ethics**

All in all, if economists behave selfishly while thinking market-like, perhaps the matter should no longer be regarded that ‘economists are selfish’. Instead one could suggest that we think we are in a situation in which it is fine to be selfish. Moreover if and when others think they are in such a situation (and to the extent that they do not think of themselves in ways that depart by much from what is common in our society), they behave as we do. We simply do so more often because we have grown accustomed to thinking in a certain way.

I shall return to the implications of Econ training below. In the meanwhile, I should remind how Siegfried and colleagues (1991: 206) warn the readers that our enthusiasm for empowering students with econ-think may go too far, so that we “sometimes teach as a doctrine that everyone *should* think like an economist” in a neoclassical fashion, whereas there are other branches of economics in which the way of thinking is different from the mainstream and, at any rate, there are other (non-econ) ways of looking at problems (ibid.: 211). The broad spectrum of situations in which econ-think may be successfully employed, moreover, “often tempts us to overlook the limitations of thinking like an economist” and “we risk becoming doctrinaire” (ibid.: 212).

The problem, therefore, may be not that economists are selfish, but that we think market-like and that we do so too often. In other words, even if

behaving selfishly in market-like situations is acceptable, it might be not acceptable to think all situations as market-like.

### 1.2. – *THE ETHICS OF MARKETS*

As Westerners, we live in liberal and democratic societies, and it is understandable that both citizens and politicians by and large prefer to establish institutions that induce individuals to behave in a way that is conducive to socially optimal results, instead of imposing legislation that coerce the achievement of those goals. Charles Schultze (quoted in Rhoads 1985: 39), for instance, comments that “we would laugh if someone suggested that the best way to reduce labour input per unit of production was to set up a government agency to specify labour input in detail for each industry.” The search for social arrangements that affect individual incentives in accordance with the promotion of a collective good is arguably the major practical goal of economics, first indicated by Adam Smith, and it is the rubric under which some of the best results of economics were achieved. Roughly speaking we look for collective arrangements respectful of the spheres of autonomy and community at the same time.

Markets, through the crucial element of willingness of the parties involved and under the constraints of Paretian optimality, therefore seem to offer a privileged solution to a number of social issues. And indeed commerce can be regarded as “a pacific system, operating to cordialise mankind, by rendering Nations as well as individual, useful to each other” (Thomas Paine, quoted in Hirschman 1982: 108). But what is good about markets is not the use of prices in isolation. On the contrary, it is the capacity of prices to be willingly operated upon by a plurality of parties with potentially conflicting goals in a non-predatory fashion.<sup>126</sup> The argument even has an ethical tone to it, because “[t]he possibility of coordination through voluntary cooperation rests on the elementary – yet frequently denied – propositions that both parties to an economic transaction benefit from it, provided the transaction is *bi-laterally voluntary and informed*” (Friedman 1962: 13).

But people do not interact in *the* market. Human relationships are consumed in *a* market. A market, remind, is the place or the occasion wherein two partners organise a transaction according to a price. Such arrangement, of course, hardly ever takes place neatly. Our rules of behaviour add up to complex combinations of heterogeneous or even conflicting manifestations of one or more relational mechanisms. Indeed “the various aspects of interactions [...] are governed by more than one relational model; different aspects of an interaction may be simultaneously construed in terms of different models” (Fiske 2004). Market pricing is thus, so to speak, contaminated with other social coordination devices and we lose our distinguishing selfishness. As a matter of fact, the more we identify with someone else and the more a situation evokes sympathetic links with others,

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<sup>126</sup> But see Peter (2004) on the distinction between choice and consent.



the more we shift towards different types of relationships. As Alfred Marshall (1920: 182) observed and as is still observable nowadays: “[e]veryone buys, and nearly everyone sells [...] in a ‘general’ market [...]. But nearly everyone has also some ‘particular’ markets; that is, some people or groups of people with whom he is in somewhat close touch: mutual knowledge and trust lead him to approach with them [...] in preference to strangers.” Markets are hardly ever sealed away from other institutions or, in other words, they are never *only* markets. Just like every social relationship borders with markets, inescapably markets are contaminated by other arrangements. A large economic system organized around market transactions, what we commonly call *capitalism*, is never a matter of pricing alone, if only because it would not work that way. Relational models overlap and principles of behavioural appropriateness become less clear-cut.

To be sure the basic requirement of a market transaction is that the agents involved deliberate over the price (MP) of the goods and services exchanged, however such price is generated (MP-preo). As noted above, for such decision to be made, a crucial condition is that the each partner owns or has a right to command the good (AR) and that such ‘property right’ is respected. This way one cannot be legitimately dispossessed of a good legitimately obtained (according to AR-preos), but can freely determine who is to get it, if anybody. Conversely, no party to a transaction can be forced to purchase a good, because each party must enjoy an equal freedom of choice (EM). It is also typically required for a market exchange to successfully take place that partners see themselves as having something in common (CS), e.g. being willing to undergo a satisfactory trade, and as being part of some social institutions, like language or local bargaining rituals, which also underpin the necessary condition of trust. When these four relational models are called into the picture and to the extent that each of them plays out, it is inappropriate to structure a relationship according to the preos of one only.

The view that real markets are exclusively matters of selfishness is nonetheless dominant, which amounts to defining *a priori* market systems as “vice incarnate” (McCloskey 2006: 2), as has been done both by critics (such as Proudhon, Marx, Bakunin, Kropotkin, Luxembour, Veblen, Goldman, Polanyi, Sartre) and by their opponents (Bentham, Ricardo, Rand, Friedman, Becker). “All of them, left and right, defined commercial society at the outset to be bad by any standards higher than successful greed” (ibid.). If one espouses such ‘definition’, unless there is some way to walk away with greed as being less than evil, one can wave goodbye to ethical considerations. Take for granted that the passionate rhetoric of that infamous Gordon Gekko (Wall Street, *20<sup>th</sup> Century Fox*, 1987) who shouts that “greed, for lack of a better word, is good” simply won’t do.

It is one rare point of contact between the detractors and the advocates of markets the shared belief in the greedy nature of market exchange. But the ones deem it an ‘ethical catastrophe’, the others a ‘practical triumph’. Both

these ideas – be either of them ultimately correct as to what concerns the actual outcomes of pure self-interest – are exceedingly simplistic and cannot convey the multifaceted aspects of market exchange, because markets are not about exclusively about greed and because markets need people with many virtues in order to function (and especially so to function in an acceptable manner).

Sometimes fairness constrains our market behaviour. Although it is not in their narrow self-interest, most people declare they would incur a personal cost to punish unfair behaviour. For instance, in two different surveys, 68% of the respondents would go to a shop 5 minutes distant, if the closer one raised its prices as a competitor was temporarily forced to close; and 69% of the respondents would change shop if the more convenient one discriminated against its older workers (Kahneman et al. 1986).

If customers are willing to punish, what should a shopkeeper do? The best strategy is probably to respect standards of fairness, so to build a reputation and preserve her customers, thereby sustaining her profits. It is indeed because self-interest is not our one and only concern that customers punish, but it precisely because the shopkeeper is self-interested that this makes a difference. A market transaction must be respectful of certain social constraints, ensuring that the final outcome of a negotiation does not have extreme and disregarded negative repercussions in the outside world.

Even outside theoretical speculations, it is not difficult to observe that the norms of the market “are impersonal, egoistic, exclusive, want-regarding and oriented to ‘exit’ rather than ‘voice’” (Anderson 1993: 145). But greed alone does not cover the whole set of preos in a market. The sociologist Max Weber, hardly the most outspoken free-market enthusiast, defines “capitalistic economic action as one which rests on the expectation of profit by the utilization of opportunities for exchange, that is on (formally) peaceful chances of profit. [...] Unlimited greed for gain is not in the least identical with capitalism, and is still less its spirit. Capitalism may even be identical with the restraint, or at least a rational tempering, of this irrational impulse” (*Protestant Ethic and the Spirit of Capitalism*: xxxii). Markets, therefore, not only are compatible with moral values and indeed need them in order to function, but is room to argue that they in fact *stimulate* the virtues (McCloskey 2006), should one use them wisely.

## 2. – ON THE SCOPE OF MARKETS

Not everything indeed is a commodity to be deliberated upon according to its price. Both history and myth feature plenty of examples of felons who agree to forbidden trades, therefore committing treason, delving in corruption, or simply passing a moral threshold.<sup>127</sup> Aldrich Hazen Ames, a former CIA counter-intelligence officer and analyst, passed on to the Russians information

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<sup>127</sup> There exists also experimental evidence of taboo trade-offs provided by researchers in the field of Relational Models (e.g. Tetlock et al. 2004).

that compromised at least 100 US intelligence operations and led to the execution of at least 10 US sources, he earned about \$2.5 million for his services. He was never reported to have ideological affinity for the USSR, he simply did it out of ego and greed. This is just one case and hardly unique. Many more American and Soviet spies are known to have sold their secrets to the enemy.

Many years earlier during a dinner in Bethania, the place where Jesus resurrected Lazarus, Mary “took a pound of ointment of right spikenard, of great price, and anointed the feet of Jesus and wiped his feet with her hair [...]” (John 12:3). Ointment in the Catholic tradition is used to heal and to purify; it is administered to dying people in the act of extreme unction. It is sacred. The making or the use of the holy oil by unauthorised persons was proscribed under pain of sacrilege. Only a highly revered saintly person would have someone rub his feet with such a precious lotion. It is therefore not a matter of faith to be astonished when someone asks “why was not this ointment sold for three hundred pence” (John 12:5). It is Judas, the apostle responsible for managing money, depicted as a thief and a traitor, who makes the proposal, allegedly in order to donate the coins to the poor. The same Judas who later “went to the chief priests and asked, ‘How much will you give me if I help you arrest Jesus?’ They paid him thirty silver coins, and from then on he started looking for a good chance to betray Jesus” (*The Passion of Our Lord, according to St. Matthew*).

This sounds like an awful thing to do. If anything, we wouldn’t educate our kids to act like that under any circumstances. It’s not only about betrayal or treason. It’s about selling something that thou shalt not sell. “Look, darling, academic fees are skyrocketing, so we’re not going to be able to afford your tuition. But, hey, don’t worry: you can always sell your virginity on eBay.”<sup>128</sup> What parent would ever give this piece of advice? Indeed, what parent wouldn’t do everything in her power to *prevent* that from happening (at least to her child)? Just the same way, a quick way to heat up a conversation is to ask someone how much she would sell her relatives for. “How much is your son?” is a question more likely to be answered by a powerful knock than a polite estimate.

This might simply mean, however, that people are outraged by the attempt to set a monetary price, to establish a trade-off between something as sacred as human life and something as profane as cash, and not, more generally, that they are totally unwilling to consider them as parts of any possible trade-off.<sup>129</sup> There often emerged situations in which one’s life and the safety of one’s country had to be related.

A state, however, is no real estate. It’s the land of a united people, whose communion with that land and a structure of management of political power

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<sup>128</sup> Again the story of Miss Reid (<http://news.bbc.co.uk/1/hi/england/bristol/3429769.stm>).

<sup>129</sup> I elsewhere discuss the existence of, and reactions to, a market price for human life (Lanteri 2005). See Walzer (1983: 100ff) on the ‘things that money can’t buy.’

makes a nation. It's part and parcel of a sacred oath or a constitutional treaty. Under no circumstances is it for sale. And no price can ever be high enough. Nonetheless: "A horse! A horse! My kingdom for a horse!" Richard III shouts, in Shakespeare's play (1591, act V, scene 4), being ready to trade-off his own life for his kingdom, by exchanging it with a horse that could help him flee the enemy. His life, the king believed, was worth so much more than power and wealth that he would not even make a comparison. Never would have he welcomed a real estate agent offering enough money to buy tens of thousands horses for that kingdom of his, which he had acquire through the serial slaughtering of including (but not limited to) his enemies, his kinsmen, his wife, his supporters, .... And, regardless of the urgent rhetoric at that moment of despair, his faithful servant Catesby would help his lord to a horse without holding him to his promise to trade the UK in return (this we can't tell for sure, since the "bloody dog"... ehm... the king is slain immediately afterwards).

Others were prepared to undertake different decisions. In Roman mythology, Horatius Cocles stood alone against the invading Etruscan army on the bridge over the Tiber, risking his own life, but granting enough time to his fellow citizens to sever the ropes that held the bridge and therefore save the city of Rome. The Greek historian Polybius (*Histories*: VI, 55) wrote that "Cocles then threw himself into the river with his armour on and deliberately sacrificed his life." A price he paid "because he valued the safety of his country and his own future reputation more than his present life, and the years of existence that remained to him" (ibid.). He even seems to account for opportunity costs here(!), so the economist has an easy time proving the act coldly rational, but this would be a distorted interpretation. What this legend conveys is that there exist things whose value is beyond trade-off: not even one's life is worth enough to stand a comparison with the safety of the state.

On Tuesday 10<sup>th</sup> July 1584, Balthasar Gerardts accomplished a deed which was to earn him 25,000 crowns paid by the king of Spain and The Netherlands Philip II. In exchange for such huge amount of money he had to kill the Dutch independent leader William the Silent (Wilhelm van Oranje-Nassau). Gerardts' escape from the scene of the crime went wrong and he was captured, processed, tortured, and eventually killed in the *market* square of Delft by four horses that pulled his limbs apart. When called a traitor by his captors he is alleged to have replied "I am no traitor. I am a loyal servant of my master, the king of Spain." After he killed 'the Father of the Fatherland' (as the Dutch national anthem, *Het Wilhelmus*, celebrates William the Silent), that he was not a traitor did not the slightest impress the Dutch – he now was an enemy. Gerardts was not a mercenary either. A faithful loyalist of Philip II, he had plans to murder Wilhelm the Silent long before the prize was offered. When he set to organize the killing, he was denied financial support, but he did not care, he would provide for himself. He was not after some monetary reward for his effort; he was moved by sincere hatred. The Dutch soldier who sold

Gerardts his two guns, on the other hand, committed suicide after hearing what the price (if unaware) for his sale had really been.

When off-the-market goods are traded, and especially when they are traded for money, people react with moral outrage. Why do we heat up so much?

### 2.1. – MORAL VIOLATIONS IN THE MARKET

Aldrich Ames, who surrendered confidential information to the enemy and had thus ten colleagues killed, violated the fiduciary duty his country expects from any civil servant, and especially so from an intelligence officer. He violated the prescriptions of the ethical domain of community. So did Judas, who sold off his leader. We despise them. Balthasar Gerardts, on the other hand, did not. His community duties were all for the king Philip II. He was not a traitor. But sure enough he was an assassin, and as such he did violate the code of autonomy.

The anonymous soldier whose guns shot Wilhelm van Oranje dead, what did he do wrong that he killed himself? He was probably free to trade his arms for money – why not? Nor did he procure, intend to, or was even aware of any harm whatsoever to anybody.<sup>130</sup> He came nonetheless to realise that – at some level – he had made a profit on someone else's death. This is a forbidden trade and, as such, a violation of the domain of spirituality. (Only insurance agents, it appears, can legitimately make a living on the worst disgraces the might befall the rest of the people.) And also the trades of Mr. Ames and Judas violate the spiritual domain morality, as do those of the girl auctioning her virginity on the Internet.<sup>131</sup>

This kind of moral resistance against some market transactions is not new. Simon Magus attempted to purchase with money the power to bestow the Holy Ghost unto other people (*Acts of the Apostles*, 8: 18-24). “But Peter said to him: Keep thy money to thyself, to perish with thee: because thou hast thought that the gift of God may be purchased with money” (ibid.: 19-20). The mere *thought* is conceited. The ecclesiastical crime and personal sin of exchanging temporal advantages with spiritual favours thus took the name of ‘simony’. While it originally referred only to the purchase of offices or positions in the hierarchy of the Church (thus a violation of community), in Canon Law simony is also banned as the sale of spiritual authority (thus a violation of spirituality).<sup>132</sup> The historian Jacques Le Goff (1977) describes the change in medieval Europe that made commerce possible, by allowing profit-making activities. These were previously forbidden on the grounds that merchants

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<sup>130</sup> Though, to be fair to the soldier's intelligence, he ought to have at least presumed that the two guns were to become part of a less than charitable deed.

<sup>131</sup> When *Yahoo!* decided to ban the sale of Nazi memorabilia through its Internet services, one spokesman of the company remarked that *Yahoo!* does not want to profit from items that promote or glorify hatred (*BBC news*).

<sup>132</sup> See also the entry on ‘simony’ at *The Catholic Encyclopaedia: Volume XIV*, online edition: <http://www.newadvent.org/cathen/index.html> (accessed: 26<sup>th</sup> April 2006).

made profits by selling time, which was God's and not theirs. It is also easy to see how Polanyi's moral assault against the marketization of labour, land, and capital follows the three lines of autonomy (Polanyi 1944: 171ff.), community (ibid.: 79), and spirituality (ibid.: 76-77) violations (these latter two are reproduced in the appendix).

## 2.2. – *IF IT WERE A MARKET...*

Whether Horatius Cocles died, as is often the case with old stories, depends on the account. For instance, the Roman historian Livy (*From the Founding of the City*: II, 10) says that he jumped into the Tiber in full armour and under a shower of arrows he swam across to rejoin his friends, admittedly “a deed which is likely to obtain more fame than belief with posterity.” In the late nineteenth century, Lord Macaulay describes instead how he was captured by the enemy, and how the Etruscan commander Porsena decided to spare his life “for such a gallant feat of arms was never seen before.” If he survived, he was well rewarded. “The state showed itself grateful toward such distinguished valour; a statue of him was erected in the comitium, and as much land was given to him as he could draw a furrow round in one day with a plough” (Livy: II, 10).<sup>133</sup> But it would be again a distortion of facts to interpret Horatius' sacrifice as guided by the anticipation of such benefits.

Had someone offered beforehand a piece of land and a nice icon for whoever stands on the bridge alone facing the incoming enemy while he was busy... well... *cutting that bridge*, you'd have better cleared the way to the fleeing army. Horatius had been courageous, not prudent. Accordingly, fellow Roman citizens did not free ride on his feat. “The zeal of private individuals also was conspicuous in the midst of public honours. For, notwithstanding the great scarcity, each person contributed something to him in proportion to his private means, depriving himself of his own means of support” (ibid.). There was no formal agreement in place suggesting that if you risk your life to defend the city from an ambush, the rest of the citizens will starve themselves in order to please your palate. So why did they do such a thing? Whatever the reason, it simply cannot be that they agreed such was the right price, especially not after the city had been already saved. He did something for them; he did all he could to save their lives. He then received something in return from them, as much as they could give. There is reciprocity but no price; we called this relationship Equality Matching. For good or for bad, not every prize is a price. But some prizes or, in the negative, fines turn out to be in fact prices.

Here is an example. One of the problems faced by the managers of day-care centres for children is that parents are late collecting their sons and daughters, forcing teachers to work unpaid extra time. An intuitively sensible way to reduce this misconduct is to fine the parents who show up late. An

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<sup>133</sup> In Lord Macaulay's words: “They gave him of the corn-land, that was of public right, / As much as two strong oxen could plough from morn till night; / And they made a molten image, and set it up on high, / And there it stands unto this day to witness if I lie.”

experiment conducted in 6 such centres in Israel (and 4 more that served as control group) shows that the introduction of a fine does in fact change the situation. After a compulsory payment is introduced for every occurrence of a delay of more than 10 minutes, *more* parents arrive late (Gneezy and Rustichini 2000: 3ff)! Why?

So long as there is no specified sanction, being late picking up your children is a violation of a norm. Parents who fail to show up on time feel guilty and believe they violate an implicit clause of an incomplete contract. (One could regard it as ‘misbehaving’ within CS or AR relationships.) The introduction of a price for the failure of complying with the duty to pick up their kids on time modifies the feeling by completing the contract and inviting parents to make cost-benefit calculations to choose whether to be on time or not. The relatively low price of each delay is calculated and charged together with the regular fee at the end of the month. This might even present the fine as the price of an additional service, rather than as a punishment. Once the parents get used to this routine, they decide whether to show up on time according to the relevant price.

This is not true of everyone, of course. Once again behaviour depends on the idiosyncratic understanding of a situation and only some parents switch to the price reasoning, and only some deem the price low enough to be worth paying. Eventually, even after the fine is removed, the number of late pick-ups does not decrease back to the original value, but remains stable. This problem is well known in psychology as an instance of the “hidden cost of reward” (Deci and Ryan 1985, Ryan et al. 1996, and for its application in economics Frey 1997). When the so-called ‘locus of control’ of a decision is moved from ‘internal’ to ‘external,’ the agent is likely to lose commitment to and involvement with the decision (Rotter 1966).<sup>134</sup> Such phenomenon is typically enacted when the feedback from an action takes the form of an external reward (e.g. a prize) instead of self-pride, or an external sanction (e.g. a fine) instead of self-shame. To the extent that the relocation of control occurs, the introduction of a price might not only fail to achieve its original intention, but actually point away from it. In such situations, the introduction of market-like incentives may be ineffective, inefficient, or both.

As commented in Chapter 2, the deliberation based on prices does not automatically bring about a complete market. If a parent believes that the fine for leaving his daughter waiting is worth paying for, this does not say much about the child. Maybe a five year old agrees that ‘letting her parents take their time on the golf course’ is a good well worth paying for with ‘waiting unpredicted amounts of extra time alone with your teacher in the kindergarten.’ But then again, maybe not. Is she even offered the choice? An economist might thus argue that – take a deep breath – the parent’s choice

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<sup>134</sup> Locus of control refers to the beliefs concerning who or what influences or determines phenomena according to a dichotomy between oneself (internal) and external circumstances (external). See Levenson (1973) for a different classification.

generates a negative externality, only imperfectly compensated via the fine because of poorly assigned property rights (e.g. Coase 1960). But this is no solution. The trade still violates autonomy and community constraints. (Isn't it already remarkable that Uri Gneezy and Aldo Rustichini choose to deliver the fine to the daycentres and not to the children?)

Being selfish when one believes he is in a market is probably fine. On the other hand, there is maybe something morally wrong with the very belief of being in a market. Therefore, even if the selfish behaviour does not make us bad citizens, perhaps the econ-think does.

### 3. THE TRIAL TURNS SOCRATIC

From the observation that (1.) economics students display behaviour that is closer to the predictions of economic theory than other students it has been inferred that (2.) economists are selfish people. As discussed above, this claim has to face the burden of social psychological research that questions the existence of character traits like selfishness and the soundness of an inference of selfish personality from observed behaviour. Also very weak is the suggestion that (3.) economics students are immoral, until one makes a compelling case that defection in a Prisoner's Dilemma is coextensive with immorality (i.e. that under all possible understandings of the payoff structure, defection always violates the tenets of morality and that it is always morally inferior to cooperation). And the further implication that economists are (4.) immoral like them since we used to be students would also be speculative. It is not based on empirical observations, and it is actually at odds with several findings. Perhaps there is a 'temporary' divergence in the behaviour of those students who major in economics. But they eventually, as it were, go back on track. Economics professors are largely like professors in other disciplines.

All things considered, an economist may indeed be expected to display self-regarding conduct in a larger set of situation-types than non-economists, which most probably implies that he also does so more often. (I thus interpret 'more selfish' as a claim of *FREQUENCY*.) More contested is whether this peculiar behaviour is caused by the economic education (training) or whether selfish people voluntarily enrol in the discipline (self-selection). There are several observations that economics students differ markedly from non-economics ones from the beginning of their schooling, thus lending credit to the self-selection explanation, through the assumption that these differences are pre-existing. That they are documented on day one, however, does not necessarily mean that these differences were also present on day zero. This uncertainty is unfortunate because the resolution of whether the behavioural difference between economists and non-economists is because of self-selection or training, however, is all-important to express a moral judgement on the matter.



### 3.1. – SOME PROBLEMS WITH SELF-SELECTION

Self-selection has been so far identified as the soundest explanation for economics students' behaviour. Carter and Irons say this is all there is. Frey and Meier find indications of self-selection in business students, who emerge as the selfish people in their experiment. Also R. Frank and his colleagues recognize strong indications of self-selection, while claiming a role for training as well. Training, on the other hand, is more contested. Carter and Irons find no conclusive traces of it, nor do Frey and Meier. But the existence of a training effect is crucial to make a case against economics. If we do not have any impact on our students, why bother us? What are we guilty of? And what are we supposed to do to change the situation?

If we accept that the experimental literature on the character of economists is in fact a moral assessment, we should also be cautious in making direct connections between selfish behaviour or motivation and immorality. I have discussed the psychological problems with attributing character traits to people, and the logical problems with making intuitive moral judgements, in the form of four distinct fallacies.

Even assuming that self-interest is immoral, on the self-selection account economists would be bad, but not the discipline of economics. This would not be enough to sustain the many and diverse ways to endorse "The Critique" as Coleman (2002) defines the main common trait of all the anti-economics thinkers, whose aim is "not to criticize economics endlessly, *but to dispense with it altogether*" (Kanth 1997: 3).<sup>135</sup> These critics blame the discipline because it advocates all sorts of undesirable social consequences, because it twisted evil into looking good in a way that is "intellectually acceptable" (Lux 1990: 135), and because it is ultimately "pernicious" (Moffat 1878: 5). When the conduct of economists in experimental games is described as the outcome of self-selection of selfish people, however, economics at large is released from charges of being an immoral discipline: it just so happens to be crowded with selfish people!

It still can be argued that a discipline that proves so attractive to selfish people may be somehow conceited. Though *why* it is conceited remains unclear until the exact nature of self-selection is understood. Moreover, in connection with this charge, one must also question whether for these selfish people to choose economics is a morally condemnable choice. What would be the opportunity cost of having economists do something else? What makes a selfish person a good citizen: that he becomes an economist or a social worker, a nurse, a civil servant...? Maybe, by luring these people into economics, we are serving a larger social goal.

We are serving a larger social goal, that is, unless we make them yet more selfish. Do we?

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<sup>135</sup> I do not mean to suggest that the authors who have said economists to be selfish are associated with any claim to the necessity of disposing of economics.

### 3.2. – TRAINING AND THE SOCRATIC PROBLEM

Economists may be like everyone else because we know how abstract the assumptions of our theory are, and we know that the world is very complex instead. We know that assuming strangers to cooperate with us in prisoner dilemmas is unlikely to make us fit for a competitive world.<sup>136</sup> We also know that our lives require acts of generosity and altruism (though we believe that such acts make no difference in the definition of market prices). Maybe it would be a good teaching technique to share all the qualifications with our students, but we prefer to pass on neat, rigorous, and clear-cut lessons. This is not without reasons; nor without consequences. Even if we resist the charges (1.)-(4.), therefore, there may still be room to complain that (5.) we are dangerous because we make our students selfish, and consequently that (6.) we are immoral for the danger we represent, so that economics becomes the stage for a case of what we may call a Socratic Problem.<sup>137</sup>

One of the accusations that lead Socrates to his death sentence was that of being a corruptor of the young because his most prominent students – Critias and Alcibiades – became a violent oligarch and a traitor of the *polis* respectively. The extent to which the Socratic Problem involves the teacher-student relationship in economics is thus dependent on the extent to which the social disapproval of students' behaviour follows from the doctrines economists teach and from the social disapproval of the content of these doctrines.

Do we economists, too, corrupt our students?

Among a variety of accusations against Socrates, Eric Schliesser identifies some arguments that easily transfer to the moral trial against economists: Socrates' teachings and example potentially threatened the state's constitutional order, and he taught his students methods and doctrines that did not respect the established social and constitutional practices. These methods and doctrines, in immoderate hands, can lead to immoral practices. We can rewrite these reflections as follows: economists' teachings and example potentially threaten the state's constitutional order (which often requires cooperative behaviour and mutual trust), and we teach our students methods and doctrines that do not respect the established social and constitutional practices (because selfishness violates some social norms). These methods and doctrines, in immoderate hands, can lead to immoral practices (e.g. the case of the so-called 'Chicago Boys,' those Chilean graduates from Chicago who became economic advisers to the Pinochet regime, see Schliesser 2006b). The conclusion is that "Socrates' impact on his students endangers the polity" (Schliesser 2006a: 5). Again, replace Socrates with economists to appreciate the conclusion. Elinor Ostrom (1998: 18) presages that "we are producing generations of cynical citizens with little trust in one another, much less in

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<sup>136</sup> But this might be, at least in part, economics' own fault (e.g. Ferraro et al. 2005).

<sup>137</sup> I appropriate the terminology of Socratic Problem from Eric Schliesser (personal communication, but also 2006a,b).

their government. Given the central role of trust in solving social dilemmas, we may be creating the very conditions that undermine our democratic ways of life.” This is not only worrisome: it is *scary*.

Our students might blindly and faithfully submit to economic knowledge, and develop ‘economic intuition.’ They might then employ such intuition naïvely, without due judgement. They might try to imitate the smart homo economicus, without realising that he is just a fiction, a representative description of the sufficient individual conditions for achieving a certain equilibrium, which in practice is instead attained by a bunch of non-necessarily-selfish, imperfectly rational human beings. But our students are not taught this, or not clearly enough. Our students are taught highly formalised techniques for explaining ‘why what they predicted did not happen,’ as the joke goes.

Robert Solow has been quoted as commenting that “[t]o say something is wrong with graduate education is to say that something is wrong with the economics profession” (Klamer and Colander 1990: 18). He was referring to the results of the extensive investigation of graduate education in economics at the top American universities conducted by David Colander and Arjo Klamer (1987). That research focused on the content of economics training, and revealed a growing separation of economics from the real world. ‘Having a thorough knowledge of the economy’ was considered the least important factor in guaranteeing one’s success as an economist. The top-3 aces up one’s sleeve were believed to be ‘being smart in the sense of being good at problem solving,’ ‘excellence in mathematics,’ ‘being very knowledgeable about one particular field.’

The situation does not seem to have changed much (Colander 2003). To see its practical consequences, we may remind the layoffs experiment by Rubinstein (2006). For the economics students the difference between the table and the formula treatments is very small. It is almost as if, even in the absence of an obvious mathematical presentation of the problem, economics students did still construct the problem mathematically, as a somewhat abstract cost-benefit calculation. Rubinstein (*ibid.*: C8) thus proposes a warning about the risk that “presenting a problem mathematically, as we often do in economics, conceals the real-life complexity of the situation.” His research was indeed “motivated by [his] concern about the way economics is currently being taught” (*ibid.*: C1). Our students do not “study economics,” instead they become “experts in mathematical manipulations” (*ibid.*).<sup>138</sup> And he does nothing to hide his intent to “encourage [the readers] to consider changing [economists’] teaching methods” (*ibid.*: C9). The encouragement is

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<sup>138</sup> Rubinstein (2006: C1) also suspects that our students’ views on economic issues are ‘influenced by the way we teach, perhaps without them even realising it.’ But Klamer and Colander (1990: 59ff.) interviewed many students who revealed they were perfectly aware of what was going on at graduate schools.

not solitary: a related suggestion – to change the content of economics teaching – came from R. Frank and colleagues (1996: 191).

On the training account, indeed, economists are not necessarily bad: it is economics that spoils the poor students. Enrolling into economics, I have suggested in Chapter 8, modifies one's self-perception. This already makes perfectly normal people different from other perfectly normal people. Other disciplines produce the same effect on their students, too. Economics training also alters the perceptions of the characteristics of the situation one is in, as proposed in Chapter 7. This makes perfectly normal people yet more different from other perfectly normal people. But the existence of these effects does not seem to be open to much moral reproach. It follows from our very nature. The content of the effect, on the other hand, might be worthy of some additional scrutiny.

Do we want our students to become the kind of people who think of everything in terms of its price, and of every situation as a market? Is this a good thing?

### 3.3. – *THE MARKET SELLOUT*

There certainly are plenty of good reasons to praise a social arrangement that lifted the conditions of living of huge numbers of people while at the same time supporting growing numbers of them (e.g. Maddison 2001). There also are plenty of good reasons to praise the same social arrangement if it ensures a peaceful and mutually advantageous exchange among people with opposing and potentially conflicting desires, by means of emphasising their freedom of choice.

The market, however, is neither necessarily always the most effective nor the most efficient form of social coordination because it often triggers self-regarding deliberation, which might not always be the right kind of motivation, depending on the object to be pursued and the means through which it can legitimately be pursued. Insofar as economics can be a positive undertaking, it should be welcome. But it is apparent that the very choice of the market mechanism (or of pricing) as the criterion to regulate any (or, in the case of economics, every) social relation is a very dramatic ethical decision, which in fact most of us, when properly alerted to its meaning, would deem inefficient, undesirable, and unethical under several circumstances.

As noted above, even when something is not functioning as a market, it could be made into one, by alerting the people involved with it to the relevant prices. (Market Pricing, indeed, requires that individual decisions be made according to that price and not merely that it is present.) A warning is therefore in order when economists even pretend that the decision to give birth to a child can be likened to that of investing in a durable good. Should enough people become aware of the cost of raising a child, and bring this to the forefront of their decision-making concerns, they would start thinking of children as refrigerators of sort, which might very well mean that eventually

the optimal number of offspring is generated, but it is an optimality most regard as revolting.

To the economist's mind, the broadest-ranging markets (whether free or regulated, with or without public intervention) should bring about just the perfect balance between me and us, mine and ours. This idea worked remarkably well to a remarkably large extent throughout our recent history. But it is one step too many to proclaim that this is the only way to go after every problem. And, in principle, there exist no problems that can't be fruitfully addressed. Writes Stephen Mildenhall from Chicago: "SIR – You report that falling fertility rates in many European countries will lead to fiscal shortfall over the next 20 years. The solution is obvious: *Tax contraceptives*" (Letters – *The Economist*, 16/10/04).

Once again, it is legitimate to analyse a relationship 'as if' it were pricing-like. Because even to the extent that there is no market, at some level and to some extent people selfishly respond to economic incentives. (The level and the extent are to be assessed empirically.) But the problem at hand is not the selfishness of economic agents, rather their one and only principle of choice.

If the case can be made in favour of the idea that MP applies in a range of domains larger than just production, distribution, and consumption of goods and services, this should not be taken to imply that it applies everywhere. Conversely, even a narrow definition of the domain of economics in terms of production and distribution of commodities calls for qualification because no one ever interacts with anyone else in *the* market. Non-MP principles might even improve the efficiency of market transactions. But, likening everything to pricing decisions, some economists have come to believe that it is fine to be narrowly selfish, because the invisible hand will eventually clean up the mess. That this will happen, however, is not simply wishful thinking: It is mystical utopia, a marvellous intellectual construct of (secular) religious tenets that will rescue human society from the evils of poverty and scarcity to deliver us into the earthly heaven and ultimate salvation of wealth and prosperity (Nelson 2001).

#### **4. – HAVE YOU BECOME AN ECONOMIST, YET?**

It is not conclusively clear – though there are some important indications – that economics training is responsible for changing economics students' behaviour. Our classes may indeed make our students behave selfishly in certain situations in which other students do not.

How could this happen?

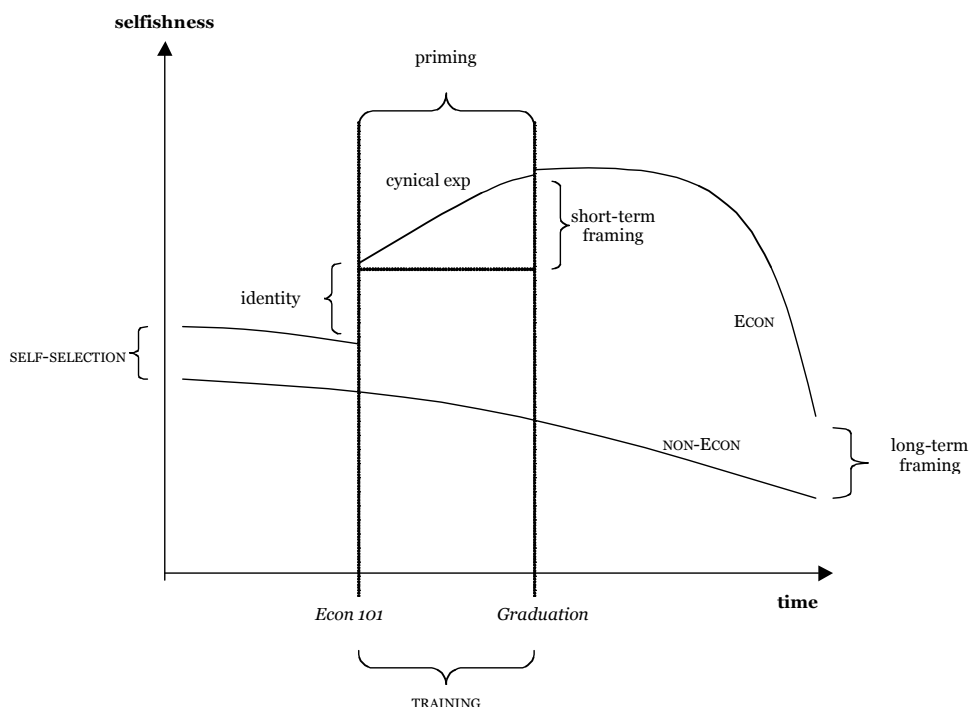
I proposed several related explanations.<sup>139</sup> One explanation is that Econ classes generate *cynical expectations* about others (R. Frank et al. 1993). When we play a game, or when we make a real-life decision, our expectations of other people's conduct matter very much. For instance, when we expect our

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<sup>139</sup> One possibility on which I do not elaborate is that the least selfish students of economics pursue an academic career.

partners to defect we defect, too. Beside the beliefs about who and how others are, also our self-image, or who and how we think we are, matters a great deal in decision-making: there may thus be an *identity* effect that explains why Econ students behave much like economists from the very first days of their enrolment, by means of imitating some stereotypical image they hold. Afterwards, with the beginning of courses, a *priming* effect might enter the picture, connected with the repeated exposure to economics concepts, but this eventually fades away after graduation. Over the course of more formal training, moreover, there could arise a specific way in which economists understand and interpret situations (the *framing* explanation). One could, then, plot all these explanations together into FIGURE 2.

FIGURE 2. **Selfishness and the life of an economist**



4.1. – *KNOW THYSELF*

That the content and typical methods of economics training matter indeed seems further confirmed by noting that its effects on the undergraduates play out regardless of individual teachers (Frank et al 1993, Whaples 1995). It does not matter much how much effort and common sense you put in the enterprise, nor whether you did so willingly or aware: if you taught economics you have likely tinkered with a young brain and quite possibly you have ruined it. It may seem, therefore, that the time has come to follow the enlightened example of Socrates: reach for a cup of poison and get it over with the trial and the guilt. But... behold, before quaffing!

Is the change we cause for worse? And is it for good?

On this cynical expectations training effect, for instance, we should suspend our judgement. Firstly, because it is yet to be demonstrated that cynical expectations make economics students ‘bad citizens.’ Secondly, because this is a phenomenon observed elsewhere. For one instance, the majority of Dutch taxpayers say they pay taxes as a contribution to the common good. They believe, however, that the majority of others pay taxes only to avoid legal troubles (Andreoni et al. 1998). Cynical expectations may be a prerogative of Econ students when it comes to game-theoretical experiments, but not on more mundane occasions.

Moreover, after graduation, most other effects wear off. Priming, of course, loses its importance when it is abandoned. Many researchers, inspired by the work of William Perry (1970, reported in Siegfried et al. 1991: 212-3), have found that freshmen students “employ dichotomous thinking” and believe things to be either “right or wrong, black or white.” But, “[a]s students mature, their ability to cope with abstraction and ambiguity often improves.” The somewhat naïve imitation implied by the identity explanation, therefore, should spontaneously fade as one grows into a more sophisticated person. If this is the case, long-term risks associated with the exposure to self-interest rhetoric in Econ classes might be negligible.

Some gap in beliefs and behaviours caused by econ training, however, do last past graduation.<sup>140</sup> Is this bad? The framing effect, for instance, can be presumed to be relatively permanent: it is the essence of the ‘economist’s way of thinking.’ An alternative training would have produced the engineer’s or the historian’s way of thinking. Is our way of thinking worse? Is it morally inferior to others? Though speculations on this matter are not lacking, convincing evidence is yet to be produced. I have commented that markets are not ubiquitous and that our framing of everything as being regulated by prices and individual incentives may turn out as immoral and even backfire. This is perhaps an issue we should especially be careful handling in our classes.

I do not know how: perhaps by changing the content of economics teaching, the methods, or both. I’m afraid we do not yet have a thorough enough understanding of the differences between economists and non-economists, and of the reasons for such differences, for us to change economics in a significant way, because, persuaded though I am that the methods and content of economics teaching are ripe for improvement, I must also recognize that Hirschleifer (1994) and Yezer and colleagues (1996) have a point when they emphasise that economics already includes crucial lessons on the importance of mutual satisfaction and voluntary exchanges. Nonetheless, the methodological, psychological, and logical complaints I advanced are not nearly enough (nor do they try) to call economists innocent. More evidence is

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<sup>140</sup> A repetition of Rubinstein’s experiment with the readers of a business magazine, reported in an unpublished early version of the paper (2006b: 9), shows that readers with an economics background differ from those with a non-economics one, but their tendency to maximisation is much weaker than in the students sample.

required to resolve the present hypotheses, and several additional hypotheses need testing. From these, one may find reasons to sustain different charges and to thus make more accurate prescriptions for correction (or not).

One thing we may want to keep in mind is that the values we hold as economists and the way we behave is going to modify the culture of our profession and the stereotypes with which we are associated. This is a hint that may be best passed through by evoking the idea of *voodoo causation*: if you cooperate in social dilemmas, you increase the base rate of cooperators. “Through its effect on others’ estimates of the likelihood of cooperation, then, an individual’s decision to cooperate [...] may indeed cause others also to cooperate” (Frank 2004: 53). Will this prepare us to be exploited by a band of defectors? Not if we refuse to deal with them. How long would you co-author with a free riding colleague? But how large are the benefits to work together with someone who puts almost the same effort (by definition, no co-author ever fully matches the other’s effort) you put into the joint enterprise?

#### 4.2. – *THE TRIAL ON TRIAL*

While there may be numerous good and not-so-good reasons for investigating our trade, and us, I remain convinced that the investigators and their investigations deserve the same scrutiny. The moral trial on economists and economics should be itself, as it were, put on trial. Such was not my goal with this endeavour (and more formal work on this theme may be awaiting), but rather an unintended consequence of my own research into the nature and causes of the behaviour of economists. My ambition is that the results I have produced contribute additional understanding on this matter, because the results generated so far within the Moral Trial have stimulated in me a desire to know more, which has not yet been satisfied.

The methodological, psychological, and logical complaints I have advanced, however, are not nearly enough (nor do they try) to call economists innocent. To excuse economists, economics, and markets is not the task I attempted here: to understand them better was the main aim of this work. Admittedly, more evidence is required to resolve the present hypotheses, and several additional hypotheses need testing. From these, one may find reasons to sustain different charges and to thus make more accurate prescriptions for correction (or not).

Therefore, in the face of the existing evidence, I do not think the moral trial should have a large impact on the economics profession as a whole, nor on economic teaching. It may be true that we bring selfish behaviour (with a huge list of qualifications due) out of our students. But this effect appears to largely wear off with time. In the meanwhile, to be sure, they may earn a reputation of nastiness, which would harm them forever, but I doubt that this case can be seriously advanced.

I do not think everything is fine with economics and economics teaching. Far from it. My feeling is that we should worry, but not too much, about how



bad citizens our graduates turn out to be. What seems to me much more shameful and ethically troublesome is the massive investment in technical expertise that shields our students from the exploration and the understanding of real-world phenomena. In my opinion, the moral trial suggests that, as a by-product of econ education, we induce them to endorse a line of conduct that sooner or later they will (hopefully) abandon.

Hardly a worthy accomplishment, you see.



## CONCLUSION

*Every time I finish a book, I forget everything I learned writing it – the information just disappears out of my head.*  
– Alice Hoffman

On the 10<sup>th</sup> June 1981, formerly President of the European Commission and later Prime Minister of Italy, Professor Romano Prodi was audited by a Parliamentary Commission concerning his knowledge of the secret place where the Italian politician Aldo Moro was held hostage: a location called Gradoli, possibly a small town in central Italy. The information was allegedly recovered during a *séance*.

Kidnapped by the left-wing terrorist group *Brigate Rosse* during the spring of 1978, Mr. Moro was later found dead in a parked car. Police investigations uncovered the place where Hon. Moro had been kept prisoner: an apartment in Rome, in a street called via Gradoli. A coincidence, perhaps. In the words of Mr. Prodi, who did not hide his embarrassment for the rather awkward situation of being audited about such unscientific practice, the *séance* had been conducted as a mere joke.

But who did attend?

According to the transcripts of the audition, Prof. Prodi declared: “among the participants to the *séance* there were me, who am an economist, Professor Gobbo who is chair of economic policy in Bologna, Professor Clo who teaches applied economics at the University of Modena [...] and there was also Professor Baldassarri who is an economist and is chair of political economy in Bologna. Among the women was my wife, who is an economist, and the wife of Professor Baldassarri, who has a degree in economics.”<sup>141</sup>

No wonder economists (and Italians?) are considered a weird lot! Axel Lejonhufvud (1973) describes us (economists, not Italians) as a *curiosum*. As he approaches us with an anthropological outlook, he depicts a unique tribe with complex rituals and odd social practices – though these do not explicitly include *séances*. Although economists are not all alike, as Arjo Klammer and David Colander (1990) conclude from their survey over graduate students from six American top economics departments, this difference is rather

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<sup>141</sup> Translated from: [http://213.215.144.81/public\\_html/articolo\\_index\\_21273.html](http://213.215.144.81/public_html/articolo_index_21273.html)

‘internal’ to the discipline. Seen from the outside, we economists look quite all the same and there are some major traits that define us as a category.

One major such trait I identified in this book is that we tend to think in terms of relative prices and market-like transactions. This is not a late innovation of some unscrupulous mathematician in the ‘50s, but a defining feature that we carry on since the very beginnings. Thus Adam Smith (1776: bk. I, ch. 5) suggested that “labour was the first price, the original purchase-money that was paid for all things. It was not by gold or by silver, but by labour, that all wealth of the world was originally purchased.” The approach is so powerful that Paul Samuelson, who was well aware of its power, declared he did not care about whoever drafts the legislation for the citizens of his country, insofar as *he* could write their textbooks. Even the defence of economics’ assumptions drafted by Milton Friedman (1953: 15, emphasis mine) in what is perhaps the most influential methodological paper in economics is advanced on the grounds that “a hypothesis is important if it explains *much by little*,” or, in other words, if it is a theoretical bargain.

To be sure markets are great, but it would be a great advancement if economists acknowledged that there are alternatives to them (and that discrimination among the market and these alternative needs not be a pricing-like decision.)

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Of course economists would protest that the best way to obtain a house is to pay an intermediary to process the information required to establish a monetary transaction between the old and the new owner, and pay an interest to a bank for the availability of money to conclude such contract (Market Pricing). But what about setting up an army, invading the neighbouring block, reducing its inhabitants into slavery and having them build a brand new house (Authority Ranking)? Another alternative would be to equally share the costs with a group of people, build a house all together, and then live there (Equality Matching). Or else pool one’s own resources – as large or as small as they may be – with someone else’s, or even have your loving parents let you use their house free of charge (Communal Sharing).

All of these are or have been legitimate ways to satisfy people’s housing needs. Virtually every economist, moreover, at some stage of his life has procured himself accommodation in more than one of the ways described above, in various degrees to be sure and rather often more than one at the same time. Remarkably, they did so while believing that they were doing the right thing. And possibly yet more remarkably, they probably did not think that the mortgage was the nicest way to go about finding shelter.

Although in the house example, most agree that the market mechanism is appropriate, there are limits to such mechanism. For example, in ancient times it was acceptable to sell another person as a slave, nowadays in most

societies it is not even legitimate to sell oneself, but in some nomadic cultures women are still traded with livestock; medieval Christians were prohibited to lend money to each other for a fee, advanced market economies today exist thanks to credit, while most of us would not require nor accept an interest for a loan to a friend. Selling one's vote or place in a queue is not acceptable, because democracy and waiting time are managed through Equality Matching relations. It is not conventional to charge a fee for advising a friend over his troubles with his girlfriend or for taking the garbage out at one's mother's request, because friendship and family often follow Communal Sharing. Authority Ranking regulates the army and seniority on public transportation, so that one is not allowed to bill his superior for marching three hours under the rain, nor a pregnant lady for letting her take a seat on a crowded bus.

But these observations do not mean that they were never common or allowed. Relations are complex and diverse, as each depends on rules of thumb, societal conventions, legal frameworks, social norms, and ethical concerns... moreover relationships change as society changes through time, so that the dominant principle of conduct for a given transaction might shift. It seems therefore perfectly legitimate to investigate what would a transaction be like and what would be its working and consequences, were it arranged according to the relative prices of the goods and services it involves: this is the business of economics. Quite often, the economist can show that the allocation of these goods and services would be more efficient as a result. And efficiency itself is the concrete application of a moral concern: when resources are scarce waste should not be an option, even if Malthusian starvation and moral decay are not the unavoidable results of such misbehaviour. Efficiency, however, is not the only moral principle we ought to follow in our lives. On many occasions equality, fairness, and respect are required as well.

Teaching every child to write and read may facilitate the achievement of economies of scale in teaching, but when every child knows how to read and write, the value of such knowledge shrinks. Literate citizens have no comparative advantage any longer, and the investment of their time in such knowledge might have subjective returns lower than alternative investments. It is not out of a cost-benefit analysis that education is offered to, and to some extent required of, every citizen in Western societies (otherwise young university graduates would not be unemployed and plumbers would not be prospering as the stereotype goes). Economists suggest it is, however, *as if* it were the result of a cost-benefit analysis. We go to college because we expect to find a better job – that is to earn a higher wage – in the long run. While there is plenty of wisdom behind such insight, that is not the whole picture.

On the other hand, making trade-offs too obvious and accessible to everybody could alert them to the existence of a price they had disregarded and induce somebody to make their decisions according to that price (or according to that price *only*). This might be a good thing, of course, but it might also turn out suboptimal or immoral, as the case may be. How many

students would embark in a PhD in Philosophy and Economics as the result of a cost-benefit analysis? Very few, if at all. (And I am not sure I want to share the office with those who would.) Yet it would be naïve to go to graduate school without ever taking into account the financial aspect of so doing.

Where economics fails, I believe, is not in the identification of an ever-expanding domain for its crucial insights, but in coming short of acknowledging the scope, working, and impact of the many diverse alternative insights – and in passing them over to the students. Merely allowing for the preference function of a government to include the equality of education of its citizens fails to uncover the desire for equality when there is, as rather often there is, a trade-off between equality and efficiency. If the government pursues equality it is because that is an efficient way to satisfy its preference, economists say, and not because it is, well, *equal*.

It seems that, to an economist, everybody looks like a merchant (including ourselves). And we know very well that many things should not be bought and sold.

But a merchant can be a nice person, too.

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Nice people or not, economists got caught in a Moral Trial that attempts at exposing us as selfish and, by means of (somewhat dubious) implications, immoral. The trial against economists has emerged from a series of experimental exhibits revealing how economists' behaviour deviates from that of non-economists, and how it does so in the direction of the rationally self-interested conduct employed in economic theorising.

What is it: are we born selfish, as several experiments seem to indicate, or is it Econ 101 that puts us on the immoral track? Neither.

And both.

First week economics students already differ from their mates in Medicine, and the difference is bound to grow with time. Why, George Stigler (1959: 528) remarked, the economics student “is drilled in the problems of all economics systems and in the methods by which a price system solves these problems!” This should make him more inclined to support markets. Eventually, however, after college is over, the difference between the economist and the geographer appears to shrink once again.

What accounts for the economist's peculiar conduct in experimental games? Perhaps economists are born that way and then self-select themselves into Econ 101. Though it is the leading account in the literature, this explanation would still leave the questions open whether *pueri economici* (economic children) exist and, if they exist, whether they would major in economics. It is, however, virtually impossible to establish exactly what kind of person economists are, because there exist no individual characteristics on the basis of which to discriminate between people that can be brought to bear

on the evidence of the Moral Trial. For instance, there exist no global traits causally efficacious in affecting behaviour across situations (or, even if these existed, very few people show such traits). A difference in the locus of control, too, seems inadequate to single out economists as any more different from other people than they differ among ourselves.

Economists are normal people. We behave the way we do precisely because it is the normal thing to do. My argument in this book could be taken to suggest the possibility that economists behave like *homines economici* precisely because we are not. Since it offers them a decent way out of a moral trial, this implication should induce mainstream economists to take my work more seriously: after all, it's *in their self-interest* to do so.

It is not true, I submit, that economists are immoral, that we do not know *how* to behave. We simply have (just like everyone else has) a distinct feeling of *when* to behave in such and such a way: we differ from non-economists (as non-economists differ among themselves) in terms of our cognitive capacities to perceive a relevant pattern, or at least in terms of what makes a pattern relevant. When quickly reacting to new environmental conditions, economists may have a disposition to recognize those features that characterize a situation as a market relationship. Our brain is in fact trained at recognizing precisely those features, since they are characteristic of our professional tasks. It follows that we have a more pronounced lean towards selfish behaviour, since our society admits selfishness in markets (but I do not mean to suggest that such implication is always grounded). It seems that economics eventually keeps self-interest alive, both in theory and in practice.

What moral evaluation of this effect is proposed, however, cannot be dismissed with a simplistic 'bad' label and has to be weighted against the fallacies such intuitive judgements entail. It is easy to mistake the behaviour of others as motivated by egoistic concerns, but even keeping one's mind tuned on the selfish frequencies all the time may not make a selfish individual in the first place, and at any rate not necessarily an evil one.

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In my opinion, such mindset makes those individuals' life terrible.

How could you think of a professional – say, a psychiatrist – but as a selfish income maximiser, who plays his nastiest tricks to make you feel well in the short term so that you perceive a benefit and keep attending him, and who yet never helps you to heal fully so that you keep paying his bills? If one were to always think of other people this way, I can imagine how grey and dim life would look to her, and I can only begin to imagine how badly she would need a psychiatrist in the very moment she can trust him less. Luckily, they say, we can expect psychiatrists to behave according to different principles of conduct: they have not enrolled in economics, and they have been educated with a concept of manhood altogether different from *homo economicus*. Too bad, let

me conclude, their homines often act out of a subconscious willingness to kill their fathers and mate with their mothers. But this is already an entirely different story...

By the way, reading this book is free, so stop obsessing about that bank statement.



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## SAMENVATTING

In dit proefschrift wordt het experimenteel bewijs onderzocht waaruit blijkt dat economen zich anders gedragen dan niet-economen. Economen handelen vaker uit eigenbelang. Dat bewijs heeft geleid tot een waar Moreel Proces waarin economen ervan beschuldigd worden egoïstisch en daarmee immoreel te zijn. Dit heeft geleid tot de aanbeveling het economie onderwijs te veranderen. Ik ontleed het Moreel Proces (Deel I) en onderzoek de psychologische en logische geldigheid van zowel het bewijs als van de aanklachten (Deel II). Zij schieten tekort in een aantal opzichten. Vervolgens stel ik een andere interpretatie voor van het bewijs (Deel III).

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In het eerste deel wordt een schets gepresenteerd van de economische wetenschap (hoofdstuk 1), waarin de centrale rol van markten wordt belicht (hoofdstuk 2). Ook wordt het hoofdthema van het onderzoek geïntroduceerd: het Morele Proces dat deze wetenschap en haar beoefenaars ondergaat (hoofdstuk 3). Ik evalueer de aanklachten – die onduidelijk blijken te zijn – en het bewijs – dat tekortschiet. In het Morele Proces behoort de eventuele schuld van economen af te hangen van hun zelfzuchtigheid op een manier die doet denken aan “de economische mens”.

Daarom staat in deel II de manier waarop mensen individuele motivatie, gedrag en de consequenties daarvan begrijpen centraal en worden meerdere drogredenen blootgelegd waar mensen zich schuldig aan maken bij het toeschrijven van motivatie aan waargenomen gedrag (hoofdstuk 4). Om daadwerkelijk een aanklacht te zijn moet handelen op basis van eigenbelang beschreven worden als een morele overtreding, maar het is nog maar de vraag of het dat ook is (hoofdstuk 5).

Ook al laat ik zien dat het geen geldig bewijs van egoïsme of immoraliteit vormt, het verschil in gedrag tussen economen en niet-economen verdient een verklaring die mijn kritiek overstijgt. In het laatste deel richt ik me dan ook op het inzichtelijk maken van het opvallende gedrag van economen. Ik benadruk het belang van emoties bij het maken van beslissingen en de manier waarop de perceptie van een keuzecontext gedrag beïnvloedt (hoofdstuk 6). Vervolgens beargumenteer ik dat economen door hun opleiding en gespecialiseerde kennis anders tegen situaties aankijken dan niet-economen. Zij zien een beslissingscontext vaak als een markt. Het gedrag dat economen vertonen in de experimenten kan dus verklaard worden door te onderzoeken door wat voor

bril verschillende groepen van onderzoekssubjecten naar situaties kijken (hoofdstuk 7). Dat biedt slechts een gedeeltelijke verklaring omdat economiestudenten zich al vanaf het begin van hun studie anders gedragen dan andere studenten. Wellicht komt dit door het stereotype beeld dat we hebben van economen en het feit dat eerstejaars zich daaraan aanpassen (hoofdstuk 8). Ik concludeer dan ook dat de eerlijkheid gebiedt dat het economisch onderwijs wordt beoordeeld op het verschil dat het maakt voor het gedrag van onze studenten (hoofdstuk 9): is het wel echt zo dat we ze verpesten?

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De conclusie van dit proefschrift is dat economen met een andere bril naar situaties kijken waardoor velen van hen denken dat handelen op basis van eigenbelang onproblematisch is en dat ze daardoor ook vaak op basis van eigenbelang handelen. Dit opvallende gedrag is waarschijnlijk verantwoordelijk voor het weinig flatteuze stereotype dat er bestaat over economen, dat vervolgens toonaangevend is voor beginnende economiestudenten. Deze verklaringen van het gedrag van economiestudenten zijn overtuigender dan degene die de boventoon voert in de bestaande literatuur over dit onderwerp – dat het een kwestie van zelfselectie zou zijn, dat met name egoïstische mensen voor de studie economie zouden kiezen (hiervoor is nog geen aannemelijke rationale aangevoerd). Een voordeel van de hier geboden verklaringen is dat ze strijdig zijn met het idee dat er sprake is van een diepgaand verschil tussen economen en niet-economen, iets dat moeilijk te rijmen is met het feit dat in sommige gevallen economen niet meer op basis van eigenbelang handelen dan anderen. Tenslotte blijkt ook nog eens dat het verschil afneemt nadat de studie is afgerond. Dit suggereert dat het effect dat economie onderwijs heeft afneemt met de tijd. Mijn analyse van het Morele Proces laat dan ook zien dat we ons niet veel zorgen hoeven te maken over de ethiek van economen.



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