

# The Morality of Economic Man\*

Laszlo Zsolnai

Budapest University of Economic Sciences

Economic behavior is multifaceted and context-dependent. In the "I & We" paradigm developed by Amitai Etzioni, economic behavior is co-determined by utility calculations and moral considerations. Two major factors can explain the ethicality of economic behavior; namely, the moral character of the agents and the relative cost of ethical behavior. Economic agents are moral beings, but the ethical fabric of the economy determines which face of the Moral Economic Man predominates.

## 1 Economic Behavior

It is a common belief in our age that people are motivated by their *own material well-being* when taking economic actions. This is the well-known Homo Oeconomicus image that depicts economic agents as rational, self-interest-maximizing beings. However, economic behavior is much more complex than the Homo Oeconomicus model suggests. People have rather different motivations, which may determine their economic choices. (Jolls, C., Sunstein, C.R. & Thaler, R. H. 2000)

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Overwhelming empirical evidences suggest that

- (i) people care about their *own material payoffs*;
- (ii) people consider the interest of *others they know well*;
- (iii) people are willing to *sacrifice* their own material well-being to *help* those who are *kind* to them and to *punish* those *unkind* to them;
- (iv) people take into account the *well-being* of *strangers* whose interests are *at stake*;
- (v) people are interested in their *reputations* - what others think about their behavior;
- (vi) people care about their *self-conceptions* - what kind of persons they wish to be.

Some interesting experimental results aptly illustrate the above-noted behavioral features (i),..., (vi). The following famous studies provide strong *counter-evidences* for the Homo Oeconomicus model. They suggest that *people are moral beings* in their economic actions.

The ultimatum bargaining game has two players, an *allocator* and a *receiver*. The allocator is given \$10 to distribute between the receiver and herself or himself. The receiver has two options: *accepting* the offer, in which case each player gets the *amount proposed* by the allocator; or *rejecting* the offer, in which case each player gets *nothing*. The players play the game only once.

The Homo Oeconomicus model presupposes that the allocator will propose \$9.99 for herself/himself and only \$.01 to the other player, and that the receiver will accept this offer on the grounds that the utility of one penny is greater than zero. But this is not what happens in reality. Offers usually average between \$3 and \$4. Offers less than \$2 are often rejected. Frequently there is a 50-50 division. These results cut across diverse cultures and the level of stakes. (Sunstein, C. R. 2000)

The Homo Oeconomicus model predicts that people will always defect in a prisoner's dilemma game situation. Each player may believe that it would pay more if she or he were non-cooperative since the other player is also expected to be non-cooperative.

*Robert H. Frank* and his colleagues conducted their prisoner's dilemma experiment with real money several hundred times. The subjects met in groups of three. Each was told that she or he would play the game once only with each of the other two subjects. Confidentiality was maintained so that none of the players would learn how their partners had responded in any play of the game. The rate of *cooperation* ranged between 40% and 62%. (Frank et al. 1993)

To refine their experiment Frank and his colleagues asked subjects whether they would cooperate or defect in a one-shot prisoner's dilemma game if they *knew* with certainty that their *partner* was going to *cooperate*. The answers for cooperation ranged between 42% and 66%. (Frank et al. 1993)

*Anthony M. Yezer* and his colleagues conducted the so-called "lost-letter" experiment. (Yezer et al. 1996) The letter was placed in an unsealed, stamped, plain white envelope, with a single name and address on the front and no return address. Inside were ten \$1 bills along with a brief hand-written note indicating that the enclosed currency was for repayment of an informal loan.

Thirty-two letters were left in upper level economics classes; an equal number of letters were left in upper level classes in other disciplines such as psychology, political science, and history. The Homo Oeconomicus model predicts that people will not return the lost letters. Contrary to this expectation, 31% - 56% of the letters were *returned*.

This experimental evidence indicates that people display *respect* for the *interests* of *strangers*. The returned envelopes also provided some qualitative evidence on student reactions to the lost letters. In two cases, students added messages indicating that they had made extraordinary efforts to locate the addressee, including checking the student directory, the telephone directory and the university registrar. (Yezer et al. 1996)

In their pioneering study, *Gerald Marwell* and *Ruth Ames* designed an experiment where subjects were given some initial endowment of money that they were to allocate between two accounts, the "*public*" and the "*private*". Money deposited in the subject's private account was returned to the subject dollar-for-dollar at the end of the experiment. Money

deposited in the public account was pooled, multiplied by a factor greater than unity, and finally distributed equally among all subjects. (Marwell, G. & Ames, R. 1981)

The Homo Oeconomicus model anticipates a subject putting the entire endowment into the private account. From a social point of view the optimal behavior is to put the entire endowment into the public account. Marwell and Ames found that subjects *contributed* an average of 20% - 49% of their initial endowment into the *public account*. Certainly subjects were "*concerned with fairness*" when making their decisions. (Marwell, G. & Ames, R. 1981)

In a game of trust, *Edward Glaeser* and his collaborators paired-off players, some of whom knew each other in real life. The first player received \$15, of which he or she could give any part to the second player, hidden from view. The amount transmitted was doubled by the researchers, and the second player then sent any part he wished of the new amount back to the first player. Here the trusting outcome is for the first player to send the full \$15 to the second. Then, provided that the second player is worthy of the first's trust, both can walk away with \$15. Nevertheless, the Homo Oeconomicus model predicts that the first player will keep the entire \$15.

The first players *sent* an average of \$12.41 to their partners, who *returned* an average of 45% of the doubled sum. The existence of a *previous acquaintance* affected behavior: both the amount initially sent, and the percentage returned by the second player, rose in proportion to the length of time the players had known each other. (Glaeser, E.L. et al. 2000)

## 2 The "I & We" Paradigm

*Amitai Etzioni* developed a theory that he calls *socio-economics*. He introduced the so-called *I & We paradigm* that "sees individuals as able to act rationally and on their own, advancing their self or 'I', but their ability to do so is deeply affected by how well they are anchored within a sound community and sustained by a firm moral and emotive personal underpinning - a community they perceive as theirs, as 'We'." (ETZIONI, A. 1988: p. x.)

Etzioni presents a new model of decision making in which people typically choose means largely on the basis of emotions and value judgments, and only secondarily on the basis of logical-empirical considerations.

In Etzioni's model two irreducible sources of valuations play a role, namely *pleasure* and *morality*. "Individuals are, simultaneously, under the influence of two major sets of factors - their pleasure, and their moral duty (although both reflect socialization). (...) There are important differences in the extent each of these sets of factors is operative under different historical and societal conditions, and within different personalities under the same conditions." (ETZIONI, A. 1988: p. 63.)

The relationship between pleasure and morality is that while both affect choice, they also affect one another. However, each factor is only partially shaped by the other; that is, each factor has a considerable measure of autonomy. This *co-determination model* is shown by *Figure 1*.

Figure 1 Etzioni' socio-economic model

**u t i l i t y   ⇔   e t h i c s**



**b e h a v i o r**

Etzioni states that “people do not seek to maximize their pleasure, but to balance their service of the two major purposes - to advance their well-being and to act morally.” (ETZIONI, A. 1988: p. 83.)

### 3 The Ethical Fabric of the Economy

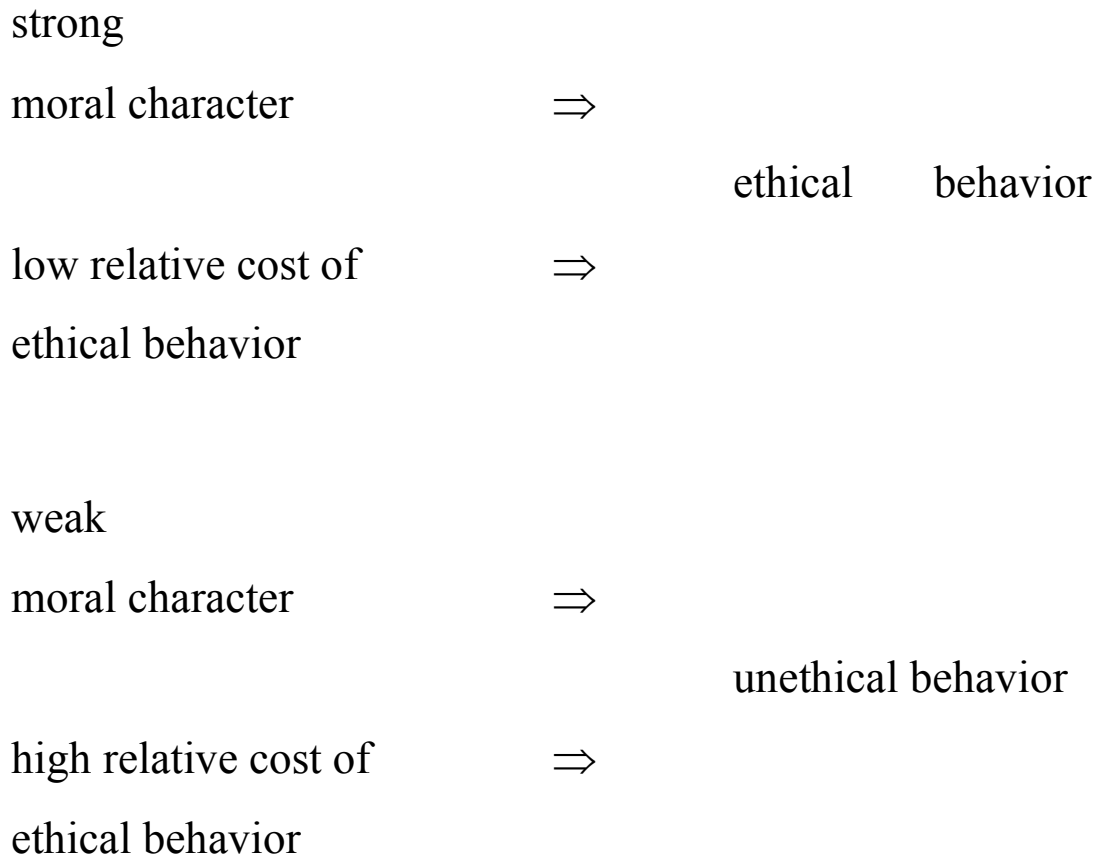
Economic behavior is co-determined by utility calculations and moral considerations. The *major factors* that can help in understanding behavior can be identified:

- (i) the *moral character* of the agents;
- (ii) the *relative cost* of *ethical behavior*.

*Moral character* refers to the strength of the moral beliefs and commitments of the agents. In a given situation the *relative cost* of *ethical behavior* is determined by the cost of an ethical option compared against the cost of the unethical option in terms of transaction cost and opportunity loss.

We can predict the ethicality of economic behavior by combining the moral character of the agents and the relative cost of ethical behavior. If the *moral character* of the agents is *strong* and the *relative cost* of ethical behavior is *low*, then *ethical behavior* can be *expected*. If the *moral character* of the agents is *weak* and the relative cost of ethical behavior is *high*, then *unethical behavior* can be expected. (*Figure 2*)

Figure 2 Determinants of the Ethicality of Behavior





The level of *corruption* in European countries is a good illustration. *Transparency International* produces the corruption ranking of countries year by year. Their ranking for 2003 is shown in *Table 1*.

Table.1 Corruption Indices of Selected European Countries in 2003

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Rank	Country	Score
1	Finland	9.7
2	Iceland	9.6
3	Denmark	9.5
6	Sweden	9.3
7	Netherlands	8.9
8	Norway	8.8
33	Estonia	5.5
40	Hungary	4.8
41	Lithuania	4.7
50	Greece	4.3
54	Bulgaria	3.9
	Czech Republic	3.9
57	Latvia	3.8
59	Slovakia	3.7
64	Poland	3.6
83	Romania	2.8
86	Russia	2.7
100	Moldova	2.4

Source: Transparency International 2003

A corruption index theoretically measures the likelihood that a particular economic transaction involves corruption in a given country. *Finland, Iceland, Denmark, Sweden, Netherlands, and Norway* are countries where corruption is almost nonexistent. In these countries, economic agents have *high moral expectations* and at the same time, it is *easy to behave ethically*. In the corrupt European countries - such as *Slovakia, Poland, Romania, Russia and Moldova* - economic agents have *low moral expectations*, and at the same time it is *difficult to behave ethically*.

#### 4 Conclusions

Economic agents are moral beings. The context determines which face the Moral Economic Man predominates. Some hypotheses can be generated about the conditions, which mitigate the behavior of the Moral Economic Man for better or worse.

(i) The stronger the *collective belief* in the *ethical norms* by the economic actors, the *less* one can expect *unethical behavior* from them.

(ii) The stronger the *pro-social orientation* of the economic actors, the *more* one can expect *ethical behavior* from them.

(iii) The greater the *social costs of transgression* by the economic actors, the *less* one can expect *unethical behavior* from them.

(iv) The greater the *transparency and accountability* of the economic actors, the *more* one can expect *ethical behavior* from them.

Collective belief in the ethical norms, pro-socialness of agents, high cost of transgression as well as transparency and accountability are all major conditions for the proper functioning of the *Moral Economic Man*.

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