

MORALS & MARKETS

DO MARKETS ERODE SOCIAL RESPONSIBILITY AND MORAL VALUES? -
EVIDENCE FROM BEHAVIOURAL EXPERIMENTS



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Dr. Manuel Schubert

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Patrick Schulz (p.schulz-ld@gmx.de)

Student of B.Sc. Business Administration & Economics

TABLE OF CONTENTS

- I. Introduction
- II. The Economic Model
- III. Empirical Evidence
- IV. Critique and Discussion
- V. Conclusion
- VI. References

I. INTRODUCTION

Acedia is one of the seven deadly sins and can be translated as “carelessness”. In the context of markets this suggests a decay of morals due to a lack of care for negative externalities. This seems to be in line with behaviour, which we can regularly observe and would fit in standard economic theory where profits but not morals play a role. However, people are not entirely rational actors and have shown to possess strong moral codes. Whether and how much markets erode these moral standards shall be of discussion in this essay.

II. THE ECONOMIC MODEL

In this paper, there will be a departure from standard economic theory and the *homo oeconomicus* which is a model for human behaviour that has been around for decades (Persky, 1995) and can be described as a self-serving, profit-maximizing individual with no regard for other people (Yamagishi et al., 2014).

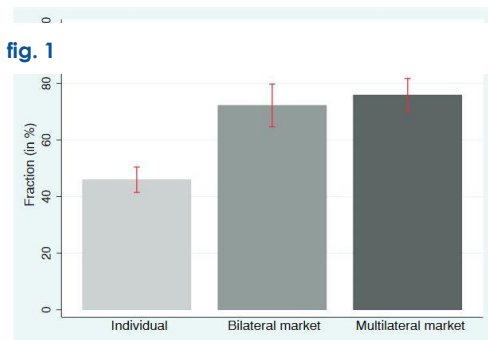
On the other hand, the discussed model recognizes that moral behaviour seems to be rooted in human nature. (Decety and Cowell, 2015). People are under some circumstances willing to forego profits if confronted with a choice that affects their moral principles (Pigors and Rockenbach, 2015).

Howbeit, this model of socially responsible individuals who regularly consider themselves to be morally superior to their peers (Tappin and McKay, 2016) seems to be at odds with the consumption decisions we can often observe. People oftentimes accept moral transgressions when buying clothes, cosmetics, smartphones (see Light and death, The Economist) or several other goods.

This implies that there must be some mechanism in place, which allows people to bypass their usual morals. Especially in recent years, the idea that markets play the decisive role in corroding consumers' morals has received more attention. Scholars have identified several characteristics of markets, which might cause discrepancy. Most notably, the *dilution of responsibility*, *social information*, framing effects of markets, and finally *competition*, which is inherent to markets and the *replacement excuse* that comes along with it (Falk and Szech, 2013)

III. EMPIRICAL EVIDENCE

Armin Falk and Nora Szech conducted a study where they used the trade-off between the life of a mouse and money as a paradigm to study moral erosion through market interaction. They analysed primarily three different conditions under which participants could either earn money and kill a mouse or forego the money and save a mouse's life. First, an individual treatment (IT), which offered a binary choice either to accept the killing of a mouse and to earn 10€ or to pass the money and save the mouse. This informed about the amount of people willing to accept a mouse's death for ten Euros and therefore was used as a benchmark for individual behaviour outside markets. Second, a bilateral market (BM) considered to be the most basic form of markets with players labelled as buyer and seller bargaining over 20€ with the negative externality entering into force when a deal was struck. No deal implied the survival of the mouse. Similar in the third condition, the multilateral market (MM), where a minority of buyers confronted a majority of sellers. Moreover, they ran a price-list treatment (PLT), so killing-ratios as in the market conditions could be simulated for the IT. Additionally, they ran the PLT and the MM with a morally neutral consumption good (coupons for a merchandising shop), which had to be traded in instead of the life of a mouse.



What they find is a significant increase in the willingness to accept the death of a mouse for ten Euros or less in the market treatments compared to the IT (fig. 1) but with no significant difference between the BM and the MM. The PLT validates these results as people need to be paid much higher compensations to achieve killing rates as in the market conditions. Furthermore, comparing the PLT and the MM in the mouse treatment and the consumption good treatment shows that the effect of markets is much smaller and insignificant in the

latter. In addition, there are different price dynamics in the MM for mice/coupons. Not only do prices for mice start at a lower level but they also decline over the periods whereas prices for coupons do not move significantly.

Falk and Szech interpret these results as a decay of moral values through market interaction and ascribe these occurrences to the market characteristics which are mentioned in the description of the economic model (Falk and Szech, 2013).

A study conducted by Bernd Irlenbusch and David Saxler (2015) aims closer attention at diffusion of responsibility, social information, and market framing.

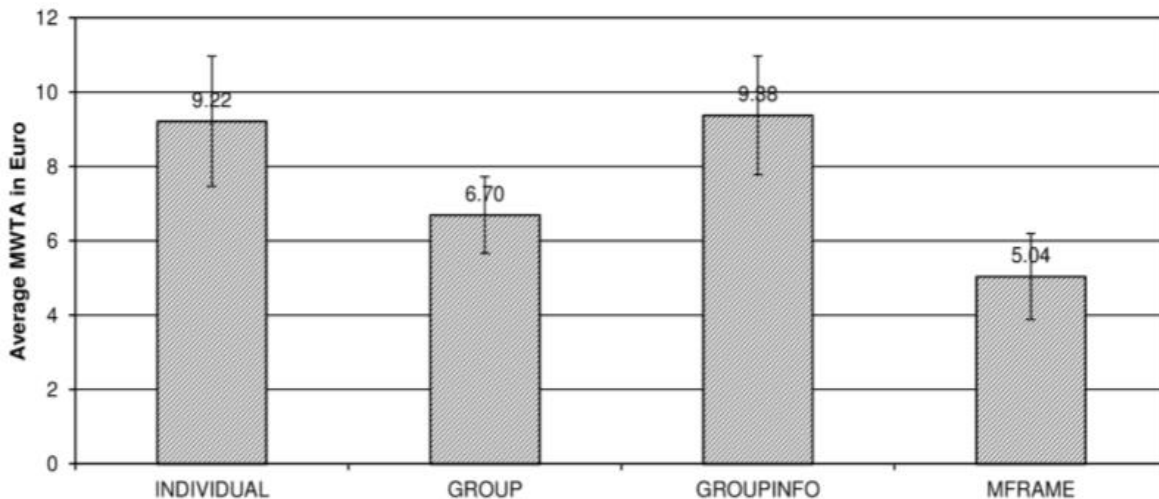
They designed an experiment with two players (A & B) who can either agree to trade or decide not to trade. If they trade, they gain an equal amount of money but at the same time accept the negative externality of preventing a donation. If they pass trading the donation is set in.

The experiment contains four settings starting out with INDIVIDUAL where only one player's decision is implemented as a benchmark for individual behaviour. Then sequentially adding attributes to replicate the above-mentioned market characteristics. First, they make the outcomes dependent on both players' decisions and therewith add diffusion of responsibility (GROUP). Second, they implement social information by informing participants of decisions made in the previous round (GROUPINFO). Lastly, they employ new language to simulate market framing (MFRAME). A&B are now labelled as "buyer" and "seller" aside from that nothing changes from GROUPINFO. Throughout all settings, prices are fixed but increase in steps of 2,50€ across the 12 rounds each setting is played.

As illustrated in fig. 2 the average minimum willingness to accept a deal (MWTA) varies significantly between settings. In INDIVIDUAL and GROUPINFO there have to be higher

payments towards the participants than in the other settings. Moreover, there are more steadfast subjects in those two settings i.e. more people decline to trade for the given prices.

fig. 2



Irlenbusch and Saxler conclude that a decrease in MWTA and a contraction in the number of steadfast people signify a decline in socially responsible behaviour. Therefore, diffusion of responsibility and market framing seem to have an erosive effect on the willingness to avoid negative externalities with market framing appearing to have an especially strong effect. Contrary, social information increases the MWTA and the number of steadfast participants. This indicates that social information increases responsible behaviour.

In another paper, Andrei Shleifer (2004) presents five stylized examples where competition leads to morally reprehensible behaviour, but all these examples have either a cost-reducing or a revenue-raising effect and therewith give whoever employs them a competitive edge.

The first example is child labour, which does both reduce cost in production through lower wages and raise revenues for the families. Second, corruption reduces costs e.g. when companies are exempted from the collection of certain taxes. Third, "excessive" executive pay, which might be caused by competition for managers who have the ability to create bubbles and in doing so reduce the cost of equity. Fourth, earnings manipulations are promoted by the competition for cheap capital. Finally, universities engage in commercial activities because they have to compete for the best staff, students and public funds.

As depicted, all these examples are either driven or exacerbated by competition. Companies which do not partake in such activities either have to register significant losses, are driven out of the market or eventually have to accept the new conditions and as a consequence, morally sanctioned behaviour spreads throughout society.

There are mechanisms to cope with the negative effects of competition such as long-run market pressure, moral suasion and government regulation but they all show serious shortcomings confronted with the "imperative of commercial survival" (Shleifer 2004 p.11).

But Shleifer still concludes that reprehensible behaviour will not spread throughout society because markets and competition are a source of economic growth and innovation. Prosperous societies are more willing to pay for ethical behaviour and institutions are stronger which leads to better sanctioning of amoral behaviour. Further, as societies become more affluent they depart from tribal and insular beliefs and start to adopt more universal morals which foster inclusion and cooperation. He assumes that in the long run competition will promote socially responsible behaviour.

As a consequence of competition people often utter the replacement excuse (RE) also mentioned by Falk and Szech (2013). It can be exemplified through a statement Tony Blair (2002).

“If we want to stop the defence industry operating in this country we can do so, and the result incidentally will be that someone else supplies the arms that we supply.”

Bartling and Özdemir (2017) conduct several experiments to establish whether people rather follow an utilitarian approach (i.e. only outcomes matter) and therefore employ the RE which would lead to a decay of morals in a competitive market or whether they follow deontological ethics (i.e. actions matter).

First, they run a donation game with two different settings. In the Baseline Condition (BC) one player can decide whether to receive money or pass it. Passing triggers, a donation worth triple the player's income to a charity. The second setting is the replacement condition (RC) with three players. Here player one's decision can be replaced by the other players' decisions. The RC allows for the employment of the RE the BC doesn't. The take rates in the two settings inform about the adoption of the RE if competition arises. Further, they evaluate the morality of taking the money by means of a questionnaire asking participants how they think others will most likely rate the behaviour.

They find no significant difference in the take rates in the two settings. This implies that people follow deontological ethics and don't apply the RE. There also is a consensus that taking the money is inappropriate in either situation.

Further experiments are a combination of take games either with or without punishment. Both variants are the same aside from the “robbed” player's ability to punish. Each has three settings with one up to three players sequentially having the chance to take away money from a fourth player. In the variant with punishment the robbed player can retaliate against whom who took the money creating a net loss for that player. In addition, they ran the same questionnaire as in the donation game.

In both variants take rates do not differ significantly in the respective settings. Even though the replacement probability of the first player's decision increases across settings. Also, punishment occurs irrespective of a possible employment of the RE. Further, a vast majority believes that most other people would consider taking the money as inappropriate. These results indicate that people don't exploit the RE when moral guidelines are in place.

Finally, they run a number of ultimatum games with three settings similar to the take games. One player can either split equally a monetary amount or make an unfair offer. One up to three players sequentially have the chance to accept or reject the (unfair) offer. If all reject the low offer all players receive nothing.

Take rates increase over the settings as the replacement probability does. Like in the experiments before the morality of accepting the offer is tested. No moral standard can be identified. This demonstrates that the RE is employed when no norm exists that would denounce the acceptance of the offer as amoral. This is compatible with a deontological believe system. Overall, the study suggests that people do not employ the argument “if I don't buy/sell, someone else will” if a social norm exists. In contrast, if no such norm exists people are prone to take the selfish option. Therefore, they conclude that competitive markets don't necessarily erode morals.

In another study, Bartling et al. (2014) test further characteristics of markets, which might affect social responsibility. Their study has two parts, one focusing on varying market conditions while the other examines how a different cultural background might affect the display of social responsibility in markets.

In the first part, they use a setup where companies can decide to produce a fair product or a cheaper unfair one which upon purchase produces negative externalities and creates a net social loss. A market with firms on the shorter side is employed to set a benchmark for behaviour in markets (MBC). The principles apply to the other conditions as well where either more firms

are added to create higher competition (HFC), information is limited but can be unveiled for free (LIF) or for a small monetary amount (LIC) or the production cost of the fair product is increased (HPC). Non-market behaviour is simulated with a neutrally framed version of the MBC (NMC), which allows for a comparison of individual choices versus choices in a market context. They find a significant concern for social responsibility on firms' and consumers' sides because about 45% of goods are fair and traded at a price premium but prices of both goods decrease over time (every setting is played for 24 rounds) with a stronger slide of unfair products' prices (MBC). In HFC there is a downward pressure on prices, but the share of fair products remains stable even increases slightly but insignificantly. Similar with the LIF and LIC condition. There is no significant difference in market shares of the fair product compared to the MBC. Further, in the LIF condition the price premium for fair products increases significantly. Generally, participants who purchase the information also buy a fair product. In contrast, increasing production costs has a strong effect on the market share of fair products. It is almost halved but remains stable at that level over the periods. Moreover, the price premium for fair products increases as costs are increased but not to the same extent, which proves that not just consumers but also companies bear the cost of responsible behaviour.

In the second part of their study, they run the MBC as well as the NMC and a swapped version of the NMC (for comparison reasons) in China (CHN) and in Switzerland (CHE). Further, they run questionnaires regarding the perceived fairness of market outcomes.

They identify a stronger belief that market outcomes are fair in CHN than in CHE. Further, concern for third parties is significantly lower in markets in CHN than in CHE but stable in both cases. Consumers in both countries display stronger concern for third parties in the NMC than in the MBC but with stronger significance in CHN.

From both parts, they conclude that repetitive market interaction does not eliminate social responsibility as market shares remain stable. They also identify production costs as a strong driver of moral decay and therefore conclude that subsidies for fair products might increase their market share. Lower shares of fair products in markets in CHN compared to markets in the first part indicate the importance of cultural background. Finally, an erosion of moral values can be concluded from lower shares of fair products in NMC compared to MBC occurring in both countries.

IV. CRITIQUE & DISCUSSION

Whether markets erode morals is a bone of contention. There are Falk & Szech (2013) who argue that a greater fraction of subjects willing to sacrifice a mouse for 10€ or less and a downward trend of prices indicate an erosion of moral values. This is supported by the study from Irlenbusch and Saxler (2015) who show that compared to an individual treatment dilution of responsibility and even more market framing corrode morally responsible behaviour. This expresses itself not only in decreasing prices (MWTA) but also in a higher number of people willing to accept negative consequences. The mentioned market characteristics are also cited by F&S as possible drivers of a moral decay. Bartling et al. (2014) show that facing the same monetary consequences individuals in non-market context value moral responsibility higher than subjects in market contexts, which is in line with the findings from I&S because market and non-market settings only differed in wording. Additionally, they show that increasing costs lessen social concern in market environments. Therewith, they come to the same conclusion as the previously mentioned authors even though they criticise F&S for only employing one production technology which is not reflective of real markets.

Contrary, there are others who dispute these claims especially those made by F&S. Breyer and Weimann (2014) argue, for example, that the individual treatment which supposedly simulates non-market behaviour does in fact rather resemble a typical market situation because

consumers don't bargain but act as price takers. They also point out that subjects in the market treatments can apply strategic behaviour which has proven to result in inefficient outcomes. According to them F&S's results rather proof stronger concern for morals in typical market situations compared to non-market bargaining situations. Second, they assert that outcomes should matter and in that the individual and the bilateral setting do not vary significantly. Third, they argue that treatments should differ in only one aspect not three in order to provide a sufficient analysis.

Falk and Szech responded (2015) that results in the price list treatment yield the same outcomes, but participants can't perceive themselves as price-takers. Further, they state that the double auction employed by them does produce market outcomes and has been used to simulate markets in a large number of studies. Regarding killing rates, they assert that these outcomes are less robust and there is a significant increase in the killing rate comparing individual treatment to multilateral markets. Hence, they reason that institutions can have multiple differences as long as they are appropriately defined.

Shleifer (2004) concludes that competition won't erode ethical behaviour, at least in the long run. This is in line with Bartling et al.'s findings which show no decrease in the market share of fair products under higher firm competition. Additionally, F&S mention the replacement excuse as a common feature of markets. However, this can be partly disproven by Bartling and Özdemir (2017) who present evidence that people don't employ the replacement excuse when there is consensus on the morality of the issue. Therefore, it cannot be cited as a reason for moral decay.

Finally, Sutter et al. (2016) take issue with prices as a measurement for declining morals as employed by F&S (2013). They demonstrate that price descends are driven by market forces regardless of the existence of negative externalities.

V. CONCLUSION

With regard to the studies presented the hypothesis that markets erode morals cannot be dismissed. Evidence from behavioural experiments indicates that people are more likely to accept negative consequences when acting in a market context compared to individual decisions. The intuitive answer that competition and the replacement excuse are the reasons for the moral decay could be dismissed in the papers above. Costs of production and market framing seem to play a much more decisive role. Therefore, people don't seem to fall victim to Acedia, they rather strive for commercial survival and might be unconsciously affected by framing effects as well as their cultural background. However, this needs further investigation. It can be said though that societies might be able to increase social responsibility by subsidizing certain production technologies and frame market outcomes in a way that redirects consumers to a more morally accepted path.

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fig. 1 Falk, Armin; Szech, Nora (2013); p.707

fig. 2 Irlenbusch, Bernd; Saxler, David (2015); p.12