



Of morals, markets and mice: Be careful drawing policy conclusions from experimental findings!



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ABSTRACT

Sometimes experimentalists draw far-reaching policy conclusions from their findings. However, this is dangerous if there is ambiguity with respect to the right interpretation of the results. A good example for this danger is the well-known study by Falk and Szech (Science, 2013), who conclude that “markets erode moral values”. If this were true, economists, who have emphasized the efficiency enhancing effects of markets for centuries, would have to reconsider their judgments fundamentally. In this note we demonstrate that the claim made by Falk and Szech is unfounded for at least four reasons and that their experimental results can be (and should be) interpreted, if anything, in the opposite way.

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1. Introduction

Experimental results often contradict conventional economic wisdom when participants in the lab do not seem to behave fully rationally or respond less to (financial) incentives than the theory of Homo Economicus would predict. Sometimes the experimentalist is then tempted to draw far-reaching policy conclusions, e.g. with respect to the efficiency of the price mechanism or the need to regulate certain markets. However, those conclusions can only be justified if the experiment in the lab is an exact reproduction of a real (market) institution, which is often impossible to achieve. If this limitation is not taken into account, economists risk throwing the baby out with the bath water.

The *Science* paper by Falk and Szech (2013a, 2013b) is a case in point. In their experiment, the authors employed a new design to evaluate the effects of different institutions on the willingness to pay of subjects for the life of a laboratory mouse and concluded that “markets erode moral values”. This article met with great interest in the media, at least in Germany. Several daily newspapers reported on it and the authors were invited to appear on TV shows for discussions with moral philosophers.¹ In addition, the Huffington Post reported on it with an article bearing the headline: “Markets Erode Morals, Let People Do Horrible Things: Study”.² The message seemed to confirm the widespread sentiment – originating from the financial crisis – that markets should be seen with great skepticism. Indeed, if it were true that markets erode moral values, economists, who have emphasized the efficiency enhancing effects of

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¹ <http://www.cens.uni-bonn.de/team/board/armin-falk/press-releases-and-articles>.

² http://www.huffingtonpost.com/2013/05/13/markets-morals-study_n_3267995.html.

markets for decades, if not centuries, would have to reconsider their judgments fundamentally. In this comment we want to demonstrate that the experimental results described by Falk and Szech do not justify the far-reaching conclusions described above and that the experimental design used by Falk and Szech could be improved.

The experiment of Falk and Szech was conducted in Bonn, Germany, in May 2012 with 787 participants. The issue was the choice between receiving money (up to 20 euros) for allowing a laboratory mouse to be killed or forgoing the money and saving the life of the mouse. There were three different treatments. In treatment one, called “individual”, subjects could decide either to get 10 euros or to save the mouse. Treatment two, “bilateral market”, defined a more complicated structure in which the experimenter offered two players a total of 20 euros if they agreed to let a mouse be killed, and introduced a bargaining period in which the players essentially bargained how to divide the proceeds of this trade between them. In order to suggest that this bargaining procedure is a market transaction, the two players are named “seller” and “buyer” of the mouse, respectively, but this characterization is misleading since the roles of the players are completely symmetric. The third treatment, “multilateral market”, had the same structure, but with more than two players involved. The authors compare the “fractions of subjects who were willing to kill a mouse for monetary amounts below or equal to 10 euros” (Falk and Szech, 2013a, p.707, heading of Fig. 1).³ As this fraction was significantly higher in the latter treatments than in the “individual” treatment, the authors conclude that “market interaction displays a tendency to lower moral values, relative to individually stated preferences” (p.710, col. 2).

We have four major objections concerning the results and their interpretation by Falk and Szech, where our focus will be on a comparison of treatments one and two:

1. Contrary to the claim made by Falk and Szech, treatment one is a typical market situation, even more typical for real markets than treatment two.
2. The comparison of treatment one (individual) with treatments two and three (bargaining) does not allow clear conclusions because more than one treatment parameter was changed.
3. The statement made by the authors that “market interaction erodes moral values, relative to individually stated preferences” is unfounded because no independent preference statements by the subjects were elicited.
4. Even if it was true that markets erode moral values of individual participants, markets as social institutions could still lead to morally superior outcomes compared to other institutions.

It is worth mentioning that our critique does not aim at the *external validity* of the experimental results – which is a quite general problem with laboratory experiments. Quite to the contrary, we are questioning their *internal validity*, i.e. we doubt that the authors have interpreted their own results correctly.

2. Objection 1: the interpretation of the data

What is a typical market situation? Economists distinguish between different market forms characterized by the degree of competition. But in nearly all of these forms and, in particular, in competitive markets, consumers behave as price takers. This means they only decide whether or not to buy a good at a given price. Bargaining over prices takes place in some very particular markets such as those for houses, used cars and other second-hand goods in which most consumers trade rather infrequently. In the majority of all markets, consumers do not have any strategic leeway, but they just adapt their behavior to the given price. This also holds for decisions with an explicit moral component. Imagine someone who wants to buy a chocolate bar and finds a variety of “regular” chocolate and “fair traded” chocolate at the supermarket. Then she has to decide whether or not to pay the higher price for the fair-trade product knowing that the extra charge is a transfer payment to producers in developing countries. Once again, there are no negotiations and there is no bargaining; there is simply an individual decision. Thus treatment one (individual) in the Falk and Szech paper describes a typical market decision of a consumer who behaves as a price taker. The experimenter acts as the seller, and the offer is: paying a price of 10 euros for saving the life of a mouse. The price is fixed and the subject as the buyer only has to decide whether to buy the life of the mouse or not. This is exactly the same decision our chocolate consumer has to take when she chooses between regular and fair traded chocolate.

Falk and Szech run the “individual” treatment also in a slightly different way. In the “price list treatment” subjects were offered a list of increasing prices and they had to decide at what price they would prefer to get the money instead of saving the life of the mouse. The results of this treatment are identical with the “individual” treatment. This finding makes our point even more transparent:

The price list treatment makes use of a well-known procedure which is normally used to get information about the true willingness to pay for a particular item. The advantage of the price list procedure is that it is incentive compatible: given that the price is chosen at random, it is the best answer to state the true willingness to pay. And this is the best answer, because the subject is *in the position of a price taker*. It is rational to state the true preference because she cannot influence the price which is randomly chosen. Thus, it is not surprising that the price list treatment reproduces the results of the individual treatment. In both treatments subjects behave as they do in most of the markets they are confronted with during their lifetime: they respond to a given price.

On the other hand, economists know that small group bargaining situations differ tremendously from the typical market situation described above. The crucial point here is that in a typical bargaining situation the players have private information that they could use

³ The expression “willing to kill a mouse” is misleading because subjects did not have to kill the mouse themselves. The correct wording would have been “willing to let a mouse be killed”.

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