Financial and Economic Review, Vol. 18 Issue 3, September 2019, pp. 135–137.

Moral Economy – Beyond the Homo Oeconomicus*

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Samuel Bowles:
The Moral Economy: Why Good Incentives are No Substitute for Good Citizens
Hungarian translation: Az etikus gazdaság – Miért nem helyettesíthetik a jó ösztönzők a jó állampolgárokat?
Pallas Athéné Publishing House, Budapest, 2018, p. 276
ISBN-13: 978-615-5884-15-3

In his book, Samuel Bowles – head of the Behavioral Sciences Program at the Santa Fe Institute in New Mexico – examines what driving forces motivate people's decisions during decision-making, how decision-making processes are affected by incentives and other aspects of public policy, and what follows from all of this with regard to economic policy. For his analysis he uses various game theory and related behavioural science experiments, combining the relevant findings of behavioural economics, psychology, history of economic thought and game theory.

Criticism of the homo oeconomicus

The image of the completely self-interested homo oeconomicus has become widespread among economists and decision-makers. Nevertheless, research findings – including the works of Daniel Kahneman and Richard Thaler, Nobel Memorial Prize laureates in Economic Sciences – suggest that people are not as far-sighted, self-seeking and consistent as presumed by economists. In practical life, economic agents do not content themselves only with presuming the homo oeconomicus either: employers are looking for employees whose work ethic is strong, and banks finance projects that seem to be reliable. Searching for an empirically well-founded behavioural model, the author contrasts the generally prevalent assumption that economic agents follow their self-interest with the agents' non-economic motives.

The book points out that even the classical economic thinkers (Adam Smith, David Hume, John Stuart Mill) were aware of the fact that the homo oeconomicus is

* The papers in this issue contain the views of the authors which are not necessarily the same as the official views of the Magyar Nemzeti Bank.

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a simplification of human behaviour, but they did not take into account the interactions between incentives-based policies and moral aspects. Policies often intend to create various motives with material incentives, whether it involves students' learning or reducing body weight. And in many cases the incentives really do affect the actors' behaviour, as it follows from economic theory which assumes that the actors only take into account the material benefits. In other cases, however, similar programmes do not achieve the intended effect, or their outcome may even be the opposite.

Then what are efficient incentives like? To understand this it is necessary to examine how people react to the various economic incentives and pieces of information. The behavioural science experiments mentioned by the author, which apply a wide range of game theory models, demonstrate that moral and similar kinds of aspects are practically present in all communities. Accordingly, actors make decisions not only on the basis of their self-interest, as other motives, such as selflessness, reciprocity, the avoidance of inequality as well as moral commitment also play a role. As an expressive example, he mentions the case at a day care centre where a fine was imposed on parents who were late picking up their children at the end of the day. Contrary to expectations, parents arrived even later, because they started to think of lateness as just another commodity they could purchase, which undermined the parents' sense of ethical obligation to arrive on time. In another example, however, the small tax on plastic bags introduced in Ireland resulted in a spectacular outcome, which may have been attributable to the intensive campaign that outlined the underlying moral reasons (environmental protection) prior to the introduction.

According to the conclusion of the book, efficient economic policy requires both economic incentives and ethical motives, but the former may 'crowd out' the latter. It has to be taken into account that economic incentives alone are unable to ensure fully efficient use of resources; ethical and other, non-economic motives are also important for that. Aligning these requires the establishment of a framework in which the actors internalise all the costs and benefits of their actions. The author points out that the prices determined by market competition alone are able to achieve this only if certain conditions are met. Complete contracts necessary for that, which price in all aspects of the exchange, cannot always be ensured, for example due to asymmetric information, and thus the economy departs from Adam Smith's 'invisible hand' theorem. Unregulated market interactions between self-interested actors also do not result in efficient outcome in the case of externalities or public goods.

If the necessary conditions are not met, public policy must take on a role in setting adequate prices in the form of taxes and subsidies, taking account of benefits and costs that are not included in private contracts. This is the way to get closer to a state in which prices reflect all of the social costs of the production and distribution of goods. According to the author's suggestion, it could be justified to reduce the role of economic incentives, and instead to strive to achieve synergies between economic and moral incentives.

The end of efficiently functioning market economies?

According to the author's assumption, the idea of fierce market competition and financial incentives affecting individual behaviour as designated by economists was followed by the unintended consequence that the incentive power of moral and other social motives declined. The circumstances considered necessary for market economy support self-interest, and may even jeopardise the social norms needed for the functioning of the markets, such as keeping one's word or the quality of unsupervised work. In other words, ensuring the conditions necessary for well-functioning markets with complete contracts (such as the right to private ownership, competition or mobility) may damage the social norms that allow mutually advantageous exchanges even with incomplete contracts. On the other hand, the institutions that support social norms may impair the functioning of markets, because the economy will be less close to the presumed ideal state ('invisible hand'). Accordingly, in a paradoxical manner, policies that intend to make markets perfect, may result in less well-functioning markets.

From this train of thoughts it would follow that social norms are harmed in societies where markets play a major role. Nevertheless, the findings of the behavioural science experiments – mentioned in the book – that examine groups at various levels of development, and were carried out in various parts of the world do not indicate this: the groups that are better integrated in the market economy did not prove to be more selfish than the less integrated communities. According to the experiments that examine generosity and the following of social norms, these behavioural patterns are stronger in the countries where there is more market interaction, and no wide-ranging decline in moral motives can be experienced. What social developments can offset the crowding out effect of economic incentives?

According to the book, the findings may be attributable to the fact that in market-oriented economies the experience of the actors is that doing business with strangers is often profitable. Adam Smith already noted that recurring exchanges with economic partners limit opportunistic behaviour, and this strengthens social norms. According to the explanation, the strength of markets is in the fact that although the state is unable to eliminate opportunism, via the rule of law, social insurance and other institutions it is able to limit extremely disadvantageous outcomes (e.g. loss of ownership). With that it can substitute the importance of family relations, and creates an opportunity for the development of generally valid norms. And this risk-reducing aspect, on the whole, increases confidence in market exchanges and results in wide-ranging cooperation. Accordingly, markets in market-oriented societies sometimes result in the strengthening of moral motives. The author formulates his public policy proposals using the aforementioned findings, and thus both those who are interested in the theoretical aspects as well as those interested in the practical aspects of the subject may find useful and interesting information in the book.