Chapter 5
Moral Effects of Teaching Economics

Neoclassical economics has been criticized for being unrealistic, generating poor predictions, and engendering flawed public policies. This chapter examines a fourth charge: that teaching the subject has a morals-debasing effect. The charge holds that neoclassical economics' focus on self-interest, pleasure, and, hence, consumer goods—what critics refer to as its hedonism and materialism—renders those influenced by its teachings less moral and more anti-social. This issue has been particularly relevant in recent years, when a societal focus on individualism and deregulation are said to have contributed to the near-global financial and economic crisis that has led hundreds of millions of people—across the world—to lose their jobs, homes, and life savings.

5.1 Typical Findings

One of the first experiments to test the "debasement" hypothesis is one conducted by Marwell and Ames (1981). In this study, the social scientists designed a prisoner's dilemma-type game where participants were given an allotment of tokens to divide between a return-generating private account and a public fund. If every player invested all of their tokens in the public fund, they would all end up with a greater return than if they had all put their money into their respective private accounts. However, if a player defected and invested in the private account while the other players invested in the public fund, she would gain an even larger return. In this way, the game was designed to promote free-riding: the socially optimal behavior would be to contribute to the public fund, but, with respect to game theory, the dominant strategy would be to defect.

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Marwell and Ames found that most subjects divided their tokens nearly equally between the public and private accounts. Economics students, by contrast, invested o*nly 20%* of their tokens in the public fund, on average. This tendency towards free-riding was accompanied by a divergence between the moral views of the economists and non-economists. While three-quarters of non-economists reported that a "fair" investment of tokens would necessitate putting *at least* half of their tokens in the public fund (with 25% reporting that only putting *all* of the tokens in the public fund would qualify), over a third of economists didn't answer the question or gave "complex, uncodable responses" (Marwell and Ames 1981, p. 309). The remaining economics students were much more likely than their non-economist peers to say that "little or no contribution was 'fair,'" or to indicate that notions of fairness influenced their decisions (Marwell and Ames 1981, p. 309).

Following Marwell and Ames, a broad range of studies have found economics students to exhibit a stronger tendency towards anti-social behaviors relative to their peers. For example, Carter and Irons (1991) had both economics students and non-economics students play the "ultimatum" game—a two-player game where one player is given a sum of money to divide between the two. The other player is then given a chance to accept or reject the offer; if she accepts it, then each player receives the portion of money proposed by the offerer, if she declines, then neither player gets any money. Carter and Irons found that, relative to non-economics students, economics students were much more likely to offer their partners small sums, and, thus, deviate from a "fair" 50/50 spilt.

Similarly, Frank et al. (1993) found that economics majors were significantly more likely than their peers to defect in a standard prisoner's dilemma game—with a much higher proportion of economics students justifying their choice simply in terms of the rules of the game rather than via appeal to notions like "fairness." Further, these social scientists found that such anti-social behavior persists outside of the laboratory: they conducted a survey revealing that economics professors were both twice as likely to give *no* money to charity than were their peers and were "among the least generous in terms of their median gifts to large charities" (Frank et al. 1993, p. 162).[1]

Finally, these researchers had both economics and non-economics students fill out two "honesty surveys"—one at the start of the semester and one at the conclusion—regarding how likely they were to either report being undercharged for a purchase or return found money to its owner. The authors found that, after taking an economics class, students' responses to the end-of-the-semester survey were more likely to reflect a decline in reported hypothetical honest behavior than students who studied astronomy. While 23.3% of exiting astronomy students were recorded as being less likely to report a billing error where they were undercharged, 38.25% of exiting economics students were recorded as being less honest in this respect. And while 10% of astronomy students recorded less-honest responses regarding whether or not they would return found money, 27.2% of economics students reported that

[1] The authors received 576 completed surveys from professors chosen randomly from professional directories. Sevety-five of these surveys were filled out by economists.

they were less-likely to return the money than they were at the start of the semester (Frank et al. 1993, p. 169).[2]

Other studies supported these key findings. Frey et al. (1993) report that economics students are less likely to consider a vendor who increases the price of bottled water on a hot to be acting "unfairly." Cadsby and Maynes (1998) find that economics and business students are more prone to defect, even in games that have been tweaked to create an efficient equilibrium that can be reached by cooperating in addition to the one reached by defection. Selten and Ockenfels (1998) find that economics students who played a lottery game were willing to commit less of their potential winnings to fund a consolation prize for losers than were their peers. Frank and Schulze (2000) find that economics students were significantly more corruptible in that they were more likely to accept bribes than other students. A survey conducted by Gandal et al. (2005) find that economics students valued personal achievement and power more than their peers while attributing less importance to social justice and equality. Rubinstein (2006) reports that economics students were much more likely to favor profit-maximization over promoting the welfare of workers when faced with a business dilemma. Faravelli (2007) finds that economics students were significantly less likely to favor egalitarian solutions to problems than their peers outside of economics. Haucap and Just (2010) find that a survey of economists revealed they were more likely than their peers to consider the allocation of scarce resources in accordance with who can afford to pay the price set by supply and demand to be a fair method of rationing and distributing resources. And, Bauman and Rose (2011) report that economics majors are less likely to donate to local social programs.

5.1.1 Selection Effect?

One may ask whether studying economics is a *cause* of moral debasement. The findings cited so far could reflect not an indoctrination effect of teaching economics—but a *selection effect* whereby students prone to immoral behavior are more likely to choose to study economics than more moral students. Carter and Irons (1991), for example, note that selfish behavior exhibited in the ultimatum game was already present in entering economics first-years, contending that "economists are born, not made" (Carter and Irons 1991, p. 174). The general consensus among researchers is that, if there is an indoctrination effect, it ought to manifest itself in the form of students with greater exposure to economics expressing more pronounced anti-social behavior.

Frey et al. (1993) note no difference in evaluations of the fairness of a price increase between beginner and advanced economics students, thus endorsing the

[2] The percentages of economics students listed here are averages calculated by the author under the assumption that the two economics classes surveyed by the authors were identical in size. They are, thus, approximations rather than exact representations of the collected data.

selection hypothesis. Frank and Schulze (2000) find that older and younger economics students are equally corruptible, suggesting a selection effect rather than indoctrination. And, Gandal et al. (2005) find that entering economics students' tendency to endorse more self-interested normative values did not intensify after completing a year or economics education—findings that provide "support for a self-selection process" (Gandal et al. 2005, p. 1237).

In contrast, a set of other studies *do* find evidence of an indoctrination effect. Frank et al. (1993) report that, while defection—i.e. playing a "dominant" strategy that will leave a player better-off independent of her opponent's strategy but, if chosen by both players, will leave her worse-off than if both had chosen a different strategy—by non-economics students in the prisoner's dilemma game steadily declines with education, the rate of defection for economics students remains constant. More convincing is the researchers' analysis regarding how honesty surveys reveal an indoctrination effect. Their study compared the percentage of students who expressed more "dishonest" attitudes after exiting an economics course with the percentage of astronomy students who exhibited a similar moral slide—their finding being that economics students were significantly more likely to experience such moral decline. More importantly, however, the researchers *also* compared the results from the students of *two different economics classes*. One class was taught by a professor who focused upon game theory and prisoner's dilemmas with an emphasis on "how survival imperatives often militate against cooperation." The other was taught by a professor who did not focus on these topics. The result? Although the entering economics students for both classes reported similar levels of dishonesty scores at the start of the class, but by the end, those in the class with a focus on game theory reported significantly higher levels of dishonesty scores than their peers. Such results show that it is *not* just selection that is responsible for the reported increase in immoral attitudes.

Later studies support this conclusion. Faravelli (2007) finds that there are measurable ideological differences between lower-level economics students and upper-level economics students that are similar in kind to the measured differences between the ideology of economics students as a whole and their peers. He finds that upper-level students are even less likely to support egalitarian solutions to distribution problems than lower-level students, suggesting that time spent studying economics does have an indoctrination effect.

Finally, Bauman and Rose (2011) compare donations to social programs over time relative to exposure to economics and find a combination of selection and indoctrination effects: while senior economics and younger majors who had taken far fewer classes were equally unlikely to give money to social causes—suggesting selection rather than indoctrination is to blame—*non-majors* who were exposed to economics *were* less likely to donate money than their peers who did not take economics courses. This suggests that, although those drawn to economics already have more "debased" orientation compared to their peers, exposure to economics adds a debasing effect.

5.1.2 *Qualifications*

It should be noted that the debasing effect is often significant but far from total. There are areas of attitudes that will not be affected by exposure to economics. Thus, even in games like the prisoner's dilemma, the economics students' tendency to defect disappears when given the opportunity to interact with their fellow player beforehand and make promises to cooperate once the game has begun—a finding originally reported by Frank et al. (1993) and later replicated by Hu and Liu (2003). In addition, other studies such as Seguino et al. (1996) and Frey and Meier (2003) fail to find evidence of economics producing the particular anti-social behavior under consideration. Others find such evidence, but without the results crossing the threshold of statistical significance (see, for example, Ahmed [2008] and Ahlert et al. [2013]).

Few studies find that the study of economics correlates with *pro*-social behaviors. Yezer et al. (1996) find that economics students are more likely to deliver a found letter filled with cash to the recipient listed on the envelope than are non-economics students. And Laband and Beil (1999) find that professional economists are less likely to cheat on their association dues than are political scientists and sociologists.

5.2 In Conclusion

The fact that even taking one course in neoclassical economics may make people less moral may reflect the fact that the course merely reinforces pre-existing inclinations toward such a position. The problem is not that students are exposed to such views, but that there is no "balancing" course taught in typical American colleges, in which a different view of economics is presented. Moreover, while practically all such classes are characterized by the neoclassical viewpoint, in classes that embrace a different view—e.g. social philosophy, political science, and sociology—a great variety of approaches are advanced, thereby leaving students with a consolidated debasing exposure and a cacophony of conflicting pro-social views.

The fact that those who become professional economists are more affected is most likely not merely due to much more exposure to the neoclassical message, but also to the fact that these students join a peer group and subculture that undergirds these views.

Finally, one should note that not all economists will agree that what is considered here "debasing" is actually debasing. Some share with libertarians the conservative, laissez-faire view that, if everyone will follow their own self-interest and seek pleasure, the invisible hand will ensure that the greatest happiness for the greatest number is realized. Some even go so far as to argue that greed is good. If anybody doubted that this viewpoint is mistaken, the economic developments since 2008 should have disabused them of this notion.

5.2.1 When It Comes to Ethics, B-Schools Get an F

Ever since Enron, business schools—the training grounds for corporate managers—have been forced to face the fact that they often fail to produce honest executives. Why they have failed is a complex and revealing tale, one that I can relate from personal experience, having taught ethics at Harvard Business School (HBS) from 1987 to 1989—the years many of today's current corporate officers were in training.

HBS, which deserves particular scrutiny as the school to which many others look when they design their own curriculums, had little in the way of formal ethics teaching in 1987. And that was typical. A 1988 survey of MBA schools found that only one-third had a required ethics class (Schoenfeldt et al. 1991).

It was in 1987 that John S.R. Shad, then chairman of the Securities and Exchange Commission, made a personal donation of some $20 million to HBS to support the teaching of ethics. On April 21, 1989, after months of contentious debate, an initial proposal was put up for a faculty-wide vote. As a visiting professor, I was sitting in the bleachers, and I witnessed a memorable scene. Reactions ranged from distrust to outright hostility. One economist argued that "we are here to teach science." Another faculty member wanted to know, "Whose ethics, what values, are we going to teach?" And a third pointed out that the students were adults who got their ethics education at home and at church. By the meeting's end, the project had been sent back to the drawing board.

Debates continued over whether ethics should be a required course or a separate elective or, alternatively, whether the topic should be integrated into all classes. A member of the marketing department mused that if the latter policy were adopted, his department would have to close because much of what it was teaching constituted a form of dissembling: selling small items in large boxes, putting hot colors on packages because they encourage people to buy impulsively, and so forth.

A finance professor was also concerned about its effects on his teaching. Students later told me that they learned in his course how you could make a profit by breaking implicit contracts. Say, for instance, that you acquire controlling shares in a company such as Delta, where workers used to work harder and pose fewer demands than at other airlines because of an informal understanding that they had lifelong employment. The finance course would explain that once you take over, you could announce that you are not bound by any such informal arrangements. While such a change might be deemed a prudent move for the company, it could also bring personal gain to the new management: your stock jumps (because your labor costs seem lower, absent commitments to carry workers during a downturn) and, bingo, you cash in your stock options and move on.

In the following years, an ethics course was taught at HBS, but it was ghettoized—a minor requirement to be gotten out of the way as quickly as possible. These days, students take a required "mini" course on ethics upon arrival, and there is a required first-year course titled "Leadership and Organizational Behavior." And that's it. It's the same at other schools. One student at Stanford B-school, which had a similar program, described his ethics class as "like going to church on Sunday."

The George Washington University School of Business and Public Administration, where I once taught, has an elective on moral reasoning (the art of clarifying what your values are, rather than educating you on how to develop higher moral standards). And the University of Michigan, which has an activist student group that pushed its B-school to be mindful of social policy, requires only that students take one class in ethics or in law. Many other schools do less.

In my own Harvard Business School ethics classes, students resisted my argument that executives should take ethical considerations into account (Etzioni 2003). They held, as they had been taught, that a company focused entirely on efficiency would drive a second one, more concerned with ethics, out of business. Ethics, they told me repeatedly, were something a corporation simply cannot afford. Only if being moral bought the corporation “good will”—with a value that could be calculated and demonstrated—should the corporation take ethical considerations into account.

Many business school professors choose to steer clear of teaching morality, pointing out, with some justification, that while it is relatively clear what economics dictate and even what the law dictates, what is “ethical” is far from obvious. What appears ethical to one person is not to another, they say, and what is ethical under some conditions is not under others.

This equivocation was driven home to me during a crisis that erupted when I was at HBS. A professor instructed his class to read a case study about Braniff, an airline then headed toward bankruptcy: After a customer heard that Braniff was in financial trouble, he called the head of the company and said that he wanted to purchase a large number of tickets. But, the customer wanted to know, would the company be up and flying a few months hence? The head of Braniff, the story goes, responded that he was not sure. The students argued that the CEO should have lied, that he endangered the shareholders’ equity by being candid, and that he was representing the shareholders, not the customers. The professor teaching the class was at a loss, and he asked an associate dean how to proceed.

Unsure himself, the dean arranged for a faculty conference to discuss the question. Those present made numerous arguments to justify lying. Business, some said, was like poker: If you play, you know that bluffing will take place. Others took a utilitarian line, arguing that there are no absolute values and that what is moral depends on the consequences of one’s actions and on what their utility (or benefit) is. Based on this rationale, the CEO should have lied. To do otherwise might have caused the already troubled airline to collapse, causing harm to the shareholders, employees, and creditors. Still others took a market-driven approach to truth-telling: People who are found to be lying will lose customers while those who are trustworthy will gain them—making truth-telling a good idea in this case. Only two faculty members insisted that telling the truth is an absolute moral value and that the CEO should therefore avoid lying (Applbaum 2000).

The result was unfortunate. The professor returned to his classes, as many others did, with a reinforced sense that teaching ethics was a tricky business and that one should not take a firm position in favor of one value or another: It all depends….

An Aspen Institute study of about 2000 graduates of the top 13 business schools found that B-school education not only fails to improve the moral character of the students, it actually weakens it (Aspen Institute 2008). The study examined student attitudes three times while they were working toward their MBAs: upon entering, at the end of the first year, and upon graduating. Those who believed that maximizing shareholder values was the prime responsibility of a corporation increased from 68% upon entrance to 82% by the end of the first year.

In another study, students were asked if, given a 1% chance of being caught and sent to prison for 1 year, they would attempt an illegal act that would net them (or their company) a profit of more than $100,000, more than one-third responded "yes" (Roderick et al. 1991).

In light of the recent corporate scandals, some B-schools will surely attempt to strengthen ethics education. They should recruit more faculty members to teach ethics. And ethics courses should be approached not as a way to circumvent challenges by outsiders (such as the consumer protection movement or advocates of the poor) but as a moral obligation any decent person heeds. The ethics requirements set by the Association to Advance Collegiate Schools of Business, which is responsible for the accreditation of B-schools, should be more straightforward: No MBA student should graduate without having taken at least one full-term course in a class aimed at heightening students' ethical standards. At least.

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