

Editorial | *Self-Interest and Moral Contexts*

The economic idea of self-interest as the driving motivator of economic (and other) behavior is as widely accepted by economists as it is criticized by others. The critics, generally, object to the assumption that “widespread and/or persistent human behavior can be explained by a generalized calculus of utility-maximizing behavior,” to quote George Stigler and Gary Becker.¹ Is not that selfishness? And is not selfishness immoral? And do not people, at least sometimes, act morally? Furthermore, should not they be *encouraged* to act altruistically instead of only thinking of their own interests?

In reality, context complicates such moralisms.²

Criticism of the self-interest model is not limited to those outside of the discipline.³ In his 1988 book *Passions within Reason*, economist Robert Frank accepted the general utility of the self-interest model but objected that, in certain situations, people actually do behave cooperatively and against expected predictions.⁴ In particular, he focused on what he calls commitment problems, such as the classic prisoner’s dilemma.

To briefly summarize, the thought experiment involves two participants who can either cooperate with or defect against the other. The police have caught two criminals for a small crime but suspect them of a greater one. Therefore, they separate the prisoners and offer each immunity for ratting out the other. If both confess, they will receive a lighter sentence than if one ratted the other out, but if both remain silent in cooperation with each other they can only be convicted of the lesser crime. The inspiration is the “Bonnie and Clyde” situation: One

person’s confession undermines the other person’s silence. The possible results are illustrated in figure 1.

| | Bonnie confesses | Bonnie is silent |
|-----------------|---|---|
| Clyde confesses | 5 years in prison each | No time for Clyde, 20 years for Bonnie |
| Clyde is silent | 20 years for Clyde, No time for Bonnie | 1 year in prison each |

Figure 1. Prisoner’s Dilemma

If rational self-interest is the ultimate motivator, the best strategy is to confess because one faces either five years in prison or none at all instead of possibly twenty, thus motivating the criminal to risk betraying his or her accomplice. The problem, however, is that if *both* people defect, they will do worse than if they had both cooperated. Their self-interested behavior would undermine maximizing actual utility.⁵

As it turns out, however, plenty of people actually do behave in nonpurely self-interested ways. Frank summarizes, “We vote, we return lost wallets, we do not disconnect the catalytic converters on our cars, we donate bone marrow, we give money to charity, we bear costs in the name of fairness, we act selflessly in love relationships; some of us even risk our lives to save perfect strangers.”⁶

In order to solve commitment problems, in many cases we need some signal to others that we might not do the “rational” thing.⁷ To use one of Frank’s examples, if the day in court to sue over a stolen \$200 briefcase would cost \$300 in lost earnings, why would anyone sue the thief? If they would not, should not there be more open thievery?

The reason this does not happen is that, when we are not isolated in separate prison cells, we do have such signals: body language, a blush, a look of the eye, a tone of voice—all of these things may signal that material interest is not a person’s highest interest. Commitment to justice, fairness, or blind vengeance might be a stronger motivator. These signals are also hard to fake, unless someone is a very good actor. Through signaling such a nonmaterialistic or “irrational” response, however, one actually protects one’s material interest. Furthermore the best and easiest way to do that is to actually mean it. So maybe sometimes the critics have a point.⁸

However, while Frank’s commitment model is fascinating and affords more room for religious, moral, and emotional motivations in market behavior, it also, like many other uses of the prisoner’s dilemma, overlooks the importance of moral

contexts. In Frank's defense, he does not assert that all cooperative behavior is *de facto* moral, nor that all self-interested behavior is necessarily immoral, but he does not explore many exceptions either.

What is often overlooked is that the prisoners in the dilemma *actually are criminals*. This is understandable; it is only a thought experiment meant to illustrate choices and their material consequences, after all. However, the real Bonnie and Clyde, for example, were notorious robbers and gangsters, and Clyde at least murdered several people. They were committed to one another in love, and silence would mean loyalty to that love. But to betray one's conscience for the sake of passion would make that love disordered and immoral.

Confessing one's crime, despite being in the actor's material self-interest, also happens to be the right thing to do. The two can coexist. A self-interested action may be motivated by shame, grief, or penitence just as easily as selfish opportunism. "If we confess our sins," wrote Saint John, "he [Jesus Christ] is faithful and just to forgive us our sins and to cleanse us from all unrighteousness" (1 John 1:9). That confession might mean the betrayal of the trust of someone we love, but it rightly orients that love to its proper place under a higher moral order, prioritizing the commandment, "love the Lord your God," before "love your neighbor"—or partner in crime—"as yourself" (Matt. 22:37–39). One person's opportunism may be another's first step of salvation.

Thus, context is essential in determining the moral nature of any given prisoner's dilemma. One cannot simply extract the dilemma and presume that cooperation is moral and self-interest is immoral. The same is true of any actions, for that matter. While Frank's commitment model may be a more useful tool for predicting human behavior—which is all he intended it to do—this moral analysis also raises serious questions for critics of the self-interest model. Self-interest simply cannot be assumed to be selfish and immoral. It would be better to think of it as self-*determined* interest or free action. Furthermore, Bonnie and Clyde remind us that people can cooperate for evil just as well as for good.

In which case, the dilemma becomes something different: What, whether I cooperate with others or stand alone, am I truly interested in? How are such interests determined? Can they be shaped or changed by others? By policy?

When it comes to the morality of market actions, these questions ought to come first, and their answers are not knowable without proper regard for moral contexts.

—Dylan Pahman, Managing Editor

Notes

- * Scripture quotations are taken from the English Standard Version Bible (ESV).
1. George J. Stigler and Gary S. Becker, “De Gustibus Non Est Disputandum,” *The American Economic Review* 67, no. 2 (March 1977): 76–90. Specifically, Stigler and Becker advanced their thesis that this assumption holds irrespective of personal tastes.
 2. These criticisms typically involve a variety of misunderstandings about what is actually meant by self-interest (and cooperation) to economists. Ludwig von Mises briefly addresses many of these in his own idiosyncratic way in von Mises, “3rd Lecture: Acting Man and Economics,” in idem, *The Free Market and Its Enemies: Pseudo-Science, Socialism, and Inflation* (Irvington-on-Hudson, NY: Foundation for Economic Freedom, 2004), 13–20. I would additionally note that any exchange is essentially a *cooperative act* between two parties. Adam Smith, at least, understood the role of self-interest to be that which we must discover about another person to convince her to cooperate with us in exchange: a sympathetic act, not a selfish one. See Adam Smith, *An Inquiry into the Nature and Causes of the Wealth of Nations*, vol. 1 (Indianapolis: LibertyClassics, 1981), 26–27:

It is not from the benevolence of the butcher, the brewer, or the baker, that we expect our dinner, but from *their* regard to *their* own interest. We address ourselves, not to their humanity but to their self-love, and *never talk to them of our own necessities but of their advantages* (emphasis mine).

Exchange, to Smith, clearly requires regard for the interest of others in order to fulfill one’s own needs. Purely self-oriented obsession with one’s own needs, on this account, is what by contrast leads to (largely futile) appeals to the humanity and benevolence of others.
 3. For a survey of proposed alternatives, including some from outside the discipline, see Edward J. O’Boyle, “Requiem for *Homo Economicus*,” *Journal of Markets & Morality* 10, no. 2 (Fall 2007): 321–37.
 4. See Robert H. Frank, *Passions within Reason: The Strategic Role of the Emotions* (New York; London: W. W. Norton & Company, 1988).
 5. This is especially a problem for students of economics. Studying the self-interest model may actually encourage self-interested behavior. See Robert H. Frank, Thomas Gilovich, and Dennis T. Regan, “Does Studying Economics Inhibit Cooperation?” *Journal of Economic Perspectives* 7, no. 2 (Spring 1993): 159–71. On the tendency of the use of models to encourage the behavior they predict, see also D. Glenn Butner, “Transformative Models: Economic Modeling, Relational Ontology, and the Image of God,” *Journal of Markets & Morality* 17, no. 2 (Fall 2014): 355–79.

6. Frank, *Passions within Reason*, 254. His contention here is that voting, for example, requires a great cost of time for little payoff (one practically inconsequential vote in a sea of votes), making it an inefficient use of time and thus irrational. Von Mises would likely disagree with Frank's assertion that this is not truly self-interested behavior: The voters simply value the act of voting, for whatever reasons they may prefer, over their time. To claim such an act is irrational or not in their interest is to impose a judgment that economists must refrain from making. This definition more clearly leaves the moral status of any given self-interested act an open question, as I argue in this editorial, though in distinction from von Mises, I am uncertain to what degree value judgments are actually avoidable. See Dylan Pahman, "Toward a Kuyperean Political Economy: On the Relationship between Ethics and Economics," *Faith and Economics* 67 (Spring 2016), forthcoming. Frank, for his part, specifically objected to self-interest conceived as maximization of *material* interest, and he cites Stigler and Becker's concept in particular. See Robert H. Frank, "If *Homo Economicus* Could Choose His Own Utility Function, Would He Want One with a Conscience?" *The American Economic Review* 77, no. 4 (September 1987): 593n1. Thus, there may be a problem of unintended equivocation between economists in this case, perhaps contributing to the confusion of critics.
7. Frank claims, "There are almost as many definitions of rationality as there are people who have written on the subject." He uses "the terms 'rational behavior' and 'self-interested behavior' to mean the same thing." He adds, however, that "nothing of importance turns on this choice of definitions." See Frank, *Passions within Reason*, 2n. Von Mises defines rational action as any conscious, intentional action. See von Mises, "3rd Lecture," 14: "it must be realized that what man does consciously is done under the influence of some force or power which we call reason. Any action aimed at a definite goal is in this sense 'rational.'" Given this definition, what action, if any, might qualify as irrational to von Mises is not clear. In both cases, "rational" behavior requires evaluation of costs and benefits and the choosing of efficient means to desired ends, but here again Frank presumes that means *material* costs and benefits and ends. A philosopher might further object that rationality requires correctly categorizing and acting in accordance with the nature of reality. See John of Damascus, *An Exact Exposition of the Orthodox Faith*, 2.28 in *NPNF²* 9:40b: "[R]eason consists of a speculative and a practical part. The speculative part is the contemplation of the nature of things, and the practical consists in deliberation and defines the true reason for what is to be done." For example, a person would be irrational to try to breathe underwater apart from technological assistance, despite any conscious or intentional attempt to do so. This may be an efficient use of mistaken means to an end, but that does not make it rational. Humans are not fish, and such confusion regarding "the nature of things" is what is irrational.
8. These paragraphs summarizing Frank's commitment model are revised from a previously published essay I wrote. See Dylan Pahman, "Feel the Romantic Bern," *Library of Law and Liberty*, March 2, 2016, <http://www.libertylawsite.org/2016/03/02/feel-the-romantic-bern/>.