Economy driven by fairness, too

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WAY OF THE WORLD

BERLIN Does fairness matter? As France prepares to elect a president this spring and the United States gets ready to elect a president in the autumn, that old philosopher’s chestnut is gaining tremendous real-life political relevance.

Economists, by contrast, have traditionally been much less concerned with fairness. Instead, economists have based their analysis on “Homo economicus,” a model human being who is perfectly rational and perfectly guided by self-interest.

The financial crisis of 2008 made it hard to believe in a world of perfectly rational actors, even when they earn million-dollar salaries and have advanced degrees. Now, a growing body of research is challenging the second part of the definition of Homo economicus—that he is guided purely by self-interest.

The alternative view was advanced by Armin Falk, a Bonn University economist, at a recent economics conference in Berlin organized by the Institute for New Economic Thinking. It emphasized the importance of fairness and trust in human behavior. This approach, he said, is key to understanding the human brain, which is highly engaged in social interactions and requires trust to function.

The social animal school also highlights the importance of fairness and trust in human behavior. This approach suggests that the human brain, and particularly the social brain, is designed to perform tasks that are necessary for survival and social interaction. The social brain is responsible for processing information related to social relationships, emotions, and communication.

In a recent experiment, subjects were paid 50 percent more, the same amount or 50 percent less than a peer for doing the same amount of work. Crucially, the absolute payment the research subject received in each case was identical. But brain scans showed that fairness had a strong impact on the social brain. Anyone who had ever held a job or had a sibling would be surprised to learn that the most powerful response was evoked when the research subject was underpaid, compared with his identically tasked peer.

Interestingly, when researchers simulated low social status in their testers, unfair treatment mattered less. The mock may have been the testing, but in the meantime they had been conditioned to accept less than their fair share.

In another experiment, Dr. Falk and Ernst Fehr, of the University of Zurich, investigated an issue that should be of great interest to the world’s human resources departments: Does our perception of fairness influence how hard we work? Their answer is yes—workers who are underpaid don’t work as hard.

The two professors’ conclusion was based on the responses of experimental subjects. In his Berlin talk, Dr. Falk also cited an American real-world example that points to the same conclusion. A fight between workers and management at Bridgestone/Firestone’s plant in Decatur, Illinois, in the mid-1990s, including a long strike and the hiring of scabs, coincided with the production of poor-quality tires.

“Looking back on the strike, we find that bitter strife at the Decatur plant closely coincided with lower quality output,” a paper on the subject by Alan B. Krueger, a Princeton economist who was in the White House at that time, argues. “Over the 1,100 tested employees, data suggest that defects were higher around the time concessions were demanded and when large numbers of replacement workers and returning strikers were hired.”

Workers who feel they are being treated badly aren’t just unproductive; they can be downright dangerous.

An obvious response to this finding is that if you are in the H.R. department, particularly if your colleagues in finance are giving you a hard time, is to find ways to control your employees more strictly.

But another study by Dr. Falk, with Michael Kießling of Goethe University, Frankfurt, suggests that keeping workers on a tight rein can be counterproductive. When workers closely monitor their work and restrict their opportunities to slack off, the workers become distrustful. The counterproductive result is that the more strictly we control, the less hard we work.

Another study by Dr. Falk suggests that a social animal model of human nature might be a better way to understand why people act the way they do. The social animal is a creature of social interaction, and the social brain is designed to process information related to social relationships, emotions, and communication.

Many employers already know this intuitively. Smart ones will start to apply these findings more explicitly, too.

The next step is to apply these findings to the social brain, which is designed to process information related to social relationships, emotions, and communication. A sophisticated understanding of how the economy really works means thinking not just about gross domestic product, but about fairness and autonomy, too.