Chapter 4
The Cost of Social Norms

Why We Are Happy to Do Things, but Not When We Are Paid to Do Them

You are at your mother-in-law's house for Thanksgiving dinner, and what a sumptuous spread she has put on the table for you! The turkey is roasted to a golden brown; the stuffing is homemade and exactly the way you like it. Your kids are delighted: the sweet potatoes are crowned with marshmallows. And your wife is flattered: her favorite recipe for pumpkin pie has been chosen for dessert.

The festivities continue into the late afternoon. You loosen your belt and sip a glass of wine. Gazing fondly across the table at your mother-in-law, you rise to your feet and pull out your wallet. "Mom, for all the love you've put into this, how much do I owe you?" you say sincerely. As silence descends on the gathering, you wave a handful of bills. "Do you think three hundred dollars will do it? No, wait, I should give you four hundred!"

This is not a picture that Norman Rockwell would have painted. A glass of wine falls over; your mother-in-law stands up red-faced; your sister-in-law shoots you an angry look; and your niece bursts into tears. Next year's Thanksgiving celebration, it seems, may be a frozen dinner in front of the television set.

WHAT'S GOING ON here? Why does an offer for direct payment put such a damper on the party? As Margaret Clark, Judson Mills, and Alan Fiske suggested a long time ago, the answer is that we live simultaneously in two different worlds—one where social norms prevail, and the other where market norms make the rules. The social norms include the friendly requests that people make of one another. Could you help me move this couch? Could you help me change this tire? Social norms are wrapped up in our social nature and our need for community. They are usually warm and fuzzy. Instant paybacks are not required: you may help move your neighbor's couch, but this doesn't mean he has to come right over and move yours. It's like opening a door for someone: it provides pleasure for both of you, and reciprocity is not immediately required.

The second world, the one governed by market norms, is very different. There's nothing warm and fuzzy about it. The exchanges are sharp-edged: wages, prices, rents, interest, and costs-and-benefits. Such market relationships are not necessarily evil or mean—in fact, they also include self-reliance, inventiveness, and individualism—but they do imply comparable benefits and prompt payments. When you are in the domain of market norms, you get what you pay for—that's just the way it is.

When we keep social norms and market norms on their separate paths, life hums along pretty well. Take sex, for instance. We may have it free in the social context, where it is, we hope, warm and emotionally nourishing. But there's also market sex, sex that is on demand and that costs money. This seems pretty straightforward. We don't have husbands (or wives) coming home asking for a $50 trick; nor do we have prostitutes hoping for everlasting love.

When social and market norms collide, trouble sets in. Take sex again. A guy takes a girl out for dinner and a movie, and he pays the bills. They go out again, and he pays the bills once more. They go out a third time, and he's still springing for the meal and the entertainment. At this point, he's hoping for at least a passionate kiss at the front door. His wallet is getting perilously thin, but worse is what's going on in his head: he's having trouble reconciling the social norm (courtship) with the market norm (money for sex). On the fourth date he casually mentions how much this romance is costing him. Now he's crossed the line. Violation! She calls him a beast and storms off. He should have known that one can't mix social and market norms—especially in this case—without implying that the lady is a tramp. He should also have remembered the immortal words of Woody Allen: "The most expensive sex is free sex."

A FEW YEARS ago, James Heyman (a professor at the University of St. Thomas) and I decided to explore the effects of social and market norms. Simulating the Thanksgiving incident would have been wonderful, but considering the damage we might have done to our participants' family relationships, we chose something more mundane. In fact, it was one of the most boring tasks we could find (there is a tradition in social science of using very boring tasks).

In this experiment, a circle was presented on the left side of a computer screen and a box was presented on the right. The task was to drag the circle, using the computer mouse, onto the square. Once the circle was successfully dragged to the square, it disappeared from the screen and a new circle appeared at the starting point. We asked the participants to drag as many circles as they could, and we measured how many circles they dragged within five minutes. This was our measure of their labor output—the effort that they would put into this task.

How could this setup shed light on social and market exchanges? Some of the participants received five dollars for participating in the short experiment. They were given the money as they walked into the lab; and they were told that at the end of the five minutes, the computer would alert them that the task was done, at which point they were to leave the lab. Because we paid them for their efforts, we expected them to apply market norms to this situation and act accordingly.

Participants in a second group were presented with the same basic instructions and task; but for them the reward was much lower (50 cents in one experiment and 10 cents in the other). Again we expected the participants to apply market norms to this situation and act accordingly.

Finally, we had a third group, to whom we introduced the tasks as a social request. We didn't offer the participants in this group anything concrete in return for their effort; nor did we mention money. It was merely a favor that we asked of them. We expected these participants to apply social norms to the situation and act accordingly.

How hard did the different groups work? In line with the ethos of market norms, those who received five dollars dragged on average 159 circles, and those who received 50 cents dragged on average 101 circles. As expected, more money caused our participants to be more motivated and work harder (by about 50 percent).

What about the condition with no money? Did these participants work less than the ones who got the low monetary payment—or, in the absence of money, did they apply social norms to the situation and work harder? The results showed that on average they dragged 168 circles, much more than those who were paid 50 cents, and just slightly more than those who were paid five dollars. In other words, our participants worked harder under the nonmonetary social norms than for the almighty buck (OK, 50 cents).

Perhaps we should have anticipated this. There are many examples to show that people will work more for a cause than for cash. A few years ago, for instance, the AARP asked some lawyers if they would offer less expensive services to needy retirees, at something like $30 an hour. The lawyers said no. Then the program manager from AARP had a brilliant idea: he asked the lawyers if they would offer free services to needy retirees. Overwhelmingly, the lawyers said yes.

What was going on here? How could zero dollars be more attractive than $30? When money was mentioned, the lawyers used market norms and found the offer lacking, relative to their market salary. When no money was mentioned they used social norms and were willing to volunteer their time. Why didn't they just accept the $30, thinking of themselves as volunteers who received $30? Because once market norms enter our considerations, the social norms depart.

A similar lesson was learned by Nachum Sicherman, an economics professor at Columbia, who was taking martial arts lessons in Japan. The sensei (the master teacher) was not charging the group for the training. The students, feeling that this was unfair, approached the master one day and suggested that they pay him for his time and effort. Setting down his bamboo *shinai*, the master calmly replied that if he charged them, they would not be able to afford him.

IN THE PREVIOUS experiment, then, those who got paid 50 cents didn't say to themselves, "Good for me; I get to do this favor for these researchers, and I am getting some money out of this," and continue to work harder than those who were paid nothing. Instead they switched themselves over to the market norms, decided that 50 cents wasn't much, and worked halfheartedly. In other words, when the market norms entered the lab, the social norms were pushed out.

But what would happen if we replaced the payments with a gift? Surely your mother-in-law would accept a good bottle of wine at dinner. Or how about a housewarming present (such as an eco-friendly plant) for a friend? Are gifts methods of exchange that keep us within the social exchange norms? Would participants receiving such gifts switch out of the social norms and into market norms, or would offering gifts as rewards maintain the participants in the social world?

To find out just where gifts fall on the line between social and market norms, James and I decided on a new experiment. This time, we didn't offer our participants money for dragging circles across a computer screen; we offered them gifts instead. We replaced the 50-cent reward with a Snickers bar (worth about 50 cents), and the five-dollar incentive with a box of Godiva chocolates (worth about five dollars).

The participants came to the lab, got their reward, worked as much as they liked, and left. Then we looked at the results. As it turned out, all three experimental groups worked about equally hard during the task, regardless of whether they got a small Snickers bar (these participants dragged on average 162 circles), the Godiva chocolates (these participants dragged on average 169 circles), or nothing at all (these participants dragged on average 168 circles). The conclusion: no one is offended by a small gift, because even small gifts keep us in the social exchange world and away from market norms.

BUT WHAT WOULD HAPPEN if we mixed the signals for the two types of norms? What would happen if we blended the market norm with the social norm? In other words, if we said that we would give them a "50-*cent* Snickers bar" or a "*five-dollar* box of Godiva chocolates," what would the participants do? Would a "50-cent Snickers bar" make our participants work as hard as a "Snickers bar" made them work; or would it make them work halfheartedly, as the 50-cents made them work? Or would it be somewhere in the middle? The next experiment tested these ideas.

As it turned out, the participants were not motivated to work at all when they got the 50-cent Snickers bar, and in fact the effort they invested was the same as when they got a payment of 50 cents. They reacted to the explicitly priced gift in exactly the way they reacted to cash, and the gift no longer invoked social norms—by the mention of its cost, the gift had passed into the realm of market norms.

By the way, we replicated the setup later when we asked passersby whether they would help us unload a sofa from a truck. We found the same results. People are willing to work free, and they are willing to work for a reasonable wage; but offer them just a small payment and they will walk away. Gifts are also effective for sofas, and offering people a gift, even a small one, is sufficient to get them to help; but mention what the gift cost you, and you will see the back of them faster than you can say market norms.

THESE RESULTS SHOW that for market norms to emerge, it is sufficient to mention money (even when no money changes hands). But, of course, market norms are not just about effort—they relate to a broad range of behaviors, including self-reliance, helping, and individualism. Would simply getting people to think about money influence them to behave differently in these respects? This premise was explored in a set of fantastic experiments by Kathleen Vohs (a professor at the University of Minnesota), Nicole Mead (a graduate student at Florida State University), and Miranda Goode (a graduate student at the University of British Columbia).

They asked the participants in their experiments to complete a "scrambled-sentence task," that is, to rearrange sets of words to form sentences. For the participants in one group, the task was based on neutral sentences (for example, "It's cold outside"); for the other group, the task was based on sentences or phrases related to money (for example, "High-paying salary"*). Would thinking about money in this manner be sufficient to change the way participants behave?

In one of the experiments, the participants finished the unscrambling task and were then given a difficult puzzle, in which they had to arrange 12 disks into a square. As the experimenter left the room, he told them that they could come to him if they needed any help. Who do you think asked for help sooner—those who had worked on the "salary" sentences, with their implicit suggestion of money; or those who had worked on the "neutral" sentences, about the weather and other such topics? As it turned out, the students who had first worked on the "salary" task struggled with the puzzle for about five and a half minutes before asking for help, whereas those who had first worked on the neutral task asked for help after about three minutes. Thinking about money, then, made the participants in the "salary" group more self-reliant and less willing to ask for help.

But these participants were also less willing to help others. In fact, after thinking about money these participants were less willing to help an experimenter enter data, less likely to assist another participant who seemed confused, and less likely to help a "stranger" (an experimenter in disguise) who "accidentally" spilled a box of pencils.

Overall, the participants in the “salary” group showed many of the characteristics of the market: they were more selfish and self-reliant; they wanted to spend more time alone; they were more likely to select tasks that required individual input rather than teamwork; and when they were deciding where they wanted to sit, they chose seats farther away from whomever they were told to work with. Indeed, just thinking about money makes us behave as most economists believe we behave —and less like the social animals we are in our daily lives.

This leads me to a final thought: when you’re in a restaurant with a date, for heaven’s sake don’t mention the price of the selections. Yes, they’re printed clearly on the menu. Yes, this might be an opportunity to impress your date with the caliber of the restaurant. But if you rub it in, you’ll be likely to shift your relationship from the social to the market norm. Yes, your date may fail to recognize how much this meal is setting you back. Yes, your mother-in-law may assume that the bottle of wine you’ve presented is a $10 blend, when it’s a $60 special reserve merlot. That’s the price you have to pay, though, to keep your relationships in the social domain and away from market norms.

So we live in two worlds: one characterized by social exchanges and the other characterized by market exchanges. And we apply different norms to these two kinds of relationships. Moreover, introducing market norms into social exchanges, as we have seen, violates the social norms and hurts the relationships. Once this type of mistake has been committed, recovering a social relationship is difficult. Once you’ve offered to pay for the delightful Thanksgiving dinner, your mother-in-law will remember the incident for years to come. And if you’ve ever offered a potential romantic partner the chance to cut to the chase, split the cost of the courting process, and simply go to bed, the odds are that you will have wrecked the romance forever.

My good friends Uri Gneezy (a professor at the University of California at San Diego) and Aldo Rustichini (a professor at the University of Minnesota) provided a very clever test of the long-term effects of a switch from social to market norms.

A few years ago, they studied a day care center in Israel to determine whether imposing a fine on parents who arrived late to pick up their children was a useful deterrent. Uri and Aldo concluded that the fine didn’t work well, and in fact it had long-term negative effects. Why? Before the fine was introduced, the teachers and parents had a social contract, with social norms about being late. Thus, if parents were late—as they occasionally were—they felt guilty about it—and their guilt compelled them to be more prompt in picking up their kids in the future. (In Israel, guilt seems to be an effective way to get compliance.) But once the fine was imposed, the day care center had inadvertently replaced the social norms with market norms. Now that the parents were *paying* for their tardiness, they interpreted the situation in terms of market norms. In other words, since they were being fined, they could decide for themselves whether to be late or not, and they frequently chose to be late. Needless to say, this was not what the day care center intended.

BUT THE REAL story only started here. The most interesting part occurred a few weeks later, when the day care center removed the fine. Now the center was back to the social norm. Would the parents also return to the social norm? Would their guilt return as well? Not at all. Once the fine was removed, the behavior of the parents didn't change. They continued to pick up their kids late. In fact, when the fine was removed, there was a slight increase in the number of tardy pickups (after all, both the social norms and the fine had been removed).

This experiment illustrates an unfortunate fact: when a social norm collides with a market norm, the social norm goes away for a long time. In other words, social relationships are not easy to reestablish. Once the bloom is off the rose—once a social norm is trumped by a market norm—it will rarely return.

THE FACT THAT we live in both the social world and the market world has many implications for our personal lives. From time to time, we all need someone to help us move something, or to watch our kids for a few hours, or to take in our mail when we're out of town. What's the best way to motivate our friends and neighbors to help us? Would cash do it—a gift, perhaps? How much? Or nothing at all? This social dance, as I'm sure you know, isn't easy to figure out—especially when there's a risk of pushing a relationship into the realm of a market exchange.

Here are some answers. Asking a friend to help move a large piece of furniture or a few boxes is fine. But asking a friend to help move a lot of boxes or furniture is not—especially if the friend is working side by side with movers who are getting paid for the same task. In this case, your friend might begin to feel that he's being used. Similarly, asking your neighbor (who happens to be a lawyer) to bring in your mail while you're on vacation is fine. But asking him to spend the same amount of time preparing a rental contract for you—free—is not.

THE DELICATE BALANCE between social and market norms is also evident in the business world. In the last few decades companies have tried to market themselves as social companions—that is, they'd like us to think that they and we are family, or at least are friends who live on the same cul-de-sac. "Like a good neighbor, State Farm is there" is one familiar slogan. Another is Home Depot's gentle urging: "You can do it. We can help."

Whoever started the movement to treat customers socially had a great idea. If customers and a company are family, then the company gets several benefits. Loyalty is paramount. Minor infractions—screwing up your bill and even imposing a modest hike in your insurance rates—are accommodated. Relationships of course have ups and downs, but overall they're a pretty good thing.

But here's what I find strange: although companies have poured billions of dollars into marketing and advertising to create social relationships—or at least an impression of social relationships—they don't seem to understand the nature of a social relationship, and in particular its risks.

For example, what happens when a customer's check bounces? If the relationship is based on market norms, the bank charges a fee, and the customer shakes it off. Business is business. While the fee is annoying, it's nonetheless acceptable. In a social relationship, however, a hefty late fee—rather than a friendly call from the manager or an automatic fee waiver—is not only a relationship-killer; it's a stab in the back. Consumers will take personal offense. They'll leave the bank angry and spend hours complaining to their friends about this awful bank. After all, this was a relationship framed as a social exchange. No matter how many cookies, slogans, and tokens of friendship a bank provides, one violation of the social exchange means that the consumer is back to the market exchange. It can happen that quickly.

What's the upshot? If you're a company, my advice is to remember that you can't have it both ways. You can't treat your customers like family one moment and then treat them impersonally—or, even worse, as a nuisance or a competitor—a moment later when this becomes more convenient or profitable. This is not how social relationships work.

If you want a social relationship, go for it, but remember that you have to maintain it under all circumstances.

On the other hand, if you think you may have to play tough from time to time—charging extra for additional services or rapping knuckles swiftly to keep the consumers in line—you might not want to waste money in the first place on making your company the fuzzy feel-good choice. In that case, stick to a simple value proposition: state what you give and what you expect in return. Since you're not setting up any social norms or expectations, you also can't violate any—after all, it's just business.

COMPANIES HAVE ALSO tried to establish social norms with their employees. It wasn't always this way. Years ago, the workforce of America was more of an industrial, market-driven exchange. Back then it was often a nine-to-five, time-clock kind of mentality. You put in your 40 hours and you got your paycheck on Friday. Since workers were paid by the hour, they knew exactly when they were working for the man, and when they weren't. The factory whistle blew (or the corporate equivalent took place), and the transaction was finished. This was a clear market exchange, and it worked adequately for both sides.

Today companies see an advantage in creating a social exchange. After all, in today's market we're the makers of intangibles. Creativity counts more than industrial machines. The partition between work and leisure has likewise blurred. The people who run the workplace want us to think about work while we're driving home and while we're in the shower. They've given us laptops, cell phones, and BlackBerries to bridge the gap between the workplace and home.

Further blurring the nine-to-five workday is the trend in many companies to move away from hourly rates to monthly pay. In this 24/7 work environment social norms have a great advantage: they tend to make employees passionate, hardworking, flexible, and concerned. In a market where employees' loyalty to their employers is often wilting, social norms are one of the best ways to make workers loyal, as well as motivated.

Open-source software shows the potential of social norms. In the case of Linux and other collaborative projects, you can post a problem about a bug on one of the bulletin boards and see how fast someone, or often many people, will react to your request and fix the software—using their own leisure time. Could you pay for this level of service?

Most likely. But if you had to hire people of the same caliber they would cost you an arm and a leg. Rather, people in these communities are happy to give their time to society at large (for which they get the same social benefits we all get from helping a friend paint a room). What can we learn from this that is applicable to the business world? There are social rewards that strongly motivate behavior—and one of the least used in corporate life is the encouragement of social rewards and reputation.

In treating their employees—much as in treating their customers—companies must understand their implied long-term commitment. If employees promise to work harder to achieve an important deadline (even canceling family obligations for it), if they are asked to get on an airplane at a moment's notice to attend a meeting, then they must get something similar in return—something like support when they are sick, or a chance to hold on to their jobs when the market threatens to take their jobs away.

Although some companies have been successful in creating social norms with their workers, the current obsession with short-term profits, outsourcing, and draconian cost cutting threatens to undermine it all. In a social exchange, after all, people believe that if something goes awry the other party will be there for them, to protect and help them. These beliefs are not spelled out in a contract, but they are general obligations to provide care and help in times of need.

Again, companies cannot have it both ways. In particular, I am worried that the recent cuts we see in employees' benefits—child care, pensions, flextime, exercise rooms, the cafeteria, family picnics, etc.—are likely to come at the expense of the social exchange and thus affect workers' productivity. I am particularly worried that cuts and changes in medical benefits are likely to transform much of the employer-employee social relationship to a market relationship.

If companies want to benefit from the advantages of social norms, they need to do a better job of cultivating those norms. Medical benefits, and in particular comprehensive medical coverage, are among the best ways a company can express its side of the social exchange. But what are many companies doing? They are demanding high deductibles in their insurance plans, and at the same time are reducing the scope of benefits. Simply put, they are undermining the social contract between the company and the employees and replacing it with market norms. As companies tilt the board, and employees slide from social norms to the realm of market norms, can we blame them for jumping ship when a better offer appears? It's really no surprise that "corporate loyalty," in terms of the loyalty of employees to their companies, has become an oxymoron.

Organizations can also think consciously about how people react to social and market norms. Should you give an employee a gift worth $1,000 or pay him or her an extra $1,000 in cash? Which is better? If you ask the employees, the majority will most likely prefer cash over the gift. But the gift has its value, though this is sometimes ill understood—it can provide a boost to the social relationship between the employer and the employee, and by doing so provide long-term benefits to everyone. Think of it this way: who do you suppose is likely to work harder, show more loyalty, and truly love his work more—someone who is getting $1,000 in cash or someone who is getting a personal gift?

Of course, a gift is a symbolic gesture. And to be sure, no one is going to work for gifts rather than a salary. For that matter, no one is going to work for nothing. But if you look at companies like Google, which offers a wide variety of benefits for employees (including free gourmet lunches), you can see how much goodwill is created by emphasizing the social side of the company-worker relationship. It's remarkable how much work companies (particularly start-ups) can get out of people when social norms (such as the excitement of building something together) are stronger than market norms (such as salaries stepping up with each promotion).

If corporations started thinking in terms of social norms, they would realize that these norms build loyalty and—more important—make people want to extend themselves to the degree that corporations need today: to be flexible, concerned, and willing to pitch in. That's what a social relationship delivers.

THIS QUESTION OF social norms in the workplace is one we should be thinking about frequently. America's productivity depends increasingly on the talent and efforts of its workers. Could it be that we are driving business from the realm of social norms into market norms? Are workers thinking in terms of money, rather than the social values of loyalty and trust? What will that do to American productivity in the long run, in terms of creativity and commitment? And what of the "social contract" between government and the citizen? Is that at risk as well?

At some level we all know the answers. We understand, for instance, that a salary alone will not motivate people to risk their lives. Police officers, firefighters, soldiers—they don't die for their weekly pay. It's the social norms—pride in their profession and a sense of duty—that will motivate them to give up their lives and health. A friend of mine in Miami once accompanied a U.S. customs agent on a patrol of the offshore waters. The agent carried an assault rifle and could certainly have pounded several holes into a fleeing drug boat. But had he ever done so? No way, he replied. He wasn't about to get himself killed for the government salary he received. In fact, he confided, his group had an unspoken agreement with the drug couriers: the feds wouldn't fire if the drug dealers didn't fire. Perhaps that's why we rarely (if ever) hear about gun battles on the edges of America's "war on drugs."

How could we change this situation? First, we could make the federal salary so good that the customs agent would be willing to risk his life for it. But how much money is that? Compensation equal to what the typical drug trafficker gets for racing a boat from the Bahamas to Miami? Alternatively, we could elevate the social norm, making the officer feel that his mission is worth more than his base pay—that we honor him (as we honor our police and firefighters) for a job which not only stabilizes the structure of society but also saves our kids from all kinds of dangers. That would take some inspirational leadership, of course, but it could be done.

Let me describe how that same thought applies to the world of education. I recently joined a federal committee on incentives and accountability in public education. This is one aspect of social and market norms that I would like to explore in the years to come. Our task is to reexamine the "No Child Left Behind" policy, and to help find ways to motivate students, teachers, administrators, and parents.

My feeling so far is that standardized testing and performance-based salaries are likely to push education from social norms to market norms. The United States already spends more money per student than any other Western society. Would it be wise to add more money? The same consideration applies to testing: we are already testing very frequently, and more testing is unlikely to improve the quality of education.

I suspect that one answer lies in the realm of social norms. As we learned in our experiments, cash will take you only so far—social norms are the forces that can make a difference in the long run. Instead of focusing the attention of the teachers, parents, and kids on test scores, salaries, and competition, it might be better to instill in all of us a sense of purpose, mission, and pride in education. To do this we certainly can't take the path of market norms. The Beatles proclaimed some time ago that you "Can't Buy Me Love" and this also applies to the love of learning—you can't buy it; and if you try, you might chase it away.

So how can we improve the educational system? We should probably first rethink school curricula, and link them in more obvious ways to social goals (elimination of poverty and crime, elevation of human rights, etc.), technological goals (boosting energy conservation, space exploration, nanotechnology, etc.), and medical goals (cures for cancer, diabetes, obesity, etc.) that we care about as a society. This way the students, teachers, and parents might see the larger point in education and become more enthusiastic and motivated about it. We should also work hard on making education a goal in itself, and stop confusing the number of hours students spend in school with the quality of the education they get. Kids can get excited about many things (baseball, for example), and it is our challenge as a society to make them want to know as much about Nobel laureates as they now know about baseball players. I am not suggesting that igniting a social passion for education is simple; but if we succeed in doing so, the value could be immense.

MONEY, AS IT turns out, is very often the most expensive way to motivate people. Social norms are not only cheaper, but often more effective as well.

So what good is money? In ancient times, money made trading easier: you didn't have to sling a goose over your back when you went to market, or decide what section of the goose was equivalent to a head of lettuce. In modern times money has even more benefits, as it allows us to specialize, borrow, and save.

But money has also taken on a life of its own. As we have seen, it can remove the best in human interactions. So do we need money? Of course we do. But could there be some aspects of our life that would be, in some ways, better without it?

That's a radical idea, and not an easy one to imagine. But a few years ago I had a taste of it. At that time, I got a phone call from John Perry Barlow, a former lyricist for the Grateful Dead, inviting me to an event that proved to be both an important personal experience and an interesting exercise in creating a moneyless society. Barlow told me that I had to come to Burning Man with him, and that if I did, I would feel as if I had come home. Burning Man is an annual weeklong event of self-expression and self-reliance held in Black Rock Desert, Nevada, regularly attended by more than 40,000 people. Burning Man started in 1986 on Baker Beach in San Francisco, when a small crowd designed, built, and eventually set fire to an eight-foot wooden statue of a man and a smaller wooden dog. Since then the size of the man being burned and the number of people who attend the festivities has grown considerably, and the event is now one of the largest art festivals, and an ongoing experiment in temporary community.

Burning Man has many extraordinary aspects, but for me one of the most remarkable is its rejection of market norms. Money is not accepted at Burning Man. Rather, the whole place works as a gift exchange economy—you give things to other people, with the understanding that they will give something back to you (or to someone else) at some point in the future. Thus, people who can cook might fix a meal. Psychologists offer free counseling sessions. Masseuses massage those lying on tables before them. Those who have water offer showers. People give away drinks, homemade jewelry, and hugs. (I made some puzzles at the hobby shop at MIT, and gave them to people. Mostly, people enjoyed trying to solve them.)

At first this was all very strange, but before long I found myself adopting the norms of Burning Man. I was surprised, in fact, to find that Burning Man was the most accepting, social, and caring place I had ever been. I'm not sure I could easily survive in Burning Man for all 52 weeks of the year. But this experience has convinced me that life with fewer market norms and more social norms would be more satisfying, creative, fulfilling, and fun.

The answer, I believe, is not to re-create society as Burning Man, but to remember that social norms can play a far greater role in society than we have been giving them credit for. If we contemplate how market norms have gradually taken over our lives in the past few decades—with their emphasis on higher salaries, more income, and more spending—we may recognize that a return to some of the old social norms might not be so bad after all. In fact, it might bring quite a bit of the old civility back to our lives.

Reflections on Social Norms: Lessons on Gifts

When we mix social and monetary norms, strange and undesirable things can happen. For example, if you walk your date home after a wonderful evening together, don't mention how much the evening set you back. That is not a good strategy for getting a passionate good-night kiss. (I certainly do not recommend this as an experiment, but if you do try it, let me know how it turns out.) Dating, of course, is just one arena in which we can mess up a social relationship by introducing financial norms, and this danger lurks around many corners.

On some level we all know this, and therefore we sometimes deliberately make decisions that do not fall into line with rational economic theory. Think of gifts, for example. From a standard economic perspective, they are a waste of money. Imagine that you invite me to your home for dinner one evening, and I decide to spend $50 on a nice bottle of Bordeaux as a token of gratitude. There are some problems with this decision: You might not like Bordeaux. You might have preferred something else: a copy of *Predictably Irrational*, a DVD of *Citizen Kane*, or a blender. This means that the bottle of wine that cost me $50 might be worth, at most, $25 to you in terms of its utility. That is, for $25 you could get something else that would make you just as happy as my $50 bottle of wine.

Now, if giving gifts was a rational activity, I would come to dinner and say, "Thank you for inviting me for dinner. I was going to spend $50 on a bottle of Bordeaux, but I realize that this might provide you with far less happiness than $50 in cash." I peel off five $10 bills, hand them to you, and add, "Here you go. You can decide how best to spend it." Or maybe I would give you $40 in cash and make us both better off—not to mention saving myself the trouble of shopping for wine.

Although we all realize that offering cash instead of gifts is more economically efficient, I don't expect that many people will follow this rational advice, because we all know that doing so will in no way endear us to our hosts. If you want to demonstrate affection, or strengthen your relationship, then giving a gift—even at the risk that it won't be appreciated as much as you hoped—is the only way to go.

So imagine two scenarios. Let's say it's the holidays, and two different neighbors invite you to their parties in the same week. You accept both invitations. In one case, you do the irrational thing and give

Neighbor X a bottle of Bordeaux; for the second party you adopt the rational approach and give Neighbor Z $50 in cash. The following week, you need some help moving a sofa. How comfortable would you be approaching each of your neighbors, and how do you think each would react to your request for a favor? The odds are that Neighbor X will step in to help. And Neighbor Z? Since you have already paid him once (to make and share dinner with you), his logical response to your request for help might be, "Fine. How much will you pay me this time?" Again, the prospect of acting rationally, financially speaking, sounds deeply irrational in terms of social norms.

The point is that while gifts are financially inefficient, they are an important social lubricant. They help us make friends and create long-term relationships that can sustain us through the ups and downs of life. Sometimes, it turns out, a waste of money can be worth a lot.

Reflections on Social Norms: Benefits in the Workplace

The same general principles regarding social norms also apply to the workplace. In general, people work for a paycheck, but there are other, intangible benefits we get from our jobs. These are also very real and very important, yet much less understood.

Often, when I'm on a flight and the people sharing the row with me don't immediately put their headphones on, I enter into an interesting discussion with one of them. Invariably, I learn a lot about my neighbor's work, work history, and future projects. On the other hand, I discover very little about the person's family, favorite music, movies, or hobbies. Unless my neighbor gives me a business card, I almost never learn his or her name until the moment we are both about to leave the plane. There are probably many reasons for this, but I suspect that one of them is that most people take a lot of pride in their work. Of course this may not be true of everyone, but I think that for many people the workplace is not just a source of money but also a source of motivation and self-definition.

Such feelings benefit both the workplace and the employee. Employers who can foster these feelings gain dedicated, motivated employees who think about solving job-related problems even after the workday is over. And employees who take pride in their work feel a sense of happiness and purpose. But in the same way that market norms may undermine social norms, it may be that market norms also erode the pride and meaning people get from the workplace (for example, when we pay schoolteachers according to their students' performance on standardized tests).

Imagine that you work for me, and that I want to give you a year-end bonus. I offer you a choice: $1,000 in cash or an all-expenses-paid weekend in the Bahamas, which would cost me $1,000. Which option would you choose? If you are like most people who have answered this question, you would take the cash. After all, you may have already been to the Bahamas and may not have enjoyed being there very much, or maybe you'd prefer to spend a weekend at a resort closer to home and use the remainder of the bonus money to buy a new iPod. In either case, you think that you can best decide for yourself how to spend the money.

This arrangement seems to be financially efficient, but would it increase your happiness with your work, or your loyalty to the company? Would it make me a better boss? Would it improve the employer-employee relationship in any way? I suspect that both your and my best interests would be better served if I simply didn't offer you a choice and just sent you on the Bahamas vacation. Consider how much more relaxed and refreshed you would feel, and how well you would perform, after a relaxing weekend of sun and sand, compared with how you would feel and behave after you got the $1,000 bonus. Which would help you feel more committed to your job, more enjoyment in your work, more dedication to your boss? Which gift would make you more likely to stay long hours one night to meet an important deadline? On all of these, the vacation beats the cash hands down.

This principle doesn't apply only to gifts. Many employers, in an effort to show their employees how well they are treating them, add different line items to their paycheck stubs, describing exactly how much money the employer is spending on health care, retirement plans, the gym at work, and the cafeteria. These items are all legitimate, and they reflect real costs to the employer, but overtly stating the prices of these items changes the workplace from a social environment in which the employer and employee have a deep commitment to each other to a transactional relationship. Explicitly stating the financial value of these benefits can also diminish enjoyment, motivation, and loyalty to the workplace—negatively affecting both the employer-employee relationship and our own pride and happiness at work.

Gifts and employee benefits seem, at first glance, to be an odd and inefficient way of allocating resources. But with the understanding that they fulfill an important role in creating long-term relationships, reciprocity, and positive feelings, companies should try to keep benefits and gifts in the social realm.

Reflections on Market Norms and Romance

One of the great philosophers of our time, Jerry Seinfeld, unintentionally demonstrated that social and market norms—much like an acid and a base in chemistry—clash if we try to mix them. In one episode of *Seinfeld*, Jerry hires a maid. This is not all that unusual in itself, except that in this case, the maid happens to be very attractive and naturally (for New York City) she is waiting to be "discovered." Elaine predicts the inevitable, that Jerry will eventually start dating the maid. Later, after celebrating being right about her prediction, she comments sarcastically on what a prudent undertaking it is to date one's maid. Here Elaine sagely points out the inherent difficulties in uniting the market norm (maid) and social norm (girlfriend). Jerry, expecting as much, gives a haphazard defense, arguing that he would never trip lightly into such a fraught situation and claiming that their personal and work relationships are completely separate. When the next inevitable evolution of their "relationship" occurs—that is, the maid/girlfriend stops cleaning entirely (but takes the money anyway)—Kramer is horrified and calls Jerry a john, picking up on the fact that it's not exactly normal to pay one's significant other for services rendered. Both relationships (girlfriend and maid) end when Jerry claims that they're through and, in the same breath, that she's fired. What happened is that Jerry mixed two competing norms—social and market—before realizing that they cannot comfortably coexist.

Romantic relationships, in both fiction and real life, can provide useful insights into a lot of areas in behavioral economics. But as we've already seen, they are particularly useful in helping us think about the strange combinations of social and market norms. One wonderfully sad example of a person who did not understand this complexity is a woman in New York who, in 2007, posted a personal ad on Craigslist.

In her ad, she said that she was seeking a husband who earned more than $500,000 a year. She described herself as “spectacularly beautiful,” “articulate,” and “superficial.” She also said that while she had no problems dating businessmen who made $250,000, she was unable to break the $250,000 barrier and find someone above this income level. She hoped to date someone who could get her what she really wanted: a nice apartment on Central Park West.

Let’s assume, for the sake of argument, that this woman really was spectacularly beautiful, articulate, and wonderful in every way. What would happen if she walked into a bar filled with stockbrokers, found her guy, and explicitly stated her goal as she did in the ad, and he accepted her offer? The terms of the relationship would certainly be established, putting them firmly in the market norm, rather than the social norm, domain.

Now, say that this “happy” couple eventually gets married. What would happen the first time she didn’t want to have sex with her stockbroker husband or refused to spend the holidays with his mother? My guess is that the give-and-take that is so common and acceptable in regular romantic relationships (and in every social exchange) would not be part of this relationship . . . and that the explicit exchange of beauty for money would ensure that the relationship would break down.

I don’t actually know what became of this woman, but the responses to her ad make me suspect that this approach to finding a husband did not have a good ending. Because she bluntly introduced market norms into the relationship she was looking for, many respondents compared her offer to a business transaction. In fact, one anonymous respondent took her market norms framing to the next level. He assured the woman that he met her criteria but explained that the proposal was a “crappy business deal” because his assets (money) were likely to appreciate over time, while her assets (looks) would certainly depreciate as she aged. He also added, correctly, that in this situation, the economically rational thing to do would be to lease rather than buy.

Chapter 13
The Context of Our Character, Part I

Why We Are Dishonest, and What We Can Do about It

In 2004, the total cost of all robberies in the United States was $525 million, and the average loss from a single robbery was about $1,300.[22] These amounts are not very high, when we consider how much police, judicial, and corrections muscle is put into the capture and confinement of robbers—let alone the amount of newspaper and television coverage these kinds of crimes elicit. I'm not suggesting that we go easy on career criminals, of course. They are thieves, and we must protect ourselves from their acts.

But consider this: every year, employees' theft and fraud at the workplace are estimated at about $600 billion. That figure is dramatically higher than the combined financial cost of robbery, burglary, larceny-theft, and automobile theft (totaling about $16 billion in 2004); it is much more than what all the career criminals in the United States could steal in their lifetimes; and it's also almost twice the market capitalization of General Electric. But there's much more. Each year, according to reports by the insurance industry, individuals add a bogus $24 billion to their claims of property losses. The IRS, meanwhile, estimates a loss of $350 billion per year, representing the gap between what the feds think people should pay in taxes and what they do pay. The retail industry has its own headache: it loses $16 billion a year to customers who buy clothes, wear them with the tags tucked in, and return these secondhand clothes for a full refund.

Add to this sundry everyday examples of dishonesty—the congressman accepting golfing junkets from his favorite lobbyist; the physician making kickback deals with the laboratories that he uses; the corporate executive who backdates his stock options to boost his final pay—and you have a huge amount of unsavory economic activity, dramatically larger than that of the standard household crooks.

When the Enron scandal erupted in 2001 (and it became apparent that Enron, as *Fortune* magazine's "America's Most Innovative Company" for six consecutive years, owed much of its success to innovations in accounting), Nina Mazar, On Amir (a professor at the University of California at San Diego), and I found ourselves discussing the subject of dishonesty over lunch. Why are some crimes, particularly white-collar crimes, judged less severely than others, we wondered—especially since their perpetrators can inflict more financial damage between their ten o'clock latte and lunch than a standard-issue burglar might in a lifetime?

After some discussion we decided that there might be two types of dishonesty. One is the type of dishonesty that evokes the image of a pair of crooks circling a gas station. As they cruise by, they consider how much money is in the till, who might be around to stop them, and what punishment they may face if caught (including how much time off they might get for good behavior). On the basis of this cost-benefit calculation, they decide whether to rob the place or not.

Then there is the second type of dishonesty. This is the kind committed by people who generally consider themselves honest—the men and women (please stand) who have "borrowed" a pen from a conference site, taken an extra splash of soda from the soft drink dispenser, exaggerated the cost of their television on their property loss report, or falsely reported a meal with Aunt Enid as a business expense (well, she did inquire about how work was going).

We know that this second kind of dishonesty exists, but how prevalent is it? Furthermore, if we put a group of "honest" people into a scientifically controlled experiment and tempted them to cheat, would they? Would they compromise their integrity? Just how much would they steal? We decided to find out.

THE HARVARD BUSINESS SCHOOL holds a place of distinction in American life. Set on the banks of the River Charles in Boston, Massachusetts; housed in imposing colonial-style architecture; and dripping with endowment money, the school is famous for creating America's top business leaders. In the Fortune 500 companies, in fact, about 20 percent of the top three positions are held by graduates of the Harvard Business School.* What better place, then, to do a little experiment on the issue of honesty?*

The study would be fairly simple. We would ask a group of Harvard undergraduates and MBA students to take a test consisting of 50 multiple-choice questions. The questions would be similar to those on standardized tests (What is the longest river in the world? Who wrote *Moby-Dick*? What word describes the average of a series? Who, in Greek mythology, was the goddess of love?). The students would have 15 minutes to answer the questions. At the end of that time, they would be asked to transfer their answers from their worksheet to a scoring sheet (called a bubble sheet), and submit both the worksheet and the bubble sheet to a proctor at the front of the room. For every correct answer, the proctor would hand them 10 cents. Simple enough.

In another setup we asked a new group of students to take the same general test, but with one important change. The students in this section would take the test and transfer their work to their scoring bubble sheet, as the previous group did. But this time the bubble sheet would have the correct answers pre-marked. For each question, the bubble indicating the correct answer was colored gray. If the students indicated on their worksheet that the longest river in the world is the Mississippi, for instance, once they received the bubble sheet, they would clearly see from the markings that the right answer is the Nile. At that point, if the participants chose the wrong answer on their worksheet, they could decide to lie and mark the correct answer on the bubble sheet.

After they transferred their answers, they counted how many questions they had answered correctly, wrote that number at the top of their bubble sheet, and handed both the worksheet and the bubble sheet to the proctor at the front of the room. The proctor looked at the number of questions they claimed to have answered correctly (the summary number they wrote at the top of the bubble sheet) and paid them 10 cents per correct answer.

Would the students cheat—changing their wrong answers to the ones pre-marked on the bubble sheet? We weren't sure, but in any case, we decided to tempt the next group of students even more. In this condition the students would again take the test and transfer their answers to the pre-marked bubble sheet. But this time we would instruct them to shred their original worksheet, and hand only the bubble sheet to the proctor. In other words, they would destroy all evidence of any possible malfeasance. Would they take the bait? Again, we didn't know.

In the final condition, we would push the group's integrity to the limit. This time they would be instructed to destroy not only their original worksheet, but the final pre-marked bubble sheet as well. Moreover, they wouldn't even have to report their earnings to the experimenter: When they were finished shredding their work and answer sheets, they merely needed to walk up to the front of the room—where we had placed a jar full of coins—withdraw their earnings, and saunter out the door. If one was ever inclined to cheat, this was the opportunity to pull off the perfect crime.

Yes, we were tempting them. We were making it easy to cheat. Would the crème de la crème of America's youth take the bait? We'd have to see.

AS THE FIRST group settled into their seats, we explained the rules and handed out the tests. They worked for their 15 minutes, then copied their answers onto the bubble sheet, and turned in their worksheets and bubble sheets. These students were our control group. Since they hadn't been given any of the answers, they had no opportunity at all to cheat. On average, they got 32.6 of the 50 questions right.

What do you predict that the participants in our other experimental conditions did? Given that the participants in the control condition solved on average 32.6 questions correctly, how many questions do you think the participants in the other three conditions claimed to have solved correctly?

Condition 1	Control	= 32.6
Condition 2	Self-check	= _____
Condition 3	Self-check + shredding	= _____
Condition 4	Self-check + shredding + money jar	= _____

What about the second group? They too answered the questions. But this time, when they transferred their answers to the bubble sheet, they could see the correct answers. Would they sweep their integrity under the rug for an extra 10 cents per question? As it turned out, this group claimed to have solved on average 36.2 questions. Were they smarter than our control group? Doubtful. Instead, we had caught them in a bit of cheating (by about 3.6 questions).

What about the third group? This time we upped the ante. They not only got to see the correct answers but were also asked to shred their worksheets. Did they take the bait? Yes, they cheated. On average they claimed to have solved 35.9 questions correctly—more than the participants in the control condition, but about the same as the participants in the second group (the group that did not shred their worksheets).

Finally came the students who were told to shred not only their worksheets but the bubble sheets as well—and then dip their hands into the money jar and withdraw whatever they deserved. Like angels they shredded their worksheets, stuck their hands into the money jar, and withdrew their coins. The problem was that these angels had dirty faces: their claims added up to an average 36.1 correct answers—quite a bit higher than the 32.6 of our control group, but basically the same as the other two groups who had the opportunity to cheat.

What did we learn from this experiment? The first conclusion, is that when given the opportunity, many honest people will cheat. In fact, rather than finding that a few bad apples weighted the averages, we discovered that the majority of people cheated, and that they cheated just a little bit.* And before you blame the refined air at the Harvard Business School for this level of dishonesty, I should add that we conducted similar experiments at MIT, Princeton, UCLA, and Yale with similar results.

The second, and more counterintuitive, result was even more impressive: once tempted to cheat, the participants didn't seem to be as influenced by the risk of being caught as one might think. When the students were given the opportunity to cheat without being able to shred their papers, they increased their correct answers from 32.6 to 36.2. But when they were offered the chance to shred their papers—hiding their little crime completely—they didn't push their dishonesty farther. They still cheated at about the same level. This means that even when we have no chance of getting caught, we still don't become wildly dishonest.

When the students could shred both their papers, dip their hand into the money jar, and walk away, every one of them could have claimed a perfect test score, or could have taken more money (the jar had about

$100 in it). But none of them did. Why? Something held them back—something inside them. But what was it? What is honesty, anyhow?

TO THAT QUESTION, Adam Smith, the great economic thinker, had a pleasant reply: "Nature, when she formed man for society, endowed him with an original desire to please, and an original aversion to offend his bretheren. She taught him to feel pleasure in their favourable, and pain in their unfavourable regard," he noted.

To this Smith added, "The success of most people . . . almost always depends upon the favour and good opinion of their neighbours and equals; and without a tolerably regular conduct these can very seldom be obtained. The good old proverb, therefore, that honesty is always the best policy, holds, in such situations, almost always perfectly true."

That sounds like a plausible industrial-age explanation, as balanced and harmonious as a set of balance weights and perfectly meshed gears. However optimistic this perspective might seem, Smith's theory had a darker corollary: since people engage in a cost-benefit analysis with regard to honesty, they can also engage in a cost-benefit analysis to be dishonest. According to this perspective, individuals are honest only to the extent that suits them (including their desire to please others).

Are decisions about honesty and dishonesty based on the same cost-benefit analysis that we use to decide between cars, cheeses, and computers? I don't think so. First of all, can you imagine a friend explaining to you the cost-benefit analysis that went into buying his new laptop? Of course. But can you imagine your friend sharing with you a cost-benefit analysis of her decision to steal a laptop? Of course not—not unless your friend is a professional thief. Rather, I agree with others (from Plato down) who say that honesty is something bigger—something that is considered a moral virtue in nearly every society.

Sigmund Freud explained it this way. He said that as we grow up in society, we internalize the social virtues. This internalization leads to the development of the superego. In general, the superego is pleased when we comply with society's ethics, and unhappy when we don't. This is why we stop our car at four AM when we see a red light, even if we know that no one is around; and it is why we get a warm feeling when we return a lost wallet to its owner, even if our identity is never revealed. Such acts stimulate the reward centers of our brain—the nucleus accumbens and the caudate nucleus—and make us content.

But if honesty is important to us (in a recent survey of nearly 36,000 high school students in the United States, 98 percent of them said it was important to be honest), and if honesty makes us feel good, why are we so frequently dishonest?

This is my take. We care about honesty and we want to be honest. The problem is that our internal honesty monitor is active only when we contemplate big transgressions, like grabbing an entire box of pens from the conference hall. For the little transgressions, like taking a single pen or two pens, we don't even consider how these actions would reflect on our honesty and so our superego stays asleep.

Without the superego's help, monitoring, and managing of our honesty, the only defense we have against this kind of transgression is a rational cost-benefit analysis. But who is going to consciously weigh the benefits of taking a towel from a hotel room versus the cost of being caught? Who is going to consider the costs and benefits of adding a few receipts to a tax statement? As we saw in the experiment at Harvard, the cost-benefit analysis, and the probability of getting caught in particular, does not seem to have much influence on dishonesty.

THIS IS THE way the world turns. It's almost impossible to open a newspaper without seeing a report of a dishonest or deceptive act. We watch as the credit card companies bleed their customers with outrageous interest rate hikes; as the airlines plunge into bankruptcy and then call on the federal government to get them—and their underfunded pension funds—out of trouble; and as schools defend the presence of soda machines on campus (and rake in millions from the soft drinks firms) all the while knowing that sugary drinks make kids hyperactive and fat. Taxes are a festival of eroding ethics, as the insightful and talented reporter David Cay Johnston of the *New York Times* describes in his book *Perfectly Legal: The Covert Campaign to Rig Our Tax System to Benefit the Super Rich—and Cheat Everybody Else*.

Against all of this, society, in the form of the government, has battled back, at least to some extent. The Sarbanes-Oxley Act of 2002 (which requires the chief executives of public companies to vouch for the firms' audits and accounts) was passed to make debacles like Enron's a thing of the past. Congress has also passed restrictions on "earmarking" (specifically the pork-barrel spending that politicians insert into larger federal bills). The Securities and Exchange

Commission even passed requirements for additional disclosure about executives' pay and perks—so that when we see a stretch limo carrying a Fortune 500 executive, we know pretty certainly how much the corporate chief inside is getting paid.

But can external measures like these really plug all the holes and prevent dishonesty? Some critics say they can't. Take the ethics reforms in Congress, for instance. The statutes ban lobbyists from serving free meals to congressmen and their aides at "widely attended" functions. So what have lobbyists done? Invited congressmen to luncheons with "limited" guest lists that circumvent the rule. Similarly, the new ethics laws ban lobbyists from flying congressmen in "fixed-wing" aircraft. So hey, how about a lift in a helicopter?

The most amusing new law I've heard about is called the "toothpick rule." It states that although lobbyists can no longer provide sit-down meals to congressmen, the lobbyists can still serve anything (presumably hors d'oeuvres) which the legislators can eat while standing up, plopping into their mouths using their fingers or a toothpick.

Did this change the plans of the seafood industry, which had organized a sit-down pasta and oyster dinner for Washington's legislators (called—you guessed it—"Let the World Be Your Oyster")? Not by much. The seafood lobbyists did drop the pasta dish (too messy to fork up with a toothpick), but still fed the congressmen well with freshly opened raw oysters (which the congressmen slurped down standing up).[23]

Sarbanes-Oxley has also been called ineffectual. Some critics say that it's rigid and inflexible, but the loudest outcry is from those who call it ambiguous, inconsistent, inefficient, and outrageously expensive (especially for smaller firms). "It hasn't cleaned up corruption," argued William A. Niskanen, chairman of the Cato Institute; "it has only forced companies to jump through hoops."

So much for enforcing honesty through external controls. They may work in some cases, but not in others. Could there be a better cure for dishonesty?

Before I even attempt to answer that question, let me describe an experiment we conducted that speaks volumes on the subject. A few years ago Nina, On, and I brought a group of participants together in a lab at UCLA and asked them to take a simple math test. The test consisted of 20 simple problems, each requiring participants to find two numbers that would add up to 10 (for a sample problem, see the table below). They had five minutes to solve as many of the problems as they could, after which they were entered into a lottery. If they won the lottery, they would receive ten dollars for each problem they solved correctly.

As in our experiment at the Harvard Business School, some of the participants handed in their papers directly to the experimenter. They were our control group. The other participants wrote down on another sheet the number of questions they solved correctly, and then disposed of the originals. These participants, obviously, were the ones with the opportunity to cheat. So, given this opportunity, did these participants cheat? As you may have surmised, they did (but, of course, just by a bit).

Look at your watch, note the time, and start searching for two numbers in the matrix below that will add up to exactly 10. How long did it take you?

1.69	1.82	2.91
4.67	4.81	3.05
5.82	5.06	4.28
6.36	5.19	4.57

Up to now I have not told you anything new. But the key to this experiment was what preceded it. When the participants first came to the lab, we asked some of them to write down the names of 10 books that they read in high school. The others were asked to write down as many of the Ten Commandments as they could recall.* After they finished this "memory" part of the experiment, we asked them to begin working on the matrix task.

This experimental setup meant that some of the participants were tempted to cheat after recalling 10 books that they read in high school, and some of them were tempted after recalling the Ten Commandments. Who do you think cheated more?

When cheating was *not* possible, our participants, on average, solved 3.1 problems correctly.*

When cheating was possible, the group that recalled 10 books read in high school achieved an average score of 4.1 questions solved (or

33 percent more than those who could not cheat).

But the big question is what happened to the other group—the students who first wrote down the Ten Commandments, then took the test, and then ripped up their worksheets. This, as sportscasters say, was the group to watch. Would they cheat—or would the Ten Commandments have an effect on their integrity? The result surprised even us: the students who had been asked to recall the Ten Commandments had not cheated at all. They averaged three correct answers—the same basic score as the group that could not cheat, and one less than those who were able to cheat but had recalled the names of the books.

As I walked home that evening I began to think about what had just happened. The group who listed 10 books cheated. Not a lot, certainly—only to that point where their internal reward mechanism (nucleus accumbens and superego) kicked in and rewarded them for stopping.

But what a miracle the Ten Commandments had wrought! We didn't even remind our participants what the Commandments were—we just asked each participant to recall them (and almost none of the participants could recall all 10). We hoped the exercise might evoke the idea of honesty among them. And this was clearly what it did. So, we wondered, what lessons about decreasing dishonesty can we learn from this experiment? It took us a few weeks to come to some conclusions.

FOR ONE, PERHAPS we could bring the Bible back into public life. If we only want to reduce dishonesty, it might not be a bad idea. Then again, some people might object, on the grounds that the Bible implies an endorsement of a particular religion, or merely that it mixes religion in with the commercial and secular world. But perhaps an oath of a different nature would work. What especially impressed me about the experiment with the Ten Commandments was that the students who could remember only one or two Commandments were as affected by them as the students who remembered nearly all ten. This indicated that it was not the Commandments themselves that encouraged honesty, but the mere contemplation of a moral benchmark of some kind.

If that were the case, then we could also use nonreligious benchmarks to raise the general level of honesty. For instance, what about the professional oaths that doctors, lawyers, and others swear to—or used to swear to? Could those professional oaths do the trick?

The word *profession* comes from the Latin *professus*, meaning "affirmed publicly." Professions started somewhere deep in the past in religion and then spread to medicine and law. Individuals who had mastered esoteric knowledge, it was said, not only had a monopoly on the practice of that knowledge, but had an obligation to use their power wisely and honestly. The oath—spoken and often written—was a reminder to practitioners to regulate their own behavior, and it also provided a set of rules that had to be followed in fulfilling the duties of their profession.

Those oaths lasted a long time. But then, in the 1960s, a strong movement arose to deregulate professions. Professions were elitist organizations, it was argued, and needed to be turned out into the light of day. For the legal profession that meant more briefs written in plain English prose, cameras in the courtrooms, and advertising. Similar measures against elitism were applied to medicine, banking, and other professions as well. Much of this could have been beneficial, but something was lost when professions were dismantled. Strict professionalism was replaced by flexibility, individual judgment, the laws of commerce, and the urge for wealth, and with it disappeared the bedrock of ethics and values on which the professions had been built.

A study by the state bar of California in the 1990s, for instance, found that a preponderance of attorneys in California were sick of the decline in honor in their work and "profoundly pessimistic" about the condition of the legal profession. Two-thirds said that lawyers today "compromise their professionalism as a result of economic pressure." Nearly 80 percent said that the bar "fails to adequately punish unethical attorneys." Half said they wouldn't become attorneys if they had it to do over again.[24]

A comparable study by the Maryland Judicial Task Force found similar distress among lawyers in that state. According to Maryland's lawyers, their profession had degenerated so badly that "they were often irritable, short-tempered, argumentative, and verbally abusive" or "detached, withdrawn, preoccupied, or distracted." When lawyers in Virginia were asked whether the increasing problems with professionalism were attributable to "a few bad apples" or to a widespread trend, they overwhelmingly said this was a widespread issue.[25]

Lawyers in Florida have been deemed the worst.[26] In 2003 the Florida bar reported that a “substantial minority” of lawyers were “money-grabbing, too clever, tricky, sneaky, and not trustworthy; who had little regard for the truth or fairness, willing to distort, manipulate, and conceal to win; arrogant, condescending, and abusive.” They were also “pompous and obnoxious.” What more can I say?

The medical profession has its critics as well. The critics mention doctors who do unnecessary surgeries and other procedures just to boost the bottom line: who order tests at laboratories that are giving them kickbacks, and who lean toward medical tests on equipment that they just happen to own. And what about the influence of the pharmaceutical industry? A friend of mine said he sat waiting for his doctor for an hour recently. During that time, he said, four (very attractive) representatives of drug companies went freely into and out of the office, bringing lunch, free samples, and other gifts with them.

You could look at almost any professional group and see signs of similar problems. How about the Association of Petroleum Geologists, for instance? The image I see is Indiana Jones types, with more interest in discussing Jurassic shale and deltaic deposits than in making a buck. But look deeper and you’ll find trouble. “There is unethical behavior going on at a much larger scale than most of us would care to think,” one member of the association wrote to her colleagues.[27]

What kind of dishonesty, for goodness’ sake, could be rife in the ranks of petroleum geologists, you ask? Apparently things like using bootlegged seismic and digital data; stealing maps and materials; and exaggerating the promise of certain oil deposits, in cases where a land sale or investment is being made. “The malfeasance is most frequently of shades of gray, rather than black and white,” one petroleum geologist remarked.

But let’s remember that petroleum geologists are not alone. This decline in professionalism is everywhere. If you need more proof, consider the debate within the field of professional ethicists, who are called more often than ever before to testify at public hearings and trials, where they may be hired by one party or another to consider issues such as treatment rendered to a patient and the rights of the unborn. Are they tempted to bend to the occasion? Apparently so. "Moral Expertise: A Problem in the Professional Ethics of Professional Ethicists" is the title of one article in an ethics journal.[28] As I said, the signs of erosion are everywhere.

WHAT TO DO? Suppose that, rather than invoking the Ten Commandments, we got into the habit of signing our name to some secular statement—similar to a professional oath—that would remind us of our commitment to honesty. Would a simple oath make a difference, in the way that we saw the Ten Commandments make a difference? We needed to find out—hence our next experiment.

Once again we assembled our participants. In this study, the first group of participants took our matrix math test and handed in their answers to the experimenter in the front of the room (who counted how many questions they answered correctly and paid them accordingly). The second group also took the test, but the members of this group were told to fold their answer sheet, keep it in their possession, and tell the experimenter in the front of the room how many of the problems they got right. The experimenter paid them accordingly, and they were on their way.

The novel aspect of this experiment had to do with the third group. Before these participants began, each was asked to sign the following statement on the answer sheet: "I understand that this study falls under the MIT honor system." After signing this statement, they continued with the task. When the time had elapsed they pocketed their answer sheets, walked to the front of the room, told the experimenter how many problems they had correctly solved, and were paid accordingly.

What were the results? In the control condition, in which cheating was not possible, participants solved on average three problems (out of 20). In the second condition, in which the participants could pocket their answers, they claimed to have solved on average 5.5 problems. What was remarkable was the third situation—in which the participants pocketed their answer sheets, but had also signed the honor code statement. In this case they claimed to have solved, on average, three problems—exactly the same number as the control group. This outcome was similar to the results we achieved with the Ten Commandments—when a moral reminder eliminated cheating altogether. The effect of signing a statement about an honor code is particularly amazing when we take into account that MIT doesn't even have an honor code.

So we learned that people cheat when they have a chance to do so, but they don't cheat as much as they could. Moreover, once they begin thinking about honesty—whether by recalling the Ten Commandments or by signing a simple statement—they stop cheating completely. In other words, when we are removed from any benchmarks of ethical thought, we tend to stray into dishonesty. But if we are reminded of morality at the moment we are tempted, then we are much more likely to be honest.

At present, several state bars and professional organizations are scrambling to shore up their professional ethics. Some are increasing courses in college and graduate schools, and others are requiring brush-up ethics classes. In the legal profession, Judge Dennis M. Sweeney of the Howard County (Maryland) circuit published his own book, *Guidelines for Lawyer Courtroom Conduct*, in which he noted, "Most rules, like these, are simply what our mothers would say a polite and well raised man or woman should do. Since, given their other important responsibilities, our mothers (and yours) cannot be in every courtroom in the State, I offer these rules."

Will such general measures work? Let's remember that lawyers do take an oath when they are admitted to the bar, as doctors take an oath when they enter their profession. But occasional swearing of oaths and occasional statements of adherence to rules are not enough. From our experiments, it is clear that oaths and rules must be recalled at, or just before, the moment of temptation. Also, what is more, time is working against us as we try to curb this problem. I said in Chapter 4 that when social norms collide with market norms, the social norms go away and the market norms stay. Even if the analogy is not exact, honesty offers a related lesson: once professional ethics (the social norms) have declined, getting them back won't be easy.

THIS DOESN'T MEAN that we shouldn't try. Why is honesty so important? For one thing, let's not forget that the United States holds a position of economic power in the world today partly because it is (or at least is perceived to be) one of the world's most honest nations, in terms of its standards of corporate governance.

In 2002, the United States ranked twentieth in the world in terms of integrity, according to one survey (Denmark, Finland, and New Zealand were first; Haiti, Iraq, Myanmar, and Somalia were last, at number 163). On this basis, I would suspect that people doing business with the United States generally feel they can get a fair deal. But the fact of the matter is that the United States ranked fourteenth in 2000, before the wave of corporate scandals made the business pages in American newspapers look like a police blotter.[29] We are going down the slippery slope, in other words, not up it, and this can have tremendous long-term costs.

Adam Smith reminded us that honesty really is the best policy, especially in business. To get a glimpse at the other side of that realization—at the downside, in a society without trust—you can take a look at several countries. In China, the word of one person in one region rarely carries to another region. Latin America is full of family-run cartels that hand out loans to relatives (and then fail to cut off credit when the debtor begins to default). Iran is another example of a nation stricken by distrust. An Iranian student at MIT told me that business there lacks a platform of trust. Because of this, no one pays in advance, no one offers credit, and no one is willing to take risks. People must hire within their families, where some level of trust still exists. Would you like to live in such a world? Be careful, because without honesty we might get there faster than you'd imagine.

What can we do to keep our country honest? We can read the Bible, the Koran, or whatever reflects our values, perhaps. We can revive professional standards. We can sign our names to promises that we will act with integrity. Another path is to first recognize that when we get into situations where our personal financial benefit stands in opposition to our moral standards, we are able to "bend" reality, see the world in terms compatible with our selfish interest, and become dishonest. What is the answer, then? If we recognize this weakness, we can try to avoid such situations from the outset. We can prohibit physicians from ordering tests that would benefit them financially; we can prohibit accountants and auditors from functioning as consultants to the same companies; we can bar members of Congress from setting their own salaries, and so on.

But this is not the end of the issue of dishonesty. In the next chapter, I will offer some other suggestions about dishonesty, and some other insights into how we struggle with it.

Reflections on Dishonesty and Toilet Paper

About a year after *Predictably Irrational* was first published, I received an interesting e-mail from a woman who used elements from our honor code experiment to design her own test, which effectively solved an important problem involving stolen toilet paper.

> *Dear Professor Ariely,*
>
> *I found your experiments on cheating particularly interesting (e.g., the nonexistent "MIT honor code" and "The 10 Commandments") and actually modeled an experiment of my own on yours.*
>
> *I live in a house near the UC Berkeley campus. I share the house with many housemates; none of us knew each other before moving in. Moreover, a bunch of new students moved into the house for the summer months last year. This living arrangement led to a number of problems—namely, the stealing of toilet paper.*
>
> *Every Sunday, a housekeeper restocks each toilet with three fresh rolls of toilet paper. Last summer, however, I noticed that by Monday evening, all the toilet paper would be gone. This is not unlike a "tragedy of the commons"* * *situation, and it has become clear that certain housemates were hoarding the toilet paper for their private use. I tried to think of ways to stop the hoarding. I did not want to confront anyone, because my goal was to keep the TP from disappearing, not to alienate people.*
>
> *With your experiment in mind, I put a note in the upstairs bathroom asking housemates not to take toilet paper outside the restroom for personal use.*
>
> *A couple of hours later, one fresh roll of toilet paper magically reappeared in the bathroom where I had placed the note. This had never happened before. The experiment worked! I checked the downstairs restroom, where I had not left a note—no rolls to be found. Two days later, another fresh roll of toilet paper reappeared in the upstairs bathroom.*
>
> *I was quite pleased that my note helped put an end to the hoarding/stealing.*
>
> *Thank you for the inspiration! Behavioral economics is certainly applicable to daily life!*
>
> *Regards,*

Rhonda

I must confess that when I thought about the implications of the honor-reminder experiments for day-to-day life, issues around toilet paper didn't come to mind. But I am happy that Rhonda made the connection and applied it to her own situation. I am also quite pleased that she placed the note in one bathroom but not the other—nice experimental control!

Appendix: Chapter 13

The Ten Commandments[*]

Catholic - I, the Lord, am your God. You shall not have other gods besides me.
Jewish - I am the Lord your God who has taken you out of the land of Egypt.
Protestant - You shall have no other gods but me.

Catholic - You shall not take the name of the Lord, your God, in vain.
Jewish - You shall have no other gods but me.
Protestant - You shall not make unto you any graven images.

Catholic - Remember to keep holy the Lord's Day.
Jewish - You shall not take the name of the Lord your God in vain.
Protestant - You shall not take the name of the Lord your God in vain.

Catholic - Honor your father and your mother.
Jewish - You shall remember the Sabbath and keep it Holy.
Protestant - You shall remember the Sabbath and keep it Holy.

Catholic - You shall not kill.
Jewish - Honor your mother and father.
Protestant - Honor your mother and father.

Catholic - You shall not commit adultery.
Jewish - You shall not murder.
Protestant - You shall not murder.

Catholic - You shall not steal.
Jewish - You shall not commit adultery.
Protestant - You shall not commit adultery.

Catholic - You shall not bear false witness.
Jewish - You shall not steal.
Protestant - You shall not steal.

Catholic - You shall not covet your neighbor’s wife.
Jewish - You shall not bear false witness.
Protestant - You shall not bear false witness.

Catholic - You shall not covet your neighbor’s goods.
Jewish - You shall not covet anything that belongs to your neighbor.
Protestant - You shall not covet anything that belongs to your neighbor.

Chapter 14
The Context of Our Character, Part II

Why Dealing with Cash Makes Us More Honest

Many of the dormitories at MIT have common areas, where sit a variety of refrigerators that can be used by the students in the nearby rooms. One morning at about eleven, when most of the students were in class, I slipped into the dorms and, floor by floor, went hunting for all the shared refrigerators that I could find.

When I detected a communal fridge, I inched toward it. Glancing cautiously around, I opened the door, slipped in a six-pack of Coke, and walked briskly away. At a safe distance, I paused and jotted down the time and the location of the fridge where I had left my Cokes.

Over the next few days I returned to check on my Coke cans. I kept a diary detailing how many of them remained in the fridge. As you might expect, the half-life of Coke in a college dorm isn't very long. All of them had vanished within 72 hours. But I didn't always leave Cokes behind. In some of the fridges, I left a plate containing six one-dollar bills. Would the money disappear faster than the Cokes?

Before I answer that question, let me ask you one. Suppose your spouse calls you at work. Your daughter needs a red pencil for school the next day. "Could you bring one home?" How comfortable would you be taking a red pencil from work for your daughter? Very uncomfortable? Somewhat uncomfortable? Completely comfortable?

Let me ask you another question. Suppose there are no red pencils at work, but you can buy one downstairs for a dime. And the petty cash box in your office has been left open, and no one is around. Would you take 10 cents from the petty cash box to buy the red pencil? Suppose you didn't have any change and needed the 10 cents. Would you feel comfortable taking it? Would that be OK?

I don't know about you, but while I'd find taking a red pencil from work relatively easy, I'd have a very hard time taking the cash. (Luckily for me, I haven't had to face this issue, since my daughter is not in school yet.)

As it turns out, the students at MIT also felt differently about taking cash. As I mentioned, the cans of Coke quickly disappeared; within 72 hours every one of them was gone. But what a different story with the money! The plates of dollar bills remained untouched for 72 hours, until I removed them from the refrigerators.

So what's going on here?

When we look at the world around us, much of the dishonesty we see involves cheating that is one step removed from cash. Companies cheat with their accounting practices; executives cheat by using backdated stock options; lobbyists cheat by underwriting parties for politicians; drug companies cheat by sending doctors and their wives off on posh vacations. To be sure, these people don't cheat with cold cash (except occasionally). And that's my point: cheating is a lot easier when it's a step removed from money.

Do you think that the architects of Enron's collapse—Kenneth Lay, Jeffrey Skilling, and Andrew Fastow—would have stolen money from the purses of old women? Certainly, they took millions of dollars in pension monies from a lot of old women. But do you think they would have hit a woman with a blackjack and pulled the cash from her fingers? You may disagree, but my inclination is to say no.

So what permits us to cheat when cheating involves nonmonetary objects, and what restrains us when we are dealing with money? How does that irrational impulse work?

BECAUSE WE ARE so adept at rationalizing our petty dishonesty, it's often hard to get a clear picture of how nonmonetary objects influence our cheating. In taking a pencil, for example, we might reason that office supplies are part of our overall compensation, or that lifting a pencil or two is what everyone does. We might say that taking a can of Coke from a communal refrigerator from time to time is all right, because, after all, we've all had cans of Coke taken from us. Maybe Lay, Skilling, and Fastow thought that cooking the books at Enron was OK, since it was a temporary measure that could be corrected when business improved. Who knows?

To get at the true nature of dishonesty, then, we needed to develop a clever experiment, one in which the object in question would allow few excuses. Nina, On, and I thought about it. Suppose we used symbolic currency, such as tokens. They were not cash, but neither were they objects with a history, like a Coke or a pencil. Would it give us insight into the cheating process? We weren't sure, but it seemed reasonable; and so, a few years ago, we gave it a try.

This is what happened. As the students at one of the MIT cafeterias finished their lunches, we interrupted them to ask whether they would like to participate in a five-minute experiment. All they had to do, we explained, was solve 20 simple math problems (finding two numbers that added up to 10). And for this they would get 50 cents per correct answer.

The experiment began similarly in each case, but ended in one of three different ways. When the participants in the first group finished their tests, they took their worksheets up to the experimenter, who tallied their correct answers and paid them 50 cents for each. The participants in the second group were told to tear up their worksheets, stuff the scraps into their pockets or backpacks, and simply tell the experimenter their score in exchange for payment. So far this experiment was similar to the tests of honesty described in the previous chapter.

But the participants in the last group had something significantly different in their instructions. We told them, as we had told the previous group, to tear up the worksheets and simply tell the experimenter how many questions they had answered correctly. But this time, the experimenter wouldn't be giving them cash. Rather, she would give them a token for each question they claimed to have solved. The students would then walk 12 feet across the room to another experimenter, who would exchange each token for 50 cents.

Do you see what we were doing? Would the insertion of a token into the transaction—a piece of valueless, nonmonetary currency—affect the students' honesty? Would the token make the students less honest in tallying their answers than the students who received cash immediately? If so, by how much?

Even we were surprised by the results: The participants in the first group (who had no way to cheat) solved an average of 3.5 questions correctly (they were our control group).

The participants in the second group, who tore up their worksheets, claimed to have correctly solved an average of 6.2 questions. Since we can assume that these students did not become smarter merely by tearing up their worksheets, we can attribute the 2.7 additional questions they claimed to have solved to cheating.

But in terms of brazen dishonesty, the participants in the third group took the cake. They were no smarter than the previous two groups, but they claimed to have solved an average of 9.4 problems—5.9 more than the control group and 3.2 more than the group that merely ripped up the worksheets.

This means that when given a chance to cheat under ordinary circumstances, the students cheated, on average, by 2.7 questions. But when they were given the same chance to cheat with nonmonetary currency, their cheating increased to 5.9—more than doubling in magnitude. What a difference there is in cheating for money versus cheating for something that is a step away from cash!

If that surprises you, consider this. Of the 2,000 participants in our studies of honesty (described in the previous chapter), only four ever claimed to have solved all the problems. In other words, the rate of "total cheating" was four in 2,000.*

But in the experiment in which we inserted nonmonetary currency (the token), 24 of the study's 450 participants cheated "all the way." How many of these 24 extreme cheaters were in the condition with money versus the condition with tokens? They were all in the token condition (24 of 150 students cheated "all the way" in this condition; this is equivalent to about 320 per 2,000 participants). This means that not only did the tokens "release" people from some of their moral constraints, but for quite a few of them, the extent of the release was so complete that they cheated as much as was possible.

This level of cheating is clearly bad, but it could have been worse. Let's not forget that the tokens in our experiments were transformed into cash within a matter of seconds. What would the rate of dishonesty have been if the transfer from a nonmonetary token to cash took a few days, weeks, or months (as, for instance, in a stock option)? Would even more people cheat, and to a larger extent?

WE HAVE LEARNED that given a chance, people cheat. But what's really odd is that most of us don't see this coming. When we asked students in another experiment to predict if people would cheat more for tokens than for cash, the students said no, the amount of cheating would be the same. After all, they explained, the tokens represented real money—and the tokens were exchanged within seconds for actual cash. And so, they predicted, our participants would treat the tokens as real cash.

But how wrong they were! They didn't see how fast we can rationalize our dishonesty when it is one step away from cash. Of course, their blindness is ours as well. Perhaps it's why so much cheating goes on. Perhaps it's why Jeff Skilling, Bernie Ebbers, and the entire roster of executives who have been prosecuted in recent years let themselves, and their companies, slide down the slope.

All of us are vulnerable to this weakness, of course. Think about all the insurance fraud that goes on. It is estimated that when consumers report losses on their homes and cars, they creatively stretch their claims by about 10 percent. (Of course, as soon as you report an exaggerated loss, the insurance company raises its rates, so the situation becomes tit for tat). Again it is not the case that there are many claims that are completely flagrant, but instead many people who have lost, say, a 27-inch television set report the loss of a 32-inch set; those who have lost a 32-inch set report the loss of a 36-inch set, and so on. These same people would be unlikely to steal money directly from the insurance companies (as tempting as that might sometimes be), but reporting what they no longer have—and increasing its size and value by just a little bit—makes the moral burden easier to bear.

There are other interesting practices. Have you ever heard the term "wardrobing"? Wardrobing is buying an item of clothing, wearing it for a while, and then returning it in such a state that the store has to accept it but can no longer resell it. By engaging in wardrobing, consumers are not directly stealing money from the company; instead, it is a dance of buying and returning, with many unclear transactions involved. But there is at least one clear consequence—the clothing industry estimates that its annual losses from wardrobing are about $16 billion (about the same amount as the estimated annual loss from home burglaries and automobile theft combined).

And how about expense reports? When people are on business trips, they are expected to know what the rules are, but expense reports too are one step, and sometimes even a few steps, removed from cash. In one study, Nina and I found that not all expenses are alike in terms of people's ability to justify them as business expenses. For example, buying a mug for five dollars for an attractive stranger was clearly out of bounds, but buying the same stranger an eight-dollar drink in a bar was very easy to justify. The difference was not the cost of the item, or the fear of getting caught, but people's ability to justify the item to themselves as a legitimate use of their expense account.

A few more investigations into expense accounts turned up similar rationalizations. In one study, we found that when people give receipts to their administrative assistants to submit, they are then one additional step removed from the dishonest act, and hence more likely to slip in questionable receipts. In another study, we found that businesspeople who live in New York are more likely to consider a gift for their kid as a business expense if they purchased it at the San Francisco airport (or someplace else far from home) than if they had purchased it at the New York airport, or on their way home from the airport. None of this makes logical sense, but when the medium of exchange is nonmonetary, our ability to rationalize increases by leaps and bounds.

I HAD MY own experience with dishonesty a few years ago. Someone broke into my Skype account (very cool online telephone software) and charged my PayPal account (an online payment system) a few hundred dollars for the service.

I don't think the person who did this was a hardened criminal. From a criminal's perspective, breaking into my account would most likely be a waste of time and talent because if this person was sufficiently smart to hack into Skype, he could probably have hacked into Amazon, Dell, or maybe even a credit card account, and gotten much more value for his time. Rather, I imagine that this person was a smart kid who had managed to hack into my account and who took advantage of this "free" communication by calling anyone who would talk to him until I managed to regain control of my account. He may have even seen this as a techie challenge—or maybe he is a student to whom I once gave a bad grade and who decided to tweak my nose for it.

Would this kid have taken cash from my wallet, even if he knew for sure that no one would ever catch him? Maybe, but I imagine that the answer is no. Instead, I suspect that there were some aspects of Skype and of how my account was set up that "helped" this person engage in this activity and not feel morally reprehensible: First, he stole calling time, not money. Next, he did not gain anything tangible from the transaction. Third, he stole from Skype rather than directly from me. Fourth, he might have imagined that at the end of the day Skype, not I, would cover the cost. Fifth, the cost of the calls was charged automatically to me via PayPal. So here we had another step in the process—and another level of fuzziness in terms of who would eventually pay for the calls. (Just in case you are wondering, I have since canceled this direct link to PayPal.)

Was this person stealing from me? Sure, but there were so many things that made the theft fuzzy that I really don't think he thought of himself as a dishonest guy. No cash was taken, right? And was anyone really hurt? This kind of thinking is worrisome. If my problem with Skype was indeed due to the nonmonetary nature of the transactions on Skype, this would mean that there is much more at risk here, including a wide range of online services, and perhaps even credit and debit cards. All these electronic transactions, with no physical exchange of money from hand to hand, might make it easier for people to be dishonest—without ever questioning or fully acknowledging the immorality of their actions.

THERE'S ANOTHER, SINISTER impression that I took out of our studies. In our experiments, the participants were smart, caring, honorable individuals, who for the most part had a clear limit to the amount of cheating they would undertake, even with nonmonetary currency like the tokens. For almost all of them, there was a point at which their conscience called for them to stop, and they did. Accordingly, the dishonesty that we saw in our experiments was probably the lower boundary of human dishonesty: the level of dishonesty practiced by individuals who want to be ethical and who want to see themselves as ethical—the so-called good people.

The scary thought is that if we did the experiments with nonmonetary currencies that were not as immediately convertible into money as tokens, or with individuals who cared less about their honesty, or with behavior that was not so publicly observable, we would most likely have found even higher levels of dishonesty. In other words, the level of deception we observed here is probably an underestimation of the level of deception we would find across a variety of circumstances and individuals.

Now suppose that you have a company or a division of a company led by a Gordon Gekko character who declares that "greed is good." And suppose he used nonmonetary means of encouraging dishonesty. Can you see how such a swashbuckler could change the mind-set of people who in principle want to be honest and want to see themselves as honest, but also want to hold on to their jobs and get ahead in the world? It is under just such circumstances that nonmonetary currencies can lead us astray. They let us bypass our conscience and freely explore the benefits of dishonesty.

This view of human nature is worrisome. We can hope to surround ourselves with good, moral people, but we have to be realistic. Even good people are not immune to being partially blinded by their own minds. This blindness allows them to take actions that bypass their own moral standards on the road to financial rewards. In essence, motivation can play tricks on us whether or not we are good, moral people.

As the author and journalist Upton Sinclair once noted, “It is difficult to get a man to understand something when his salary depends upon his not understanding it.” We can now add the following thought: it is even more difficult to get a man to understand something when he is dealing with nonmonetary currencies.

THE PROBLEMS OF dishonesty, by the way, don’t apply just to individuals. In recent years we have seen business in general succumb to a lower standard of honesty. I’m not talking about big acts of dishonesty, like those perpetrated by Enron and Worldcom. I mean the small acts of dishonesty that are similar to swiping Cokes out of the refrigerator. There are companies out there, in other words, that aren’t stealing cash off our plates, so to speak, but are stealing things one step removed from cash.

There are plenty of examples. Recently, one of my friends, who had carefully saved up his frequent-flyer miles for a vacation, went to the airline who issued all these miles. He was told that all the dates he wanted were blacked out. In other words, although he had saved up 25,000 frequent-flyer miles, he couldn’t use them (and he tried many dates). But, the representative said, if he wanted to use 50,000 miles, there might be some seats. She checked. Sure, there were seats everywhere.

To be sure, there was probably some small print in the frequently-flyer brochure explaining that this was OK. But to my friend, the 25,000 miles he had earned represented a lot of money. Let’s say it was $450. Would this airline have mugged him for that amount of cash? Would the airline have swiped it from his bank account? No. But because it was one step removed, the airline stole it from him in the form of requiring 25,000 additional miles.

For another example, look at what banks are doing with credit card rates. Consider what is called two-cycle billing. There are several variations of this trick, but the basic idea is that the moment you don't pay your bill in full, the credit issuer will not only charge a high interest rate on new purchases, but will actually reach into the past and charge interest on past purchases as well. When the Senate banking committee looked into this recently, it heard plenty of testimony that certainly made the banks look dishonest. For instance, a man in Ohio who charged $3,200 to his card soon found his debt to be $10,700 because of penalties, fees, and interest.

These were not boiler-room operators charging high interest rates and fees, but some of the biggest and presumably most reputable banks in America—those whose advertising campaigns would make you believe that you and the bank were "family." Would a family member steal your wallet? No. But these banks, with a transaction somewhat removed from cash, apparently would.

Once you view dishonesty through this lens, it is clear that you can't open a newspaper in the morning without seeing new examples to add.

AND SO WE return to our original observation: isn't cash strange? When we deal with money, we are primed to think about our actions as if we had just signed an honor code. If you look at a dollar bill, in fact, it seems to have been designed to conjure up a contract: THE UNITED STATES OF AMERICA, it says in prominent type, with a shadow beneath that makes it seem three-dimensional. And there is George Washington himself (and we all know that he could never tell a lie). And then, on the back, it gets even more serious: IN GOD WE TRUST, it says. And then we've got that weird pyramid, and on top, that unblinking eye! And it's looking right at us! In addition to all this symbolism, the sanctity of money could also be aided by the fact that money is a clear unit of exchange. It's hard to say that a dime is not a dime, or a buck isn't a buck.

But look at the latitude we have with nonmonetary exchanges. There's always a convenient rationale. We can take a pencil from work, a Coke from the fridge—we can even backdate our stock options—and find a story to explain it all. We can be dishonest without thinking of ourselves as dishonest. We can steal while our conscience is apparently fast asleep.

How can we fix this? We could label each item in the supply cabinet with a price, for instance, or use wording that explains stocks and stock options clearly in terms of their monetary value. But in the larger context, we need to wake up to the connection between nonmonetary currency and our tendency to cheat. We need to recognize that once cash is a step away, we will cheat by a factor bigger than we could ever imagine. We need to wake up to this—individually and as a nation, and do it soon.

Why? For one thing, the days of cash are coming to a close. Cash is a drag on the profits of banks—they want to get rid of it. On the other hand, electronic instruments are very profitable. Profits from credit cards in the United States rose from $9 billion in 1996 to a record $27 billion in 2004. By 2010, banking analysts say, there will be $50 billion in new electronic transactions, nearly twice the number processed under the Visa and MasterCard brands in 2004.[30] The question, therefore, is how we can control our tendency to cheat when we are brought to our senses only by the sight of cash—and what we can do now that cash is going away.

Willie Sutton allegedly said that he robbed banks because that's where the money was. By that logic he might be writing the fine print for a credit card company today or penciling in blackout dates for an airline. It might not be where the cash is, but it's certainly where you will find the money.