More on the ultimatum game [1]

Written by **Tim Worstall** [2] | Saturday 18 May 2013

A few days back I mused, almost as an afterthought, on whether the ultimatum game would be played the same way in all human societies. This is the game where player 1 gets to split $100, player 2 decidding whether or not to accept the split. If the division, 50/50, 60/40, 99/1, whatever, is accepted then both players get their money. If it's rejected, then neither gets any.

The importance of this game is that it shows that we'll actually harm ourselves in order to punish someone we think is acting unfairly. Humans thus have a deep and innate sense of fairness: or do they? For Luis Rooney (a reader here) has pointed me to this article which explains that the results of the ultimatum game are very much *not* consistent over human societies. There are those where people do act as that entirely rational consumer beloved of certain economists: they'll take a 99/1 split for who wants to leave a dollar on the table? There are even those where the offer starts out at 40/60 and player 2 will still reject it. These are the so called "gift" societies (historicaly, some Amerindian ones, today some Papua New Guinea for example), where acceptance of something leads to larger and more onerous burdens and obligations in the future.

This has really rather large implications for market economics. For it is that punishment of the transgressor, the unfair person trying to take advantage, which is one of the things that makes said market economies work. It's one of the things that regulates said markets: and do recall, regulation is often by social factors, not by legislation [3].

> These differences, they believed, were not genetic. The distinct ways Americans and Machiguengans played the ultimatum game, for instance, wasn?t because they had differently evolved brains. Rather, Americans, without fully realizing it, were manifesting a psychological tendency shared with people in other industrialized countries that had been refined and handed down through thousands of generations in ever more complex market economies. When people are constantly doing business with strangers, it helps when they have the desire to go out of their way (with a lawsuit, a call to the Better Business Bureau, or a bad Yelp review) when they feel cheated. Because Machiguengan culture had a different history, their gut feeling about what was fair was distinctly their own. In the small-scale societies with a strong culture of gift-giving, yet another conception of fairness prevailed. There, generous financial offers were turned down because people?s minds had been shaped by a cultural norm that taught them that the acceptance of generous gifts brought burdensome obligations. Our economies hadn?t been shaped by our sense of fairness; it was the other way around.

Assume they're right about that causation (the piece doesn't explain how they reach that conclusion, instead of the idea that such markets thrive where the behaviour is already prevalent) and we actually find a good reason for why economic development is so hard. Why it's really very damn difficult to reach that first lift off stage. Because we're not just trying to get people to act in a particular manner, trade with people, divide labour and so on. We need to have, or the system needs to have, got into peoples' heads and changed the way they actually think before it can all happen. It's only with that change that the self-reinforcing feedbacks come into play and the economy as a whole takes off.

Which does rather put a different gloss on why some parts of the world are developed and some aren't, doesn't it? It's not because of what we've been doing to them but because, at least in part, of what is going on in both our and their heads.

We might even muse that this just reinforces the necessity of starting with markets, not with central direction, as a means of development. For it's only as the influence of the markets changes those thoughts that that lift off occurs.....

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