

## **Experiments and The Theory of Moral Sentiments: Predicting How and Why Strictly Self-interested Actors Play Trust and Ultimatum Games.**

Nottingham University, Conference

December 6, 2017

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Beginning in the 1950s experimental economists found much stronger support for equilibrium price theory, based on neo-classical Max-U analysis, than economists had expected. The results, however, were entirely consistent with the concept of markets as an information system, and spontaneous order, as in Hayek (1945, 1937).

In the 1980s and 90s, however, the Max-U model failed decisively in the study of anonymously paired individuals in two-person trust, ultimatum, and other games.

In *Sentiments* individuals are simultaneously “self-loving” and highly social. Our sociability takes the form of learning to “humble the arrogance of our self-love and bring it down to what others will go along with.” Common knowledge that individuals are self-interested is a fundamental axiom in Smith’s model of conduct within our communities of friends and associates radiating outward until it encounters “strangers.” This is the axiom that enables people to know who benefits and who is hurt by an action, and thereby to learn social competence through general rule-governed processes that punish intentionally hurtful acts and reward intentionally beneficial acts. Out of such mutual consent processes emerge ancient rules of morality in which propriety governs virtues like trust and trustworthiness. In the larger civil order, these rules of propriety became the basis for a broad conception of “property,” as rights to take action without reprisal applied to both possessions and contracts.

Smith models relationships that are more fundamental, predictive and market integrative than social preference or reciprocity theories of personal social exchange.

I will use propositions from *Sentiments* to show why, and indicate how, Smith’s prior model was more appropriate for explaining/predicting the results observed in trust and ultimatum games. I will also show results from new trust and ultimatum games, motivated by propositions in Smith that are novel in the sense that they have not otherwise been motivated.

### References:

Smith, Vernon L. and Bart J. Wilson (2017) “Sentiments, Conduct and trust in the Laboratory.” *Social Philosophy and Policy*, 34(1) pp. 25-55. DOI: <https://doi.org/10.1017/S0265052517000024>

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