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Honesty and lie aversion

Marie Claire Villeval

Abstract: Behavioral and experimental research has consistently demonstrated that the majority of individuals refrain from cheating to maximize their financial gains, even in situations where there is no risk of detection and punishment. This phenomenon challenges the predictions of the economics-of-crime paradigm and underscores a prevalent preference for truth-telling. When confronted with moral dilemmas, individuals weigh more than just the potential monetary costs and benefits associated with cheating. Intrinsic lie aversion and the reputational costs of being perceived as a potential cheater play significant roles in shaping behavior. The moral costs of cheating are influenced by various societal factors, including the strength of formal institutions, prevailing social norms, peer influence, and group dynamics. By recognizing the importance of lie aversion and the reputational costs of dishonesty, policy-makers can design more effective interventions to promote ethical behavior.

Keywords: Honesty; Lie Aversion; Morality; Moral Norms; Reputational Costs; Truth-Telling

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Dishonesty manifests in various forms, including tax evasion, corruption, exploitation of information asymmetry to the detriment of consumers, résumé falsification, or cyberfraud. These behaviors result in inefficiencies in resource allocation, impede economic growth, and foster mistrust. Nonetheless, most individuals uphold honesty and refrain from succumbing to the temptation of cheating to boost their earnings. By incorporating lie aversion and the reputational costs associated with dishonesty, economic models gain greater predictive power in understanding dishonesty.

1. From the cost-benefit analysis of crime to the intrinsic value of honesty

While the psychological analyses of (dis)honesty delve into the cognitive and psychological mechanisms underlying moral conduct, economic analyses inspired by Becker's theory of crime (Becker, 1968) examine primarily the expected monetary benefits and costs associated with dishonest actions. Evidence shows that the probability of detection plays a more pivotal role in influencing moral decision than the severity of fines. Consequently, individuals often devise strategies to mitigate the risk of detection, resorting to deniable lie strategies (Tergiman and Villeval, 2023).

However, recent experiments have challenged fundamental predictions of the standard

economic theory. When the risk of detection is absent, the majority of individuals do not deceive others (Gneezy, 2005) or do not lie (Fischbacher and Föllmi-Heusi, 2013). Even when individuals lie to increase their earnings, very few engage in maximal lying, opting instead for partial lying, thereby foregoing substantial potential gains. Surprisingly, increasing the monetary incentives for lying has limited effect on lying. Field experiments corroborate the presence of a preference for honesty. For instance, individuals are more inclined to return a lost wallet containing money compared to one without money, a phenomenon observed consistently across cultural contexts, transcending cross-country variations in return rates (Cohn *et al.*, 2019).

To rationalize these findings, behavioral theories incorporate moral preferences, self-image concerns, and reputational costs. In such models (*e.g.*, Gneezy *et al.*, 2018; Abeler *et al.*, 2019), the utility function typically comprises the net monetary gain from dishonesty, an intrinsic preference for honesty, and the disutility associated with the prospect of being perceived as dishonest. The moral cost incurred by deviating from honest conduct is modeled as either escalating with the magnitude of lies or remaining constant. Reputational costs encapsulate individuals' emphasis on maintaining a reputation for honesty, a core aspect of their identity. These models offer insight into the coexistence of truth-telling, maximization of financial gain, and partial lying, without an assumption of heterogeneity of types within a population.

2. Individual and social determinants of (dis)honesty

Individual characteristics such as gender, age, risk preferences, loss aversion, time preferences, and cognitive abilities play a significant role in shaping (dis)honest behavior. Additionally, social preferences, including guilt aversion and empathy, affect whether individuals choose to lie for the benefit of others, even at personal expense, or opt for morally upright actions to prevent harm or disappointment to others. When individuals experience lie aversion, they may nevertheless employ strategies to mitigate their responsibility and reduce the moral costs associated with misconduct. This involves constructing narratives to downplay their degree of pivotality or minimize the negative consequences of their actions, or strategically leveraging the uncertainty of the environment to their advantage.

Institutional factors play a crucial role in influencing the prevalence of honesty within a society, such as the strength of legal institutions, power asymmetries, and prevailing social norms (*e.g.*, Gächter and Schulz, 2016). Both injunctive norms (which prescribe what one ought to do in specific situations) and empirical social norms (reflecting what others actually do) significantly impact individuals' moral behavior and expectations. These dynamics help elucidate why certain corporate cultures tolerate misbehavior while others uphold high moral standards. Additionally, the design of incentive schemes matters. Fixed incentive schemes promote honesty more effectively than individual performance-based incentives, group-based remuneration systems, or competitive schemes.

Peer effects also shape the propagation of dishonesty within groups, as well as adherence to prevailing norms. Assortative matching and homophily result in individuals with lower moral standards associating with similar peers. Once these links are established, group dynamics often exert a negative influence on honesty due to factors such as asymmetric conformity effects, social learning processes, or complementarity effects (*e.g.*, Weisel and Shalvi, 2015). These dynamics render dishonest actions less risky or more lucrative. Moreover, through their examples, leaders can either educate their followers on ethical or contaminate them with unethical practices.

3. Policy interventions

The economics-of-crime approach often advocates policy interventions aimed at either

enhancing the benefits of honesty or escalating the costs of dishonesty through investing in more sophisticated detection capabilities and the imposition of harsher sanctions. However, excessive monitoring and punishment may yield unintended consequences, such as an erosion of trust or negative spillover effects.

An alternative approach emphasizes informational policies and governance reforms to mitigate information asymmetries and bolster accountability. Initiatives promoting transparency, certified information, and social accountability programs can foster honest transactions. Lastly, interventions centered around moral appeals and nudging aim to bolster intrinsic honesty and amplify the reputational costs of cheating without altering monetary incentives. Moral information campaigns, pledges of ethical conduct, and normative messages can influence individuals' beliefs and values, leading to increased honesty especially when individuals underestimate others' honesty.

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