

What Price
the Moral
High Ground?

Ethical Dilemmas in Competitive Environments

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Princeton University Press Princeton and Oxford

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Published by Princeton University Press,
41 William Street, Princeton, New Jersey 08540
In the United Kingdom: Princeton University Press,
3 Market Place, Woodstock, Oxfordshire OX20 1SY

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Library of Congress Cataloging-in-Publication Data

Frank, Robert H.

What price the moral high ground?: ethical dilemmas in competitive
environments/Robert H. Frank.

p. cm.

Includes bibliographical references and index.

ISBN 0-691-00672-5 (cloth: alk. paper)

1. Business ethics. 2. Success in business. 3. Cooperativeness—Moral and
ethical aspects. 4. Social responsibility of business. 5. Competition. I. Title.

HF5387.F737 2004

174'.4—dc21 2003050429

British Library Cataloging-in-Publication Data is available

This book has been composed in Electra

Printed on acid-free paper. ∞

www.pupress.princeton.edu

Printed in the United States of America

10 9 8 7 6 5 4 3 2 1

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fair to characterize these fees as a carefully guarded industry secret. Almost all unofficial sources, however, reported that industry groups—most notably the Tobacco Institute—compensated their expert witnesses handsomely. One source, a senior scientific research professional formerly associated with the tobacco industry, reported that the current “official” rate for industry expert witnesses was in the range of \$200 to \$250 per hour. This source, who asked not to be identified, also reported that because the industry had an obvious interest in keeping its official witness fees low, the actual rate of compensation in many cases far exceeded the official hourly rate. The difference was achieved in a variety of ways. I was told, for instance, that witnesses might be paid at the official hourly rate for activities only peripherally related to their testimony—activities such as “keeping up with the literature” or attending professional meetings and conferences. Whatever the total rate of compensation for industry witnesses may have been, it was substantial by any standard, certainly far in excess of the payments received by witnesses who appeared on behalf of public interest groups (which in most cases, again, were zero).

When questioned, tobacco industry sources made no pretense that the higher fees received by their witnesses were necessitated by superior professional credentials. On the contrary, all available evidence suggested that the volunteer witnesses for the public interest groups were much more professionally distinguished than their tobacco industry counterparts. Most members of the volunteer group were active scientific researchers who held faculty positions at prestigious universities and medical schools. Most tobacco industry witnesses, by contrast, described themselves as affiliates of private consulting firms and did not conduct ongoing programs of scientific research. As one former tobacco industry expert witness told me, “At this point, I know of only a few academics who still testify on behalf of the industry. All the others are consultants whose scientific thought process stopped years ago.”

RESERVATION PAY-PREMIUM SURVEY

The final component of this study is based on a survey of the employment preferences of a sample of Cornell graduating seniors. In this sur-

TABLE 5.4
Six Hypothetical Career Decisions

Ad copywriter for Camel cigarettes	or	Ad copywriter for the American Cancer Society
Accountant for a large petrochemical company		Accountant for a large art museum
Language teacher for the CIA	or	Language teacher for a local high school
Recruiter for Exxon		Recruiter for the Peace Corps
Lawyer for the National Rifle Association		Lawyer for the Sierra Club
Chemist for Union Carbide		Chemist for Dow Chemical

vey, students were asked to consider six pairs of hypothetical job descriptions. Within each pair, pay, working conditions, and the specific tasks involved were described as being essentially the same, but the social responsibility rating of each employer differed (e.g., “write advertisements for the American Cancer Society” versus “write advertisements for Camel cigarettes”).⁵ The six pairs of jobs are listed in table 5.4.

Subjects were first asked which of the two jobs in each pair they would choose if each paid a salary of \$30,000 per year. They were then asked how much higher the salary would have had to be in the job not chosen in order for them to have reversed their decision. As expected, the overwhelming majority of subjects indicated a preference for the jobs in the right column of table 5.4.⁶ The proportions choosing these jobs, and the average and median pay premiums required for switching are reported in table 5.5.

The median pay premium for switching jobs was by far the smallest for the sixth pair of jobs—chemist for Dow Chemical/chemist for Union Carbide. Two factors may help explain why students perceived any difference at all between these ostensibly equivalent jobs. First, the large volume of negative publicity surrounding the Bhopal disaster in India, which was still being widely discussed at the time of this survey, may have sullied Union Carbide’s reputation in the minds of many students. And second, Dow had invested heavily during that era in an advertising campaign touting the many socially responsible endeavors in which its employees were engaged. It is interesting to note that in the late 1960s and early 1970s, the perceptions of these two companies were likely re-

TABLE 5.5
Reservation Pay Premiums for Sacrificing the Moral High Ground

<i>Employer</i>	<i>Percent choosing</i>	<i>Median pay premium for switching</i>	<i>Average premium for switching</i>
American Cancer Soc.	88.2	\$15,000/yr	\$24,333/yr
Art Museum	79.4	\$5,000/yr	\$14,185/yr
High School	82.4	\$8,000/yr	\$18,679/yr
Peace Corps	79.4	\$5,000/yr	\$13,037/yr
Sierra Club	94.1	\$10,000/yr	\$37,129/yr*
Dow Chemical	79.4	\$2,000/yr	\$11,796/yr

*Excludes one response of \$1,000,000,000,000/yr.

versed. Dow was at that time under heavy criticism for its manufacture of napalm, which was being dropped by American bombers on the villages of Vietnam.

The largest median reservation pay premium for switching jobs—\$15,000 per year—obtained for the first pair (ad copywriter for Camel cigarettes versus ad copywriter for the American Cancer Society). Students also reported large reservation pay premiums for the fifth pair of jobs—lawyer for the National Rifle Association (NRA) and lawyer for the Sierra Club. The median respondent required \$10,000 per year more in salary to switch from the Sierra Club to the NRA, while the average reservation pay premium reported for the same move was more than \$37,000 per year.

The reservation pay premiums reported by these subjects are large by almost any standard. Of course, it is hard to know whether subjects would really require premiums this large when confronted with an actual opportunity to switch to a less morally attractive, but higher paying, job. It is possible, for example, that people might report high premiums when asked to consider such job changes in the abstract, and yet be willing to switch for significantly smaller amounts when confronted with the reality of personal budget problems. Bear in mind, though, that we saw compensating differentials on an even larger scale in the case of public interest lawyers and their counterparts in private law firms. And even if the actual reservation premiums were only one tenth as large as

the ones reported by our survey respondents, they would still constitute a highly significant feature of the contemporary labor market.

The survey results reported in this section help supplement the earlier findings in two important ways. First, because the sample of students was randomly chosen, the problem of unobserved differences in individual productivity is no longer an issue. (Recall that the earlier Cornell survey suffered from this problem because it consisted of people who had already segregated themselves into different categories of employment.) A second problem with the earlier Cornell survey involved the effect of differing attitudes about social responsibility. If people's feelings about this issue differed substantially, then the observed wage premium for socially irresponsible tasks would tend to understate the compensation required by the average person to perform such tasks. In the limiting case, if there were sufficiently many people who didn't care at all about whether they performed socially responsible tasks, we would observe no wage premium for the performance of disapproved tasks. The fact the survey reported in this section asked for the reservation wages of a random sample thus helps shed additional light on the population distribution of valuations for socially responsible tasks.

IMPLICATIONS FOR BUSINESS BEHAVIOR

Suppose we accept, for the sake of discussion, that there are significant compensating salary differentials for morally satisfying jobs. This relationship has important implications for the behavior of firms with respect to a variety of moral and ethical issues. As discussed in the preceding chapter, for example, it challenges the widely held view that the social obligation of a private firm extends no further than to obey the laws of the society in which it operates (again, see Friedman [1970]). The seemingly compelling argument in support of this view is that any business that attempts to exceed this standard is destined to be driven out of business by competitors. This argument fails, however, if there are significant compensating salary differentials for social responsibility in the workplace, for such differentials may often enable firms to withstand the higher costs that would otherwise be associated with acting in a socially responsible manner.