Interview Dan Ariely

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Koelewijn: I've read your book The Honest Truth about Dishonesty with interest. Could you please tell me about your most important findings with regards to dishonesty and integrity?

Ariely: In general, people's theories about dishonesty are based on two assumptions. The first one is that, roughly speaking, there are good and bad people. The second assumption is that dishonesty comes out of a cost-benefit analysis in which people consider multiple factors before doing something dishonest. Acting dishonestly is a rational decision in this approach.

We find that these two assumptions generally don't hold up. This doesn't mean that there are no bad people or that no-one makes cost-benefit analyses, but those theories don't describe dishonesty. Instead we find that lots of people have the capacity to behave badly and that we don't do the cost-benefit analysis. Instead we consult our emotions in terms of what we feel is okay and what we feel is not okay. This is not the same as considering the probability of getting caught. It's driven by very different processes that involve rationalisation. We're trying to rationalise things that we know are not right, in order to still feel comfortable with them. Rationalisation is the most important element, and we find that people are capable of rationalising almost anything.

An example of this is a scenario that involves testing dishonesty in a lab. People come to a lab and they are told that two experiments are being held that day. The experiments are identical, except that in one the potential maximum pay-out is ten times as high ($40) as in the other one ($4). The lab staff flips a coin to determine who will be in which experiment. No matter the outcome of the coin flip, people are told by the staff that they were placed in the $4 experiment. After that, the researcher tells the person that their boss is not in today, so if the person gives the researcher the $3 they were paid to show up at the lab that day, he will place him into the $40 experiment. Thus, the researcher is asking for a bribe.

What we find is, firstly, that 90% of people go for the bribe. Secondly, once they've bribed, they are inclined to cheat much more. The third thing is that they also start stealing. This happens after the experiment, when people are given an envelope with $50 in cash, and they are asked to take out of the envelope how much they had earned during the experiment and leave the rest of the money. Usually, we find that people cheat but they don't steal. They are much more likely to, for example, report that they did much better at an experiment than they actually did it. But in this experiment, people actually also stole money at the end.

This shows that the moment we tell people that the system they are a part of is corrupt, they start behaving differently, in a very dishonest way. It means that there is a social contagion and that we learn from the people running the system about the rules that apply within that system and how to deal with them.

Koelewijn: What does this say about a system like the financial sector?

Ariely: Society's general theory of decreasing dishonesty is threatening people with some kind of punishment. But what we see is that what might happen in the future is not what people think about, they look at what they feel comfortable doing right now. Future discomfort in the form of punishment is pretty much irrelevant. An example is this is the death penalty, in that it does nothing for the crime rate. If there is a death penalty, presumably people would stop behaving badly, but we find no evidence for that.

Koelewijn: coming back to the financial sector, it appeared that many bankers made products and financial instruments that were dishonest or incomprehensible. In your view, how can we tackle this problem?

Ariely: I think that what we need to do is to try understanding bankers' motivations. You could say that they are just evil and because of that all we can do is try to control them and to make efforts to limit the damage they do. This is what the world of compliance and transparency is doing. It basically assumes that they are evil and that all they do is try take advantage or screw of their customers. I don't think that's the case. I don't think that bankers are evil. Instead, what's going on is that they have lots of ways to rationalise bad behaviour. They have a lot of options to behave dishonestly. We need to eliminate, in my view, the conflicts of interest.

One of the things we find is that conflicts of interest are incredibly corrosive. It leads to people to start behaving badly, which is not unexpected. A practical example from dieting: you can try to be on a diet. I can tempt you not to be on a diet, by putting croissants and donuts on your desk every morning, and the odds that you would behave badly are very high. What we do in the financial sector is that we tempt people to misbehave and then we are surprised that

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they do. We need to make sure we stop tempting people to misbehave by eliminating conflicts of interest. Threatening people with punishment doesn't' really help. Instead we should find out what conflicts of interest they have and see to what extent we can eliminate them.

Koelewijn: In the financial sector, we see that employees are encouraged to over credit clients and take risks. What can we do about this without this being commercially damaging? The general idea in the financial sector is that bankers require bonuses as an incentive to do their jobs well.

Ariely: This thinking is widespread in the financial sector but is not really supported by evidence. This theory of bonuses comes down to the fact that you pay people a salary to do a job, but you're not really interested in doing it, so you need additional motivation to do a good job. Apparently, and this is shocking to me, we are hiring the kind of people that are not sufficiently motivated to do their best. There is no evidence that this is right. Even if it was, the question would be about a trade-off between increasing motivation and creating additional conflicts of interests.

Koelewijn: How would you motivate people to do their job? In the famous theory of Jensen and Meckling, managers will start giving themselves benefits, etc. Is there room for improvement there?

Ariely: I think that there are lots of jobs, including my own, that require a lot of dedication, care and hard work. Politicians, teachers, civil service and physician, you name them. We don't see people slacking and asking for additional motivation in the form of bonuses. We don't go up to firemen to give them bonuses because otherwise they would not run into a burning building. What we've created is this crazy belief that people only work for bonuses.

Koelewijn: Since the Dutch government has implemented legislation on bonuses, some financial institutions have moved their sales and trading departments to London and other cities.

Ariely: We should separate a couple of things. Bonuses are a great way for people to get paid more, to justify a higher salary for themselves. It's easier to accept for the public, because we think people only get it if they perform very well. If a company distributes profits at the end of the year, and it does so between management, employees and shareholders, bonuses allow management to take a larger share of this and make it feel more justified. If I was running a public company and wanted to extract as much as possible, I would certainly do it as a bonus because it is deemed more acceptable. It's a great trick to get paid more, but that doesn't mean it motivates.

Koelewijn: What can we do specifically to stimulate people in the financial sector to be more honest? How can we remove some of the conflicts of interest?

Ariely: We need to create personal rules, because simple rules are easier to follow. Companies need to develop specific rules within their culture, like: we never take gifts, we never put anything in small print without making it clear, we never buy a client dinner. Whatever the rule is, they help to reduce dishonesty.

To the extent that we can, we should try to eliminate conflicts of interest.