



*Notes from the Dismal Science:*

WHEN LYING IS THE  
ETHICAL THING TO DO,  
AND WHEN THERE IS  
TOO MUCH OF IT

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Mark Twain had little patience for purists who insisted that the slightest lie was an offense to God and would send you straight to Hell. Part I of this column relates the cautionary example of a Twain short story and adds two more examples, all designed to persuade doubters that lying provides important social benefits. Telling a lie often is the ethical thing to do.

Part II considers socially unbeneficial lies and how much to tolerate them. Look into this part also for a sampling of the surprising research on the benefits of trust. The moral of the story, I think, is this: some dishonesty is good for us, while some bad dishonesty must be tolerated, but that is much less now that we know the importance of trust. Trust is uncanny.

## *Part I. When Lying Is The Ethical Thing To Do*

### **Example 1. Mark Twain's short story.**

#### **“Was It Heaven? Or Hell?”<sup>1</sup>**

The cast consists of Mother Lester, who is dying of typhus and getting worse every day, her adorable 16 year old daughter, Helen, two biblically pure maiden aunts, Hannah and Hester, and their curmudgeonly family doctor, who is mysteriously known in the community by the nickname “The Only Christian.”

The aunts despise lying and believe that they know its horrifying consequences. One day the adorable Helen tells a lie and distraughtly admits this to the maiden aunts. Hannah and Hester are unforgiving and they drag her into her mother's sickroom to confess. Mother Lester sees only the Helen she has always loved and this seems to end the disturbance. But the doctor overhears all this and later storms at the aunts: “Reform, and learn to tell lies!”

One day Helen falls deathly ill and is fading fast. She is forbidden to go to her mother's sickroom for fear of spreading contagion. Thus it is up to the maiden aunts to tell Mrs. Lester the horrible news. The aunts are horrified. They expect Mrs. Lester will die within one or two days. What point would it serve to break her heart in two? But what if lying meant spending eternity in Hell? To their credit, they lie. In their lie, Helen has the blush of health in her cheeks and serenity in her smile. The aunts were right, Mother Lester passed on in two days, ironically on the day of Helen's funeral. I clearly side with Mark Twain on this, believing it would have been unethical were the aunts stubbornly to have maintained their “purity” at the cost of a dying woman's misery.

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<sup>1</sup>Twain, Mark, “Was It Heaven, Or Hell,” Kessinger Publishing's Rare Reprints.

## **Example 2. Your Young Daughter Wins a Participant Ribbon.**

A familiar experience. Suppose one's 8 year old daughter comes home excitedly showing the ribbon she won at Field Day at her elementary school. The ribbon is green and bears the word "Participant." The truth is that she didn't win the ribbon in the usual sense, because it is a ribbon one gets just for showing up. Yet, this is a good example of truths that our children will eventually learn but that it would be rude, perhaps harmful, about which to lecture them, especially when they are too young. It's like telling a four year old that there is no Santa Claus. Otherwise, as far as it goes, being a "participant" in one's community is a pretty good goal, perhaps even a worthy statement to put on one's tombstone. What should one say to one's child?

## **Example 3: "It's a Wonderful Lie"**

This is the Christmas episode (#10), in Season 4 of TV's "House." A single mother, Maggie, is in the hospital displaying bewildering symptoms that appear to be life-threatening. Her young daughter, Jane, is with her, a girl brought up to tell the truth. Dr. House gets the insight that Maggie's many physiological disorders have an underlying cause in the psyche. He devises a plan he believes will have a rapid enough effect to save Maggie's life. The plan requires a placebo and a very credible lie, and who could be a more credible liar than young Jane. If one suspends disbelief, the scene is poignant because Jane must weigh the pressure of lying to a mom who taught her never to lie against the fear of causing her mother's death. It was wrong of House to put this great a load on a little girl. But it is clear that the lie would have been beneficial.

Aside: Maggie is saved later in the show in the nick of time by other means. House is not Mark Twain and neither is modern TV. The charm of the show is that House's curmudgeonly views are a shock to political correctness. In House's opinions, for example: "Teaching children honesty is child abuse." He

further says: “There is a reason that everybody lies. It works. It allows society to function, it’s what separates man from the beasts.” Incidentally, Hugh Laurie, the actor who plays House, previously played Bertie Wooster in the BBC series of P.G. Wodehouse stories; Bertie is a British gentleman who is often saved from himself by his personal valet Jeeves.

My point is that the case against dishonesty cannot be made from the purist’s point of view. Some lies clearly offer more benefit than costs to society. What I propose is that we evaluate lies on a cost benefit basis. Like most things in life, there is no all-or-nothing way to look at it.

## *Part II. When Is There Too Much of It?*

Let’s assume that we agree that the “ethical” lies depicted above are a net benefit to society. But what about the many lies where the cost exceeds the benefit? For example: the physician who urges a patient to have an unneeded surgery, a teacher who doctors her students’ NAEP scores, both the corporate and the union leaders who misrepresent the state of the company, the politician who takes bribes, the advertiser who exaggerates the product quality and many more. Our culture teems with dishonesty, and this fact complicates the question: How can we measure the cost of the large variety of bad lies to get a summing up of where our culture stands? A convenient solution to this problem arises when we measure instead the common (negative) reflection of these various dishonesties, the level of trust in society.

Trust can be measured in two ways. In one, we survey people and ask the Trust Question. For example, the World Values Survey asks 1000 randomly picked people in each of 40 countries the question: “Generally speaking, would you say that most people can be trusted or that you can’t be too careful in dealing with people?” The country’s average measure of trust is then taken as the percentage of people who say “yes” to trust-

ing others. The question approach is used also in other contexts, and it applies to most of the results I'll describe here.

The other approach, the game theoretic method, is less commonly used, but I find it interesting. The Trust Game requires two subjects. Player 1 is given some valuable tokens and is asked to give some to Player 2. When Player 1 has indicated the amount, the Experimenter steps in and gives three times that quantity to Player 2. Player 2 is then asked to give some number of tokens to Player 1. And the Game is over.

The interesting thing is that human players do not optimize over the tokens. Consider that Player 2 has no incentive to return any tokens, he maximizes by giving none, game over. Player 1, knowing this, has no incentive to give any tokens in the first play. Yet players generally do give and return tokens. The number of tokens given by Player 1 becomes a measure of his trust. When reading of these experimental results, I am reminded of the experiments conducted by evolutionary scientists for iterated trust games. They find that a relatively cooperative strategy, called "tit for tat" tends to dominate more self-centered strategies in an evolutionary sense. The trust game that I just described is not an iterated game, but it exhibits trust in a similar way. Perhaps the ability to trust one another has survival value, and like a great many things represents a gift of evolution.

## **A. Dividends For Large Organizations From Trust**

Large organizations, ranging in size from universities to governments, work better when there is a high level of trust. For example, a university seeking to improve its General Education Curriculum (GenEd) usually sets in motion an unfortunate game. There is a benefit to each department to get one or more of its courses listed. But when the many departments all get courses listed this waters down the experience for the students. Trust is the solution that resolves this dilemma. With trust, I will restrain my department's narrow self-interest because I trust other departments to do the same.

Trust also matters for larger organizations like national governments. A recent study<sup>2</sup> uses the World Values Survey data. Scandinavians report the highest average scores, Latin Americans the lowest. The authors applied regression to compare the association of trust levels with national characteristics. Trust proved to be significantly and beneficially associated with 10 of 12 characteristics studied. Several cases suggested that trust provides mutual benefits in the same manner as the Trust Game: efficiency of the judiciary; bureaucratic quality; tax compliance, and GDP growth. But others suggested a more mysterious spillover benefit: lower infant mortality; good education; lower corruption; and large percentage completing high school. In social science, these kinds of results are exciting.

A caution: the study just described provided no means to identify issues of causality, a common problem in social science studies. For example, it could be that people become more trusting in a country that has low crime, an efficient judiciary, good tax compliance and so on. A few studies so far have tested this “identification” issue and still support the hypothesis that trust is the motivating factor. But the trust hypothesis suggests very powerful benefits, and undoubtedly these research issues will continue to get a thorough examination.

## **B. Trust Versus The Urge To Regulate**

Regulation, as seen by economists, benefits society some of the time but harms it at other times; it is a case by case thing, being determined by the presence and degree of harmful side effects of the behavior being regulated. But decisions about regulations are also a matter of trust. A recent, as yet unpublished study,<sup>3</sup> applies an international measure of trust, similar to the one previously described, to compare the regulations of

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<sup>2</sup>La Porta, Rafael, Florencio Lopez-de-Silanes, and Andrei Schleifer, “Trust in Large Organizations,” *American Economic Review*, Vol. 87, May 1997: 333–338.

<sup>3</sup>Aghion, Phillippe, et al, “Regulation and Distrust,” mimeo, Harvard, 2008.

business with the country's average level of trust. The pattern is strong and negative, showing that more trusting populations tend to have governments that give businessmen a free hand in establishing and in setting their own prices. It should be noted that this result is not a rejection of regulation per se. The regulations described here feature government price controls and government hindrances to entry into a market by entrepreneurs. There are benefits to a country being quite open in this regard, especially when it is free of restrictions based on religion, race, ethnicity or gender. In contrast, we have recently seen how the lack of adequate regulations of the financial sector can cause no end of trouble.

### C. Trust and the Economy

Microfinance has been the most encouraging recent innovation in developing third world countries. It can be shown that trust among recipient groups is a key factor for the result that the loan is repaid.<sup>4</sup> Trust also facilitates the process of getting a job.<sup>5</sup> Employers want to know that the candidate will be industrious, intelligent and of good character. Trust throughout the community means that the fellow's references will more likely be seen as telling the truth. The bottom line is that trust contributes (modestly but statistically significantly) to the

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<sup>4</sup>Cassar, Alessandra, Luke Crowley and Bruce Wydick, "The Effect of Social Capital on Group Loan Repayment: Evidence from Field Experiments," *The Economic Journal*, Vol 117, 2007: F85–F106.

<sup>5</sup>Karlan, Dean, et al, "Trust and Social Collateral", forthcoming, *Quarterly Journal of Economics*, 2009.

<sup>6</sup>Ishise, Hirokazu, and Yasuyuki Sawada, "Aggregate Returns to Social Capital: Estimates Based on the Augmented Augmented-Solow Model, *Journal of Macroeconomics*, Vol. 31, 2009: 376–393.

<sup>7</sup>Boulila, Ghazi, Lobna Bousrih, and Mohamed Trabelsi, "Social Capital and Economic Growth: Empirical Investigations on the Transmission Channels," mimeo, Ecole Supérieure des Sciences Economiques et Commerciales, 2006.

<sup>8</sup>Dinda, Soumyananda, "Social Capital in the Creation of Human Capital and Economic Growth: A Productive Consumption Approach," *The Journal of Socio-Economics*, Vol. 37, 2008: 2020–2033.

level of GDP<sup>6</sup> as well as to the rate of growth in GDP.<sup>7,8</sup> It stimulates investment, too.

### **C. Trust and Health**

The most recent research on social capital and health comes from England,<sup>9</sup> which concluded the following: “The study demonstrated that low stocks of social capital across the domains of trust and reciprocity, perceived social support and civic participation are significantly associated with poor measures of health status” (p. 127). This recent news corroborates past studies. For a longitudinal sample of U.S. states<sup>10</sup> I found a connection between social capital and health, as did my Norwegian colleague, Kamrul Islam<sup>11</sup> (with others) for Sweden. Social capital (trust is a major element of social capital), also reduces the prevalence of cigarette smoking<sup>12,13</sup> and other risky behaviors.<sup>14</sup>

### **D. So Then: What Is Too Much Lying?**

First of all, the good lies, many of them seemingly ethically required, are beneficial to society. Bad lies, ones where costs exceed the benefits, must be tolerated to a degree. We see this in a traditional economic framework. Each step taken to eradicate bad lies will cost more than the preceding step,

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<sup>9</sup>Petrou, Stavros, and Emil Kupek, “Social Capital and its Relationship with Measures of Health Status: Evidence from the Health Survey for England 2003.

<sup>10</sup>Folland, Sherman, “Does Community Social Capital Contribute to Population Health?” *Social Science & Medicine*, Vol. 64, 2007: 2342–2354.

<sup>11</sup>Islam, Kamrul, et al., 2008. “Social capital externalities and mortality in Sweden,” *Economics and Human Biology*, Vol. 6(1), 2008: 19–42

<sup>12</sup>Brown TT, Scheffler RM, Seo S, Reed M. The Empirical Relationship between Community Social Capital and the Demand for Cigarettes. *Health Economics*. 2006.

<sup>13</sup>Folland, Sherman, “An Economic Model of Social Capital and Health,” *Health Economics, Policy and Law*, Vol. 3, 2008: 333–348.

<sup>14</sup>Folland, Sherman, Value of Life and Behavior Toward Health Risks: An Interpretation of Social Capital , *Health Economics*, Vol. 15, 2005: 159–171.

while the societal benefits of each step of cost reduction will decline. The optimal policy will entail an “interior solution,” that is, the optimal solution will require that we tolerate some level of bad lies. But the new research implies that we must tolerate bad dishonesty much less than we currently do, because we have learned that societal trust provides much more benefit than we had realized.

How to improve the level of trust? So far, the new research finds only that investment in education builds trust. We can hope that these findings will prove to be a boon to developing countries. But in universities, such as Oakland, we would be hard pressed to squeeze more education into our faculty and staff. Thus for a university that has been experiencing a crisis of trust, such as Oakland, there appears to be no resolution that is research-based. Yet, leadership in organizations of all kinds must make many decisions without full research backing.

The best bet in my view is to open the floodgates of information and develop a transparency in governance. I believe in information. This is the best ticket to build trust at Oakland University and elsewhere.