

## Chapter 3

### When We Act against Our Own Ethical Values

As professors, we often receive telephone calls from long-lost friends or relatives as one of their children's eighteenth birthday approaches. Why do these calls so often arrive around this particular time frame? Well, it turns out that these calls disproportionately come from friends and relatives whose children just happen to be applying to our universities. Of course, our friends explain that they know we don't have the power to admit their child; they are only calling to request a letter of recommendation or an introduction to the director of admissions.

These calls are awkward for us. Because we typically do not know the applicant well, it is unlikely that our input would be of much use to the admissions office. At the same time, it would be unpleasant to tell a second cousin that, despite what our relatives may have said about our importance at the university, we can offer little help. So since we have met the dean of admissions before, we follow through with the awkward process of making arrangements to introduce the applicant to the dean.

How would you rate us on "niceness" for making such introductions?

What about our ethical behavior?

Perhaps you have been asked to do favors for friends, or friends of friends, or friends of relatives. Perhaps those favors involved the allocation of scarce resources (such as jobs), admission to select groups (such as universities), an apartment in a desirable location, or an introduction to a loan officer at a bank. Most of us have received such requests at one time or another. Research shows that we are intuitively most comfortable doing favors for those with whom we identify—that is, with people who are a lot like us. Psychologists refer to this phenomenon as *in-group favoritism*. In particular, we tend to be biased toward people who share our alma mater, religion, race, or gender.

Turning our attention to race, consider that minorities tend to be underrepresented at the top levels of companies and on the faculties of most universities. This suggests that, in these settings, Caucasians are most commonly making phone calls to Caucasians to request special favors for Caucasians, leaving minorities out in the cold. When our friends and relatives call us asking for special favors for their children, we have no intention of excluding underrepresented minorities. In fact, we probably don't think at all about the minorities who will be affected by our actions; rather, we focus on how "nice" we are being by putting in a good word to the dean of admissions on behalf of our long-lost third cousin once removed. But when resources are scarce, and we favor people who are similar to us, the net result is discrimination against those who are different from us. In essence, favoring those who resemble us demographically is equivalent to punishing those who do not share our demographic traits. Yet most of us fail to recognize this fact.

Consider that over the last two decades, a common finding in the mortgage lending business

has been that banks are much more likely to deny a mortgage to an African American than to a Caucasian, even after controlling for income, house location, and so on. When this effect was first reported in the 1990s, the press portrayed the story as one of racial prejudice and hostility by banks toward the African American community. Overt prejudice and hostility may have been part of the story, but our longtime colleague David Messick argued that a much more common cause was likely to be in-group favoritism. That is, while there might be some overtly racist loan officers out there, the more mundane problem could be that loan officers are favoring those who resemble them, whether in terms of race, background, and so on. If predominately Caucasian loan officers are more willing to issue loans to marginally unqualified Caucasian applicants than to other applicants, the net result is that fewer funds are available for "out-groups," and the same discrimination occurs as if the loan officers were explicitly racist. This process occurs simply because loan officers are trying to be nice to members of their in-group. The punch line: in-group favoritism can have the same effects as out-group hostility, and without the discriminator thinking he has done anything wrong!

That seems to be exactly what happened at the University of Illinois for many years. In May 2009, the *Chicago Tribune* broke the story that hundreds of students with inadequate academic records were being admitted to the university because of interference from state lawmakers and university trustees.<sup>1</sup> From 2005 to 2009, about eight hundred applicants were admitted after receiving special consideration from high-ranking officials, according to documents obtained by the *Tribune*. Under a shadow admissions system known privately as "Category I," some underqualified applicants were admitted despite the objections of admissions officers, while others had their rejections quietly reversed. In the most publicized instance, a relative of Antoin "Tony" Rezko, who has since been convicted of influence peddling on behalf of disgraced former Illinois governor Rod Blagojevich, was admitted after University of Illinois president B. Joseph White wrote an e-mail to the university chancellor explaining that the governor wanted the applicant to be admitted. An admissions official who received the message noted that the Rezko relative had weak credentials and was about to be rejected. But the decision was reversed, and the applicant was accepted.

According to the *Tribune's* review of documents, politically appointed university trustees and lawmakers lobbied university officials on behalf of relatives and neighbors.<sup>2</sup> Category I "creates an awkward situation in which university officials are taking requests from legislators who hold the school's purse strings and trustees who are, in essence, their bosses," the *Tribune* notes.<sup>3</sup> Most of the lawmakers involved in the scandal made their requests through the university's two top lobbyists, who have an incentive to keep lawmakers satisfied. Moreover, through one of the lobbyists, two lawmakers threatened university officials that if their candidates were not accepted, they might attempt to revamp the university's admissions system.

Notably, for the 2008–2009 school year, about 77 percent of those on the clout list were admitted to the university, as compared to 69 percent of all applicants, despite the fact that patronage candidates had significantly lower average high-school class ranks and standardized test scores than other admitted students. This policy of admitting less qualified but well-connected applicants may have had a damaging effect on the university's reputation. In 2006,

Paul Pless, the dean of admissions of the University of Illinois Law School, argued that he would have to admit two additional qualified students to offset the negative impact on the school's ranking of admitting an underqualified Category I applicant. Said Pless, "When [the applicant] is faced with the rigor of our program there is absolutely no reason to expect anything other than failure."<sup>4</sup>

The *Chicago Tribune* exposure of Category I set off a firestorm in Illinois. In August 2009, a panel appointed by Governor Patrick Quinn issued a scathing report claiming that the university was experiencing "a full-fledged crisis of its own making" as a result of a long-term culture of "cynicism and crass opportunism."<sup>5</sup> High-ranking deans and officials, including President White and the university's chancellor, were accused of cooperating in the admissions of privileged, unqualified applicants, including the children of top university donors. The report called for the resignation of all members of the university's board of trustees. President White officially scrapped the Category I system and vowed to implement the panel's recommendations, including building a "firewall" to protect the admissions process from input from high-level university officials, setting up a process for fielding inquiries from lawmakers and others, and creating an admissions code of conduct. But for White, the damage was done; under intense pressure, he resigned as president in September 2009.

Given that Illinois lawmakers, University of Illinois trustees, and university officials had been unashamed of the university's admissions policy, you might wonder whether this sad story of in-group favoritism is a case of intentional corruption rather than one of implicit discrimination. The answer is both. Without a doubt, some of the wrongdoers knew they were acting unethically. But for others, a focus on helping people close to them evidently led them to overlook the fact that the university would unfairly reject some unknown individuals as a result of these actions. When questioned by the *Tribune* about their requests for favors, some lawmakers said they were just doing their job. "A constituent calls and asks for someone to help get a street paved or curb replaced or a kid get into college," a spokesperson for House Speaker Michael Madigan told the *Tribune*. "I think that's perfectly appropriate."<sup>6</sup> Many Illinois citizens, including some whose well-qualified children were rejected by the University of Illinois, were outraged but not entirely surprised to learn of the shadow admissions process. "If you know somebody, good things happen to you in the state of Illinois on a lot of different fronts," said Tom Wethekam, the father of a student who was rejected by the university through the usual process. "I look at this as an extension of that."<sup>7</sup>

Although the Category I system in Illinois stands out for its organization and size, virtually all U.S. colleges and universities field inquiries about admissions from well-connected individuals. Peter Schmidt (2007), deputy editor of the *Chronicle of Higher Education*, finds that the leading form of affirmative action at many excellent universities is "legacy admits"—the policy of admitting subpar to marginally qualified children of alumni, donors, and other well-connected individuals.<sup>8</sup> Legacy admission policies in elite institutions favor unqualified, less capable applicants from privileged social groups over more qualified, unconnected applicants. Most Ivy League schools fill 10–15 percent of their freshman classes with legacies.<sup>9</sup> Even some taxpayer-funded universities, such as the University of Virginia, have a

legacy system. Officials at some universities argue that their legacy admits are just as qualified as other applicants. These statistics are difficult to verify, but one 1990 Department of Education report concluded that the typical Harvard University legacy student is “significantly less qualified” than the average nonlegacy student in every realm but sports.<sup>10</sup> In all likelihood, university officials, similar to the mortgage lenders who favored Caucasian borrowers, are unaware of how their policy of being “nice” to legacies discriminates against those who are not legacies.

The in-group favoritism that characterizes admissions at many U.S. universities, as well as most people’s decision processes, exemplifies the core aspect of bounded ethicality: the fact that people often act unethically without their own awareness. Moreover, this form of unethical behavior is far more prevalent than intentional corruption, we believe, and requires a very different set of corrective strategies. Behavioral ethics research provides insights into how people actually make ethical decisions in comparison to how they would want to make those decisions with greater reflection. Moving beyond in-group bias, this chapter highlights other forms of bounded ethicality. We will focus on ordinary prejudice, a cousin of in-group bias, and then broaden the discussion to include two common tendencies: overclaiming credit and discounting the future.

### **Ordinary Prejudice**

Instances of in-group favoritism illustrate how one’s focus on being a good cousin, friend, neighbor, or synagogue member can result in unintentional discrimination, a type of bounded ethicality. More broadly, research from the past decade has uncovered a consistent set of preferences that people have but aren’t aware they have. Amazing discoveries in the field of “implicit psychology” reveal that we have attitudes about men versus women, whites versus blacks, and, in general, “our” group versus “their” group, and that these attitudes are implicit—that is, they exist without our awareness. This work has profound implications for business, law, and medicine, and for all of us who want to truly behave ethically rather than simply view ourselves as ethical.

If you think you might be immune to unintentional discrimination, consider the story of Ashton Briggs III (“Ash”), a partner in a well-known and highly respected consulting firm. Although he was a white man from a wealthy background, he was one of his firm’s most enthusiastic proponents of actively recruiting minority MBA graduates for sought-after openings in the firm. The firm’s most important recruiting grounds were MBA schools. Ash successfully convinced his colleagues to make sure that underrepresented minorities made it to callbacks, which consisted of second-round, all-day interviews at the firm’s offices. Despite Ash’s efforts, the firm did not have a generally favorable reputation as a place for minorities to work, although the reasons for this reputation were unclear.

In the spring of 2009, fewer positions for graduating MBAs were available at Ash’s firm than in the past, as at many consulting firms, because of the financial crisis that had pervaded

the economy. Yet the firm continued to interview graduating MBA students with the goal of hiring a few new additions, in part to remain visible on college campuses. Ash led the company's recruiting efforts, and his team narrowed the finalists for the last available position down to two candidates.

One of the candidates had spent two years as an intern with the firm prior to getting his MBA. He had very good grades and excellent letters of recommendation. One of his letters even came from one of Ash's former professors. Prior to getting her MBA, the other finalist had spent time in the energy sector, an important industry for the consulting firm in upcoming years. Her grades were fantastic, she was the head of her MBA program's energy club, and she had one over-the-top, enthusiastic letter of recommendation from a well-known African American professor. Both candidates were obviously qualified, but only one position remained. In the end, Ash and his colleagues decided to make the offer to their former intern. A key factor was Ash's trust in the letter from his former professor, whom he recalled fondly. Although the other candidate's experience in the energy sector was valuable, the firm prized knowledge of its own systems even more.

Despite the unanimous agreement among the firm's partners, the hiring decision bothered Ash. The candidate chosen for the position was Caucasian, and the runner-up was African American. Ash had earlier instituted a policy of keeping track of the schools, gender, and race of all applicants from MBA programs, as well as information regarding interview callbacks, offers, and acceptances. As he was filling out these forms for the current year, Ash noticed that, firm-wide, minority applicants had been more likely than Caucasians to get callbacks over the years, but far less likely than Caucasians to actually get a job offer. Even more bothersome, Ash pulled up his own recommendations and learned that over the last seven years, his pattern of recommendations matched the decisions of the firm. He was consistently enthusiastic about bringing minorities in for callbacks, but in the end, he seemed consistently to make tough choices that, in the aggregate, worked against the minority candidates.

As this process was unfolding, Ash received an e-mail from a colleague referring him to a YouTube video, which was pulled from an episode of the ABC show *Dateline* (you can find a link to the video at [www.blindspots-ethics.com/dateline](http://www.blindspots-ethics.com/dateline)). The video, which featured the research of Professors Mahzarin Banaji and Anthony Greenwald, referred viewers to a website where over 10 million visitors have explored their implicit preferences and received feedback about the potential ways in which they might discriminate against others without their own awareness. Intrigued, Ash went to the website and was presented with a computer-based task called the Implicit Association Test. (We recommend that you visit [www.blindspots-ethics.com/implicit](http://www.blindspots-ethics.com/implicit) to see the kind of materials that confronted Ash.) Ash was supposed to rapidly classify faces as being of African versus European origin by pressing one of two computer keys. He classified thirty faces in this task, which struck him as fairly trivial and easy. Next, he was asked to classify words as good or bad. "Good," "peace," and "joy" were examples of good words, while "mean," "devil," and "awful" were examples of bad words. This task also seemed simple.

The third task asked Ash to press one key when he saw a black face or a bad word, but to

use a different key when he saw a white face or a good word. This task was harder, but did not strain Ash's mind much.

The fourth task was similar to the third, but with a small change in the pairings. This time, Ash was asked to press one key to judge if a face was black or a word was good, but to press a different key when a face was white or a word was bad. This new task sounded very similar to the prior one. This time, however, the task felt much harder, and Ash found himself making more misclassifications. Even more noticeably, in order to choose the right answer, he needed to work much more slowly than in the prior task.

The computer calculated that it had taken Ash longer to make the "black-good" and "white-bad" distinctions than to make the "black-bad" and "white-good" distinctions (as measured in milliseconds). Based on these results, the computer reported that Ash showed a moderately strong association between black and bad, and between white and good. In other words, his implicit associations revealed a preference for white over black even though he didn't have such a preference in his conscious mind.

Banaji, Greenwald, and their colleagues describe these preferences as *ordinary prejudice*. They use the word "ordinary" to highlight the fact that the ordinary thought processes humans use to categorize, perceive, and judge information can lead to systematic feelings and beliefs that can be labeled as prejudiced and stereotypical. Such thought processes can also be considered "ordinary" because they affect even very honest and smart people, including managers, executives, and other professionals. This research falls squarely in the realm of behavioral ethics.

Some scholars have questioned whether the Implicit Association Test can accurately predict actual behavior,<sup>11</sup> yet the IAT has led to some amazing empirical results. Researchers have found that outcomes on the IAT predict hostility to minority groups<sup>12</sup> and the degree to which people discriminate in selection of job candidates based on race.<sup>13</sup> A race-based IAT predicted differences in how Caucasians and African Americans were treated by actual medical doctors.<sup>14</sup> Researchers discovered the degree to which Swedes prefer to hold job interviews with other Swedes rather than Arabs.<sup>15</sup> In fact, there is much evidence that all groups hold a variety of implicit biases.

Now consider the media firestorm that erupted in July 2009 after President Barack Obama commented on the arrest of Henry Louis Gates Jr., an African American Harvard University professor, by James Crowley, a white Cambridge police sergeant. As you may recall, upon returning home from an overseas trip, Gates found his front door jammed and forced his way inside with the help of his cab driver. A neighbor phoned the police to report a possible break-in. Arriving at the scene, Crowley asked Gates to step outside; Gates refused. Gates says that he showed Crowley his Harvard ID card and driver's license as proof of residence, but that Crowley remained unconvinced that he lived in the home. Crowley said that while he "was led to believe" that Gates did indeed live in the home, he felt compelled to make an arrest after Gates allegedly followed Crowley onto the porch and became disorderly. At a press conference soon afterward, Obama said the Cambridge police had "acted stupidly" in arresting Gates. Debates on race ensued, culminating in a hastily arranged "beer summit" at the White

House Rose Garden.

You may (or may not) agree with Obama's initial assessment that it was stupid for Crowley to arrest Gates inside his own home. More importantly, was Crowley's decision to arrest Gates a case of explicit racism? Or could Crowley have made the decision to arrest Gates without being overtly hostile to African Americans? For many Americans, it is not difficult to imagine a racist white police officer seeing criminal intent in an innocent black man's behavior and overreacting accordingly. The United States has a long, sad history of open discrimination and mistreatment of minorities by law enforcement and the courts. But James Crowley doesn't fit the profile of a racist. In fact, he teaches a course to police cadets on how to *avoid* racial profiling.

The evidence suggests that despite having been trained to treat Gates in a color-blind manner, Crowley *may* have succumbed to subconscious racial biases. In the heat of the moment, the officer had to decide how to respond to Gates. Such snap decisions are especially prone to unconscious bias; the less time we have to think, the more likely we are to fall back on racial stereotypes. In one study, participants in a computer simulation were instructed to shoot criminals, but not unarmed citizens or police officers, who appeared on the screen.<sup>16</sup> The participants incorrectly shot more black men than white men.<sup>17</sup> According to University of South Florida criminology professor Lorie Fridell, the historical animosity between police and minorities in the United States and the widespread stereotype of black men as violent and criminal can cause some police officers to expect less deference or greater aggressiveness from black men.

Most of us do not face the life-and-death decisions that police officers do in the course of their work. Yet all of us are susceptible to making harmful stereotypical judgments about others. If your implicit attitudes, as measured by the IAT, are inconsistent with your conscious views, you should at least take the results as a warning sign about the ways in which you might discriminate without your own awareness. Banaji, who believes that "unlearning" unconscious racism requires systemic change, also advises us to question portrayals of race in the media and to examine our own choices of friends.<sup>18</sup> The less exposure we have to people who are different from us, whether in terms of race, culture, religion, and so on, the more likely we are to view them through a narrow, biased lens. Consider that in the aftermath of his arrest of Gates, Crowley insisted he had acted appropriately and refused to apologize to Gates. However, Crowley was willing to sit down with Gates (and the president and vice president) over a beer. And when the photo opportunity had ended, the two former adversaries met at the River Gods, a bar in Cambridge, out of the nation's eye. This type of open communication and rational reflection can go a long way toward minimizing the mistakes we make in the heat of the moment.

### **How Egocentrism Fuels Overclaiming**

No sort of scientific teaching, no kind of common interest, will ever teach men to share property and privileges with equal consideration for all. Everyone will think his share too

small and they will be always envying, complaining, and attacking one another.

—Fyodor Dostoyevsky, *The Brothers Karamazov*

What percentage of the housework do you do? What percentage of the good ideas in your work group come from you? What percentage of the long-term profitability of your organization can be attributed to the efforts of your division? In your firm's partnership with another firm, what percentage of the alliance's success is due to your organization's contributions?

It's impossible to know whether you "overclaimed" credit for your (or your group's) contributions when answering these questions. But research does show that most people view their own input to a group, their division's input to the overall organization, and their firm's contributions to a strategic alliance to be more important and substantial than reality can sustain. Even when people consciously try to make accurate assessments, they still overclaim credit. This overclaiming is at least partly rooted in our bounded ethicality.

Academics have been found guilty of succumbing to this phenomenon. Consider the co-winners of the 1923 Nobel Prize for the discovery of insulin. One of the winners, Frederick Banting, argued that his partner, John Macleod, who was the head of their laboratory, was more of a hindrance than a help. For his part, in speeches describing the research that led to the discovery, Macleod somehow forget to mention that he had a partner.<sup>19</sup> More recently, Max and his colleagues Eugene Caruso and Nick Epley asked authors of four-author articles in the field of organizational behavior to distribute credit for work done on their articles. On average, the sum of the credit that each group member claimed for himself or herself added up to 140 percent. We don't know whether all four members of a given group overclaimed credit, only that the four people collectively claimed 40 percent more credit than they deserved. As a result of such honest overclaiming (honest because each person believes his or her estimate is accurate), it becomes impossible for all or even most of the authors involved to feel they were given appropriate credit by the group for the work they performed. Worse, conflict can erupt when each member seeks the credit (e.g., order of authorship) she believes she deserves.

In the midst of disagreements, we often fail to see eye to eye. Why? Because different people are paying attention to different data. The tendency to focus on your own contributions to a joint effort and not on those of other group members reflects another widespread bias with an ethical dimension: egocentrism. It's in our nature to be egocentric—that is, to make self-serving judgments regarding allocations of credit and blame, a phenomenon that in turn leads us to different conclusions regarding what a fair solution to a problem would be. Specifically, we tend to first determine our preference for a certain outcome on the basis of self-interest, and then justify this preference on the basis of fairness by altering the importance of the attributes that affect what is fair.<sup>20</sup>

Consider what happens when a defendant and a litigant in a labor dispute are presented with identical information. Both parties process the information differently and in a way that supports their own perspective, researchers have found.<sup>21</sup> As compared to the plaintiffs, defendants remember more details that support their case and don't remember details that support the plaintiff's case. The reverse phenomenon occurs for plaintiffs. The tendency to view the situation from a self-serving perspective affects parties' perceptions of what

constitutes a fair settlement; similarly, the level of disagreement between labor and management in contract disputes about what is fair predicts the length of a labor strike.

This difference in the way information is processed isn't just strategic; it happens whether we want it to or not. Our minds actually absorb the information that is advantageous to us and ignore information that isn't. No wonder, then, that most people facing a court case or an arbitration hearing overestimate the likelihood that they will prevail.<sup>22</sup> They can't be right, of course; each side can't have, say, a 75 percent chance of winning. But according to the facts they choose to see, both sides believe they are in the right. The problem is that the "facts" they rely on for their estimates are biased in a way that favors a win. Missing are those facts that don't support their case.

Similarly, in another study, students in a negotiation class were given diverse materials (depositions, medical and police reports, etc.) from a lawsuit resulting from a collision between an automobile and a motorcycle.<sup>23</sup> The students were paired off and assigned the role of plaintiff or defendant and were instructed to attempt to negotiate a settlement. They were told that if they were unable to reach agreement, their side would incur substantial penalties for reaching an impasse; in addition, they were told that in the event of an impasse, the amount paid by the defendant to the plaintiff would be determined by an impartial judge who had already made his decision based on exactly the same case materials. Before negotiating, the students were asked to predict the judge's ruling. They were told that their estimates would not be communicated to the other party, would play no role in the negotiation, and would not affect the judge's decision (which had already been made). Still, plaintiffs' predictions of the judge's award amount were more than double the predictions of defendants, and the degree of discrepancy between plaintiff and defendant was an excellent predictor of whether they settled the case (as opposed to relying on the judge's decision).

Egocentrism and overclaiming have been observed in athletes claiming credit for their team's success, MBA students claiming credit for group projects, and individuals estimating their role in a fund-raising effort.<sup>24</sup> Couples show the same difficulty in accurately seeing their contribution to the household. When asked to estimate the percentage of the chores they do at home, both members of a couple are likely to say they do more than 50 percent of the work.<sup>25</sup> You may remember that you do the dishes and the laundry and that you pay the bills. But you might forget, or never even encode in your brain, the fact that your beloved balances the checkbook, takes out the trash, and does the yard work. Consequently, you are convinced that you do more than perhaps you actually do. (As for us, we insist that we each perform about 75 percent of the chores in our households—we're just talking about the rest of you!)

Egocentrism not only motivates us to claim more than our fair share of credit, but also to overclaim resources. Overclaiming of scarce resources lies at the root of society's most vexing environmental crises, including species extinction and climate change. Such crises can be described as *social dilemmas*, or situations in which each member of a group has short-term incentives to act in a self-interested manner, yet all of the group's members and society as a whole will suffer from this collective self-interested behavior in the long term. In his well-known "tragedy of the commons" article, Garrett Hardin presented a vivid illustration of a

typical social dilemma. Imagine that a group of herdsmen are grazing their cattle in a common pasture. Each herdsman would like to increase the size of his herd to increase his profits. But if too many animals graze in the pasture, it will ultimately be destroyed. Hardin anticipates that in this situation, most of the herdsmen will “defect” from the group and increase the size of their herd, thereby destroying the pasture, and that all the herdsmen will be made worse off in the long run.

Debates over how to deal with climate change often are rooted in countries’ different opinions about their right to claim their “fair share” of resources and the right to develop. As a result, nations differ in their assessments of how much blame they deserve for the problem and how much responsibility they should take for fixing it. Rapidly developing nations such as China and India have blamed the West for its past and present industrialization and excessive consumption. Meanwhile, the United States and other developed economies tend to blame emerging nations for burning rainforests, for overpopulation, and for unchecked economic expansion.

In particular, the United States and China, which together are responsible for a staggering 42 percent of greenhouse gas emissions caused by humans, tend to point fingers at each other on the issue. In speeches made during a July 2009 visit to China, U.S. energy secretary Steven Chu and commerce secretary Gary Locke called on China to reverse the rapid pace of its greenhouse-gas emissions. If China refused to act, Chu claimed, the country would emit more greenhouse gases in the next thirty years than the United States had emitted in its entire history.<sup>26</sup> “Fifty years from now, we do not want the world to lay the blame for environmental catastrophe at the feet of China,” said Locke. When reporting on the Chu and Locke speeches, China’s official news agency, Xinhua, failed to mention China’s role in climate change or the Americans’ criticisms, and instead focused on Locke’s acknowledgment that the United States had been emitting greenhouse gases for 150 years.

The U.S. government may indeed desire a climate change agreement that is fair to both the United States and China, but its view of what is fair is likely biased by self-interest—and the same is bound to be true for China. Unfortunately, egocentrism leads all nations to believe they honestly deserve less responsibility for reversing climate change than an independent party would judge to be fair. The problem is exacerbated not by our desire to be unfair but by our inability to view information objectively. Moreover, climate change is a highly complex issue that lacks conclusive scientific and technological data. This uncertainty allows egocentrism to run rampant. When data are clear, the mind’s ability to manipulate fairness is limited; under extreme uncertainty, egocentrism is strongly exacerbated.

Overfishing is another example of a widespread and intractable social dilemma rooted in egocentrism. Because fish that populate the high seas can be caught by anyone, they are especially susceptible to being depleted. Take the case of bluefin tuna, a species that has been decimated by over-fishing. Currently the most valuable fish in the ocean, bluefin tuna grow up to ten feet in length and weigh up to 1,500 pounds. In Tokyo, a single bluefin tuna can fetch up to \$150,000.

Back in 1969, when abundant stocks of bluefin roamed the North, Baltic, and Mediterranean

seas, one of the first regional, intergovernmental fisheries-management organizations was formed to oversee bluefin tuna conservation: the Madrid-based International Commission for the Conservation of Atlantic Tunas (ICCAT). Nonetheless, in the decades that followed, stocks of bluefin tuna plummeted. One recent study concluded that even if the fishing of bluefin tuna were banned entirely, the northeast Atlantic and Mediterranean populations would probably collapse nonetheless.<sup>27</sup> In recent years, ICCAT has set fishing quotas of about 30,000 tons of bluefin tuna per year, with a plan to lower quotas to 25,500 in the near future. Yet legal catches of the fish are poorly monitored, and illegal fishing of bluefin tuna thrives.

ICCAT has done such a poor job of managing bluefin tuna stocks that some joke the group's acronym stands for "International Conspiracy to Catch All Tunas." Indeed, an outside review panel of experts appointed by ICCAT said the fishery group's management of bluefin tuna was "widely regarded as an international disgrace."<sup>28</sup> Why has ICCAT been so ineffective at meeting its mission? Because the ICCAT exerts little control over its forty-six member states, leaving their egocentrism unchecked.<sup>29</sup> A solution to the problem lies, at least in part, in recognizing the stronghold that egocentrism exerts on ICCAT members' decisions. Given the unrecognized strong influence of this bias, we cannot expect individual fishers to voluntarily commit to reducing their catch in the name of the common good. Rather, changes are needed at the system level.

In September 2008, at a meeting of the International Union for Conservation of Nature, most countries signed a resolution calling for a moratorium on bluefin tuna fishing, followed by better management and enforcement measures. But after the resolution was signed, governments began backing away from their promises. A spokesperson for the European Union's fisheries directorate complained that a moratorium on bluefin tuna fishing would mean "despair for Italian, Spanish, and French fishermen."<sup>30</sup> It is easy to feel sympathy for fishers who will lose their livelihood if tighter fishing quotas are enforced or a total ban on bluefin tuna fishing is put in place. But if the fishery had been effectively managed over the past forty years, fishers could continue to fish without fear of a moratorium. Moreover, for bluefin tuna fishers to have any hope of rebuilding a sustainable fishery for their children and grandchildren, they may need to stop fishing tuna and allow stocks to rebuild. But unsustainable harvesting continues.<sup>31</sup>

The slow extinction of bluefin tuna is just one of many stories of fishery decline and depletion. Throughout the high seas, too many high-tech boats and factory trawlers are chasing after ever-dwindling species of fish. Fishers have wiped out entire fish populations, only to move on to less attractive species of fish. As is the case in the majority of fishing basins throughout the world, cod and haddock were dramatically overfished in the northeastern United States, and shark was overfished off the southeast U.S. coast. Unfortunately, fishers often become interested in solving an overfishing crisis too late in the game. Consistent with other biases within the field of behavioral ethics, this overclaiming occurs without any individual group member realizing that its behavior has ethical consequences. In fact, much of the problem can be traced to different fishing groups believing they are only pursuing their fair share. Yet fishers suffer greatly in the long run from their short-term overclaiming. When Canada was forced to close its cod fishery in 1993, 40,000 jobs were lost. And currently,

eleven of the world's fifteen major fishing regions and about 70 percent of the most desirable fish species are in decline.<sup>32</sup>

Motivated by this worldwide catastrophe, we created a simulation with Kimberly Wade-Benzoni of Duke University based on the real-life crisis that existed in the 1980s in the northeastern U.S. fishery, back when there was still time to save this fishing basin.<sup>33</sup> The simulation described a conference consisting of four representatives from various commercial and recreational fishing groups. Participants were divided into groups of four, and each participant was assigned to represent one of the four fishing groups. The four fishing groups differed in the degree to which they would benefit from conservation, but collectively, they were better off reducing their harvests by half in order to be able to continue to fish in the future.

Each participant read an overview of the data on the fishing crisis, then gathered with their four-person group for a nonbinding, thirty-minute discussion. Next, we asked each participant to tell us, confidentially, what they perceived the fair allocation of harvesting to be among the four fishing groups, and then to tell us the amount of fish they would harvest over the next year. For each participant, we calculated the percentage of the future harvest the participant believed would be fair for his fishing group to claim. We found (and these results have since been replicated many times) that self-serving interpretations of fairness existed: the sum of the four percentages far exceeded 100 percent. Further, these self-serving interpretations were an excellent predictor of overharvesting in the simulation.

These experimental results suggest that real-world fishing crises and other instances of overclaiming may occur because honest people are egocentric and therefore have honestly different views of what is fair. If this is true, they will not recognize when they make an unfair claim. Creating awareness of the natural tendency to be egocentric and overclaim credit offers a productive focus for solutions to current environmental crises. In fact, teaching individuals about the insidious influence of egocentrism has been shown to be effective at teaching them to recognize the egocentrism of others.<sup>34</sup> Thus, before you accuse someone of being selfish, first try to consider the matter from her perspective. Ask yourself if she believes she deserves what she is claiming. Employers, for example, would be wise to spend some time thinking about an employee's sense of self-worth before opening a discussion of the employee's bonus.

Unfortunately, such training on egocentrism doesn't reduce the influence of egocentrism on our own behavior. While we recognize that others are egocentric, we don't believe the bias affects us—an egocentric interpretation of the egocentric bias! To compensate for this problem, some advice offered by philosopher John Rawls proves useful. Rawls proposes that fairness should be assessed under a "veil of ignorance"—that is, we ideally should judge a situation without knowing the role we ourselves play in it. So, when dividing up a pie, one person should be the "pie slicer" and the other should be the first to take a slice.

### **Overly Discounting the Future**

Would you prefer to receive \$1,000 today or \$1,180 a year from now? In controlled experiments, many people choose the former, despite having the opportunity to earn an 18 percent return on their investment. Similarly, homeowners too often fail to insulate their homes appropriately and fail to purchase energy-efficient appliances and fluorescent lighting, even when the payback would be extremely quick and the rate of return far greater than the 18 percent in the problem above. As these anecdotes illustrate, we all too often use an extremely high discounting rate regarding the future. We tend to focus on or overweight short-term considerations at the expense of long-term concerns.<sup>35</sup> As a result of this pattern, too many people save far too little for retirement, creating a personal crisis for themselves and for their families.<sup>36</sup>

The tendency to ignore the future consequences of our actions played out in dramatic fashion in the U.S. housing crisis that began in 2006 and ignited the financial collapse of 2008–2009. During the real-estate bubble, developers and lenders did a booming business that involved building more and more homes and offering home loans to more and more people. Low-income citizens who previously had only dreamed of owning their own home suddenly found themselves courted by real-estate brokers offering low-interest, adjustable rate mortgages (ARMs). In the past, homebuyers had to make a substantial down payment and prove to lenders that they earned enough income to afford their monthly mortgage payments for the next fifteen or thirty years. But as the housing bubble expanded, lenders began to lower their standards. Income requirements relaxed. Eventually, some lenders stopped requiring any proof of income at all. Suddenly, it seemed as if every potential “subprime borrower” was taking out an ARM to finance his or her dream home.

Of course, the recipients of these loans should have paused to consider what would happen when their ARMs exploded after three, five, or seven years. Yet few of them did. Overdiscounting the future, they focused narrowly on their low introductory payments. But when the housing bubble began to burst, housing prices fell, interest rates rose, and refinancing became more difficult. For the subprime borrowers who could not afford the new rates on their ARMs, the inevitable result was an epidemic of mortgage delinquencies and foreclosures. Of course, lenders, blinded by the sky-high profits they gained from bundling and selling off subprime loans, are also to blame for failing to anticipate the consequences of handing out loans to unqualified applicants.

The tendency to overly discount the future is not limited to individuals; organizations also are susceptible. One Ivy League university completed a major renovation of its infrastructure without using the most cost-efficient products from a long-term perspective.<sup>37</sup> University administrators knew that this decision was a long-term mistake. But because of capital constraints on construction, the university implicitly placed a very high discount rate on construction decisions, emphasizing reduction in its capital costs over the long-term costs of running the building. In the process, the university passed on returns that its financial office would have been thrilled to receive on its investments. In addition, the university was less environmentally friendly than its claims about its future building plans suggested. Collectively, the university’s inconsistent discount rate led administrators to destroy value. In contrast, as

part of its Green Campus Initiative, Harvard University has set up a fund to finance environmental sustainability projects for different colleges within the university that may have been overlooked because of short-term budget pressures. This initiative reduces the likelihood that university units will make poor long-term decisions as a result of the tendency to overly discount the future. Given the financial disaster that hit Harvard and other universities in 2008, these environmental initiatives turned out to be some of the best investments made by the university.

When an individual or organization applies an inappropriately high discount rate to decisions, behavioral decision researchers tend to treat these mistakes as decision errors. Yet we argue that when others suffer because of a decision and future generations are forced to pay for our mistakes, the problem becomes an ethical issue. Overdiscounting the future is not only foolish, but also immoral, as it robs future generations of opportunities and resources. But many people, organizations, and nations commit these mistakes without any awareness that their behavior is ethically bounded and, in many cases, unethical as a result. When people claim they want to treat the earth with respect, they generally are thinking about their own descendants. But when the time comes to make investments for future generations by reducing our own standards of living, we begin to view future generations as too vague to be fully considered in our choices.

At a societal level, the problems brought about by overdiscounting the future can be severe. Inappropriately high discount rates lead to a broad array of environmental problems, including the ocean overharvesting we discussed previously and the failure to invest in new technologies to respond to climate change. Herman Daly observes that we often make environmental decisions as if the earth "were a business in liquidation."<sup>38</sup> We discount the future the most when it is uncertain and distant and when intergenerational distribution of resources is involved.<sup>39</sup> Discounting of the future leads to species extinction, the melting of polar ice caps, uranium leaks, and hazardous waste contamination.

The unintentionally unethical behavior that results from overdiscounting the future is not just an environmental issue. It also helps to explain the massive size of the national debt in the United States and in many other countries in the world. As the baby boomer generation nears retirement, the United States will face ever-rising entitlement costs. An aging population, longer life expectancy, and rising health-care costs will combine to make Social Security, Medicare, and Medicaid costs climb sky high by 2030. At the same time, the ratio of retirees to workers is expected to have doubled between 2000 and 2030. Fewer workers will be contributing taxes to pay for the expenses of millions of elderly Americans.

Republicans typically fight against new taxes and cuts in defense spending, while Democrats resist cuts to social services. Both sides believe they are defending ethical principles. Yet they both pursue their political agenda while collectively ignoring the unethical financial mess they are leaving for future generations. For example, consider President George W. Bush's plan to subsidize the costs of prescription drugs for the elderly. When the plan went into effect on January 1, 2006, it was so convoluted that most Medicare beneficiaries could not figure out how to sign up for it, and many more were unable to receive their prescriptions at the promised

discounted prices. The plan's design prohibits the government from negotiating drug prices with pharmaceutical companies, as it does in other federal health programs—a design “flaw” that benefits the insurance companies at the expense of taxpayers and retirees. The much-reviled “Medicare D” plan was projected to cost more than \$1 trillion in the first ten years of its existence and contributed sizably to the \$1.3 trillion deficit facing the country at the end of the Bush administration. Yet, due to the power of special-interest groups, the Democrats did little to eliminate this ill-conceived plan, even after winning control of the executive and legislative branches of government in 2009.

In this chapter, we explored the range of ethical lapses that may be created by bounded ethicality. Specifically, we examined situations within the field of behavioral ethics in which decision makers commonly engage in unethical behavior without realizing they are doing so. Having described the nature of these errors, in the next chapter we will consider why smart, honest people engage in these behaviors and, as a consequence, are less ethical than they think they are.