

Ultimatum and Dictator Games

One of the most celebrated findings of experimental economics is that people's behavior cannot be adequately explained by narrow self interest in situations called "ultimatum games." A student is assigned the role of Proposer, who is to propose a way to share 100 dollars between himself and another student. The other student—the Respondent—is to either accept or reject the proposed division. When the Respondent accepts, money is given to the students according to the Proposer's suggested division. When the Respondent rejects, neither student gets any money. If people are purely motivated by self interest, the Proposer should propose to keep 99 dollars for himself and the Respondent should accept. Nay, this prediction fails spectacularly. Most of the Proposer subjects choose to keep 50 to 70 dollars for themselves and leave a generous 30 to 50 dollars to the Respondents. This pattern has been observed in experiments after experiments, across a variety of cultures, and even in situations in which the monetary stakes involved can be equivalent to a few months' wages. It is probably the second most replicable result in experimental economics (the most replicable result being that prices converge quickly to competitive prices in double auctions).

A possible interpretation of such behavior is that the Proposer is not really being generous to a stranger; he is just being cautious. He may expect that too low an offer would provoke the wrath of the Respondent, who would then reject the offer in disgust. Experimental economists therefore design a new game to test this possibility. In a "dictator game," the Proposer chooses a division and the Respondent has to accept. Without the prospect of being rejected, a self interested Proposer can easily grab the entire 100 dollars for himself. If this is what you predict how Proposer subjects behave, nay again. In many such experiments, it is common for the Proposer to leave 20 dollars or so to the Respondent.

The beauty of the ultimatum game and the dictator game experiments lies in their stark simplicity. The decisions made in these experiments are stripped of the intervening contexts and complexities of real life interactions. This means a believer in *homo economicus* would have to be extremely ingenious (or disingenuous) to be able to explain why a Proposer would leave 40 dollars to a stranger, or why a Respondent would reject 10 dollars when the alternative is nothing. The results of these experiments provide decisive evidence that people are not completely motivated by narrow material concerns.

But the stark simplicity of these games is also their weakness. If Adam earns a million dollars and donates nothing to charity, he can rationalize it by telling himself that he has a family to support, that every dollar made is the hard-won reward for his labor and investment, or that he will do it later. If Adam proposes to keep all the 100 dollars to himself when locked up in the experimental room, it would be difficult to escape the obvious conclusion that he is just a selfish economic animal. My view is that the behavior of Proposer subjects in these experiments has less to do with altruism or fairness than to do with the need to maintain a self-image of being altruistic or fair. When excuses are cheap and plentiful—as they are in real life—do we still expect the Proposer to behave in the same way as he does in the laboratory?

Which brings us to the proposal for constitutional reform in Hong Kong.

To put it bluntly, the government's proposal is a rotten offer.

The ultimate goal of constitutional development is for Hong Kong to have its Chief Executive and Legislative Council chosen by universal suffrage. It is written in the Basic Law (Articles 45 and 68). In an earlier round of the “dictator game,” Hong Kong people have largely accepted (there is no “reject” option) the fact that we are not going to get to that goal any time soon. Nevertheless the direction we should be heading—universal suffrage—is clear. There are two major obstacles along this path: nomination hurdles and functional constituencies. Any meaningful constitutional reform has to address these two obstacles. For example, taking any of the following steps (or at least a plan for taking such steps) will show that the government is behaving in a way consistent with that of a typical Proposer in the laboratory:

- reduce the *proportion* of seats selected by functional constituencies in the Legislative Council
- reduce the *proportion* of members in the Election Committee required to nominate a candidate to run for Chief Executive
- eliminate the requirement that bills and amendments proposed by legislators must pass a simple majority of votes both from members chosen by functional constituencies and from members chosen by direct elections in the Legislative Council
- eliminate the use of corporate votes in the selection of functional constituent representatives

The current proposal avoids all these tough issues by taking baby steps. Expanding the Election Committee may be marginally useful because it is more difficult to control 1200 people than to control 800. On the negative side, a larger Election Committee also means a larger population of potential rent-seekers who are in a position to extract personal gains, which may be damaging to the political ecology of Hong Kong. More importantly, the nomination hurdle is raised correspondingly to 150, maintaining the relative size of the obstacle to an open election of candidates to run for the office of Chief Executive.

The size of the Legislative Council is to be raised from 60 to 70 seats. Some of the additional seats will be returned through election by directly elected members of the District Councils. Nominally this is a small step forward, but I have a lingering fear that such a category of seats chosen by indirect elections may be used as a ploy toward a cynical perversion of the meaning of “universal suffrage” in the future. The difficult problem of dealing with functional constituencies in the transition to universal suffrage is steadfastly avoided.

Rejecting these offers would cost little for the pro-democracy cause in terms of the 2012 elections, because the offers are so meager to begin with. The larger stake at hand is how to move forward if this round of reforms is rejected. Rejecting the offer may sour the relationship between pro-democracy legislators and the government to such an extent that we will get another rotten offer next time around. Rejecting the offer may also signal the resolve of the legislators so that the government will make greater concessions in the future. The larger political environment will also change as a result of the vote. The truth is that this is an extremely complex political game and nobody can predict what the consequences are. But from what we know about ultimatum game experiments, the Respondent will typically reject when the offer is as low as 10 dollars out of 100, if only because of spite.

What we haven't learned from those experiments is that, in real life, the Proposer can offer the Respondent 10 dollars while trying to convince him that it is worth 40. To the best of my knowledge, this kind of behavior has never been reported in the laboratory before.

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