Does a market environment stimulate economic morality?

Annemiek Schilpzand and Eelke de Jong

16 March 2018

This research is part of the project “What good markets are good for: Towards a moral justification of free markets in Europe” and funded by the Templeton World Charity Foundation, Inc.
Competition and virtues?

‘it must be conceded that the lines along which a competitive economic order tends to form character are often far from being ethically ideal’

Frank H. Knight (1923, p. 591)
Research on (markets and) morality

• Society can have an influence on moral behavior of people

• Both culture and institutions can drive ‘everyday crime’ and morally dubious behavior (Karsted and Farrall, 2006; Hirtenlehner, Farrall & Bacher, 2013)

• Quality of judicial institutions has a positive effect on dishonest and criminal acts (Mocan, Bielen and Marneffe, 2018 NBER).

• Markets or morality: empirical evidence
  - Falk & Szech, 2013 Science: markets decay morals
  - Bartling & Ozdemir, 2017: ‘Replacement excuse’

• Markets and morality: empirical evidence
  - Bartling, Weber & Yao, 2015, QJE: Consumers can act socially responsible in market
Measuring the extent of the market

- Regional NUTS 1 level
  - Regional GDP (average 2004-2008)
  - Employment rate (average 2004-2008)
  - Economic activity rate (average 2004-2008)
    - = (employed + unemployed)/population
Measuring “economic morality”

Data:

- **Virtues:** European Social Survey
  - Economic morality
  - 46,044 respondents
  - 25 European countries (including Turkey)

- “How wrong...”
- Offending
- Victimization

**CARD 39** How often, if ever, have you done each of these things in the last five years? Use this card for your answers. How often, if ever, have you... READ OUT...

<table>
<thead>
<tr>
<th>Item</th>
<th>Description</th>
<th>Never</th>
<th>Once</th>
<th>Twice</th>
<th>3 or 4 times</th>
<th>5 times or more</th>
<th>(No experience)</th>
<th>(Refused)</th>
<th>(Don’t know)</th>
</tr>
</thead>
<tbody>
<tr>
<td>E24</td>
<td>...kept the change from a shop assistant or waiter knowing they had given you too much?</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
<td>6</td>
<td>7</td>
<td>8</td>
</tr>
<tr>
<td>E25</td>
<td>...paid cash with no receipt so as to avoid paying VAT or other taxes?</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
<td>6</td>
<td>7</td>
<td>8</td>
</tr>
<tr>
<td>E26</td>
<td>...sold something second-hand and concealing some or all of its faults?</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
<td>6</td>
<td>7</td>
<td>8</td>
</tr>
<tr>
<td>E27</td>
<td>...misused or altered a card or document to pretend you were not you?</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
<td>6</td>
<td>7</td>
<td>8</td>
</tr>
<tr>
<td>E13</td>
<td>...someone paying cash with no receipt so as to avoid paying VAT or other taxes?</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
<td>6</td>
<td>7</td>
<td>8</td>
</tr>
<tr>
<td>E14</td>
<td>...someone selling something second-hand and concealing some or all of its faults?</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
<td>6</td>
<td>7</td>
<td>8</td>
</tr>
<tr>
<td>E15</td>
<td>...someone making an exaggerated or false insurance claim?</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
<td>6</td>
<td>7</td>
<td>8</td>
</tr>
<tr>
<td>E16</td>
<td>...a public official asking for a favour or bribe in return for their services?</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
<td>6</td>
<td>7</td>
<td>8</td>
</tr>
</tbody>
</table>

---

51 See footnote to E6
## Summary statistics

<table>
<thead>
<tr>
<th>Countries</th>
<th>Observations</th>
</tr>
</thead>
<tbody>
<tr>
<td>Austria</td>
<td>988</td>
</tr>
<tr>
<td>Belgium</td>
<td>1,137</td>
</tr>
<tr>
<td>Czech Republic</td>
<td>1,300</td>
</tr>
<tr>
<td>Denmark</td>
<td>1,120</td>
</tr>
<tr>
<td>France</td>
<td>1,357</td>
</tr>
<tr>
<td>Germany</td>
<td>1884</td>
</tr>
<tr>
<td>Iceland</td>
<td>371</td>
</tr>
<tr>
<td>Ireland</td>
<td>1,364</td>
</tr>
<tr>
<td>Luxembourg</td>
<td>749</td>
</tr>
<tr>
<td>Netherlands</td>
<td>1,458</td>
</tr>
<tr>
<td>Norway</td>
<td>1,619</td>
</tr>
<tr>
<td>Poland</td>
<td>596</td>
</tr>
<tr>
<td>Slovak Republic</td>
<td>580</td>
</tr>
<tr>
<td>Slovenia</td>
<td>495</td>
</tr>
<tr>
<td>Spain</td>
<td>674</td>
</tr>
<tr>
<td>Sweden</td>
<td>1,679</td>
</tr>
<tr>
<td>Turkey</td>
<td>707</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>1,174</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>19699</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Variable</th>
<th>Obs</th>
<th>Mean</th>
<th>Std. Dev.</th>
<th>Min</th>
<th>Max</th>
</tr>
</thead>
<tbody>
<tr>
<td>Age</td>
<td>47,257</td>
<td>46.58252</td>
<td>18.43587</td>
<td>13</td>
<td>102</td>
</tr>
<tr>
<td>Left-right scale</td>
<td>40,500</td>
<td>5.14667</td>
<td>2.189253</td>
<td>0</td>
<td>10</td>
</tr>
<tr>
<td>Income</td>
<td>33,281</td>
<td>6.078874</td>
<td>2.622984</td>
<td>1</td>
<td>12</td>
</tr>
<tr>
<td>Education</td>
<td>47,144</td>
<td>2.924699</td>
<td>1.334962</td>
<td>1</td>
<td>5</td>
</tr>
<tr>
<td>Gender (female)</td>
<td>47,456</td>
<td>1.540732</td>
<td>.4983434</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>Victimization</td>
<td>46,219</td>
<td>1.531715</td>
<td>.6343954</td>
<td>1</td>
<td>5</td>
</tr>
<tr>
<td>How wrong</td>
<td>47,071</td>
<td>3.269178</td>
<td>0.5244283</td>
<td>1</td>
<td>4</td>
</tr>
<tr>
<td>Offend</td>
<td>46,044</td>
<td>1.173116</td>
<td>0.3449112</td>
<td>1</td>
<td>5</td>
</tr>
<tr>
<td>Employment rate</td>
<td>36,878</td>
<td>65.83352</td>
<td>8.312036</td>
<td>30.56667</td>
<td>84.06</td>
</tr>
<tr>
<td>Activity rate</td>
<td>31,400</td>
<td>71.95218</td>
<td>8.224097</td>
<td>30.2</td>
<td>86.24</td>
</tr>
<tr>
<td>GDP</td>
<td>32,683</td>
<td>130.255</td>
<td>106.251</td>
<td>13451</td>
<td>533211.4</td>
</tr>
<tr>
<td>GDP per capita</td>
<td>32,683</td>
<td>26974.15</td>
<td>15593.42</td>
<td>5400</td>
<td>70420</td>
</tr>
<tr>
<td>Population</td>
<td>36,878</td>
<td>5260555</td>
<td>3402801</td>
<td>301433.8</td>
<td>1.80e+07</td>
</tr>
<tr>
<td>Population density</td>
<td>36,878</td>
<td>249.2197</td>
<td>612.0954</td>
<td>3.04</td>
<td>6384.42</td>
</tr>
<tr>
<td>Public employment rate</td>
<td>36,878</td>
<td>.2985806</td>
<td>.0645792</td>
<td>.1395971</td>
<td>.4183909</td>
</tr>
</tbody>
</table>
## Results

<table>
<thead>
<tr>
<th></th>
<th>(1)</th>
<th>(2)</th>
<th>(3)</th>
<th>(4)</th>
<th>(5)</th>
<th>(6)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>How wrong</td>
<td>Offend</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Victimization</td>
<td>-0.00687</td>
<td>-0.00464</td>
<td>-0.00634</td>
<td>0.460***</td>
<td>0.447***</td>
<td>0.468***</td>
</tr>
<tr>
<td></td>
<td>(-0.36)</td>
<td>(-0.21)</td>
<td>(-0.29)</td>
<td>(20.52)</td>
<td>(19.04)</td>
<td>(20.19)</td>
</tr>
<tr>
<td>Employment rate</td>
<td>-0.213**</td>
<td></td>
<td></td>
<td></td>
<td>0.128</td>
<td></td>
</tr>
<tr>
<td></td>
<td>(-2.49)</td>
<td></td>
<td></td>
<td></td>
<td>(1.48)</td>
<td></td>
</tr>
<tr>
<td>Activity rate</td>
<td></td>
<td>-0.179***</td>
<td></td>
<td></td>
<td>0.142**</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>(-4.11)</td>
<td></td>
<td></td>
<td>(2.41)</td>
<td></td>
</tr>
<tr>
<td>GDP</td>
<td></td>
<td></td>
<td>-0.0741</td>
<td></td>
<td></td>
<td>-0.104</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>(-0.77)</td>
<td></td>
<td></td>
<td>(-1.23)</td>
</tr>
<tr>
<td>Observations</td>
<td>19699</td>
<td>16661</td>
<td>17002</td>
<td>19563</td>
<td>16571</td>
<td>16887</td>
</tr>
<tr>
<td>No. of clusters</td>
<td>82</td>
<td>51</td>
<td>68</td>
<td>82</td>
<td>51</td>
<td>68</td>
</tr>
<tr>
<td>Countries</td>
<td>18</td>
<td>16</td>
<td>15</td>
<td>18</td>
<td>16</td>
<td>15</td>
</tr>
</tbody>
</table>

Note: Ordered logit analysis with clustered standard errors on NUTS1 level and country fixed effects. Individual controls are age, age-squared, gender, income, self placement on left-right scale not displayed are education, job (ISCO88) and industry (NACE). t-statistics in parentheses; * p<0.1, ** p<0.05, *** p<0.01.
## Results

<table>
<thead>
<tr>
<th>(1)</th>
<th>(2)</th>
<th>(3)</th>
<th>(4)</th>
<th>(5)</th>
<th>(6)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Controlled for:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Born and raised in USSR</td>
<td>0.007***</td>
<td>0.467***</td>
<td>0.447***</td>
<td>0.468***</td>
<td></td>
</tr>
<tr>
<td>- Crime rates</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Robbery</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Theft</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Homocide</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Population density</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

- Observations: 19699, 16661, 17002, 19563, 16571, 16887
- No. of clusters: 82, 51, 68, 82, 51, 68
- Countries: 18, 16, 15, 18, 16, 15

Note: Ordered logit analysis with clustered standard errors on NUTS1 level and country fixed effects. Individual controls are age, age-squared, gender, income, self placement on left-right scale, education, occupation (ISCO88) and industry (NACE). t-statistics in parentheses; * p<0.1, ** p<0.05, *** p<0.01.
Conclusions

- The (regional extent) of the market is negatively associated with economic morality
  - Most robust results for ‘how wrong’

- Possible next steps:
  - Exogenous proxy for extent of the market in a society?