

What Is Evolutionary Economics?

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The new science of evolutionary economics explains some of our irrational choices. How are you thinking about money?

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Haven't heard of evolutionary economics? It's not surprising. This is a new area of study that looks into the biological and evolutionary forces that shape our economic decisions. It is related to behavioral economics, another discipline you don't hear much about.

{bot_wrgoogle}The behavioral perspective is more about describing what we do, while the evolutionary perspective is all about hypothesizing why we do it. For example, let's look at an experiment that economists call the "Ultimatum Game." It is typically played with two subjects.

The pair is given \$100 to split between them. Player one is allowed to propose any division of the money. He can suggest that he gets \$75, for example, while the other "player" gets \$25. Whatever he proposes, Player two can say yes or no, and then each will get his or her designated share, or he can say no, in which case neither gets a penny.

Now, if you understood what was just explained, you can see that rationally, player two should always say yes. After all, even if the split proposed is \$95 and \$5, the \$5 is still better than nothing, right? Financially speaking, there is nothing to be gained by saying no (it should be noted that players know they won't be playing again, so a reputation for turning down a low proposal buys them nothing).

What actually happens. People mostly accept what are considered "reasonable" proposals, the obvious one being a 50/50 split. We would probably all expect this. On the other hand, despite getting no money at all for their refusal, most players turn down proposals that give them less than 30% of the money.

Why is that? The explanation many give is simply that it isn't fair. Evolutionary economics hypothesizes that we have a built-in sense of "reciprocal altruism," which evolved over tens of thousands of years, and this emotional reaction demands fairness. There must have been some advantage to the human species to maintain this "justice," even at the expense of personal gain.

Monkey Economics

Interestingly, even chimpanzees and monkeys share this sense of fairness. For example, in one experiment at Emory University, when two primates participate in a mutual task for which one is rewarded, the second one will stop helping out in future tasks if the first does not share the rewards fairly.

Interestingly, they also share with humans the extreme and seemingly irrational tendency to hurt their own self interest in order to protest injustice. For example, capuchin monkeys were trained to trade a stone for a cucumber slice, a worthwhile exchange from their perspective, given the usual 95% cooperation when the cucumber was offered. But when a second monkey was seen to be given a grape - which is more highly valued - the monkey getting the cucumber slice didn't exchange so often. The cooperation rate dropped to 60%, and the monkeys sometimes simply refused to take the slice at all. They would actually go hungry rather than be "taken advantage of" in an unfair trade.

Apparently all primates including us have evolved a emotional feeling of justice. Perhaps it helped maintain harmony in the small groups we lived in thousands of years ago. This is the common evolutionary view. Of course, why don't hundreds of millions of modern workers refuse to work for a living while others make ten times more for the same effort? Perhaps it is a matter of proximity (most low wage workers are around others who make the same low wages). Or it might seem just too irrational to starve for a feeling of fairness.

On the other hand, it is quite likely that in addition to the irrational responses to the "Ultimatum Game," we can identify many self-defeating economic behaviors that people regularly engage in. They result from the hard-wiring of our brains,

according to the theories of evolutionary economics. Fortunately, our "software" or conscious mind can evolve more quickly.

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