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REFLECTIONS

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# Why Businessmen Are More Honest than Preachers, Politicians, and Professors

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DWIGHT R. LEE

**N**otwithstanding regular reports of dishonest businessmen in the daily news, businessmen deserve more respect for their honesty than they receive.<sup>1</sup> Granted, businessmen are not always as honest as we would like them to be, and some of them are simply crooked. The business community would certainly be a strange place for Diogenes to search for a completely honest man. But would his search prove more successful elsewhere? In considering the honesty of businessmen in our imperfect world, the relevant question is, compared to whom? So in making my case, I compare the honesty of businessmen with the honesty of preachers, politicians, and professors. I conclude that businessmen are, on average, the most honest (or least dishonest) of the bunch.

My case for businessmen's relative honesty is not that they are more virtuous than preachers, politicians, and professors. Instead, the argument is based on the constraints on those under consideration who might seek to profit from dishonesty.

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1. I am fully aware that many people in business are women, but given that businesswomen have probably achieved full equality with businessmen in the area of honesty or lack thereof, I see no reason to make sex distinctions and thus use the term *businessmen* to refer to both men and women in business.

*The Independent Review*, v. 14, n. 3, Winter 2010, ISSN 1086-1653, Copyright © 2010, pp. 435-444.

Businessmen are more honest than preachers, politicians, and professors because they have the least to gain from dishonest claims about the benefits their products provide.

### **Businessmen versus Preachers**

When businessmen make claims about their products that are not true, consumers can discover the fraud. Preachers do not suffer this disadvantage when making claims about their most important product. No one can “test drive” a preacher’s most important promise and come back from the afterlife to report on the experience. This lack of feedback allows preachers to make truly amazing claims that are central to the package of products they are offering. I am not saying that these claims are false. Given the lack of verifiable evidence, I have no way to know. But neither do the preachers or their customers know. So preachers have less need to worry about the truthfulness of their claims than businessmen have. Indeed, a preacher in most religious franchises who is publicly honest about the lack of evidence for the fundamental claims on which his religion is based is unlikely to look back on this honesty as a good career move.

Businessmen are as anxious as preachers to convince potential customers of the superior value of their products. And some are always willing to make unsupportable claims if they think they can get away with them. But consumers are alert to this fact and justifiably skeptical of the claims businessmen make, and businessmen are aware of this skepticism and know that consumers can obtain feedback on the truthfulness of advertising claims, either from personal experience or from the experience of others. This awareness motivates businessmen interested in long-run survival to back up their claims with credible assurances of the quality of their products. They provide these assurances by establishing business arrangements that severely penalize dishonesty. Firms can establish such arrangements in a number of ways, and their presence or absence in itself provides important information to consumers.

Businessmen make investments with little salvage value and offer attractive introductory offers to establish long-term relationships with customers that can generate long-run profits from repeat business. They put such investments and long-run profits at great risk by their attempts to capture immediate (but ultimately lesser) profits by not keeping promises about product quality, promptness of delivery, or customer service. A reputation for honest dealing is one of the most valuable assets a businessman can have, and the only way to acquire it is by establishing a consistent record of honesty. Having acquired a reputation for honesty, a businessman has a strong incentive to avoid misrepresentations that might quickly destroy even the best reputation.

To create consumer confidence that products will perform as advertised, businessmen provide money-back guarantees and service warranties, which also create incentives for businessmen to provide products that live up to their promised performance.

As the interstate highway system expanded during the 1950s, people began to travel far from home more frequently. This travel made them increasingly vulnerable

to dishonest businessmen who knew that customers with an out-of-state license plate were unlikely to provide repeat business. Far-sighted businessmen saw this situation as a profit opportunity and responded by creating nationwide chains in industries such as restaurants, motels, and automotive repairs that give consumers something they value—assurance of honesty. A customer from Rhode Island may never again visit a Burger King in Fargo, South Dakota, or need another oil change at Pep Boys in Salt Lake City, Utah. But those chains understand that they will lose the customer's business no matter where he lives if they are not truthful with him when he is a thousand miles from home.

Judging the quality of some goods and services can be difficult, even after they have been experienced. How does someone know that he really needed the car repair for which he just paid, for example, or if he even got it? A repair may solve an obvious problem, but how does one know if it was solved by the expensive repair shown on the bill, inasmuch as it might have been solved by simply tightening a screw? This difficulty in certifying service explains a common arrangement that motivates more honesty in the car-repair business. Car dealerships typically have repair shops as part of their business. The profitability of dealerships depends on their customers' satisfaction with the cars they buy, and much of that satisfaction depends on reasonable charges for dependable service and repair.<sup>2</sup>

These arrangements and practices obviously do not motivate complete honesty, but they do improve business honesty because consumers can get information about the truthfulness of business claims while they are still able to act on it. Without that ability, businessmen would be as indifferent to the truth when advertising their products as preachers are when advertising theirs. Similarly, if people were able to test-drive religious doctrines to compare their delivery of eternal bliss the same way that they can test-drive cars to compare their delivery of a smooth ride, they might be confident that preachers would promote their product as honestly as businessmen promote theirs.

## **Businessmen versus Politicians**

A common complaint about businessmen is that they take advantage of consumers through dishonest advertising. Instead of providing useful information for making rational choices, commercials and ads often appeal to consumers' emotions to persuade them to buy products regardless of need. This complaint is true and obvious to all but the most naive. A business commercial is designed to convince people to favor one product over others, and presenting solely unbiased and unemotional information would seldom be the best way to accomplish this goal. Thoughtful people also recognize that politicians advertise themselves and their policy recommendations in

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2. See Rubin 1990, especially chapter 8, for a more detailed discussion of business arrangements that reward honesty and punish dishonesty.

biased and emotional ways. The question is not whether businessmen or politicians have the strongest moral commitment to truthfulness in advertising. Both will deviate from honesty when they expect that the benefits they realize from doing so will exceed the costs. The important question is, Who can most easily mislead their customers with emotional statements, unrealistic promises, and biased information: businessmen or politicians?

For two reasons, people are less likely to be swayed by dishonesty and emotion when responding to business ads than when responding to political ads. First, businessmen are attempting to persuade people who are usually spending their own money; in contrast, politicians are trying to persuade people who are deciding how they want to spend other people's money. As Milton Friedman observed, "[V]ery few people spend other people's money as carefully as they spend their own."<sup>3</sup> The motivation to minimize mistakes by carefully considering claims about costs and benefits before a decision is made and by evaluating those claims in light of postdecision experience is greater when one is bearing all of the cost of the decision than when others are bearing most of the cost. Thus, dishonest business advertising is less likely to yield short-run gains and more likely to result in the replacement of any short-run gains with long-run losses than is dishonest political advertising.<sup>4</sup>

Second, misleading claims are less effective in promoting commercial products than in promoting political products because the choices that consumers of commercial products make have far more decisive effects on outcomes than do the choices that consumers of political products make. When people purchase a product in the marketplace, their choice is decisive—they get the product they choose, and they get it because they chose it. Of course, consumers may still fail to get the value they expected, owing to misleading advertising. But the decisiveness of their market choices elevates the value consumers realize by paying attention to the accuracy of business advertising. The success of watchdog organizations such as Consumers Union (the publisher of *Consumer Reports*) and the Better Business Bureau reflects this value.

The decisiveness inherent in marketplace choices may not motivate as much honesty in business advertising as we would like, but the decisiveness in market choices is appreciated when compared to the lack of decisiveness in voters' political choices. The probability that a voter's choice will be decisive—that is, the probability that he gets what he votes for, and he gets it because he voted for it—is vanishingly small in state and federal elections, and it is seldom greater than a small fraction of one percent in most local elections. Take the example of an election on a proposal that is expected to be very close, with the probability being 0.5001 that each voter will vote for it. Assuming that ten million and one voters cast a ballot, the probability

3. Friedman can be heard making this statement on <http://www.youtube.com/watch?v=k2Kg2SvsI8Q>.

4. The exception that proves the rule here is that businessmen find it easier to profit from dishonest claims when selling to those who are spending other peoples' money—as, for example, military contractors do.

that one vote will determine the outcome of the election is  $1/60,000$ .<sup>5</sup> Given such a low probability of any one person's vote determining the outcome of the election, voters have little motivation to be concerned about the accuracy of the political claims being made in favor of the proposal.

We can expand the foregoing example: assume that the proposal is to increase government transfers to help the poor and that Mr. A is considering how to vote on it, knowing that his annual tax bill will increase by \$600 if the proposal passes. However, politicians are claiming that the proposal will greatly improve the lives of the poor by breaking the cycle of poverty, keeping families together, and providing hope for the hopeless and homes for the homeless—all of which Mr. A finds emotionally appealing. Even if he is skeptical of the political claims, he has little motivation to check their accuracy because his vote is so unlikely to be decisive. His expected saving from investigating the claims and not voting for the proposal after finding out that they are bogus is not \$600. It is \$600 multiplied by the probability that his negative vote will prevent the proposal's passage— $\$600 \times 1/60,000$ —or one cent. This is hardly a strong incentive for Mr. A to examine the accuracy of the political claims about the proposal. More generally, because an individual voter's choices are almost never decisive, it is not worthwhile for voters to spend the time and effort necessary to investigate whether political advertising is biased and inaccurate or to pay much attention to others' investigations.

Because their votes are not decisive, most voters are more responsive to the emotional appeal of political advertising than to its accuracy. Indeed, voters are often better off believing erroneous claims that political proposals will achieve noble objectives. Return to Mr. A, who has let hope triumph over experience and been convinced that the proposal to increase government transfers really will help the poor as the politicians claim. He can now experience an emotional sense of charitable virtue by voting for the proposal at an expected cost of only one cent. This outcome is a tremendous bargain in comparison to the cost of getting the same emotional satisfaction by making a decisive contribution to a private charity. The bargain would vanish if Mr. A found out that the government proposal will not help the poor—that most of the money will go to the nonpoor and that the small amount that reaches the poor will make it more difficult for them to escape poverty. Because emotional claims in political advertising are more salient than accurate facts to most voters, politicians can profit by making emotionally appealing promises that they seldom keep.

To be sure, business advertising can create emotional desires for products that are as strong as the desires created by political advertising. People often choose particular types of clothing, cars, and houses for the emotional satisfaction they

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5. This probability can be inferred from table 4.1 in Brennan and Lomasky 1993, 57. A slight increase in the probability that voters will favor one outcome over the other—say, from 0.5001 to 0.5003—will reduce the probability that one vote will be decisive effectively to zero.

receive by making a statement about their economic status, just as they often choose to vote for a candidate or a policy for the emotional satisfaction they receive by making a statement about their elevated morality. The difference is that the cost of giving one's self-esteem a boost through market purchases is much greater than the cost of doing so in the voting booth. And because of the high cost of purchasing fashionable clothing, luxury cars, and prestigious houses, suppliers of these products are unlikely to profit from emotionally arousing claims without backing them up with superior quality and performance. In contrast, when politicians seek support by claiming to reduce poverty with transfers, combat global warming with ethanol subsidies, help American workers with import restrictions, or save the family farm with agricultural price supports, they can succeed with little concern about skeptical voters. Few voters, after receiving their low-cost emotional payoff at the polls, will notice the claims' failures or be any less susceptible to the emotional impact of exaggerated political promises in the future.

I am not claiming that businessmen are more concerned than politicians with promoting the public interest. Businessmen would undoubtedly be as dishonest as politicians if they were to have the same opportunity as politicians to profit through fraudulent claims about their products. But they do not. Businessmen advertise more honestly than politicians because customers paying for commercial products are more concerned with the advertiser's truthfulness than are customers voting for political products.<sup>6</sup>

### **Businessmen versus Professors**

Professors might seem the most likely of the three Ps to be more honest when promoting their products' value (that is, in their teaching and research) than businessmen. Unlike the preachers' claims, but like the businessmen's, the professors' claims can be empirically tested. Moreover, in contrast to politicians, professors resemble businessmen in that they try to sell their products to customers who can decisively accept or reject them without being directly affected by how many others make different choices. The customers of professors and businessmen differ, however, in ways that result in the former's having more latitude than the latter to benefit from exaggeration and duplicity in their claims: the professors' customers often do not care much about the honesty of the professors' claims.

Undergraduate students provide the most glaring example of indifference to what professors have to say. Excluding academic courses concerned primarily with vocational training, such as accounting, engineering, and law, in which students can receive good job offers if they learn well-established procedures, principles, and precedents, most students in undergraduate courses do not care whether their

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6. Michael Davis and Michael Ferrantino (1996) have developed a formal model of political dishonesty that emphasizes the politicians' short time horizon rather than the indecisiveness of individual votes.

professors' teachings make sense.<sup>7</sup> Whether the arguments presented are lucid or ludicrous, the foremost question on the minds of most students is, Will this thing be on the exam? In contrast, consumers of business products are genuinely interested in the accuracy of claims about the quality of products they might purchase.

Thus, businessmen who want to remain in business have more to lose from making misleading and exaggerated claims about their products than professors do from making such claims about their ideas. In a wide range of academic disciplines, professors want to convince students that the world would be a far better place if more people accepted their views, and they get genuine satisfaction when they succeed in this quest. In their enthusiasm to share their superior understanding of how the world should be, professors in the classroom often present their views more like missionaries seeking converts than like scholars seeking truth.

Professors have to be more restrained when publishing than they are when professing because other professors will evaluate the truth of their writings. Professors are consumers of other professors' articles, using them as inputs in composing their own articles. These academic consumers can better identify and expose fallacious arguments in a professor's writings than students can in his lectures, and they have more motivation to do so. But how effectively does the threat of exposure by other professors prevent a professor's zealotry from developing into academic dishonesty? On the positive side, academic promotions may be earned and scholarly reputations enhanced by exposing the errors in published work, especially errors made by authors with good reputations in their disciplines. Such exposure does occur and serves to restrain academic dishonesty.

However, professors are often less concerned with the truthfulness of articles written by other professors than one might think, even when they are citing these articles as inputs in their own writings. Professors anxious to get their own articles and books published are often less interested in whether the publications they cite are correct than in whether the publications are accepted as correct by academics with views similar to their own—the ones most likely to decide if their books and articles will be published and cited.

Professors competing for professional success and students competing for a passing grade may not constrain departures from academic honesty as much as desired, but at least they do not have the power to undermine academic honesty on a large scale. Politicians do have that power, and it has grown as political funding of academic research and the use of that research in politics have increased over the years. This power is used to bias research in subtle but effective ways to achieve

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7. George Stigler presents a fable in which students get the right to sue their professors and universities for intellectual malpractice. In the decision establishing that right, the judge states that “[i]t seems paradoxical beyond endurance to rule that a manufacturer of shampoos may not endanger a student's scalp, but a premier educational institution is free to stuff his skull with nonsense.” The court outlaws the field of development economics because “no university could pay for the damage its teachers did” (1973, 493, 494).

political objectives. When the research concerns crises, which are potent sources of government growth,<sup>8</sup> this misuse of power is particularly noteworthy. Politicians, government bureaucrats, and others whose interests are served by expanded government spending and power are constantly alert to the opportunities provided by crises, real or imaginary.<sup>9</sup>

Few people want a sudden, serious crisis with no possibility of preventing enormous death and destruction, such as nuclear exchanges targeting major cities or an impending collision between Earth and a large meteorite. The best crisis for expanding government is one that is either causing or can plausibly be blamed for causing current difficulties, but during which politicians can persuade a substantial percentage of the population that these difficulties will escalate into a cataclysmic and worldwide disaster unless the government takes drastic action. Global warming (or climate change) is the best current example of such a crisis.<sup>10</sup> Politicians and others eager to expand government are claiming that the scientific theory and evidence on global warming are now settled. We are told that a scientific consensus has been reached that global warming poses a serious threat to the planet, that human actions cause it, and that the only way to prevent the looming catastrophe is by making what are euphemistically referred to as environmentally friendly changes in our lifestyles. But the truth is that science is never settled, and no consensus prevails among reputable scientists on the cause of any warming that is taking place or on the need for the policies being recommended. We hear little about how the recommended policies would require additional government restrictions in almost every aspect of our lives, with significant reductions in our liberty and wealth.

By claiming a nonexistent consensus on global warming, emphasizing its threat, downplaying the costs of policies to combat it, and dismissing as “global warming skeptics” those with doubts about the threat, politicians hope to stampede the public into believing that government action is urgently needed. Critical to this political agenda is research support from prominent professors for the claim that global warming is a disaster in the making that the experts know how to prevent with the right government policies, assuming they are implemented immediately.<sup>11</sup>

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8. See Higgs 1987 for a historical account and a theoretical exploration of the importance of crises to the growth of government in the United States. As Robert Higgs states, “Crises lead to permanent shifts in the tolerable limits of the true size of government [by breaking] down ideological resistance to Big Government” (73).

9. When President Barack Obama’s chief of staff Rahm Emmanuel said, “A crisis is a terrible thing to waste,” one can be sure that his message to the political operatives in the Obama administration was not limited to learning from crises in order to avoid them in the future.

10. With evidence now showing that Earth’s climate has cooled during the past ten or more years, *climate change* has become a more popular label for the crisis because it is less likely to be tarnished by evidence.

11. Not only can prominent professors’ research be helpful in promoting a crisis mentality with regard to global warming, but once the crisis mentality becomes prevalent, doing research that further promotes such a mentality may help a researcher to become a prominent professor.

Federal funding of scientific research is an obvious temptation for academic researchers to bias their research in directions the political authorities favor. This bias does not necessarily involve or require blatant interventions by politicians in the distribution of research funds. The influence is generally more subtle and indirect. With almost all research funding coming from government (primarily the federal government), those competing for funds are obviously sensitive to the political implications of their research. Furthermore, to compete successfully for funding requires doing research that is seen as important. Research proposals claiming to help us avoid the dire consequences of a serious threat have an obvious advantage over those suggesting or assuming that no such threat exists. More funding for research supporting the conclusion that global warming is a major threat begets the publication of more articles supporting the same conclusion, tenure for more professors who publish those articles, and more training of graduate students who will write articles citing their professors' articles and reinforcing their conclusions.<sup>12</sup>

My argument is not that dishonesty is rampant in universities, with most professors trying to advance their careers by routinely conducting bogus research with fabricated data and flawed statistical techniques to reach groundless conclusions, though such blatant academic fraud is not unknown. The argument is a more moderate one that, in general, professors make more exaggerated claims for the importance and validity of their products than businessmen make for theirs. The reason that professors have less regard than businessmen for the truth of the claims they make is not a difference in their morality. It's that the customers of professors' products have less interest than the customers of commercial products in the truthfulness of the claims being made. Indeed, in the case of global warming, academic research may be more valuable to its direct customers when it is false than when it is true.

## Conclusion

Humans, allegedly the most intelligent of all animals, exhibit a remarkable capacity to believe almost anything, despite a complete lack of plausibility or supporting evidence. Plausibility and evidence are less important in creating and sustaining a belief than the ability to provide the comfort of "knowing" that one's virtue will eventually be recognized and then rewarded forever or a moral justification for using force immediately to capture the rewards justified by one's moral superiority at the expense

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12. See Michaels and Balling 2009, chapter 7, for a more detailed discussion of the biases emanating from the political process and motivated by incentives within the academic community that are distorting research on global warming. Of course, businesses also encourage academic dishonesty by supporting professors who reach conclusions that support favorable claims for commercial products. But the question here is not whether businessmen do more to corrupt the honesty of professors than politicians do, but whether professors are more or less honest than businessmen. On the corruption question, however, professors doing basic research are far more dependent on federal support for their research than they are on any one business, and so the federal government has more monopsony power over professors than business does and therefore more power to bias research conclusions.

of others or a sense that one has a coherent understanding of an otherwise complex and confusing world.

Is it dishonest for a person to make confident claims about things he honestly believes to be true, even though he has little, if any, evidence that they are true? One is tempted to answer that it is not. Tremendous advantages are realized by allowing people to speak freely in support of or in opposition to any belief, policy, or theory they choose, regardless of the lack of evidence, as long as they do not deny others the right to do the same. Few would label as dishonest everyone who makes speculative claims.

Yet as long as people continue to embrace beliefs out of comfort or convenience, opportunities will exist for someone to profit by making claims that are intentionally misleading—that is, by acting dishonestly. Such dishonesty will arise in business, religion, politics, and academics, as some practitioners in these areas yield to the temptation to take advantage of the possible profits.<sup>13</sup> From this observation, I have made three arguments. First, the costs and benefits of determining the accuracy of claims being made differ in the four occupational areas considered. Second, in business the costs of determining honesty are smaller and the benefits greater than in the other three areas. Third, the lower the costs and the greater the benefits of determining honesty, the more restricted are the opportunities to profit from dishonesty—and the less dishonesty will surface. Based on these arguments, my conclusion is that, as a rule, businessmen are more honest than preachers, politicians, and professors when making claims about their products.

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13. Some of these people will benefit from their dishonest claims, and many of them, probably most, will quickly become convinced of their truthfulness because of that benefit. I leave it to the reader to decide whether this very human capacity to believe sincerely in those things that serve our interests effectively transforms dishonest claims into honest ones.

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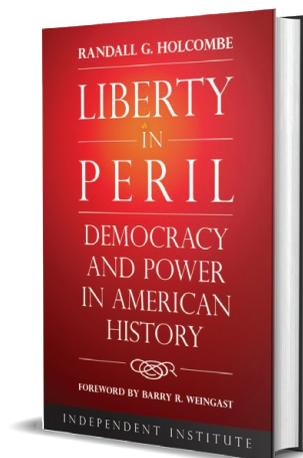
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