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In Honor of Vernon Smith's 90th Birthday

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Abstract
If you have read Vernon's autobiography, you know that Vernon has very definite work hab- 4 its and does not like to be interrupted when he is totally focused on a project. What you do not get from his autobiography is his intense intellectual curiosity and his ability to see the next important 6 research project and move quickly to start something new. It is a characteristic that has annoyed some coauthors who wanted him to keep working on what was interesting to them, but which I found profoundly exciting and stimulating.

Disciplines
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Comments
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Miscellaneous

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If you have read Vernon's autobiography, you know that Vernon has very definite work habits and does not like to be interrupted when he is totally focused on a project. What you do not get from his autobiography is his intense intellectual curiosity and his ability to see the next important research project and move quickly to start something new. It is a characteristic that has annoyed some coauthors who wanted him to keep working on what was interesting to them, but which I found profoundly exciting and stimulating.

Vernon and I starting working together in earnest when I was one of the first visitors to the Economic Science Laboratory at Arizona after Vernon secured special funding for the lab from the Arizona legislature. That was academic year 1986–1987. One day Vernon stopped by my office and asked me to explain exactly what Matt Spitzer and I had done to induce in both proposers and respondents a belief that the proposer had earned the right to be the proposer.

I explained that we had asked the participants to play a simple game (nim). The winner was named the "controller." Then, in one of four treatments, we combined winning the game with a public pronouncement that the winner of the game had "earned the right" to be the controller. This combination led to outcomes in the core of the game. If the right to be controller was won by a coin flip or only by winning the game, the participants tended to split the joint profit maximum, when the core involved a significant difference in payoffs.

Then, Vernon proposed an idea that is so indicative of the way Vernon's mind works. He said that he had been thinking about all of the research on the ultimatum and dictator games that found a tendency to split $10 equally in the ultimatum game, despite the subgame perfect equilibrium that predicts that the proposer will offer the smallest unit of account and the respondent will accept. Even more troubling were the dictator game results that showed a strong tendency for subjects to give away $1–$5, despite the fact that the dictator suffers no consequence from the "respondent" who has no right to reject the offer.

Vernon's idea was to apply Matt's and my insight to a study of ultimatum and dictator games. That insight began one of the most fruitful research periods of my career. Using Matt's and my idea of earning the right, we tried two different ways of inducing an earned right. First, we gave 12 subjects at a time a general knowledge quiz, drawn from Trivial Pursuit questions. Those getting the 6 highest scores (ties broken by time to finish) were paired with the 6 getting the 6 lowest scores: 12 with 6, 11 with 5. . ..7 with 1. We combined that with making the winners "sellers" (implying a right to earn a profit) and the losers "buyers."

Our results were consistent with both previous ultimatum games and with Hoffman and Spitzer (1985). The treatment, random-divide, replicated previous work that found that most offers were a $5–$5 split and that offers of $3 tended to be rejected. In contrast, the treatment contest-exchange led to a significant shift towards the subgame perfect equilibrium. Moreover, this result persisted when we raised the stakes to $100, instead of $10. In fact, one $40 offer in the random-divide treatment was rejected. Although we did not normally debrief subjects, in that case we

asked the subject as she was leaving whether understood that she had rejected $40. She replied, somewhat indignantly, that she did understand. "It was not fair," she said!

The dictator game, on the other hand, did not respond as fully to the earned entitlement treatment. What was going on? Vernon once again showed his ability to think outside the box. He asked whether there was something in our evolutionary past or in the differences among people that would lead to both the ability of subjects in the ultimatum game to coordinate on a new equilibrium without any communication and would also lead subjects in the dictator game to continue to give away significant amounts of money, despite the lack of sanction.

We began to read in two literatures that gave us new insights into our results. One was the literature on autism and Asperger's syndrome. The other was literature on evolutionary psychology. The autism literature discusses one of the characteristics of autism: The inability to put oneself in the mind of another. The implication is that people who do not display symptoms on the autism spectrum can put themselves into the mind of another. Thus, in the ultimatum game, subjects can coordinate on different equilibria by imagining themselves in the position of the other person. In the random-divide treatment, both players anonymously coordinate on a norm of fairness that dictates equal division. In the contest-exchange treatment, both players anonymously coordinate on a norm of fairness that says that sellers with the right to be sellers can earn more money than buyers.

What about the dictator game? The evolutionary psychology literature gave us some insight into the tendency to give away money even when not required. This literature starts with the observation that for most of our evolutionary history we lived in small bands, subject to being killed by wild animals or other humans not part of our tribes, or to starving to death without the help of others to hunt, gather, and care for our children. This history may have led to a genetic inclination to cooperate around well-understood social norms. Moreover, in a world demanding cooperation, equal division and sharing are strong social norms.

How could we break the adherence to the social norms of equal division and sharing? We started thinking about how primitive peoples enforce social norms—observation. This insight led us to think about how we might ensure that subjects would not be observed. We realized that as long as subjects believed it possible to be observed, they were likely to give away money. You do not want to be seen as someone who does not share.

This insight led to our double blind 1 treatment. In that treatment, not only are decisions about how much to give away completely anonymous, but there are two "dictators" who have 20 white slips of paper in their envelopes. Thus, if someone accuses you of being so selfish as to take all of the money, you can just say you had an empty envelope! This treatment led to almost 70% of dictators taking all $10, leaving nothing for the other. Take away the two empty envelopes, the percentage of dictators taking all of the money drops to about 65%. Allow the experimenter to see what is in the envelope, the percentage of dictators taking all of the money drops to 40%. Thus, simply being observed, even just by the experimenter, triggers the social norm of sharing. These results are summarized in Hoffman et al. (1994); Hoffman, McCabe, and Smith (1996a); and Hoffman, McCabe, and Smith (1996b).

What do these examples tell us about working with Vernon? First, he is always looking for new explanations for data he observes and then testing these new explanations. To work with him you have to be willing to go where his mind is going. You can see today as he mines Adam Smith that he continues to ask new questions. I found this journey exciting beyond words. I love to learn new things and explore new ideas.

You also have to be willing work with Vernon's strict work ethic. At that time, he was in the office a 6 A.M. every morning, went to lunch at 11:30 and went home about 4. We would get back

together at about 6 or 7 for dinner and often go dancing! He liked to work uninterrupted in the morning. I would come in about 9 or 10. He had read and commented on everything we had done the day before. We would spend the next hour or two discussing what to do next, go to lunch, run experiments in the afternoon, and then I would write until dinner. The next morning it would start again.

Despite his mind that was always looking in new ways, Vernon focuses completely on one thing at a time and finds it difficult to switch topics. I, on the other hand, am not happy unless I am juggling 10 things in my mind simultaneously. Those of you who have read his autobiography understand the difference. I have learned that his singular ability to totally focus on one thing and then change to focus totally on something new is his great strength that led to his winning the Noble Prize and also what makes working with him so unbelievably exciting!

I also want to add that what I learned from the research discussed above informed my administrative career—all decisions and discussions had to be face-to-face!

Thank you, Vernon! And, happy birthday!

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