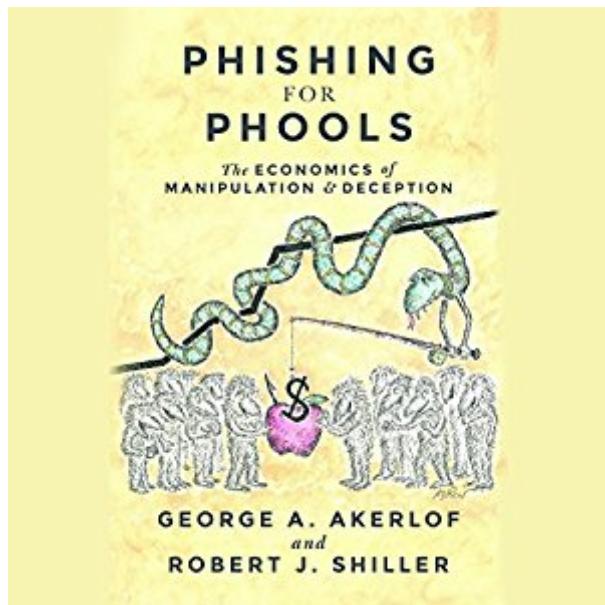


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Phishing For Phools: The Economics Of Manipulation And Deception



Synopsis

Ever since Adam Smith, the central teaching of economics has been that free markets provide us with material well-being, as if by an invisible hand. In *Phishing for Phools*, Nobel Prize-winning economists George Akerlof and Robert Shiller deliver a fundamental challenge to this insight, arguing that markets harm as well as help us. As long as there is profit to be made, sellers will systematically exploit our psychological weaknesses and our ignorance through manipulation and deception. Rather than being essentially benign and always creating the greater good, markets are inherently filled with tricks and traps and will "phish" us as "phools". *Phishing for Phools* therefore strikes a radically new direction in economics based on the intuitive idea that markets both give and take away. Akerlof and Shiller bring this idea to life through dozens of stories that show how phishing affects everyone in almost every walk of life. We spend our money up to the limit and then worry about how to pay the next month's bills. The financial system soars then crashes. We are attracted, more than we know, by advertising. Our political system is distorted by money. We pay too much for gym memberships, cars, houses, and credit cards. Drug companies ingeniously market pharmaceuticals that do us little good and sometimes are downright dangerous. *Phishing for Phools* explores the central role of manipulation and deception in fascinating detail in each of these areas and many more. It thereby explains a paradox: why, at a time when we are better off than ever before in history, all too many of us are leading lives of quiet desperation. At the same time, the book tells stories of individuals who have stood against economic trickery - and how it can be reduced through greater knowledge, reform, and regulation.

Book Information

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Customer Reviews

The publication of this book suffered a few delays and, frankly, I was tempted to cancel my preorder. “Phishing for Phools” (!) not a title to inspire confidence in a serious read. I’m happy I didn’t. By two nobel laureates and published by Princeton. Gotta have something worthwhile. And so it does. The book is organized into an intro, a main body and a conclusion and all along the authors (who by internal comments seem to have been assembling it for years) tell us where we’ve been and where we’re going. Broadly it falls into that psychology of economics genre we’ve seen so much of the last decade or so.

Kahneman’s *Thinking Fast and Slow* is referenced early on. The reader will be aware that for, oh, the last couple centuries, there has been a default assumption about economics. There is an identifiable model of organization called Capitalism, which, if properly cultivated, yields the optimal “good life” outcome for all within its venue. It’s based on the totally theoretical (and ridiculous) “theory” of human behavior that left to one’s own devices one will choose what is best for oneself and the aggregate of all these choices results in what is best for all. (Even typing this makes me laugh.) Phishing begins with the report of a trial with Capuchin monkeys who totally discredit this worldview. We could add a thousand such experiments and life observations to this example. The authors refer to this as the “monkey on the shoulder” effect. The “rational decider” view of economic activities is still alive in reactionary circles and among the talking heads, but it would be difficult to find anyone who has a brain championing it now. So this book is a report of just what goes wrong when we let the monkey be the decider—which as the authors admit happens to them as well as to those of us whose Nobels are still in the wings...and, in fact, is just part of being a human being. The authors give an excellent and very readable account of the late meltdown, introducing the evocative term “reputation mining” which is what propped up these tricksters’ giant rip-off. That meltdown, tho pretty clear for the initiated, has really taken some time to develop a common narrative. This, I felt provided a good summary, emphasizing the role of the rating agencies and their good old boy relationships with the investment banks. Then we abruptly launch into part two (but preceded with a synopsis of what is to come), a list of case studies of how us phools are phished, by big pharma, tobacco, car dealers, etc. These are organized by category and eye-opening reading even for the cynics (like me) among us. Who would believe that VIOXX caused 26 THOUSAND heart attacks? And, when you think about it, those transaction charges on

the plastic are as big as the grocer's profit margin? Who's payin' for that, and who's gettin' super rich? (Here's one on me: when I accept a credit card at my restoration bookbinding shop, the 2% is an annoyance; when I use my own card at the local supermarket, that is equivalent to its total profit margin!) Unlike the book's lead-in, there's nothing theoretical here, but example after example will leave you with little respect for the classical model and in particular its institution in the modern world. To be fair, the authors' retain a lot of respect for the classical model. Their point is more modest: the pervasive opportunities for deception and self-delusion require us to reconsider the New Story (government just gets in the way: think Reagan and his troop) and return to the Old Story (government should serve as a regulator of some economic activities: think almost every 20th cent. president prior to Reagan). In the concluding chapters the authors give a realistic overview of what they've accomplished. They agree that perhaps there's nothing radically new here. They review some of the pressing issues of the day: Citizens United, Social Security reform and financial regulation. They recount some battles and heroes. They seem to be optimistic that all is not lost. The reader will have her own hopes and fears. We're not all teaching at Ivy League schools, which can certainly influence one's optimism quotient. I'm not dissing their, behavioral economics as the authors call it, indeed, the basis of that is that there's a lot the subjectivity of a lot of our judgments. As to the future of this tottering contraption we call American society, we'll see. There are copious notes, which I admit I consulted only sometimes, but I think they are good and could lead some readers to further reading on this subject. Most readers will already be members of the choir, but this is a great synopsis of our current predicament. A relaxing weekend read which will provide you with great talking points in your next political conversation.

Free markets have generated unprecedented prosperity for individuals and societies alike. But, because the authors observe that free markets may also persuade many people to buy things that are good neither for us nor for society, they undercut Adam Smith's notion that the individuals' pursuit of self-interest in free, competitive markets advances the interest of society as a whole. It is this conundrum of free markets that forms the core of George Akerlof and Robert Shiller's engaging new book, *Phishing for Phools: The Economics of Manipulation and Deception*. A "phool" is anyone who does not fully comprehend the ubiquity of "phishing," the aggressive marketing and often, outright fraud (or example, Bernard Madoff's Ponzi scheme) that has become the reality of today's digital-age financial markets. As too many optimists have learned to their detriment, investing in asset markets is highly complex and fragile, and a whole ocean of phishes has set out to exploit this

reality: Borrowers are lured into unsuitable mortgages; financial advisers spin narratives of riches from nowhere; and the media promote extravagant claims. Ackerlof and Shiller's view (supported by plenty of data) is that rapidly rising prices usually reflect irrational exuberance, aided and abetted by phishing. Their main advice is that the financial authorities need to be prepared to intervene when financial turmoil turns into financial crisis. However, simply by the title, I think they are trying to tell us that we are all "phools" at one time or another, and that we need to be aware of this in making our investment decisions in our 401Ks and in other investing. This strikes me as a timely recapitulation of the wisest financial advice that has ever been given: "a phool and his/her money are soon parted."

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