A Phool and His Money

By ALEX TABARROK

Review of PHISHING FOR PHOOLS: The Economics of Manipulation and Deception, by George A. Akerlof and Robert Shiller

Princeton University Press, 2015

Cinnabon pastries are hard to resist. Advertising can be deceptive. Humans sometimes act in foolish ways. If these statements strike you as anodyne then there is no need to read George Akerlof and Robert Shiller’s new book Phishing for Phools, a disappointing foray into behavioral economics from two recent Nobel Prize winners. If these statements strike you as novel then I recommend instead Ariely’s Predictably Irrational, Sunstein and Thaler’s Nudge, Kahneman’s Thinking, Fast and Slow or Daniel Gilbert’s Stumbling on Happiness, to name just a few classics in the field.

Phishing for Phools might have had a bigger impact had it been written 20 years ago but today its examples seem tired. Do we really need another book telling us how supermarkets “phish” us by putting staples like eggs and milk at the back of the store and the impulse purchases like candy and magazines at the front? Aside from being overused, does this example even mean what the authors think it means? Akerlof and Shiller write as if we need milk and eggs but are then broken down by the supermarket’s obstacle course of temptation so that we exit the store in a dazed and dejected fugue loaded with baskets of stuff that we don’t really know why we bought. Maybe that is what a trip to the supermarket is like for them. But for me a trip to Trader Joe’s that doesn’t result in an unexpected purchase is a disappointment. Shopping for milk and eggs is a chore. I shop for novelty and enjoy trying out new items like Indian Peaberry coffee, Jamaican ginger beer and Sardinian Brigante cheese. I deliberatively avoid the store with the lowest prices and the consistent stock and instead head for the place with the jazz band on the weekend. Judging by the crowds, I don’t think I am alone in valuing the shopping experience nor do I think that all such customers are phools.

Throughout Phishing for Phools there is little attempt to discuss alternative interpretations, perspectives or tradeoffs. Consider the chapter on the Food and Drug Administration. It begins rather predictably with The Jungle, Upton Sinclair’s novel whose horrific depictions of the Chicago meatpacking industry led in 1906 to the passage of the Federal Meat Inspection Act and the Pure Food and Drug Act. The history is potted. Readers of The Jungle, Phishing or for that matter most of the popular accounts of the period would likely be surprised to find that meat was already being inspected in 1906. At the Chicago meat packing plants, for example, there were multiple city inspectors from Chicago’s Department of Health, state inspectors from the Livestock Board, inspectors from the Illinois Humane society, which had offices on site, and federal inspectors who inspected all meat intended for export. Government inspectors supplemented inspectors paid for by the meat packers who were eager to ensure that their new product, refrigerated beef, was seen as high quality in comparison to that provided by local
butchers (Libecap 1992, Olmstead and Rhode 2015). Not surprisingly, a Federal committee found Sinclair’s charges to be grossly exaggerated (Olmstead and Rhode 2015).^1^  

Akerlof and Shiller’s history of the Federal Meat Inspection Act, however, is no worse than ordinary. My real beef with their chapter is that never once do they mention that the extensive safety and efficacy testing required by the FDA comes at a price. More testing means longer delays for good drugs to reach the market and greater development costs. Longer delays and greater expense create drug lag and drug loss (Peltzman 1973, Tabarrok 2000, Miller 2000). Given the extensive evidence that each new generation of drugs reduces morbidity and mortality such losses need to be carefully considered (Lichtenberg 2005, 2012a,b). Reasonable people may disagree as to whether the FDA is making the right tradeoffs but for two eminent economists—professionals trained in the art of identifying opportunity costs—not to mention these tradeoffs suggests to me that the authors have moved from science to advocacy.^2^  

The chapter on advertising in Phishing for Phools begins with very old examples. Does anyone alive today even remember Albert Lasker’s campaign for the Wilson Ear Drum Company? Surely, it would have been more compelling to begin with “One Weird Trick to Lose Belly Fat.”^3^ The Akerlof and Shiller critique of advertising is also old although they do not acknowledge precursors such as John Kenneth Galbraith’s (1958) The Affluent Society. In Galbraith’s “revised sequence” it is not consumers who are sovereign but producers. Producers first decide what products to produce and then mold consumers’ tastes so that they buy those products. Akerlof and Shiller’s story, “advertisers systematically use trial and error to see what causes us to buy what they want to sell,” (p. 45) bears more than a passing resemblance.  

The problem with these ideas is not that they do not contain a nugget of truth but that the nugget doesn’t lead to any obvious conclusion. Of course, producers in a modern capitalist economy sell us products that we don’t really need. That’s because capitalism has already taken care of our most basic needs. The richer society gets, the harder producers must work to sell. Anyone can sell water in a desert but it takes real ingenuity to sell bottles of water to people who already have plenty to drink for free. Is bottled water stupid? Maybe so but then so is putting satellites into space so that every Rolling Stones song ever made can be played anywhere in the world from the palm of one’s hand. Indeed, just about every good and service in modern society can be critiqued as “unreal,” “unnecessary” or “unneeded” (Hayek 1961, Friedman 1977, Heath and Potter 2006). So what? It’s only rock and roll but I like it.

---

^1^ Given all these inspectors it may seem surprising that it took a novelist to reveal to the public the horrors of meat preparation. But other novelists have also performed a similar role to that of Upton Sinclair. It wasn’t the Coast Guard, for example, but novelist Peter Benchley who revealed to the public the horrors of our coastal waters (Benchley 1974).  
^2^ The lack of discussion of FDA tradeoffs is especially baffling because if Akerlof and Shiller are correct about our limited attention span and reasoning abilities then a deadly FDA is exactly what we should expect. It’s much easier to understand and appreciate that the approval of a bad drug can kill than to understand and appreciate that failure to approve a good drug can also kill. In the first case, the victims are often known, in the latter the victims are buried in an invisible graveyard. Economists have a special duty to help others to choose wisely by opening eyes to costs that would otherwise be invisible.  
Akerlof and Shiller write that we have two sets of needs or wants “the monkey on the shoulder” wants and the genuine wants. Perhaps they think that music (the Rolling Stones or just Mozart?) is a genuine want, while bottled water is a monkey-on-the-shoulder impulse buy. The multiple-selves viewpoint contains a (well-worn) nugget of truth but how exactly are we to distinguish which wants are genuine? Akerlof and Shiller seem to think this is just obvious: “We do not have to be presumptuous to see that people are making [bad decisions]. We know because we see people making decisions that NO ONE COULD POSSIBLY WANT.” (p. xii, caps in original). I do not think it is so simple. People disagree, sometimes violently, about which decisions are the ones that no one in their right mind could possibly want. Consider the different reactions around the world to Bruce Jenner’s transition to Caitlyn Jenner. Moreover, what's wrong with the monkey on the shoulder? Isn't a bit of monkeying around also a part of the good life? (Cowen 1991).

It would have been enlightening to see Akerlof and Shiller grapple with these issues. Indeed, Akerlof and Kranton’s (2000) work on identity could have proven useful. Many of our “bad decisions” are done not for their immediate benefit but to signal to others or to produce a desired identity. Smoking, for example, often begins in adolescence when it can signal power and status and then continues into older ages when people come to define themselves as smokers (e.g. Scheffels 2009). The language itself is telling, we often say “Paul is a smoker” suggesting identity rather than “Paul smokes” suggesting behavior. Unfortunately, Akerlof and Shiller do not mention the literature on identity or multiple-selves let alone make an advance upon it.

The reader will by now have noticed that Akerlof and Shiller have an affinity for terms like phishing, phools and even phood. Why the peculiar spellings? Because Akerlof and Shiller don’t want to call people fools. Perhaps that is kind but it’s also an impediment to analysis. Once we recognize that we are analyzing fools, several features of the problem come into immediate focus. Most notably, not everyone is a fool.

Recognizing that not everyone is a fool requires an analysis of tradeoffs. Consider Akerlof and Shiller’s discussion of credit. Some people do spend beyond their means and rack up credit card debt. But most people don’t. Contrary to Akerlof and Shiller, most people use credit not to gratify a desire for immediate consumption but to smooth consumption and purchase consumer durables such as automobiles, major appliances and home repairs, exactly as would a rational actor (Durkin et al. 2014). The same lifetime income is worth more when consumers can use credit to adjust the timing of consumption. Credit can even increase income as when it’s used to purchase an automobile that’s necessary for a job or to purchase a clothes washer that’s cheaper than a laundromat.

Akerlof and Shiller do acknowledge that credit cards are fine “for a good share of credit cardholders” but they follow this with a telling two sentences, “Some 50 percent of Americans say they always pay their credit-card bills in full. But a significant proportion of us are not so conscientious.” In other words, Akerlof and Shiller suggest that the only people who use credit cards conscientiously are those who don’t use them for credit! That’s a common opinion among people with significant assets and easy access to cheaper sources of borrowing but it’s a cramped perspective that’s unfair to credit-rationed people with few assets. Even that most reviled form of credit, the payday loan, has its uses. Adair Morse

---

4 See Thaler and Sunstein’s (2003) “libertarian paternalism” for an important response to Hayek and Friedman type critiques of behavioral economics.
(2011), for example, finds that after a natural disaster, payday loans help credit-rationed consumers to avoid home foreclosure.

None of this is to suggest that credit isn’t abused but only that you will have to look elsewhere than Phishing for Phools for a balanced treatment of the question or for a discussion of how the worst forms of credit abuse might be curtailed without imposing significant costs on those who do use credit conscientiously.

Akerlof and Shiller have both made enormous contributions to economics but one will find in this book little of the analytical rigor or attention to evidence that earned them their laurels. Instead, in what to me was the book’s nadir, one finds this test of “the theory of shrouded attributes”:

“[Bob] had been persuaded by the TV advertisements to purchase gourmet cat food for his cat Lightning. In the ads the cats go to their food bowls so perky and happy. But does gourmet cat food really taste good? Bob tasted it. The advertised flavors that sound attractive to humans—turkey, tuna, duck and lamb—did not seem to be there at all.” (p. 167)

An ordinary economist might suggest that rather than tasting the cat food himself, Bob could have simply watched his cat to see which food she was most eager to eat. But that would be to assume that Lightning’s choices reflected her genuine preferences. Thus, Bob was being entirely consistent in substituting his own tastes for those of his cat and choosing accordingly. The reader may ponder which method the cat would have preferred.

ALEX TABARROK is Bartley J. Madden Chair in Economics at the Mercatus Center at George Mason University. He writes frequently at the blog, Marginal Revolution.

References


