BOOK REVIEWS

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George A. Akerlof, Robert J. Shiller, *Phishing for Phools: The Economics of Manipulation and Deception*, Princeton University Press, Princeton Oxford, 2015, 272

Two intellectual heavyweights, even by the standard for Nobel Prize winners, focused on an unquestionably gravy topic and produced a rather compact, very readable book (not only because no maths is used). Is it a recipe for success or for disaster? Their own words about the book are not very helpful for answering the question, as they intended the book to be serious, but enjoyable – a rather strange choice for economists deeply immersed in the notion of trade-offs.

The opening salvoes are heavy: with selfish and self-serving behaviour of business people, our free-market system tends to spawn manipulation and deception. This is followed by the insight that, inevitably, the competitive pressure for businessmen to practice deception and manipulation in free markets lead us to buy products that we do not need. And this has been written by the two authors, who just one sentence later, considered themselves as admirers of the free-market system. Hence at the very beginning of the book they set the bar very high. They have to provide evidence for the mechanisms of the ubiquitously disastrous consequences of the free-market system (manipulation and deception), and it is even more difficult to explain why they admire a system with such disastrous consequences.

Being economists, after all, the authors start the deliberation by offering their definition of phishing, considering the computer definition only as a metaphor. Hence *phishing* for Akelof and Shiller is about getting people to do the things that are in the interest of the phisherman, but not in the interest of the target. Furthermore, a *phool* is someone who, for whatever reason, is successfully phished. In the case of psychological phools it is due to emotional or cognitive biases, while informational phools act on information that is intentionally crafted to mislead them.

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After providing the definitions, the authors spell out the plan for the book: to give a number of cases of phishing for phools that will illustrate how much it effects our lives, i.e. their lives, as most of the cases are from the USA. And the authors thoroughly and meticulously execute their plan. Case by case a reader is submerged in the sea of what should be phishing for phools.

In the first chapter, before never-ending cases and examples of what should be considered phishing, a concept of phishing equilibrium is introduced and it is compared to the perfect competition market equilibrium. Not a big deal: phishing equilibrium is inferior to the perfect competition equilibrium regarding social welfare. For nearly 60 years, since the introduction of the notion of market failures in economic theory, it is evident that any discrepancy from perfect competition moves the economy away from the Pareto optimality, i.e. from maximum efficiency. Furthermore, the list of psychological biases (formulated by Robert Cialdini) is spelled out. We are phishable because: we want to reciprocate gifts and favours; because we want to be nice to people we like; because we do not want to disobey authority (point not valid for Serbia though); because we tend to follow others in deciding how to behave; because we want our decisions to be internally consistent; and because we are averse to take losses. That is correct; we are just humans, we make mistakes, but one could struggle with the notion that something is wrong with our aversion to take losses. Economists would say that this is consistent with utility maximising behaviour.

Two cases in the first chapters are about human mistakes and about – monkeys. The findings of the empirical studies on price schemes that are chosen by the customers at health clubs show that when customers were at the health club, they were overoptimistic about their exercise plan, so they signed up for a package that they overpaid. So what? They made a mistake. And they can cancel the contact and sign a new one simply by going down to the club – the very club they regularly visit for exercise. This is phishing for phools? Reader wonders if he/she missed something. But no, this is the whole story. Maybe the monkeys will be more convincing.

The experiment with capuchin monkeys is about their choices. The crucial insight is that capuchins have a limited ability to resist temptation. They also love marshmallows, although we have every expectation that they would become anxious, malnourished, exhausted, addicted, quarrelsome and sickened. The issue is that what we expect is irrelevant; the crucial insight is whether capuchins have the same expectation, if any. And then, with the wave of a magic wand, the finding of the capuchins' preference for Marshmallows is used as the grounds for the conjecture ("we can imagine") that we humans, like the capuchins, have two different types of tastes. The first concept of tastes (or preferences, to use economic jargon) describes what is genuinely good for us. The second concept of tastes is the tastes that determine how we actually make out choices. And those choices, according to the authors, may not be good for us. The reason why? Because of the capuchins and their choices? Monkey business for sure.

Then a painful and cumbersome trip through all the subsequent chapters follows. Chapters and chapters of cases, some of them relevant for the topic, some of them not. One of them is on temptations and unpaid bills from which could be learned that free market produces continual temptation. As though mankind had not faced temptation far before the emergence of the free market. This was mentioned in the texts published much earlier than the contributions of Adam Smith. And the subsequent chapter is one on reputation mining and financial crises. The problem is that the reasons for reputational mining, i.e. deliberate destroying one's own reputation, are not explained. The section with the promising title "Why was reputational mining so profitable?" gives no clear answer. And the appendix of this chapter with the promising title "The credit default swap sideshow", presents the case of the AIG who supplied credit default swap insurance for a negligible premium of 0.12 percent. That is hardly phishing, just a wrong business decision (although based on the results of the econometric model) under conditions of uncertainty. Everyone bet that the bubble would never burst, on never-ending increase of property values and no increase of mortgage defaults. Everyone was wrong, so it was not a case of fishing for phools.

Numerous stories of cases of ostensibly phishing for phools follow. We learn that advertisers discovered how to focus on our weak spots, that the greatest rip-offs can be found in car and house purchases and purchases by credit cards, that there is phishing in politics in democracies, as well as in food and pharmaceutical industries (appropriately labelled as *phood* and *pharma*), that innovations are not necessarily good, that tobacco and alcohol are bad for us, that someone can profit from bankruptcy. Finally, there are stories about junk bonds as phishing, and the resistance to phishing and its heroes.

Although all the stories should be cases of phishing for phools, many of them are nothing more than stories about wrong business decisions. It is rather trivial insights that business decisions are made under uncertainty and that any decision of that kind can be assessed as wrong only *ex post*. Human knowledge is rather limited, especially about the future; meaning well is only a necessary, but not a sufficient condition for business success.

Furthermore, having such a large number of cases is definitely a weakness of this book. One could speculate that the intention of the authors was to demonstrate that phishing is pervasive. However, the choice to offer a huge number of cases/stories prevents them from presenting a systematic and in-depth analysis of the phenomenon. Basic mechanisms are not explored, nor are the contributing factors. As it is reasonable to assume that phishing for phools is not evenly distributed across sectors (even if it is pervasive), we learned nothing about the factors of this distribution: why it is more probable that phishing for phools will emerge in one sector than in another? Taking that into account it is not surprising that the book offers no clue about what may be done to stop phishing for phools.

Furthermore, there are some fundamental weaknesses in the analysis and its findings. It is neglected that humans adjust themselves to incentives. Being fooled ones does not mean that very individual will be fooled again. Learning by doing is a process that includes phools too. In addition to that, there is a budgetary constraint that undermines spending activities, whether they are foolish, irrational or other. Budgetary constraint of consumer is difficult, not unrealistic. Finally, there is an implicit assumption by the authors that market exchanges are a zero-sum game; i.e. profit for one participant necessarily means the loss for the other. But markets are not a zero-sum game – they are welfare enhancing, essentially because the exchange is voluntary. Taking that into account it is easier and in the long run more profitable for the supply side entrepreneurs to produce and sell products that customers actually need. It is easier and more profitable because there would be no cost of persuasion of the customers and because it is sustainable. This is more-less free market economics 101.

It is rather difficult to rate this book as a success. After many of the insights, the reader’s reaction is simply “So what!”. Hence the recipe from the beginning of this review is definitely one for disaster! What was the motive for two intellectual heavyweights to attempt in such an endeavour and produce such a book? It is difficult to speculate about motives, but it seems that there is a strong wish for certain Nobel Prize winners to become households’ names, the way that Joseph Stiglitz and Paul Krugman did. And the reputation risk is negligible – they will be Nobel Prize winners forever, one way or another. So the book, it seems, has its origin in the Stiglitz-Krugman syndrome.

It is tempting to use the notions from the book to express a personal opinion of a reader for the end. One could *prima facie* say that I was phished by Akelof, Shiller and Princeton University Press and I was phooled. Yes, I have paid 20.25 GBP (including postage & packing) for a book that I obviously do not appreciate – that I did not really want, to use the terminology from the book. But this book has an incredible value. It reminds everyone concerned of the consequences of lowering the bar for measuring the quality of your contribution, the consequences of the attitude that the names of the authors are enough for their product to be of high quality and the consequences of unlimited vanity – a Nobel Prize is not enough for social recognition. For all these reasons (save the Nobel Prize vanity, I am not at risk), I will keep this reminder in a highly-visible place in my library. I was not phooled after all – it was money well spent!

As with many things in this book, the authors have no second thoughts on the human preferences: "No one wants to be an alcoholic". Although after reading such a book, one should keep an open mind.