

# [Phools and their money](https://assignbuster.com/phools-and-their-money/)

essay: Phools and Their Moneyessayphool·, phool:, phools Economists give high moral status to transactions between consenting adults. We presume that such exchanges make both parties better off.

In Phishing for Phools: The Economics of Manipulation & Deception, 1George A. Akerlof and Robert J. Shiller challenge that presumption.

They argue that the natural outcome of markets is for clever entrepreneurs to discover ways to exploit the weaknesses of other parties. This is an important topic. In my mind, it raises many fundamental philosophical issues. However, I ultimately came away from the book with more questions than answers. The authors define phishing as…

getting people to do things that are in the interest of the phisherman, but not in the interest of the target (page xi)The target is who they call the phool. There are two kinds of phool: psychological and informational. Psychological phools, in turn, come in two types. In one case, the emotions.

… override the dictates of his common sense. In the other case, cognitive biases.

… lead him to misinterpret reality, and he acts on the basis of that misinterpretation. (page xi)The first example that the authors provide is the fast food franchise, Cinnabon.

They write, Cinnabons smell is an attraction to customers as a pheromone is for moths…. They carefully placed the outlets…

. in the track of people who would be vulnerable to that smell…. in airports and shopping malls…

. Of course, the information about calories is there, but it isnt easy to find. (page 2)Even if they fail to prominently display calorie counts, I do not think that Cinnabons success relies on deception. Nobody confuses iced cinnamon rolls with kale salad. Pretty much everybody who eats them has some sense that this is not health food. If Cinnabon is guilty of something, it must be manipulation, through the use of smell and location. But what are they supposed to do” set up shop in remote locations with no foot traffic and emit a smell of liver and onions? The authors do not provide any data on Cinnabons ability to manipulate consumers.

My own observation is that the vast majority of people who walk past a Cinnabon outlet are not so seduced by the smell that they stop to purchase the product. Even of the people who do buy cinnamon rolls, do they always feel compelled to do so whenever they walk past an outlet, or do they sometimes find it possible to resist? “ It is demagogic to rely on one persons disgust at another persons consumption of fatty foods.” Overall, I do not think that the authors chose well in starting with the Cinnabon example. They do not make the case that people who buy cinnamon rolls are doing something that those consumers would rather not be doing.

Instead, it just seems that such consumers are doing something that Akerlof and Shiller find reprehensible. They need to come up with an objective way of making the distinction between satisfying consumer wants and manipulating consumers. It is demagogic to rely on one persons disgust at another persons consumption of fatty foods. Earlier, the authors appear to draw a very strict line by using the expression… making decisions that NO ONE COULD POSSIBLY WANT (page xii, emphasis in the original)They go on to write, Four broad areas indicate how widespread are the NO-ONE-COULD-POSSIBLY-WANTs, regarding personal financial security; the stabilization of the macroeconomy (the economy as a whole); our health; and the quality of government.

In each of these four areas we shall see that phishing for phools has significant impact on our lives. (page xii, emphasis in the original)Two of these areas” stabilization of the macroeconomy and the quality of government” left me confused. Nobody is being accused of deliberately destabilizing the economy or lowering the quality of government in order to profit.

At most, people are being accused of undertaking actions that have these adverse effects as by-products, which is a different issue. When the authors first defined phishing, it seemed like a deliberate act, in which phishermen know exactly what they are doing and how they are doing it. But people do not know exactly how their actions might destabilize the economy or lower the quality of government. In fact, the authors discussion of the financial crisis is marred by their attempt to make it sound as though the whole point of creating mortgage securities and obtaining AAA and AA ratings was to deceive investors. In fact, as Jeffrey Friedman and Wladimir Kraus point out, many banks that created mortgage securities also kept those securities. If anything, the deception that was pervasive was self-deception.

Moreover, as they point out, the central role for the rating agencies was created by regulators. 2 If regulators were the phools in this case, then this makes the very concept of a phool more complex and problematic than when it was first presented. Yet another term that raised questions for this reader was “ phishing equilibrium,” which they define as… economic forces that build manipulation and deception into the system unless we take courageous steps to fight it.

(pages vii-viii)They go on to say, Insofar as we have any weakness in knowing what we really want, and also insofar as such a weakness can be profitably generated and primed, markets will seize the opportunity to take us in on those weaknesses. They will zoom in and take advantage of us. (page x)For some reason, this reminded me of emails that were prevalent in the mid-1990s. Before spam filters became effective, one frequently received an email with the subject line, “ Enlarge your penis!!!” These emails annoyed most of the men (and women, for that matter) who received them. Yet there must have been enough buyers, or what Akerlof and Shiller term phools, to make these email marketing campaigns pay off. I assume that the emails kept coming because phishermen were making profits. Akerlof and Shiller make phishing equilibrium sound pervasive and unavoidable.

Concerning Cinnabon, they write,… if [they] hadnt done it, sooner or later someone else would have had a similar” although almost surely not identical” idea. The free-market system exploits our weaknesses automatically. (pages 2-3)In terms of standard economic analysis, one might say that Akerlof and Shiller are describing phishing equilibrium as a case of perfectly inelastic demand and perfectly elastic supply. The weakness of phools makes their demand perfectly inelastic, and the lure of profits makes the supply of phishermen perfectly elastic.

If so, then it would appear that we are destined to have nothing but empty bank accounts and shelves filled with penis enhancement products. Fortunately, the real world does not work this way. If it did, then the smartest thing to do would be to avoid any sort of market exchange, because the presumption would be that the other party is trying to rip you off. Instead, it seems that in many markets, the combination of competition, cultural norms and regulatory institutions ensure that it is predominantly the decent firms that survive, and that the vast majority of transactions are mutually beneficial. The authors do not deny that markets often work. However, if phishing equilibrium is limited to specific types of products, then the authors do not say so, nor do they give any criteria or characteristics to look for in order to predict in which markets phishing equilibria will be most prevalent.

I believe that there is something to the notion of phishing for phools. For example, in choosing a mortgage, the vast majority of consumers will not have the financial savvy to make an optimal choice based on the information disclosed. They are vulnerable to being exploited, and in theory regulatory protection could help.

(How much it helps in practice is debatable). For more on these topics, see the EconTalk podcast episodes Shiller on Housing and Bubbles, Sept. 2008, and Kling on Credit Default Swaps, Counterparty Risk, and the Political Economy of Financial Regulation, Nov. 2008. See also Demand, by David R. Henderson in the Concise Encyclopedia of Economics.

However, Akerlof and Shillers take on the problem is much too cavalier for my taste. They do not give precise, consistent definitions to their key concepts of phishing, phool, phishing equilibrium, manipulation, and deception. They do not suggest specific criteria for determining when exchanges are beneficial to both parties and when they are not. Instead, they offer a narrative that is both too broad and too shallow. Akerlof and Shiller are Nobel Laureates, which they earned with previous research. That is what makes this book so disappointing.

People may enjoy reading Phishing for Phools, but it is lacking in real intellectual nutrition. It is the literary equivalent of a Cinnabon.;,?