Public lecture on “Phishing for Phools: The Economics of Manipulation and Deception”

In connection with the conference on the “Behavioral Economics of Financial Markets” (see page 8), the UBS Center organized a public talk by Robert Shiller from Yale University on June 2, where the Nobel Prize Winner presented his new book “Phishing for Phools: The Economics of Manipulation and Deception,” which he just completed with another Nobel Laureate, George Akerlof.

You are all being “phished”
Economic models tend to assume that people are informed about the decisions they make, so that consumers are able to make markets work to their advantage. Robert Shiller argued that this assumption is at least partially wrong, as many competitive markets by their very nature spawn deception and trickery. There are plenty of market equilibria where one party is being deceived, or “phished.”

“You may think you are doing well out of markets and behave quite rationally, but in fact you are being taken for a ‘phool’.”

To make his case, Shiller presented numerous examples from various sectors, including pharmaceutical companies that present misleading medical evidence in order to sell more medicines, car dealers that consistently charge higher prices for women and blacks, or supermarket chains that mischievously exploit parents’ weak spot by putting the sweets on display right at the check-out in plain sight while having to line up together with their increasingly impatient offspring.

Standing up for the “phooled”
If manipulation and trickery is so widespread even in competitive markets, the central question is of course what can be done about it. In Shiller’s view, states have an important role to play by doing their utmost to prevent as much abuse as possible through proper regulation. His second pillar against malpractice is a thriving and engaged civil society, in which its members remain ever vigilant and come out fighting for transparency and against abuse once they come across it for the benefit of the entire society. Managers and employees of firms also have an important role to play by adhering to clear values and principles. Yet for businesses, Shiller’s advice appears less clear, bordering the contradictory: While urging managers and employees to behave morally and put client interests center stage, he also contends that companies in many competitive markets often have to test the limits of what is allowed to stay in business – which may include behavior that may be legal but would be dubbed dubious or even illegitimate by a large share of society.