

# Phishing for Phools

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# Prefatory Notes

- Robert Shiller.
- Why a popular book?
  - Over-acceptance of view that markets are invariably beneficial.
  - Holes in acceptable economics.

# Danny's Observation

- Psychology:  
Humans as fallible machines.
- Economics:  
Equilibrium.
- Supermarket equilibrium:  
Lines equalized in length.

# Proposition

- Free markets provide only what we really want:  
If human machines are making the right choices.
- Free markets provide wrong choices:  
If there is a profit to be made.
- If we have some weakness or other, in the equilibrium, that weakness will be taken up as long as profit can be made.

# Example 1: Cinnabon®

- Example 1: Cinnabon®  
Life Needs Frosting®.  
Pheromones.



## Example Two: Health Clubs

Example 2: Health Clubs

Wrong choice of contract.

Hard to cancel.

# Example Three: Capuchin Monkeys

- Thought experiment:  
Opened the monkeys up to trading with humans.
- Fruit Roll Up Tacos with Marshmallow Fluff.

# Two types of tastes

- What is good for them.
- What they choose.
- Monkeys on our shoulders.

# General Equilibrium

- Pareto optimality.
- Freedom to choose *and* freedom to phish.
- Equilibrium is optimal:  
In terms of monkey-on-our-shoulder tastes.

# Phish and Phool

- Phish:

Influence us to do what they want, but that is not good for ourselves.

- Phool:

Someone who is phished.

# Onus on Us

- Four areas of:  
**NOBODY-COULD-  
POSSIBLY-WANTS.**

# The Four Areas

- PERSONAL FINANCIAL INSECURITY.
- FINANCIAL AND MACROECONOMIC INSTABILITY.
- ILL HEALTH.
- BAD GOVERNMENT.

# World without Regulation

- History leading up to Meatpacking Inspection Act of 1906 and Pure Food and Drug Act of 1906.

DIGGER ODELL PUBLICATIONS

SWAIM'S PANACEA.



DIGGER ODELL PUBLICATIONS

Germ, Bacteria, or Fungus Destroyer

WM RADAM'S  
MICROBE KILLER



REGISTERED TRADE-MARK DEC 1887

13

# Suze (“Susie”) Orman



# Suze Orman

- Enthusiastic Audiences.
- *The 9 Steps to Financial Freedom: Practical and Spiritual Steps So You Can Stop Worrying.*
- Financial advisees: do not follow rational budgeting.
- Test: expenditures do not add up.
- Real life: nothing left over for savings.

## Statistical Portrait

- Could not raise \$2,000.
- Low financial assets.
- Purchases and payday.
- Bankruptcies.

# Theoretical Puzzle

- Why are there all those sleepless nights, with worries about unpaid bills?
- Keynes: “Lives of our Grandchildren.”

# Answer to Puzzle

- Businessmen's Goals:
  - For you to spend your money.
- “How much is that doggie in the window?”
- Continual temptation:
  - Shop windows.
  - Supermarket aisles.
  - Renting/buying a house.
  - Buying a car.

# Endemic Temptation

- Goes beyond credit cards.
- The nature of capitalist markets.

# The Financial Crisis

- Phishing for phools as succinct explanation for what happened.

# Reputation Mine

- Reputation for perfect avocados.
- I can sell you a rotten one.
- I will have mined my reputation.
- I will also have phished you for a phool.

**FOR SALE**



# Rating Agencies

- Ratings agencies: for a century built up reputation.
- Job: to rate prob. of default for bonds.
- New task: rate prob. of default for derivatives.
- Possibility: for reputation mine.

# By Analogy

- Rotten avocados were rated perfect.
- Commanded high prices.
- Central-Valley-ful of growers: profitable business of producing rotten avocados.

# Role of Leverage

- Commercial banks, hedge funds, investment banks borrowed short term and invested in the over-rated securities.
- When truth discovered that securities were rotten:
  - Owed much more than they owned.

# The Four Questions

- How had original reputations been established?
- What made it profitable then to mine those reputations?
- Why were the buyers so naïve?
- Why was the financial system so vulnerable?

# Later Chapters

- Chapter 4. The Role of Advertising.
- Chapter 5. Cars, Houses, Credit Cards.
- Chapter 6. Lobbying.
- Chapter 7. Food and drugs.
- Chapter 8. Inventions.
- Chapter 9. Tobacco and alcohol.
- Chapter 10. Looting of S & L's.
- Chapter 11. Michael Milken and the Junk Bond Market.
- Chapter 12. Protections against phishing for phools.
- Chapter 13. Conclusion.
- Epilogue. Where this fits into economics.

# Conclusion

- Telling stories:  
Basic to how we think.
- Mental frames; scripts; narratives.
- Influence:
  - Grafts onto current stories.

# Role in Economics

- Suze Orman example.
- Concluding chapter:

A wrong US national story regarding the unambiguous benefits of free markets has led to dysfunctional national policies.

