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PHISHING FOR PHOOLS

PETERSON INSTITUTE

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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

W.M. RADAM'S MICROBE KILLER



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

Ratings 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.

