

How companies prey on your weaknesses: a Robert Shiller Q&A

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In this Oct. 14, 2013 file photo, Nobel prize-winning Yale University economist Robert Shiller smiles at a news conference in New Haven, Conn. In his new book with George Akerlof, another Nobel-prize winning economist, Shiller examines the many ways credit-card companies, financial firms and other businesses lure people into buying things that might harm them. (AP Photo/Jessica Hill, File)

It's no secret we do things we know we shouldn't. We overeat, gamble away our savings and live like tomorrow will never come. One reason,

two Nobel laureates argue, is that there are plenty of businesses happy to lead us astray.

Robert Shiller, an economist at Yale University, used his understanding of how human behavior can affect markets to predict the dot-com crash of the early 2000s and the housing collapse of 2007. He won the Nobel Prize for Economics in 2013 for his work showing that stock and bond prices can move out of step with economic fundamentals even over the long run.

In his new book with George Akerlof, another Nobel-prize winning economist, Shiller examines the many ways credit-card companies, financial firms and other businesses lure people into buying things that might harm them. The authors call that phishing, adopting the word for a common email scam to a broad array of cynical business practices. They call the person who takes the bait a phool. Their book is called "Phishing for Phools: The Economics of Manipulation and Deception."

Their big point: It's not that bad actors are gaming the free market, it's that hucksters and dishonest marketing are part of the free-market game.

In a recent interview with The Associated Press, Shiller talked about how phishers lure phools, the appeal of one-armed bandits and the media's misleading fascination with splashy stories. The interview has been edited for length and clarity.

Q: What prompted you to write this book?

A: I often tend to think that things are not what they seem.

Q: Your focus isn't on malevolent fraudsters but people just doing their job?

A: We agreed that we shouldn't portray these people as evil. This is just what you get with [free markets](#), depending on how free you let them be. My previous books were all about the positive aspects to markets. But markets are often presented too positively, with a certain reverence. Life is more complicated than that.

Q: Could you explain why you chose the word, phish?

A: We use it as a metaphor because people are aware of computer phishing. You can so easily be fooled by them because you don't see all the work that went into luring you in. Things look perfectly plain and simple but in fact it's all artifice. There are a lot of these phishers, some of them are savvy operators, and they're experimenting. They find a ploy and, man, it works.

Q: This isn't a new trend but it's getting worse?

A: Yes. Take the slot machine. In the 19th Century, it dispensed sweets and toys. It was the first vending machine. Now, it's optimized for gambling. Companies experiment with different things. There's the jingling and bright lights, all part of a mesmerizing effect. They like to give you the sense that you've almost won, with three cherries, for instance. You can program it so that two cherries come up, and you can see the third cherry stopping just one off. You think, "I almost won!"

I don't actually play these machines, mind you.

Q: The gist is that businesses keep casting new lures into the water until they get a bite?

A: It's the same thing with Cinnabon. They don't publicize the experimentation they do. Manufacturers of food try to get the optimal ratio to tap into your impulsivity. They don't care about your health.

Cinnabon boasts about their genuine Makara cinnamon from Indonesia. They can boast about that sort of thing. They can't say, "Boy, we really cranked up the fat and sugar."

They place them carefully indoors, in train stations and airports, where you'll smell it. You're frustrated, your flight was delayed, and you're in a bad mood. They catch you right there. The mind tends to have a conversation, producing an excuse to eat it alongside a memory of your resolve not to eat it. They try to help one side of this conversation with the slogan, "Life needs frosting." It's a beautiful slogan, a great justification for giving in. It works, I bet.

Q: You say the [news media](#) is guilty of phishing, too. How so?

A: They often focus on things that aren't important because they know what kind of story sells. In March of last year, this Malaysia Airlines plane went down mysteriously. The logical thing is to think somebody made a mistake. However, the news media latched onto a mystery story for days and days. It's just a waste of time to think about. In terms of human welfare, it would be much better if the cable stations put up the periodic table of the elements to remind everybody. That would be useful information compared to the Malaysian airlines story.

I was on Neil Cavuto's Fox Business TV show. He asked me what I thought about the Federal Reserve raising interest rates. I said I don't think it really matters whether the Fed raises rates this meeting or next meeting. He said, "Look we're doing a whole show about this." There's too much attention to these little stories.

Q: Do you see any speculative bubbles out there now?

A: There was a stock market bubble from 2009 to 2014. It might have ended last year. People have been worried about valuations in the market

recently. The problem is there's no exact science. We don't know the probabilities of future events. Still, you have to take action and so you do it on gut feeling. That's the world we live in. There's so much disagreement about investing, and it's because nobody really knows.

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