Review article

Hedonic Man:

The new economics and the pursuit of happiness[1]

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Happiness: A Revolution In Economics (Munich Lectures In Economics), Bruno S. Frey (MIT Press, 240 pp.)
Predictably Irrational: The Hidden Forces That Shape Our Decisions, Dan Ariely (Harper Collins, 280 pp.)

I.

When I first began hearing about what Bruno S. Frey, professor of economics at the University of Zurich, calls the "revolution" in his discipline, my reaction was one of delight. As far as I was concerned, it could not happen fast enough. Neoclassical economists had insisted upon the primacy of self- interest only in order to model human behavior, but the way rational choice theory developed (at the University of Chicago in particular) suggested that self-interest was not just a fact for these thinkers, but also an ideal: not just how people do act but also how they should act. Their relentless advocacy of market-based public policies was finally ideological--and, by my lights, ideologically wrong. Also the jargon grew impenetrable, and the mathematics ostentatious and obnoxious. When Chicago-style economists started to apply their methods to other social science disciplines, and then to virtually all the perplexities of human life, the charge of academic imperialism could be added. Friedrich August von Hayek and Milton Friedman had always seemed to me to be marginal and somewhat bizarre thinkers, especially when compared to such intellectual titans as John Maynard Keynes and Joseph Schumpeter. The rapid spread of their ideas throughout so much of academia did not bode well for the future.

And so I was heartened by the first sustained attacks on neoclassical economics. For one thing, the thinkers who launched them--Daniel Kahneman and Amos Tversky--seemed to be geniuses of some sort. Both had good reason to become fascinated with how human beings make decisions. Kahneman was born in Tel Aviv in 1934 and raised in Paris; his family decided to remain in France after the Nazis took over the country, and then to rely on business connections to spring his father from the death camps, and then to move to Palestine before the creation of the state of Israel. Tversky, born in Haifa in 1937, earned, at the age of nineteen, Israel's highest military decoration, for rescuing a fellow soldier from an exploding device, in the process injuring himself. These men grew up under conditions that might have led them to divide the world into black and white, good and evil, but this did not happen. Instead they developed an appreciation of human complexity, even a love for it. "Some people were better than others," Kahneman described what he learned from his parents, "but the best were far from perfect and no one was simply bad."

The collaboration of Kahneman and Tversky produced one of the major intellectual accomplishments of the late twentieth century: a series of ingeniously designed experiments that raised uncomfortable questions about "utility maximization," which was the major assumption of microeconomics. To wit: it makes no difference in theory whether you lose a

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ticket to a play or lose the $10 that the ticket cost, but when people lose the ticket they are far less likely to buy another one than when they lose the money. Kahneman and Tversky's explanation is that we create a mental account such that it makes sense to us to pay $10 to see a play but not $20, even though the utility sacrificed by losing the ticket and the money is identical.

Tversky died of cancer in 1996. Kahneman won the Nobel Prize in economics in 2002, and is an emeritus professor at Princeton. Between them, they rattled the role of reason in the pantheon of human motives. They made clear that even if we think we know what is in our own best interest, we frequently make decisions based on misinformation, myopia, and plain quirkiness. The picture of human nature that they developed was--in contrast to the world of homo economicus-- ironic, skeptical, almost wickedly complex.

No single figure did more to bring the insights of these two economic psychologists (or psychological economists) to economics than Richard H. Thaler of the University of Chicago. "When I read this paper," he wrote of Kahneman and Tversky's classic article "Judgment Under Uncertainty," which appeared in 1974, "I could hardly contain myself." Although trained in neoclassical economics, Thaler developed something of a furtive addiction to what his immersion in psychology had revealed to him. In the 1970s he spent considerable time with Kahneman and Tversky, after which he published a series of papers applying their insights to a wide range of economic activity, especially those involving finance. Quasi Rational Economics, published by the Russell Sage Foundation in 1991, collected those early papers and made them influential. The title of the volume suggested that we are not always rational and we are not always irrational. Yes, people deviate from the models of human behavior associated with neoclassical economics, but usually "in well-defined situations under careful laboratory controls," as well as "in natural settings such as the stock market." The theme of Thaler's book was that traditional economic assumptions about human behavior needed to be altered, not replaced.

What Kahneman and Tversky began and Thaler solidified is now frequently called behavioral economics. Its leading figures continue to sparkle. Steven D. Levitt, the co-author of Freakonomics, writes decent prose--or at least is willing to work with a journalist who does; and he, too, teaches at Chicago. The topics that behavioral economists address range far and wide, and often have little to do with the realm of getting and spending. They are interesting, intriguing, and sometimes too cute: raising children, deterring crime, gambling, choosing names. The public-policy implications associated with this way of thinking are anything but predictably right-wing, and in the person of Austan Goolsbee, another economist at Chicago who is also Barack Obama's chief economic adviser, they now figure prominently in American politics.

Thaler has recently collaborated with his former legal colleague Cass R. Sunstein (a frequent contributor to these pages) on a book called Nudge: Improving Decisions About Health, Wealth, and Happiness, which introduces a concept that the authors call "libertarian paternalism." This provocative oxymoron seeks a middle way between laissez-faire and the heavy hand of governmental regulation: public policy, by providing "choice architecture," can push people toward decisions that make the most overall sense, as opposed to coercing them or being indifferent to their preferences. Only time will tell whether "libertarian paternalism" offers a new way of thinking about public policy that can lead to major legislative accomplishment, or instead represents the kind of bland centrist politics that a decidedly non-Chicago economist, Paul Krugman, denounces as hopelessly naive. But there is no denying that just as Levitt brought behavioral economics to the best-seller lists, Thaler and Sunstein are bringing it to the think tanks and maybe even to the West Wing.

The revolution begun by Kahneman and Tversky is now some three decades old, and it is generating excitement well beyond the borders of academe--and so this is a good time to examine whether it has lived up to its promise. Bruno S. Frey's Happiness and Dan Ariely's Predictably Irrational together offer a fine occasion to begin such a reckoning. Not all the revolutionaries in economics are discussed by Frey; the media star Levitt does not even make an appearance. Ariely, who teaches at MIT, helps to fill in the picture. Like Levitt, he has climbed the best-seller list with some of the most counterintuitive findings of behavioral economics. One is dry and humorless, the other is sprightly and inviting, but between them these books offer an overview of what this new economics is all about, and enable us to evaluate whether it is as innovative as its adherents claim.

2.

One major conviction drives the new economics. Economists used to believe that it was unnecessary to measure utility except in this way: the price that a person was willing to pay for something established its utility, and so there was no need to dig any deeper, to examine what was driving the psyche of the economic actor. But the behavioral revolution in economics challenges this assumption. It is based on the idea that we must look into that black box called the human mind to find out whether the things that we say we want really do give us pleasure. Utility, after the revolution, is no longer abstract. It is lived, experienced; it is existential. And fortunately, or so these books argue, the field of psychology has uncovered timely and fascinating truths about the ways our minds work, and these insights may breathe new life into the old idea of utility. Hedonic psychology, happiness research, behavioral economics, economic psychology, the study of well-being, judgment and decision-making--call it what you want. Suddenly everything we thought we knew about economics begins to look different.

Happiness, of course, is anything but a new idea in Western thought. It is, for one thing, the core principle of utilitarianism, the philosophical outlook associated with James Mill and Jeremy Bentham, according to which the most accurate description of human beings is that they seek pleasure and avoid pain. Dickens rather brutally satirized the utilitarians with the unforgettable character of Thomas Gradgrind in Hard Times, and ever since the notion of human beings as calculators of pain and pleasure has been subject to the withering criticism of philosophers, who have shown that utilitarianism pays inadequate attention to the full complexity of human decision-making, particularly in the moral sphere.

But the new economics proceeds in perfect indifference to Gradgrind and the philosophers. It is, in fact, a revival of utilitarianism. In 1999, the Russell Sage Foundation published Well-Being: The Foundations of Hedonic Psychology, edited by Daniel Kahneman, Ed Diener, and Norbert Schwarz. Intended as a major statement of the new field's potential, the volume included Kahneman's seminal essay "Objective Happiness," in which he tells the following story. Someone tells us that Helen had been happy in March. How do we know? If the issue is how sick Helen had been, we would know how to answer the question. Suppose Helen's temperature had been taken every ten minutes for every day of the month. With that data we could plot the results and come up with an answer that any objective observer could accept: if Helen had never registered a fever during that time, we could conclude incontrovertibly that she had been well. We need not even have monitored her so carefully. If her temperature readings had been sampled at random intervals, we could still decide, with a statistically ascertainable degree of certainty, that her health had been fine.

Is happiness any different? No, according to Kahneman, at least not in theory. The Victorian economist Francis Edgeworth, a disciple of Bentham, understood as much: he anticipated using a "hedonimeter" to measure the goodness or the badness of the things that we encounter in daily life. Edgeworth, Kahneman believes, was on the right track. It is true that the mind is a complex thing and we are unlikely ever to have perfect measures of what the neo-utilitarian Kahneman calls "instant utility," or the immediate good sensations or bad sensations that register in our minds every time we encounter something in the world. Still, weaker measures of instant utility are available to us. Why not sample Helen's feelings just as we sample her temperature?

"Helen might be probed at irregular intervals by a beeper mounted in a special watch, which also displays a scale on which she can select a value that describes the GB [good-bad] value of the moment," Kahneman suggests. It still might be difficult for her to compare the pleasure of eating a slice of key lime pie with, say, the pleasure of an orgy with six of her friends. (This is my example, not Kahneman's.) Still, all is not lost. Helen can simply be instructed about the scales appropriate for different kinds of experiences. "Fantastic" can have one meaning in the context of a dessert and another in the context of group sex, and any subject can learn which attributes best go with which experiences. (Sex, as we learn from another tool of the new economics-- the Day Reconstruction Method, which asks people to recall everything they did on a particular day--takes up on average ten minutes out of every twenty-four hours, compared to socializing and relaxing, which occupies 120 minutes.)

Helen, of course, does not exist. This is a thought experiment. The premise of Kahneman's article is that we should not be satisfied with the techniques available to measure happiness, but should think more about what happiness actually is, and then develop techniques appropriate to it. Some types of experiences "will eventually be clarified by studies of relevant brain activities." Helen "could eventually learn" to compare pleasures across different realms of life. Greater validity of the kinds of reports that Helen gives "may emerge from research on the neuropsychology and psychophysiology of affect." Some day, in other words, Edgeworth's hedonimeter will be a staple of academic departments of psychology and economics, and that day may well come soon: "The movement from science fiction to practical application is likely to be rapid in this domain." Writing in the future tense may seem an odd choice for a social scientist interested in people's behavior in the here-and-now, but every proclaimed revolution in the social sciences--from the behavioral revolution in political science of the 1950s to the fascination with evolutionary theory today--promises something new around the corner.

Kahneman's essay was published almost a decade ago. Where are we now? If Frey's book is any indication, the revolution in economics has taken a giant step backward. Happiness, Frey tells us, need not be established objectively at all. We can instead rely on what he calls "reported subjective well-being." Even if you have not heard this term, you most likely know to what it refers. Surveys routinely ask people questions like this one, which is included in the Euro-Barometer Survey: "On the whole, are you very satisfied, fairly satisfied, not very satisfied, or not at all satisfied with the life you lead?" And that, pretty much, is Frey's exciting new method. Take people's answers, run the correlations with other variables, and get your findings. And so we learn that people who watch a lot of television are less likely to say that they are satisfied with their lives than people who watch less. This is important, Frey concludes, because it shows that "individuals have systematically imperfect foresight and control over their own behavior in a major present-day human activity." They know that watching television is not good for their happiness, but, being weak of will, they do it anyway.

From the standpoint of the right to privacy, I confess to being, well, happy that economists are not using hand-held computers to monitor people's thoughts every fifteen minutes or so. But from the standpoint of what we know about the world, it seems anything but revolutionary for economists to rely on surveys that have been around, relatively unchanged, for more than half a century. Asking people how they feel about their lives is something that social scientists do because it is something that social scientists can do. Anyone who has conducted a survey knows how imperfect a measure of anything it is. Indeed, it was precisely because the answers people give to questions are so dependent upon random events or arbitrary word order that Kahneman began his quest for the holy grail of scientistic precision. Frey recognizes these limitations, and cites a paper by Norbert Schwarz and Fritz Stark in Well-Being that leaves the validity of such subjective reports in tatters. Still, he winds up using them anyway. "It is a sensible tradition in economics to rely on the judgment of the persons directly involved," he maintains. "People are reckoned to be the best judges of the overall quality of their lives, and it is a straightforward strategy to ask them about their well-being."

If this is the best Frey can do, it helps to explain why old Edgeworth is not in the economics Hall of Fame. People buy televisions, including very expensive high-definition ones. They sign cabletelevision contracts that cost more than their electric bills. They spend time in front of the television that could be spent accumulating higher incomes--or, for that matter, enjoying their daily ten minutes of sex. Does this mean that watching television makes them happy? There can never be a perfect answer to that question: it is no more likely that our minds possess something called H, a constant measure of happiness applicable to all forms of experience, than that they possess something called G, general intelligence that can be measured through testing.

The proper question, therefore, is not whether happiness is better measured objectively or subjectively. It is, rather, the question of which of the many imperfect measures of happiness we ought to rely upon. If Frey is right that people are the best judges of their own lives, shouldn't we rely on the preferences revealed by their judgment to buy and watch television? After all, price is measured ordinally: $100 is one hundred times greater than $1. But life satisfaction, by contrast, is measured cardinally: the extent to which "very satisfied" is better than "satisfied" has to be established arbitrarily. Between two imperfect metrics, surely it is better to choose the one with fewer measurement problems. That is why economists started assuming that income can be used to measure welfare, or price to ascertain utility to any particular person.

Purchasing a television is not, of course, a life-and-death decision--which suggests that when we move away from the commodities of everyday life to more serious issues, we might be justified in using subjective methods. But this does not follow. The Scandinavian countries have high suicide rates. Suicide is generally associated with depression. May we conclude, then, that Scandinavians are unhappy? That, too, is a hard question to answer, especially because Scandinavians generally tell survey researchers that they are satisfied with their lives: 64 percent of Danes, for example, compared with 16 percent of the French. Here we have a choice between two measures of happiness, both of them problematic:

suicide rates, which, while not always accurate--in more religious societies coroners are likely to record suicide as death by natural causes--are at least factual; and subjective well-being, which is deeply imprecise and dependent upon mood. Which to choose?

For Frey, this is a no-brainer: he downplays suicide rates, explaining them away, without providing any evidence, by saying that Scandinavians also have high divorce rates and tend not to believe in God. Emile Durkheim long ago demonstrated that suicide rates tell us something about social solidarity (as do divorce rates, by the way); but Frey insists that subjective measures of well-being have an advantage that outweighs more objective data. Alas for the cause of science, this advantage has little to with reliability or validity, but a lot to do with money: "The great advantages of this measurement approach lie in its good performance relative to its cost and its availability for a large number of countries and periods." Frey's preference for subjectivity is determined objectively: by price.

All this might not be a problem if the findings established by relying on subjective well-being taught us things we otherwise would not have understood. But just as revolutions in social science are always predicting future benefits that never seem to materialize, they also possess an unfortunate tendency to nail down exceptionally trivial findings. Frey's revolution is no exception. Imagine a graph in which we rank on the vertical axis answers to questions about life satisfaction by country, and on the horizontal axis the number of terrorist incidents experienced in those countries. It turns that people who live without terrorism are happier with their lives than people who live with it. I don't know how much government officials would be willing to pay for such allegedly revolutionary advice, but if I were told by my expensive consultants that "curbing terrorists is ... important to making the population happier," I would ask for my money back.

And so it goes. Unemployed people are less happy than those with jobs. People who live in rich countries are happier than those who live in poor ones. Inflation harms individual well-being. Married people are happier than single people. Americans are made less unhappy by economic inequality than Europeans. I guess it is good that someone has come along and established these things. But is this a science, let alone a scientific revolution? Give me rational choice theory any day: at least in my own area of concern, the sociology of religion, it has established one surprising finding, which is that even when it comes to matters involving another world, people pick and choose their faith based on its costs and benefits in this one.

3.

The social sciences are not just empirical; they are normative, too. It was precisely the insistent normative preference for market-based social arrangements that turned me against Chicago School economics. Governmental regulation is always sub-optimal, they inevitably maintained. Individual freedom is worth more than social equality. If market logic works for firms, surely it can work for recruiting an army, fighting poverty, or providing kidneys. Non-Chicago economists were subtler about these matters, and at times questioned the reliance on markets; but for the many sons and daughters of Milton Friedman, we are hard-wired to be rational choosers, and any efforts we make to direct the course of our actions collectively are bound to fail. Myself, I do not believe that any of these propositions bring us closer to a good society. Other people feel differently. Democracy requires that we argue out our differences. But democratic debate is not well served by pretending that the empirical findings of a single controversial approach in a single academic discipline contain definitive answers to these questions.

Despite all this, Frey believes that a focus on happiness can help us resolve some of the normative questions that we face. Is democracy a good form of government? If so, is more democracy better than less? Relying upon surveys of reported well-being, Frey answers both questions in the affirmative. And there is a superficial plausibility to this line of argument; the Declaration of Independence, as Frey points out, mentions happiness as one of the rights endowed to us by our creator, and at least one major political philosopher, Aristotle, insisted on the importance of eudaimonia, which is usually translated as happiness. There is, moreover, a remarkable correlation between democracy and subjective happiness: one study of twenty-eight countries showed the lowest percentage of very happy people in Hungary, Russia, Latvia, and Slovakia, all very recent democracies, and the highest in such well-established democratic societies as Ireland, the United States, the United Kingdom, and New Zealand. And then, of course, there is the authority of Bentham, who argued that society ought to be organized to provide the greatest good to the greatest number of people; if democracy does that, as the evidence seems to show, then democracy is normatively preferable to nondemocracy on utilitarian grounds.

Here, alas, is where utilitarianism's severe limitations come into play. Although he was raised on the idea, John Stuart Mill eventually found utilitarianism far too limiting to account for what is most valuable in human existence--as he famously put it, "Better to be Socrates dissatisfied than a fool satisfied." For all its identification with happiness, utilitarianism (its critics rightly claim) all too often rationalizes cruelty. As Bernard Williams once pointed out, it would justify the decision of someone who murders one person to save twenty people, and such a justification, by focusing only on the consequences of our actions, leaves no room for considerations of integrity and recognizes no moral commands against killing. Along similar lines, when the animal-rights activist and committed utilitarian Peter Singer argued that it is justified to kill infants who suffer from Down syndrome, he did not exactly improve utilitarianism's ethical reputation. Philosophers continue to debate Bentham's legacy, and distinctions and qualifications multiply, but it would be difficult to find any modern moral theory more discredited than this one. If you believe that human beings come equipped with a conscience capable of distinguishing between right and wrong, then you ought not to go where Bentham wishes to lead you. But the revolution in economics now proclaims--as Kahneman (along with Peter P. Wakker and Rakesh Sarin) put it in an article in The Quarterly Journal of Economics in 1997--that we should go "back to Bentham." It appears that Kahneman, Frey, and others in this tradition will take a satisfied fool any day.

But are democratic societies happy because they are composed of satisfied fools? Utilitarianism cannot answer that question. It can demand that societies ought to be evaluated for the happiness that they produce, but it cannot tell us, at least not without being tautological, why we ought to prefer happiness in the first place. For Frey it is simply self-evident that we should prefer happiness to unhappiness. But Mill, for one, was not convinced that this would always be the case. The remarkable chapter on the "Crisis In My Mental History" in his Autobiography hauntingly documents his disillusionment with the enshrining of happiness as the highest human goal. And in his brilliant and affecting essays on Bentham and Coleridge, he made his preference for the latter unmistakable. What was lacking in Bentham, Mill argued, was a full humanity, which must include a tragic sense of life. Poets, by contrast, when they peer deeply into the nature of things, do not reveal much that is pleasant; but for all their melancholy, they shed light on what it means to be human. In art, in philosophy, in religion, in all the inquiries into the meaning of human life, an unhappy consciousness may take us further toward understanding than a Bovary-like contentment.

The same is decidedly not true of politics, of course, where discontent all too often is accompanied by blood. Yet the notion that we should prefer democracy to other forms of government because democracy better maximizes happiness is too Brave New World-ish even for Frey to accept. Western societies consider wealth important, and so they develop a measure of it called gross national product to judge their progress. If happiness is important, then we ought to have a "national happiness indicator" to measure how far we have come. Frey ponders the idea, but he elects not to endorse it. He worries that benevolent dictators might arise who will attempt to make people happy over their objections. He points out that once we begin to use measures of personal satisfaction-- eudaemonistic standards--for policy purposes, people might begin to lie about how satisfied they really are. Far better, then, that economists should simply study happiness and make policy recommendations, but leave individuals free to decide whether or not to follow them. If they do, fine. The choice for Frey, as for the neoclassical tradition in economics, ought to be left to the individual.

But what if people reject the option that gives them the greatest amount of happiness? In line with his preference for individual choice, Frey wants to leave that option open to them--but when people exercise it, surely they are expressing a preference for something other than happiness, whether it be autonomy, self-esteem, loyalty, or a recognition that it would in fact be wrong to take a life even if your actions improved the overall happiness of your fellow citizens. And so even though we are told on the first page of Frey's book that "the ultimate goal of most human beings is to be happy," we are informed at the end of the book that "whether happiness is the ultimate goal of individuals, or whether it is only one of several goals, constitutes a deep and much-discussed question in philosophy," and is therefore by implication not resolvable by economists. It took Frey an entire book written on behalf of the priority of happiness to conclude that it might not have such a high priority after all. And after this breathless tour through the new economics, we are left to understand that economics will not do the trick. Frey is certainly right about the limitations of economics in the matter of the most profound questions of human life. But there is also another implication that is not addressed: if happiness is only one of many goals that human beings seek, then making happiness central to economics is unlikely to cause much of a revolution in the field.

Even more serious problems emerge when Frey tries to make the case that more democracy is better than less democracy. By more democracy, Frey refers to such forms of direct voter participation as the initiative, the referendum, and the recall. In Switzerland, where Frey lives, it is possible to correlate where people stand on the life-satisfaction survey with the extent to which their cantons rely on direct democracy: the greater the participation of ordinary people, he reports, the greater the happiness. The same is not quite true in the United States, where states with direct democracy provide fewer services for their citizens, but (Frey hopefully adds) also spend more on education. The United States, moreover, like Switzerland, has a federal system of government, and federalism, he argues, promotes happiness as well, because decentralized and overlapping political units are more democratic than highly centralized and authoritative ones.

Except for trying to show how economists can address problems faced by other social science disciplines, Frey is not particularly interested in what those disciplines have to offer, and so he ignores the large body of research conducted by political scientists showing the flaws of direct democracy. (To cite only one example, this one involving happiness: California's initiative process is fueled by substantial levels of cynicism toward politicians, and, by promising more than it can deliver, it adds to public frustration with politics.) But this is the least of his problems. For when he addresses the problem of democracy in explicitly normative terms, Frey actually finds himself advocating something that would not allow individuals to exercise much control over the political decisions that are made on their behalf.

The problem, as he analyzes it, comes down to this: in the absence of competition, political leaders will form "cartels" designed to "exploit the voters." Direct democracy is therefore a good thing, because it breaks up such monopolies, which, in turn, explains why members of the political cartel oppose such populist measures. Empirically speaking, Frey offers no evidence for this claim--most likely because there is none: referenda almost never emerge from below, but are usually the product of one elite group trying to rally public support in order to defeat another elite group. The same is true of federalism. It was enshrined in the American system of government not to extend democracy but to protect slavery, and "state's rights" has been the rallying cry of regional elites ever since. In the real world, both direct democracy and federalism further elite control, and for one obvious reason: in any kind of democracy, representative or direct, people do not themselves rule, but choose the leaders who do. The more power those leaders have, the better able they are to deliver to the people what they want. By dismissing political leaders as little more than members of a self-interest cartel--economists of both the neoclassical and happiness persuasions find as many cartels in politics as they fail to find in business--Frey's preference for direct democracy and federalism would weaken democracy rather than strengthen it.

On normative as well as empirical grounds, then, the kind of economics that Frey rejects seems preferable to the kind that he espouses. Toward the end of his book, Frey proposes what he calls "positive Constitutional economics." Rules would be created to prohibit politicians from exploiting citizens. (Frey does not say who would make those rules.) Judges would be charged with enforcing the rules. Citizens could veto legislation and legislators could veto citizen initiatives. Federalism would be strengthened by decentralizing power, not to the states but to an entirely new political element that would have limited and defined functions, allow citizens to opt in or opt out, and organize people on the basis of commonly chosen interests as opposed to "archaic nationalism committed to pieces of land." Frey calls his preferred form of federalism "FOCJ," for units that are functional, overlapping, competing, and jurisdictional. We already have some sense of how they work; the process by which states outbid each other to attract business comes fairly close to his model. And we know what such a system produces: a race to the bottom, leaving everyone--except a few CEOs and stockholders--unhappy.

None of Frey's empirical findings are revolutionary, but his normative conclusions certainly are. Modestly, Frey calls them "to some extent radical, but not outlandish." In fact, they are radical and outlandish. At least the old Chicago School economics advocated a minimal state. Frey advocates no state at all, at least not in the sense in which nation-states have been the primary focus for political action in the modern world.

4.

Dan Ariely's Predictably Irrational is the latest book by a behavioral economist to hit the jackpot. The reason for its popularity is not hard to discover. The experiments that it describes are as titillating as they are ingenious. Here is one of them. People were asked some rather suggestive questions, such as whether they would find it exciting to spank their sexual partners or to be tied up by them during the sexual act. After their answers were duly recorded, they were asked if they would be willing to respond to the same questions, only this time at the height of sexual arousal produced by masturbation. It turns out that when we are aroused we are completely different than when we are not aroused: we are more hospitable to risk, more irresponsible, more emotional. Ariely therefore concludes that people who have no idea what they will think or do when aroused cannot know themselves very well, and the implications are dramatic: "Our models of human behavior need to be rethought. Perhaps there is no such thing as a fully integrated human being. We may, in fact, be an agglomeration of multiple selves."

Before one concludes that behavioral economists are obsessed with sex, it should be pointed out that the masturbation experiment is the only one discussed by Ariely that requires this particular kind of self-help. The others are designed to show just how odd our behavior can be in the circumstances of everyday life. Ariely and his colleagues set up a stand and offer Lindt truffles for 15 cents and Hershey's Kisses for a penny: 73 percent of their customers choose the former, 27 percent the latter. Then they lower the price of the truffle to 14 cents and offer the Hershey Kiss for free, and now 69 percent choose the Kiss and only 31 percent the truffle. Calculating utility cannot explain this result. In both cases, the cost difference is identical. So it seems that we attach an almost mystical meaning to the idea of getting something for nothing. Zero is not just another number. It plays tricks with our rational minds.

Each chapter in Ariely's book explores a similar conundrum. We attach a higher value to the things we own and are trying to sell than to the things other people own and are trying to sell to us. We try to keep as many options open as possible, even though we are actually better off with fewer. We procrastinate, even when it makes us worse off to do so. We consider it perfectly normal to pay for a meal in a restaurant, but rude and impolite to pay for a meal prepared by a mother-in-law. Our seemingly independent decisions are inevitably influenced by the decisions made by others. Instead of wanting a product and then ascertaining how much it costs, we let the cost of a product determine whether we want it. In sum, Shakespeare was way off the mark when he wrote, "What a piece of work is a man." If anything, Ariely concludes from all the experiments he lays out in loving detail, "we are not noble in reason, not infinite in faculty, and rather weak in apprehension."

If Shakespeare was wrong, it should not surprise us that economists, at least those not blessed with the insights of this radical new approach, are wrong as well. Like Frey, Ariely concludes that his discipline needs a revolution. "We are all far less rational in our decision making than standard economic theory assumes," he asserts. "Our irrational behaviors are neither random nor senseless--they are systematic and predictable. We all make the same types of mistakes over and over, because of the basic wiring of our brains." Those are bold words. If they are true, then not only is economics in trouble, but just about everything we believe about the way our societies ought to be organized is wrong. We should not have an economic system that encourages rampant self-interest. Public policy should not be designed around strictly economic incentives. Subsidies for business, the provision of pensions to the elderly, and (of immediate relevance to the masturbation experiment) the way we control the consequences of teenage sexuality--all this will have to be rethought to take account of how we actually behave, as opposed to how economists have long told us we should behave. All these, I hasten to add, are conclusions that, normatively speaking, I like: better to have health care provided to all with government help than to rely on the selfinterest of doctors, hospitals, and pharmaceutical companies. The problem is that the evidence Ariely offers in their support does not support them.

Before we start pulping all the economics textbooks, let alone rethinking a century's worth of public policy, we ought to pay a bit more attention to the actual details of Ariely's experiments. Consider the masturbators. This experiment involved a fairly narrow segment of the American population: all the subjects were male, young, and students. Why them and not, say, fiftysomething housewives? Ariely justifies his decision to focus solely on men because "in terms of sex, their wiring is a lot simpler than that of women." He does not tell us why he chose students, but we can guess: students are plentifully available, and securing their participation is cheap. Daniel Kahneman hoped that economic psychology could figure out what it needed to study and then develop the appropriate technologies; but in reality, as both of these books demonstrate, it works the other way. Technique comes first in the new economics, just as it did in the old, and conclusions follow. Ariely may want us to believe that his findings are startling; his methods, however, could not be more conventional. Survey researchers have been asking the same kinds of questions for ages, and psychologists have been studying students since experimental psychology was first developed as an academic discipline.

No one should underestimate the difficulty of persuading people to participate in psychological experiments. Availability is an important consideration in such research, which is one reason why psychologists continue to probe the behaviors of students, even though it has long been recognized that relying on them introduces bias into the results. At best, what we learn about some students might tell us things about all students, although it is still rather hard to imagine students at a conservative Christian college agreeing to answer questions while masturbating. At worst, and the worst is all too common, male students at MIT or Berkeley tell us only about male students at MIT or Berkeley, and perhaps not all that much about foreign students, older students, or female students.

Ariely is obligated to remind his readers, most of whom are neither psychologists nor economists, of the problems of selection bias that follow from his over- reliance on students as subjects. But he fails to do so. In fact, he does the opposite: he generalizes from MIT classrooms to humankind as a whole, and with abandon. This might be called the technique of the Big Slip, gliding imperceptibly from a controlled and artificial experiment to breathtaking generalizations about matters that have puzzled philosophers and theologians through the ages. It makes for entertaining reading. Alas, it tells us little about the kind of creatures we are. One simply cannot go from oversexed young men to conclusions about how our brains are wired, especially when, as Ariely himself has pointed out, women are wired differently from men. Not everyone is divided internally between placid normality and wild passion. Some people are asexual. Others opt for chastity. Still others are sexually omnivorous. What a work is man, and woman, indeed.

Besides selection bias, there exists another reason to question experiments that use students as subjects. The problem is not just that students are young, disproportionately affluent, often inebriated--Ariely conducted some of his experiments in bars--and (if they are psych majors) self-selected. The problem is also that they are in college or graduate school and not yet out in the world. Experience with the world teaches us many things. One of them might be how to better control our emotions during sexual arousal. Another lesson is that there is no such thing as a free Hershey's Kiss. (Although Ariely used MIT students for one of his experiments about free candy--indeed, he even used nine- year-old trick-or-treaters--he also used shoppers in a mall.) A third lesson is that doors in life close as you get older. And a fourth is that there are some things you simply cannot postpone. This is usually called learning, which may confidently be defined as absorbing experiences so that the decisions you make are neither predictable nor irrational.

Generally, though not always, we learn with age. There is a term for that as well, and it is maturation. By basing so many of his findings on students, Ariely concentrates on people who have learned little and matured less. No wonder they are irrational--and predictably so. They are precisely at that stage of life when they tend not to think about other people, the future, or even the mess in their rooms. They are not only different from other people; they are different from the kinds of people they will become when they accumulate more experience of life. It makes a certain amount of sense to do experiments with them. It would make more sense to repeat the same experiments not when they are aroused, but when they are older. If rats can learn, surely MIT students can as well.

And if all this were not enough, Ariely's descriptions of his experiments with students contain yet another flaw: none of his experiments fail. Whether or not our irrationalities are predictable, Ariely's chapters are--and relentlessly so. Each chapter begins with a description of the way we are supposed to make decisions, and proposes some clever ways of testing the proposition, and--lo and behold--discovers through an experiment that this is not how we make them at all. Now, if I went shopping for a car and was told by the dealer that the used car he is selling happens to be perfect--that many tests were conducted on it and it passed every one with flying colors--I would be inclined to distrust the information that he was providing. All cars have flaws, if you look long enough. I confess to feeling much the same way about what Ariely is trying to sell me. I have been a social scientist long enough to know that not every hypothesis is always confirmed: neither life nor social science works that way. Either Ariely is the greatest designer of psychological experiments who ever lived, or he is failing to include in his thesis-driven book experiments that show that people can behave rationally after all.

It sounds harsh to say, especially about a social scientist who so clearly loves what he does, but in the absence of any accounts of failed experiments, it is difficult to take what Ariely tells us at face value. Which would you rather have, he asks at one point, a free $10 gift certificate or a $20 gift certificate for which you must pay $7? When I read that, the rational answer was immediately obvious. But Ariely claims that "most" people at a Boston mall irrationally chose the one that saved them $10 rather than the one that saved them $13. So curious minds want to know: how many is "most"? What differentiated those who chose the one option from those who chose the other? Were people given five seconds to answer, or a minute? Even if a statistically significant number of people chose the wrong answer, does this mean that they are irrational or just mathematically challenged? Falsifiability, one of the cardinal inclinations of scientific inquiry, just does not seem to happen in Ariely's research. He calls himself a scientist, but the methods that he describes lack any appreciation of the many false starts, delayed gratifications, and unexpected findings that are invariably part and parcel of the scientific enterprise.

No wonder, then, that when we move from the flaws inherent in the experiments that Ariely conducts to the sweeping statements of the human condition that he draws from them, we are still on the shakiest of grounds. Ariely describes what he calls the "main lesson" from his experiments this way: "We are pawns in a game whose forces we largely fail to comprehend." In which case it is not just economics that needs a revolution, but philosophy as well. Kant's insistence on autonomy, the importance that Mill attached to individual self-development, even the religiously inspired ideal that we can model ourselves on the image of God--all these notions represent an impossible dream. Since students in experiments cannot figure out what makes the most sense for them economically, we must reject the Enlightenment.

It is not Adam Smith's conception of the free market that Ariely seems willing to throw out; it is his entire moral philosophy. The interests can no longer control the passions. There are no impartial spectators. The market will not set us free, because our fate is in the hands of forces beyond our control. Perhaps you can begin to see why, in comparison to this, there might be something to be said for Smith-influenced neoclassical economics after all. However limited their imaginations, rational choosers are not pawns.

Ariely eventually wakes up to where his analysis is leading him--and decides that he does not wish to go there. "Once we understand when and where we may make erroneous decisions," he writes on the last page of his book, "we can try to be more vigilant, force ourselves to think differently about our decisions, or use technology to overcome our inherent shortcomings." This is encouraging, even optimistic--but it stands in rather sharp opposition to all the conclusions that Ariely draws from his experiments. He is strikingly similar to his masturbating students, only in reverse: the Dan Ariely who gets all excited about describing the details of his research does not seem to know the Dan Ariely who finally gets around to pondering their implications in relative calm. An agglomeration of multiple selves, indeed.

Of all the Victorians, it is not Edgeworth or Mill who should have the last word on Ariely. That honor falls to the mathematician Charles Dodgson, better known as Lewis Carroll. "When I use a word," Humpty Dumpty said, "it means just what I choose it to mean, nothing more, nothing less." The same is true of Ariely. Our shortcomings are "inherent," but we can nonetheless overcome them. Our irrationalities are "predictable," but they are also correctable. Our brains are "wired," but we still have free will. We are "pawns" in a game of chess, but we can also act, if not like queens, then at least like bishops. By the time I finished Predictably Irrational I had pretty much the same view of human beings as when I began: imperfect creatures, but also quite capable of improving on their condition by learning from their mistakes. Some revolution.

5.

The approaches of Bruno Frey and Dan Ariely goad us in slightly different directions. Ariely cares not a whit whether munching Lindt truffles or Hershey's Kisses actually improves our happiness, while one can easily imagine Frey correlating their respective consumption rates with measures of life satisfaction in every Swiss canton. (Lindt was founded in Frey's Zurich.) Still, the parallels between them are striking, and it is not just their common indebtedness to Daniel Kahneman and, by extension, to Amos Tversky. Both authors begin with a radically simple premise: in one case, that happiness is our greatest priority; in the other, that we always act irrationally. Both spend whole books demonstrating that, as a consequence of their blinding insight, the discipline of economics needs to be overhauled. And both conclude that the world is not so simple: we seek goals other than happiness; and for all our irrational predictability, we can be both rational and unpredictable. Each author announces a revolution and then, before closing, offers an epitaph for its passing.

One has to wonder why the revolution in economics failed so badly even before it really got off the ground. Neoclassical economics may in some ways be preferable to what the revolutionaries offer, but it remains a vulnerable approach, stuck in unrealistic assumptions about human behavior and all too complacent about the beneficial equilibria established by markets. Nor can one deny the ingeniousness of the early days of economic psychology, especially the inventive puzzles that Kahneman and Tversky devised. If ever a field were ripe for revolution, it is economics. Yet if these two books are any indication, supply and demand, marginal utility, rational choice, and cost-benefit analysis are not going away. At best, economists will tweak their models a bit to account for some of our odder calculations. More likely, they will simply reiterate their belief that we need not examine the internal mechanisms of utility satisfaction because the price someone is willing to pay for something is really all we need to know.

Since they fail so conspicuously to live up to what they promise, these books reveal more about the sociology of the academy than they do about the behavior of ordinary people. The rules of academic life seem to require two inclinations--and they work at cross-purposes. One is that each generation must set out to topple the findings and the methods of the previous one, which means that we always seem to have a "new social history" or a "linguistic turn" or a "cognitive revolution." (Even neoclassical economics, which is presumably about to give way to hedonics, was the enfant terrible of the discipline not that long ago, intent on toppling Keynesianism.) It is all-important to be at the cutting edge. You have to a write a dissertation showing that someone else was wrong. The bigger the apple cart you overturn, the better your chances for success. Like Newton, academics stand on the shoulders of giants--but they stand upon them to bury them.

At the same time, the academic world, for all its leftism in politics, is a strikingly conservative world in temperament. Innovation and individual initiative are distrusted. Tenure rewards those whose accomplishments are dated and punishes those who are too daring. You must show deference to your elders, or, as they are called in the academic world, your mentors. It is not good to call too much attention to yourself in what you write. The rules of advancement are strict, and everyone understands them: if you fail to follow them, the fault is your own. If you want to think for yourself, try the business world.

In line with the side of academic life that insists upon the new, those committed to economic psychology quickly moved beyond thought experiments to grand proclamations. Thaler's Quasi Rational Economics was cautious about touting the insights offered by the new approach, but much that came afterward would dispense with wishy-washy qualifiers such as "quasi." ("Our aim in editing this book," reads the preface to Well-Being, "was not at all modest: we hoped to announce the existence of a new field of psychology.") Academics tire of approaches the way consumers tire of goods; there are conferences to be organized, special issues of journals to be published, departments to be rebuilt, best-sellers to be written. Why proclaim a revision when you can announce a revolution?

At one and the same time, however, the self-proclaimed revolutionaries, for all the enthusiasm with which they announce their discoveries, hew carefully to the old ways of doing things. Bruno Frey's book conforms to all the conventions of academic discourse. True, English is not Frey's first language, yet his relentless use of the passive voice and reliance on deadly prose have more to do with the way economics is written than with the way German is written. Like economists of any persuasion, Frey wants to be protective of his own discipline's turf even as he ventures onto the turf of others. He, like others in his discipline, can only correlate; he cannot establish causality. Neoclassical economists may not like what Frey has to say, but they will recognize the way he says it. Reading Frey, we are worlds away from the era in which economists were learned outside their field and wrote books that would become classics of human understanding.

Dan Ariely's contribution is also, in its own way, quite conventional. It is true that he challenges the near-religious conviction with which economists cling to the idea of rationality. But Ariely's subjects are consumers all the same, constantly on the lookout for bargains, even if they are not always shrewd enough to obtain them. (For both these economists, shopping--or, more generally, spending--is the archetypal human activity.) Behavioral economists, Ariely included, are fascinated by gambling, an arena in which people constantly misread the odds against them. But the people they study are not Pascalian bettors wondering about divine grace, nor are they statesmen pondering the risks of going to war. The errors of judgment they make are small ones. Little is at stake in the questions they are asked about chocolate candies, and even less because the circumstances in which they are asked those questions are so artificial. When it comes to human understanding, the ambitions of the revolution are paltry. What began as a movement marked by a curious, if not actually humanistic, sensibility has transformed itself into a one-dimensional vision of human nature in which the perfect rationality of neoclassical economics is replaced by an equally simple-minded conception of human beings as either happiness maximizers or perfect fools.

Ariely's contribution could not be more different from the work of most neoclassical economists: he is willing to write for a popular audience and thus to face the special scorn that academics reserve for those who sell many books. (Even here, though, Milton Friedman was the pioneer.) Ariely adheres to the conventions of successful nonfiction writing as fiercely as Frey does to the conventions of university-press publication. Predictably Irrational is filled with lots of advice to ordinary people dressed up with the authority of science; with descriptions of experiments meant to make the author seem risque; with confessional asides giving readers insights into the person whose words they are reading. (Ariely, although born in New York, grew up in Israel, and he writes movingly about his recovery from serious burn injuries suffered at the age of eighteen when a flare exploded in his presence. I leave it to others more familiar with Israel to ponder what it is about the Israeli experience that prods one to looks beyond classical rationality.)

In his autobiographical comments written on the occasion of winning the Nobel Prize, Kahneman wrote about Tversky this way: "Amos was often described by people who knew him as the smartest person they knew. He was also very funny, with an endless supply of jokes appropriate to every nuance of a situation. In his presence, I became funny as well, and the result was that we could spend hours of solid work in continuous mirth." Like them, and at times like Steven Levitt, Ariely aims to tickle the funny bones of his readers. There is a smartalecky quality to behavioral economics.

Reading the insistence of Ariely and others who maintain that everyone who studied human beings before behavioral economics came along was wrong, I conclude that we should once and for all stop calling for revolutions in our understanding of ourselves, and end this remarkable presumption. In the long history of humankind, the social sciences were developed only recently, but we have been trying to figure ourselves out since we first began to think. It defies the imagination that one new methodology or theoretical assumption is going to topple all previous efforts to understand the human condition. Sometimes revolutions in our understanding of the world do happen--they tell me that Albert Einstein led one (and that, having done so, he spent the rest of his life running down the wrong paths)--but they are rare in the physical sciences, and they are next to nonexistent in the social sciences. Human beings are indeed charming and perverse and altogether fascinating creatures, and the study of ourselves is among the richest of intellectual endeavors. We ought to give ourselves a bit more credit than the revolutionists of the social sciences extend to us: we pursue many goals at the same time, and we do so in all kinds of predictable and unpredictable ways.

And yet it is possible to understand us--slowly, patiently, in fits and starts, and with due respect for those who have been studying us for so long. That is why the history of social theory is still of philosophical interest, whereas the history of natural science is of almost no scientific interest: we still repair urgently to Weber and Durkheim, but we may safely forget about phlogiston. In both the social scientific and humanistic studies of human existence, it is not a revolution that we need. What we need are observations and suggestions and ideas, collected one at a time, by different people, from different disciplines, with different methodologies. That is not sexy, but neither is it easy.

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