



Why can't economists talk straight?

IT IS the annual Mayday military parade in Red Square, Moscow. Comrade Nikita Khrushchev is in the reviewing stand. Next to him is a journalist.

The Red Army parades its latest missiles, tanks, artillery and special forces. But the million-person crowd packing the square is utterly silent.

Then an old Zil truck chugs by, with four old men in the back waving to the crowd.

The crowd goes mad, cheering, waving, shouting, applauding.

Comrade Khrushchev, wonders the journalist, who are those old men?

Oh, Khrushchev laughs, those are my economists! They are capable of unlimited destruction!

As an economist myself, I could make the case that when we approach the Gates of Heaven, few of us will gain admittance. Not because we destroyed the world – though the 2008 global financial collapse was built on free-market ideas pandered by economists – but because we persistently confused it.

Maybe we economists are not quite capable of unlimited destruction. But we certainly are capable of unlimited obfuscation. We economists just can't talk straight, so that ordinary people understand what we mean.

The question is, why?

In their new book, David Leiser and Yhonatan Shemesh provide some answers. Leiser is a psychology professor at Ben-Gurion University, specializing in economic psychology. Shemesh is a PhD student at Ben-Gurion University.

The book has 10 chapters. Chapter Two explains “why economics is so hard” and Chapter Three outlines cognitive hurdles, such as “denial of tradeoffs.” Much of the book builds on a relatively new discipline, behavioral economics, of which Leiser is a major proponent.

Behavioral economics focuses on the emotional, cultural, psychological, cognitive and social facts that drive people's economic decisions. My wife, a psychologist, and I wrote an early book on the subject in 1982 (*Minds, Markets and Money*, Basic Books), but it took two Israeli psychologists, Daniel Kahneman and the late Amos Tver-

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David Leiser's advice to economists: Be aware of and foresee the major pitfalls

sky, to spark a true paradigm shift, in 1979. Their landmark research paper showed how people are predictably irrational in their behavior toward risk.

Kahneman won the Nobel Prize for Economics in 2002. Since then, at least two other behavioral economists have won the prize – Robert Shiller, in 2013 and Richard Thaler, in 2017. Duke University Prof. Dan Ariely, an Israeli, has written a string of wonderful books on the subject.

I interviewed Leiser to explore more deeply the issues raised in the book.

The Jerusalem Report: Bank of Israel has a new Governor, Amir Yaron. He is a pure academic economist, without experience in communicating with the Knesset and ordinary people. He will need to quickly develop and hone that skill. But how?

What are the key points you would stress, when instructing economists how to communicate clearly and effectively with the public?

Leiser: First, a general comment. Economists lament the public's failure to understand them, often blaming themselves for a failure to communicate due perhaps to jargon-laden communication.

Both reactions share a common source: Their own way of thinking has become self-evident to them, so that when lay people don't understand their explanations, econo-

mists conclude either that the public is dense or that ‘We didn't explain enough what we are doing.’

In truth, as we explain in detail in the book, this self-flagellation is misplaced. Fundamental hurdles stand in the way of those untutored in economics, as described in the book. To mention just one of them here: Lay people think about individuals, whereas economists think of the aggregate. The kind of causality involved at these levels are different. To offer an analogy: whereas climate scientists explain climate change by global phenomena such as the quantity of greenhouse gasses, ordinary people may remain unconvinced because last winter happened to be cold. The two levels scarcely relate, and the difficulties go much deeper than jargon.

What advice to economists? First, be aware of and foresee the major pitfalls – you'll have to read our book for that – and second, explain what you can and gain trust in advance when you can't. Some things can be explained. These should be explained by various means we suggest in the book. Beyond the direct benefit, this will earn the administration enough goodwill and trust that will come in very handy when some more inscrutable measure is taken.

Pitfalls we talk about in the book are:

- Short-range reasoning – fight it by explaining second- and third-step consequences. People can follow some of these, and they'll even feel smarter afterwards;
- Binary thinking and ignoring trade-offs – make trade-offs explicit. People know what a trade-off is, but it won't always occur to them. Draw their attention to it. Things don't go in just one direction. Point to unwanted feedback effects;
- Intentionality bias – people assume an intentional stance, they will assume things happen because somebody wanted it to occur. But they also have different mental models, which could be tapped with the help of apt metaphors. Metaphors when used wisely can be a great tool to communicate with the public.

The Report: The Israeli government has in the past few years initiated pension reform.

This involved a shift from distributed benefits – a system where you get a defined pension, regardless, and simply take the money and spend it – to defined contribution, where you generally need to decide where and how to invest your savings and pension deductions, requiring some financial sophistication.

What would you advise ordinary people who want to understand better personally relevant economics (their pension savings, their bank account, the job market)? How can they gain sufficient basic knowledge, in the face of economists' jargon and sometimes purposeful obfuscation?

Leiser: I recently completed a national survey about people's understanding of pensions and submitted it to the Financial Market authority which commissioned it. Without going into detail here, the Israeli public is aware that it understands very little, feels guilty about it, and would willingly take advice from an unbiased professional.

As we discuss in the book, education in matters of personal finances has been shown to be mostly disappointing. To my mind, the purpose of education should be to enable individuals to understand basic concepts and communicate with financial advisers, not to take decisions on their own. My view is that everyone should get advice, professional and unbiased. Indeed, it would be good if this were a legal requirement at key points in life.

I think the State should set up such a service, parallel to what exists in the medical domain. Everyone experiencing a medical complaint knows where to go to obtain competent advice about how to handle it. The same should be available for major financial decisions. I believe it would be fair to have it privately funded, for instance out of retirement savings. Return on investment is demonstrably excellent.

The Report: We are again approaching election-year economic apathy syndrome. There are huge social and economic challenges facing Israel, such as are we shortchanging civilian public spending in favor of unfettered defense spending? Are we cheating the long run, with savings and investment in the future very low? But as in the past, this election will focus largely on which political party can offer more defense and security.

Prof. Leiser, is there any way to restore social and economic issues to their rightful

place in the political agenda? I note that most political parties do not even bother to write an economic platform any more.

Leiser: True, Israeli parties offer little by way of electoral platform. Benny Gantz just founded a new party, credited with impressive poll results, but, despite this, or because of it, even though he has kept mum about his views, or possibly thanks to this.

The way to move forward is by having specific advocacy groups demand commitment. One good candidate would be a group concerned with intergenerational fairness. Of course, such a group will need to include economically knowledgeable people to engage in fruitful debate, lest it be dismissed as useless trouble-makers who are best ignored.

The Report: Political economists all over the world have been mourning the death of modern liberalism, as right-wing populists take power in the US, Hungary, Brazil and elsewhere. Liberalism is a political and moral philosophy based on liberty and equality, civil rights, democracy, secularism, gender equality, racial equality, internationalism, freedom of speech, freedom of the press, freedom of religion, and respect for human dignity. What role can economists play in seeking to stop the erosion of liberalism, and halt the rise of neo-fascist leaders?

Leiser: Too many people are willing to follow their first and superficial impulse about how to solve a given issue (e.g. respond to high rental prices by imposing price caps or offering subsidies) and fail to understand how politicians can turn their back on the "obvious" solution, the one so readily apparent to them, e.g. because supply and demand lead to unwanted outcomes.

Alas, populists are all too ready to pander to those views, the more so since populist discourse identifies the leaders with the people. This entails an embrace of superficiality – anything complex would make them look like the despised technocrats, whereas they present themselves as being one with the people.

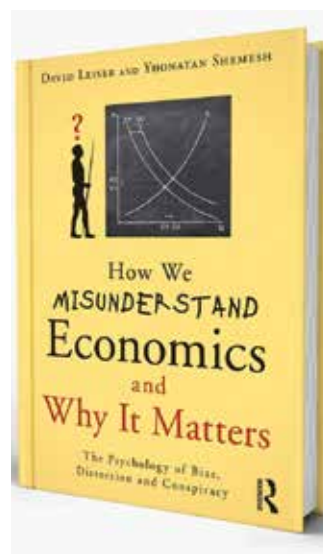
I believe that the main thrust for educating the public must consist in developing an appreciation for complexity. Learning that simple solutions often have unexpected consequences and that many factors need to be considered when addressing a given problem. We are developing such a curriculum together with Prof. Carmela Aprea, from Mannheim University, Germany.

For a decade, I had the privilege of working with, and learning from, MIT Prof. Lester Thurow, who chaired the Technion Institute of Management. Thurow always described himself as an economic educator. His books explained complex issues clearly and understandably, without jargon, so those without advanced degrees in economics could grasp the main ideas. Thurow was a prophet of globalization and explained its costs and benefits lucidly.

In contrast, a study showed that "an average published paper (in an economics journal) includes more than 50 equations ... and about two pieces of data analysis." Economists speak math. Most ordinary people do not. Economists think math and hence oversimplify complex social issues, which cannot truly be encapsulated in mathematical models.

But it is beginning to dawn on us economists that we must mend our ways. *How We Misunderstand Economics* is a great start. ■

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How We Misunderstand Economics and Why it Matters:

The Psychology of Bias, Distortion and Conspiracy

David Leiser & Yhonatan Shemesh
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