

A good story, a well told story, a story worth reading, but far from the whole story

One of the phishes described in this book is reputation mining. Both authors are Nobel prize winners in economics. We know Shiller especially from his Case Shiller index of housing prices, a highly useful tool for predicting events such as the 2008 housing bubble. The book will sell on the strength of these reputations.

George Akerlof is married to --- Janet Yellen. I had not known. I found that fact via Google only after reading the book. It has a lot of explanatory power for the contents of the book.

The book's fundamental premise is that we are all taken for phools some of the time, and we should be wary all of the time. The Milton Friedman school of economics was premised on the idea that everybody knows and acts upon their own best interest, and that the aggregate of everybody acting in their own self-interest leads to an optimal arrangement, a concept that dates back to Adam Smith's "Wealth of Nations".

The modern instantiation of that concept, according to the authors, is modified only by the recognition of externalities and income distribution. But, the authors tell us, the torrent of recent books on financial illogic tells us otherwise. They quote Freakonomics author Steven Levitt, "Thinking Fast and Slow" author Daniel Kahneman, and several others. They do not mention Dan Ariely, Michael Shermer, Robert Trivers and others who write in the same vein. The bottom line, however, is exactly as the authors say. We act according to our wants rather than our needs. We do not recognize our needs, and our wants are often perverse. They name, as especially egregious examples, gambling, tobacco, alcohol and drugs.

Jumping to the conclusion, part three of the book seems more an exhortation, a defense of the status quo than an evenhanded presentation of the facts. They discount the severity of regulatory capture, and trumpet the benefits of government oversight bodies such as the FDA, the securities exchange commission, and the interstate commerce commission. They laud the positive outcomes of Social Security, Medicare, and other transfer programs. There is no discussion whatsoever about the sustainability of these programs, or the phishing aspect of their enactment. In my words, the promise of benefits today to be paid for by taxpayers tomorrow is a very popular political phish. Free lunch; something for nothing. Although how long this phish can go on has to be a topic of pillow talk for Akerlof and Janet Yellen, no such discussion finds its way into the book.

The authors do not touch on many topics that would complicate their case. Technology is exacerbating income inequality. Smart people are becoming more productive, not so smart people are becoming increasingly superfluous in the American economy. During what they call the Age of Reform, 1890 to 1940, America was still largely governed by the scions of the founding fathers. The common good and the Protestant ethic were seen to coincide. Since that time America has experienced vast immigration by North Asians and Jews, who though very competent and successful maintain identities apart from the founding stock, and by Hispanics, Muslims and others. America's involuntary minorities, American Indians and especially Blacks, have gained political power. The increasing level of mutual mistrust is evident in crime reports in the daily newspapers, throughout the blogosphere, and in every political situation. The authors should recognize that a large amount of phishing involves appealing to tribal instincts. Every author must set boundaries in order to craft a book small enough that people will read it. While the authors did a great job with the topics they chose, I would observe that they could have edited down the good material they present to find room for some more relevant topics.

The book is well written and has an excellent bibliography. It is very centrist, very much an establishment work, as one would expect from the Princeton University Press. For what it is, it deserves five stars. For what it is not, the reader owes it to himself/herself to look to other sources.

That's the end of a short review. Here follows a chapter by chapter analysis.

Part One – Unpaid Bills and Financial Crash

CHAPTER ONE Temptation Strews Our Path.

The economy functions not by satisfying our needs but by satisfying our wants. The mortician does not sell you a reasonable priced funeral, the car dealer does not sell you what you need for basic transportation, the grocery store does not sell you what you need for nourishment. If they did they would starve. No – on the contrary they sell you what you will buy, even if it is not what you need, or detrimental to your self-interest.

CHAPTER TWO Reputation Mining and Financial Crisis

A good reputation is built up over a long period of time. A company can cash in on a good reputation, turning it into money by taking advantage of people who continue to believe in what once was. They cite the rating agencies, Moody's and Standard & Poor's, as examples. I will name my former employer IBM. It had a reputation as an outstanding employer, phishing those of my coworkers who stayed on in the expectation of secure employment and a decent pension. Defaulting on that trust brought the company a lot of profit for many years. I will add a reputation that these authors pointedly omit. The United States' worldwide reputation for sound money ensures that Ukrainian mattresses are stuffed with dollars, not Euros. Our reputation has allowed the US to sell treasury bonds throughout the world. In monetizing the federal debt, selling it to foreigners, we have abused that trust. The phish have gotten wise. As this book comes out, China is dumping treasury bonds faster than the government can print them.

PART TWO Phishing in Many Contexts

CHAPTER THREE Advertisers Discover How to Zoom In on Our Weak Spots.

The best part of the chapter is a history of three early advertisers, Albert Lasker, Claude Hopkins, and David Ogilvy. These geniuses managed to add value to oranges by turning Sunkist into a brand, exalt the process that every brewer used to the benefit of one brewer in particular, and turn an ordinary soap, Palmolive, into something the promised beauty. Advertising is a classic phish. Create a story, such as the Marlboro Man, that the buyer can identify with and they will not research the actual merits of the product.

CHAPTER FOUR Rip-offs Regarding Cars, Houses, and Credit Cards.

This chapter focuses on the big transactions in life. They pit buyers, who confront these situations infrequently, against sellers who do so every day. The buyers get ripped off on origination fees, points, financing terms, unneeded insurance and a million other costly extras. Credit cards charge an unconscionably high interest rate to those who do not scrupulously pay their bills when due.

CHAPTER FIVE Phishing in Politics.

Voters are dumb. We vote emotionally. The authors cite Senator Charles Grassley making a commercial of himself riding on a lawn tractor, portraying himself as a common man. That's what wins votes. A topic they might have explored is how emotional issues such as gun ownership/gun control are so key to getting politicians elected and so irrelevant with regard to what they do once in office.

CHAPTER SIX Phood, Pharma, and Phishing

The story here is Cinnabon, which floods airport lounges with the scent of cinnamon just when the traveler is tired and hungry. The high calorie content and the price are irrelevant. People buy what is not good for either their pocketbook or their waistline, and the company coins money.

CHAPTER SEVEN Innovation: The Good, the Bad, and the Ugly.

Some very interesting research here. Innovation accounts for 7/8 of the improvement in our standard of living, increased capital investment only 1/8. However, not all innovations are good for us. They provide histories of slot machines and Facebook.

CHAPTER EIGHT Tobacco and Alcohol.

The authors have nothing good to say about any of these. They provide a good history of the demonization of tobacco, and a good litany of the unmeasurable damage that alcohol does. In this regard I would be somewhat of a contrarian. Alcohol fills an important social role. I am fond of joking that without it, Germans could not breed. It is certainly an integral part of the culture where I live now in Ukraine. The downside is not to be dismissed, but there is also an upside to be acknowledged. I'll concede that it is harder to find arguments for the upside of tobacco, gambling or drugs.

CHAPTER NINE Bankruptcy for Profit.

This is a chapter on the techniques of corporate looting. It includes a good account of the savings and loan crisis of the 1980s, and something of an insight into how the "Keating five," including Senator McCain, got compromised.

CHAPTER TEN Michael Milken Phishes with Junk Bonds as Bait

This is a balanced chapter about an enigmatic character. Most of what Milken did was legal, and the crime for which he went to jail was a frame job. Nonetheless, his operation immorally took advantage of the gullibility of investors. One of the metaphors used throughout the book is rotten avocados, products presented as one thing but actually representing another. Milken used in a secure book on the profitability of fallen angel junk bonds issued by reputable companies that had fallen on hard times, and twisted the story to support the purchase of newly minted bonds which were junk from the start. It was a very successful financial phish.

CHAPTER ELEVEN The Resistance and Its Heroes.

This chapter leads the reader toward the happy conclusion. It is an endorsement, in general, of the forces that have made the marketplace safer and the economy richer and more productive over the years. These include the muckrakers such as Upton Sinclair and Ida Mae Tarbell, the governmental agencies that were set up starting in the Age of Reform, and nongovernmental groups such as the American Chamber of Commerce, the Better Business Bureau, the industry standards groups that rigorously define methods of classifying wheat by type and grade, and others that band together to ensure the general integrity of business.

PART THREE Conclusion and Afterword. This is the rosy conclusion alluded to above. Fret not, all is well. The government will look out for your best interests. I advise readers to sample pessimistic blogs such as zero hedge, the Unz review and oftentimes for differing points of view, then decide who is phishing whom.