

[SLICE OF MIT THEME MUSIC]

ANNOUNCER: You're listening to the *Slice of MIT* podcast, a production of the MIT Alumni Association.

JOE MCGONEGAL: This is the *MIT Alumni Books Podcast*, I'm Joe McGonegal. Robert Shiller's new book is *Phishing for Phools*, published this fall from Princeton University Press. Shiller, who earned master's and doctoral degrees in economics at MIT in the 70s, is a sterling professor of economics at Yale University. *Phishing for Phools*, coauthored by George Akerlof, PhD, '66, helps us unpack the psychology of phishing, identifying what is at work when businesses provide us what we don't necessarily want, and what is at work when we willingly take the bait.

Shiller spoke at an MIT Faculty Forum, Alumni Edition event in October 2015. Nanette Byrnes, senior editor of business reports at MIT Technology Review, moderated the discussion. Byrnes opened by asking Shiller why he chose to write this book now.

ROBERT SHILLER: This book, I think, is a delayed reaction to a trend in economic thinking that's been going on for several decades. It's getting to the point where we feel that maybe it needs a rebuttal, that there is too little appreciation for the kinds of things that we do as a community and as a society.

Now the question is, why now? I think it has something to do with our age. As people get older they tend to reflect on their life and think about where is all this going.

I don't have any better-- Maybe, also, the world is getting more receptive to this kind of thing. I was interviewed by a *Washington Post* reporter, and he said, well, you know, maybe you're part of the Bernie Sanders thing. But I never supported Bernie Sanders. But maybe it has something to do with this big reaction to the inequality at the top 1%.

But it's not directly connected to our book. We don't advocate socialism. And we do believe in markets. But it's a matter of some subtlety that we-- certain things get ignored. And, in part, it's because of segmentation of departments that in modern times we respect expertise very much.

We don't want generalists who-- I think we've lost-- My wife and I, by the way, Ginny, wrote a paper-- we published it in the *American Economic Review*-- called Economists as Worldly Philosophers. A worldly philosopher is a term used to describe economists that Robert

Heilbroner created a half-century ago.

They used to be philosophers, economists. But now they're technicians. That's a feeling that I've gotten. I think that economists have to be more--

The idea that Pareto optimality is the end of economics and that we should never talk about issues, about someone's being exploited, or someone's being-- or society becoming extremely unequal. And we don't have to be afraid, we shouldn't be afraid of being labeled as something for having brought up these issues. We're not extremists, but we think that people are afraid to criticize.

Absolute hands off of markets. It's out of fashion. Maybe we're curmudgeonly. We like to go after things that are out of fashion.

NANETTE And maybe we're starting to see a shift in that. I know this book is really aimed at a broad
BYRNES: audience, for everyone interested in the topic, but I'm curious what your-- reaction you've had from your colleagues in the academic world.

SCHILLER: Again, it's uneven. By the way, our Amazon-- we get about three stars out of five. And I've learned that's because some people hate us. They give us one star, and it brings it down. And I've discovered that ranking of books-- one thing we talk about in our book is that we don't believe in rankings--

[LAUGHTER]

But--

BYRNES: That was smart.

SHILLER: --I think that the best thing to look for on an Amazon is a three star book. Because that means that some people don't like it. If it's something that everybody agrees is good, it's probably not original.

NANETTE Well, that is the nature of those rankings, right. The two ends are what carry the day or really
BYRNES: influence the number, and maybe that's part of what we're seeing in terms of economics in general.

SHILLER: So incidentally, all of these rankings-- the world is filled with rankings now. Like university

rankings or investment fund rankings or-- And maybe they're a little bit informative, but it's become crazy.

And what we didn't point out is what airlines make you go through when you board the plane. It used to be they would say, families with young children board first, and then servicemen board first, and then you board. Now it's first class, business platinum, gold, silver, and then--

NANETTE Data.

BYRNES:

SHILLER: --you see all these people, and you don't want to meet eyes with them if you're flying business class. I feel so uncomfortable doing this. But it's part of a-- airlines pretty much all do this. It's because it works.

It somehow encourages people to pay more for those extra seats, those highly-ranked seats. It must work, because they are experimenting with these things. They have little concern for your feelings when you have to wait in coach. I feel uncomfortable either way, whether I'm coach or business class.

NANETTE Well, there are many examples in the book of phishing for phools, and I wondered if you have a favorite. There's one that maybe surprised you or you hadn't anticipated including it.

SHILLER: Well, some of my favorites were axed by George Akerlof.

NANETTE Well, this is your opportunity to bring them up.

BYRNES:

SHILLER: The one that I-- well, I have to apologize to George if I bring that up. One of them that occurred to me was when I'm on an airplane. And I never order the movie-- I'm usually working on the airplane.

But I look at movie-- I'm flying in business class, so they're all ordering their own movie-- And I'm looking at the movies that other people are watching and just-- without the sound-- I shouldn't say I see this. I shouldn't admit that I'm looking. I'm just looking at what people watch.

And typically all of the men are watching shoot 'em up, violent movies, where you look over there and a man's being strangled, you look over there and they just gunned down three

people. But the women, they're watching-- looks like other women arguing.

[LAUGHTER]

So then I started watching more closely. Then I realized that these male films, it's not nonstop fighting. In fact, I noticed there's-- I don't care what the story is, I'm just watching the action. And it's-- actually the movie starts out a violent incident, right at the beginning, and then a long pause of people, and then another violent [INAUDIBLE], and then, as the movie progresses, they get more and more frequently, until toward the end this guy is gunning down a thousand people-- bad guys. And then it calms down at the end.

So I thought, this is an art form. There's a rhythm to these. So I thought, I'm going to check, there must be a scholarly literature on how to make a movie. And sure enough, there are scholarly articles about the rhythm of violence in movies. And to be a success, you've got to cap--

So they think of it as an art form. And I said, well, I'm not sure this is an art form. This looks like it's trying to capture annoyed, angry men or something. There's something not--

But George made me cut it, because he said, look, again, there's always a gray area here, that some people like-- you know, you've had a hard day at work, and you feel angry feelings, you want to watch this.

BYRNES: So it's legitimate, it's not phishing?

SHILLER: See, this is why some people object to our book, because it seems like most of these things, actions, could be done-- Can I give you another example, which is--

BYRNES: Yes.

SHILLER: We didn't cut this one. The Malaysian Airlines-- not the Ukrainian one, but the first Malaysian Airline crash-- was in the news. This is where a flight took off from Beijing, and flew-- I'm sorry, from Kuala Lumpur en route to Beijing-- and it just disappeared.

I found the news kept coming back to this story again, and again, and again. And I found myself thinking about it a lot, and thinking, you know, what happened. I'm making my own theories and I was talking to-- Then I thought, why is this such an important story?

Millions of people are dying all the time. And so a mere couple hundred in the world, there's nothing significant about that. It's important that airline people figure it out, but I'm not an airline people. Why should I waste my time trying to figure this out?

And then I started to blame the news media on this. The question is, what is in the news? What is news? Well, it turns out that news is what sells news. Right?

I think that this Malaysian Airlines story was singled out for them, not because it's something that you should know about, but because it has a mystery quality to it. People like mysteries. The Mona Lisa was stolen from the Louvre in 1911. Isn't that a wonderful news story? What could be a more perfect news story than this theft of the Mona Lisa?

And they didn't recover it for four years. So there was all these stories-- that ultimately is why you've heard of the Mona Lisa, I think. You don't know about the theft. But what it did is, it made publicity.

The Mona Lisa was not so famous before that. And it went four years of reporting on the effort to recover the painting-- made it famous forever. So you think it's famous because it's a good painting. Well, not really. It's famous because of that event, which was exploited by the news media, instinctively because they know that you will respond to a story like that.

BYRNES: [INAUDIBLE]

SHILLER: Now I'm getting into sounding too cynical-- read our book. We have a lot of stories like that.

BYRNES: Well, as coming from a technology publication, I am curious as to what degree you think technology, and the technology that surrounds us in our lives today, is playing in to this phenomena. I mean, you picked--

SHILLER: Yeah.

BYRNES: --the phishing term.

SHILLER: Right. Yeah, I picked that from technology.

BYRNES: Right.

SHILLER: Well, the way I think of it is, technology cuts both ways. One thing that's really wonderful is we have marketplaces on the web that have reviews by customers-- though they're not always

honest. But you do learn from them.

And we have things like Uber or Airbnb that maintain reputations. If someone drives an Uber car and is abusive to passengers, that will be handled very effectively. On the other hand, it creates an opportunity for big data exploitation of your weaknesses. So if they figure out that you are an addict of one sort or another, within the limits of the law, they will pursue and make sure that you are tempted by your addiction.

And, again, this is not a conspiracy. We're not talking about conspiracies at all. It's people trying to make a living off of the internet. And if somebody doesn't do it, somebody else will, if it's possible to do it.

BYRNES: This seems especially difficult to imagine the regulatory team that could address this.

SHILLER: Well, we still need people and leaders. And we need people with a feeling of goodwill to society. Now, this has somehow become out of fashion in economics. Economic models describe people as relentlessly selfish. But I don't think that is right.

In fact, it's hard to imagine anything more wrong than that. People care about each other-- they're also envious of each other. And sometimes they feel schadenfreude against others' failures, but we definitely care about each other. And what we do have to do is help develop a society that brings out the good side of that.

BYRNES: I would be very remiss if I had you on this stage, and I didn't ask you about bubbles.

SHILLER: Oh, yes, right.

BYRNES: So at the moment-- I've heard some of your discussion on this recently-- but there are some asset classes that you're watching. So can you tell me a--

SHILLER: Yeah.

BYRNES: --little bit about that.

SHILLER: Well, real estate is-- well, I'm with Chip Case here. We have our Case-Shiller home price indices that have been going up quite well. But it's slowed down recently, because we're coming out of the summer months, and that's just seasonal.

Last time we looked it was still going up. If you correct for inflation home prices are not super

high, not like where they were in 2008. But I have more concern about the stock market. Particularly the US stock market.

I have this CAPE index that I developed with John Campbell, my former student-- that means cyclically adjusted price-earnings ratio-- that is quite high. It's something like 26 now, whereas the average historically was 17. So the market is highly priced. Moreover, I have questionnaire survey data from both individual and institutional investors that reveal that these people both feel that the market is highly priced.

In August we had a massive price drop, which has been corrected but it was 10% down in five days. So looking at these it makes me feel anxious about the stock market. But not calling a turning point. I still don't know-- I'm worried about it. And I wouldn't be overly exposed to it.

But there are other factors that might be pushing it up, like the very low interest rates that we still have. And another thing that I talked about-- I also came out in January of this year with the third edition of my book, *Irrational Exuberance*, and one thing that I talked about there that is rarely talked about with regard to market outlook, is the fear of inequality that we now have and the fear of technology.

If you ask people, what do you think you'll be doing in your work in 20 years, and how well do you think you'll be doing, I get a sense of anxiety. There are also people that are worried about computers replacing their jobs. If you ask, what will your children be doing in 30 years, people will say, I have no idea.

Jobs that I see around me today, whether they'll still be around, I don't know. So I think that this has a potential, this attitude, to keep people willing to hold stocks or housing or any long term asset at a high price. And also to make for a relatively slow economy.

This is the problem. The real reason why it's so hard to predict the market is because there's so many factors. We're trying to predict major historical events, and historical events usually have multiple factors.

We just don't have the imagination or the ability to account for all of these future factors. It could be other things that will happen-- wars, plagues, who knows-- that will affect-- So I don't have any confidence in my abil-- So, I guess, the bottom line is one should diversify. And not put too many eggs in one basket.

Well, I've always known-- I mean, as a matter of fact, the stock market is very hard to predict.

I'm not going to play a game by trying to give an overconfident prediction.

BYRNES: It is hard to predict but you have a rare record at seeing things ahead.

SHILLER: Well, this isn't quite like-- Now there were other-- When I wrote in 1999 or 2000 my *Irrational Exuberance* book, I essentially predicted a stock market drop, but that was more extreme than that. The CAPE ratio was up to 46 at the time my book came out. And it seemed like the psychology of that time was much more effervescent.

I call that the millennium boom-- the boom that preceded 2000. Because there was a new millennium coming. And the internet was brand new. And there was sort of a-- dot-com boom was happening. Something looked more unhealthy then than now. This is really different now.

The next big peak in the market was in 2007. We had this-- as Chip will say-- we had a really crazy housing boom then. And expectations were crazy. We did a survey, Chip and I, of homebuyer attitudes, and in 2005 or 2006 people thought that home prices, the median be 12% up a year. For the next 10 years.

BYRNES: Wow.

SHILLER: They had crazy expectations. And I saw something was clearly wrong. Now the expectations are more grounded, home prices aren't as high, the stock market isn't as high. I think that I'm-- I don't know if you agree with me, Chip, I'm not ready to make any strong forecasts now. It's just a --

CHIP CASE: ... monitoring these indexes. I mean, every year it actually went up over 10%.

CREW: Just giving you a mic.

SHILLER: Oh, yeah. The price increases were enormous. In some cities it was over 20% in one year. And people were looking around for an interpretation of what would explain it.

And then Ben Bernanke-- he's my hero, but he makes mistakes too-- around 2005 he said, oh, it's all demographics and economic growth, and he sees no reason to worry. So I think we did have a failure of leadership at that time.

BYRNES: Thank you so much. I think we're going to wrap it up. Wonderful.

[APPLAUSE]

SHILLER: Thank you.

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