

The Daniel Kahneman, Amos Tversky Swindle

by Mark Bender

April 8—The short version of behaviorist economics is that it can be considered the carry-over of the pseudoscience behind the Pentagon's Revolution in Military Affairs into the civilian sphere. It also clearly reflects the hedonistic calculus of Jeremy Bentham and Bernard Mandeville.

Its origins can be traced to two Israeli behavioral psychologists, Daniel Kahneman and Amos Tversky, both with experience in, and employed by the Israeli Defense Forces (IDF), who had begun a long collaboration by 1968.

Born in Tel Aviv in 1934, Kahneman spent his youth in France, where his father was director of research for

a chemical company “directed by the financial mainstay of the Fascist anti-Semitic movement in France in the 1930s,” as Kahneman recalled in his autobiography (*A History of Psychology in Autobiography*). At the end of the war, the family embarked for Palestine.

Kahneman received his bachelor's degree from Hebrew University in Jerusalem in 1954, majoring in psychology with a minor in mathematics. A favorite professor there introduced him to the work of “group dynamics” brainwasher Kurt Lewin, especially Lewin's “force field from the outside.” He was so taken by Lewin's theories that he still teaches them today.

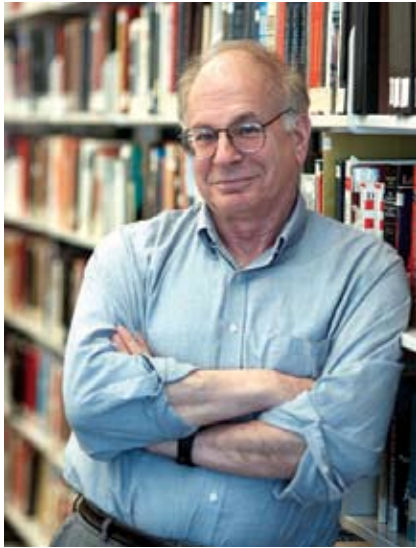
After graduating, he served in the Israeli Army for four years, three of them in the psychology branch of the IDF. One of the projects he worked on was selection of individuals for officer training, using methods based on World War II British manuals. In a test involving a leaderless group, he experienced what he called the “first cognitive illusion I described,” which he named “the illusion of validity.”

In an autobiographical sketch he submitted upon receiving a Nobel Prize, he wrote, “puzzles with which I struggled at the time were the seed of the paper on the psychology of intuitive prediction which Amos Tversky and I published later.” Kahneman is known as a leader in the field of hedonics, with an emphasis on the “framing” of decision-making (how a question is “framed” will affect the answer).

The two began publishing in the early 1970s, with the seminal work “Judgment Under Uncertainty: Heuristics and Biases,” published in *Science* magazine in 1974. At the end of that detailed work is a note indicating that their research “was supported by the Advanced Research Projects Agency of the Department of Defense [DARPA] and was monitored by the Office of Naval Research” under a contract with the Oregon Research Institute, with additional support “provided by the Research and Development Authority of the Hebrew University.”

Behavioral Economics Is Born

Kahneman and Tversky worked in Israel, the United States, and Britain, each spending time at Cambridge, and in 1978, both arrived at Stanford University's Center for Advanced Studies in the Behavioral Sciences. It was here that they met University of Rochester-trained economist Richard Thaler, and the “science” of behavioral economics was born. The next year, 1979, saw the publication of the fundamental work of the new



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“science,” *Prospect Theory, Analysis of Decisions Under Risk*, by Kahnemann and Tversky. Later, the two published works along with Thaler and others, notably the British Columbia-based behavioral economist Jack Knetsch.

In 1982, the grouping was “institutionalized,” one might say, by Eric Wanner, who was then the vice president of the Sloan Foundation, and who proposed funding an integration of behavioral psychology and economics. A year later, when Wanner became president of the Russell Sage Foundation, he brought the psychos along with him, and began to fund the project, which continues today. The first step was to send Thaler to the University of British Columbia, where Kahneman was teaching, to work with him for a year. At this time, Jack Knetsch would have also been at UBC.

It was at Sage that Kahneman, Tversky, and Knetsch produced a work in which they tried to give their “Prospect Theory” historical grounding, citing four works of theoretical “heritage,” one of which is the work of John von Neumann and Oskar Morgenstern. The result was “Fairness and the Assumptions of Economics,” published in a special issue of *The Journal of Business*. Kahneman received half a Nobel Prize in 2002, for “having integrated insights from psychological research into economic science, especially concerning human judgment and decision making under uncertainty.” He

is today at Princeton. Tversky died in 1996.

In 1995, Thaler, who continues as a director at the Russell Sage Foundation, came to the University of Chicago. At Chicago, Thaler made a quick convert and lifetime associate of Cass Sunstein, a professor of law, who quickly spread the ideas to the legal profession, causing a minor revolution in teaching methods, which continues today. Sunstein became a close associate of Barack Obama, who was also resident at the University of Chicago at that time, and led Thaler to him at a 2004 Illinois Senate campaign event. Thaler’s response at the time was, “You know, he seems like the real deal.”

Thaler, in addition to being an economics professor at the University of Chicago, is still on the board of the Russell Sage Foundation, which also houses the vaunted Consortium of 29, the Behaviorist Economics Roundtable, founded in 1992.
