Behavioral Economics In Europe: Who's Who

by Dean Andromidas

As *EIR* has shown, a tribe of behavioral economists—foremost among them, U.S. Office of Management and Budget director Peter Orszag—has gained control over President Barack Obama's economic policies, with disastrous consequences. The behaviorists treat their human subjects—U.S. citizens—like rats in a maze, calculating how best to induce them to do what the economist wants them to do, "for their own good." These kooks have their counterparts in Europe, who permeate the policy establishment that has promoted the extreme monetarist, free-market policies of the Anglo-Dutch financial oligarchy. They teach at leading European universities, serve on government commissions, and are featured as "expert" talking heads on business news programs and in press interviews.

The Behavioral Economics Roundtable, where this cult's 29 high priests sit (see *EIR*, May 1, 2009), includes three Europeans. It hosts an annual Summer Institute on Behavioral Economics at Italy's University of Trento, where all 29 members come to initiate 30 select graduate students into their secrets.

From May 29 to June 1, Trento University will dedicate its annual Festival of Economics to "Psychological Economics and Economic Psychology" (better known as "psycho-economics") and **George Akerlof** will speak on his new book, *Animal Spirits: How Human Psychology Drives the Economy, and Why It Matters for Global Capitalism*. The conference is cosponsored by the Italian oligarchy's Rodolfo De Benedetti Foundation, whose director **Tito Boeri**, a professor at Italy's top neoliberal school, the University of Bocconi, is the scientific director of the Festival. Dozens of speakers will participate, as well as bankers and politicians.

A Tour of the Grand Academy of Laputa

A look into the European behavioral economic institutes is like Jonathan Swift's Gulliver visiting the Grand Academy of Laputa, where he finds "projectors" working on such projects as trying to extract sunbeams from cucumbers, or to reduce human excrement to its original food.

For example: At the elite Stockholm School of Economics, Sweden's number-one behavioral economist, Professor of Health Economics **Magnus Johannesson**, has just published the results of a project, conducted with five other researchers, in the *Proceedings of the National Academy of Sciences* (April 21, 2009) under the title, "A randomized trial of the effect of estrogen and testosterone on economic behavior." This experiment allegedly disproved earlier studies that claimed that sex hormones affect economic behavior, such as risk taking.

Johannesson's team is working on trying to isolate the genes that affect risk behavior. He told a journalist: "We have pioneered the work on the study of the genetic effects on especially risk behavior. Now one person from my group is participating in a big American study. Especially one gene has been identified. The studies have been done on twins, in the ordinary way genetic studies are done."

Johannesson's colleague at the University of Stockholm, **Henry Montgomery**, a professor of Economic Psychology, when asked to comment on the tumbling stock markets by Swedish radio on April 28, described a potentially positive effect of the swine flu pandemic, in that it would make people forget about the markets. "What is special in this situation is that we have another big crisis," he said. "Maybe this will take the public interest away from that, which could be a possible side effect." In his irrational world, the economic crisis is a manifestation of irrational behavior that could be "cured" by another irrational fear.

At the University of Zurich's Institute for Empirical Research in Economics can be found Roundtable member **Ernst Fehr**, an Austrian who directs the institute. Fehr led a study, published in the *Proceedings of the National Academy of Sciences* (Dec. 11, 2007) under the title, "Other-regarding preferences in a nonhuman primate: Common marmosets provision food altruistically."

The study purports to demonstrate that man's "unsolicited prosocial behaviors" among "genetically unrelated strangers" also exist in at least one non-human primate. Chimpanzees, despite evidencing cooperative activity, reportedly do so only as "part of self-interested cooperation and reciprocal exchanges" (a trait also demonstrated by the philanthropic urges of mega-speculator George Soros). But "unsolicited prosocial behavior" among "genetically unrelated strangers," at least in terms of sharing food, *was* demonstrated in marmosets. There is an obvious lesson here: While chimps would make good market players, marmosets are too wimpy for the dog-eat-dog world of the free market.

In Germany, at the University of Mannheim, home of the annual Mannheim Empirical Research Summer School, where U.S. Roundtable members Daniel Kahneman and David Laibson participate, can be found Prof. Dr. **Martin Weber**, chairman of the School of Business Administration, Finance and Banking. Characterized by Germany's financial daily *Handelsblatt* as one of Germany's "Masterminds of Business Administration," he has been the number-one behavioral economics "missionary" in Germany, according to the weekly *Die Zeit*. He has been busy writing papers such as "Financial Literacy and Mutual Fund Investment: Who Buys Actively Managed Funds?" and "How Riskily Do I Invest? The Role of Risk Attitudes, Risk Perceptions and Over-Confidence." While the German financial press considers him a top "forecaster," in January 2008, he told *Die Zeit* that the crisis at Hypo Real Estate, Germany's largest real estate bank, had hit "rock bottom" and would improve. Four months later, it has become Germany's biggest bankruptcy, so far.

In France, there is the Institut D'Economie Industrielle, in Toulouse, where Roundtable member **Jean Tirole** is based. With a $50,000 grant from the Russell Sage Foundation, Tirole set up the Toulouse Summer Institute, which held its first session June 16-24, 2005. Courses were offered on neuro-economics, self-regulation, the theory and practice of experiments, and the economic implications of cognitive research on decision making.

Tirole testified on the financial crash in October 2008, before the financial commission of France's National Assembly. He declared that "it was impossible to regulate hedge funds," defending asset-backed securities and derivatives, and telling France's lawmakers, "There is absolutely no question of eliminating them," because in spite of certain flaws, they "have contributed greatly" to the economic process.

As Gulliver said, after visiting the Grand Academy of Laputa, "I visited many other apartments, but shall not trouble my reader with all the curiosities I observed, being studious of brevity."

La Puta: The Whore

Swift's Grand Academy of Laputa was modeled on the British Royal Academy, while the Island of Laputa itself was modeled on Venice, which, in Swift's time, dominated the English monarchy. Since *la puta* is the Spanish word for whore, Swift was aptly defining the relationship between the Grand Academy and the Venetian Court. There is an obvious parallel between behavioral economics and today's Venetian-style Anglo-Dutch financial system.

Behavioral economics has been promoted by the leading institutions of the Anglo-Dutch oligarchy: the European Commission, the central banks of Europe, including the European Central Bank and private financial institutions dominated by the City of London. This is who the economists serve.

In April 2004, the European Network for the Advancement of Behavioral Economics (ENABLE) was created, in cooperation with Harvard, Princeton, and the European behavioral economics institutes. These include the Center for Research in Experimental Economics and Political Decision Making (CREED), Universiteit van Amsterdam; Ernst Fehr's Institute for Empirical Research in Economics; Jean Tirole's Institut D'Economie Industrielle; the Stockholm School of Economics, where Magnus Johannesson is experimenting with sex hormones; the University of Munich and its Munich Experimental Laboratory for Economic and Social Sciences, founded by **Klaus Schmidt**, one of the key behavioral economists in Germany; and the University of Mannheim, where "Mastermind of Business Administration" Prof. Dr. Weber is based.

Virtually all of Europe's behavioral economics institutes, including the Center for Psychoeconomics at the University of Konstanz, in Germany and the Tilburg Institute for Behavioral Economic Research in The Netherlands, interface with the above institutions in one way or another.

Financed by the European Commission's Marie Curie Actions Program, ENABLE held Summer schools and conferences on behavioral economics between 2005 and 2008.

A key coordinator and funder of ENABLE was the Center for Economic Policy Research. Headquartered in London, the CEPR is a network of 725 economists, and although not all of them are behaviorists, many behaviorists receive their support and appointments from there. According to the CEPR website, they receive financial support from the European Commission, all Eurozone central banks, as well as the Bank of England, the Bank of Sweden, the Bank of Denmark, and 17 other central banks. Thirty-three private financial institutions support the center, including Crédit Suisse, Barclays, BNP Peribas, UBS, and Lloyds TSB.

CEPR fellow **Anne Sibert**, who is British, is on the board of the Central Bank of Iceland; **Jean Pierre Danthine**, of the University of Lausanne, is on the board of the Bank of Switzerland; and **Karolina Ekholm** was named deputy governor of the Central Bank of Sweden. A German professor of behavioral economics, **Armin Falk**, director of the Bonn Laboratory of Experimental Economics, just received the Gottfied Wilhelm Leibniz Prize for his work in behavioral economics—an award which must have made Leibniz turn over in his grave.

CEPR is key to the European oligarchy's ability to shape economic policy. For example, in 1993, the Center issued a report that led to making the Bank of England totally independent of the government. Another report set the criteria for enlargement of the European Union. The group also helps establish neoliberal economic institutes such as the Institute for Economic Research at the University of Bocconi, where the abovementioned Tito Boeri works. Boeri is also a director of CEPR.

The CEPR was founded in 1983 by **Richard Portes**, an expert in credit default swaps and professor of economics at the London Business School, and director of studies at the Ecole des Hautes Etudes en Sciences Sociales in Paris. Portes was named a Commander of the British Empire in 2003.

The CEPR's board of trustees reads like a target list for a European Pecora Commission. It includes **Petr Aven**, chairman of Russia's Alfa Bank and one of the leading "reformers," who destroyed Russia's real economy in the 1990s; **Guillermor de la Dehesa**, chairman of Spain's Banco Santander, vice chairman of Goldman Sachs, and deputy governor of the IMF; **Quentin Davies**, a former Conservative Party MP in Britain who crossed over to become a Blairite Labour Party member; **Fransico Giavazzi**, also at the University of Bocconi and a spokesman for neoliberal economists in Italy; **Pehr Gyllenhammar** of Sweden, the man who bankrupted Volvo, and is now with Rothschild Europe; and **Herman Verwilst**, who is responsible for the bankruptcy of Fortis bank, which required the governments of France, Belgium, and The Netherlands to bail it out.