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## **Daniel Kahneman [Ideological Profiles of the Economics Laureates]**

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### **Abstract**

Daniel Kahneman is among the 71 individuals who were awarded the Sveriges Riksbank Prize in Economic Sciences in Memory of Alfred Nobel between 1969 and 2012. This ideological profile is part of the project called “The Ideological Migration of the Economics Laureates,” which fills [the September 2013 issue of \*Econ Journal Watch\*](#).

### **Keywords**

Classical liberalism, economists, Nobel Prize in economics, ideology, ideological migration, intellectual biography.

### **JEL classification**

A11, A13, B2, B3

### **Link to this document**

[http://econjwatch.org/file\\_download/733/KahnemanIPEL.pdf](http://econjwatch.org/file_download/733/KahnemanIPEL.pdf)

suggests that successful decentralization is possible. But the answer may depend on how we define decentralization” (ibid.; also at Hurwicz 2008a, 290).

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## Daniel Kahneman

by Daniel B. Klein, Ryan Daza, and Hannah Mead

Daniel Kahneman (1934–) was born in Tel Aviv and raised in Paris and Palestine. Kahneman and his family moved to Palestine in 1946. He attended

Hebrew University in Jerusalem and received his degree in psychology with a minor in mathematics.

Kahneman served in the Israeli Defense Forces, where he worked in officer evaluation. In this endeavor, he found the assessments were largely unable to predict performance; he redesigned the evaluation and greatly improved the accuracy of the assessments. The experience encouraged him to take a statistical approach to psychology, and helped him realize some of the systematic errors human minds tend to fall into (Kahneman 2003).

In 1961 he earned a Ph.D. in psychology from the University of California at Berkeley. He was on the faculty of the Hebrew University from 1961 to 1978, moving on from there to the University of British Columbia, then to Berkeley, and finally to Princeton University. In 2002 Kahneman won the Nobel Prize in Economics, sharing the prize with experimental economist Vernon Smith “for having integrated insights from psychological research into economic science, especially concerning human judgment and decision-making under uncertainty.”

Kahneman worked for many years in close collaboration with Amos Tversky. Together, they famously identified many variants of human “susceptibility to erroneous intuitions” and verified these experimentally. Their work has been interpreted by many as demonstrating weaknesses or limitations in the rational-agent model of economic behavior (Kahneman 2003). Kahneman is noted for emphasizing a distinction between two modes of mental processing: quick, low-effort intuition and slow, high-effort consideration. Defaulting to the “fast thinking” leads to systematic errors (Kahneman 2011).

Jeremy Clift interviewed Kahneman for a 2009 profile in a publication of the International Monetary Fund. Clift framed Kahneman’s remarks on lessons of the 2008 recession as follows:

*Need for stronger protection for consumers and individual investors.* “There’s always been an issue of whether, and how much, protection people need against their own choices,” [Kahneman] argues. “But I think it’s now just become very, very difficult to say that people don’t require protection.”

*Failure of markets has much wider consequences.* “Interestingly enough, it turns out that when uninformed individuals lose their money, it ruins the global economy—so the irrational actions of individuals have much wider effects when combined with the rationality of corrupt agents within the financial system, and very lax regulation and supervision.”

*Limits of forecasting.* “The tremendous volatility in the stock markets and financial system tells us something about the amount of

uncertainty in the system and the limits of forecasting.” (Kahneman quotations as presented by Clift 2009, 7)

With Jon Renshon, Kahneman noted a psychological bias in favor of hawkish foreign policy (Kahneman and Renshon 2007, 34). Kahneman also has argued that the qualities people admire in leaders are not necessarily those that will best serve the interests of the nation (Kahneman 2013). He has signed a petition in favor of liberalizing prediction markets, as well as one in support of John Kerry for president in 2004 (Hedengren et al. 2010). Kahneman considers policy to “always involve tradeoffs and almost always involve money,” which, he says, “explains the dominant role of economics in policy” (Kahneman 2013).

Kahneman offers “an enthusiastic endorsement of the policy applications that have come under the label of behavioral economics. I am very optimistic about the future of that work, which is characterized by achieving medium-sized gains by nano-sized investments” (Kahneman 2013). Summarizing the policy points at the end of Kahneman’s *Thinking, Fast and Slow* (2011), Christopher Shea writes:

Kahneman ends...with a discussion of how the unraveling of the rational-agent model undercuts “the intellectual foundation for the libertarian approach to public policy.” At best, libertarianism “sometimes has a hard edge,” he writes: “elderly people who did not save enough for retirement get little more sympathy than someone who complains about the bill after consuming a large meal at a restaurant.” ... [H]e applauds rules that would simplify financial disclosure forms: “It is a good sign that some of these recommendations have encountered significant opposition from firms whose profits might suffer if their customers were better informed.” In general, he heartily endorses the “libertarian paternalism” proposed by Richard Thaler and Cass Sunstein, in the book “Nudge”: Creating “choice architecture” that makes it most likely that people will act in their best interests. (Shea 2011)

Kahneman (2013) claims Thaler and Sunstein as close friends and describes *Nudge* (Thaler and Sunstein 2008) as a “masterpiece.”

Kahneman has described opposition to policies such as Social Security and laws requiring helmets as being implied by an “extreme” belief in the rational-agent model. “[T]he assumption that individuals are rational in the pursuit of their interests has an ideological coloring and policy implications that many would view as unfortunate. ... It is not an accident that the department of economics at the

University of Chicago...is known both for its adherence to a strict version of the rational actor model and for very conservative politics” (Kahneman 2013).

In a 2012 interview, Kahneman was asked whether his work in behavioral finance could be helpful in forming market regulation. He responded:

I think there is no question about that. There are direct implications of behavioral economics and of the idea of bounded rationality for regulation. The idea of the rational agent model has two pernicious consequences. One is that you don’t need to protect consumers from themselves because they are rational, and therefore can be trusted to make the choices that are best for them. So you can oppose Social Security on the dual assumptions that people are rational and that they should bear the consequences of their actions. However, I believe that regulation is essential to protect people from predictable mistakes. You have to do that without abridging freedom, of course, but that can be done. And then you need to protect consumers from actors in the market that would deliberately exploit people’s ignorance and their intellectual sloth. (Kahneman 2012, 12)

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## Leonid Vitaliyevich Kantorovich

by Daniel B. Klein, Ryan Daza, and Hannah Mead

Leonid V. Kantorovich (1912–1986) was born in Tsarist Russia to an affluent Jewish family; when he was 12 years old, his native city was renamed Leningrad. Kantorovich had a talent for mathematics and finished high school early at age 14 to enter Leningrad University. He graduated in 1930, then received a professorship in 1934 and finally his doctorate in mathematics in 1935 (Kantorovich 1992/1976b)—all by the age of 23.

Kantorovich began his career as a mathematics professor, but forayed into economics in the late 1930s, when he began working on complex problems of resource allocation (Kantorovich 1992/1976b). Aron Katsenelinboigen says of Kantorovich: “In 1939–41, he realized that the socialist economy as a whole could be perceived as an optimization problem. The logic of the Soviet planned economy naturally impelled Kantorovich towards this notion. ... In investigating [optimization relations], he was also able to penetrate deeper into the role of prices than had Soviet economists before him” (Katsenelinboigen 1979, 136). In 1975, Kantorovich won the Nobel Prize, shared with Tjalling Koopmans, for “contributions to the theory of optimum allocation of resources.”

A new branch of economics emerged in the Soviet Union in the 1950s “where a majority of the active research workers were of course relatively younger people, many of whom had their background in subjects other than economics” (Johansen 1976, 62). The new approach rivaled the political economy of socialism based on the works of Marx and Lenin. Stanley Brue and Craig MacPhee explain:

Based on the work of Leonid Kantorovich and other prominent scholars, a new *kafederi* of mathematical economics—more specifically, the System of Optimally Functioning Socialist Economy (SOFE)—came to the fore. This new economics, called *economic cybernetics* by many Russians, focused on linear programming and related optimization techniques of production. ... [The Political Economy of Socialism] was historical and heavily ideological with