Journal of International and Global Studies

Volume 2 | Number 1 Article 7

11-1-2010

Michael Shermer. The Mind of the Market – Compassionate Apes, Competitive Humans, and Other Tales From Evolutionary Economics. New York: Times Books, Henry Holt and Company, 2008.

Anthony Clark Ph.D.
St. Louis Community College-Florissant Valley, aclark162@stlcc.edu

Michael Shermer. *The Mind of the Market – Compassionate Apes, Competitive Humans, and Other Tales From Evolutionary Economics.* New York: Times Books, Henry Holt and Company, 2008.

At the core of traditional economic models lies an assumption that man is a rational being able to instantly evaluate thousands of pieces of information and make decisions accordingly. Rationality implies that human beings have preferences, know their preferences, and *always* make decisions consistent with those preferences. Rationality also implies that individuals will make choices that improve their utility, or welfare, rather than choose options that decrease their utility. But even a casual observer will note that human beings don't always act rationally, and are prone to make decisions that appear inconsistent with their stated preferences or that seem to go against their own welfare.

Ever since Daniel Kahneman and Amos Tversky (neither of whom ever had a single course in economics) pioneered the field of behavioral economics, researchers have been exploring the ways in which humans systematically violate the rationality assumption. In his book, *The Mind of the Market – Compassionate Apes, Competitive Humans, and Other Tales From Evolutionary Economics,* Michael Shermer catalogs much of this research while placing it in the context of humanity's evolutionary development. Shermer, a columnist for *Scientific American,* is a strong proponent of the theory of evolution, and believes that it has an important place in the social sciences. In fact, for the purpose of arguing his thesis, Shermer lumps together a number of relatively new sciences (behavioral economics, evolutionary psychology, neuroeconomics, virtue economics and complexity theory) under the umbrella of evolutionary economics.

In the first chapter of *The Mind of the Market*, "The Great Leap Forward," Shermer discusses the evolution of the market economy over the past several thousand years. "Something happened," Shermer states, "over the last ten thousand years to increase the average annual income of hunter-gatherers by four hundred times" [page 2]. And this phenomenon—what Shermer refers to as "the great leap"—was not at all gradual. He notes that "[i]t took 97,000 years to go from $100 to $150 per person per year, then another 2,750 years to climb to $200 per person per year, and, finally, 250 years to ascend to today's level of $6,600 per person per year for the entire world…[i]f we condensed the hundred millennia into one 24-hour day, our epoch of industrial production and market economics accounts for a mere 3.6 minutes. In other words, the age in which we live and take for granted as normal and the way things have always been, in fact constitutes a mere one-quarter of one percent of the history of humanity" [page 3]. This basic truth is key to Shermer's overarching thesis. As a species, we spent the vast majority of our evolutionary history without the modern market or anything even closely resembling it. Many of our human behaviors are thus rooted in a vastly different mode of existence. This is precisely why an action that appears irrational from a traditional economic perspective may begin to make sense when viewed through the lens of evolutionary economics.

The Mind of the Market includes dozens of examples of systematic irrationality that researchers have uncovered over the years. One of the better known of these involves a scenario in which an individual is given a choice between two options regarding his level of income. Under the first option the individual would earn $50,000 per year while others around him would earn $25,000, and under the second option the individual would earn $100,000 while others would earn $250,000. In either case, prices of consumer goods would be the same. A rational decision-maker should clearly choose the second option, for the higher income (at the same prices) should increase his utility. But research reveals that the majority of people would choose the first option. A number of other studies cited in *The Mind of the Market* echo the finding that changes in utility depend upon relative rather than absolute factors. A related irrationality known as regret aversion is detailed in the chapter "Why Money Can't Buy You Happiness." The study's author, economist Richard Thaler, offered respondents the choice of being either Mr. A or Mr. B in the following scenario: "Mr. A is waiting in line at a movie theater. When he gets to the ticket window he is told that as the one-hundred-thousandth customer of the theater, he has just won $100. Mr. B is waiting in line at a different theater. The man in front of him wins $1,000 for being the one-millionth customer of the theater. Mr. B wins $150" [page 148]. Surprisingly, most respondents said they would rather be Mr. A, indicating that they would rather have $50 less in prize money than experience the regret of not winning the grand prize.

Other studies have demonstrated that humans are, on average, highly risk averse; that we need to be paid in order to delay gratification (hence the time-value-of-money concept), that we are an egalitarian species; and that, on average, we tend to exhibit a number of predictable biases. An interesting example of the latter is the confirmation bias, which causes us to look for evidence confirming already existing beliefs and ignore or reinterpret evidence countering those beliefs. According to Shermer, the confirmation bias has been demonstrated in numerous experiments. One such study involved subjects being shown a videotape of a child taking a test. Shermer explains, "One group was told that the child was from a high socioeconomic class; the other group was told that the child was from a low socioeconomic class. The subjects were then asked to evaluate the academic abilities of the child based on the results of the test. The subjects who were told that the child they were evaluating was from a high socioeconomic class rated the child's abilities as above grade level; the subjects who thought they were evaluating low socioeconomic kids rated them below grade level in ability. What is remarkable about this study is that the subjects were looking at the same test results!" [pages 90-91].

All of these findings, from experiments and from survey-based studies, may be explained in terms of humanity's evolutionary path. Shermer makes this point repeatedly by presenting examples such as the ones mentioned above, by citing study results (from all the pertinent disciplines), and by explaining the evolutionary basis for the apparent irrationalities. Although some of Shermer's economic explanations feel "thrown in," as if he is taking every possible opportunity to demonstrate his economic acumen, he generally strikes an appropriate balance among economics, psychology, and neuroscience (he spends a large portion of the chapter "The Extinction of *Homo Economicus*" detailing various brain imaging studies that used functional MRI scanners to measure changes in the brain coinciding with various economic phenomena). At times Shermer strays from the book's main points, delving, for instance, into a lengthy discourse on the psychology of human evil and summarizing in some detail the theses of better-known books, such as Jared Diamond's *Guns, Germs and Steel.* Still, overall there is much in *The Mind of the Market* to recommend. Avid readers of pop econ and psychology books—and social scientists who have studied behavioral economics, the economics of happiness, the psychology of evil, etc.—may find little groundbreaking information in *The Mind of the Market*. But readers new to the subject will likely find themselves enthralled. Shermer's style is accessible and, for the most part, compelling. His intense focus on evolution gives *The Mind of the Market* a different twist than other books in this vein. And even the most jaded reader of popular economics books and articles is sure to find some unfamiliar examples and cases. In short, with

The Mind of the Market Shermer achieves his goal of obliterating the notion of rational human behavior in the marketplace. Whether he has convinced mainstream economists of the need to marry Darwin's theories with those of Adam Smith remains to be seen.

Anthony Clark, Ph.D.
St. Louis Community College-Florissant Valley
aclark162@stlcc.edu.