BOOK REVIEW:

“HUMANOMICS: MORAL SENTIMENTS AND THE WEALTH OF NATIONS FOR THE
TWENTY-FIRST CENTURY” BY VERNON L. SMITH AND BART J. WILSON

REVIEWED BY

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The widespread frustration about abstractions in economic modeling demands a response, but the solution cannot be to abandon all use of the models. The neoclassical approach, while flawed, is useful as a first approximation for much of economic behavior, if the neoclassical assumptions of markets hold to some extent. In recent years, another challenge has come from behavioral economics, which moves beyond peripheral cases to the core assumptions of rationality built into the neoclassical framework. In addition, experimental economics suggests that individuals care about other considerations like inequity and this should be included in the utility function (p. 54). Vernon Smith and Bart Wilson build on all of these different methodological approaches but take it one step further by including insights from Adam Smith to model the social world. They argue that this cannot be done without expanding the discussion beyond a dichotomy of emotional and rational considerations. *Humanomics* includes agents whose decisions are the result of the interaction of emotion and reason in a long-run calibration of action with respect to social cues. In Smith's time the terms "sentiment" and "affection" reflected this complexity. (p. 21). As Adam Smith does, Vernon Smith and Bart Wilson ask us to thoughtfully increase the complexity of economic analysis.

The book does many things and all of them are done well. It is a scholarly tome that challenges the reader, it is a careful analysis of the texts of Smith's *Theory of Moral Sentiments* primarily, and *The Wealth of Nations*, secondarily. Important for doing the task Smith and Wilson set out in this book are long discussions of how word use has changed since Adam Smith's time. The book does more than a scholarly dive. It reports on the experiences of two very careful researchers and how their findings in the laboratory brought them to seek a new perspective on human sociability that was currently neither part of neoclassical economics, nor fully represented in behavioral economics. In short, the use of primary sources in this book illustrate how Adam Smith was thinking more comprehensively about the space of exchange and social life than most heterodox economists of today. This discussion of Adam Smith forms the theoretical or methodological background presented in the book's methodology, the years of experience the authors have in the lab forms the basis for an empirical puzzle, and the two come together nicely to form the storyline presented in this book. Together, they create a synthesis that challenges the reader to expand their ideas about the scope of economics as a discipline and how economics can be done with broader anthropological considerations.

The theoretical puzzle, emotional versus rational, is a false dichotomy. The neoclassical framework ambitiously abstracted from complex renderings of society in favor of clean pattern predictions. Practitioners of economics, by reinforcing an implicit dichotomy, were tempted to treat anything that falsified its predictions as irrational. Without a careful discussion, the

model's prediction becomes the default approach. This is equivalent to holding the predicted behavior as rational and holding everything else as error. If the error is too large, we can tweak the model by adding other variables. What is lost here are subtleties such as - in Adam Smith's words - sentiment and affection. These concepts bridged the gap between passion and reason for Smith in a way that isn't appreciated in the current literature (p. 21). In what could be compared to Daniel Kahneman's (2011) use of *heuristics*, Adam Smith's two additional categories describe the rule-following behavior of individuals who are deeply embedded in a process of calibrating rules of behavior over a much longer timeline. Humans learn. When economics strips the actors of the many social influences, the analysis suffers. To simply augment models with another argument in the utility function is to misunderstand why the original model failed (pp. 39-40). Instead, we have to see agents as interacting, first to find out what kind of game they are playing and second to form relationships. Punishment and reward for other's actions cannot be aggregated interpersonally. People pay to punish in order to create long term reputational effects. The neoclassical dichotomy seeks to align the model with the rational maximization of narrowly self-interested behavior (pp. 56-58, 128-129). But this isn't social. One reason sociality might be useful is that when behavioral economics informs real world policy, it becomes a source for normative prescriptions rather than positive analysis. Abstract prescriptions may strip out the social aspect of the model without explicitly meaning to do so.

The primary focus of the empirical story, by contrast, is the ultimatum game. As a result of this game, naïve versions of rationality were called into question. The results of the ultimatum game lead to an unsatisfactory solution: individuals did not maximize their own expected utility (p. 133). Behavioral economics failed to meet complexity with a complex solution. Part of Smith and Wilson's approach is to move beyond the kitchen sink approach to specifying a utility function. Better descriptions of narrow rationality were not needed. Instead, Smith and Wilson suggest a return to Adam Smith as an inspiration for modeling how agents learn (p. 133). Their new models based on Adam Smith show that people behave instrumentally rational, but with regard to both economic outcomes and social rules. Interpreted this way, they suggest that Adam Smith's description is far more plausible, and the additional complexity is net beneficial in terms of descriptive accuracy. If people in the lab are bringing in rules as instruments, or heuristics, then both spotting these heuristics and understanding what activates them in different contexts is key in explaining divergence in player strategies within experimental treatments. The inability to quantify the trade-off in terms of self-interest and cooperation required new experimental designs. The experiments reported in chapters eight through thirteen report how their findings validate the authors' rendering of Adam Smith's methodological structure presented in the first seven chapters of the book.

The book reads like a long-form paper, treating Adam Smith as the relevant humanomics expert, whose texts inform subsequent modeling. This approach of using 18th century scholarship to inform current research is in the same style of how moral psychologist Jonathan Haidt's reads Hume. A fruitful reading of Smith is presented in the first part of the book, which runs between chapters one through seven. In the second part of the book, the authors take us into the laboratory and explain the theory in concrete terms. Smith and Wilson have rendered

Adam Smith in a way that operationalizes his system of sentiments and affections as different experimental treatments. Within each of these treatments, much discussion is offered that helps the reader understand the evolution of the authors' thinking. They carefully recount the development of ever more refined ways of approaching descriptive clarity about when and why people punish and reward others in the context of the laboratory. The authors claim that their results could not be explained based on the existing theoretical literature in economics because of its narrow anthropological approach. Instead, a deeper understanding of Adam Smith's approach is required to frame games in a novel and productive way (p. 143).

The only obstacle to reading this book is also one of its major strengths: Smith and Wilson master the existing scholarship about Adam Smith, which might appeal the most to scholars in history of economic thought. The discussions of linguistics, behavioral economics, and experimental economics contributed much to my understanding of why Adam Smith remains important. The authors took care to write for a broad audience, but the readership that is prepared to get equal insight from all of these sections is rare. The good news is that each part of the analysis is worthy of reading the book on its own. There is enough scholarly material here to provide discussion material for reading group or the classroom. It is also a worthy addition for anyone seeking insight into the continued development of economic methodology.

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