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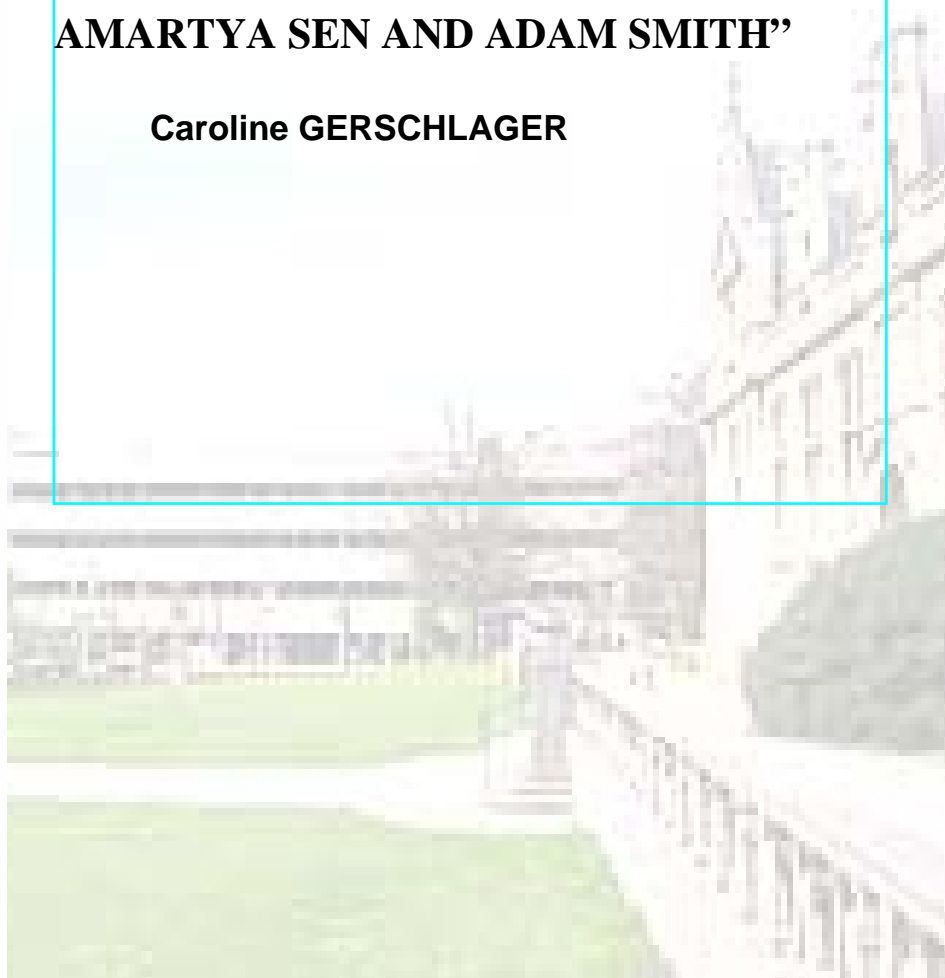
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‘FOOLISHNESS AND IDENTITY: AMARTYA SEN AND ADAM SMITH’

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Foolishness and Identity: Amartya Sen and Adam Smith[°]

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Abstract

Drawing on Amartya Sen the paper aims at a better understanding of the motivational foundation of the economic agent by analysing Adam Smith's insights into the foolishness of human ambitions. It inquires whether there is another side to the pursuit of self-interest in Adam Smith and particularly accentuates his parable of the poor man's son as a prototypical example. Complementing the standard views of the self and their recent extensions, the present analysis of the parable advances a description of economic identity based on self-reflexivity and conscious change of preferences.

Keywords: hypertrophic self-love, self-deceit, illusion, change of preference, self-reflexivity.

JEL Classification System: B 12, B21, B 31, D 01.

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0) Introduction

According to Amartya Sen, the ground on which economic theory, i.e. general equilibrium theory¹, is built is not firm. What Sen is referring to is the theory's behavioural foundations. He has repeatedly maintained that the "most basic element of economic modelling, the motivation of human beings, is not well addressed." In his view, therefore, when "we try to understand human motivation we enter one of the most neglected areas of economics" (Klamer 1989, 147).² For Sen the problem with the behavioural foundations lies in the narrow portrait of man as exclusively pursuing his self-interest.³ This is a problem because according to him human motivation is of economic relevance. In this view, a misconceived portrait of man results in bad economics. In particular, the problem for Sen is that the promotion of self-interest risks producing an uneconomic society (Klamer 1989, 147).

The case Sen makes with regard to the neglected analysis of the foundations of the economic agent has also generated a new endeavour among economists both to better understand human identity (Davis 2003, 2006; Kirman and Teschl 2006) and to study its economic implications (Akerlof and Kranton 2000, 2005). The present paper follows up these attempts with a view to obtaining a clearer picture of man's motivational foundations.

In particular the focus is on one aspect that Sen introduced into economic discussion on identity, namely foolishness (1977). The present paper adopts a history of economic thought perspective and by drawing on Amartya Sen it offers a conceptual clarification of Adam Smith's account of foolishness. To this end, the paper re-examines Adam Smith's view of

¹ Sen also includes in general equilibrium theory its extensions and variations. "You then introduce imperfect competition, ignorance, uncertainty. Bring in learning, signalling. You can also do disequilibrium dynamics. However no big problem exists with the basic story. The extensions and variations may look like consolidating battles, the main war having been won, and the high ground already secured." (Klamer 1989, 147).

² One of the limitations of the standard model according to Sen is that agents cannot differentiate between their welfares, their goals and the bases of their choices (Klamer 1989, 146; Sen 1977, 335). He has also criticized that the implications of self-interest for rationality and efficiency as focused by standard models (Klamer 1989, 147) remain inadequately addressed.

³ Self-interest has also come under scrutiny from the point of view of psychology and economics. This is why reference is made to "bounded self-interest" (Mullainathan and Thaler (2000) for example). We will see that this is not the same line of criticism pursued by Sen (2002, 30-3; 2002[1985], 211-6). In Sen's view the economic assumption of self-interested motivation includes three sub-assumptions: self-centred welfare goal, self-welfare goal and self-goal choice or goal priority. The psychology and economics approach challenges the self-interest assumption when it comes to self-welfare and self-centred welfare goals but does not touch on the self-interest assumption with reference to self-goal choice, which in Sen's view is at the heart of the rationality assumption with reference to preferences. In the standard view, the agent is supposed to maximize her own goals. Sen's critique on the self-interest assumption goes beyond utilitarianism. In his view the self-goal assumption needs to be relaxed in economic models because people sometimes also choose to act against their private interests, however they may be conceived (Sen, 2002[1985], 216-9).

man: is there another side to the pursuit of self-interest that has regularly been attributed to Smith and if so, how can it be described?

From the perspective of rational choice, foolishness can be identified at the level of human action, cognition and motivation, and the present analysis is most concerned with the motivational level.

It is organized as follows: **Part 1** sets the scene and covers Amartya Sen and Adam Smith in as much as they have dealt with foolishness. **Sections 1a** and **1b** distinguish the specific aspects of their respective accounts. **Section 1c** discusses the relation between foolishness and the pursuit of self-interest as the prior economic motivation.

A prototypical example of foolish ambitions in Adam Smith is his parable of the poor man's son, which, it will be recalled, causes many puzzles in the light of the standard model. **Part 2** analyses the parable in greater detail with a view to exemplifying Smith's view on human motivation that underpins the economy. **Section 2a** considers interpretations of Smith's parable from the perspective of economic and psychological extensions of the standard model. It is shown that these extensions either do not describe foolishness at all or only elucidate it in part. In the light of these limitations (of the economic and psychological approaches to human behaviour) **Section 2b** offers an account of foolishness based on a (conscious) change in preferences. Moreover, the paper distinguishes the latter from (foolishness as it is embraced by) the cognitive account. **Part 3** concludes and makes some connections to Amartya Sen.

1) The hypertrophy of self-interest

1a) Foolishness in Amartya Sen

The pursuit of self-interest is associated with the portrait of economic man at the foundation of welfare economics (first and second axiom of the Pareto welfare theorem). Sen has identified his foolishness (1977) with reference to the prisoner's dilemma, in which the pursuit of (narrow) self-interest results in non-cooperation whereas cooperation is crucial to secure the mutual gains from the exchange. In situations of strategic interaction, therefore, economic man creates inefficiency in terms of Pareto. The social setting of the prisoner's dilemma is a demonstration that the narrow pursuit of self-interest is finally disastrous for the defector: because of informational symmetry, the latter also has to face a defecting partner. In contrast to the results of welfare economics, it also demonstrates that the pursuit of self-

interest does not necessarily result in social benefit and as such it is a counter example to what economists since Adam Smith are used to referring to in terms of the invisible hand.

In Sen's eyes, economic man is a (rational) fool, because he lacks the ability to commit. Commitment in Sen's diagnosis is the ability to make a counter-preferential choice that constrains his narrow pursuit of self-interest. Hence, commitment "drives a wedge between personal choice and personal welfare" as soon as it is "admitted as an ingredient of choice" (Sen 1977, 329). Commitment relates choice to anticipated levels of welfare, and one way to define it according to Sen is "in terms of a person choosing an act that he believes will yield a lower level of personal welfare to him than an alternative that is also available to him" (327). In his analysis of the prisoner's dilemma, the focus is on the pursuit of foolish goals (namely self-interest) in situations in which constraints on self-interest would be wiser. Hence the prisoners demonstrate a motivational foolishness (in other words, they should have pursued wiser goals, namely they should have committed). So, in Sen's view, foolish motivations – or more precisely, perfectly responding to economic incentives to defect in social situations – are a special feature of the economic identity.

Sen suggests that the solution to the prisoner's dilemma lies in commitment, by which the excesses of self-interest leading to the prisoner's foolishness can be constrained. Accordingly, Sen's critique on the behavioural motivations of economic theory may be regarded as a primer for self-constraints. These would then constitute an important feature of his idea of a wiser and more reasonable human being. In other words, Sen appears to be asserting that under specific conditions ignoring (narrow) economic incentives makes a wiser man.⁴

⁴ Sen has been criticized for his insistence on a radical separation between self-interest and commitment. Khalil for example (1999) contends that the radical separation of "interest and commitment engenders a world of sentimental fools" (376). A sentimental fool in Khalil's view is a person who pursues his commitments without any regard for his self-interest such as "jumping off a ship in the middle of the ocean to retrieve a toy for a crying child" (376). The sentimental fool according to Khalil incurs costs unjustified by expected benefits (376). He criticizes rule-following that is blind to one's interest. Kirman and Teschl (2006) also find Sen's commitment approach problematic because it remains silent on situations in which it is commendable to violate the rules, i.e. when rules are harmful (they refer to an Islamic woman refugee who refuses to marry a man she does not love). Hence Sen's approach lacks a criterion as to when rules should be followed and when they should be broken; in other words when it is better to follow one's interest than to act against it. Sentimental fools à la Khalil and also Sen's silence on whether to violate rules in order not to act against one's interest (the target of Kirman and Teschl 2006) are a consequence of his account of commitment that is radically separated from self-interest. I believe these critiques are justified and that self-interest should not be completely rejected. However, the examples given do not target the same problem as Sen, namely hypertrophic self-interest. They take on Sen's solution to the problem, and correctly point out that it is not perfect. The cases Kirman and Teschl (2006) or Khalil (1999) refer to in relation to agents who follow the norms (commit) and act against their self-interest seriously harming themselves (the Islamic women who follows the rule to marry a man she does not love or the man who jumps into the water in order to rescue the toys of a child despite his inability to swim) are not the cases Sen is interested in, because these are not cases of excessive self-love but rather examples of other peoples' (or cultural) preferences in oneself which, differently put, are examples of lacking rather than of excessive self-interest. I will not therefore deal with the otherwise important critiques of Sen's commitment approach, because

1b) Foolishness in Adam Smith

The present section revisits Smith's view of the self in the light of his interest in human character and in particular the specific aspect of self-deceit. According to him it is "this fatal weakness of mankind [which is]... the source of half the disorders of human life" ([1759] 2001, 158). In order to understand Smith's concept of the self, it is crucial to understand his concern for the human tendency to self-deceive. According to Fleischacker, there was scarcely another author in the 18th century who wrote more on self-deception than Adam Smith (2004, 51). In his *Theory of Moral Sentiments* Smith explicitly discusses the role of self-deceit in relation to the human tendency to subvert moral bounds. I will now draw on this discussion in order to explore the different levels of decision-making at which self-deceit and illusions can arise.⁵

Self-deceit has many faces – and this is why it is important to clarify the nature of self-deceit Smith had in mind when he so prominently put it on the human agenda.

In Smith's view self-love and self-deceit are connected, because much self-deceit finds its cause in self-love, or more precisely in an excess of it.

Smith typically associates self-deceit with man's partiality both at the time of action and after it. At the time of action it is "the eagerness of passion" that "discolours our views of things; even when we are endeavouring to place ourselves in the situation of another, and to regard

they are not relevant to the focus of the paper, namely foolishness as it relates to excessive or hypertrophic self-interest. For Sen, commitment (in terms of counter-preferential choice) as I understand it relates to cases that require individuals to act against their self-interest (or against economic incentives). It is to explain these special cases (under special conditions) that economic man should extend the unitary preference structure and also account for meta-preferences (Klamer 1989, 147; Sen 1977). This is not the same as the claim that rule-following does not automatically make man wiser (as is the case with giving up one's self-interest). This has never been Sen's contention.

The other line of disagreement with Sen's claim to separate commitment from self-interest approach has been made by behavioural accounts. In particular these accounts contend that Sen adopts an unnecessary narrow concept of self-interest. Self-interest in this view perfectly includes commitment. The economic approach in this view is primarily characterized by its modelling techniques such as "maximization of an objective function ... and the incentive compatibility requirement" (Gintis 2004, 2) and therefore does not depend on the self-interest assumption (in the narrow sense). This criticism of Sen is built on the insight that commitment (be it to personal, social or moral rules) is not necessarily directed against a person's self-interest when broadly conceived, and the capability to adopt a commitment device to overcome one's weakness of will for example when it comes to pursue an ambitious task is a case in point. However, whereas a committed person does not automatically have to violate her self-interest (however broadly this may be conceived), a non-self-interested choice may nevertheless be necessary under specific conditions. To my mind the merit of Sen among other things is to have made this clear as a possibility (of which the standard approach cannot conceive). While the former criticism of Sen discussed above focuses on the (potential) foolishness of commitments the latter criticism welcomes commitments (and accommodates them in the standard approach). Notwithstanding the progress that these criticisms have made to advance our economic understanding, they have left unaddressed what was Sen's major target, namely foolishness in terms of excessive self-interest.

⁵ The following section draws on Gerschlager (2007).

the objects that interest us in the light in which they will naturally appear to him, the fury of our own passions constantly calls us back to our own place, where every thing appears magnified and misrepresented by self-love.” The passions, Smith knows “all justify themselves, and seem reasonable and proportioned to their objects, as long as we continue to feel them” ([1759] 2001, 157). The second instance of self-deceit according to Smith is when the action is over. “The man of to-day is no longer agitated by the same passions which distracted the man of yesterday.” When seen from the man of today, the man of yesterday frequently produces “nothing but vain regret and unavailing repentance”, however in order to avoid what today would be called a cognitive dissonance, we purposely “turn away our view from those circumstances which might render that judgement unfavourable” ([1759] 2001, 157-8).⁶

The idea of self-deceit Smith conveys here is that people are taken in by their passions. Smith explains that the “man of furious resentment” (160) who listens to the dictates of that passion, “would ... regard the death of his enemy as but a small compensation for the wrong, he imagines, he has received; which, however, may be no more than a very slight provocation” (160). The selfish passions are sufficient to induce oneself to make “a very different report of what the real circumstances of the case were capable of authorizing” (157). In this light, the furious resentment that dominates man in the moment of action is an example of what is called here a foolish motivation, and, as Smith also shows, it may be regretted after the action. For example, Smith refers to “horrors of shame and repentance” that are associated with sanguinary revenge (161).

In his study of Smith’s view of man, Coase (1976) has also recognized that the pursuit of self-interest and self-deceit are closely related in Adam Smith. He contends that the selfish passions result in the motivated manipulation of our beliefs colouring “our perception of the outcomes of alternative courses of action” (Coase 1976, 24). However, whereas Coase mentions solely the distorted individual calculation of the consequences, the above example also suggests that for Smith individuals sometimes also choose to pursue non-accurate goals. Hence, the human disposition to “overrate the excellencies of our own character” (Smith [1759] 2001, 133) can also lead to a (motivated) pursuit of foolish ambitions. Next to vanity, the typical examples Smith gives us of excessive self-love are ambition and avarice (149).

⁶ “It is so disagreeable to think ill of ourselves, that we often...endeavour by artifice to awaken our old hatreds, and irritate afresh our almost forgotten resentments: we even exert ourselves for this miserable purpose, and thus persevere in injustice, merely because we once were unjust, and because we are ashamed and afraid to see that we were so.” (Smith [1759] 2001, 157-8).

As a consequence, excessive self-love can turn the individual into a fool at two levels: at the level of his beliefs about the future states of the world, which risk being distorted (as Coase notes), and at the level of his ambitions. The latter assumes motivated (or distorted) values and preferences. What is really at stake to my mind in Smith's view of self-deceit is the nature of human ambitions (or motivations), and this is why the focus in the present paper is on the fact that human beings are also and indeed often eager to pursue foolish ambitions.

When self-deception is a constant companion, as Smith obviously believed, humans cannot be accurately informed about what they are and what they want. According to Macfie (1967), Smith's concept of self-love still implied the notion that one could be mistaken (about one's needs and nature), in contrast to a later adopted idea that what a person felt represented the interest of his self and was necessarily his true self-interest (80). From a different perspective, this is also emphasized in Levy's analysis of the partial spectator theory (1995) in Smith's *Wealth of Nations*. According to him, Smith's insight into how individuals regularly misperceive their own interests is fundamental to Smith's conception of the economy (305-8; 299).⁷

Hence, in contrast to Smith's view, in which man's pursuit of foolish ambitions is of central concern, the standard approach assumes that the nature of preferences is given and is thus effectively of no analytical interest. Amartya Sen has exactly this neglect of the standard approach in mind when he criticizes the economic portrait of man. The present discussion of Smith's account has revealed that in order to understand the concept of the self we need to account for self-deceit. The focus on Smith's account of self-deceit adopted here is aimed at showing that in addition to the inaccurate calculation of the consequences of our actions, it includes the possibility of foolish ambitions.

1c) Foolishness, self-deceit and self-interest

Sen repeatedly draws on Adam Smith for his view of human identity, in particular with reference to the anti-utilitarian perspective on economic man, who sometimes pursues goals that do not increase his individual welfare or refrains from behaviour despite the economic benefits that he could reap by engaging in it.

⁷ This misperception has been largely neglected by economists because in Levy's view economics long focused on the assumption of full information (1995, 305). Levy also contends that these misperceptions are a consequence of lacking experience and training (308-9).

On this account I believe that Smith would agree with Sen in seeing an excess of self-love as an important feature of human foolishness. Would Smith also agree with Sen that foolishness is specific solely of economic man? I believe that he would probably add to Sen that foolishness is a general feature of man and that in the absence of constraints (whatever these may be) his foolishness is likely to flourish and prosper (Gerschlager 2007). Smith gave a much broader account of human foolishness, whereas Sen has mainly been concerned with the standard image of economic identity.

Be that as it may, Sen's claim for a broader conception of economic identity finds a rich source in the founding father of modern economics. And it is no coincidence that Sen's criticism of the narrow self-interest assumption in economics routinely refers to Adam Smith (for example Sen 2002[1985], 217; 1987; Rothschild and Sen 2006).

Smith's theory of the self is not solely built on an individual who relentlessly pursues his self-interest (however it may be conceived) but at the same time is concerned with appropriate constraining institutions. In this context Smith understood the power of rules that are partly internalized by our conscience. "Our continual observations upon the conduct of others," he writes, "insensibly lead us to form to ourselves certain general rules concerning what is fit and proper either to be done or to be avoided." (Smith [1759] 2001, 159).

Smith makes clear that if man were not impressed with "reverence for those important rules of conduct society ... would crumble into nothing" (Smith 1759[2001], 163). Hence adherence to rules (which are dictated by the man within "conscience, the great arbitrator of our conduct") is also presented as a solution to the coherence problem that accompanies every conception of social order giving free rein to personal interests. This is probably also the reason why social dilemma situations are not on the agenda in Smith's writings (unlike Hobbes for example) because self-interest is not conceived in its complete pureness but is regularly seen as being constrained. Hence, Smith's belief in a more reasonable self in the sense of Sen (i.e. a self that commits himself in social interactions) is not a remnant of the past (unlike most standard models, Smith did not consider self-constraints as 'given'); in his *Theory of Moral Sentiments* (1759 [2001]) he aimed at providing a theoretical foundation. *The Theory of Moral Sentiments* deals with the social processes leading to the potential creation of these general rules of conduct (without reference to an outside authority).⁸

⁸ In the question how the self may be constrained in the new social order he contrived also lies the importance of Smith's concept of sympathy. For the relation between sympathy and informal institutions cf. Gerschlager (2007). Rules of conduct are seen as important countervailing forces to excesses of self-love in Smith but this institutional aspect is not explicitly covered by Sen's notion of commitment. Sen's claim on Smith puts the stress

Sen regularly draws on Adam Smith for his broader description of rationality (2002, 22-3; 1987, 22-8; 2004, 599-605). In particular he claims that self-interest was not the only motivation in Adam Smith and that his view of man exhibits a variety of reasons for acting. In particular, he holds that Smith's view of man includes commitment. And Smith is indeed a rich source for non-self-interested choice or human agency that is not solely understood along the lines of a cost and benefit calculation.

This becomes clear when we look more closely at the section on the general rules of conduct. This section is in fact devoted to the human tendency to self-deceive in which Smith sees a threat to social order, because it shows very well how corruptible the self is when his private interests are to be constrained. In Smith's view, we all tend – because it is agreeable – to think more highly of ourselves than is really justified. And “we are,” Smith continues, “all naturally disposed to over-rate the excellencies of our own character” ([1759] 2001, 133). The problem is that it “is so disagreeable to think ill of ourselves, that we often purposely turn away our view from those circumstances which might render that judgment unfavourable.” The self therefore has as we would say in modern psychological parlance a concern for his self-image and this is why a “veil of self-delusion ... covers from his view the deformities of his own conduct” (Smith [1759] 2001, 158). For Smith the tendency to self-deceive challenges man's conscience and hence distorts the motivation to follow the dictates of the latter. Therefore one important problem of self-deceit is that it leads to the self-corruption of man's conscience. In doing so, it also subverts what Sen referred to in terms of commitment. As Smith puts it, it subverts man's “reverence for those important rules” (Smith 1759[2001], 163).

This tendency to self-deceive does not allow us to conceive of the individual pursuit of rules in utilitarian terms (of cost and benefit calculation), i.e. in terms of self-interest solely.⁹ It is specifically the fallibility of man that gives significance to the habitual pursuit of the rules of conduct. It is in order to circumvent self-deceit that our “continual observations upon the conduct of others, insensibly lead us to form to ourselves certain general rules concerning what is fit and proper either to be done or to be avoided” (159). Smith is convinced that “these general rules of conduct... fixed in our mind by habitual reflection, are of great use in correcting the misrepresentations of self-love concerning what is fit and proper to be done in

instead on individual motivation (on rule-following for example), which Sen seems to consider as given. For the role of sympathy in overcoming the prisoner's dilemma in exchange cf. also Levy and Peart (2004) and Elsner (1989) from the point of view of rational choice theory.

⁹ As Ronald Coase concedes from a different perspective Adam Smith “would not have thought it sensible to treat man as a rational utility-maximizer” (1976, 30). Smith's non-utilitarian concerns have recently also been noted by a diversity of authors (Evensky 2005, Rothschild 2001, Montes and Schliesser 2006).

our particular situation” (160-1). These rules can only do the trick because they are not exposed to the biases of man, who is first and foremost concerned with him.

Compared with modern economic portraits of man, Adam Smith’s ‘selves’ are to be considered as wise in the sense Sen has in mind when denouncing the foolishness of economic man in relation with his inability to commit. Sen’s focus on commitments (or sense of obligation for the general rules of conduct) also qualifies the view of individuals relentlessly pursuing their self-interest that economists have commonly attributed to Adam Smith. My previous discussion on the human tendency to self-deceive which Smith thought needed to be tricked out by these general rules completes Sen’s view: it confirms his focus on self-constraints but also highlights Smith’s insights into self-deceit and the ensuing corruptibility of man’s conscience. My discussion has also extended Sen’s commitment approach to a ‘social’ situation that Smith describes taking place within the person: a conflict of motivations between the self pursuing his private interests and the self following the rules. As I understand Smith’s insistence on the rules of conduct, this internal conflict risks being won by self-love. Nature apparently did not want to take this risk in Smith’s view and this is why he has not left us “without a remedy ... to the delusions of self-love” and provided us with rules (Smith [1759] 2001, 159) “fixed in our mind” (160-1). Thus, according to Smith it is important that these general rules are beyond discretion.

And yet, while Smith’s agents are able to commit (and in the sense of Sen not to be regarded as rational fools) or, to put it another way, to avoid what today would be referred to as failure to cooperate (in situations of social dilemma), they nevertheless may remain foolish in Smith’s account. Why this is the case will be discussed in greater detail in part two of the present paper.

One important difference between Sen and Smith should therefore be noted. For Sen, foolishness occurs as a systematic inaccuracy under specific conditions. Sen illustrates that the inaccuracy of man to cooperate when this is against his narrow self-interest leads to suboptimal results from a welfare perspective. Sen’s target is the standard market view (of the invisible hand), which assumes that the pursuit of individual self-interest results in collective benefits. For Smith, foolishness is and more general in character. It is seen as a constituent of human drives. Hence in Smith’s description of man foolishness is to be seen as man’s accessory. His insights into self-deceit as examined here reveal that excessive self-love (or unconstrained pursuit of one’s interest) is indicative of vanity, ambition or avarice, leading to distortions at the level of human ambitions.

From the apparent concern with human motivation and its foundations we see that it is characteristic of a broader description of rationality in both authors that human identity – the person – matters. And foolish characters (i.e. persons pursuing foolish ambitions) are cases in point. It is the specific motivation (the person's values and purposes) that is at stake in Sen's critique of *homo oeconomicus* and it is the same motivation that has been shown to have already been at stake in Adam Smith's analysis of the self in his *Theory of Moral Sentiments*.

Both authors, their significant differences notwithstanding (Sen attacks *homo oeconomicus* and Smith describes man in general), have also an important commonality: they both target human motivation and they both emphasize that foolishness is related to hypertrophic self-interest.

2) The parable of the poor man's son

In order to further clarify Smith's view on foolishness, we will now make an attempt at discussing a prototypical example Smith gives us of self-deceit and illusions, namely his parable of the poor man's son. The parable is particularly interesting because it emphasizes foolishness in relation to the economic domain and goes beyond the previous discussion on the corruptibility of conscience. The parable deals with an economic agent and challenges his economic motivation. This part of the present paper attempts to clarify the basis on which this challenge is made.

The poor man's son sees a rich man in his carriage and aspires to all the riches, then spends his entire life obtaining them. The story is presented from the point of view of an old man who looks back at his career and becomes aware of his foolishness.

"The poor man's son, whom heaven in its anger has visited with ambition, when he begins to look around him, admires the condition of the rich. ... He is displeased with being obliged to walk afoot, or to endure the fatigue of riding on horseback. He sees his superiors carried about in machines, and imagines that in one of these he could travel with less inconveniency. ... He thinks if he had attained all these, he would sit still contentedly, and be quiet, enjoying himself in the thought of the happiness and tranquillity of his situation. He is enchanted with the distant idea of felicity. It appears in his fancy like the life of some superior rank of beings, and, in order to arrive at it, he devotes himself for ever to the pursuit of wealth and greatness ... through the whole of his life he pursues the idea of a certain artificial and elegant repose

which he may never arrive at, ... if in the extremity of old age he should at last attain to it, ... it is then, in the last dregs of life, his body wasted with toil and diseases, his mind galled and ruffled by the memory of a thousand injuries and disappointments ... that he begins at last to find that wealth and greatness are mere trinkets of frivolous utility, no more adapted for procuring ease of body or tranquillity of mind, than the tweezer-cases of the lover of toys.” (Smith [1759] 2001, 181).

In contrast to the social situation of the prisoner’s dilemma highlighted by Amartya Sen above, the parable of the poor man’s son can be said to concentrate on individual choice under conditions of uncertainty. The poor man’s son wants to become rich and in order to achieve this goal he works, saves and invests. By this inter-temporal exchange he hopes to accomplish his aspiration. In Smith’s prose, “he devotes himself for ever to the pursuit of wealth and greatness” (1759[2001], 181). So far everything is fine (and within the confines of the standard model: actions of the individual are rational because they serve best to satisfy his clearly defined objective). What is puzzling is the twist that Smith gives to the parable; in particular it is the unhappiness that accompanies the poor man’s success, i.e. the achievement of his objectives that leaves the reader perplexed. The first part of the story in which the decision is made to work hard is still to be seen in a straightforward way. From the perspective of modern economic theory we would also have to accept the sovereignty of the man’s decision to become rich. It is his decision after all, and in economic terms we are not in the position to call this decision into question.

Although Smith gives us a hint that the poor man’s desire for riches is not autonomous (but influenced by others, to wit the man in the carriage), this does not mean that he does not really want to become rich too, or that his desire is ‘inauthentic’. In addition we can also grant that if it is not the money he truly wants but the approval of others that he knows will accompany his riches then he still pursues his ambition, for status and the attention of others. Smith was aware that man’s ambitions go beyond the acquisition of monetary worth and writes extensively about social significance “of wealth and greatness” that “gratify that love of distinction so natural to man” (1759[2001], 182). Smith also knew that to “be observed, to be attended to, to be taken notice of with sympathy, complacency, and approbation, are all the advantages which we can propose to derive from it. It is the vanity, not the ease, or the pleasure, which interests us. ... The rich man glories in his riches, because he feels that they naturally draw upon him the attention of the world, and that mankind are disposed to go along with him in all those agreeable emotions with which the advantages of his situation so readily inspire him. At the thought of this, his heart seems to swell and dilate itself within him, and he

is fonder of his wealth, upon this account, than for all the other advantages it procures him” (Smith 1759[2001], 50-1¹⁰).

Only the second part of the parable is puzzling. We would have expected that a man whose desires have been met and whose efforts were rewarded by success “would sit still contentedly, and be quiet, enjoying himself” (Smith [1759] 2001, 181). Why did Smith not present the poor man’s son’s life as a completed life? Why does he finally not provide us with a success story of a person who overcomes his weaknesses of willpower, i.e. the temptation to succumb to immediate pleasure for example and works hard for what he desires to be in the future, and who is finally rewarded by economic success? Instead, the parable tells about unhappiness and (disillusionment) despite personal, social and economic success, and one wonders why. The standard approach remains silent about it. It does not generally account for disappointment and regret because it does not provide for an agent looking back. Economic decision making is forward-looking and the story is clearly about a decision that has been taken in the past. According to the economic model, the poor man’s son has no reason to be unhappy and if he is this is not of economic interest (he is seen as irrational because he cares for ‘sunk costs’, i.e. costs that cannot be recovered and should not impose on present decision-making).

What then is the source of the poor man’s son’s unhappiness? I claim that it is caused by the foolishness of his ambitions. But before this is elaborated in greater detail, the following section will discuss two responses that have been suggested in recent extensions of the standard approach.

2a) Stable preferences

Gary Becker’s economic approach provides an answer to the source of the unhappiness of the poor man’s son (1996 [1992]). He abandons the independence assumption of the standard model. In his view this assumption, in which the past does not have any influence on the

¹⁰ “...The poor man, on the contrary, is ashamed of his poverty. He feels that it either places him out of the sight of mankind, or that if they take any notice of him, they have, however, scarce any fellow-feeling with the misery and distress which he suffers. He is mortified upon both accounts; for though to be overlooked and to be disapproved of, are things entirely different, yet as obscurity covers us from the daylight of honour and approbation, to feel that we are taken no notice of, necessarily damps the most agreeable hope, and disappoints the most ardent desire, of human nature. The poor man goes out and comes in unheeded, and when in the midst of a crowd is in the same obscurity as if shut up in his own hovel. The man of rank and distinction, on the contrary, is observed by all the world. Every body is eager to look at him, and to conceive, at least by sympathy, that joy and exultation with which his circumstances naturally inspire him. His actions are the objects of the public care.” (Smith 1759[2001], 51).

present ambitions of the individual, unnecessarily narrows the field of economic explanation. He introduces the general insight that much of the influence of the past is already condensed into the standard economic model in the present preferences of an individual. Hence he brings the consideration of preference formation into economics. In particular individual habits (the habit of a certain standard of living for example) can be conceived in terms of a preference. Habitual behaviour is defined as “displaying a positive relation between past and current consumption” (119). Becker’s consideration of habitual behaviour is in contrast to standard models in which there is no influence of the past on present choice. If the individual has a strong habit, he displays a preference for the past that weighs heavily on the present. This is also how habitual behaviour is compatible with the standard model: the forward-looking utility-maximizer (*homo oeconomicus*) accommodates his preference for the past (in the form of a habit) as an argument in his utility function. This is a way to deal with habits other than in the form of irrationality (as the standard model that cannot explain the influence that past experience has on the present would imply). After what has been said above on the sovereignty of individual preferences, it is also clear that for Becker a preference for a habit is a preference like any other and nothing in it allows us to denounce it as irrational. Becker recalls that to do as one has done in the past is comfortable for many people and most get mental and physical comfort from it. On the other hand, the consumption of some goods in the present compares with the amount consumed in the past. In this view a “given standard of living usually provides less utility to persons who had grown accustomed to a higher standard in the past” (122). Accordingly, it is not maintenance of one (high) level over years that makes people most happy, but mainly the increase in the level of consumption. This is why the *nouveau riche* according to Becker is also the most happy. The problem is that goods that involve such invidious comparisons with the past are self-defeating because the “greater consumption now lowers future utility by raising the future standard of comparison” (122). The experience of a certain standard of living over time in this view is seen as habitual behaviour: “current consumption is encouraged by greater past consumption in order to come closer to the standard set by past behavior” (122). Understanding habitual behaviour in economic terms is to acknowledge that present utility depends on comparisons between present and past consumption. For Becker the poor man’s son’s unhappiness in Smith’s parable is a perfect example for the “transitory gains in utility from a higher standard of living” (123).¹¹ The poor man’s son, Becker contends, has become habituated to his increased

¹¹ Becker quotes Smith: “The poor man’s son, whom heaven in its anger has visited with ambition... pursues the idea of a certain artificial and elegant repose... which, if in the extremity of old age he should at last attain to it,

standard of living, hence his unhappiness. He concludes that “it is rapid economic growth that raises the level of happiness partly by increasing the number of new rich and reducing the number of new poor. Indeed a mere slowing of the growth rate could lower utility even when incomes continue to rise if the habitual component of the standard of living were sufficiently powerful” (123).

This approach continues to regard preferences as stable (as the standard model). Compared with the standard model, however, it focuses on meta-preferences, which include habits (and other social influences that are usually not considered in the standard model). This is how preferences are not assumed exogenously given but (endogenously) formed. This is how an agent can have harmful preferences (acquired rationally through habitual behaviour). This person is conceived to have a high discounting factor of the past and the future.

For Becker it is important to stress that no irrationality is implied in habitual behaviour (as many believe). Rationality does not preclude unhappiness in this account. His preference for the past in relation to a high standard of living has made him accept invidious comparisons and their harmful consequences. The transitoriness of the utility gains then derives from the comparison between present and past consumption and leads to frustration when present consumption is not reinforced. In other words, it is the poor man’s son’s preference for the past that makes him frustrated today. The cause of his unhappiness is not thus to be seen in his own foolishness (his foolish ambitions) but as a consequence of his preferences.

It is nevertheless somewhat odd that Becker’s solution of the poor man’s son unhappiness does not account for self-deceit at all. For Becker, no foolishness is involved in the choice: He maintains that preferences should not be evaluated along these lines: they are “no more a sign of irrational behaviour than is any regret voiced by big losers at a race track they bet so heavily” (121). The disappointment of the poor man’s son just follows from his preference for the past. And yet, according to Smith, self-deceit is at the heart of the parable.

Another response is suggested by Nava Ashraf, Colin Camerer and George Loewenstein (2005). They draw on psychological insights into human identity and give a psychologically inspired account of the poor man’s son’s unhappiness. In their analysis of individual consumption and its discontents they claim that the poor man’s son has committed a forecasting error with regard to the consequences of his actions. The authors hold that the riches don’t make the poor man’s son as happy as he had expected. The economic emphasis

he will find to be in no respect preferable to that humble security and contentment which he has abandoned for it.” (1996 [1992]), 123).

here is on incorrect judgements about the consequences of one's action (Ashraf et al. 2005, 138-9) due to psychological influences on human decision-making. The poor man's son (mistakenly) believes that riches will make him permanently happy.

According to Ashraf et al. (2005), Smith's focus is on "people's illusion that acquiring wealth, possessions and status will make them permanently happy" (138). But in reality, pleasure is often transient and people overestimate the duration of happy feelings.¹²

In their view Smith anticipated much psychological research with his parable. In particular in connection with recent findings documenting that people adapt to material conditions, he expresses scepticism about the pleasure derived from possessions. Also in their view, Smith understood that the anticipation of status gained is much greater than the realization. Only at the end of life, when it was too late to remedy the situation, did Smith believe, Ashraf et al. continue, that the wealthy come to recognize the folly of their ways – the paucity of pleasure they derive from all the goods they struggled so hard to procure (139).¹³

This psychological interpretation of the nature of unhappiness partly joins Becker's economic explanation. According to both, the poor man's son's unhappiness stems from the fact that utility from riches is transitory. However, while the economic approach does not draw on distortions of human decision-making, the psychological approach does. For the psychology and economics explanation, the human mistake is indispensable for the explanation of the unhappiness. In this approach it is implied that if the mistake were not made and humans could be provided with perfect cognition they would be able to anticipate the informational deficiency. The standard approach usually does not imply any such cognitive distortion in relation to the poor man's son.

In the psychological approach, self-deceit by the poor man's son is identified as a distortion of expected utility theory at the foundation of the standard model. The focus is on the misguided belief that wealth brings permanent happiness. The consideration of errors notwithstanding, this explanation also takes the specific ambitions of the poor man as given. It is because the

¹² According to the authors this also explains why the "happiness of lottery winners tends to revert surprisingly close to a normal baseline after their wonderful life-changing events" (138).

¹³ Ashraf et al. quote Smith: The poor man's son through "the whole of his life he pursues the idea of a certain artificial and elegant repose which he may never arrive at, or which he sacrifices a real tranquillity that is at all times in his power, and which, if in the extremity of old age he should at last attain to it, he will find to be in no respect preferable to that humble security and contentment which he had abandoned for it. It is then, in the last dregs of life, his body wasted with toil and diseases, his mind galled and ruffled by the memory of a thousand injuries and disappointments which he imagines he has met with from the injustice of his enemies, or from the perfidity and ingratitude of his friends, that he begins at last to find that wealth and greatness are mere trinkets of frivolous utility, no more adapted for procuring ease of body or tranquillity of mind than the tweezer-cases of the lover of toys." (2005, 139).

poor man's son fails to correctly foresee that the gains from wealth are transitory and will not make him permanently happy that he is unhappy. Hence he pursues ends that fail to make them happy.¹⁴

While self-deceit finally seems incompatible with the economic approach according to Becker, some aspects of it are included in psychology and economics. In particular it is the distortion of information processing (about the states of the world) that in this view needs to be accommodated in the economic model. In this view also, the poor man's son is not a fool because of his pursuit of a foolish purpose but because he is misled by his distorted calculation of the consequences of his action.

2b) Change of preferences

Self-reflexivity and self-interest

My own interpretation builds on Smith's view of the self outlined above and proposes that the poor man's son's unhappiness is due primarily to a change in his values and purposes. It focuses on the imperfect knowledge of the self and his uncertainty with reference to what he wants and what he is. The poor man's son in this view experiences a crisis of identity (or in other words, he looks at his own character from a different point of view). His value criteria change and from the point of view of this change, his previous ambitions disappear as an "illusion of the imagination" (Smith [1759] 2001, 115).

The poor man's son sees himself as having pursued foolish ambitions, but not because his expectations were frustrated as the psychological and also the economic account claim. I believe that in the end his ambitions were less frustrated than the psychological and the economic focus suggest. First, because in reality he has become rich, so he has succeeded in realizing his ambitions. And second, because he never thought that riches would really make him happier. When Smith tells us that the poor man's son only wanted to "possess the means of happiness" (182), we are also supposed to know that he did not confuse the means with the

¹⁴ Smith's psychological insights into what makes people happy has anticipated current happiness research, in which only weak connections between happiness and wealth or income, over time or across countries, have been found. At the foundation of this explanation is the hedonic psychological claim on Smith that happiness is the result of a bundle of goals, and not only the maximization of monetary income. Becker also draws on psychological insights but adds that the rational agent will anticipate psychological weaknesses – and forestall them. If he does not, this does not mean that he is irrational, but that he decided to assume the weakness because it is less costly to him than overcoming it.

end. He never believed that the pursuit of riches would make him happy in the first place. This is also why I believe he cannot be mistaken about the consequences of his decision.¹⁵ In this light, the parable is not only about a forecasting error. The point Smith makes is not only that the poor man's son aspires to riches because he (falsely) believes that these riches will make him (permanently) happier. Also the parable is not primarily about the consequences of having a preference for the past (i.e. of habitual behaviour leading to invidious comparisons).

At the basis of this problem of choice is the problem of identity formation. In Smith's view, however, identity is not to be seen as given (preferences, values and purposes are neither given nor stable) but unknown. If we look at Smith's broader description of the self outlined above, the search for identity is a knowledge problem and a problem of limited self-experience: when we approach identity from the point of view of self-experience, it is in principle unknown and precedes the choice situation. Smith's concept of the self recalls these insecure motivational foundations of individual identity.

To my mind the identity crisis highlighted in the parable and hence the son's unhappiness can also be seen as the price he has to pay for his new insights about himself—namely that his identity can also change. This interpretation also focuses on a dynamic vision of the self that I claim is hence essential to Adam Smith.

That Smith has chosen the poor man's son as the key figure of his parable is significant. The parable can also be read as a coming-of-age novel. The poor man's son dislikes what he is (the image of his father). The key figure in the parable is not the landlord who has been rich all the time and whom one would expect to suffer from the transitory happiness of riches as noted in the previous section but a person who wants to become rich (he will do everything to get there)¹⁶. My point is not that his ambition is inauthentic, i.e. not *his* preference but another's preference in him, what Teschl (2006) refers to in terms of “‘social’ preferences”, but that he himself will be finding out who he is (and what he wants) by self-experience, and his life is an exercise in this. Illusions (about what he is and in fact is not) are part of this quest for identity.

According to Smith's theory of self-deceit and his concern for foolish ambitions, I believe that identity is to be seen as a process rather than an end result in which disillusionment and hence

¹⁵ As Smith says, the poor man's son does not “imagine[s] that... [the rich]... are really happier than other people: but he imagines that they possess more means of happiness” (Smith [1759] 2001, 182).

¹⁶ That is, he will do everything that is within the confines of fair play (i.e. respect the general rules of conduct). “For this purpose,” Smith tells us, “he makes his court to all mankind; he serves those whom he hates, and is obsequious to those whom he despises.” (Smith [1759] 2001, 181).

illusions occupy much space. The poor man's son when seen in this light does not know who he is and what he wants, and the experience of an identity crisis is indicative of a change in his value criteria and self-reflexivity. This change may also lead people – in a moment of crisis – to alter their preferences (i.e. at first the poor man's son likes riches, and then he dislikes them). The existential crisis that is accompanied by the change in preferences also illustrates that this change is not made capriciously and on a day-to-day basis, which is an insight into preferences that is also shared by Stigler and Becker (2006 [1977], 24). But if an individual changes his value criteria the ambitions he pursued before his change came into being appear as an “illusion of the imagination” (Smith [1759] 2001, 115).

The previous values and purposes are no longer of value and from the different perspective seem illusory. This is exactly what the disillusionment is about. It also marks the change from a happy illusion (a wish about oneself in the future that motivates people to act) to an unhappy disillusion. The disillusion here is due to the obsolescence of a prior ambition. It does not constitute an error in cognition (or beliefs), but is a consequence of a conscious change in value criteria. The disillusionment that points to a change in his inner values and preferences is thus existential. In this view illusions are to be seen as a precondition of any disillusionment and part of human self-experience and development.

This explanation of the poor man's son's unhappiness can be seen as complementary to the ones that are discussed above: it does not suffer from the weakness of the (extended) economic approach in which self-deceit is nonexistent, or the psychological approach in which the deception applies only to the level of beliefs but not to preferences. A change in value criteria also explains what the standard approach cannot do: namely that the successful achievement of a person's goals results in unhappiness. His unhappiness has an existential foundation because his perception of what kind of a person he wanted to become, namely a rich man, is shaken. When seen from the point of view of different values his previous purposes appear as an illusion to him. This insight into foolishness due to change of preferences is the lesson to be taken from Smith's parable.¹⁷ The change of preferences highlighted in my approach is to be seen as a consequence of the person's self-experience. It indicates that the poor man's son has also increased his knowledge about himself; he sees more clearly who he is.

¹⁷ In particular what is needed to account for foolishness as conceived here is a change in value criteria as a consequence of which the person may be in the position to re-evaluate his previous values and purposes. This view implies that the person has become another (that he has changed his personality), i.e. he has adopted different values and is therefore in the position to become aware of his foolishness at all.

Self-confidence and cognitive mechanisms

In order to further distinguish my interpretation of foolishness, in what follows I will at this point bring in the cognitive theory developed by Bénabou and Tirole (Tirole 2002, Bénabou and Tirole 2004, 2006).¹⁸ Although Bénabou and Tirole never explicitly applied their model to the poor man's son, their theory will be analysed in greater detail in what follows because it allows me to further advance this debate on foolishness and identity. So what is their theory about?

First, their theory of identity is mainly a theory of self-confidence: drawing on cognitive psychology, the authors emphasize that the self needs to take care of his ego and to this end actively engages in the manipulation of his beliefs.¹⁹ In this view, the self is represented as a trade-off between self-awareness and the risk of overconfidence (Bénabou and Tirole 2002, 2006). And this is why their view of identity embraces the self-manipulation of beliefs. When viewed through the lens of self-confidence theory, beliefs are seen as assets, and self-deceit and illusion (in the sense of valued beliefs) are a constituent part of the self. What drives humans is not so much self-interest, as the standard unitary view of preferences assumes, but conflicts among various interests (and preference orderings) within the self. Therefore Bénabou and Tirole present 'identity games' that are representative of internal struggles.

One way of responding to these lies in the self-manipulation of beliefs: a person with weak willpower for example deliberately fails to acquire accurate knowledge about his true skills in order to avoid being trapped in indefinite procrastination. On the other hand, a person with "escalating commitments"²⁰ (Bénabou and Tirole 2006, 16) continues to miscalculate the happiness that can be derived from riches and so repeatedly engages in behaviour that ultimately frustrates him (for example he continues to consume things that do not make him happy). Self-confidence theory helps to explain why cognitive errors (i.e. the miscalculation

¹⁸ With their cognitive theory Bénabou and Tirole aim at a unifying approach to human behaviour to account for a wide range of behaviour that was in the past conceived as 'irrational' by economists (such as cognitive errors). In this view, 'irrationalities' are related to the individual's concern for his self-image (or identity).

¹⁹ When people are also concerned about their self-image, they process information imperfectly. In fact, because of the non-neutrality of the self that is doing the information processing (Gao and Schmid 2005), the person's self-awareness is necessarily flawed.

²⁰ In the case of escalating commitments the higher a person's identity-relevant capital, the more identity-affirming investments he will make in order to raise his stock even further. This is not due to increasing returns in the investment technology as the standard model predicts, but it is because higher stock of identity-relevant capital "has a greater vested interest in viewing this asset as valuable rather than worthless, and further investments is the way to demonstrate such beliefs, as the psychological literature on self-justification suggests" (16). In fact in this view, people will "keep accumulating wealth, professional achievements, political or religious activism, not so much for the marginal product of the later investments but to preserve the value of earlier ones – that is, to safeguard or strengthen the belief (true or false) that these assets will bring happiness over the course of a lifetime, or a favourable fate in some hereafter" (16).

of the consequences of one's actions) can be repeated under specific personal conditions instead of being countervailed (by rational updating of information as assumed by the standard model). In this sense the theory also deals with belief manipulation as a commitment device. Why do people keep holding beliefs and repeat behaviour that frustrates them? Conversely, why do people hold beliefs that help them to fulfil an ambitious task? In both cases the theory suggests that concern about self-image or identity is involved.²¹

What interests us here is whether this theory of identity further advances our understanding of the poor man's son's foolishness. My contention is that it cannot completely explain the disillusionment of the poor man's son (and does not particularly advance our understanding) for two reasons.

First, according to the cognitive account self-deceit and illusions typically characterize a person's reaction to some inner conflict. We will therefore examine whether the parable emphasizes an internal conflict and if so, what kind of conflict?

What seems clear is that the poor man's son's pursuit of riches is not indicative of a moral conflict of the kind I discussed in the first part of the present paper in reference to Adam Smith (recall the struggle between a man's self-interest and his conscience discussed in the first part of the paper) nor of the kind Bénabou and Tirole emphasize when they take as a starting point of their analysis "the desire to think of oneself as a moral person as a powerful motivator to help others and refrain from cheating" (2006, 1). His ambition to become rich is perfectly fine from the point of view of the *Moral Sentiments*; there is nothing in the parable that suggests that the poor man's son cherished self-image as a rich man causes a moral problem. Smith does not condemn the pursuit of riches²² as long as they are acquired by work (and investment) and the behaviour remains within the confines of "honesty" ([1759] 2001, 63) and "fair play" (Smith [1759] 2001, 79).²³ Evidently, the poor man's son is not struggling with a moral conflict when he is struggling for riches. It is significant in this respect that the

²¹ The theory of identity also has an impact on the evaluation of welfare. When viewed through the lens of self-confidence theory, people may engage in both welfare-reducing and welfare-enhancing behaviour depending on whether their beliefs are functional or not. Hence valued beliefs are seen as assets that are functional for the individual when they provide him with a sense of orientation (helping him not to give up on an ambitious task too easily for example). In turn, valued beliefs are wasteful in this view if they are sought for "mental consumption" (Bénabou and Tirole 2006) in order to increase a person's self-confidence and anticipatory feelings.

²² On the contrary, as many have noted, Smith did not see any contradiction between morals and riches: for him wealth is a precondition for a moral society (for a detailed elaboration of this view see Griswold (1999).

²³ "In the race of wealth, and honours, and preferments, [man] ... may run as hard as he can, and strain every nerve and every muscle, in order to outstrip all his competitors. But if he should jostle, or throw down any of them, the indulgence of the spectators is entirely at an end. It is a violation of fair play, which they cannot admit of."

poor man's son as Smith sees him does not feel guilty (which he should if he had violated any moral rules). However, the parable also does not describe a social conflict to which the poor man's son would be exposed.. We might imagine that the fetters of tradition or religion for example might hinder individual emancipation and if strong enough might also create a dilemma within the person (a dilemma that would pit personal and social aspects of identity against each other and which Bénabou and Tirole have also dealt with in the form of a struggle between modern and traditional identities (2006, 22). In the case of the poor man's son, however, the individual pursuit of riches and his rejection of remaining embedded in long-term utility from family and traditional culture (which means to remain poor as his father) is far from being condemned by society. On the contrary, the successful achievement of the poor man's son's ambition is generally admired by others.²⁴

Moreover, the poor man's son is not a person of weak will which is a conflict that Bénabou and Tirole have emphasized in their original model that combined self-deceit, illusion and identity (2001, 2002, Tirole 2002). Smith does not give us any hints that it is a lack of perseverance or ambition that preoccupies his protagonist.²⁵ On the contrary, the parable suggests that the poor man's son was very successful in achieving his goal and this would imply (as unfair means are excluded) that he has proven considerable strength of will in the pursuit of his personal goal. He overcame his weaknesses, i.e. the temptation to succumb to immediate pleasure, which is human and has probably also preoccupied him in connection with the fulfilment of his ambitious tasks. In fact Smith does not depict the man as a weak personality.

As has already been argued in the previous section his disillusionment when he looks back at his life is also not the frustration that accompanies permanent high levels of consumption. Therefore it can also not be argued at this point that the frustration would be reinforced by valued beliefs in a way Bénabou and Tirole could be able to emphasize in relation with "escalating commitments" (2006, 16).

²⁴ Furthermore the poor man's son is not primarily guided by a social prescription to become rich, he – so the parable would have it – also personally desires these riches (because he desires not only to lead a more comfortable life and because he also desires social approval, which is easier to gain by the rich man than by the poor). So it is not mainly a social norm that he follows when he pursues this goal against many odds and at high personal cost (Smith [1759] 2001, 181). Although a norm is certainly existent in the setting Smith gives us of becoming rich, it is not directed against the poor man's son's private interests. The poor man's son is not poor for ideological reasons (he never decided to be so) but he was born poor. Nothing in the parable prevents him from cherishing the desire to become rich.

²⁵ Should the poor man's son have had problems with the strength of his will (a problem that may arise with any man and is related with the fulfilment of any ambitious task), then he successfully solved these problems.

The poor man's son works hard to achieve his desired self-image. He engages in a long-term plan to realize his dreams. And he succeeds. Not only has our protagonist become rich (as he wished) but he has also acquired status and social approval, which he presumably also desired, and both achievements – as he correctly expected in his youth – have made his life much easier to bear. All of this gives reason for assuming that he should be happy, and the puzzle remains as to why he is disillusioned after all? Why does he not “sit still contentedly” (Smith [1759] 2001, 181)?

Whereas their emphasis on inner struggles clearly extends the economic view of the self, Bénabou and Tirole in my view, cannot make out self-deceit and illusion as Adam Smith dealt with in the parable of the poor man's son's. As I see it, it is less the conflict but the change that is brought to the fore by the parable. More than with inner conflicts Smith is more concerned in his parable with the problems related to finding out one's interests.²⁶

The question how people can find out their self-interests brings us to my second objection and to the assumption Bénabou and Tirole adopt with reference to self-knowledge. The cognitive theory of self-confidence implies that self-knowledge is limited. People have only limited access to their preferences. This is in line with self-perception theory (Bem 1967) according to which people do not know for sure about their intentions (in the moment of action) but infer them from their actions, after the fact. This is similar to the assumption of revealed preferences except that according to Bénabou and Tirole the inferences people draw from their behaviour are distorted by self-deceit (i.e. motivated self-manipulation).²⁷ As a consequence, preferences are only imperfectly accessible and as a consequence the individual pursuit of self-interest gets distorted. The subsequent ‘change in preferences’ (which is in fact

²⁶ The poor man's son is to be understood as in search of his identity. The twist Smith gives to the poor man's son is his self-doubt. His interests are to be seen as evolving. And finding out what is valuable to him after all, finding it out through self-experience, is different from a view that emphasizes already well understood interests pitted against each other. In the latter case the interests, although differing and conflicting, are known in advance. In my interpretation of the parable, interests are not set in opposition; the focus is on the fact that the interests are not ultimately understood in the first place.

²⁷ As Bénabou and Tirole know, it is not possible for individuals to manipulate their beliefs at will, and this is why they account indirectly for it by introducing two limitations into the standard model: they assume that individuals have both imperfect self-knowledge and an imperfect rate of recall (2002, 2006). By actively manipulating the latter (with a view to acting such that the typical features of what the individual conceives to be part of his identity are more clearly remembered and do not get lost in the courses of action) the individual indirectly manipulates his beliefs. Bénabou and Tirole consider cognitive mechanisms (or “errors”) that influence the processes of individual belief manipulation in a model of demand and supply. The psychological needs of the individual are emphasized in relation to the demand for self-deceit. The authors hold that valued beliefs serve various psychologically relevant functions, they give pleasure, signals, and importantly they can motivate the individual. And the supply side of self-deceit draws on the theory of cognitive dissonance and captures the psychological immune system of the individual.

rather to be seen as a distorted preference) is the result of cognitive mechanisms involved in the deference process.

When seen from this view of self-knowledge, the poor man's son in his old age would no longer have access to his original plan to become rich, but he would need to infer it indirectly from his actions, or his successful career. Bénabou and Tirole could possibly argue that the poor man's son would not admit to be the author of his success (and consequently deny his excessive ambition) by attributing it to the external hazards/to the authority of good luck and fortune. This self-justification would work as a barrier to self-awareness and would save him from the insight into the foolishness of his ambitions. Moreover, as the self in this view trades off over-confidence (as a consequence of self-deceit) with depression (entire self-doubt and absence of self-deceit), the poor man's son's disillusionment could only be understood in terms of a clinical picture. But Smith did not present the poor man's son in the form of a patient. Smith's description of the man's experiences in terms of "splenetic philosophy, which in time of sickness or low spirits is familiar to every man" (Smith [1759] 2001, 183) in contrast seems sound and healthy given the existential dimension of his situation.

The limited self-knowledge of the poor man's son is not the result of a distorted inference process, but the consequence of self-doubt and uncertainty about what kind of person he is and what he should value. This uncertainty results in the poor man's son quest for the self which is at the heart of the parable.²⁸ It also provides for self-reflexivity (Hargreaves Heap 1992, 4) and conscious change. Preferences in this view are uncertain (rather than inaccessible as Bénabou and Tirole claim) and they will continue to be so because of ongoing self-experience.

How does the poor man's son then find out his interests? Bénabou and Tirole could make him infer them from past behaviour and consider their distortion. As already said, my view is that Smith did not want to emphasize cognitive mechanisms in the parable: actually the poor man's son refuses to resort to the self-manipulation of his beliefs. He finds them out by opting for disillusionment (and hence consciously decides to evolve as a person).

²⁸ This view has similarities with expressive rationality (Hargreaves Heap 1992) capturing the idea of making sense of the self through creative choice. This version of rationality also makes people self-reflective according to Hargreaves Heap. They become capable of deliberating and choosing the ends they wish to pursue (4). In this view the concern for making sense of oneself "reflects a central source of doubt and uncertainty within the individual" as to what he should value in himself (22). And without this doubt there would be no project for making sense of the self. The self would be understood and the ends of the individual could be specified. Instead, it is precisely because they cannot be specified because self-experience in our view is per se unfinished that we have an objective of making sense of the self (23).

3) Conclusion

Coming back full circle to my earlier analysis of foolishness in terms of hypertrophic self-love (which I claimed is shared by Smith and Sen) the poor man's son has also imposed some limitations on his desired self-image. His change in value criteria has devalued his desired goals and when seen from a new perspective (of a different personality) they appear foolish to him. This is another way of saying that in the absence of constraints (here introduced by a change in (obsolete) value criteria) ambitions may become unwise. Hence my account highlights the foolishness that is connected with the failure to change (obsolete) goals and values.

By drawing on Adam Smith, the present paper aimed at clarifying the motivational foundations of the economic agent. According to this, what is the other side to the pursuit of self-interest? What is the lesson from the poor man's son should be drawn for the economic motivation?

"We are not ready," Adam Smith also says, "to suspect any person of being defective in selfishness" (Smith [1759] 2001, 304). And in my account of the parable, self-interest remains the prior motivation. My emphasis on foolishness has nonetheless revealed a new perception of the prior motivation: the essence of the parable in which we deal with (excessive) self-interest is self-reflexivity. It depicts a self who can call his values and goals into question and change them.

According to Adam Smith illusions are not only an important individual drive. They rouse and keep "in continual motion the industry of mankind" (1959[2001], 183). What's more is that Smith understood that foolishness in this sense is also a major economic force. This is how he transforms what he views as a weakness into an asset: the economy in this view is driven by foolish ambitions. It therefore depends on excessive self-interest.

It seems to me that this outlook (also capturing the counter-intentional and unknown consequences of the pursuit of self-interest) represents only one side of the coin. From my analysis it follows that there is another side to it which has been overlooked in the parable: the economy does not only depend on illusions but, and perhaps even more importantly, on disillusionment. My suggestion is that economic development also depends on an evolving self as indicative of a conscious change in values and preferences. Smith's account of foolishness as interpreted here also implies that this other side to self-interest necessarily

exist: since the poor man's son awareness of the foolishness of his ambitions is only possible as a result of his change.

The advantage of this approach to economic identity is that it adds complexity to self-interest by adding self-reflexivity and change while keeping the notion contentless, a modelling characteristic which also constitutes its major force according to many (for an overview cf. Vried 1996). It should also be considered that the possibility of changing values and preferences (by other than external factors such as relative prices as claimed by the economic approach) is no longer completely discarded by economists. Cognitively inspired approaches (and their focus on mental mechanisms of change as also discussed above) are cases in point. In addition to these, I also draw on Sen when assuming that the grounds on which people make their choices do not always remain the same, but that these grounds are, under specific conditions, subject to self-reflexivity and change. How these qualitative features of the self that were emphasized in my interpretation could be considered in economic models and what these features would alter in our understanding of the economy still is an open question.

Although he has never referred to Adam Smith's parable, the picture of economic identity that the present analysis reveals is more in Sen's spirit than in the spirit of recent economic extensions discussed above.

Our account rejoins the description of a wise person applying self-scrutiny and reasoning to his values and purposes, which Sen has recently clarified (2002, 40). He has repeatedly argued that individual decisions are also taken on the basis of other concerns than happiness (or wealth) without for that reason being unwise. And I think that the poor man's son's disillusionment in the parable also bears this out.

In line with Sen's claim about Adam Smith, it has also become clear that our protagonist is not a "rational fool" (Sen 1977), because he is able to commit (to the general rules of conduct and as was shown above in part one) and therefore his ability to cooperate with others does not necessarily depend on adequate economic incentives, an incapacity that for Sen was characteristic of a fool.

I believe that the economic innovation in Smith's view of identity (compared to the previous canon) can be seen in the general liberation of some of man's desires. The poor man's son's foolishness can also be seen as a consequence of this liberation, but for the sake of the

argument he is rather depicted as a 'wise fool'. In contrast to the rational fool who, according to Sen, lacks wisdom because he lacks commitment, the wise fool finally knows that under specific conditions his pursuit of self-interest calls for self-reflexivity and a conscious change of his preferences.²⁹

²⁹ This could be seen as a consequence of personal development in which he experiences the obsolescence of his values and preferences.

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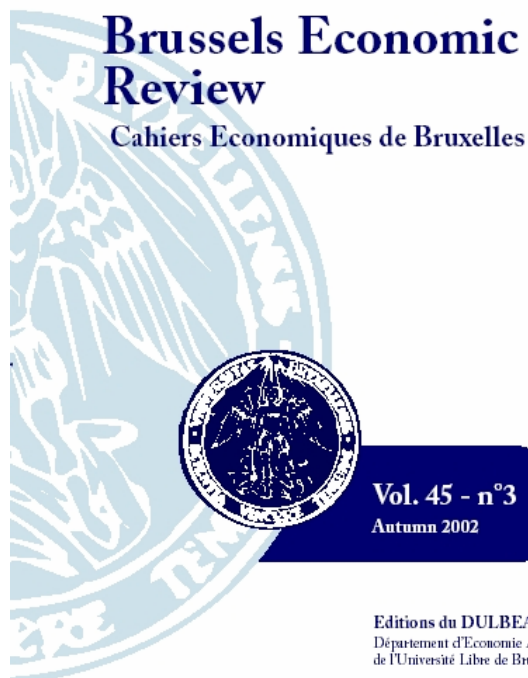
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