

THE PROTAGORAS PROBLEM

Now, a more severe aspect of the Raifa story (who, recall in Chapter 2, facing reality, blurted out that his models were unreliable for real-world decisions). It is a bit deeper that it seems, actually much, much graver that you think. What marked the passage from *sophistry* —building an argument, knowing how to win a point, playing with concepts — into *philosophy* as love of wisdom, is that one cannot use fictional arguments. This is what social scientists and economists do today^{cxiii}.

Socrates' view is that one cannot conduct a dialectic unless one sincerely agrees to every step of the argument. In the eponymous dialogue *Protagoras*, Socrates engages the well-known sophist, Protagoras, in his usual probing. At some point, Protagoras disagreed with the statement by Socrates that justice is holy, and holiness is just; but he assented just for the sake of argument. His agreeing to the proposition was just to continue and probe the next step, not out of genuine belief.

Socrates stopped him. "I do not think an argument's validity can be tested unless these "ifs" are removed from it". Of course it does not mean banishing conditionals from the vocabulary; he wanted to limit insincere assent.

This line in the dialogue is what marks the birth of philosophy. The entire body of Plato's works contrasts sophistry, the art of the argument, with philosophy "love of wisdom" —and if it was said that philosophy was born with Socrates, it had to be in these dialogues marking the dissimilarity between the argumentative Athenian and the famous sophists such as Gorgias, Protagoras, and others. Sophists were disliked and distrusted in Athens, for making money and getting rich out of arguments, in a way just like academics are distrusted today, and some people had portrayed Socrates as just another sophist. So it looks like Plato wanted to propound an image of Socrates that is different from that of the sophists —a genuine man.

Now these insincere "ifs" have crept back into the modern world, with fictional arguments and hypotheses leading, of course, to fictional research.

At a conference retreat, I was once discussing with Richard Thaler, whom people call the father of behavioral economics, his decade-old work on a psychological explanation of something called the equity premium puzzle. About a dozen years ago, around 2000, economists found out that equity was better than bonds, as the returns had been vastly higher, even adjusting for risk, yet people did not seem to invest too much in stocks. This lack of appetite for stocks, in spite of their perceived attractiveness (by academics), was pronounced a "puzzle", the "equity premium puzzle". I spent time fighting it with my nails; it was no puzzle, just a potential sucker problem. I just did not believe that one could make such statement on the basis of the data—it was simply like the turkey story. The "puzzle" lacked in empirical rigor —to me, Black Swan events were not accounted for by the story, so we could not ascertain what the risk was in Extremistan ("fat tails") from simple naive observation of past data. Indeed whatever equity premium there was has evaporated in recent years.

Thaler was offering an explanation of the puzzle based on human irrationality; he was also using the puzzle to illustrate human biases .

The strange thing is that Thaler agreed with me about the lack of validity of the puzzle, but continued: "*If there was an equity premium puzzle, then this would be the explanation...*" I had a flush of anger expressed in tightening of my muscles, descending down my spine; for the next few days could not see Thaler without feeling revulsion, or getting angry. I could not calm down —there seems to be in us (or, at least, some of us) something that hates sophistry, lack of genuineness in research, politicians, people and triggers physical reaction.

Intelligence without genuineness, it had to be.

I could no longer see any sincerity in work that is so conditional (the practice in economics has exploited some unrigorous paper on positivism by Milton Friedman saying that fictional hypotheses should not invalid models; in Medicine nobody says "if man were mice, then this..."; in physics nobody says "if the Moon had water...").

Now, further, what worries me the most about such research is that, as we saw, Thaler invokes notions of rationality—a Procrustean bed built by researchers. It is "irrational" to not transfer your savings to fund managers?

We saw with the agency problem that the stock market has been a way to divert funds to managers of companies.

Twenty four centuries ago, we were ahead.

Now the entire notion of “social science” reposes largely on fictional assumptions —particularly when it tries to reach the theory (fragile) beyond the just phenomenal (as we said, robust). What do we do? Eliminate much of it! Take a pair of scissors, and cut the *b***t* out.

And cutting the *b***t* out is what I am doing in this book.