Book Review of:

Peter Earl, *Principles of Behavioral Economics: Bringing Together Old, New and Evolutionary Approaches*, Cambridge: Cambridge University Press, 2022, xxi +518 pp. £ 89.99, ISBN 978-1-316-51509-9 Hardback, ISBN 978-1-009-09589-1 Paperback

Most specialists agree with the distinction between old and new or modern behavioral economics attributed to Esther-Mirjam Sent (2004). Herbert Simon's work is placed at the center of old behavioral economics. The roots of new behavioral economics may be traced back to the 1970s, especially in the works of Daniel Kahneman and Amos Tversky (see also Heukelom 2014; Kao and Velupillai 2015; Frantz 2020). One of the main differences between old and new behavioral economics is their relationship to mainstream economics. In spite of their critique of standard economic rationality, new behavioral economics cannot be viewed as lying outside the general framework of mainstream orthodoxy. On the other hand, old behavioral economics has more substantial methodological and theoretical objections to the mainstream framework including the rejection of the utility maximizing hypothesis. The new behavioral economics proximity to orthodoxy is the main explanation for its current prominence. In addition and as Earl emphasizes in the *Preface* of the book, Richard Thaler's paper in 1980 is thought to have provided a critical boost to the rise of new behavioral economics.

Peter Earl is not a newcomer to behavioral economics. Chronologically, his contributions appeared close to the beginnings of new behavioral economics. His monograph on behavioral theory of choice, and his paper on behavioral analysis of demand elasticities date back to the early 1980s (Earl 1983; 1986). Moreover, his published works on Simon and Shackle also exhibit the same behavioral perspective. A distinctive characteristic of Earl's work is a deliberate interdisciplinary methodological stance, combining elements mainly from psychology and sociology, but also from management, marketing, and entrepreneurship studies. Although his contributions mainly fall into the old behavioral economics, he follows a pluralistic approach and has no hesitations to integrate several aspects of new behavioral economics. The present work is an admirable effort to present and synthesize a vast array of ideas from all the above areas to construct an overview of the discipline of behavioral economics.

The book comprises a preface, a detailed introduction, and 13 chapters. Chapter titles are formed as questions that facilitate the textbook dimension of the work. The opening chapter is titled *What Is Behavioral Economics?* It sets the main tools, concepts, and methodological principles of the field, also pointing out the main differences from the mainstream. Particularly useful is Earl's discussion of the empirical methodology drawing from introspection, questionnaires and ethnographic research, experimental studies of behavior, and computer simulations, among others. Chapter 2, titled *What Motivates Us?*, focuses on an analysis of individual motivation. After a critique of the standard maximizing utility function approach, Earl describes how people see the means-ends relationship among choices and their link to their goals. As its title indicates, chapter 3 (*Why Is Life So Full of Problems for Us to Try to Solve?*), discusses the process of problem-solving by using the complex systems perspective. In Chapter 4, *How Do We Acknowledge Problems and Assess Options?,* Earl examines the process of cognition in relation to recognizing the existence of a problem and the process toward its solution. Chapter 5, titled *How Do We Deal with Uncertainty and Ambiguity?*, discusses the issue of uncertainty, by bringing into discussion ideas from other schools of economic thought (e.g. Post-Keynesian macroeconomics, section 5.5). Chapters 6 and 7, titled *How Do We Search for Solutions to Problems?* and *Why Do Some Things Matter More Than Others?,* respectively, focus on the behavioral economics of searching for solutions to problems whose existence has been acknowledged, and also to the origins of relative valuations that individuals assign to alternative courses of action. The following chapter 8, *How Do We Choose?*, builds on the previous chapter and presents how choices are made, by also utilizing George Shackle's insights. This chapter completes all the stages of the decision cycle.

There is a shift of focus in the next three chapters from the individual level to the level of firms and organizations. Chapter 9, *How Can Firms and Governments Influence Our Choices?,* discusses how firms and governments can employ insights from behavioral economics to try to influence people's behavior. Within the same framework, chapter 10 (*What Determines the Productivity of an Organization?*) discusses firms' investment decisions and the factors that affect organizational productivity. Chapter 11 (*How Does the Competitive Process Work?*) continues the analysis of firms and organizations. It examines choices that firms make in relation to their external environments, and how these choices are affected by learning processes

within firms and populations of potential customers. Based on this discussion, Earl also presents a behavioral/evolutionary view of supply curves and pricing. There is a shift of attention towards behavioral macroeconomics in chapter 12 which is titled *Are There Any Behavioral Insights for Macroeconomists?* The notions of aggregate demand, business cycles, and the stability of the financial system are discussed by also employing the complex systems perspective. The final chapter 13 (*Can We Be Happy without Destroying the Environment?)*, attempts to answer the crucial question of whether humanity's consumption of natural resources can be scaled back, to reduce its impact on the environment, without necessarily reducing how happy people are and how fulfilling they find their lives to be. As Earl states, this is the territory of both "ecological economics" and what has become increasingly known as "happiness economics." (p.24).

The stated aim of the book is to present a grand synthesis of old and new behavioral economics also incorporating elements from evolutionary psychology and non-orthodox traditions in economics such as the economic thought of Veblen, Schumpeter, and Shackle. My view is that it succeeds in its purpose. First, the work combines in a highly effective manner standard notions found in new behavioral economics, such as the endowment effect, loss aversion, and sunk costs (chapters 7, 8, 10). But also, manages to give prominence to the concepts of procedural rationality and satisficing (basic discussion in chapter 6) which are central to old behavioral economics. Second and adhering to a pluralist viewpoint, ideas and findings from psychological theories and research play a crucial and constant role in the book. One main example is the psychological theory of cognitive dissonance (originated by Leon Festinger), which is applied to economic phenomena and analysis (chapters 4, 5). Similarly, Earl employs the work of cognitive psychologist George Kelly and more specifically his personal construct theory perspective on emotions (chapters 7, 8). The Fishbein–Ajzen model of behavioral intentions is another example in this respect (chapter 8). A further testimony to his pluralistic approach is his detailed discussion of social embeddedness, a concept that draws from the work attributed to sociologist Mark Granovetter (chapter 7). His pluralist approach is also applied within the field of behavioral economics in Earl's discussion of cognition, uncertainty, and ambiguity, as his extensive use of ideas from such diverse authors as Keynes and Hayek, indicate (chapters 4 and 5).

In view of the above, Earls' book is also a conscious effort toward strengthening the interdisciplinary dialogue between behavioral economics and other social disciplines. Chapter 5 is an indicative example of his methodological stance which characterizes the whole book. This chapter starts with an illuminating discussion of Shackle's approach to probability based on the notion of potential surprise and its differences from the probabilistic/statistical approaches. He then elaborates on Keynes's fundamental uncertainty linking this discussion to Cyert and March's well-known work on the theory of the firm (e.g. uncertainty avoidance). The analysis of decision-making under risk and uncertainty is in direct contrast to the mainstream economics approach. In this sense, it exhibits many similarities to the corresponding Post Keynesian conception of uncertainty (see for instance the recent book by Marc Lavoie, 2022).

Apart from the theoretical expositions, Earl uses numerous practical examples which are extremely helpful for the reader. The writing style and the manner of presentation are of a very high standard, and the same holds true of his command of the relevant literature, especially when considering the vast material that the book covers. Although the author states the book has been written so that it can be used as a textbook, another merit of the work is that it contains several important and original critical insights which can be the source of interesting research ideas. I will only mention one example here which is Earl's discussion relating to the methodological differences between behavioral and mainstream experimental economics. If someone wished to point to a topic that is not covered in this book, the behavioral approach to trade unions is a prime candidate. There are some references to union behavior, but these are mainly in the context of macroeconomics (chapter 12). In fairness, it has to be mentioned that there is not much literature on this interesting but neglected topic (one notable exception is Berg 2006).

In general, Peter Earl has written an excellent book that provides a major contribution towards a synthesis of the strands of literature of behavioral economics with a strong evolutionary emphasis, into a credible alternative to the standard economic theory. It deserves to acquire the status of a reference work for specialists in behavioral economics. Apart from students, this book will be extremely valuable for a large readership including researchers in economics, business, and management, as well as other related social sciences.

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