

James G. March

I am deeply grateful for the honor that you do me. I cannot imagine a higher honor than to be counted as part of an Italian economics faculty. In a relatively long career, I have been fortunate enough to know a number of Italian economists. As a class, they combine intelligence, creativity, and charm with a taste for fine wine, good food, and beautiful people that is difficult for ordinary economists, and particularly American economists, to comprehend, much less achieve, though easy enough to envy.

Early in my career, when I was on the faculty of the Carnegie Institute of Technology (now Carnegie Mellon University), it was my good fortune to be a colleague of that distinguished Italian-American economist Franco Modigliani, later a Nobel laureate and on the faculty of the Massachusetts Institute of Technology.

One of the many stories that is told about Franco Modigliani at Carnegie Tech is a story about the thesis of Julian Feldman. Feldman did a study of human behavior in a binary choice situation. He found that when human subjects were presented with a sequence of choices between two mutually exclusive and exhaustive alternatives in which one of the alternatives had a fixed probability of 0.7 of being correct on any particular trial, human subjects tended to choose that alternative about 70% of the time. Since the subjects had no particular capability for predicting random events, they were correct in their choices, on average, about 58% of the time, rather than the 70% they could have achieved simply by choosing the more frequent alternative all of the time. They did not maximize expected value. This result was relatively robust and suggested to many of us that human subjects were not always expected value maximizers.

Feldman's result was not unusual. Similar results were well-known in the psychological literature. Nevertheless, Modigliani simply did not believe it. Before signing the thesis, he insisted that Feldman run the experiment in his class with his students. When the experiment was run in Modigliani's class, most of the students conformed to Feldman's previous results. That is, they chose the more frequent alternative about as frequently as it occurred, thus violating the expected value criterion. One student, however, behaved in what Franco considered rational. "Ah ha!" said Franco. "I understand that you chose the more frequent alternative all of the time because you knew that that would maximize your return when dealing with random events. Right?" The student replied, "No. I didn't think the results were random. If I had believed they were truly random, I would, of course, have chosen the more frequent alternative 70% of the time." At this point, Franco decided to sign the thesis. But neither this experience, nor any other, ever led him to waver in his conviction that economic actors maximize expected value.

Franco Modigliani hardly needs my certification as a distinguished economist and fine person. He is both. But in the episode I have recounted, he was mistaken

twice. He was mistaken first in thinking that Feldman's thesis was wrong. He was mistaken second in not recognizing the behavioral limitations of economics.

I am not one of those who believes that there is one true way in economics – even my own way. I do not think we are close to having a unified theory of human behavior, or that all of economics can be reduced to sociology, psychology, or biology. I do not think we want a “behavioral economics” movement. We do not need to replace one orthodoxy with another one. Economics has room for rational expectations as well as irrational ones, for consequential calculations as well as rule-based action, for choices based on forecasts of the future as well as on interpretations of the past, for rational action as well as learning and evolution.

In the end, however, I think that economics must either attend more than it does now to the realities of human behavior or abandon its claims to being relevant to an understanding of human existence. It may not happen. As economists, we are all more endowed with human characteristics than our theories are, and we exhibit all of the usual human capabilities for disciplinary self-destruction through the endless refinement of minor lemmas and the compulsive fitting of fresh ideas into stale theoretical containers. Rational action is certainly a part of human reality, but it is only a small part. If economics limits itself to the analysis of rationality, it will confine itself to a tiny part of the human story. It will shrivel upon itself.

Since the study of human behavior and institutions will certainly thrive elsewhere in any event, I guess we can be largely indifferent to the survival of the economics. But the future of economics, if it has one, lies in reconstructing the postulates of economic theory to reflect what is known about individuals and institutions, how they act and how they change, and in developing the analytical tools necessary to deal with rich ecological and temporal complexity. It lies in reexamining the frames we use to discuss economic life. Such a reconstruction will, I believe, involve empirical and theoretical studies of the fundamental mechanisms of economic behavior such as those that are characteristic of the economics faculty at Trento.

It is for this reason that it is a particular honor for me to be counted as being a part of this faculty. In economics, if not in Christian theology, Trento stands for the reformation of dogma, for the liberation of ideas, and for the reconstruction of the sacred texts. Under the leadership of Massimo Egidi, Trento has become a center for empirical and theoretical work that seeks to transform economics from a branch of metaphysics to a branch of the behavioral and social sciences. And it is a mark of the brilliance with which that work has been executed that Trento economics is recognized for its excellence even in the most doctrinaire centers of neo-classical economics.

On behalf of my wife and myself, I thank you for your hospitality. On behalf of your colleagues in economics around the world, I thank you for your efforts to rescue the field.

And as for me, I thank you for making me an Italian economist. To be an economist is to sing with the devil. To be an Italian is to dance with angels. And to be an Italian economist is to dance with angels to the songs of the devil. Thank you.