



Behavioral Economics and the Birth (and Rebirth) of SABE: The Legacy of John Tomer

Shlomo Maital

1 INTRODUCTION

This is a personal, subjective, and hopefully accurate description of my role and John Tomer's role in the evolution of behavioral economics and in SABE's birth and history. It is based in part on material provided by Ben Gilad.¹ It includes some personal recollections of John Tomer, as he communicated them to me, now published for the first time. John's role, as will be seen below, was crucial, especially in SABE's return from the dead.

Subjective accounts like this one run two serious risks. The first is the lurking suspicion that the author intentionally enhances his role and contributions, owing to *ego balloonimus* (inflated ego), a common

¹ Partly from a letter by Ben Gilad to John Tomer, dated Jan. 6, 1983.

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syndrome that afflicts scholars. The second is the likelihood that the subjective history is unintentionally distorted, owing to faulty memory. I plead guilty to having a very poor memory and have no written notes from the 1980 to 1982 period. But I plead not guilty to “ego”—though many who know me might disagree.

2 CHANGING FORTUNES AND INTERDISCIPLINARITY

I had the good fortune to meet and marry Sharone Levow, an undergraduate at Douglass College (the sister college of Rutgers), while I was a graduate student in economics at Princeton. After we married on June 25, 1967, in Atlantic City, we left for Israel the next day to make our home there. Sharone studied psychology as an undergraduate, and child-clinical psychology as a graduate student, at Tel Aviv Univ.

My research specialties at Princeton were public finance and history of economic thought. But I quickly found a new interest, thanks to conversations with my wife. This was fortunate, since I showed no talent whatsoever in conventional economic research and in mathematical modeling. I learned that Sharone knew far more about the underlying causes and nature of economic behavior than I did, thanks to her training in psychology. We began to write joint papers.

Sharone’s M.A. thesis had been on deferred gratification among teenagers. We decided to write about interest rates. The underlying psychology of interest is the concept of “ability to defer gratification”. While economists like Bohm-Bawerk and Irving Fisher had written about deferred gratification, it was social psychologists like Walter Mischel and Albert Bandura who truly understood this phenomenon. In her research, Sharone had done “interest-rate” experiments, offering subjects an immediate small reward or a larger deferred one. I liked the methodology that investigated people directly, rather than manipulated mathematical symbols or crunched second-hand numbers. It always seemed to me that the major contribution of psychology to economics is not so much the theory of behavior, but the methodology of investigating behavior by observing it directly.

3 ECONOMICS AND PSYCHOLOGY

Our first published paper linking psychology and economics was: Sharone Maital and Shlomo Maital, “Time preference, delay of gratification and

the intergenerational transmission of economic inequality”, in Orley Ashenfelter and Wallace Oates, editors, *Essays in Labor Market Analysis* (Halsted Press/John Wiley & Sons, New York: 1978, 179–199).

In this paper, we made the argument that because ability to defer gratification is behavior in part learned by children from parents, then it may be a mechanism for the social transmission of inequality. Lower income groups, because of circumstance and environment, have lower ability to defer gratification (expressed as higher subjective interest rates) and thus engage in fewer income-building behaviors (saving, education, etc.). Poverty can thus be “learned” and transmitted across generations. We constructed a hypothesis in which market interest rates did *not* come into equality with subjective interest rates, owing to market failure, so that individuals had subjective interest rates that differed widely.²

This paper was especially meaningful to us; it was written for a volume that I had initiated, edited by my thesis advisor Prof. Wally Oates and Princeton classmate Orley Ashenfelter, in memory of my closest friend, Yochanan (Peter) Comay, who died on active duty as an artillery officer in the Golan Heights following the Yom Kippur War in 1973.

Sharone and I continued to speak and to write about behavioral aspects of economics. I knew I had zero talent for the mathematical gyrations that then dominated economic theory, but greatly enjoyed thinking about real people and how they made decision choices. I found a soul mate in Professor Harvey Leibenstein, whom I met while I was on sabbatical leave at Princeton U., in 1977–1980, and Harvey was a visitor at the Institute for Advanced Study in Princeton in 1979, on leave from Harvard.

4 HARVEY LEIBENSTEIN AND BEHAVIORAL ECONOMICS

Harvey, a rebel and loner, wrote effectively in plain language about phenomena his keen eye observed. I recall giving a seminar at Princeton in 1979 on “Inflation as Prisoner’s Dilemma”, a behavioral model of how inflation begins and accelerates.³ It was received by the Princeton

² When we submitted a paper on this theme to the *American Economic Review*, it was rejected out of hand by the editor, without sending it for review; he claimed that “the poor are experts at deferring gratification, they do it all the time”—a facile comment of a sort we encountered later, very often.

³ Shlomo Maital and Yael Benjamini, “Inflation as prisoner’s dilemma”, *Journal of PostKeynesian Economics*, Summer 1980, 459–481.

economists with enormous indifference—a reaction to which I had become accustomed in giving seminars on economic psychology. But Harvey, who was in the audience, came up to me afterward and praised my ideas warmly, and mentioned some of his own similar work. That was our first meeting. Sharone and I became fast friends with Harvey and his wife Marge. A decade later, after Harvey and Marge were involved in a terrible car accident, I recall long conversations with Harvey, as part of our effort to give him cognitive stimulation. These conversations led to two joint papers—the last ones Harvey was to publish.⁴

John Tomer, too, has a “Leibenstein” connection. He recalls:

In the late 1970s, I began to discover the importance of Leibenstein's writings, especially his X-efficiency theory. In particular, I found his Journal of Economic Literature article, “A Branch of Economics is Missing: Micro-Micro Theory.” This piece stimulated me to write “Worker Motivation: A Neglected Element in Micro-Micro Theory” which was published in the Journal of Economic Issues in June 1981. My article attempted to marry X-efficiency theory with industrial psychology related to work motivation. Later, I sent this article to Leibenstein. He seemed to like it, and he invited me to visit him at his Harvard office. Thus, I became one of a number of behavioral economists who looked to Leibenstein for intellectual leadership and who had an acquaintance with him. Even during my radical period, my strongest interest was in the higher aspect of human nature and motivation. This led me to Abraham Maslow and other humanistic psychologists and later to the Eastern spiritual traditions. A strong interest of mine has been to integrate economic theory with these other types of knowledge that have been alien territory for economists.

5 PSYCHOLOGICAL FOUNDATIONS OF BEHAVIORAL ECONOMICS

While on sabbatical at Princeton, I met with the legendary Martin Kessler, President of Basic Books—a publisher of landmark works in social

⁴ Harvey Leibenstein and Shlomo Maital. "Empirical Estimates and Partitioning of X-Inefficiency: A Data Envelopment Approach". American Economics Association, Papers and Proceedings, May 1992; and Harvey Leibenstein and Shlomo Maital. "Organizational Foundations of X-Inefficiency". *Journal of Economic Behavior and Organization*: vol. 22, 1993, pp. 251–268.

science—and with his encouragement (and a cherished contract) began a book on behavioral economics. The result was:

Shlomo Maital, Minds, Markets and Money: Psychological Foundations of Economic Behavior, Basic Books: New York, 1982, x + 310 pages (hardcover and paperback).

The book was written for ordinary people, not for scholars, and tried to explain a wide variety of economic behaviors, using concepts of psychology.

I recall typing it on an IBM Selectric, which did not yet have the wonderful white-out correction key; so I used correction tape. I especially thanked my high school touch-typing teacher. In my career, my most productive skill has been not my thinking, originality, or persistence, but my ability to type 80 words per minute without errors, a skill honed typing invoices during summer jobs in Saskatchewan.

Martin Kessler was my editor. He held me to high writing standards. I remember churning out one jargon-filled chapter quickly, after missing a deadline and getting Martin's stern reprobation: "THAT's not how you write. THAT's not you!" I always hear that voice whenever a phrase like "non-convexity in preferences leads to a corner solution" slips onto the page I am writing....

Minds, Markets and Money was favorably reviewed in 1982 in such publications as The New York Times (by Peter Passell), Wall Street Journal, Barron's, Business Week, New Republic, Newsday, and Contemporary Psychology. While I did the actual writing, many of the ideas came from my wife Sharone. I deeply regret to this day that I did not insist on making her a co-author.

John Tomer read the Business Week review and was influenced by it. Here are his recollections:

My path to behavioral economics was different from Shlomo's. There is, however, one notable personal similarity between us. On July 15, 1967, I met Doris FitzGerald, like Shlomo's wife a Douglass College student, and several days after her graduation, on June 1, 1968, we married near New Brunswick, NJ where I was a graduate student at Rutgers University. Although I liked learning about economic theory and had already served a couple of years in the U.S. Army, graduate school along with the general milieu of the late 1960s with its antiwar protests and liberation movements brought out the rebel in me. My humanistic tendency led me to the radical left and to become an active member of the Union for Radical

Political Economics. At this time, I was interested in exposing the inhumane aspects of capitalism and developing ideas for alternatives (socialist and nonsocialist) to the prevailing order. By the mid 1970s, after receiving my Ph.D., serving a two year stint with the federal government (Treasury Department, Office of Revenue Sharing), and starting my teaching career at Rensselaer Polytechnic Institute, my humanism and desire to reform economics and the economy were still strong, but I was finding that the too often vulgar Marxist critiques of Union of Radical Political Economy (URPE) were lacking. My research in the late 1970s and my conference participation reflected my search for a nonmainstream but nonradical (in the political economic sense) alternative. Organizationally, I started to participate in conference sessions sponsored by the Association for Social Economics and the Association for Evolutionary Economics (ASE). Especially in ASE, I found friends and a congenial atmosphere but there was something awkward about my fit with them; it was not quite the “home” I was looking for. The review of Shlomo’s book, Minds, Markets, & Money in Business Week (June 21, 1982) happened to catch my eye. I sensed from the review that Shlomo’s concerns were the same as mine and that he was a fellow traveler. I quickly bought a copy of his book and contacted him. He, at that time, was apparently organizing, with the help of Ben Gilad, a Rutgers (Newark) professor, a meeting to explore the establishment of a behavioral economic association. Shlomo passed my name along to Ben, and Ben invited me to the significant organizational meeting that led to the founding of SABE (a meeting which Shlomo for good reason did not attend).⁵

* * *

In 1984, Sharone and I partly remedied my failure to include her as co-author in the 1982 book. We wrote a book together on behavioral macroeconomics: Shlomo Maital and Sharone L. Maital, Economic Games People Play. Basic Books: New York, 1984, xii + 339 pages.

This book was reviewed in the Wall Street Journal by Peter Passel’s former wife, Susan Lee. Peter and Susan had parted, partly because of disagreements arising from *their* joint book, on American economic history. Susan wrote a caustic negative review. I wrote a letter to the editor, saying that I didn’t mind the bad review, because “books are like courtesans – they much prefer notoriety to obscurity”. Susan sent me a

⁵ The birth of our son, Yochai, on December 23, 1982.

note, saying if she had known who I was, she would have written a more favorable review. So much for reviewer objectivity!

Sharone and I both suffered from “tenure persecution”: In every single one of my promotion committees, from lecturer, to senior lecturer, to associate, to full professor, it was said that our joint papers were really the work of my wife, who was a psychologist, and not mine. Partly as a result—and as a result of the esoteric nature of behavioral economics—I flunked every single promotion [including tenure] on the first attempt. Facing my desk at Technion, I have a letter from a former Dean, telling me why I am utterly unqualified to be in Academe. In Sharone’s promotion committees, the same thing was said—only our joint work was credited solely to me.

Tenure struggles seemed to plague behavioral economists, at least in the early days. John Tomer recalls:

Although I made it my business to attend every SABE conference, I did not at first take an active interest in the organizational aspect of SABE. Probably the reason for this was that I was too consumed with overcoming my career difficulties. My first attempt at gaining tenure at R.P.I. (Rensselaer Polytechnic Institute) failed, and my second attempt nearly failed. Nevertheless, I finally was tenured at Manhattan College in 1986. The following year my first book Organizational Capital (Praeger 1987) was published. There were now some signs I was becoming a bona fide behavioral economist. After that I began to take a greater interest in participating organizationally in SABE.

In raising four children together, Sharone and I shared the bonds of parenthood; but we also had the added bond of a joint intellectual interest. I recall someone saying once of James Tobin that as a graduate student, he decided he needed to know econometrics and so married an econometrician. I married Sharone because she was beautiful and intelligent and shared my goal of living in Israel—but our ability to relate to one another as scholars as well as partners and parents was a very special gift to us.

I believe Economic Games could fairly be regarded as a forerunner of later work, far more sophisticated theoretically and empirically, that showed how psychology and expectations played a key role in the inflationary process—a model that came to be known as “rational expectations”. In co-authoring this book, I owe an intellectual debt not only

to my wife, but also to my country, Israel. Israel suffered hyperinflation during the period 1977–1985. By living through this period—which personally cost me thousands of dollars lost through dumb investments—I came to understand first-hand the psychological dynamics of inflation. In general, Israel has been a truly wonderful place to do research on economics—there are few economic phenomena that this little country has NOT generated, in a highly compressed period of time.

Sharone and I collaborated as well in writing a comprehensive survey on how psychology and economics were linked: Sharone Maital and Shlomo Maital, “Psychology and Economics”. In Marc L Bornstein, editor, *Crosscurrents in Contemporary Psychology*, Vol. 3: Psychology and Its Allied Disciplines. (Erlbaum: Hillsdale, NJ., 1984, 55–88).

The editor, Marc Bornstein, headed a multi-country research project on mother–child interaction at the National Institute of Child Development and Health in Washington DC. Sharone was responsible for the Israeli aspect, and videotaped mothers and their children, for city mothers as well as kibbutz mothers and caregivers. I was struck by the powerful methodology of direct observation, in contrast to the sterile theorizing of economists, who bragged (like the great John Kenneth Galbraith) that “to the best of my knowledge, I have never been inside a working factory”. That did not keep the brilliant Galbraith from writing *The New Industrial State* (1967).

Many years later, I joined with a social anthropologist and ethnographer to teach managers how to *really* observe people closely, with a view to innovating, using the participant-observer technique. Though he did not call it that, this was precisely what Harvey Leibenstein did so well. He traveled the world with Marge, made penetrating observations, and then wrote them up in clear language. Few are aware, for instance, that both the term “principal-agent” and the basic idea behind it originated with Harvey; the Industrial Organization and game theory literature has never credited him with this, a true injustice.

6 THE EARLY ORIGINS OF SABE

I do not recall exactly when or where Ben Gilad and I first discussed the idea of starting a scholarly society devoted to behavioral economics. Ben, an Israeli, had an undergraduate degree in psychology and had worked for the Israeli Police as a psychologist before doing his Ph.D. in economics. We decided to take advantage of the fact that a group of people interested

in starting such a new society would be attending the ASSA meetings in New York City in December 1982. Martin Kessler, who headed Basic Books, offered us his conference room, at Harper's (the mother company of Basic Books) on 10 E. 52nd St. in New York City. Our third child, and second son, Yochai, was born on December 23, 1982, and I chose to stay home to attend this birth rather than traveling to SABE's founding meeting. [Our two older children were born in 1969 and 1972, a time when fathers paced outside in the waiting room. Being present at Yochai's birth was an earth-shaking experience, one I will never forget; but I regret not being present at SABE's inaugural meeting.]

There were 14 people attending the founding meeting of SABE, on December 29, 1982.⁶ They were: John Kagel (Houston University); Hersh Shefrin (Univ. of Santa Clara); Richard Hattwick (Journal of Behavioral Economics); Randy Filer (Brandeis Univ.); James Morgan (U. of Michigan); John Tomer (Union College); Gordon Winston (Williams College); Richard Thaler (Cornell Univ.); Peter Loeb, Stan Kaish, and Ben Gilad (Rutgers); Ruth Mack (Institute for Public Administration); Howard Rachlin (SUNY at Stony Brook); and Jay Schmiedeskamp (Gallup Org., Princeton). According to Ben Gilad, "the discussion at the meeting concentrated on two points: First, the scope of behavioral economics, and second, the need for a formal organization".

"No consensus was reached on either point", Gilad notes, "with some participants arguing for the inclusion of a wide spectrum of behavioral-social sciences...and some favoring the narrowing of the scope of only the psychological aspects of decision-making". This debate was ultimately resolved in SABE, in favor of the broadest possible umbrella covering many disciplines. In this, SABE differs from its sister organization in Europe, IAREP, which focuses on economic psychology.

There was also disagreement on the need for a formal organization. It was agreed to send out a mailing to assess potential interest in a behavioral economics conference. Gilad and Schmiedeskamp handled this mailing. Richard Hattwick agreed in principle to publish the proceedings of such a conference in the Journal of Behavioral Economics. I asked

⁶ Shoshana Grossbard-Shechtman recalls that Martin Kessler, who at the time headed Basic Books, offered us his conference room at 10 E. 52nd St., New York City, at Harper's headquarters (the mother company of Basic Books). I recall that our third child, and second son, Yochai, was born on December 23, 1982, so I chose to stay home in Israel to attend his birth rather than traveling to SABE's founding meeting.

friends at Princeton's Woodrow Wilson School to provide a venue. Ben Gilad organized this conference, held on May 22–23, 1984; among the participants were Harvey Leibenstein, Amos Tversky, Daniel Kahneman, Fred van Raaij, Thomas Schelling, Richard Coughlin, Kelvin Lancaster, Orley Ashenfelter, Sidney Winter, Richard Thaler, Karl-Erik Warneryd, Shoshana Grossbard-Shechtman, John Tomer, and Shlomo Maital. This conference, I believe, marks the formal birth of SABE.

Paul Albanese, then at Middlebury College, agreed to host SABE's second meeting, at Middlebury. It was held on October 25–28, 1985. I recall jogging through the beautiful Vermont forests, with brilliant fall foliage. At Middlebury, we decided to hold the next SABE meeting in Israel. I organized the third SABE conference at Kibbutz Shefayim, north of Tel Aviv, on July 9–11, 1986. Like all SABE conferences, this one was run on a shoestring, with 70 participants, including 35 from abroad. Roger Frantz, a disciple of Harvey Leibenstein, organized SABE's fourth meeting, at San Diego State University, June 15–17, 1988.

7 DEATH AND REBIRTH OF SABE

SABE then had its “B” surgically removed and replaced by an “S”. Amitai Etzioni established the Society for Advancement of Socio-Economics (SASE) and persuaded Richard Hattwick to convert his *Journal of Behavioral Economics* into the *Journal of Socio-Economics*. With his formidable organizational skills, Etzioni quickly built SASE into a large society with many members. For more than two years, SABE became moribund and dormant.

In 1990, I was on sabbatical leave at Brookings Institution in Washington. John Tomer, also on leave, and I met at the ASSA meetings on December 29, along with several other SABE affiliates. John said he felt that there was a real need for SABE, and that its purpose and vision were quite different from those of SASE. *It was John's gentle but persistent suggestion that led to SABE's rebirth.*

A year later, on January 4, 1992, at the ASSA meetings in New Orleans, SABE was officially re-established. Maital contacted IIRA (International Industrial Relations Association), through Professor Noah Meltz, and got them to agree to allow SABE to use their Poster Session facilities without charge. SABE held a Poster Session at the ASSA meetings, with about seven poster-papers presented—an idea imported from psychology. Poster sessions have since been a feature at other SABE conferences, with

IRRA generously offering their facility. John Tomer was elected President and was asked to organize the next independent SABE conference. It was held in Rensselaerville, in upstate New York, on August 13–15, 1993. Shortly thereafter, a SABE newsletter was initiated, edited by Morris Altman. Li Way Lee, of Wayne State Univ., for years used his office to process and mail out the newsletters to SABE members.

SABE Conferences: SABE's Board believed that SABE did not have sufficient resources to have an independent conference every year. It was decided to have a biennial SABE conference and join with other like-minded organizations in alternate years. In July 1994, SABE members participated in the Rotterdam meetings of IAREP (International Association for Research in Economic Psychology) and then in a large SASE conference held in Paris.

On August 16–18, 1995, Shlomo Maital and Noah Meltz organized a SABE conference at Woodsworth College, University of Toronto; Meltz at the time was President of the college. A guest speaker was Lloyd Axworthy, a Cabinet Minister who later became Canada's Foreign Minister. The following year, John Tomer organized five SABE sessions at the SASE Conference in Geneva, Switzerland, July 12–14, 1996.

SABE's next conference was organized by Art Goldsmith, together with Carl Kaiser, at Washington, and Lee University in Lexington, VA., on June 20–22, 1997. The SABE sessions at the July 13–16, 1998, SASE conference in Vienna were organized by Kishor Thanawala.

In 1999, Shoshana Grossbard-Shechtman, together with Chris Clague, organized a SABE conference at San Diego State University. Held on June 12–14, the theme was "Exploring the Reorientation of Economics". Shoshana edited a book based on the proceedings. The conference, and resulting book, showed the boundaries of economics are continually expanding, with a variety of paradigms from other social science disciplines illuminating and supplementing the way economists model behavior.

SABE joined with IAREP for its July 12–16, 2000, conference, held at the Schloss Weikersdorf Hotel in Baden, Austria. Morris Altman and Kishor Thanawala served as members of the organizing committee. A few days later, Tomer and Altman took part in a symposium on Behavioral Economics in the Economy of Transition at the University of Warsaw, organized by Univ. of Warsaw professor (and SABE member) Ewa Gucwa-Lesny.

The next SABE conference was co-chaired by Hugh Schwarz and Shlomo Maital and was held at George Washington University, in Washington, DC. The theme: Applied Behavioral Economics: Can It Improve Decisions and Policies? *Is It Already Implicit in Successful Decision Making?* About 50 papers organized in some 16 sessions were presented.

8 SABE'S VISION

I vividly recall pulling a few chairs into a circle, at the Poster Session in New Orleans on January 4, 1992, and discussing with John Tomer, Morris Altman, and others our vision for a revived SABE.

Together, we enunciated the following: SABE would be a kinder, gentler organization; it would offer a sounding board for a wide variety of ideas and would treat all new ideas with respect and consideration. All of us in that room had experienced spiteful and narrow-minded behavior in other academic organizations, where ideas that reached beyond the current mainstream line of thinking met violent rejection. We decided that SABE would be different.

I believe that over the years, this humane vision has been more or less well implemented. I also admit that there has been a certain cost. Some of the scholars who helped found SABE later left us and formed their own groups. (The behavioral finance group is an example.) One reason, I believe, was SABE's principle that we would welcome papers by scholars from lesser-known institutions, whose scholarly standards were less than rigorous. On the tradeoff curve between scholarly excellence and selection, and intellectual openness, we chose the latter. I'm very happy we did, regret losing scholars because of it, but fervently hope and believe SABE continues this policy and even strengthens it.

9 CONCLUSION

In academic life, the knives wielded by colleagues are often very sharp and are used without mercy. This is perhaps as it should be, if we are to take the business of exploring new ideas seriously, and subject those who propose those ideas to the evolutionary struggle for survival. The result can be a system in which humanity, decency, and empathy are banished.

This is why my friend John Tomer was beloved. In Yiddish, John is best described by the word *mentsch*—a decent, honorable, kind, gentle, and considerate human being. (The word derives from a German

word meaning human.) He impaired those qualities of humanity to the organization he loved, ran, and revived.

And that is how we will remember him.