

Daniel Kahneman: a legacy

The late Nobel laureate Daniel Kahneman had a long association with CEP. At an LSE event, **Richard Layard**, **Gillian Tett** and **Paul Dolan** discussed how his work influenced psychology, economics and society – and their experience of researching and debating with him.

The bestselling book *Thinking, Fast and Slow* brought psychologist Daniel Kahneman into the public eye in 2011 at the age of 77. But he was already well-known among economists – having won the Nobel Prize in 2002. The award was given for his work on prospect theory, conducted with Amos Tversky, which revolutionised the way in which economists think about how people behave – questioning the assumption that people make rational decisions, motivated primarily by self interest.

“They exploded the idea that people are rational and consistent in the choices they make”, explained Richard Layard at an LSE public lecture held in honour of Kahneman’s massive impact on the field. “Danny and Amos showed how people use rough and ready heuristics, they depend hugely on how a choice is framed and they judge many outcomes relative to the status quo. They were the founders of behavioural economics.”

The implications for public policy were profound – if you are estimating the social value of something by what people are willing to pay for it, but if people don’t make decisions in the way you had assumed [being driven by self-interest], then how can you calculate its value?

Kahneman’s solution was to measure the effect of a policy on how it affects people’s wellbeing and judge the policy by that outcome.

Measuring wellbeing

Layard then revealed that Kahneman’s Robbins lectures given at the LSE in 1998, changed his life. “I changed everything that I worked on, because Danny had persuaded me we could measure wellbeing.”

When Layard set up the wellbeing programme at

CEP, he collaborated closely with Kahneman. Their work with Paul Dolan led, in 2011, to the British government reporting the nation’s wellbeing in its official statistics. Kahneman was also instrumental in setting up the measurements reported each year in the *World Happiness Report*. And the Treasury green book, which is used to evaluate government policies, has now been reviewed to encourage the use of wellbeing measures – all things that Layard attributed to the prestige Kahneman gave to this line of work.

“But Danny was not just a great thinker and scholar, he was also a wonderful person,” Layard said. “He was just marvellous to be with. He was so clever but he was also so charming and so sweet-natured.”

The importance of behavioural economics

Gillian Tett, provost of King’s College, Cambridge, and Financial Times columnist, outlined three fundamental aspects of Kahneman’s legacy. First, forcing the journalistic, economic and policymaking world to rethink their obsession with models.

“When the financial crisis of 2008 happened, it suddenly became clear that rational man was not so rational at all”, she said. Adding that insofar as economics got a reprieve after 2008, it was Danny Kahneman’s important and relevant work on behavioural economics that was responsible. He helped make it clear that while models can be useful, they are limited because people are not rational – and that really matters.

The second legacy is the question of how we relate to machines: robots and artificial intelligence, as discussed in his last book *Noise: A Flaw in Human Judgment*,

Richard Layard:
‘I changed everything
that I worked on,
because Danny had
persuaded me we could
measure wellbeing.’

Gillian Tett:
‘He was constantly
saying: tell me how
I’m wrong, tell me
how I can rethink
my ideas.’



co-authored with Olivier Sibony and Cass Sunstein. This book points out that while there are concerns about data-driven decision-making, human decision-making is also flawed by psychological biases and perhaps a combination of approaches could be useful.

Third, she praised Kahneman's curiosity and humility. "He was constantly saying 'tell me how I'm wrong, tell me how I can rethink my ideas'," she remembered, something that may seem to be part of academic life, but is difficult in practice.

Humility and wisdom

Paul Dolan, professor of behavioural science at LSE, picked up on this theme in remembering how he and Kahneman had spent "20 years disagreeing" albeit with a view to resolution – and explained how such debates informed his own work on happiness.

Kahneman became particularly interested in adversarial collaboration, said Dolan: a form of research that brings together people who explicitly disagree to work on a problem. In theory, as they have agreed the research methods and then work together, the researchers can then agree on the conclusion – meaning that they might change their minds.

Dolan pointed out that Kahneman was pessimistic about whether, even using this method, people would actually change their minds – instead tending to find ways to justify why they didn't need to do so.

But, explained Dolan: "Danny and I fundamentally agreed that it's a lot better than the alternative, which looks like 'angry science' as he called it. People writing comments and rejoinders to score academic points."

He concluded that adversarial collaboration underlines the point that we're all learning as we go. And this was Kahneman's nature, Dolan said, he was a man of both humility and great wisdom.

● Read Barbara Tversky's piece remembering the life and work of Daniel Kahneman on **page 18**.

By **Helen Ward**, head of public affairs and communications at CEP. A recording of the LSE public lecture *Daniel Kahneman: a legacy* is available on the LSE website (<https://www.lse.ac.uk/Events/2024/11/202411181830/Daniel-Kahneman-a-legacy>).

Paul Dolan remembered how he and Kahneman had spent '20 years disagreeing' albeit with a view to resolution