

Economic Psychology – the 140th anniversary

Vera Rita de Mello Ferreira

Vértice Psi – diretor

The paper presents the main highlights of the path taken by economic psychology for the past 140 years, when the expression “economic psychology” was first used by Gabriel Tarde, a French jurist, in an article published in the journal *Philosophical*, in 1881 (Barracho, 2001). It also proposes that we celebrate it and discuss why this would be relevant for our area. Economic psychology has gone through different stages since Tarde first indicated the need to expand the studying of economic phenomena through the inclusion of psychological variables. In fact, psychology itself had just been ‘officially’ created two years earlier, in 1879, when Wilhelm Wundt has been credited to introduce it as a scientific field, apart from philosophy and physiology, believed to be its original roots (Schultz, Schultz, 2003).

If ‘scientific psychology’, or ‘good psychology’ (as Richard Thaler mentions it in presentations) was already available at this early point in time, why has it not been widely used by economists since then? Or, at least for many decades it was very seldom incorporated by them (behavioural economics may be understood to have “officially” started around 1980, when Thaler publishes a paper that had been often rejected before that (Thaler, 1980, 2013; the *Journal of Behavioral Economics* had been founded earlier, in 1972 (Loewenstein, Angner, 2007), and SABE-Society for the Advancement of Behavioral Economics, in 1982).

Many reasons can be listed for the resistance of economists to psychological contributions: the lack of a need for it (economists would have enough common sense views about human nature); the belief that their rationality theory was efficient to deal with most economic phenomena (while the others, the so-called *anomalies* would not be relevant); the absence of just one encompassing theory in psychology that was supposed to counter theirs (differently, psychology offers different theories for different situations and problems); the difficulty to incorporate psychological studies into mathematical models, that stand as bench-marks in that area.

Economic psychology focused on economic behaviour, understood as a comprehensive set of instances where scarce resources are involved, which would be included in the general scope of psychology itself, with special links to applied, experimental, social and organizational approaches. Decision-making in different realms has also been thoroughly researched. Yet, none of these studies have been disruptive to the field, in opposition to behavioural economics questioning several of the very assumptions held by traditional economics and deeply innovating their field. This can explain part of the reasons why economic psychology may go less noticed by both academics and the general public.

A close look at the evolution of the discipline brings us to a possible division into two large periods covering over 100 hundred years (Ferreira, 2007, 2008): the earlier one, from 1881 or 1902, when Tarde also published the first book with economic psychology in the title (*La Psychologie Economique*, never translated), until mid-20th century, when George Katona, a Hungarian psychologist then living in the US made precise forecasts about the recovery of the American economy after World War II (differently from

economists, who predicted a recession or even a new depression), developed the *Consumer Sentiment Index* (the first survey in the world on this topic) and later published the seminal *Psychological Economics* (1975; it is unclear why he chose this title, as he used all three nominations alike: *economic psychology*, *psychological economics* and *behavioral economics*); and the contemporary period, from the 1970's, when European researchers began to exchange ideas and data, establish disciplines in universities (Pierre-Louis Reynaud, Paul Albou and Karl-Erich Wärneryd being pioneers), hold meetings that have grown into scientific colloquia (the first took place in 1976, in Tilburg, the Netherlands, and has been followed by all the other conferences held by IAREP since then, with the one only exception of 2020, cancelled due to the Covid-19 pandemic), founded the *European Researchers in Economic Psychology*, later to become the *International Association for Research in Economic Psychology*, in 1982, and created graduate programs in some universities. In 1987, a major textbook was published (Lea, Tarpy, Webley, 1987). For this later period we give voice to relevant researchers in the area to define and discuss it (Albou, 1962; Reynaud, 1967; Katona, 1975; Lea et al., 1987; van Raaij, 1980, 1986, 1999; MacFadyen, MacFadyen, 1986; Descouvières, 1998; Earl, Kemp, 1999; Webley et al., 2001; additionally, Simon, 1978, and Kahneman, 2002, who do not mention the expression *economic psychology* although they refer to the interface psychology-economics in their Nobel Prize speeches, among other publications).

Considering all the advances in the area we may see a third period starting this century with new directions pointing to applications of economic-psychological studies in societal contexts, new textbooks coming out (Lewis, 2008, and a revised edition afterwards, in 2018; Ranyard, 2017; Kirchner, Hoelzl, 2018), research lines becoming more consistent as collaborations and methods allow for further results, new researchers joining in. Increased convergence with related areas of behavioural economics and finance, and neuroeconomics, that could have formerly been seen as research lines within economic psychology and have become independent disciplines, as more economists joined in, manifest this new period for the area (environmental psychology may be taking a similar path of independence as well).

The article concludes with an invitation to members of the economic psychology communities to debate questions ranging from the more general ones *What kind of economic psychology do we want and are able to deliver 140 years after its beginnings?*, and *What are our goals as a discipline at this point?*, to more specific ones, such as *Is economic psychology an innovation for psychology nowadays, or would only certain studies qualify as such?*, *Do we need a "narrative" to convey our findings, attract more researchers and become more relevant in society?*, to the final *What have been the major findings and changes in scope over the past 140 years and where do they point to?*

Keywords: anniversary; economic psychology; history; new directions.