

17 July 2012

Does psychology hold a key to high-income status?

PERCEPTION IS KING: We should watch out for biased and spur-of-the-moment decisions

By Steven CM Wong | steve@isis.org.my



DANIEL Kahneman has never been to Malaysia but his work is relevant to Malaysians in ways that we could never imagine. The current debate over whether the national crime statistics are accurate is an interesting example.

First, an interesting digression. Kahneman won the 2002 Nobel Prize in Economics despite never having studied economics. Bloomberg named him one of the 50 most influential people in global finance last year despite his knowing little about finance.

Foreign Policy magazine has him among its top 100 thinkers in the world but he has written nothing on the subject. Not surprising then that he is also an expert on Malaysian crime rates -- or at least perceptions of it. What is going on?



A safe pedestrian path created by the Johor Baru City Council to prevent street crime. People make intuitive decisions about the prevalence of crime.

Kahneman is a cognitive psychologist who researches how we make intuitive decisions about all sorts of things, like prevalence of crime, buying a car, investing in a stock, who to date, that sort of thing. What he has found out has literally rocked our world, or at least the way we look at it.

Let me say frankly at this point that I do not know for a fact whether crime is or is not on the rise. In other words, I am an agnostic on this issue.

I respect, of course, the government's statistics. But I have worked too long with statistics not to be at least a little suspicious of them. I do not know and need more evidence.

This is not just because the statistics can be manipulated, as many believe. There are also conceptual, technical and procedural difficulties. As a result of this, all statistics also come with a margin of error, some small and others large.

And then there is the perception of statistics, and this is where Kahneman comes in. I cannot hope to summarise his work in this column and so I will only introduce it and hope that enough Malaysians will read it for themselves -- if many still read, that is.

In his 2011 best selling book, *Thinking, Fast and Slow*, Kahneman has shown that the way humans think is not perfectly logical. We have two systems or speeds, fast (automatic, intuitive) and slow (conscious, reasoned).

Most of the time we operate at high-thinking speeds. The other system requires an enormous amount of mental effort.

The problem with having zippy thoughts is that we are prone to predictable biases -- all of us. These include anchoring, non-regressive predictions, switching, overconfidence and a whole bunch of others. These individually or cumulatively cause us to make erroneous choices.

I need to repeat that no one is free from biased thinking. Even the author himself admits to falling for these, although he more easily recognises exactly when he is doing so. There is no one more enlightened group in this country than another, only a more deliberately thoughtful one.

We all know we should not think and act rashly (or ill-advisedly). And still we do.

Spur-of-the-moment decisions that turn out to be regret-for-life decisions actually abound but we just do not recognise it. So the first thing we need to do is to recognise that they are 'out there'.

Again, no one is free of them, neither presidents nor peons. For one reason or another, these are engineered into our brain's software regardless of ethnicity or country.

Second, when we come to places where there are possible speed bumps, minefields (or whatever metaphor you wish), we need to slow down. More specifically, we need to switch our thinking to conscious and reasoned mode. This takes a great deal of time and effort but needs to be done.

Third, because it is pointless to act when one is already on a speed bump or in a minefield, warning bells are needed. Those bells should be by external parties who can be objective. As Kahneman says, "Observers are less cognitively busy and more open to information than actors".

Fourth, be open to criticism and even gossip and self-doubts. We will make better decisions when we actually listen -- and listen well -- to those around us, not ignore or merely tolerate and humour them.