

## **Laudation for Bruno Frey**

I was thrilled when I was asked to speak about Bruno, for he is without doubt one of Europe's leading economists - and social scientists. He is the model of what a social scientist should be. Without fear or favour, he tries to explain what he sees in the world around him, using whichever tools make the most sense. Thus in phase 1 of his work he took economics into politics, and in phase 2 he took psychology into economics. He never started from theory, but always from facts requiring explanation. Bruno often points out that economists give too little prestige to knowing facts – as Kenneth Boulding once put it, “Economists are like computers; they need to have facts punched into them”. But, given the facts, Bruno always finds a powerful theory to throw light upon them. This makes him one of the most daring economists of our day. In Phase 1 of his life he led in establishing the economic approach to politics as a discipline in Europe. And in Phase 2 he has been the leading European to make happiness the key variable which economists need to explain.

Let me start at the end, and work backwards. Bruno's model of human nature is now very different from that of the elementary economic textbook where tastes are constant, and well-being is defined by 'full income'. As an example, in a seminal article Bruno asked one sample of residents in a Swiss district whether they would agree to the establishment there of a radioactive waste disposal plant. 50% said Yes. He asked another sample in the same city if they would agree if they were paid x Swiss francs. Under 25% said Yes, even though they would be now paid compensation.

He explained the difference by what he calls “motivation crowding out” – if we add in a financial motive, we may not increase total motivation because it may reduce the intrinsic motivation of duty. Since that study Bruno has applied this idea in a huge range of situations, including the

standard issue of work motivation. As a result he has identified crude versions of principal-agent theory as leading to bad recommendations, especially when applied to the public sector. Indeed in Bruno's eyes the private sector has much to learn from public sector methods of motivation.

Bruno has analysed many other ways in which the textbook model goes astray. As he shows, people regularly mispredict their future feelings in a systematic way – they exaggerate the gain they can expect from especially visible rewards like income, and they under-predict the impact of human relationships. Similarly the happiness they get from a given income is context-dependent – 10,000 francs is better if others have 10,000 francs than if others have 20,000 francs.

Some people fear that an empirical focus on what makes people happy could lead to a servile state, with excessive intervention. Bruno reaches the opposite conclusion – that happiness research ought mainly to lead to the right institutions, with policies emerging from those institutions. Thus in another famous article Bruno showed that Swiss people are happier in cantons where referenda are easier and more common. As Bruno has shown elsewhere, people's happiness depends not only on objective outcomes but the fairness of the procedures by which they are arrived at.

Thus, Bruno's aim in studying happiness is above all to throw light on what constitutional arrangements would be best conducive to happiness. And this is the link to his earlier work. In Phase 1 Bruno's central aim was to explain political behaviour and to show how it reflected the rules of the game. He showed for example how referenda act as a constraint on the rent-seeking behaviour of the political class; how government must be seen as endogenous (and not a disembodied philosopher king); how the IMF works because the same countries pay the money and pull the strings; why medieval prisoners of war were often treated well, because they commanded

a ransom; and, more recently, why modern terrorists would behave better if offered more incentive to do so.

Bruno has also been one of the main contributors to the economics of the arts. Whatever he does is inventive, creative, empirically-based and unflinchingly interesting. How does he do it? He is of course immensely clever and extremely creative. But he is also very charming. He attracts people to him. I went to a conference on happiness in July in Venice and asked who all these interesting people were. It emerged that they were all his former students. And of course others want to attract him, so that he is in extraordinarily frequent motion, visiting now here, now there; now Harvard, now LSE. I remember reading once a life of Erasmus, and Bruno is surely a modern Erasmus – a scholar of extraordinary breadth.

Who better to receive the CES Distinguished Fellow Prize, the next fellow in a truly distinguished line. One of Bruno's latest papers is called "Knight Fever – Towards an Economics of Awards". In it I learned that Switzerland is the only country to have no awards. But Germany has come to the rescue. However in fact this award is truly European, and we can all celebrate the fact that it goes to someone who so thoroughly deserves it.