

Downside of ECONOMICS



7 Ways

to Think Like a

21st Century Economist

-3-

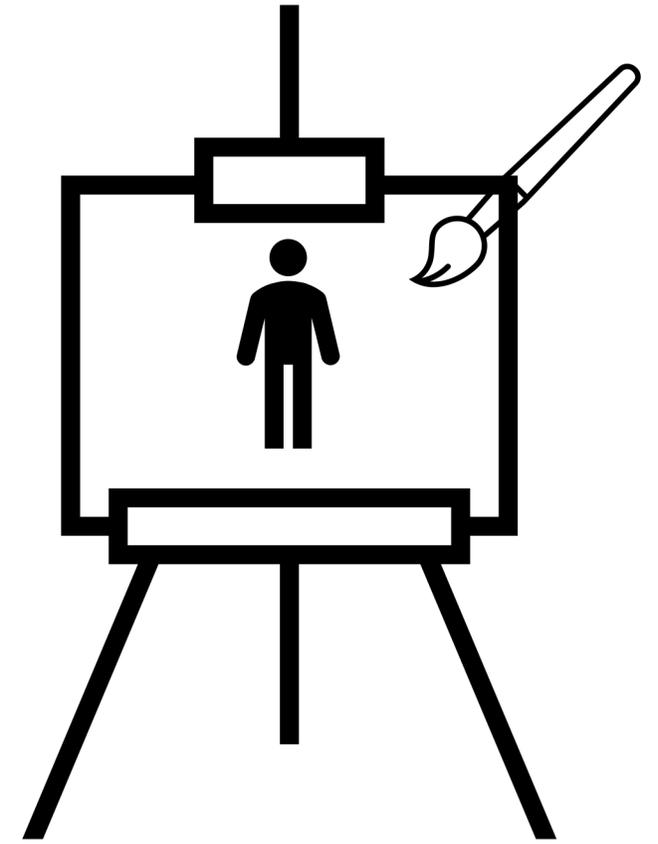
Nurture

Human Needs

from rational economic man
to social adaptable humans

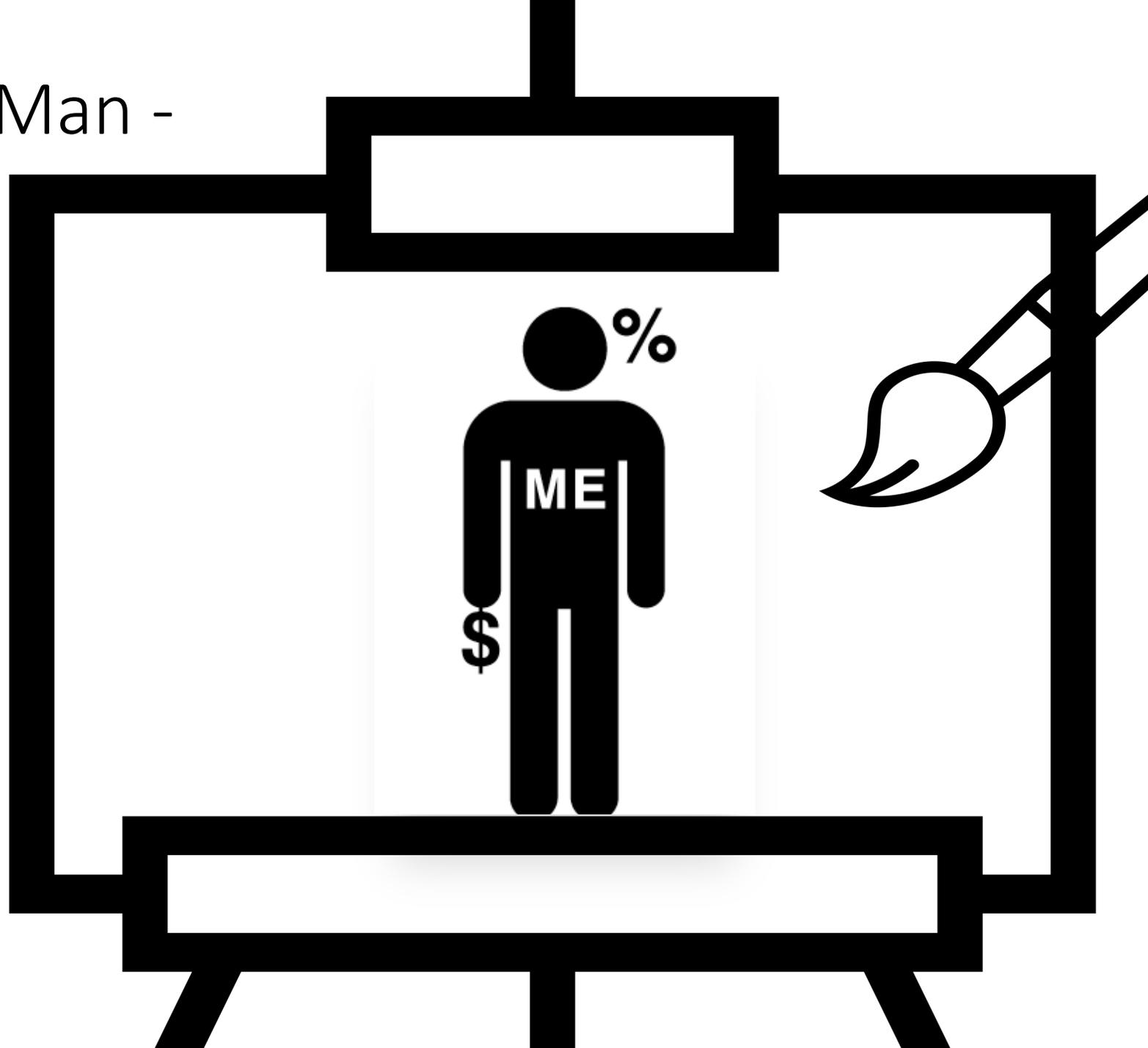
Rational Economic Man - homo economicus

- Self portrait of humanity at the center of economic theory
- Evolved over 200 years
 - Redrawn by generations of economists
- Gone from Portrait ->
 - Caricature ->
 - Cartoon



Rational Economic Man - Homo economicus

- He is a man standing alone
- Money in hand
- Calculator in head
- Ego in heart



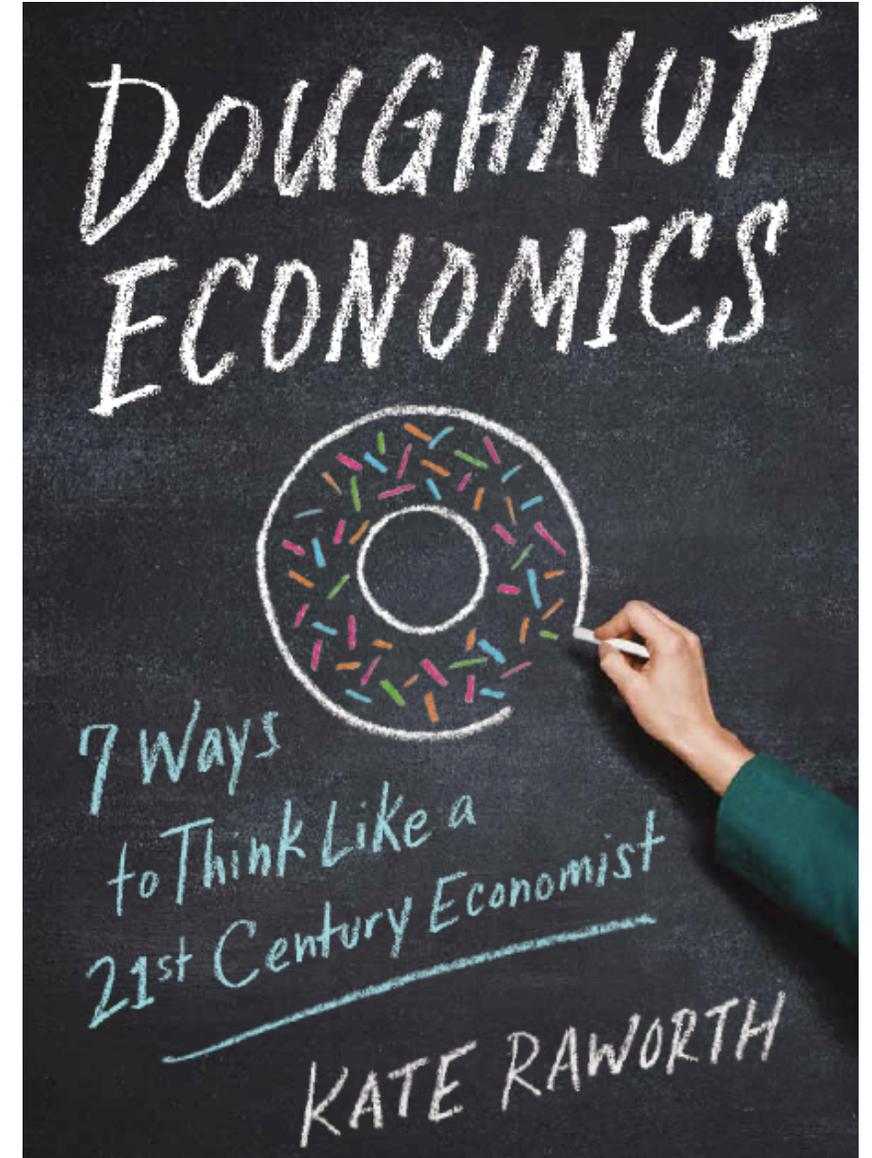
Rational Economic Man's Powerful Influence

- Informs policy decision-making worldwide
- Shapes how we talk about ourselves
- Tells us how to behave without words
- If we continue to see ourselves as...
 - Solitary
 - Calculating
 - Competing
 - Insatiable
- We have little chance of meeting the human rights of all within the means of the planet



Chapter 3 is about

- Evolving portrayal of Rational Economic Man and its profound impact on us
- Emerging new portrait explores 5 shifts in depicting who we are
 - Each exploring critical aspect of our human nature that..
 - once better understood can be nurtured in a way to help us move into..
 - a safe and just space for humanity

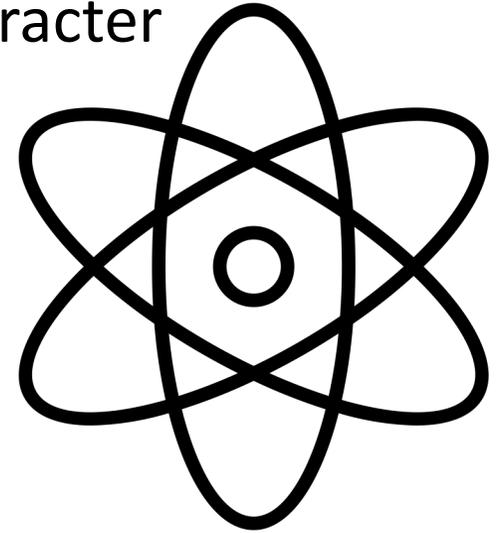


Origin of Rational Economic Man

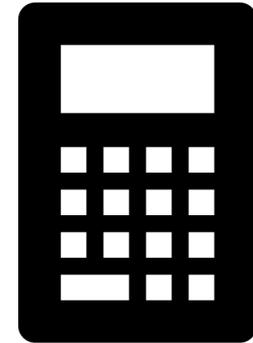
- Created by Adam Smith
 - 1759 *Theory of Moral Sentiment* and 1776 *The Wealth of Nations*
- Noted human propensity to “truck, barter and exchange” and role of self-interest in making markets work
 - Self-interest most helpful to the individual but far from our most admirable trait
- Smith also noted our humanity, justice, generosity and public spirit
 - Qualities most useful to others
 - Receive nothing but the pleasure of seeing it
 - Complex moral character that lacks predictability

Economics – from Art to Science

- Political economy required a simplified, predictable character to go from art to science
- John Stuart Mill in 1844
 - ...”solely as a being who desires to possess wealth”
 - Deep dislike of work
 - Love of luxuries
- Mill understood that “only true in the abstract”
 - Justified by saying “*no political economist was ever so absurd as to suppose that mankind are really thus constituted*”
 - This is how science proceed
- Mill opened up the scope for economic theory and *apparent* scientific method, so it stuck
- 1880’s Charles Stanton Devas criticized Mill for only examining the “dollar-hunting animal”



- William Stanley Jevons – eager to further the caricature
 - Inspired by Newton’s ability to reduce physical world into atoms. Ability to break down and build back up.
 - Reduced economic activity to “single average individual”. A unit that makes up a population.
 - Further exaggeration to be able to describe mathematically
 - Ultimate credibility for Jevons
- Lead to “Calculation Man”
 - Maximizing utility – 14 human pleasures and 12 pains
 - Weighing consumption satisfaction from every possible combination of options
- Utility at the center of economic theory
 - Law of diminishing returns
 - “the more you consume the less you desire”
 - But REM lacked overall satiation



“Human wants and desires are countless in number and very various in kind. The uncivilized man indeed has not many more than the brute animal, but every step in his progress upwards increases the variety of his needs.... He desire a greater choice of things, and things that will satisfy new wants growing up in him.”

~ Alfred Marshall *Principles of Economics* 1890

Rational Economic Man Goes Superhuman

- 1920's Chicago school economist Frank Knight
 - Gave REM Superpowers from Caricature to Cartoon
- Perfect Knowledge
- Perfect Foresight
- Compare all goods and prices across all time
- He admitted: "*Formidable array of artificial abstractions*" resulting in a creature who "*treats other human beings as if they were slot machines*"
- Just what economic science needed to unleash the potential of mathematical modeling

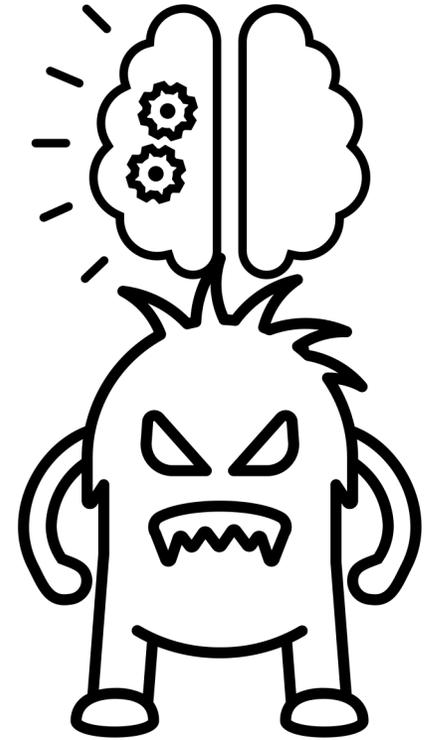


Rational Economic Man as Role Model

- 1960's Milton Friedman reinforced Knight's justifications
 - "Since in real life people behave "as if" they were making the self-interested, all-knowing calculations ascribed to REM, then the simplified assumptions were legitimate."
- At the same time the cartoon of REM began to be seen by many leading economists as an exemplar, a model for how real man should behave.
 - Defined rationality
 - "REM became a normative behaviour for real economic actors to follow"
(Mary Morgan – Economic Historian)

Rational Economic Man Shapes Human Nature

- From 1770's – 1970's a reductionist left-brained ruled monster had been created by generations of economists
 - Model *of* man had turned into a model *for* man
 - Began shaping our belief about human nature



Rational Economic Man Attracts

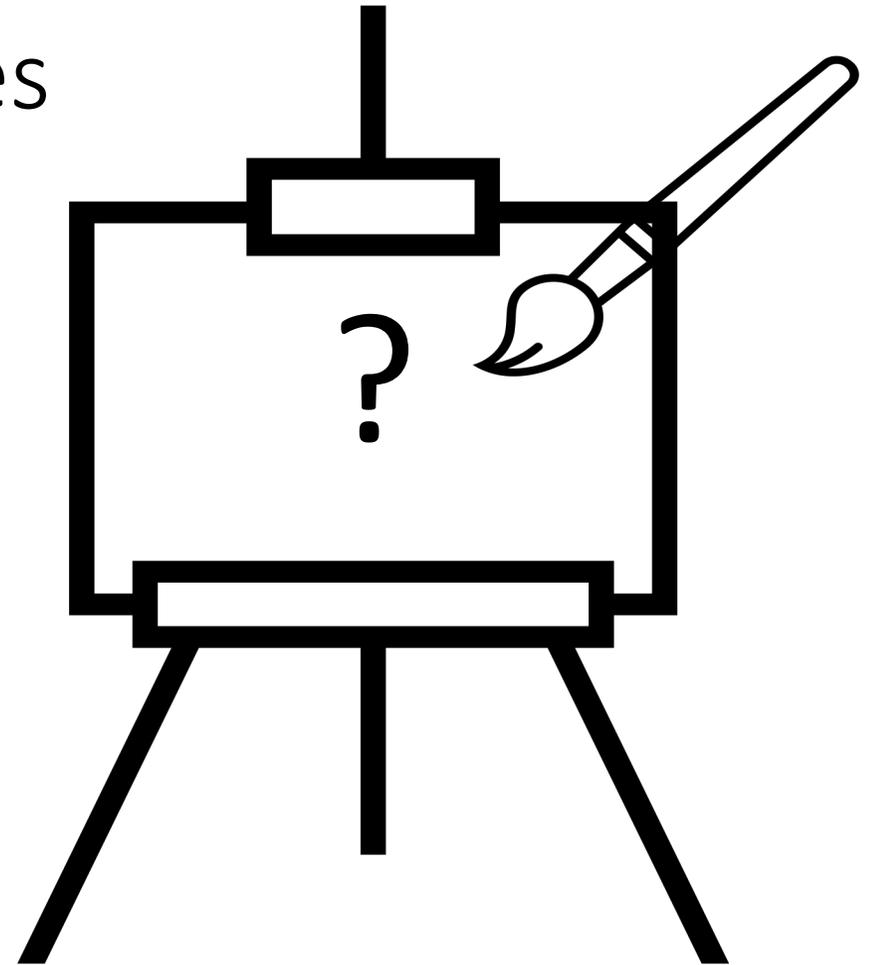
- Discipline of economics attracts
 - Self-interested people
 - Students of economics more likely to be corruptible if led to personal payout
 - Economics professors give less to charity compared to worse-paid colleagues in other disciplines

Rational Economic Man Alters

- The Discipline of Economics Alters
 - Studying *homo economicus* alters who we think we are and how we should behave.
 - Altruistic values rated as far less important in life to 3rd year economics students after taking class in game theory (study of strategy which assumes individual self interest in its model) compared to freshman students. (Study from Israel)

Need a New Portrait of Ourselves

- The portrait we paint of ourselves clearly shapes who we become
- Essential for economists to portray humankind anew
- Include and better understand our complexity so we can nurture human nature
- Better chance create economies that allow us to thrive within the Doughnut's safe and just space



Five Shifts In How We Depict Ourselves

1. Instead of narrowly self-interested, **we are social and reciprocating.**
2. In place of fixed preferences, **we have fluid values.**
3. Instead of isolated, **we are interdependent.**
4. Rather than calculate, **we approximate.**
5. Far from having dominion over nature, **we are deeply embedded in the web of life.**

Behavioural Psychology and WEIRD Research Bias

- Behavioural psychology emerged in past 40 years and revealed much about how people really behave
- Problem that 96% of people studied in behavioural experiments came from countries home to only 12% of the world's population, so called WEIRD countries
 - Western, Educated, Industrialized, Rich and Democratic
- Need to understand differences between cultures and societies, and why
 - However, WEIRD societies are more accurate than Rational Economic Man

1. From Self-Interested To Socially Reciprocating

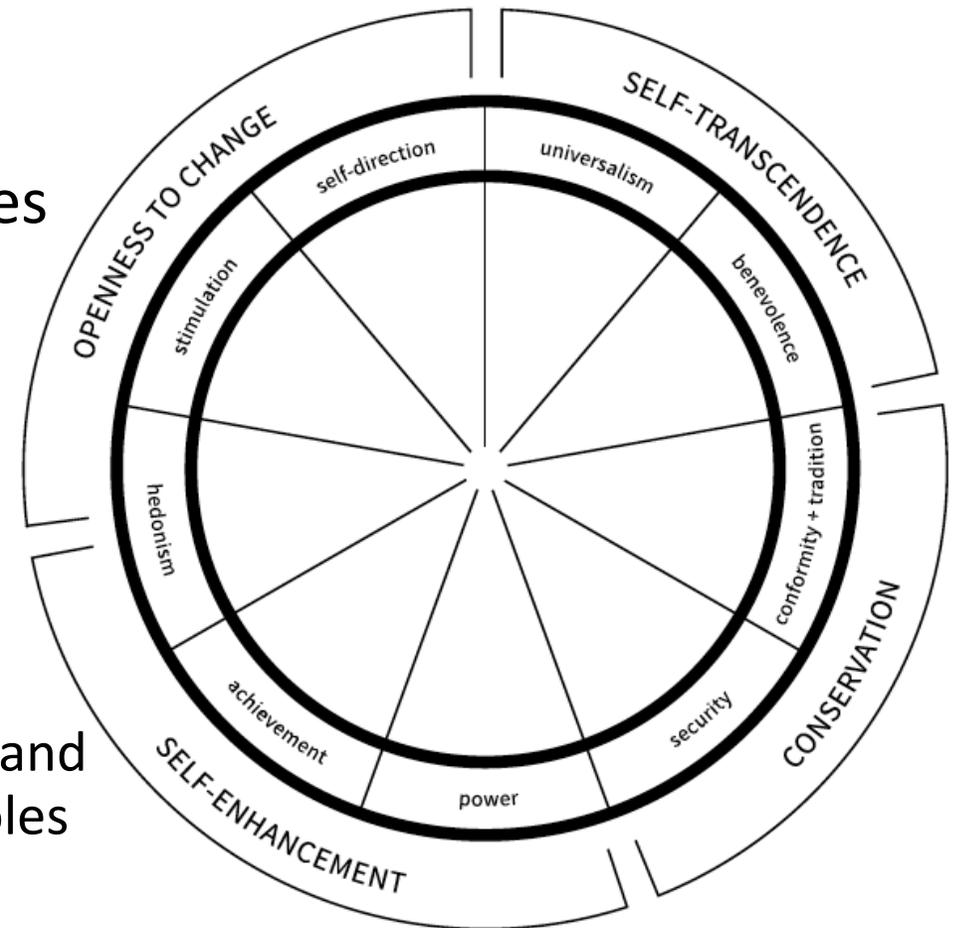
- Adam Smith had made rich observations about morals and motivation, but lost by his successors
- People's actual behaviour is also "other-regarding" as the most cooperative species on the planet
 - Help strangers with heavy luggage, share food and drink, donate blood and organs
 - Propensity to give, share and reciprocate along with trade
- Cooperate so long as other do too
- Altruistic punishment – punish free-riders
 - Rating and review systems -> trading reputation
 - Know who can be trusted in anonymous marketplace
- Social norms of reciprocity vary and co-evolve with the structure of their economy.

2. From Fixed Preferences To Fluid Values

- Homo economicus is assumed to have pre-set tastes formed independently of the economy
- Truth is that adults are not immune to marketer's messages
- Edward Bernays (Freud's nephew) understood in 1920's that the secret to influencing preferences are not in product attributes, but by associating product to deeply held values (ex. freedom, power)
- 1980's Shalom Schwartz identified ten clusters of basic personal values across cultures

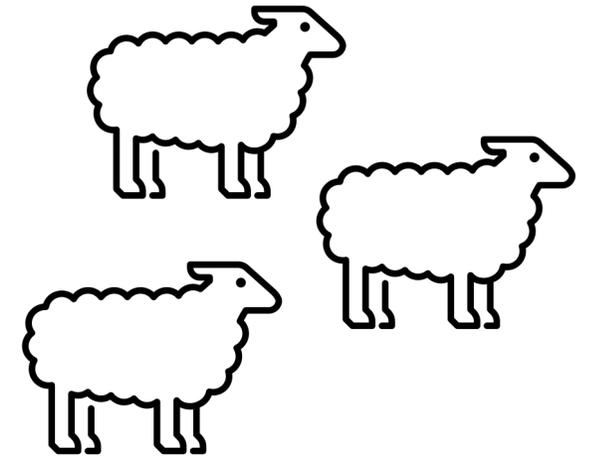
2. From Fixed Preferences To Fluid Values

- Values: Self-direction, stimulation, hedonism, achievement, power, security, conformity, tradition, benevolence, universalism
- 10 Basic Values Grouped Around Two Key Axes
 - Openness to change vs. Conservation
 - Self-transcendence vs. Self-enhancement
- Everyone Has All Ten
 - Motivated at different degree depending on individual and culture
 - Values can be engaged if triggered
 - Relative strength of the values vary over lifetime and several times daily as we move between social roles such as home to workplace.



3. From Isolated To Interdependent

- Homo economicus depicted as isolated, unaffected by choices of others
- Convenient for modeling but not true
- Henri Poincaré: "People tendency to act like sheep"
- We tend to follow social norms and go with the crowd especially when faced with fear or doubt
- Herd behaviour is hard to predict ex. hit song, fashion, stock markets
- We are more tightly networked than ever before ->
 - Conspicuous consumption from keeping up with Jones's
 - Live above means
- Harness interdependence for behaviour change



4. From Calculating To Approximating

- 1970's Behavioural economics – How people actually behave
- Study Cognitive Bias (160+)
 - Ex. Loss aversion, selective cognition, availability bias
- Irrational “shortcomings” lead to nudge policies
 - Make people take more predictable and desired choices
 - Ex. Product placements and fruit at eye-level in canteen
- But we may have thrived because of our cognitive bias
 - Evolutionary psychologist Gerd Gigerenzer
 - Unconscious mental shortcuts (heuristics) -> quick decisions
- Promote behavioural change using a mix of nudge and risk-savvy heuristics
 - Question is to understand when to use which

5. From Dominant To Dependent

- Traditional Western depiction of man with nature at his feet and disposal has deep roots back to the Bible
- New self-portrait where we are woven deep into nature's web, embedded in the living world, not separate from it or above it
- Otto Scharmer: "...what we really need is a deep shift in consciousness where we begin to care and act not just for ourselves but in the interest for the entire ecosystem in which economic activity takes place"
- Teach eco-literacy in school, esp. in WEIRD countries
- Need to find better words, names
 - "What you call resources we call relatives" –Chief Orens Lyons
 - "...If think in terms of relationships, will treat them better..."

Handle Markets With Care

- There is growing use of monetary incentives in policies aimed at ending human deprivation and ecological degradation
- Initial evidence suggests that monetary payments often crowd out existing motivations by activating extrinsic rather than intrinsic values (eye-opening case studies)
- Wiser to apply what we know about values, nudges, networks and reciprocity to nurture human nature towards the Doughnuts safe and just space

A New Way of Seeing Humanity - Preparatory Sketches

- Humanity as community
 - Social and dependent on each other through our lives
- As sowers and reapers
 - Embeds us within the web of life
- As acrobats
 - Our skill of trusting, reciprocating and co-operating to achieve together what we can't alone

