Funding the Future

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Capitalism is not driven by rational *homo economicus*, but by power, greed and vested interests. Neoclassical economists' tidy models still shape policy, but other insights into conspicuous consumption, monopoly and political capture better explain today’s world—and remind us economics must face reality, not fantasy, if it is to serve society.

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This is the summary of our discussion:

Homo Economicus or Savage Capitalism? A Conversation with John Christensen

In this latest podcast, I was joined once again by my long-time colleague John Christensen, co-founder of the Tax Justice Network and one of the most perceptive critics of modern capitalism I know. Our subject was the idea of homo economicus – the supposed rational economic actor at the heart of mainstream economics – and its critics. What emerged was a story of two very different ways of looking at human behaviour in the economy, and why it matters so much for the world we live in.

The rise of homo economicus

John began by tracing the origins of the concept back to the late nineteenth century, when economics shifted from being a branch of moral philosophy into the mathematically-driven neoclassical framework most of us were taught at university.

One of the key figures was Francis Ysidro Edgeworth, a mathematician and economist at Oxford. Drawing on Jeremy Bentham's utilitarian philosophy – the idea that human beings are rational calculators of pleasure and pain – Edgeworth sought to create a perfectly tidy model of human behaviour. We were, he argued, calculating machines engaged in constant cost-benefit analysis, each of us pursuing our own utility.

This was the world of homo economicus: the rational, self-interested individual whose actions, when aggregated, supposedly created the best of all possible outcomes for society. Edgeworth's major work, ***Mathematical Psychics*** (1881), presented this as a vision of "heaven on earth" – a world where enlightened self-interest guaranteed social efficiency.

But as John pointed out, this was a closed world. Edgeworth and his successors ignored questions of power, inequality, exploitation or even slavery. Their models assumed away the messy realities of economic life, and in doing so, defined out of existence the human complexity that earlier economists like Adam Smith had at least acknowledged.

A very different view: Thorstein Veblen

In contrast, across the Atlantic, a very different figure was developing his own critique of capitalism. Thorstein Veblen, a Norwegian-American economist and social observer, rejected the neat abstractions of Edgeworth and his peers. He was not content with blackboard models. Instead, he walked about, observed real behaviour, and asked awkward questions.

Veblen grew up in Minnesota in a Norwegian immigrant community, and saw at close quarters the realities of late nineteenth-century America: robber barons blowing up rivals' factories, bankers rigging markets, monopolists gouging prices, and the brutal exclusion of black Americans under Jim Crow. This was not the world of rational calculators. It was a world of predators, brutes, and sociopaths elevated to positions of power.

Veblen poured scorn on the idea of enlightened self-interest. His most famous book, The Theory of the Leisure Class (1899), argued that the wealthy were not civilised maximisers of social utility, but plunderers who used cunning, guile and brute force to extract wealth. They surrounded themselves with lawyers, bankers and politicians – paid retainers in suits – and displayed their dominance through ***conspicuous consumption***: private jets, super yachts, and their early-twentieth-century equivalents.

What shocked him most was that ordinary people often sought to emulate this behaviour. The working classes, far from rising up in Marxist fashion, aspired to copy the lifestyles of the rich. Conspicuous consumption pacified the discontented, keeping the pitchforks off the streets.

Political economy versus economics

This contrast highlights a crucial point: the difference between economics and political economy. Economics, as it developed under Edgeworth and the marginalists, claimed neutrality. It modelled a world that did not exist, assuming away power and inequality. Political economy, by contrast – Veblen's discipline – recognised that the allocation of resources is shaped by relationships of power. Who owns, who controls, who can bend the rules: these are the questions that matter.

Veblen's later work, The Theory of Business Enterprise (1904), drove the point home. He argued that many businesspeople thrived not by increasing productivity or efficiency, but by deliberately disrupting supply chains, restricting output, or sabotaging rivals in order to extract rents. Far from being heroic entrepreneurs, they were often parasites on the productive economy.

Examples abound today. As John and I discussed, supermarkets act as monopoly buyers, squeezing farmers and workers alike, restricting supply and promoting unhealthy ultra-processed diets that damage public health. Energy companies, water utilities and tech giants all use their dominance to limit competition, extract rents, and influence weak politicians.

Lessons for today

If Edgeworth saw a benign world of rational agents, Veblen saw a savage world where the strong exploit the weak and then disguise their predation with civility. Which view fits our present better?

Look to Donald Trump flogging dubious coins, or to the tech billionaires who backed him at his inauguration. Look at corporate lobbying that captures governments, from Washington to Westminster. Or look at today's economic models – the DSGE models used by the Bank of England and the Office for Budget Responsibility – which still rest on the fiction of a single rational agent - or homo economicus - who knows everything and always restores balance.

These models, descendants of Edgeworth's ***homo economicus***, continue to shape policy. They produce neat forecasts that always return to equilibrium, because the assumptions guarantee that outcome. But they are blind to the lived reality of power, inequality, exploitation and environmental breakdown.

Meanwhile, the world of Veblen is all around us: monopolists manipulating markets, vested interests capturing politicians, corporations pushing unhealthy products, and a public seduced into aspiring to the lifestyles of the rich even as inequality deepens.

Why this matters

The tragedy, as John put it, is that the "mathematical geeks" won. Economics turned its back on political economy, preferring models of a world that does not exist. And in doing so, it sidelined the richer, more human vision.

Real people are not rational calculators. They are complex beings who care, who love, who sometimes act generously, and who sometimes act brutally. Any economics that ignores this complexity cannot help us understand the world we live in, let alone help us build a better one.

That is why revisiting Veblen matters today. He reminds us that capitalism is not a natural order of rational optimisers, but a political economy shaped by vested interests. To understand it, we need to start not with abstract models, but with real observation – economics as "walking about", as David (Danny) Blanchflower has more recently put it.

And to change it, we need to confront the realities of power: how monopolists distort markets, how wealth buys impunity, how politicians are captured. Without that, we will remain trapped in the tidy but false world of Edgeworth, while the brutes of Veblen's world continue to dominate ours.

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