Funding the Future

Economic myths: homo economicus

Published: January 12, 2026, 10:54 pm

This is the first in a series of videos on the assumptions underpinning neoclassical economics, which will be followed by another series on neoliberal economics. In future, a list of all videos in the series will be added at the end of each post.

Neoclassical economics is built on myths — and none is more absurd than the idea of h *omo Economicus*: the perfectly rational, fully informed, self-interested human who supposedly drives all economic decision-making.

But does such a person exist? Of course not. We are emotional, social, biased, and uncertain beings. We act from compassion, habit, and fear as much as calculation. And yet, this fantasy of rationality still shapes policy, markets, and even how governments think about human behaviour.

In this video, I dismantle this myth, which is at the heart of mainstream economics, showing how its assumptions about utility, perfect knowledge, and profit maximisation bear no resemblance to reality and why that matters for everything from financial crises to everyday life.

If we are to build an economics that serves people, not theory, we must bury *homo Economicus* once and for all and accept that uncertainty, cooperation, and care define real human behaviour.

https://www.youtube.com/watch?v=jvn2yzT0C6Y?si=PV5JJfUkGotqaTZZ

This is the transcript:

The world of neoclassical economics is built on myths, all of them assumptions that supposedly make that system of thought work, but which are in fact total and utter rubbish.

And none is more important than the idea of ' homo economicus'. This is the supposedly rational, totally informed, completely self-interested person who lives in our society and drives all economic action.

Does 'homo economicus' exist? Are you that person? Are you always rational? Always completely informed about every decision you have to make? And always self-interested to the exclusion of all others? If not, then neoclassical economics has failed because you've not complied with the norm that it thinks that humans literally comply with.

The claim by neoclassical economics is that you seek to maximise your personal utility. But nobody knows what utility is. Economic utility is the amount, supposedly, of satisfaction, happiness, or benefit that you receive from consuming a good or service. But there is no way for certain of measuring this because it makes quite clear that this is not about money. But the tool which all of economics uses to approximate utility is money, creating a total conflict in itself.

And this idea of utility is totally subjective and abstract, and yet it is what supposedly makes neoclassical economics work because we, apparently, try to maximise our happiness, just as neoclassical economics supposes that businesses try to maximise their profit, even though there is no accepted definition of what profit is, and even if there was, maximising profit requires certain knowledge of the future, and none of us are possessed of it.

However, neoclassical economics overcomes that problem because it assumes that knowledge of the future is perfect and free, as a result of which all decisions can be, supposedly, coldly calculated to maximise our well-being.

This is the total and utter gibberish nonsense on which neoclassical economics is built.

Homo-economicus is real, they claim, even though you've never met anybody who's vaguely like the person so described.

In reality, of course, we humans do not have perfect knowledge.

We are driven by emotions, bias and habit.

We are not rational.

We're caring, compassionate and emotional.

And we most definitely do not know the future. Nor do we always even know what is best for our own well-being, and yet we still somehow make decisions largely on the basis of heuristics and rules of thumb, because most of the time we simply haven't got the opportunity to sit down and do the cold hard calculations to work out what would maximise our well-being, even if we knew what that looked like.

So the consequence is that far from us being individual, atomised, separate entities, all of us making our own rational decisions, in practice, herd behaviour drives a lot of what we do, and we see the consequences all around us. Booms and crashes are one of the obvious consequences that have a particular cost.

So why do we pretend that homo-economicus is present in the world?

Why do we assume motives that don't exist?

Why does neoclassical economics ignore the risks that bubbles and instability arising from human and computer behaviour create?

Economics simply does all this to make its own rather small, petty world work. And in the meantime, it actually totally misreads how real people act and live.

The consequence is all around us. The foundations of neoclassical economics, which have gone on to inform neoliberal economics, result in a continuing crisis because the policy descriptions that are created by this way of thinking do not match with reality.

If you advise on a world that doesn't exist, and tell the world that does exist to try to become a world that is not only not in existence, but which can never exist, then you are bound to deliver a prescription for failure. And that's what we have.

Homo-economicus, this supposedly rational person, who is at the epicentre of economic thinking - this absolutely standard single person, from whom nobody ever deviates in behaviour - has to be put down. Painlessly, but nonetheless, put down. And we must presume they never existed because, of course, they haven't.

If the world is to become a really strong, functioning place in which economics can play a valuable role by embracing the uncertainty of life itself, then we have to abandon this assumption, which underpins neoclassical economics.

Comments