

Funding the Future

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A couple of weeks ago, we tried posting a couple of videos on YouTube on what we described as neoclassical myths. They were put out in the afternoon, but to be honest, they did not set the world alight, and we are now wondering whether there is a real benefit from publishing material of this sort in this way, and whether we should publish it instead as blog posts, with the deliberate intention of the post in question being transferred straight into our glossary, which some people have asked that we do.

Quite deliberately, the post that follows, which will also be posted to the glossary, repeats the theme of [one of those previous videos](#), referring to the myth within neoliberal economics of the existence of the wholly rational human being, commonly called homo economicus.

This post is, we think, about the length that this subject requires, and the format is one that we could use for about thirty subjects that we have identified as being suitable for this treatment. However, before putting the effort into doing that, I would be interested to know what people think. Is this worthwhile? Then, once the series is complete, would people be interested in having it made available as a PDF download? There is a poll below, and on this occasion, you can answer as many questions as you like, as I am looking for opinions on a range of issues. And if you have other suggestions to make, please leave a comment.

Rational Economic Agents (Homo Economicus)

Neoclassical economics begins with a myth that sounds scientific but isn't, which is that people behave as perfectly rational decision-makers.

According to this story, each of us calculates costs and benefits like a computer, acts only in our own self-interest, and never lets emotion, the influence of others, or habit intervene. Economists even gave this imaginary species a name. This person is called **Homo Economicus**. He or she has become the invisible protagonist of most economic models, despite never having been observed in nature.

Assumption

The theory assumes people maximise their “utility”, which is a technical word for satisfaction or well-being, while firms always maximise their profits and have no other objectives.

Everyone is assumed to have perfect information so that they understand all options available to them, and that they then act solely on the basis of the logical calculation of the best possible outcomes for them alone.

Emotion, uncertainty and power are excluded. Economic life is reduced to a series of tidy equations describing how idealised agents interact in markets that always balance.

Reality

Real humans are not calculating machines. Behavioural economics and psychology have shown again and again that we act through shortcuts, hunches and habit, or heuristics as they are called. We are influenced by peers, advertising, culture and fear. Far from possessing perfect information, we are often misled or overwhelmed by too much of it. Biases, such as overconfidence, herd instinct, and loss aversion, all shape decisions far more than rational analysis ever could. Financial markets, which are supposedly driven by reason, repeatedly fall prey to collective euphoria and panic. The 2008 crisis, crypto bubbles since then, and housing manias are all examples of herd behaviour dressed up as rational choice.

Why It Matters

Building economic policy on this false psychology has serious consequences. It leads governments and central banks to believe, or at least pretend, that markets will always allocate resources efficiently because everyone acts logically. This then blinds policymakers to instability, exploitation and crisis. Meanwhile, social security systems are designed as if people respond only to incentives without consideration for need or dignity, whilst tax systems assume compliance depends purely on self-interest, in the process ignoring morality and social trust. It is only when we accept that humans are social, emotional and cooperative that a different economics becomes possible; one that values care, community and fairness as much as calculation.

Summary

Economics must start from the realisation that human beings are fallible, relational, and creative, and not from the assumption that we are the robots that economists wish us to be.

Poll

[poll id="238"]

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