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Insatiability and Crisis: Using Interdisciplinarity to Understand (and Denaturalize) Contemporary Humans

Sean P. MacDonald and Costas Panayotakis

This chapter explores how an interdisciplinary pedagogical approach can effectively challenge accepted systems of beliefs and pose alternative perspectives that encourage students to think critically about prevailing assumptions regarding human nature. It also illustrates how collaboration between different social sciences – in this instance, Sociology and Economics - can inspire students to investigate and question the distinctive type of human shaped by capitalist society. Starting from an overview of the beliefs about human nature and behavior as postulated in neoclassical economic theory, we then begin to explore with students how these theoretical constructs naturalize patterns of human behavior that are historically and socially conditioned.

Neoclassical economics defines rational human behaviour as characterized *by insatiable wants and desires*, and an attempt to attain *efficient outcomes* in the face of *scarce resources*. Economic ‘agents’ - consumers, businesses, government – are *utility maximizing* - seeking to maximize their own self-interest. The choices that emerge from these motivations are said to be ‘*rational*.’ Further, *unimpeded competition results in the most efficient distribution of scarce resources*. All economic agents are presumed to have all relevant information necessary to guide them in making perfectly informed rational choices. These assumptions are central to neoclassical economic theory and have been applied to the study of consumer/household behavior, competitive business practices and government decisions about how to allocate resources (i.e. funds) to competing social and economic needs.

These same assumptions are pervasive in standard introductory Economics texts and teachings. In fact, the supposition that ‘economic agents’ act as *rational* decision makers is built into the way economic participants are expected to behave in consumer-centered economies such

as our own. These assumptions can be traced back to the theoretical works of William Stanley Jevons (1871, 1888), Leon Walras (1954) and Alfred Marshall (1920) in the late 19th and early 20th centuries. More contemporary economists such as Alan Friedman (1990) and Robert Michael and Gary Becker (1973)¹ have shaped their analyses of human behaviour, drawing extensively from these early neoclassical economists. Even with the relatively more contemporary incorporation of Keynesian¹ (primarily) and other economic perspectives and analyses in the study of problems such as unemployment and challenges to macroeconomic growth, as well as monetary and fiscal policy, neoclassical choice theory is still largely grounded in the assumption that policy choices are rational and decisions are constrained by scarce resources. That ‘scarcity’ itself may - at least in part - be created by past policy decisions, is rarely addressed.

The institutionalized acceptance of this mainstream theory of human behavior is then said to inform choices and actions in business and financial markets in the quest to arrive at “efficient” outcomes. Finally, decision makers are assumed to operate in the context of market conditions that can supposedly be precisely anticipated and known, much like a laboratory experiment in which all variables can be controlled for. Because of this, decision makers can also be assumed to be making *perfectly informed decisions* with a predictable outcome.

What is the meaning of the central assumptions underlying neoclassical economic theory?

How is *rational* behaviour and decision making understood? Utility maximizing consumers are said to make rational decisions when those decisions are informed by all available information – ideally complete information. For instance, consumers seek to pay the lowest possible price for comparable products, everything else constant (preferences, income, prices of

substitutes). Accordingly, they weigh the costs and benefits of a given option, and choose based upon whether the benefits exceed the costs – producing the expected best outcome. Such a method of decision making is considered *rational* and *efficient* in that the individual is making choices that maximize satisfaction and minimize costs.

The attainment of *efficient use of scarce resources* is assumed to be the goal of decision making by all economic agents. For the business, efficiency requires the choice of a production methodology that combines resources - labor, capital and natural resources - in a way that results in the lowest *marginal costs* (or costs per unit of output) and *maximizes marginal revenue* or earnings. As such, the *efficient* choice is one that yields the greatest output from available resources at the lowest possible cost in the idealized model of competitive capitalism. By extension, the choice that emerges from weighing the costs and benefits of various options and choosing the methodology that minimizes costs while maximizing gain is *rational*.

The existence of *insatiable wants and desires* forms the foundation of the concept of scarcity and is treated as part of the natural human condition. Not only is it impossible to satisfy one's wants and desires because of the inherent human need to consume, the presumption of scarcity as a fundamental given makes the attainment of such wants impossible. Thus, consumerism is viewed as a characteristic that defines human nature yet can never be fully satisfied because of the natural existence of insufficient resources. Economies that rely upon the spending of consumers as the central engine of economic growth depend upon a steady flow of income and wealth from consumers to businesses. By appealing to the exclusivity of 'desirable' consumer goods, marketing campaigns have effectively cultivated the desired *wants and desires* of consumers.

While indeed, a naturally occurring lack of critical resources such as water in arid climates or soil suitable for growing crops is a reality in some geographic areas, the term as often conceived is applied as a universal given. The notion that scarcity of natural resources may result from past decisions about how resources are allocated or used (or misused) rarely surfaces. Alternatively, public policy decisions that may have deliberately created a scarcity of funds for critical human needs are known to produce a form of scarcity, while achieving the redistribution of income and wealth toward the wealthy and away from the poor and middle class.

Finally, a fundamental conviction at the heart of the neoclassical theory of competitive capitalism is the belief that *unimpeded competition results in the most efficient distribution of scarce resources*. In the ideal world, government has a limited regulatory role in industry and financial markets, which stems from the premise that markets naturally find their equilibrium position. According to this model, if unemployment is too high, wages will fall and employers will hire once again, as increasing supply stimulates and restores growth in demand. In its more contemporary form, this set of assumptions can be linked with the revival of “supply side” economics during the early 1980’s².

This critical discussion of these assumptions is important for the purposes of the course’s theme, not just because it introduces students to the assumptions that predominate in one of the social scientific disciplines seeking to shed light on the human condition. In contemporary capitalist societies the neoclassical assumptions are often received as the obvious, ‘common sense’ way to understand economic life. This is both because this way of analyzing economic life dominates mainstream media but also because of the relative lack of pluralism within the discipline of Economics. This lack of pluralism is especially felt in introductory college-level courses, which usually do not present neoclassical economics as one of the possible ways of

analyzing economic life, but rather as *the* economic approach to the analysis of human life. Thus, while a student taking an introductory class in another discipline, for example sociology, would be exposed to various theoretical perspectives, ranging from more conservative functionalist approaches to more progressive or even radical approaches, such as conflict theory, Marxism and feminism, a student taking Economics 1101 (Introductory Macroeconomics) will usually have no way of knowing that the ‘Introduction to Economics’ course s/he thinks s/he is taking is really an ‘Introduction to *Neoclassical* Economics’ course.

Given the importance of economic forces in shaping human life and human beings themselves, this is a problem. Students cannot reach a critical understanding of what it means to be human without a critical understanding of economic life. There is also something paradoxical in the lack of pluralism within Economics and, especially, the lack of pluralism in the way Economics is usually taught to laypeople. On the one hand, neoclassical economics valorizes choice and attributes the alleged superiority of competitive capitalism to the ability it gives consumers to choose between competing versions of the same commodity. On the other hand, neoclassical economists enforce an effective monopoly when it comes to their line of business, the teaching of Economics. And the result of this monopoly is as disastrous as the results of the monopolies that neoclassical economists routinely lambaste. Indeed, the claim that monopoly reduces the pressure to provide top quality products is no less true for the economics profession than it is for other industries. One need only look at the recent financial crisis, which caught people off guard, precisely because their sense of how the economy works came from the hegemonic neoclassical approach which has long taught that nothing can go wrong as long as markets are free.

While presenting to the students the concept of ‘homo economicus’ postulated by neoclassical economics, we then encourage students to think critically about this model of humanity through a two-stage process. First, one of the authors encourages students to probe the human insatiability assumption through a discussion that historicizes human needs, while the other author proceeds by encouraging students to evaluate the neoclassical ‘rationality’ assumption in light of the dynamics that led to the global financial crisis in 2008.

Questioning Human Insatiability

Before the session described in this chapter the students are assigned readings and videos while also being asked to answer questions that deal with both the social construction of human needs and the causes of the recent financial crisis. The readings for the session’s discussion of human insatiability include a Reuters article with the telling title ‘U.S. Millionaires Say \$7 Million Doesn’t Make You Rich, Survey Says;’ “The Original Affluent Society,” anthropologist Marshall Sahlins’ classic essay on hunter and gatherers; and a chapter from *Remaking Scarcity: From Capitalist Inefficiency to Economic Democracy*, a book written by one of us and discussing both Sahlins’ classic essay and the connection between capitalism and consumerism. The point of these readings is to denaturalize the set of needs created by contemporary capitalism, showing how people’s material needs always have to be analyzed in close connection with the social system in which they live.

Although from a chronological point of view it might seem to make sense to begin the session with Marshall Sahlins and his discussion of hunters and gatherers, the article on US millionaires is discussed first because, at first sight, it seems to confirm the neoclassical assumption of an insatiable human nature. The article reports on a Fidelity Investments survey

of people who “had at least \$1 million in investable assets, excluding any real estate or retirement accounts.” The survey found that over 40% of the people surveyed “said they did not feel wealthy’ and that many of them were worried that their wealth might not be enough to ‘fund their lifestyle’ after they retired.

In opening the discussion I ask students how this article relates to the theme of the class, which is the meaning of being human.³ This question invites students to ponder whether this article has something to tell us about human nature. I have taught this article for a number of years now, but one of the things that surprised me the first time I taught it was how unsurprised students were by it. This was especially surprising to me, since the vast majority of City Tech students are from working-class or lower-middle class backgrounds and thus not from the ranks of millionaires accustomed to a lifestyle requiring exorbitant levels of wealth to sustain it. When you ask students why such a finding is to be expected, they usually give a mix of answers, ranging from claims regarding the insatiability of human nature to more socially situated claims regarding the effects of people’s material insecurity as well as the influence of advertising.

The first type of claim allows me to highlight how pervasive and ‘commonsensical’ the neoclassical ‘human insatiability’ assumption seems to be. The second type of answer, on the other hand, helps to introduce the idea that human needs are socially constructed, in other words, that people’s attitudes towards material wealth are in many ways shaped by the nature of the social and economic system in which they live. This is an important insight that is completely missing from neoclassical economics, which tends to treat people’s material needs and preferences as a black box. In the neoclassical model, people’s material preferences are a pre-existing fact that is exogenous to economic life.⁴ In other words, people’s material wants are not seen as being co-determined by the economic system. Consumers are presented as sovereign and

free markets are viewed as their humble and efficient servant. Thus, the instrumentalization of human beings that lies at the basis of the thriving advertising and marketing industries is conveniently erased and capitalism appears as the benign force that, as Adam Smith⁵ would have it, miraculously reconciles the pursuit of self-interest and profit with the common good.

After discussing the various aspects of capitalist society that prevent even millionaires from feeling rich, I turn to Marshall Sahlins' classic essay. What makes this essay a perfect counterpoint to the Reuters article mentioned above is its explicit contrast of hunters and gatherers to the insatiable homo economicus postulated by neoclassical economics. Class discussion centers around the difference between the material desires of hunters and gatherers and those of contemporary millionaires. Students usually have no difficulty seeing that the desires of the former were more limited than those of the latter, so I encourage them to focus on the reasons for this difference. Consistent with my theme of denaturalizing human needs, I jokingly ask students if their limited material desires make hunters and gatherers 'perverts' who deviate from the human nature postulated by neoclassical economics. When they answer 'no' with a smile, I ask them how Sahlins accounts for the hunters and gatherers' more limited desires. Thus, students are called upon to explain the link between the hunters and gatherers' material desires and their nomadic lifestyle, which is itself a product of the fact that, since they don't grow their food, they have to pick up and move whenever they deplete the food sources available in their immediate environment. Their nomadic lifestyle makes material possessions literally a burden, so hunters and gatherers are not interested in the accumulation of material wealth.

Thus, the contrast between contemporary millionaires who feel poor (or, at least, not rich) and hunters and gatherers who, in Sahlins' description, represent the original affluent society

because they don't desire more than they have makes it clear to students that human insatiability is not a self-evident truth but an ideology that naturalizes the futility of capitalist consumerism. In so doing, the session also encourages students to analyze ideas about what it means to be human not just in terms of truth and accuracy but also in terms of power and the social effects they produce. It suggests that uncritical acceptance of received truths regarding society and human nature may not just lead to incorrect perceptions of reality but also facilitate the reproduction of social orders that may be oppressive and inimical to human well-being. Thus, the discussion of the human insatiability postulate does not only involve students in a collective process of thinking critically. It also underlines to them why thinking critically about society and human affairs is so essential.

Questioning Neoclassical 'Rationality' in the Context of the 2008 Global Financial Crisis

The second part of the session, entitled *The Near-Depression: The 2008 Financial Crisis and How It Happened*, begins with a critical analysis of the neoclassical assumptions about human behaviour in the context of the workings of the U.S. and global financial system at the height of the housing bubble, high-risk mortgage lending and other unregulated activities that preceded the crisis. Students consider the notion that perhaps in retrospect many of these assumptions would be somewhat obsolete in the context of 21st century market economies in light of the many regulations imposed since the Great Depression – the last major crisis that hit the U.S. economy leading to a collapse of its banking and financial systems. However, a central focus of the case study is to bring to light the fact that in practice, little had really changed, as banks, investors, mortgage lenders and a host of other key players indeed acted upon the assumption that fewer regulations lead to more efficient markets, that maximizing one's own

self-interest is the most effective route to economic prosperity and that originating mortgage loans to borrowers regardless of their ability to repay was good economic policy. A summary of the deregulation of banking and financial practices since the early 1980s provides the backdrop for students to understand some of the conditions that made such actions possible while providing a real world context in which students are encouraged to question the neoclassical assumptions underlying the concept of ‘homo economicus’ and the free market policy prescriptions upon which this model is based.

The major goal here is to challenge students to re-think each of the assumptions about human behaviour in the context of the motivating factors that often shape the human capacity for effective judgement within the competitive capitalist economy. The case study itself begins with a pre-case study assignment outlining the learning objectives, a list of key terms, and a brief summary of the neoclassical assumptions about the motivations that, in a capitalist economy, guide the action of economic agents, such as individuals, business and government. Prior to the class session, students complete two short readings⁶ which introduce these assumptions. In particular, a 2009 article by the economist Paul Krugman posits the question of how so many economists could have missed the clear warning signs of the brewing crisis, while an excerpt from an article entitled *Neoclassical Economics* by authors Brennan and Moehler provide a theoretical grounding for the neoclassical assumptions about economic behavior. The central purpose is to prepare students (many of whom may not have previously taken an economics course) for a fuller discussion during the class session. In the preliminary reading assignment before class, students are first introduced to a summary of the neoclassical assumptions about human behaviour in competitive market economies in the excerpt from the Brennan and Moehler

article. They are then assigned the reading from Paul Krugman, *How Did Economists Get it so Wrong?*

Learning objectives focus on students' developing a critical understanding of:

1. The assumptions about human behavior in neoclassical theory as inherently rational, and the broad acceptance of the underlying assumption in mainstream economic theory that economic decision making is rational.
2. How the assumption that consumers and businesses act as rational decision makers is built-in to the way economic participants are expected to behave in consumer-oriented capitalist economies such as our own.
3. The question of whether human greed is a natural tendency that drives behavior, or is what is widely accepted as 'rational' simply a way to justify greed?
4. How the institutionalized acceptance of the theory of human rationality often informs behavior and actions in business and financial markets in decision making
5. Whether there are consequences to the unquestioning acceptance of the argument that pursuit of rational self-interest in a market economy always leads to the best outcome

The class begins by asking students to identify the central arguments made by Paul Krugman and to interpret the more detailed neoclassical behavioural assumptions presented in the Brennan and Moehler excerpt. To elicit further debate, I (Sean MacDonald) then challenge them to think about how these assumptions relate to the Krugman reading. Do any of the assumptions they were introduced to at the outset seem to be contradicted at all when placed in the context of different perspectives offered in the reading? Do the concepts of *rationality*, *efficiency* and *scarcity* now take on different meanings in the context of the real life crisis discussed by Krugman? If so, then how? This discussion provides the setting for a short documentary film, *The Men Who Crashed the World* (Part I), which encapsulates the events

leading to the near global financial meltdown and encourages students to think critically about these widely held assumptions regarding human behaviour in the context of a real world crisis.

The film's documentation of the behaviour of subprime lenders, banks, mortgage brokers, investors, Wall Street, the Federal Reserve chair at the time (Alan Greenspan) and government regulators at the height of the housing boom vividly illustrates how the concept of "rational" decision making in the idealized neoclassical sense became distorted by the motivation to "maximize one's self-interest." In many respects, the presentation shows how these two paradigms of the free market actually came into direct conflict with one another. The goal of individual utility maximization essentially clashed with the same goal at the organizational level as the actions of individuals ultimately contributed to the collapse of their own firms. Thus, "rational" behaviour for the individual, say in the quest for making the most money from a financial transaction is shown to be at odds with the "rational" goals of the firm – the investment bank, the mortgage lending firm, etc. to maximize profits and earnings while at the same time, the drive to advance individual self-interest in fact undermines the goal of *efficiency*. One comes to the unavoidable conclusion that the ultimate outcome of *self-interested behaviour* led to financial chaos and the near collapse of the global banking system – the very antithesis of an efficient economic outcome. *Scarcity*, as it turns out, was actually quite relevant in this scenario. In its wake, the crisis produced mass unemployment, the loss of trillions of dollars of global wealth and millions of foreclosures in the U.S. alone. Clearly, income, homes and jobs became scarce very quickly.

As students view the film, which details the motivations and actions of financial institutions and many of their key decision makers, they are encouraged to think about how neoclassical assumptions about natural human behaviour can effectively be deconstructed and

questioned and to make note of key pieces of information that may seem to directly test these assumptions.

The film introduces students to some of the critical factors that provided the conditions for the financial crisis, including the growth of easy lending practices, a housing construction boom and the rapid expansion of a relatively new type of home finance in the form of ‘subprime’ lending, all within the context of a financial regulatory system that had been steadily weakened over the previous 20 years. By the early 2000’s, a lending frenzy had taken off, with little concern about borrowers’ ability to repay. In fact, ability to repay clearly was not the motivation behind loans made to borrowers with sketchy credit, few assets and no money down. According to one California-based real estate agent during 2004-2005, “They [lenders] didn’t really know or care about the qualifications of the buyers and whether people could make these payments or not wasn’t much of a concern. If you could fog a mirror, you could get a loan.”⁷ Subprime lenders appealed directly to people with poor credit, while banks and mortgage brokers indulged in overtly fraudulent activities to “pump up” their mortgage business, offering complex loans with terms often hidden from borrowers. Many of these loans typically came with very low ‘teaser’ rates that would re-set to much higher interest rates after just a few months. Poor and minority communities were major targets for such lending, a clear violation of anti-predatory lending regulations.

As the film reveals, there were many individuals seeking to ‘maximize their own utility’ at the time. One such example spotlighted by the film was Angelo Mozillo, the head of Countrywide Financial, widely named the “undisputed king of the U.S. subprime market,”⁸ who at the height of the subprime boom during the early to mid-2000s was reported to be earning an estimated \$100 million per year. The problem with the notion that such utility maximization is

necessarily ‘rational’ is conspicuously evident in Mozillo’s reflections, revealed post-crash, about the shoddy quality of the subprime loans he and his firm promoted. He reportedly had privately written that “In all my years in the business I have never seen a more toxic product,” while simultaneously reassuring his investors and clients that everything was fine, stating “Countrywide views the product as a sound investment for our bank and a sound financial management tool for consumers.”⁹ This seems to clearly illustrate a divergence between motivations that may be rational for the individual from what would likely be rational for the larger good – in this case, the long-term profitability of the bank and more importantly, the overall economy. The idea that ‘rational utility maximizing’ behaviour that benefits the individual while ostensibly undermining the profit maximizing goals of the institution comes to light in the wake of the crisis as Congressional and federal regulatory inquiries uncovered the inner workings of the subprime market and those responsible for the excessive risk taking that led to near financial collapse. Why didn’t subprime lenders care whether borrowers could repay their loans? Essentially, these loans didn’t remain on lenders’ books. They were quickly bundled with similar loans from across the country, sold to investment firms where they were packaged into more complex ‘financial products’ to meet growing demand from bankers for these high-yielding investments. Since there was virtually no regulation of the subprime market at the time, there was little risk to the various individuals and institutions that processed them along the way. Then chairman of the Congressional Financial Crisis Inquiry Commission Phil Angelides noted that at every point in the process, from the broker to the lender, the securitizer, or the market maker, “everyone seems to have taken the view that they had no responsibility for the product that they were moving along in the system.”¹⁰ This plainly suggests that rational utility maximizing behaviour for the individual was the central goal, as author William Cohan stated,

“anybody who touched a mortgage made money,”¹¹ while there was little concern for doing so in the interests of the overall society (or even for the firms whose interests these individuals were supposedly looking out for). Following the film, the challenges and seemingly contradictory actions of the many players involved in creating the conditions for the crisis provide a context for the discussion that follows. The key questions guiding the discussion return to the neoclassical behavioural assumptions introduced in the pre-case study readings which are now viewed in the light of what the film reveals about the unquestionably destructive actions of individuals from mortgage brokers to bank CEOs.

Among the questions students are challenged to debate are the following:

1. Is there a fundamental inconsistency between the pursuit of *individual self-interest* and the pursuit of what is best for larger institutions (businesses, corporations, banks, etc.)?
2. Can the quest for *rational* (i.e. profit maximizing) behaviour which involves taking actions that may inevitably lead to the collapse of the business and the overall economy still be deemed as ‘rational’ in this larger context?
3. Having considered these questions, students then consider whether the attainment of an *efficient* outcome based upon supposedly *perfectly informed decisions* is even possible.
4. What does it actually mean to be ‘perfectly informed’? If we accept the literal definition implicit in neoclassical theory as having all possible information to make an enlightened decision, would this not by definition include knowledge of all the possible repercussions and risks? If so, then were the decisions in this case truly perfectly informed or were they motivated by considerations of maximizing self-interest at the expense of all else?
5. Returning to the assumption that *unimpeded competition results in the most efficient distribution of scarce resources*, students are asked once again to reflect on whether this is a realistic expectation given the reality that those responsible for key decisions at all stages of

the process were aware that their actions in the quest for competitive advantage might not result in an efficient outcome for their firm or for the economy as a whole.

6. Students then examine the concept of *scarcity* as a humanly created construct in this case - a condition that resulted from the deliberate actions of those involved in creating the conditions for near economic collapse. This introduces the idea that economic conditions could be manipulated to create scarcity in the wake of the crisis in the form of lost jobs and homes and a deliberate redistribution of income.
7. Finally, the theory of *unimpeded free competition* itself is revisited, as students consider the question of whether regulatory constraints¹², if properly enforced, might have ensured a more efficient outcome for the overall economy.

Hence the goal is to engage students in thinking about the applications and relevance of a theory to real world events. The financial sector has consistently resisted and sought reduced regulations on its activities adhering to free-market beliefs. Thus, the concepts at the heart of traditional neoclassical theory examined in this case study appear to quite fittingly apply to the conduct of the various parties responsible for creating the conditions for the financial crisis.

In returning to the article by Paul Krugman, *How Did Economists Get it so Wrong?*, students examine Krugman's argument that most economists' adherence on some level to free market economic theory obscured their ability to recognize the presence of a housing bubble, the brewing subprime mortgage default crisis, and the obvious failure of government regulators to intervene before a full-blown crisis was underway. In Krugman's words:

Few economists saw our current crisis coming, but this predictive failure was the least of the field's problems. More important was the profession's blindness to the very possibility of catastrophic failures in a market economy...Meanwhile, macroeconomists were divided in their views. But the main division was between those who insisted that free-market economies never go astray and those who believed that economies may stray now and then but that any major

deviations from the path of prosperity could and would be corrected by the all-powerful Fed” (Krugman 2009, pg.1).

In other words, over time, the differences between economists’ theoretical perspectives began to converge in many respects as they celebrated what former Federal Reserve chair Ben Bernanke termed ‘the Great Moderation,’ a nearly twenty year period from the mid-1980s through the mid-2000s during which recessions were mild and there appeared to be little need for major government intervention to control high inflation and unemployment. Krugman aptly quotes economist Robert Lucas, who proclaimed that the “‘central problem of depression-prevention has been solved’” (2009).¹³

Thus the neoclassical theoretical assumptions at the center of the case study become profoundly relevant when viewed in the context of prevailing economic beliefs in the years preceding the crisis. The sense of complacency that took hold during the years of moderate business cycles persuaded many that the challenges posed by the Great Depression and unregulated capitalism were history. In Krugman’s words:

Until the Great Depression, most economists clung to a vision of capitalism as a perfect or nearly perfect system. That vision wasn’t sustainable in the face of mass unemployment, but as memories of the Depression faded, economists fell back in love with the old, idealized vision of an economy in which rational individuals interact in perfect markets, this time gussied up with fancy equations (2009, pg. 1).

Understanding that many economists’ moving back toward an acceptance of the traditional assumptions about the workings of markets and human behavior within them enables students to grasp the seemingly incomprehensible reality that so many failed to recognize the warning signs until it was too late.. It also serves to bring the discussion back to the assumptions themselves with the objective of creating a more profound understanding of just how flawed this “idealized” world is, and why capitalist economies, and especially the financial sector, cannot

survive and function without extensive government regulation. In the case study written assignment, students consider the same questions discussed in class and evaluate how Krugman's arguments can be understood anew in the context of what they have learned about the financial crisis and the actions of individuals and institutions in facilitating it. The goal is encourage a more informed perspective on the overriding motivations for human behaviour in capitalist economies.

A final evaluation seeks to examine students' understanding of the previously reviewed assumptions about human economic behaviour, and to assess a sense of new perspectives gained following discussion of the readings and the film in class. A two-page essay asks students to reflect on a few central questions:

Based upon the discussion in the Brennan and Moehler excerpt, briefly summarize the central beliefs about human behavior as characterized by neoclassical economic theory. 2. Identify and discuss what Paul Krugman views as the flawed assumptions about human behavior according to traditional economics? How are these flaws seen as contributing to the failure to see the warning signs of the 2008 financial crisis? What does Krugman believe the discipline of economics needs to recognize and change in order to more effectively anticipate real world economic events? What do you view as the implications of Krugman's assessment for the neoclassical economic assumptions about natural human behaviour?

Conclusions

These two case studies have explored the question of what it means to be human in the context of an economic system that seeks to condition and shape human economic behaviour for the purpose of perpetuating the existence and survival of that same system. Our goals at the outset were to encourage students to question some of the assumptions about what constitutes 'human nature' and to consider the perspective that perhaps much of what has been unquestionably accepted by many as "natural" is actually cultivated. At the same time, our

objective was to foster a rethinking of many of the neoclassical economic assumptions about what constitutes “rational” behaviour in the context of real world events – in this case, the dynamics that led to the global financial crisis in 2008. Here, students were challenged to evaluate the major assumptions about human behaviour in the context of the motivating factors that so often shape the human capacity for effective judgement within competitive capitalist economies.

Following a review of the neoclassical assumptions about economic behaviour and obtaining a sense of how students understand and interpret these assumptions (a summary of which students have read prior to class) the documentary film, *The Men Who Crashed the World* is shown. Students are asked to identify two of three events or points from the film that made an impression. This usually leads to mention of the corruption and risk taking in the housing markets and financial markets that precipitated the crisis. The question of whether the decision of bank CEO’s to market risky loans to borrowers who they knew would not be able to repay and then to sell these loans as solid investments to investors would be considered ‘rational’ elicits a range of responses. In one sense, students view these actions as a ‘rational’ pursuit of profit and as motivated by a desire to maximize one’s ‘self-interest,’ a conclusion many would unquestionably draw. However, when pressed further to consider the notion of rationality in the sense of what these individuals’ actions meant for the larger economy or even the firms for whom they worked, many students reflect on the interpretation of rationality in other contexts. This generates questions such as “Why would a bank CEO (such as Angelo Mozillo) deliberately lead his/her profitable enterprise to the brink of collapse?” “In what ways can this be seen as rational and efficient if the goal of private enterprise is profit maximization?” and “Why would a

lender make a mortgage loan to someone who is not asked for proof of income or who is not even expected to repay”? “Is this a quest for the best outcome possible”?

These questions flow into a discussion of how such actions can be reconciled with what we have come to consider ‘rational’ and ‘efficient’ according to orthodox economic theory. In the process, as students become engaged in a vigorous debate around these questions, they effectively participate in an important critical thinking exercise that fosters the consideration of other perspectives. At the same time, couching this critical thought in the framework of an issue that had far-reaching impacts on millions of people who lost their homes or jobs and that nearly led to a full-blown Depression, the issue takes on new meaning for students. It also emphasizes for them why thinking critically about real world events is such an important part of being human.

Both case studies have sought to facilitate critical questioning and re-thinking of some widely held beliefs about human nature and what motivates human behaviour under the social and economic environment characteristic of a consumer-centered competitive society. In doing so, both case studies introduced challenging concepts that ask students to consider – perhaps for the first time – alternative perspectives.

The concept of an insatiable human nature is investigated through a case study that enables students to critically evaluate this perception by considering two very different views about the fundamental motivations for human pursuit. The two readings – the Sahlins’ essay that documents the hunter-gatherer society where the acquisition of possessions is cumbersome and encumbering to survival and the Kearney article that reveals the perception among many in present day society that the acquisition of more wealth is necessary in order to endure, draw very pointed contrasts about what ‘human nature’ is. By reflecting on these contrasts, students are

encouraged to question what is really ‘natural’ about human life, while enabling them to see that insatiable wants have been conditioned by the type of society in which we live.

The second case study introduces further assumptions about human behavior in society that are rooted in traditional neoclassical economic theory. Here, ‘natural’ human behavior is centered around the notion that economic ‘agents’ seek to maximize their own self-interest, that such motivation is ‘rational,’ and that competition results in the most ‘efficient’ distribution of scarce resources. As students become acquainted with these terms and their meaning in the context of orthodox economic principles, they are introduced to a 40 minute documentary film that reveals the decision of many individuals in the run-up to the 2008 financial crisis were fundamentally not rational or efficient from the perspective of their impact on the national and global economies. They then consider Paul Krugman’s scathing critique of most economists’ failure to recognize the rapidly unraveling housing and financial system, which reveals how so many economists still cling to idealized conceptions of ‘natural’ human behavior.

Together, the two case studies, linked in their objective to introduce the conception that behavior that is often unquestionably accepted as “human nature’ is not a given, but rather a social construct shaped by the needs of an economic system that depends upon massive consumption and requires abstruse economic models of ‘natural’ human behavior to support such beliefs.

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¹ Keynesian economics is named for the British economist John Maynard Keynes, whose theoretical perspectives on the fundamental flaws inherent in market economies gained wide recognition during the era of the Great Depression and had a profound impact on shaping public policy during the Roosevelt presidency. At its basis, his model of the macroeconomy demonstrated that government at the time was the only source capable of stimulating the U.S. (and other Western economies) back to a full employment level of output, given the exceptionally high rate of unemployment, and the collapse of both business investment and exports.

¹ In addressing the critiques, principally of non-economists at the time, – that choice theory based on the assumption of rationality is flawed - Michael and Becker (1976), for instance acknowledge that accumulating and investing in obtaining information can be costly, and as such “it is difficult to distinguish operationally between irrational choices and poorly informed ones”(1973).

²“Reagonomics” came to refer to the economic policies of President Ronald Reagan (1981-1989) who advocated widespread tax cuts and slashing social spending, along with increased military spending in the belief that such policies would create jobs and restore economic growth .

³ ‘I’ here refers to Costas Panayotakis, who is responsible for the part of the session probing the ‘human insatiability’ assumption.

⁴ In this section the terms material ‘wants,’ ‘preferences,’ and ‘needs’ are used interchangeably. The philosophical debate between ‘wants’ and ‘needs’ lies beyond the scope of this chapter. The closer the class session on which this section is based gets to this debate is when it discusses social scientific literature that shows human happiness to be more dependent on such factors as free time and the quality of one’s relationships with other human beings than on growing levels of material consumption.

⁵ Adam Smith was a late 18th century economist perhaps best known for his work, *The Wealth of Nations*. Writing at a time when capitalism was an emerging new economic system, comprised of mostly smaller enterprises, he postulated that the interaction between buyers and sellers in markets naturally found their ‘equilibrium’ a point where both buyers and sellers agreed on a price for goods, a process that occurred naturally.

⁵Krugman, Paul. *How Did Economists Get it so Wrong?* New York Times, September 2, 2009. <http://www.nytimes.com/2009/09/06/magazine/06Economic-t.html?pagewanted=all> and a brief two-page excerpt from the article, *Neoclassical Economics* , by Geoffrey Brennan and Michael Moehler, *Encyclopedia of Political Theory*, SAGE Publications Volume II, pp. 946-951 (2010) .

⁶ Jim Kling, *The Men Who Crashed the World*, 2010.

⁷ The reference was to Countrywide Financial CEO Angelo Mozillo, whose firm was rescued from near bankruptcy following the collapse of the subprime market when it was acquired by Bank of America in 2009.

⁸ From *The Men Who Crashed the World*, 2010

⁹ Phil Angelides, Chair, Congressional Financial Crisis Inquiry Commission, *The Men Who Crashed the World*, 2010

¹⁰ William Cohan, *House of Cards: A Tale of Hubris and Wretched Excess on Wall Street*, from interview in *The Men Who Crashed the World*, 2010

¹¹ Krugman, Paul. *How Did Economists Get it So Wrong?* Citing Robert Lucas’ presidential address to the American Economic Association in 2003.